

**PROPERTY RIGHTS VERSUS PUBLIC RIGHT:**

*A STUDY ON THE RELATIONSHIP BETWEEN COMPULSORY LICENSING OF PATENTS  
AND THE EMINENT DOMAIN DOCTRINE IN KENYA*

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## **DECLARATION**

I, KIREMU GRACE WANJA, do hereby declare that this research is my original work and that to the best of my knowledge and belief, it has not been previously, in its entirety or in part, been submitted to any other university for a degree or diploma. Other works cited or referred to are accordingly acknowledged.

Signed: .....

Date: .....

This dissertation has been submitted for examination with my approval as University Supervisor.

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## **ABSTRACT**

Compulsory Licensing of Patents plays a significant role within Intellectual Property Law (IP Law) as a safeguard assuring public interest against the monopoly that patents grant owners. The effect of the exercise of the compulsory licensing system is an outright deprivation of a ones intellectual property right as guaranteed by the constitution.

The Industrial Property Act requires that there be remuneration upon the issuance of a Compulsory Licence. This is similar to the requirements within Article 40, but it qualifies that compensation must be 'just and prompt.' In order to fulfil the constitutional directive, there is a well-established statutory regime under Land Regulations but the same is protection is not accorded to Patent owners subject to Compulsory Licensing.

This paper seeks to compare the validity of establishing an equal legal standing between compulsory licensing and Eminent Domain. The scope of this study is limited specifically to the concept of just compensation within Land Law and Patent Law and is therefore, seeking to argue for the need of a valuation guideline to be followed in the issuance of Compulsory Licenses.

It is deduced that Compulsory Licensing amounts to an exercise of the powers conferred to the state within Article 40 of the Constitution within Intellectual Property Law. It is better known as the Power of Eminent Domain. Furthermore, that there is a need to establish remuneration guidelines within IP law with many countries already having established guidelines.

## **LIST OF CASES**

- i. Five Stars Agencies Limited v National Land Commission [2014] eKLR
- ii. Arnacherry Limited v Attorney General [2014] eKLR
- iii. Patrick Musimba v National Land Commission & 4 others [2016] eKLR
- iv. Gore W L & Associates v Garlock, Inc [ Fed. Cir. 1988]
- v. Leeson Corporation v United States [Ct. Cl. 1979]
- vi. Chamber of Commerce v Boston [1910]
- vii. Decca Ltd v United States [Ct. Cl. 1980]
- viii. Horn v Sunderland Corporation [1941] 2 KB 26,40

## **LIST OF LEGAL INSTRUMENTS**

- i. The Constitution of Kenya, 2010.
- ii. The Industrial Property Act, 2001.
- iii. The Land Act, No.6 of 2012.
- iv. Universal Declaration of Human Rights 1948.
- v. World Trade Organization (WTO) - Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).
- vi. Land Regulations of 2017.
- vii. India Patent Act, 1970.
- viii. United States Constitution

# 1.0 INTRODUCTION

## 1.1 Back Ground Information

The nature of property rights in Kenya has a very tumultuous and emotive history. The Independence Constitution of Kenya established the protection for the privacy of an individual's property. Section 75 of the same addressed the need for protection from the deprivation of property. Though property rights in Kenya are and always have been primarily linked to Land, the 2010 Constitution formally extended the protection it awards property rights to creations of the mind obligating the state to 'promote and protect' these rights.<sup>1</sup> Furthermore, Article 260 defines property as including 'any vested or contingent right to, or interest in or arising from..... Intellectual Property.'<sup>2</sup> To this effect, Intellectual Property Rights are now entrenched and protected by the Supreme law of Kenya.

The Constitution of Kenya confers upon the state the power of eminent domain. This is a power enshrined within Article 40 which prescribes that the government has the power to take private property for public use. The Article limits this power by requiring that the taking be only for public use, and that the government pay the owner just compensation promptly. This provision expressly provides that the property subject to this power is 'property of any description.' This infers that this power extends to Intellectual Property Rights and consequently, Patented works.

Kenyan Intellectual Property Law has a provision seemingly based on the eminent domain rationale in Section 58 of the Industrial Property Act. This provision allows for limitation of patent rights through issuance of compulsory licenses under very specific conditions expressly provided for within the Act. The Act cites public interest as rationale for this provision inferring that it is an expression of the State's eminent domain power within Intellectual Property Law.<sup>3</sup>

In India, the state has utilized this power in relation to pharmaceutical patents for public good with the belief that if knowledge that might save people's lives exists, the power of the state to make it public, at least in a limited way, must be used. In recent years, the use of compulsory licenses as a means to safeguard public good has been gaining increased popularity.

Compulsory licenses have been issued in various states with increasing frequency. Last year, the U.S issued a compulsory license allowing Apple Computers to use a patent it had infringed,

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<sup>1</sup> Article 40 (5), Constitution of Kenya, 2010.

<sup>2</sup> Article 260, Constitution of Kenya, 2010.

<sup>3</sup> Section 58, Industrial Property Act, 2001.

owned by the Wisconsin Alumni Research Foundation (WARF), in return for an ongoing royalty.<sup>4</sup> Also last year, the German Federal Supreme Court affirmed the 2016 decision of the Federal Patent Court to issue a compulsory license allowing Merck to continue selling its HIV drug, Isentress. The grounds upon which the decision was upheld was public interest.<sup>5</sup>

Countries such as the United States have established guidelines that are followed in such instances whereas Kenya does not have these guidelines. As things stand the power of value determination is vested in the Industrial Property Tribunal (the Tribunal) established within the Industrial Property Act.

It is trite law that compulsory acquisition of property by the state must be met with corresponding just compensation. In order to ensure that a fair valuation of property is carried out, Kenya has a statute-based valuation guideline within its Land Regulations of 2017.

Prior to the drafting of these regulations, it was held by the Environment and Land Court in *Five Stars Agencies Limited versus National Land Commission* that until the National Land Commission fulfils its mandate of drafting regulations on valuation, the guidelines under the now repealed Land Acquisition Act shall remain in force. This decision reinforces the importance for valuation guidelines in such matters to ensure a just and fair compensation.<sup>6</sup>

This paper seeks to make an argument for the need for defined valuation guidelines in matters of compulsory licensing of intellectual property in order to protect a patentee's exclusionary proprietary rights.

## **1.2 Statement of the problem**

The exercise of eminent domain with regards to land in Kenya is heavily regulated whereas actions of the state regarding creations of the mind are not as heavily regulated by law. The criteria by which compensation is determined in Land Law is by listing specific matters that must be considered ensuring that the compensation is as just and fair as required by the constitution.

The current system of compulsory licensing leaves the power to determine what amounts to just compensation wholly on the Industrial Property Tribunal. Though one has an option to

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<sup>4</sup> Brief on the WTO TRIPS Council's discussions on Compulsory Licensing, 20 October 2017 <https://www.keionline.org/23458/> on 31 January 2018.

<sup>5</sup>Brief on the WTO TRIPS Council's discussions on Compulsory Licensing held on 20 October 2017 <https://www.keionline.org/23458/> on 31 January 2018.

<sup>6</sup> *Five Stars Agencies Limited v National Land Commission* [2014] eKLR

appeal such a determination, the valuation of Intellectual Property is a rather daunting task and without any form of statutory regulation, the probability of unjust compensation is high. Furthermore, the sector itself has insufficient numbers of experts in Intellectual Property Valuation making it even more imperative that those doing valuations have some form of statutory assistance.

This paper poses an argument for the need for the establishment of an objective criterion in the determination of compensation regarding deprivation of Intellectual Property Rights on the ground that Compulsory licensing and Compulsory Land Acquisition are both expressions of the state's eminent domain power and should therefore be regulated in a manner that best serves the relevant constitutional provisions.

### **1.3 Statement of Objectives**

This paper seeks to determine and analyse the apparent relationship between the concept of Compulsory Licensing and the Doctrine of Eminent Domain.

The main objective is to establish the importance of valuation guidelines so as to fulfil the constitutional requirement of just and fair remuneration upon deprivation of proprietary rights.

### **1.4 Hypothesis**

Compulsory licensing is an expression of the state's eminent domain power within Intellectual Property Law. To this effect, it may be inferred that compulsory acquisition of land and compulsory licensing have equal legal standing under Article 40 of the Constitution.

Furthermore, monetary compensation when there is any form of deprivation of proprietary rights is an absolute protected right not a privilege and should be determined on fair or just grounds as required by the Constitution.

Lastly, that the establishment of a valuation guideline would ensure that valuation is done in a justifiable and transparent manner.

### **1.5 Research Questions**

The primary question to be addressed is whether compulsory licensing of patents is an expression of the State's Eminent Domain Powers within Intellectual Property Law.

The following questions will also need to be addressed:

- i. Is eminent domain an appropriate legal theory on which one may base the regulation of compulsory licensing?

- ii. Are there are similarities between the procedural exercise of compulsory licensing and eminent domain in Kenya?
- iii. What approach have other jurisdiction take on the concept of 'just compensation'?
- iv. What criteria currently applied by the States in its exercise of Eminent Domain and how may this criterion be applied within compulsory licensing process?

## **1.6 Justification of the Study**

Kenya is now in the digital age with ingenuity and creativity being the hallmark of interactions within this technological era. Intellectual Property Rights work to foster innovation by providing incentive in the form of exclusive rights.

In recent years, Compulsory Licensing has increased in popularity with many of them being issued in countries such as India, the United States, Germany Malaysia, Thailand and the United Kingdom.

To this effect, it is conceivable that Kenya will soon be following suite. In 2012, The Aids Law Project in collaboration with various other organizations working in the Health Sector had several discussions on the proposed Kenya Health Bill 2012. One of the Key regulations that was tabled was the need to empower the Cabinet Secretary with the power to issue compulsory licenses with the purpose of boosting access to affordable medicine.<sup>7</sup>

This is not the first time that compulsory licensing has tabled as a possible tool for use in safeguard public health and it will not be the last one. Consequently, there is need to establish guidelines in order to ensure that the constitutional proviso on just compensation is met.

## **1.7 Literature review**

A lot has been written in the past on the Compulsory Licensing and the Doctrine of eminent domain as independent concepts though little relation has been made. I have reviewed literature related to the doctrine of eminent domain, Patent systems as conferring exclusive proprietary rights, compulsory licensing as a legal concept and the importance of valuation guidelines in property law.

### ***1.7.1 Patent Law as a system conferring exclusive proprietary rights***

Plenty has been written about this with the origin of patents with a general scholarly outlook that Intellectual Property Rights are the exclusive rights awarded by society to individuals or

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<sup>7</sup> <http://www.aidslawproject.org/2013/03/26/kenya-health-bill-2012-audit-and-medicines/> on 31 January 2018.

organisations over creative works, which give the originator the right to prevent others from making unauthorised use of the property for a limited period.<sup>8</sup>

Patents are one type of intellectual property rights that establish ownership rights to inventions and other technical improvements.<sup>9</sup> The word patent comes from the Latin 'litterae patentes', meaning an open letter. Such letters were used by medieval monarchs to confer rights and privileges. Within the United Kingdom, patents were issued exclusively by the Monarchy. Queen Elizabeth, in the early years of her reign, issued letters patent to encourage foreigners to introduce new manufacturing product and technology in England. These patents amounted to the grant of a monopoly assuring holders full protection of their inventions.<sup>10</sup> Therefore, patents are, and have always been, designed to encourage innovation and public disclosure, by awarding exclusive rights to practice an invention for a fixed period.<sup>11</sup> By obtaining a patent, the patent holder is granted with a temporary monopoly, generally of 20 years, over the invention.<sup>12</sup>

This position was further espoused by Jeremy Bentham who justified such monopoly around two premises – firstly, the justification of monopolies to result in creating an ecosystem of innovations and creations and secondly such instruments are tools to benefit the public at large.

In return, however, society requires the patent applicant disclose the specifics of the invention and make publicly available, though not for commercial use, the knowledge on which the invention is based. By this means, the patent system seeks to achieves its inherent purpose.<sup>13</sup>

The conferring of monopoly rights by patents has been widely critiqued. These critiques were put well in an 1851 issue of the Economist that stated:

“The privileges granted to inventors by patent laws are prohibitions on other men, and the history of inventions accordingly teems with accounts of trifling improvements patented, that have put a stop, for a long period, to other similar and much greater improvements...The privileges have stifled more inventions than they have

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<sup>8</sup> Commission for Intellectual Property Rights, *Integrating Intellectual Property Rights and Development Policy*, 12.

<sup>9</sup> CIPR, *Integrating Intellectual Property Rights and Development Policy*, 12.

<sup>10</sup> Christine Macleod (1992) *Strategies for Innovation: The diffusion of new technology in Nineteenth century British industry*, *The Economic History Review*, Vol.45, No.2, 285-307.

<sup>11</sup> Opderbeck, *Patents, Essential Medicines, and the Innovation Game*, 5.

<sup>12</sup> WIPO, an explanatory note concerning the origins of the United Kingdom intellectual property legal regime.

<sup>13</sup> WIPO, *The Impact of the International Patent System on Developing Countries: A Study by NG Siew Kuan*, Elizabeth, pp 9-10

promoted...Every patent is a prohibition against improvements in a particular direction, except by the patentee, for a certain number of years; and, however, beneficial that may be to him who receives the privilege, the community cannot be benefited by it...On all inventors it is essentially a prohibition to exercise their faculties; and in proportion as they are more numerous than one, it is an impediment to the general advancement...".

The arguments for and against patenting systems are all grounded on the fact that Patent Law is in fact a system conferring exclusionary proprietary rights.

### ***1.7.2 The scope and grounds establishing the compulsory licensing process***

Compulsory licensing developed as a safeguard against the misuse of monopoly rights provided by patents. One of the first key legislations providing for compulsory licensing is the United Kingdom (UK) Statute of Monopolies in 1623.

Compulsory licensing has been accepted as a "strategic compromise". This is because it essentially balances serve to balance the public interest and private rights without leading to a complete dissolution of the proprietary rights or absolute detriment to public interest due to misuse of monopoly rights granted by patents.

The importance of compulsory licensing has been indirectly justified by Edith Penrose in "The Economics of the International Patent System" in 1951 who wrote:

*"Any country must lose if it grants monopoly privileges in the domestic market which neither improve nor cheapen the goods available, develop its own productive capacity nor obtain for its producers at least equivalent privileges in other markets. No amount of talk about the "economic unity of the world" can hide the fact that some countries with little export trade in industrial goods and few, if any, inventions for sale have nothing to gain from granting patents on inventions worked and patented abroad except the avoidance of unpleasant foreign retaliation in other directions. In this category are agricultural countries and countries striving to industrialise but exporting primarily raw materials...whatever advantages may exist for these countries...they do not include advantages related to their own economic gain from granting or obtaining patents on invention".*

This statement affirms the compromising nature of compulsory licensing which works by balancing the private individual interests and the state's interest ensuring patented works are availed within its domestic market in a fair and sustainable manner.

This outlook has been extensively studied in relation to pharmaceutical patents where compulsory licensing necessary to ensure the right to access to medicine is a matter of public utility.<sup>14</sup>

### ***1.7.3 The importance of valuation guidelines in Intellectual Property law.***

The views on compulsory licensing are, for the most part supportive of it but they fail to provide for a justification for what qualifies as adequate remuneration within this realm of Intellectual Property law.

It is substantive that the valuation of intangible property presents a challenge seeing as its core is based on innovation. Innovation makes each property significantly different. This is more so in valuation of patented inventions. Nevertheless, the need for a valuation system is apparent as has been noted in a variety of articles and more appropriately put by a European Commission Publication on the Valuation of Intellectual Property that:

“Intellectual property assets such as patents, trademarks or copyrights are increasingly the core of many organisations and transactions. Licensing and assignments of intellectual property rights have become common in the market, and the use of these types of asset as loan security has grown. This new reality has given rise to the growing importance of valuation of intangibles. Trading an asset requires knowing its value.”

The abovementioned publication, authored by a group of experts, called for the need for the introduction of more transparency in IP valuation procedures.

The World Intellectual Property Organisation published an article posed an apparent solution to the challenges affecting Valuation of Intangible properties. This article evaluated the various methods currently in use for determining the value of Intellectual Property bear strikingly similar basis.<sup>15</sup>

### **1.8 Scope and Limitations of the Study**

This paper will seek to determine and analyse the apparent relationship between the concept of Compulsory Licensing and the Doctrine of Eminent Domain. The primary aim will be to justify the need for the introduction of a comprehensive compulsory licensing regime.

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<sup>14</sup> Fox Glenn, *Origins, nature, and content of the right to property: Five economic solitudes*, Canadian Journal of Agricultural Economics, 2012, 11-32.

<sup>15</sup> [http://www.wipo.int/sme/en/documents/ip\\_valuation\\_fulltext.html#charac](http://www.wipo.int/sme/en/documents/ip_valuation_fulltext.html#charac) on 10 February 2017

The focus will be primarily in relation to the difference in Statutory regulations of Compulsory Purchase and Compulsory licensing with regards to valuation procedure.

The primary limitation for this study is that there has been no compulsory license issued in Kenya making it impossible to judge the fairness of the current statutory regime.

### **1.9 Research methodology**

There will be no field research therefore this research will be conducted by way of document review and analysis. This will involve an assessment of the available literature on these topics. This literature includes published books, journals and newspaper articles, reported judgments of the law courts and legal instruments.

This method has been chosen given the vast amount of literature written on the thematic areas comprising this study and the corresponding insufficient utilization of these policies within the Kenyan context.

### **1.10 Summary of Overall Results and Conclusions**

Compulsory Licensing has been recognized as an expression of the state's Eminent Domain power in the United States with it being used a justification for the need to ensure just compensation has been met as per Constitutional requirements.

Furthermore, there seems to be an international call for better regulation of Compulsory Licensing regimes. The need for guidelines to ensure the compensation granted is just has also been recognized. The Royalty-Based compensation regime seems to be the most popular among states.

The utilization of the Land Law valuation guidelines as a bedrock for valuation guidelines for Intellectual Property may be possible but not directly as stated within the Land Regulations of 2017. There is need to adopt these and introduce new matters for consideration in recognition of the unique nature of Intangible Property.

### **1.11 Chapter Summary**

The introductory chapter includes an overall summary of the study. It does not contain too much detail. Its primary purpose is to set the stage for the need of the study.

The second chapter will contain the Theoretical framework. This will contain a detailed description on the perspective through which the paper was developed. It will act as the bed rock on which all consequent decisions are made.

The third chapter is an analysis of the key study areas with the aim of Understanding the apparent relation between Eminent Domain and Compulsory Licensing. It will simply characterize the similarities and differences between these two legal concepts.

The fourth chapter will be a comparative study conducted in two ways. The first will be an analysis of national treatment of Compulsory purchase of land vis-a-vis compulsory licensing of patents. The second will be an analysis of the compulsory licensing regime of two other states.

The fifth chapter will contain findings, recommendations and conclusions of the study.

## 2.0 THEORETICAL FRAMEWORK

The institution of private property has been a controversial topic with everyone having a different yet justifiable perspective. These conflicting views can be surmised as, one completely denying the importance of the right to own private property and the other supporting the holding of the private property. Karl Marx, a proponent of the former school of thought believed that poverty is mainly due to the institution of private property. On the other hand, John Locke, a proponent of the latter view regarded that property is a natural and inherent right of individual.

The primary theoretical basis for this paper is the personality theory. A person's personality in this case refers to their public image, including his physical features, mannerisms, and history it deserves generous legal protection, even though ordinarily it does not result from labour. Authors and inventors should be permitted to earn respect, honour, admiration, and money from the public by selling or giving away copies of their works but should not be permitted to surrender their right to prevent others from mutilating or misattributing their works.<sup>16</sup>

The premise of this approach, derived from the writings of Kant and Hegel is that private property rights are crucial to the satisfaction of some fundamental human needs. The state should therefore strive to create and allocate entitlements to resources in a manner that best enables people to fulfil those needs.<sup>17</sup> From this standpoint, intellectual property rights may be justified either because they create social and economic conditions conducive to creative intellectual activity, which in turn is important to human flourishing.<sup>18</sup>

Human beings are social beings. This is a key observation made by many a philosopher including Aristotle who stated:

*“Man is by nature a social animal; an individual who is unsocial naturally and not accidentally is either beneath our notice or more than human. Society is something that precedes the individual. Anyone who either cannot lead the common life or is so self-sufficient as not to need to, and therefore does not partake of society, is either a beast or a god”.*

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<sup>16</sup> Hughes Justin, *The Philosophy of Intellectual Property*, Georgetown Law Journal, 1988, 330-350.

<sup>17</sup> <https://www.ukessays.com/essays/philosophy/the-theories-of-intellectual-property-philosophy-essay.php#ftn7> on 31 January 2018.

<sup>18</sup> Waldron Jeremy, *The Right to Private Property*, Oxford: Clarendon, 1988, 85.

It follows that key aspect of human flourishing is the community aspect. To this effect, the protection of property rights must, under personality theory, reflect respect for both the individual owners and the needs of the community. In a well- designed socio-political system, Intellectual Property Rights (IPRs) will be protected by the granting of real rights that are not absolute to ensure that the needs of the community can be met. In legal regimes, eminent domain power of the state is utilized in the public interest and in relation to Intellectual Property, compulsory licensing is one of the ways the community aspect is reflected as an exception to the guaranteed Intellectual Property rights.

With respect to the guaranteed right there exists a duty to compensate the property owner. This duty may be justified by the Unjust Enrichment Theory. This is a general principle of law that no person should be allowed to profit at another's expense or to benefit from another person's work, without making restitution or compensation. To this effect, the utilization of the state power of eminent domain and compulsory licensing, there must be compensation.

There are also several classical theories in support of the importance of IPRs such as:

**a) Natural rights theory**

This is a common justification of IPRs where, as abovementioned, Locke from which he concludes that a person not only owns himself, but also the results of his work, if he leaves enough and as good for others.

A person who labours upon resources that are either unowned or "held in common" has a natural property right to the fruits of his or her efforts – and that the state has a duty to respect and enforce that natural right. These ideas, originating in the writings of John Locke, are widely thought to be especially applicable to the field of intellectual property, where the pertinent raw materials (facts and concepts) do seem in some sense to be "held in common" and where labour seems to contribute so importantly to the value of finished products.<sup>19</sup>

**b) Utilitarian Theory**

This theory, one of the most popular, is based on providing incentives. Creators do not have the necessary incentive unless they have accorded some means to control their knowledge.

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<sup>19</sup> Hughes Justin, *The Philosophy of Intellectual Property*, Georgetown Law Journal, 77,1988, 287.

Unless this is done, they lack the necessary economic incentive to create. This is called utilitarian theory of intellectual property.<sup>20</sup>

Additionally, under this school of thought, we have intellectual property systems because it has the effect on the betterment economic of the society. Its correctness is to be assessed in the economic success of the countries. We have witnessed tremendous technological advancements both in the science and the arts and countries in the western world, which have extensive intellectual property laws, and are also sources of some of the greatest inventions in history.

Both the Natural Rights Theory and Utilitarian Theory work to justify the importance of protection of Intellectual Property rights protection by the state but they rely heavily on Blackstone's point of view on property rights that it is so sacred that law should not authorize the least violation of it. This reliance makes them less effective in the justification of this thesis.

Under common law, the right to property has been established as an inherent right of the individual.<sup>21</sup> In Kenya, this right has been extended to include not only real property but property of any description, including, but not limited to Intellectual Property. This right connotes that there is a duty on all to not deprive any person of their property except by due process of law.

The process by which one may be lawfully deprived of their property is expressed in law as the doctrine of eminent domain. This doctrine has ancient roots. The Magna Carta, a charter of liberties written in 1215 forming the basis for common law as it is today, recognized this sovereign power of expropriation, but it requires that immediate cash payment be made for the provisions taken.<sup>22</sup>

The term itself comes from *dominium eminens* (Latin for "supreme lordship"), and may be traced back to the seventeenth century Dutch Jurist Hugo Grotius,<sup>23</sup> who wrote:

*"The property of subjects is under the eminent domain of the state; so that the state, or he who acts for it may use, and even alienate and destroy such property . . . for ends of public utility, to which ends those who founded civil society must be supposed to have intended that private*

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<sup>20</sup> <http://www.abysinnialaw.com/study-on-line/item/468-theories-of-intellectual-property#> on 6 December 2017.

<sup>21</sup> Chapter XXIX, The Magna Carta (1215).

<sup>22</sup> Chapter XXVIII, Magna Carta (1215).

<sup>23</sup> Nowak, John E.; Rotunda, Ronald D, *Constitutional Law, Seventh edition*, p. 263.

*ends should give way. But it is to be added, that when this is done, the state is bound to make good the loss to those who lose their property”.*<sup>24</sup>

Compulsory licensing, the practice of authorizing a third party to make, use, or sell a patented invention without the patentee’s consent can be traced back to the 19th century when Europe proposed to have compulsory license as the means of exploitation of patents to ensure that the public benefits from the knowledge and inventions.<sup>25</sup>

This works contrary to the basis of conferring proprietary rights within patent systems which is to give the inventor the absolute right of excluding others, during the lifetime of the patent, from in any way utilizing the patented invention. This supposition is supported by Lockean private property theory that proposes that one’s labour confers upon them proprietary rights over the fruits of their labour. John Stuart Mill took the view:

*“...an exclusive privilege, of temporary duration is preferable [as a means of stimulating invention]; because it leaves nothing to anyone’s discretion; because the reward conferred by it depends upon the invention’s being found useful, and the greater the usefulness, the greater the reward; and because it is paid by the very persons to whom the service is rendered, the consumers of the commodity”.*

This remains the case for the system today, at least for governments for so long as they are not purchasers of the goods, to provide an incentive for invention with a reward.<sup>26</sup>

The granting of a compulsory license amounts to an apparent deprivation of rights granted by law through the granting of patent rights. It is trite law that deprivation of proprietary rights must be met with just compensation.

Valuation plays a very major part in both the exercise of compulsory acquisition of land and compulsory licensing. Sir William Thompson, Lord Kelvin put it best when he stated that:

“I often say that when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind; it may be the beginning of

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<sup>24</sup> Hugo Grotius, *De Jure Belli Et Pacis* (1625).

<sup>25</sup> Dr. Shuchi Midha & Aditi Midha, *Compulsory license: Its impact on innovation in Pharmaceutical Sector*

<sup>26</sup> Machlup, F. & Penrose, E. (*The Patent Controversy in the Nineteenth Century*)” *The Journal of Economic History*, 1950, vol. 10:1, 20.

knowledge, but you have scarcely in your thoughts advanced to the state of Science, whatever the matter may be”.

This supposition was seconded by Galileo who stated, “Measure what is measurable and make measurable what is not.”

The need for compensation upon the infringement of proprietary rights by the state needs to be exercised with care. In order to determine just compensation, there needs to be a guide for valuation of the property in question otherwise, if determination is left to the state or its agents, who have no guide to justify their decisions, the power becomes highly corruptible.

This supposition has existed through-out history and the need for law to temper this human failing has been recognized all through history. One of the earliest renditions of this was made by an English politician named William Pitt, the Earl of Chatham and British Prime Minister from 1766 to 1778, who said in a speech to the UK House of Lords in 1770 that:

*"Unlimited power is apt to corrupt the minds of those who possess it".<sup>27</sup>*

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<sup>27</sup> <https://www.phrases.org.uk/meanings/absolute-power-corrupts-absolutely.html> on 31 January 2018.

### 3.0. UNDERSTANDING THE APPARENT RELATIONSHIP BETWEEN THE EMINENT DOMAIN DOCTRINE AND COMPULSORY LICENSING

The third chapter is an analysis of the key study areas with the aim of understanding the apparent relation between Eminent Domain and Compulsory Licensing. It will contain an analysis of the Historical foundations of the abovementioned and an analysis of the modern legal regime. The conclusion will seek to characterize the similarities and differences between these two legal concepts.

#### 3.1 The Historical foundation

Eminent domain is referred to by many different names including compulsory purchase in the United Kingdom, resumption in Hong Kong, compulsory acquisition in Australia, or expropriation in South Africa and Canada. It is the power to take private property for public use by a State or national government. This doctrine is deemed to have been coined by the seventeenth century Dutch Jurist Hugo Grotius,<sup>28</sup> who wrote:

*“The property of subjects is under the eminent domain of the state; so that the state, or he who acts for it may use, and even alienate and destroy such property . . . for ends of public utility, to which ends those who founded civil society must be supposed to have intended that private ends should give way. But it is to be added, that when this is done, the state is bound to make good the loss to those who lose their property”.*<sup>29</sup>

The Magna Carta, a charter of liberties drafted in 1215 not only recognized this sovereign power of expropriation, but also it requires that immediate cash payment be made for the provisions taken.<sup>30</sup>

This doctrine is based on two maxims namely *salus populi supreme lex esto* which means that ‘the welfare of the people is the paramount law’ and *necessita public major est quan*, which translates to ‘public necessity is greater than the private necessity.’<sup>31</sup>

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<sup>28</sup> Nowak, John E.; Rotunda, Ronald *Constitutional Law*, Seventh edition, St. Paul, 2004, 263.

<sup>29</sup> Hugo Grotius, *De Jure Belli Et Pacis* (1625)

<sup>30</sup> Chapter XXVIII, Magna Carta (1215)

<sup>31</sup> Pande G.S., *Constitutional Law of India*, University Book House (P) Ltd, Jaipur, 10th ed, 2007, 600.

This power is not absolute, just compensation has been deemed as a corresponding duty the state owes the proprietary owners.

Compulsory licensing, the practice of authorizing a third party to make, use, or sell a patented invention without the patentee's consent can be traced back to 1623 in the English Statute of Monopolies which is one of the earliest legal instruments containing this concept.<sup>32</sup>

In the 1980s, when the tech-oriented sector of the world economy was growing, intellectual property emerged as a commercial concern and states started to realize the importance of enhanced global intellectual property protection. Congress of Vienna for Patent Reform 1873 was the first patent convention providing inventors with exclusionary rights.<sup>33</sup>

It was noted that there was need to provide for a means of exploitation of patents to ensure that the public benefits from the knowledge and inventions. This need was addressed by the inclusion of compulsory licensing -as a safeguard against potential abuse of monopoly rights- in situations where the public interest should require it. Compulsory licensing was therefore accepted as a "strategic compromise". The Paris convention recognized this and stipulated compulsory license in its 1925 revision.<sup>34</sup>

Compulsory Licensing is simply the action of a government forcing an exclusive holder of a right to grant the use of that right to other upon the terms decided by the government. In patent law, the state or its agents compel the patent holder to grant a third party a license under the patent.<sup>35</sup>

### **3.2 The Modern Legal Regime**

The nature of both compulsory licensing and eminent domain doctrine requires that they be heavily regulated. This is because they work to effectively curtail what has historically been considered of extreme value, property rights.

Eminent Domain Power is vested in the state and therefore can only be regulated by national law. As has been previously mentioned, in Kenya, this is a power enshrined within Article 40 of the Constitution which provides that the state has the power to take private property of any

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<sup>32</sup> <https://eprints.qut.edu.au/90061/6/90061.pdf> on 31 January 2018.

<sup>33</sup> Muhammad A, Shamreeza R, 'Evolution of the Concept of Compulsory Licensing: A Critical Analysis of Key Developments Before and After Trips' *Academic Research International* (2013), Vol. 4 No. 2, 482.

<sup>34</sup> Muhammad A, Shamreeza R, 'Evolution of The Concept of Compulsory Licensing: A Critical Analysis of Key Developments Before and After Trips' *Academic Research International* (2013), Vol. 4 No. 2, 490.

<sup>35</sup> <https://eprints.qut.edu.au/90061/6/90061.pdf> on 31 January 2018.

description provided that the taking be only for public use, and that the government pay the owner just compensation promptly.

As has been previously mentioned, this power is primarily utilized in relation to Land in Kenya. To this effect, Kenyan Land Law has substantively addressed Compulsory Land Acquisition in the Land Act of 2012 and related regulations drawn up by the National Land Commission. Part VIII of the Land Act deals exclusively with Compulsory Acquisition of Interests in Land. It provides detailed provisions on due process.

**Compulsory Licensing** on the other hand is regulated both at the International and National Levels. This is because the importance of Intellectual Property within the sphere of global trade has established a need for international cooperation in protection of IPRs. Accordingly, countries have recognized this interdependence and have called for a broadening of international agreements on intellectual property rights protection.

This led to the creation of the World Trade Organisation's agreement on Intellectual Property — the TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement which took effect in 1995. TRIPS existed to protect IPRs but also provided for general guidelines for all signatories on Compulsory licensing.

Article 31 of the TRIPS Agreement allows for Compulsory licensing and government use without the authorization of the right holder provided that:

- i. There has been an unsuccessful attempt has been made to acquire a voluntary licence on reasonable terms and conditions within a reasonable period;
- ii. The requirement to pay **adequate remuneration** in the circumstances of each case, considering **the economic value** of the licence;
- iii. the legal validity of any decision relating to the authorization of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
- iv. the scope, and duration of such use shall be limited to the purpose for which it was authorized,
- v. any such use shall be authorized predominantly for the supply of the domestic market of the Member authorizing such use;
- vi. any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;

The patent owner still has rights over the patent, including a right to be paid for the authorized copies of the products therefore not losing proprietary rights absolutely. It must be noted that the licensee in this instance cannot be given exclusive rights therefore, the patent-holder can continue to produce, and it should be subject to legal review in the country.

Although the TRIPS Agreement refers to some of the possible grounds anticompetitive practices for issuing compulsory licences, it leaves Members free to stipulate other grounds such as those related to non-working of patents, public health or public interest.<sup>36</sup> The Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in TRIPS to protect public health.<sup>37</sup>

Under the agreement, the authorities in the country concerned determine what adequate remuneration is. It does not define “adequate remuneration” or “economic value” but provides that the patent owner must be given the right to appeal.

In Kenya, compulsory licensing is governed by the Industrial Property Act. The procedure provided is similar to TRIPS Article 31 procedure. The starting point is section 58(5) which allows for the limitation of patent rights on the grounds of ‘provisions on compulsory licenses for reasons of public interest or based on interdependence of patents.’<sup>38</sup>

The grounds on which it may be issued under Kenyan Law are non-working purposes<sup>39</sup>, public interest and due to interdependency of patents.<sup>40</sup>

Unlike other countries that rely on the courts, compulsory licenses in Kenya are granted by the Industrial Property Tribunal and registered by the Managing Director of Kenya Industrial Property Institute (KIPI).

### **3.3 Compulsory Purchase versus Compulsory Licensing**

The primary thesis for this study that Compulsory Licensing is an expression of the state power of eminent domain within the realm of intangible property. To this effect, there must be a detailed comparison of the two.

They are both concepts related to property and proprietary rights. They both amount to a deprivation of constitutionally protected property rights and can only be utilized or authorized by the state or state agencies. Furthermore, they both work towards protection and furtherance of public interest.

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<sup>36</sup> [http://www.who.int/medicines/areas/policy/doha\\_declaration/en/](http://www.who.int/medicines/areas/policy/doha_declaration/en/) on 16 January 2018.

<sup>37</sup> [http://www.who.int/medicines/areas/policy/doha\\_declaration/en/](http://www.who.int/medicines/areas/policy/doha_declaration/en/) on 16 January 2018.

<sup>38</sup> Section 58(5), Industrial Property Act, 2001

<sup>39</sup> Section 72, Industrial Property Act, 2001

<sup>40</sup> Section 73, Industrial Property Act, 2001

Under Article 40, Eminent Domain is the power a state must acquire private property for public use. The only justifiable reason for it is public interest. The power is limited by the caveat of just compensation contained therein.

Compulsory purchase under the Land Act is an acquisition. To this effect, the owner forfeits the property and all rights related to that property to the state in return they are compensated under the Land Regulations of 2017.

Compulsory licensing on the other hand is the licensing, not purchase, of patented works under the Act. It is an action carried out among private individuals authorized by the state. In Kenya such applications are handled by Industrial Property Tribunal established under section 113 of the Act. Though public interest is the primary ground for it, there are other grounds such as interdependency of patents and anticompetitive grounds.

## 4.0 COMPARATIVE STUDY

This chapter will contain two comparative studies. The first will be an analysis of national treatment of compulsory purchase of land in relation to compulsory licensing of patents. The second will be an analysis of the compulsory licensing regime of two other states and their approach to the requirement of just compensation.

### **4.1 National Standing on Just Compensation in Kenya**

In this chapter, there will be an analysis of the difference between the national statutory treatment of compensation of owners under compulsory licensing in relation to patents and compulsory purchase in relation to land.

#### ***4.1.1 Just Compensation in Land Law***

The Land Act echoes the Constitution providing that when land is acquired compulsorily, just compensation shall be paid promptly in full to all persons whose interests in the land have been determined.<sup>41</sup> The National Land Commission is mandated with the duty of making rules to regulate the **assessment** of just compensation.<sup>42</sup> The Land Act grants the Commission powers almost identical to courts within this mandate.

The Land Act provides further instruction as to the issue of just compensation by making it a requirement that there be inquiry/hearing into the compensation by the National Land Commission.<sup>43</sup>

The hearing should be held at least thirty days after publishing the notice of intention to acquire land, the Commission shall appoint a date for an inquiry to hear issues of propriety and claims for compensation by persons interested in the land. The notice of inquiry shall call upon persons interested in the land to deliver a written claim of compensation to the Commission. For the purposes of an inquiry, the Commission shall have all the powers of the Court to summon and examine witnesses, including the persons interested in the land, to administer oaths and affirmations and to compel the production and delivery to the Commission of documents of title to the land.

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<sup>41</sup> Section 111 (1), Land Act (Act No. 6 of 2012)

<sup>42</sup> Section 111 (2), Land Act (Act No. 6 of 2012)

<sup>43</sup> Section 112 (1), Land Act (Act No. 6 of 2012)

The commission is then required to make full inquiry into and determine who are the persons with legitimate interests in the land <sup>44</sup> and receive written claims of compensation from those interested in the land.<sup>45</sup>

Upon the conclusion of the inquiry, the Commission shall prepare a written award, in which the Commission shall make a separate award of compensation for every person whom the Commission has determined to have an interest in the land.<sup>46</sup>

The award subject to Article 40 (2) of the Constitution and section 122 and 128 of the Land Act shall reflect the size of the land to be acquired, the value, in the opinion of the Commission, of the land and the amount of the compensation payable.

If an interest in land is held by two or more persons as co-tenants, the award shall state ensure that the amount of compensation awarded in respect of that interest and the shares in which it is payable to those persons. Every award shall be filed in the office of the Commission.<sup>47</sup>

It shall not be invalidated by reason only of a discrepancy which may thereafter be found to exist between the area specified in the award and the actual area of the land.<sup>48</sup>

The Commission must serve on each person whom the Commission has determined to be interested in the land, a notice of the award and offer of compensation. Prior to taking possession of the land, the Commission may agree with the person who owned that land that instead of receiving an award, the person shall receive a grant of land, not exceeding in value the amount of compensation which the Commission considers would have been awarded

Section 115 of the Act dictates that after notice of an award has been served on all the persons determined to be interested in the land, the Commission shall, promptly pay compensation in accordance with the award to the persons entitled thereunder, except in a case where there is no person competent to receive payment or the person entitled does not consent to receive the amount awarded or there is a dispute as to the right of the persons entitled to receive the compensation or as to the shares in which the compensation is to be paid.

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<sup>44</sup> Section 112 (3) (a), Land Act (Act No. 6 of 2012)

<sup>45</sup> Section 112 (3), (b) Land Act (Act No. 6 of 2012)

<sup>46</sup> Section 113 (1), Land Act (Act No. 6 of 2012)

<sup>47</sup> Section 113 (3), Land Act (Act No. 6 of 2012)

<sup>48</sup> Section 113 (3), Land Act (Act No. 6 of 2012)

Subject to Section 111 of the Land Act, the National Land Commission drafted Land Regulations 2017 with the third schedule providing detailed guidelines on the measurement of just compensation. This was under Schedule Three titled, 'RULES FOR THE ASSESSMENT OF JUST COMPENSATION.'

The rules provide that in assessing compensation, the following factors shall be considered; -

- i. The market values
- ii. Damage sustained or likely to be sustained by persons interested at the time of the Commission's taking possession of the land by reason of severing the land from his or her other land;
- iii. Damage sustained or likely to be sustained by persons interested at the time of the Commission's taking possession of the land by reason of the acquisition injuriously affecting his or her other property, whether moveable or immovable, in any other manner or his or her actual earnings;
- iv. Consequence of the acquisition, any of the persons interested is or will be compelled to change his or her residence or place of business reasonable expenses incidental to the change; and
- v. Damage genuinely resulting from diminution of the profits of the land between the date of publication in the Gazette of the notice of intention to acquire the land and the date the Commission takes position of the land.

The rules provide that Market value of the land to be acquired shall be the primary basis of the award. It goes on to define "market value" in relation to land means the value of the land at the date of publication in the Gazette of the notice of intention to acquire the land. In *Kanini Farm Limited vs Commissioner of Lands*, it was held that the market value as a basis for assessing compensation is the price which a willing seller might be expected to obtain from a willing purchaser. Further, that the purchaser may be a speculator provided that the speculator is neither wild nor unreasonable.<sup>49</sup>

To further ensure accurate and just compensation it provides that in assessing the market value:

- i. The effect of any express or implied condition of title or law which restricts the use to which the land concerned maybe put, shall be taken into consideration;

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<sup>49</sup> *Kanini Farm Limited vs Commissioner of Lands* [1996] KLR 301

- ii. If the market value of the land has been increased, or is currently increased, by reason of an improvement by the owner or his or her predecessor after the date of publication in the Gazette of the notice of intention to acquire the land or by reason of the use of the land or premises in a manner which could be restrained by a court or is contrary to the law or is detrimental to the health of the occupiers of the premises or to public health, the increase shall be disregarded.

Just compensation also means that the state should not be forced to over compensate. This is because the owner must be returned to a position as if the property had not been taken but he is entitled to no more. To this effect there are also matters that must NOT be taken into consideration in determining the amount of compensation to be awarded for land acquired under the Land Regulations of 2017. These are:

- i. The degree of urgency which has led to acquisition;
- ii. Any disinclination of the person interested to part with the land;
- iii. Damage sustained by the person interested which if caused by a private person, would not be a good cause of action;
- iv. Damage which is likely to be caused to the land after the date of publication in the gazette of the notice of intention to acquire the land or in consequence of the use to which the land will be put;
- v. Any increase in the actual value of the land as at the date of publication in the Gazette of the notice of intention to acquire likely to accrue from the use to which the land will be put when acquired;
- vi. Any outlay on additions or improvement to the land, incurred after the date of publication in the Gazette of the notice of intention to acquire land, unless the additions or improvements were necessary for the maintenance of any building in proper state of repair.

There shall be added a sum equal to fifteen per cent of the market value to the amount of compensation as compensation for disturbance.

#### ***4.1.2 Just Compensation under Patent Law***

In Kenya, regulations as the Compulsory Licensing are not as detailed as those of Compulsory Purchase. They merely meet the minimum standards set by the TRIPS agreement as was above mentioned.

Section 75 (2) (e) of the Industrial Property Act provides that the Industrial Property Tribunal must ensure that the compulsory license provides for the payment to the owner of the patent of remuneration which is equitable with due regard to all the circumstances of the case.

The law does not provide for further clarification as to what may or may not be constituted as relevant in compulsory licensing cases. This ambiguity may lead to inadequate compensation or over compensation. It was further inferred in the case of *Five Stars Agencies Limited versus National Land Commission* that the need to follow valuation guidelines is paramount in order to ensure that the constitutional proviso of just compensation is met.<sup>50</sup> Though this was land acquisition case, the relation between compulsory purchase and compulsory licensing under Article 40 of the constitution is manifest.

The procedure for granting of compulsory licenses needs to be reviewed under the current constitutional regime to not only align with Article 40 but also:

- i. Article 48 of the Constitution which secures the right of every Kenyan citizen, juridical or natural person to access to justice and fair administrative action which includes prompt and fair compensation by Government upon compulsory acquisition of one's property for public use as was held in *Arnacherry Limited versus the Attorney General*<sup>51</sup>;
- ii. Article 10 (2) (c) which provides that good governance, integrity, transparency and accountability are the core principles of governance that must be followed. To this effect, Kenyan Law must ensure that there is due process and less ambiguity in the procedural nature of Compulsory licensing.
- iii. Article 2 (5) of the Constitution recognizes international law as forming part of our domestic law or sources of law. Articles 3, 12 and 17 of the Universal Declaration of Human Rights, 1948 provide for a State's obligation to respect and protect of private property. The state therefore has a duty under International Law to create and maintain a legal regime that work in favour of protection of private property.

It then follows that the provisions on compulsory licensing are inadequate when compared to those of land law which strive to meet the constitutional requirement. This paper makes a case

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<sup>50</sup> *Five Stars Agencies Limited v National Land Commission* [2014] eKLR

<sup>51</sup> *Arnacherry Limited v Attorney General* [2014] eKLR

for the need of these guidelines to fulfil the provision on just compensation upon the deprivation of property rights by the state.

## **4.2 Case Studies**

The Concept of Just Compensation across all forums is one that has not been standardised internationally with each jurisdiction taking a different approach. In Kenya, Land Law is the only sphere in which just compensation has been addressed through statute and subsequent regulations, but other jurisdictions have addressed this matter in relation to compulsory licensing.

This paper will analyse two jurisdictions in relation to their compulsory licensing regime. The primary reason for these choices is the fact that both countries, like Kenya, are signatories to the TRIPS Agreement which set the minimum requirements states should adhere to in relation to compulsory licensing in Article 31.<sup>52</sup>

The first is the United States because of their well-established jurisprudence in matters of just compensation and the apparent relationship between the Eminent Domain power of the state and Compulsory Licensing Regime. The second is India because of its close economical and historical connection to Kenya and the fact that it is one of the few countries of such standing that has issued a compulsory license.

### ***4.2.1 The United States***

In 1910, the United States Congress passed “An Act to provide additional protection for owners of patents of the United States” (1910 Act), stating:

*That whenever an invention described in and covered by a patent of the United States shall hereafter be used by the United States without license of the owner thereof or lawful right to use the same, such owner may recover reasonable compensation for such use by suit in the Court of Claims.*

Now commonly referred to as the “Government Use Statute,” the 1910 Act created a means for patent owners to obtain money damages for the government’s use of patented inventions. Congress tailored the 1910 Act under the theory of eminent domain, as the government’s taking of a license to use a patented invention would be for the benefit of the public. This was seen in *W.L. Gore & Assocs. Inc versus Garlock Incorporated* where it was

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<sup>52</sup> [http://www.wipo.int/wipolex/en/other\\_treaties/parties.jsp?treaty\\_id=231](http://www.wipo.int/wipolex/en/other_treaties/parties.jsp?treaty_id=231) on 31 January 2018

held that the patentee takes his patent from the United States subject to the government's eminent domain rights to obtain what it needs from manufacturers and to use the same.<sup>53</sup>

As stated in Calhoun versus United States, 'when a patented device or invention is made or used by or for the United States, ipso facto takes by eminent domain a **compulsory compensable license** in the patent; the patentee obtains his Fifth Amendment just compensation for that taking through his action.'

Section 1498 of Title 28 of the United States Code deals with unauthorized use of patented works by the U.S Government. Government use in this case refers to the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the **authorization or consent** of the Government. Here what is taken from the patent owner is a compulsory nonexclusive license to use or manufacture the patented invention.<sup>54</sup>

In Section 1498 actions, "reasonable and entire compensation" is the exclusive remedy for patent infringement. The remedies available to a patentee are limited by the section's roots in eminent domain. In Leeson Corp. versus United States it was held that:

*'The theory for recovery against the government for patent infringement is not analogous to that in litigation between private parties. When the government has infringed, it is deemed to have 'taken' the patent license under an eminent domain theory, and compensation is the just compensation required by the Fifth Amendment.'*<sup>55</sup>

American jurisprudence dictates that the proper measure in eminent domain is what the owner has lost, not what the taker has gained.<sup>56</sup> Under the Patent Act, damages are measured as either lost profits or a reasonable royalty meaning the amount for which the patent owner would be willing to license the patent under a voluntary license.

The United States Court of Federal Claims (USCFC) is the court mandated with hearing of monetary claims against the government. It is this court that determines compensation upon a 'taking' of property. The USCFC follows an established method in determining reasonable and entire compensation. There are two components for consideration: the first is to determine the

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<sup>53</sup> W.L. Gore & Assocs. Inc v Garlock, Inc [Fed. Cir. 1988]

<sup>54</sup> <https://www.uscfc.uscourts.gov/node/2927> on 31 January 2018.

<sup>55</sup> Leeson Corp v United States, [Ct. Cl. 1979], 599

<sup>56</sup> Chamber of Commerce v Boston, 217 U. S. 189.

value of the license at the time it was taken, and the second involves compensating for the government's delay in paying for that license.<sup>57</sup>

The Court of Claims determined that the reasonable royalty method is the preferred method of ascertaining the value of patent rights in *Decca Ltd. versus United States*.

To calculate the damages related to these two components, the Court of Claims has recognized three methods of valuation of the first component, license value: (1) determination of a reasonable royalty for the license; (2) awarding a percentage of government cost savings arising from governmental use of the patented invention; or (3) awarding lost profits.<sup>58</sup>

For the second component of delay compensation, the court multiplies any accrued royalty based on the initial license value by an annual percentage rate determined on a case-by-case basis.

#### **4.2.2 India**

India, with a closer economical and historical relation to Kenya, offers a more relatable comparison. It has detailed provisions for Compulsory Licensing of Patents within their Patent Act.

Section 90 of the Indian Patent Act provides for the terms and conditions compulsory licences stating that the Controller, shall endeavour to secure that the royalty and other remuneration, reserved to the patentee or other person beneficially entitled to the patent is reasonable, having regard to:

- a) the nature of the invention,
- b) the expenditure incurred by the patentee in making the invention or in developing it
- c) Costs incurred in obtaining a patent and keeping it in force among other relevant factors

The India Patent Rules of 2003 contain a chapter with detailed procedural rules on Compulsory Licensing like that of the Kenyan regime of the Compulsory purchase of land.<sup>59</sup>

India's first compulsory license was issued by the Patent Office on March 9, 2012, to NATO Pharma, an Indian company, for the generic production of Bayer Corporation's Nexavar, a drug

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<sup>57</sup> *Decca Ltd v United States*, [Ct Cl 1980] 640 F.2d 1156, 1167

<sup>58</sup> <https://www.uscfc.uscourts.gov/node/2927> on 31 January 2018.

<sup>59</sup> Chapter XII, India Patent rules, 2003.

used for the treatment of Liver and Kidney cancer. In this case, the compulsory license has been granted until 2020. Natco is not entitled to export the drug or to outsource its production.

The Indian Patent Office also decided that Natco must pay royalties to Bayer on a quarterly basis at the rate of 6 percent of the net sales of the medicine, in accordance with remuneration guidelines set forth by the United Nations Development Programme and domesticated by the Patent Office.<sup>60</sup>

In other jurisdictions, the royalty-based method is also the most preferred though with different approaches. The first issue as to approach refers to the basis of the royalty. The question here being whether it should be based upon the price of the product sold by the patent owner or the price of the generic competitor.

In the United Kingdom licence of right cases involving pharmaceutical drugs, the Courts used the price of the patent owner's product to set the royalty. In Canada, Japan and the United States, the competitor's price is often the basis for the royalty. When using the patent owners market price, the objective here is to guard the owner against loss whereas when using the competitors price, the objective is to obtain lower prices.

#### **4.2.3 Conclusion.**

America has been referred to as the 'Land of the free and home of the brave.'<sup>61</sup> The Declaration of Independence, Constitution and Bill of Rights, collectively known as the Charters of Freedom, have guaranteed the rights and freedoms of Americans for over 200 years. The judicial interpretation of these charters has led to the conclusion that compulsory licensing is an expression of the state's eminent domain power within Intellectual Property Law. One may infer from Hegel's personality theory through which he proposed, '*people can begin to realize their freedom by taking things for their private property*' that the need to protect the sanctity and value of property is directly related to the very essence of a free and democratic system of government.. The laws in America have therefore adapted to this reality.

India, even prior to using this tool, had rules on compulsory licensing and valuation of Intellectual property that served it well when it chose to issue its first license. It is important to

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<sup>60</sup> International Centre for Trade and Sustainable Development, *India Grants First Compulsory License to Generic Drug Producer*, Bridges - Volume 16, Number 10, 14 March 2012.

<sup>61</sup> <https://www.theglobalist.com/the-land-of-the-free-and-the-home-of-the-brave/> on 31 January 2018.

note that though Kenya has not issued a compulsory license, there have been talks from as early as the year 2000 for its use primarily in relation to public health initiatives.<sup>62</sup>

To this effect, the Having a well-established compulsory licensing regime should facilitate a just, fair and equitable resolution if the need ever arises.

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<sup>62</sup> Kenya National Assembly Official Record (Hansard) 6 Jul 2000 accessed <https://books.google.co.ke/books?id=WaR7SZGMAbIC&pg=PT9&lpg=PT9&dq=compulsory+license+applications+in+kenya&source=bl&ots=NshWXji4Uv&sig=WirT-vpxuVOgM79bRIRdHaZ12Lc&hl=en&sa=X&ved=0ahUKEwjMzZfH37bZAhVKVRQKHSUwAngQ6AEIdD-AJ#v=onepage&q=compulsory%20license%20applications%20in%20kenya&f=false> on 31 January 2018.

## 5.0 CONCLUSION

Without guidelines from which the state can draw objective and justified just compensation, there is a higher likelihood of unjust or inaccurate valuation. This is because the existence of valuation guidelines works towards transparency, accountability and predictability which are all Constitutionally mandated principles of governance.<sup>63</sup> Guidelines have benefits that predictable remuneration make it easier to enter a voluntary license and they act as evidence to support claims on remuneration therefore improving policy making.<sup>64</sup>

In this sense, having a detailed valuation guideline with regards to compulsory licensing will work to protect both the state from over compensating and the individual from being undercompensated. It should also work to assist the Tribunal should the need to justify their decision ever arise.

Guidelines in this regard must be distinguished from formulae. Valuation guidelines inform the valuer of the things/circumstances that must or must not be taken into consideration when valuing the property. It is not a formula but meant to ensure that the compensation given is as just and as accurate as possible. This is because valuation of patented works is rather complex. The guidelines are a starting point from which should need arise, the state can value property.

A paper published jointly by the World Health Organisation and the United Nations Development Program titled, 'Remuneration guidelines for non-voluntary use of a patent on medical technologies' offered a general idea on the best basis for remuneration guidelines in relation to compulsory licensing stating:

*"Two issues should be paramount in establishing systems for determining remuneration in compulsory licensing cases. First, the system of setting royalties should not be overly complex or difficult to administer, given the capacity of the government managing the system. Royalty guidelines will reduce complexity and provide guidance for adjudicators, as well as increase transparency and predictability. Royalty guidelines, or any system for setting remuneration for compulsory licensing, should anticipate and address the need to divide royalty payments among various patent holders when the product is subject to multiple patents. Second, the amount of the royalty should not present a barrier for access to medicines. In most instances*

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<sup>63</sup> Article 10, Constitution of Kenya, 2010.

<sup>64</sup> Published by UNDP and WHO, *Remuneration guidelines for non-voluntary use of a patent on medical technologies*, Expert Consultation, New York City, 17 September 2004, 56.

*where a compulsory licence is issued on a consumer product, the purpose will be to lower price and improve access. Remuneration mechanisms should be designed so as to assist rather than defeat this purpose.*"<sup>65</sup>

Many royalty systems have been adopted or proposed in various jurisdictions. Royalty guidelines proposed by the Japanese Patent Office (1998) and UNDP (2001) set royalties from 0 to 6% of the price charged by the generic competitor. The 2005 Canadian royalty guidelines for the export of medicines to countries that lack manufacturing capacity set royalties at 0 to 4% of the generic price, depending upon the level of development of the importing county.<sup>66</sup>

In developing our own remuneration guidelines that are in line with our constitutional requirements, it must be noted that the concept of compensation was well-defined in the case of *Horn v Sunderland Corporation* where it was stated that:

*"The word "compensation" almost of itself carries the corollary that the loss to the seller must be completely made up to him, on the ground that unless he receives a price that fully equalled his pecuniary detriment, the compensation would not be equivalent to the compulsory sacrifice."*<sup>67</sup>

It must also be noted that "**just**" is defined as "*legally right; lawful; equitable.*"<sup>68</sup> This therefore means that in order to meet 'just compensation' requirement, it must be restitutive in nature. Restitution has been defined as the "act of making good or giving equivalent for any loss, damage or injury; and indemnification."<sup>69</sup>

As has been previously mentioned, there are inherent differences between compulsory purchase and compulsory licensing in Kenya. The fact that this is a license of intangible property, the direct use of valuation concepts utilized under Kenyan Land law may not be possible.

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<sup>65</sup> Published by UNDP and WHO, *Remuneration guidelines for non-voluntary use of a patent on medical technologies*, Expert Consultation, New York City, 17 September 2004, 6.

<sup>66</sup>Published by UNDP and WHO, *Remuneration guidelines for non-voluntary use of a patent on medical technologies*, Expert Consultation, New York City, 17 September 2004, 24.

<sup>67</sup> *Horn v Sunderland Corporation* [1941] 2 KB 26,40

<sup>68</sup> Black's Law Dictionary, 9<sup>th</sup> Edition, 881.

<sup>69</sup> Black's Law Dictionary, 9<sup>th</sup> Edition, 1553.

However, there are general principles and key parts of the process that may be derived from them. These may include:

- a) The fair market value, which is the most common valuation standard. This is the price at which a willing buyer and a willing seller would transact, with each party having access to all relevant information and with neither party under the compulsion to transact.<sup>70</sup> It is also the method most commonly used under the royalty- based method;
- b) Loss or Damage sustained or likely to be sustained by persons interested due to the compulsory licensing by reason of the acquisition injuriously affecting his or her other patented works. This is especially important where the product is covered by many patents as common in pharmaceutical patents;<sup>71</sup>
- c) If an interest in the patent is held by two or more persons, the Tribunal should ensure that the amount of compensation awarded in respect of that interest and the shares in which it is payable to those persons;
- d) the nature of the invention;
- e) the expenditure incurred by the patentee in making the invention or in developing it; and
- f) Costs incurred in obtaining a patent and keeping it in force among other relevant factors.

It is evident compulsory licensing is used only in situations in which the public interest is best served though it intrudes upon the individual rights and duties of private parties. Such intrusions, though sought to be minimized various legal systems, do occur. When they do, a compulsory license seems to be the most equitable resolution of the conflict as it seeks to reconcile property rights with public right. To this effect, in order to maintain the sanctity of Intellectual Property Rights, it is necessary that the state take steps to ensure that compensation paid is just and equitable. This calls for greater focus on the process of valuation of Intellectual property should there be state intrusion.

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<sup>70</sup>Paul Flignor and David Orozco, *Intangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective*, WIPO Online Journal, 15.

<sup>71</sup> Published by UNDP and WHO, *Remuneration guidelines for non-voluntary use of a patent on medical technologies*, Expert Consultation, New York City, 17 September 2004, 51.

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