The patent licensing conundrum: a substantial Brazilian legal theory in the Law of Contracts*

Marcos Vinício Chein Feres[1]
Denis Franco Silva[2]

ABSTRACT

Much of the discourse theory has been used to promote the proper application of the law. Much effort has been made in order to look deeper into legal theory. However, very little legal philosophical research has been done so as to shed light on a specific field of law. Contract Law has a natural appeal for instrumental rationality, for the underpinnings of a contractual relationship are based on a consensus derived from strategical action. Is it possible to apply discourse theory to the understanding of a contract of transfer of technology? How can entrepreneurial policies be effective in the marketplace despite a basic moral argument – the dialectical relation between public and private autonomy? In this vein, the intent of this paper is to articulate public intervention in a contract without jeopardizing private autonomy. The discourse theory, as the theoretical point of departure of this work, is not a transcript either of Habermasian communicative theory or Dworkin's argumentation theory. In fact, both of these authors are responsible for the legal theory conception which conveys a new approach on the hermeneutics of economic law, mainly the contracts of transfer of technology. The Brazilian Intellectual Property Rights Act states, firstly, that the bearer of patent rights can celebrate a contract in which is licensed the use and exploitation of the patent, and secondly, further on, that the bearer will be deprived of his (her) rights if he (she) abuses them or abuses his (her) market's economic power. A patent is an important means of achieving economic efficiency in the market. Although it is essential for scientific development to grant privileges to inventor in order to avoid unauthorized copies, it is necessary to control this special case of monopoly. In this context, is public intervention in this contract a matter of principle or a matter of policy? Is compulsory licensing by the Brazilian government instituted against Efavirenz – used in the treatment of AIDS – a matter of policy or a matter of principle? First of all, an item will be dedicated to the study of the application of discourse theory to private autonomy. Then, limits to contract law will be interpreted according to this theory. Thirdly, the case of patent law and its different licensing approaches is elaborated departing from this new paradigm of contract law. Finally, a substantial legal theory can be deduced from the specific Brazilian patent conundrum.

*Este artigo foi escrito com o apoio da FAPEMIG.
[1] Economic Law Professor at UFJF; PhD in Economic Law.
[2] Civil Law Professor at UFJF; Master in Civil Law; PhD student.

1 Introduction

Contract Law has one of the most important roles in the formation of a legitimate private agreement. In spite of a great effort to describe the mutations in this field, much less has been made in order to establish a new theoretical approach to understand the public intervention in contracts, as a limit to private autonomy.

As a matter of fact, contracts are conceived as a means of institutionalizing strategic economic actions. In this context, if there is no legal intervention, contracts will be elaborated so as to fulfill a mere instrumental rationality. Only through Law can agreements express one's free will assuring typical strategies which form a private binding without any kind of coercion or submission by force or by violence.

The main intent of this paper is to articulate public intervention in the contract of transfer of tecnology without jeopardizing the private autonomy. This can only be achieved in an environment of discoursive theory. As far as the discoursive theory is concerned as a theoretical point of departure, it should be taken into consideration that it is not a mere transcript of either Habermasian theory of communicative action or Dworkin's theory of argumentation. Moreover, the purpose here is, after all, to elaborate a substantial legal theory applied to public intervention in contract, taking as a starting point the Habermasian validity claims of ideal discourse and the Dworkian distinction between arguments of policy and arguments of principle.

This paper also aims to find reasonable answers to the following questions: How can public intervention be considered legitimate in a democratic context of public and private autonomy co-originally constituted? Is public intervention in a contract of patent licensing a matter of policy or a matter of principle? Is compulsory licensing by the Brazilian government instituted against Efavirenz – used in the treatment of AIDS – a matter of policy or a matter of principle?

The answers to these questions will reveal a whole new theoretical approach to the application of substantial reasons in the hermeneutics of a specific contract both administratively and judicially. It is widely known that contracts should only be analysed by courts, according to its formal requisites. However, only through substantial reasons can a stabilized contract of patent licensing suffer certain public intervention. Strangely enough, very few scholars have dedicated their time to apply a legal theory to a specific field of law.

First of all, there will be an item to discuss the theoretical starting points, that is, Habermasian theory of communicative action and Dworkian theory of argumentation, and the application of discourse theory to private autonomy. Secondly, public intervention in contract will be interpreted according to this theory. Thirdly, the patent licensing case is studied departing from this new paradigm of contract law. Finally, a substantial legal theory can be deduced from the specific Brazilian patent conundrum.

2 Discourse theory and private autonomy

According to Habermas (1998), the relation between private and public autonomy must be understood as dialectical. This proposition stands for a basic fundamental principle: all citizens cannot assume the status of legal subjects unless they are granted subjective private rights. In fact, private and public autonomy mutually presupposes each other, as part of an environment where coercive and positive law develops a central role, firstly, constituting individual legal subjects and, secondly, entitling them to participate in a democratic process of lawmaking.

The idea of dialectical relation between private and public autonomy is based on the Habermasian theory of communicative action. Departing from this theory, the author elaborates the discourse principle (“just those action norms are valid to which all possibly affected persons could agree as participants in rational discourses”) vis-à-vis the moral principle as a means of expressing the

complementary relation between law and morality.

Though directly refered to law, the discourse principle is intertwined with the moral principle. It seems that law must convey a degree of legitimacy which implies a necessary proximity to moral arguments. Thus, the discourse principle expresses a postconventional morality, for the moral principle is one of, or even the most important, rule of argumentation which operationalizes the former.

Habermas (1996) reveals that discourse principle is a counterfactual proposition formulated to analyse the validity of legal norms, whereas the moral principle is used to justifying moral norms. However, both of them cannot be seen or understood as clearly distinct philosophical concepts applied to separate domains of reality. In fact, whenever trying to find out the validity of a legal norm, for example, a contract, it should be taken for granted that the moral principle establishes the substantive grounds for the procedure of lawmaking.

Dworkin's conception of Law as integrity departs from a constructive approach in the discourse of appropriateness. Nevertheless, this particular point of view should not be restrained to the solution of hard cases, but it must be extended to the procedure of lawmaking in an attempt to fulfill the Habermasian proposal of complementariness between moral principle and discourse principle.

Moreover, according to Dworkin (1991), law as integrity is based on a coherent set of principles about justice, fairness and procedural due process. This reasoning cannot be restricted to the application of law in courts. As a matter of fact, lawmaking procedure would require the same set of principles to justify as well as structure a substantial production of norms.

A radical phisophical scholar may see all of this as a paradoxical argumentation and a theoretical failure. However, the lawmaking procedure implies a dialectical relation of application between universal moral principles and the Constitution, as well as the Constitution and the statutes. In this particular case, there is a serious concern for the legislature ability to produce a consistent set of articulate norms framed by the intersection of the Dworkian community of principles and the Habermasian minimum normative content counterfactually instituted.

In a context of private and public autonomy co-originally constituted, subjetive rights and public law interact to form a counterfactually set of principles which conveys a moral argument in the lawmaking process. It seems that a minimum normative content is expressed in terms of private autonomy as well as democratic principle.

The legislature is not free to enact rules without any regard to this normative content. Although enacting rules is a matter of policy, the latter can only be chosen according to a reason of principle. According to Dworkin (1991), law as integrity does not apply to lawmaking process. Nevertheless, an extension to the lawmaking procedure of this theoretical tool enhances the scope of this paper – a substantial legal theory applied to contracts, and justifies the Dworkin's argument – the need for a sound policy to enact a rule. In fact, a sound policy is yet a policy justified by a moral principle.

The private law making procedure is founded on the private autonomy principle. Property rights and contracts are formulated in accordance with the minimum moral standard established in a counterfactual environment of ultimate private autonomy. In order to conceive the normative content of an agreement, it is not appropriate to disregard reasons of principle while the bearers of rights are elaborating the terms of a certain transaction.

The principle of private autonomy works as a moral standard in the process of establishing the contours of the normativity in contracts. This reveals a significant step towards the justification of lawmaking procedure. It is not a mere formal appreciation, but, instead, a substantial analysis of the production of norms. The dialectical relation between private autonomy and democratic principle requires integrity in the procedure of lawmaking not only by legislature but also by administrative power and individuals. Enacting regulations and achieving private agreement must be enlighted by minimum moral contents. This does not represent a return to natural rights, but a renovation of proceduralism.

Most of the readers may be asking what private autonomy means in a context of substantialism in procedure. Indeed, private autonomy conveys

relevant moral contents, such as, fairness in exchanges, justice in co-operation, procedural due process in evaluating the promise principle. These are the guidelines the legislature has to respect so as to implement contract law. Futhermore, the legislative process in construing the principles of contract law is justified upon a moral argument. At this point, the basis of a contract law is not informed by instrumental rationality yet by a community of principles, in spite of the strategic actions of promisee and promisor in forming an obligation binding.

3 Legitimate and illegitimate public intervention in contract law

Due to state intervention in contract by legislature, liberal scholars have announced the fall of freedom of contract. Obviously, this point of view presupposes a negative concept of liberties which certainly are jeopardized by any kind of parternalistic measures. Nevertheless, it is not intended here to revisit and enhance the collective goals which can eventually justifies the restriction of private autonomy. It is not a question of taking sides of either communitarians or liberals, yet it is a matter of asserting the legitimacy of public intervention in accordance with a community of principles.

This community of principles ought to justify the legitimacy of intervention in contracts, taking into account not only a dialetical relation between public and private autonomy but also substantial moral contents. Indeed, the principle of autonomy itself is a substantial moral argument, setting the limits for any kind of state intervention. As a matter of fact, private autonomy and state intervention in the context of contract law should be co-originally constituted. It implies a significant conclusion that private agreements are *prima facie* binding (ATIYAH, 1986), for they should pass a relevant test of appropriateness as far as the moral principle is concerned.

In this context, an essencial question will arise: what are the means of pointing out the legitimacy of a state intervention? First of all, the principle of private autonomy will demand an intervention whenever the exercise of free will in any private agreement is in danger. Secondly, state intervention in a contract

will be justified if equity in exchange is not being adequately balanced. Thirdly, public autonomy or democratic principle supports a policy of intervention which is founded on a procedural due process. In this case, the ultimate goal is to protect the co-operation between the parties and the long-term contractual relationship inasmuch as cognitive flaws, fraud, duress and misrepresentation are recognized as sufficient grounds for reconstituting any private binding through reasonable intervention.

Therefore, the principle of private autonomy, in the context of law as integrity, may require and substantiate legislative or administrative intervention whose purpose is to morally reconstruct the obligation binding between free individuals. As a result, this specific principle functions as both a procedural tool and a moral argument in favor of a substantial legal theory whose aim is to acknowledge diversity, conflict and plurality in social relations under the due process of a normative structure morally integrated. Finally, the relation between moral principle and law as integrity is not fragmented at all, none the less it demonstrates a substantial ground for justification of lawmaking and law in court.

4 Patent licensing: a brazilian case study

Efavirenz is a pharmaceutical which has been used in the treatment of HIV infected patients. Brazilian program of Sexually Transmitted Disease/Aids is worldly known by the free distribution of anti-HIV drugs for patients who cannot afford to buy such medicine. Brazilian government acquires Efavirenz from Merck Sharp & Dohme, for this corporation holds the exclusivity of property rights according to Brazilian Intellectual Property Rights Act. Merck has registered the patent at the Industrial Property Rights National Agency which has garanteed the exclusiveness of exploitation, licensing and other connected rights up to 2012.

After a process of negotiation between Merck Sharp & Dohme and the Brazilian government, no reasonable agreement could be achieved, because Merck refused to sell the medicine for less than $ 1.59 per 600 mg pill. Nonetheless, there are other possibilities to acquire the same pharmaceutical for a more reduced price. The generic Efavirenz can be bought for $ 0.45 from India.

In fact, this is an expressive reduction from the original coerced contract with Merck.

In this vein, Brazilian government decided to take advantage of a legal rule in intellectual property rights law. The article 71 in the 1996 Brazilian Industrial Property Rights Act establishes that in cases of national emergency or public interest, declared by an administrative governmental act, a compulsory patent license, temporary and not exclusive, will be conceded, without disregarding the property rights of the patentee. The governmental act nº 886/2007 has declared the public interest in the pharmaceutical, Efavirenz, as well as its public non-commercial use. The aim of this act is to garantee the National Programme of Sexually Transmitted Disease/Aids.

Normally, patent license implies a mutual understanding between the licensee and the licensor. Patent licensing is a contract through which technology is transferred. In this context, private autonomy is naturally exercised by both sides. In a few words, the industrial property rights law structures rights and duties of licensee and licensor, inas much as to maintain equity in exchange, free will and fair co-operation. In this context, law as integrity is applied to the patent licensing contract. Equality, justice and procedural due process are elements that integrate the obligational binding between patentee and licensee.

In the case of Efavirenz, a coerced contract has been authorized by intellectual property rights law, since the privilege to exploit this patent was granted to Merck. The Brazilian government is obliged to buy the medicine only from Merck. Registered the patent, everyone will have to negotiate the medicament with Merck. Obviously, this specific contract is not derived from free choice among a series of different suppliers, yet it is a necessary, obligatory binding with the corporation which statutory monopoly is granted to. One's private autonomy is restricted by a set of principles, such as, investment in research, development of new technologies and scientific progress. These specific principles serve as a means of fostering new inventions in any kind of industry, in spite of high costs that are to be spent on research and development.

This contract is based on a legal coercion. This implies an inexcusable,

inevitable binding only with the patentee. The ones interested in acquiring the medicine are to set a necessary agreement with Merck. It's a legal exception to free competition in the market so that copying and imitation are avoided. Legal monopoly guarantees the recovery of all investment done in research and development. Intellectual property rights law leads, through proper means, to market failure correction.

On the contrary, legal or statutory monopoly tends to influence the market negatively. The patentee might abuse of property rights by charging excessive prices for the exclusive product. That is why intellectual property rights law should state legal procedure to reverse the probability of abuse of economic power obtained by the patent privilege. In this case, the terms of patent licensing contract is legally established so as to reconstruct the obligational binding in conformity with fairness, justice and due process.

Once Merck abuses of its legal monopoly, the Industrial Property Rights Act admits the government to intervene and restate equity in exchanges. Departing from a substantial legal theory, equity in exchanges is part of a community of principles, a moral argument, which allows a coerced patent licensing contract whose terms are predetermined by law. Therefore, the Brazilian government will be able to acquire the medicine for a lower price or even to produce a generic one, whereas the property rights of the patentee are still protected by the payment of royalties. According to the 1999 Governmental Act, this compensation for the loss of exclusivity in selling the product will be set taking into account the economic value of the license, the relevant market conditions, and the price of similar products (Decreto nº 3201/99).

To sum up, the principle of private autonomy consists of a substantial reason for justifying not only the enactment of governmental act but also the high degree of intervention in the patent licensing contract. Indeed, this statement proves that patent licensing conundrum is easily solved as long as a substantial legal theory sheds light on Law of contract and proposes a new paradigm for reconstruction of either the lawmaking procedure (elaboration of contract terms) or the application of law in court (solving contractual conflicts in court).

5 Conclusion

In the beginning of this paper, three relevant questions were arisen so as to guide the methodological search for a substantial legal theory applied to contract law. At this moment, an important task has to be accomplished, that is, to present the answers for the following questions: how can public intervention be considered legitimate in a democratic context of public and private autonomy co-originally constituted? Is public intervention in a contract of patent license a matter of policy or a matter of principle? Is compulsory licensing by the Brazilian government instituted against Efavirenz – used in the treatment of Aids – a matter of policy or a matter of principle?

Firstly, there is no doubt that public intervention in a contract is legitimate as long as founded on an argumentative reasoning which reveals a public autonomy whose origin ultimately coincides with private autonomy. The legitimacy of intervention in contract law is not a simple issue. The illegitimacy can be alleged in court or in lawmaking procedures so as not to uphold the binding nature of a promise. Surely, the argument of principle that substantiates the state intervention in contract can be revealed not by a specific policy yet by a moral content through the principle of private autonomy. It is, indeed, a circular process, but not ordinary as it seems, it requires moral reasons which will naturally point out a sense of appropriateness in both the lawmaking of a contract and the justification of an administrative decision.

Secondly, it is not difficult to conclude that public intervention may be directly founded on a policy. However, it is not a common policy, but a sound policy which is constituted in accordance with a community of principles. Public intervention in a contract is a matter of principle, inas much as the policy that fundamentally justifies the governmental act should express a coherent set of principles. In the specific situation, this scheme of principles that composes the integrity of law are to be understood as the dialectical relation between private autonomy and public autonomy. Intervention and private autonomy are co-

originally constituted which means that intervention is justified as long as fairness in exchange, justice in co-operation, and procedural due process in the execution of promise principle are spotted. In this context, the alleged dichotomy between moral and law is to be overcome, for it is a dynamic process in which moral and law has neither prearranged positions nor preconceived relations.

Last but not least, compulsory license determined by Brazilian Industrial Property Rights Act is not based exclusively on policy. There is, in fact, a policy that justifies the governmental decision to intervene in the patent licensing contract. Nevertheless, taking into consideration the arguments demonstrated above, it is easily perceived that this policy is founded on a scheme of principles. In the case of Efavirenz, the National Programme of Sexually Transmitted Diseases – Aids expresses a serious concern about the access to any health treatment, the right to the highest standards of physical health and public responsability for medical services and medical attention in the event of sickness. This set of rights (principles) states undoubtedly the moral content of public intervention as a means of reinforcing the private autonomy as a co-original factor in this circle. Thus, all the argumentation of circularity reveals a universal pragmatic pressuposition.

Finally, the patent licensing conundrum is solved in conformity with a moral ground whose basis are laid by a community of principles. The aim of all this is to revisit the lawmaking procedure as well as administrative decisions, taking into perspective a substantial legal theory applied to a complex obligational binding between the State and a private corporation. It is, indeed, a hard case, yet it will be eventually decided if the scholar is capable of understanding the circular process of interaction between a system of law and a moral framework.

7 References

ATIYAH, P.S. **Essays on contract**. Oxford: Claredon Press, 1986.

BRASIL. **Lei n º 8884, de 11 de junho de 1994**. It constitutes the Federal Competition Agency and regulates public intervention in the market. 3rd ed. revised and extended. São Paulo: Revista dos Tribunais, 2002. p. 301 et seq. (Organized by Fernando de Oliveira Marques)

BRASIL. **Lei n º 9279, de 14 de maio de 1996**. It refers to industrial property rights. Available at https://www.presidencia.gov.br/ccivil_03/Leis/L9279.htm. Download on August, 18th 2005.

BRASIL. Decreto nº 3201, de 06 de outubro de 1999. It refers to the regulation of article 71 of 1996 Industrial Property Rights Law. Available at http://www.desenvolvimento.gov.br/arquivo/sti/proAcao/proTecnologica/proIntelectual/des3201.pdf. Download on May, 31st 2007.

DWORKIN, Ronald. **Law's empire**. London: Fontana Press, 1991.

_____. **A matter of principle**. Cambridge: Havard University Press, 1985.

_____. **Taking rights seriously**. Cambridge: Havard University Press, 1977.

HABERMAS, Jürgen. **The theory of communicative action**: reason and the rationalization of society. Translated by Thomas McCarthy. Boston: Beacon, 1984.

_____. **The theory of communicative action**: lifeworld and system: a critique of functionalist reason. Translated by Thomas McCarthy. Boston: Beacon, 1987.

_____. **Between facts and norms**: contributions to a discourse theory of law and democracy. Translated by William Rehg. Cambridge: MIT, 1996.

_____. **The inclusion of the other**: studies in political theory. Edited by Ciaran Cronin and Pablo de Grieiff, Cambridge: MIT, 1998.