Case no 623/87
/MC

IN THE SUPREME COURT OF SOUTH AFRICA

(APPELLATE DIVISION)

In the matter between

SOUTH AFRICAN DRUGGISTS LIMITED .....

- and -

BAYER AKTIENGESELLSCHAFT ..... Respondent

CORAM: CORBETT CJ et NESTADT, MILNE,
KUMLEBEN JJA et NICHOLAS AJA.

HEARD: 17 February 1989.

DELIVERED: 26 May 1989.

J U D G M E N T

NICHOLAS AJA /.....

NICHOLAS AJA:-

BAYER AKTIENGESELLSCHAFT ("BAYER"), a German corporation with its principal office in Leverkusen, Germany, is concerned in the manufacture and distribution of pharmaceutical products. It is an international company with subsidiaries throughout the world.

On 20 March 1967 BAYER filed in Germany a patent application covering compounds in the group dihydropyridines, which had been found to produce a marked coronary dilation when administered either intravenously or by mouth. Thereafter corresponding patent applications were filed in a number of countries including the Republic of South Africa, where Patent No 68/1482 ("the patent") was granted. The normal term of the patent expired on 8 March 1984.

Included among the compounds covered by the patent is Nifedipine (4- (2'- nitrophenyl) - 2,6 - dimethyl- 3,5 -

dicarbomethoxy - 1,4-dihydropyridine) which was claimed in claim 4, and the production of which was described in Example 1 and covered by claim 39 (a process claim).

Certain of the claims were invalid on the ground of anticipation, notably by an article in the Journal of the American Chemical Society published in 1949. For reasons to be mentioned, no application to amend the patent specification was made until almost the date of expiry.

On 19 August 1983 BAYER made an application, in terms of s 39(1)(a) of the Patents Act 37 of 1952 ("the repealed Act") read with s 3(1)(d) of the Patents Act 57 of 1978, ("the 1978 Act") for the extension of the term of the patent for 5 years. The application was limited to the extension of claim 4 covering Nifedipine and of claim 39 in so far as it relates to the compound claimed in claim 4.

The application for extension was opposed by SOUTH AFRICAN DRUGGISTS LIMITED ("SAD"). One of the grounds of

opposition was that the patent was clearly and obviously invalid on the ground of lack of novelty, and that a limited extension should not be granted because its effect would be to circumvent the statutory requirements relating to the amendment of patent specifications. In order to meet this objection BAYER, while not abandoning its original contention that the convenient course would be to extend the patent in the limited form proposed, applied in terms of s 51(1) of the 1978 Act for an amendment of the specification, the effect of which would be to disclaim all compounds other than that specifically claimed in claim 4, and all the processes claimed except that claimed in claim 39 in regard to the compound claimed in claim 4.

The two applications (i.e. the application for the extension of term and the application for the amendment of the specification) came before MACARTHUR J sitting as Commissioner of Patents. After debate, the learned Commissioner ruled that the two applications should be heard together. Thereafter on 14

October 1986 the Commissioner granted the application for amendment and issued a new patent for a period of five years from the expiry of the old patent on 8 March 1984. An order for costs was made in favour of BAYER.

SAD appealed to the Transvaal Provincial Division, which by a majority (ELOFF DJP with VAN ZYL J concurring) dismissed the appeal with costs. GOLDSTEIN J agreed that the appeal against the amendment of the specification should be dismissed, but did not agree that BAYER had established that it was entitled to an extension of five years. The case is reported: South African Druggists Ltd v Bayer AG, 1988 (1) SA 819 (T).

SAD now brings a further appeal to this court.

In the Commissioner's court and in the Transvaal Provincial Division, SAD relied on a number of grounds of opposition to the two applications. In the heads of argument which it filed as appellant in this court it continued to rely on many of those grounds, but in actual argument SAD's case was

limited to two main contentions:-

(a) the amendment of the specification should not have been granted; and

(b) BAYER had failed to prove inadequate remuneration.

(a) Amendment of specification.

BAYER did not apply to amend the specification until virtually the last day of the term of the patent. SAD argued that BAYER must have been aware of the anticipating citations from at least 1969. The delay, it was submitted, constituted a bar to the grant of the amendment.

MACARTHUR J dealt with the relevant facts and the law in the following extract from his judgment:-

> "The evidence of the applicant shows that there was a general policy whereby no amendments were undertaken in non-examining countries such as South Africa until all the prior art cited in examining countries had been considered. Even then the applicant adopted a practice

in South Africa, as well as other countries such as Great Britain, Australia and New Zealand, of not amending the claims where there existed in the relevant specification a valid independent claim covering the product or the process. This was done on the advice of practitioners in those countries that no harm would come to valid claims unless an attempt was made to enforce the patent. In addition to this the applicant was under the impression that prior printed publications had to be available in South Africa before they could be cited against the patent.

The applicant always reviewed its patent specification before embarking on any legal proceedings and in the present case no attempt had ever been made to enforce those claims which the applicant now seeks to delete. The legal position on the question of delay on the part of a patentee in applying for amendments has been considered in a number of cases. A deliberate intention to delay knowing full well that some of the claims are invalid can in some circumstances be a bar to amendment. Even though a patentee never attempted to enforce them he has created an area which prevented competitors from freely entering it. Willows Francis Pharmaceutical Products Limited v AB Astra Apotekarnes Kemiska Fabrieker 1960(3) SA 726 (AD) at 744. If there is to be a

successful charge of covetousness there will have to be proof that the patentee knowingly and deliberately obtained claims of unjustified width. Imperial Chemical Industries Ltd (Whyte's) Patent 1978 RPC 11. An extremely helpful analysis is given by GRAHAM, J in Matbro Limited v Michigan (Great Britain) Limited & Another 1973 RPC 823 at 834. He was referring to two earlier cases where a similar problem had been considered and said :-

'I think these cases do support what I have said above in regard to delay and detriment and also draw a clear distinction between instances where a patentee knows of prior art and which he genuinely, and quite properly in the circumstances, thinks is irrelevant, and other instances where, though he learns of or has been warned of objections which are available against his patent as a result of prior art, yet he takes no steps to put his specification right by way of amendment, or still worse, knowingly persists in retaining it in the unamended and suspect form. In the latter cases delay is culpable because potential defendants and the general public are entitled to plan their activities on the assumption that the patentee, though warned, has decided not to amend. If the patentee, by his conduct, lulls the public into a false sense of security he cannot thereafter be allowed

to change his mind and ask for an amendment, or at any rate without adequate protection being granted to the public.'

I consider the present matter falls within the first category referred to by GRAHAM J. Even though the applicant was aware of the earlier citations and it maintained a general policy of not amending a specification where an independent claim existed I do not think it can be said that the applicant, by taking the stance it did, was deliberately trying to frustrate the rights of others or even inhibit them in the use of the patent. The opponent certainly does not make out such a case and on the evidence it seems to me that the applicant did not consider the citations relevant to the South African patent. Mere delay without actual or potential prejudice is unlikely to result in an amendment being refused, Matbro case supra at 833. Furthermore the applicant is not seeking to amend invalid claims but wants them deleted leaving valid claims standing. That is an acceptable distinction and a court will not be over concerned with the delay except in special circumstances. See BLANCO-WHITE, Patents for Inventions 4th Edition, page 297 and TERRELL, The Law of Patents, 12th Edition page 206.

Having regard to all this I do not think the objection taken is sound and I conclude that the delay

is not culpable."

After dealing with other objections to the application for amendment, the learned Commissioner said that an amendment of a specification which complies with the statutory requirements may be allowed if the circumstances are such that a court ought to exercise its discretion in favour of the patentee. Holding that the applicant's conduct was not culpable and that the objections taken by the opponent were not sufficiently strong to justify him in not exercising his discretion in favour of the applicant, he allowed the application.

In my opinion no ground has been shown for interfering with this decision.

The grant or refusal of an amendment to a patent specification is a matter within the discretion of the Commissioner. A court of appeal would be entitled to interfere with the decision only if it came to the conclusion that the Commissioner had not exercised a judicial discretion. It cannot

be said that in this case the Commissioner exercised his discretion capriciously or upon a wrong principle, or that he did not bring an unbiased judgment to bear on the question or has not acted for substantial reasons. Cf Ex parte Neethling and Others 1951(4) SA 331(A) at 335 A-F.

Consequently the appeal against the grant of the amendment must fail.

(b) Inadequate remuneration.

So far as presently relevant, s 39(1)(a) of the repealed Act provided :-

> "(1) A patentee or an exclusive licensee may, after advertising in the prescribed manner, apply to the registrar for an extension of the term of the relevant patent on the ground that -
>
> (a) he has not derived adequate remuneration from that patent;
>
> .....
>
> (2) Any such application may be made -

(a) in the case of an application under paragraph (a) of sub-section (1), not more than twelve months and not less than six months before the date of expiration of the term of the patent in question or at such later time, being not later than the date of expiration of the patent, as the commissioner may allow; and

.....

(3) Any person may within the prescribed time give written notice to the registrar and the applicant of objection to any such extension, and the commissioner shall fix a date for the hearing of the application and advise the applicant and any objector of the date so fixed.

(4) The commissioner may, after hearing the applicant and any person who may have objected to the extension, refuse the application or order the extension of the term of the patent in question for such period and subject to such conditions as he may deem fit or, if the patent has already lapsed, order the issue of a new patent for such a period and subject to such conditions: Provided that no such extension shall be

granted -

(a) on the grounds mentioned in paragraph (a) of sub-section (1) for a term exceeding five years or, in exceptional cases, ten years;

....."

(Under s 46(1) of the 1978 Act, the term of a patent granted under that Act is 20 years with no provision for extension. It was provided in s 3(1)(d) however that a patent granted on an application made before the commencement of the 1978 Act should be subject to the provisions of s 39 of the repealed Act. By a subsequent amendment (s (1)(1) of the Patents Amendment Act 14 of 1979) the term of a patent granted under the repealed law was not to be extended for a period exceeding five years.)

The first South African Patents Act (the Patents, Designs, Trade Marks and Copyright Act 9 of 1916) had made provision in s 50 for the extension of the term of a patent. S 51 went on to provide -

"51(1) The court shall, in considering its decision, have regard to the nature and merits of the invention in relation to the public and to the profits made by the patentee as such and to all the circumstances of the case.

(2) The court, if it is of the opinion that the patentee has been inadequately remunerated by his patent, may order the extension of the term of the patent for a further term ...."

S 51(1), which gave directions to the court in regard to the exercise of its discretion, had been adopted from the English Act. There was no similar provision in the repealed Act. Consequently, under s 39(1)(a) no more required to be proved than that the patentee (I shall hereafter omit the "exclusive licensee" for the sake of brevity) had not derived adequate remuneration from the relevant patent. For the rest, the Commissioner's discretion to grant or refuse the application was unfettered. See Anglo-American Corporation of SA Ltd v Vereinigte Österreichische Eisen- und Stahlwerke Aktiengesellschaft 1967(4) SA 322(A) at 330 G-H ("the Voest

case"). Under s 39, therefore, the function of the Commissioner was a two-fold one :-

(a) to determine objectively on the facts whether the applicant has not derived adequate remuneration from the patent; and, if (and only if) he so finds,

(b) to determine subjectively in the exercise of his discretion whether, having due regard to all the relevant facts and circumstances, an extension of the patent ought to be granted and, if so, the period thereof and the conditions, if any, to be attached to the grant.

See South African Railways and Harbours v Standard Car Truck Co 1982(1) SA 806(A) at 818H-819A ("the SAR case"), per CORBETT JA. Proof that the patentee has not derived adequate remuneration from the patent is, then, the foundation for the Commissioner's discretionary power to grant an extension of term.

The underlying policy of the Patents Acts is that a

patent represents a quid pro quo. In Letraset Ltd v Helios Ltd 1972(3) SA 245(A) HOLMES JA described it at 249 E-F :-

> "The quid is the monopoly conferred upon the patentee for a number of years;.... The quo is the new knowledge which he presents to the public, and which, after the expiry of the patent, will be available for general utilisation."

The extension provisions of the Act were designed to meet the case where the quid (the remuneration actually derived from the patent) is inadequate when measured against the quo, the benefits conferred by the invention on the public.

Adequacy of remuneration, said STEYN CJ in the Voest case at 330H-331A :-

> ".... implies a comparison of the remuneration in fact derived from a patent and the remuneration which would be sufficient compensation for the benefits conferred on others than the patentee....."

A direct comparison between remuneration derived and benefits conferred is not possible unless the latter can be expressed in terms of money. There is no scientific basis on which that can be done. There is no ideal way of performing what BLANCO WHITE called "the impossible task of deciding, in figures, what a particular invention is worth" (BLANCO WHITE, Patents for Inventions 3rd edition, p 227, note 14). (See the judgment of COLMAN J in the Transvaal Provincial Division in Firestone South Africa (Pty) Ltd & Others v Gentiruco AG 1966 BP 251(T) at 269F.)

A perusal of the cases dealing with remuneration under the rubric EXTENSION in Vol I of the Digest of the Patent, Design, Trade Mark & Other Cases, published in 1959 by the Patent Office in London, suggests that the English courts never attempted the impossible task. The accepted approach appears from Saxby's Patent (1870) L.R. 3 P.C. 292, where LORD CAIRNS said at 294 :-

"It is the duty of every Patentee who comes for the

> prolongation of his Patent to take upon himself the onus of satisfying this Committee, in a manner which admits of no controversy,of what has been the amount of the remuneration which, in every point of view, the invention has brought to him, in order that their Lordships may be able to come to a conclusion, whether that remuneration may fairly be considered a sufficient reward for his invention, or not ....."

The patentee was required to establish clearly the amount of the remuneration received. It was then for the court to decide as best it could whether that remuneration was adequate. It appears from the later cases that the court always came to its own conclusion, based on its own view of the value of the invention (which it did not express in money terms) whether the remuneration had been adequate or inadequate. A conspectus of the cases suggests that that view was not unduly generous. In the matter of Thomas' Patents (1892) 9 RPC 367(PC), for example, it was observed at 372 that "no case had been discovered in which a prolongation of a patent had been quoted where the Patentee had received as much as £20,000". And in the more recent case of

National Research Development Corporation's Patent 1972 RPC 829, where WHITFORD J, was dealing with a submission by counsel that the total receipts for an invention would be of the order of half a million pounds, he said (at 834) :-

> "It might be said that it could scarcely be suggested that anybody who has got half a million pounds out of a patent could claim to have been inadequately remunerated. In times gone by one can find in some of the older cases suggestions that sums very much smaller than this must represent the absolute limit so far as any question of inadequacy of remuneration is concerned. There was a time when it was thought if you got £10,000 you could never claim to have been inadequately remunerated. That was later pushed up to £30,000...."

The learned judge did go on to observe, however :-

> ".... but if one looks at the dates of those sort of cases, and considers the prices of commodities then prevailing, and remuneration then paid it is

immediately apparent that the standards which were then applicable have got no relevance to the position in which we find ourselves today.

One has got to consider a patentee's remuneration in relation to the value of money today and what people paid for all sorts of other things, and the importance of the invention in its particular field (sc. medicine), and in relation to the public at large."

It was, presumably, because of the difficulty of expressing in money terms what is a sufficient reward to an inventor for the benefits conferred by the invention, that the court in Lennon Ltd and Another v Hoechst Aktiengesellschaft 1981(1) SA 1066(A) ("the Lennon case") suggested a practical way of making a comparison. WESSELS JA said at 1077B :-

"We think that for practical reasons the correct comparison to make is one between the remuneration which, objectively determined, the patentee could and would have derived but for some reason did not derive from it. (The latter will sometimes hereafter be referred to as 'the potential remuneration')...."

(There is an apparent ellipsis in the first sentence; or perhaps the word between should be read as with.) The learned judge of al continued (1077C-F) :-

> "If towards the end of the statutory term of the patent the actual remuneration derived therefrom is less than its potential remuneration, the former can usually be said to have been inadequate. The amount of the remuneration in fact derived from a patent could no doubt ordinarily be established with a reasonable degree of accuracy. It involves, in the main, an exercise of an accounting nature. The difficulty arises where the Commissioner, in order to make the comparison referred to, has to assess the potential remuneration. However, in order to prove the inadequacy of the actual remuneration, it may not always be necessary to establish the amount of the potential remuneration with any degree of precision. A round, broad approximation may often suffice. In grappling with this sometimes difficult task, the Commissioner will inevitably be required to have due regard to the utility, merit or commercial success of the patent and the earning capacity of the patentee. See the Voest case at 331A."

It is clear from a later passage in the judgment that it is not

always necessary for an applicant to tender evidence of an accounting nature to assist the Commissioner in assessing the nt of the potential remuneration. See p 1087D-F :-

> "Section 39(1)(a) of the Act requires an applicant to establish simply that he has derived inadequate remuneration from the patent. That does not, in my opinion, mean that in every case an applicant is required to demonstrate by means of detailed and accurate quantification the extent to which he has been inadequately remunerated. Even if it were possible for an applicant to quantify with accounting exactness the remuneration in fact derived from a patent, he would be unable to do so in regard to the second figure required of potential remuneration in order to make the comparison above referred to. In the circumstances of this case, therefore, the question was whether the evidence was sufficient to enable the Commissioner to determine, as a matter of preponderant probability, that the remuneration in fact derived from the patent was inadequate, notwithstanding the fact that such remuneration, viewed in isolation, appeared to be substantial or, for that matter, even 'extremely high', as was conceded by respondent's counsel to be the case.

The Commissioner was invited to approach the matter on the basis that the total of the gross receipts derived from the transfer price represented nett profits in the s of the respondent. On that basis, it would seem that it would have been of no real assistance to the Commissioner if respondent were to have disclosed in evidence the manner in which the transfer price was fixed and the amount thereof, so as to be able to measure the actual profit against the price being charged to the public in South Africa."

The Lennon case placed the imprimatur of this court on the application of the so-called "lost time" principle. This had previously been applied in a number of cases decided in the Court of the Commissioner of Patents and had been approved by the Full Bench of the Transvaal Provincial Division in the appeal in Randfontein Non-White Sanatorium (Pty) Ltd v E R Squibb & Sons Incorporated 1977(1) SA 162(T). In the SAR case, CORBETT JA set out a compendium of 12 principles by which the Commissioner of Patents should be guided in dealing with an application for an extension of term on the ground of inadequate remuneration.

These were extracted from earlier cases (notably from the Lennon case). For convenience of later reference I set out the principles now relevant (see 819H-821B) :-

"(7) In some instances the patentee may be able to establish that for some reason or another he was not able to exploit the patent, and earn a remuneration from it, for a particular period during the term of the patent, usually commencing with the beginning of the term. This type of situation has been referred to as 'lost time' in the exploitation of the patent. The fact that there has been such lost time is relevant to the determination of the issue as to whether or not the patentee has derived inadequate remuneration from the patent (see Lennon's case supra at 1080H-1081H).

(8) If lost time is proved, its cogency in establishing that there has been inadequate remuneration from the patent depends on all the facts and circumstances. Relevant considerations in this regard would include

(the list is not exhaustive):

(a) the utility, merit and commercial success of the invention during the period when it was actually exploited, for, if this is considerable, then this fact would sustain the inference that, if the patentee could have exploited his patent during the lost time, he would have derived appreciably more remuneration for the full term of the patent than he actually did derive, however substantial the latter remuneration may have been (see Lennon's case supra at 1080F-G, 1081H-1082A);

(b) whether or not the royalties demanded by the patentee or the prices fixed for its product have been calculated and fixed in such a way as to compensate the patentee for the lost time or allow him to recoup loss of remuneration sustained during the period of lost time (see Lennon's case supra at 1082C-H); and

(c) whether or not the lost time was due to some inherent weakness or shortcoming in the invention. As it was put by WESSELS JA in Lennon's case supra at 1084B-C -

'...if during any period of the patent's term, the invention was incapable of earning any remuneration due to some weakness or shortcoming inherent in it and not to some unconnected, extraneous factor or circumstance, that sterile period could not be used to support or establish an allegation of inadequate remuneration, for during that period it could not have earned any remuneration. Then cadit quaestio. On the other hand, if the invention was capable of earning remuneration during that period but did not earn it fully, or at all, due to some such extraneous factor or circumstance, that could be used to substantiate an allegation of inadequate remuneration.'

(9) Once, having heard the applicant and the objector (if any), the Commissioner has determined on the facts that the applicant has not derived adequate remuneration from the patent, he must decide, in the exercise of his discretion, whether or not to extend the patent and, if he does extend it, for what period and subject to what conditions (if any).

(10) A relevant consideration in the decision regarding the extension of the term of the patent is whether or not the inadequacy of the remuneration was due to the 'fault'of the applicant (See Anglo-American Corporation of SA Ltd v Vereinigte Österreichische Eisen- und Stahlwerke Aktiengesellschaft 1967(4) SA 322(A) at 331H-332A; Lennon's case supra at 1079H-1080E). Fault in this context embraces various degrees of blameworthiness; and, if it appears from the evidence that the applicant was at fault and that his failure to derive adequate remuneration from the patent was ascribable to such fault, the Commissioner will consider the nature and degree of the applicant's blameworthiness and the weight to be given thereto in exercising

> his discretion. In a given case he might decide that the degree of fault on the applicant's part was offset by other factors favouring the grant of an extension, such as, eg the great utility and merit of the patent (see Lennon's case supra at 1080D-E, 1087H-1088A). In a case of lost time fault may include the neglect by the patentee initially to exploit his South African patent because he preferred to concentrate on marketing the invention elsewhere (Firestone SA (Pty) Ltd and Others v Gentiruco AG 1968(1) SA 611(A) at 635A)."

Principle 8(b) calls for discussion. At p 1082 B-D of the Lennon case, WESSELS JA referred to "the substantial submission" made on behalf of the appellant, namely, that the ground on which the respondent's application for extension was based had not been proved: the contention was that,

> ".... unless there is at least evidence to show that the respondent's prices for the product had not been calculated and fixed on the basis of some formula designed to compensate for a reduced monopoly period, the 'lost years' basis on which the respondent's application was founded was insufficient to show that the remuneration which was in fact derived from the

patent was inadequate within the meaning of s 39(1)(a) of the Act."

In the opinion of WESSELS JA, the contention could not be upheld.

It is plain that the appellant's submission was an argument on fact, and that Principle 8(b) is not a principle of law. WESSELS JA did not in his judgment consider whether the contention advanced was fairly based on the evidence contained in the affidavits, nor whether it was logically valid. He dealt with it in relation to the facts, holding that there was evidence that the respondent's prices had not been loaded especially to recompense for the lost years (at 1082D-E) and that it would be unlikely that, in launching a new product such as that with which the case was concerned (a diuretic), the respondent would have loaded the prices especially to recoup for the lost years (at 1082G). The prices charged, he said,

would have had to be competitive, and also reasonable when compared with the prices of other diuretics then on the market. He concluded by saying (at 1082 H):

> "The loss of remuneration sustained for those preceding years would therefore not have been recouped in the succeeding years."

Similarly, the soundness of the contention was not examined in the SAR case, where it was merely repeated.

In my respectful opinion the contention should now be re-assessed because, though plausible, it is fallacious and in any event, not supported by the evidence in the Lennon case.

The lost time principle is described in Principle (7) of the SAR case (see above). The rationale which underlies it is to be found in what WESSELS JA called "the correct comparison to make" - that is a comparison between the remuneration in fact derived from the exploitation of the patent (the actual remuneration) and the remuneration which, objectively determined, the patentee could and would have derived but for

some reason did not derive from it. (See the Lennon case at 1077 B-C.) Where a patent is exploited for part only of the statutory term that fact may, depending on the circumstances, ground the cogent inference that if the patentee had been able to exploit the patent during the whole term, the total remuneration he would have derived (the potential remuneration) would have been considerably greater than the actual remuneration (cf the Lennon case at 1079 H, 1080 F-G, 1082 B); and that consequently the patentee had not derived adequate remuneration from the patent.

"Remuneration" in the context in which it is used in s 39(1)(a),

> ".... relates to the profits and other advantages of a financial nature in fact derived by the patentee within the Republic of South Africa from his commercial exploitation of his rights as patentee in terms of s 32 of the Act."

(per WESSELS JA in the Lennon case at 1078E). The net profits

derived from sales of the patented product are, it is plain, "remuneration" as described. They are remuneration in fact derived from the patent, or "actual remuneration". The proposition on which an applicant relies who adopts the lost time approach is that, however large or substantial the remuneration which he in fact derived from the patent, it was nevertheless inadequate within the meaning of s 39(1)(a), since, during the lost years, he derived no remuneration from the patent. (See the Lennon case at 1079H.) On such an approach there can be no talk of "compensation" or "recoupment" - it just does not enter into the matter. If the patentee, in calculating and fixing the price of his product, subjectively makes provision for compensation or recoupment in respect of lost years, he deludes himself: he does not compensate for lost years by subjectively attributing remuneration received to compensation for remuneration not earned, any more than a man enriches himself by transferring his money from one pocket to another.

It may be that, in the formulation of the contention,

there was confusion between the lost time approach, and the traditional approach, in which there was an assessment in figures of the value of the particular invention or, in the words of STEYN CJ in the Voest case (supra), of "a remuneration which would be an adequate compensation for the benefits conferred on others than the patentee". In such a case the patentee might, in theory, have calculated a price for the product which would yield such remuneration over the limited period still remaining for exploitation of the patent, thus compensating for the lost years.

It appears from the appeal record in the Lennon case that the evidence relating to the contention was contained in the affidavits of Dr Cyril Donninger, a highly qualified bio-chemist with considerable experience in dealing inter alia with manufacturing problems and costs in the pharmaceutical industry, and Mr Henry Bernstein, a qualified pharmaceutical chemist with wide experience in pharmaceutical marketing and administration in the United States of America, the United Kingdom, Europe and

elsewhere in the world. Both deponents were senior executives in the employment of Adcock Ingram Ltd, one of the original opponents.

> In his affidavit, Donninger said that
> "...it has been my experience that companies in the Life Sciences Industries (which include the pharmaceutical industry) do not select arbitrary prices at which they will sell their products, including those products protected by patents. The prices of products are calculated precisely taking into account many factors including the cost of development. The time it takes to develop a product is clearly a factor which is taken into consideration in arriving at a particular price.
>
> I submit therefore that in the case of furosemide the costs of development, including the time it took to develop the product to a form suitable for commercial use, was taken into account by the Applicant in determining the price at which the product would be sold to the South African public. In support hereof I refer to the affidavit of Mr. H.L. Bernstein to be filed herewith."

Bernstein said in his affidavit that in his experience international pharmaceutical companies are able to determine very

precisely the profitability of their products, which indeed, is essential to ensure effective marketing. The calculation of prices includes allocations in respect of research and development costs, investment in plant, overheads and the cost of manufacture of the raw material. He said that "the time it took to develop the product in question is inevitably a factor which is taken into consideration in this calculation because the longer the development period, the greater will be the development costs and hence the greater will be the sum that has to be recovered on the sale of the product."

The evidence of Donninger and Bernstein afforded scant support for the contention of the appellant in the Lennon case. Neither of them dealt with the concept of inadequate remuneration, (apart from a passing mention by Donninger that he had been advised that the Patents Act provided for extension of patents in cases where it was established that there had been inadequate remuneration). Neither of them said that remuneration lost during the development period was one of the many factors

taken into account in determining the prices of products. In his affidavit (on which Donninger relied for support for his own submission), Bernstein did deal with "the time which it takes to develop a product", but it is clear from the context that this related to "the costs of development" and not to loss of remuneration during that time. Neither Donninger nor Bernstein, with all their wide experience in the field, suggested that pharmaceutical companies used "some formula designed to compensate for a reduced monopoly period". (The only reference in Bernstein's affidavit to a formula was his statement that all properly run companies of the type under discussion have a written formula for allocating "indirect or allocated expenses" to each product, which formula provides a clearly defined method of allocation.)

An essential element in any such formula would have to be an assessment in figures of the potential remuneration which could be derived from the patent over the whole of its term. Only when he was in possession of such an assessment could the

patentee begin to calculate the price (if he could calculate it at all) which would yield that remuneration during the remainder of the statutory term of the patent. There was nothing in the affidavits of Donninger and Bernstein in the Lennon case to suggest how the assessment could be made at the time when the patentee begins to exploit the patent and hence before the patentee can be in possession of any data bearing on its commercial success.

Moreover, the contention flies in the face of economic realities. A patentee is in general at liberty to fix whatever price he may wish to charge for his product, using the data and techniques he considers to be appropriate for that purpose. In practice, the lower price limit is set by his production costs - unless a product can be priced to yield an attractive margin above the production costs, he will not offer it at all. The upper limit is set by what the buyer will pay for the product. When the price is thought by the buyer to be "out of line" with other similar products, its sales tend to fall off sharply.

(This is true even in the case of a patented product, where the patentee enjoys a monopoly. A monopolist is in a position to charge a higher price for his product than when there are a number of competitors. Nevertheless, even under conditions of monopoly, the prices charged for substitute products, as well as consumer resistance, place a limit upon how much the monopolist can charge.) There is, therefore, a limited range within which the prices of a product must be fixed.

It can be assumed that a manufacturer's object is to maximize his profits. Bernstein said as much in his affidavit: international pharmaceutical companies set specific targets for the recovery of all out-of-pocket expenses on new products, because "it is necessary to maximize profits within a relatively short period"; and "all companies plan generally to maximize their profits in a period of six years or less". The manufacturer will therefore seek to calculate and fix the "optimum" price for his product, that is, the price which will yield the greatest profit. To fix too low a price would be

self-denial - which is not a virtue to be attributed to economic man; and to fix it too high would be self-defeating, because then he would price himself out of the market. —Emptor emit quam minimo potest, venditor vendit quam maximo potest. Bernstein said in his affidavit that a price determination of the profitability of products is essential to ensure effective marketing. Prices are not arbitrarily determined, but are "carefully and very precisely calculated". It follows that when the manufacturer has calculated the "optimum" price, there is no room for adding on something "to compensate for a reduced monopoly period".

In my opinion, therefore, the contention is without merit or substance.

I turn then to the facts relating to BAYER's remuneration.

BAYER sells its products in the Republic of South Africa through its wholly owned subsidiary, BAYER-MILES (PTY) LTD ("BAYER-MILES"), and any remuneration derived from the

exploitation of the patent comes to BAYER via BAYER-MILES. Nifedipine is marketed under the trade name of ADALAT.

ADALAT is classified as "a coronary agent having additional peripheral vasodilatory effect". A "coronary agent" widens the coronary arteries, which results in an increase in the blood-flow to the heart muscle, and hence an increase in the supply of oxygen and substrates to the heart muscle cell even under conditions of oxygen deficiency of the heart. ADALAT belongs to the group of so-called calcium antagonists and is a most potent medicine. It is very effective in the treatment of angina pectoris, and can be life-saving.

BAYER supplies ADALAT in bulk to BAYER-MILES, which formulates it for distribution on the South African market. For the bulk supplies BAYER is paid a "transfer price" which includes amounts representing its costs and profit. BAYER is also entitled to any profits resulting from the operations of BAYER-MILES.

For reasons to be mentioned, ADALAT was not introduced to the South African market until May 1976, about 8 years after the date of the patent. Thereafter it quickly became established, eventually capturing 42% of the market in coronary vasodilators in 1982. In the years 1976-1982 BAYER-MILES's sales of ADALAT were as follows (in thousands of rand) :-

1976	49,1
1977	105,0
1978	232,0
1979	457,0
1980	827,0
1981	1692,0
1982	3297,0

It appears that the gross income of BAYER-MILES derived from sales of ADALAT during the whole of the term of the patent was R12 235 000. Of this BAYER-MILES paid to BAYER a total of R7 832 800 representing the transfer price of ADALAT. It is not possible to assess the profit element contained in the transfer price, but for the purposes of the application for extension

BAYER was prepared to accept that the whole of the transfer price should be regarded as profit. The profits made by BAYER-MILES in respect of its own sales of ADALAT over the period was R46 300.

It was not disputed by SAD, and there can be no doubt, that ADALAT is an exceptional drug, deserving of very substantial remuneration. It has been described variously as "a medicine of major importance in the management of cardiovascular disorders", "unique in its spectrum of therapies", and "a major advance in the therapeutic management of a wide range of diseases". It has been described "as one of the most, if not the most, significant medicines for the treatment of cardiac disorders developed during the past 25 years ...". Its usefulness is probably not confined to dealing with manifestations of heart disease. At the time the application was being prepared, investigations were being conducted into its efficacy for secondary prevention of coronary thrombosis, cardio-protection during surgery,

arteriosclerosis, smooth muscle spasm and other conditions.

The BAYER researchers had found in 1965 that special compounds in the group dihydropyridines possess strong pharmacological activity. By May 1966 the first sample of Nifedipine (which is a dihydropyridine) was made in the BAYER research laboratory. Pharmacological tests completed by March 1967 were such that a patent application could be lodged in Germany on 20 March 1967.

Full clinical investigations, made in co-operation with leading hospitals and universities throughout the world, started in 1970, and were intensively carried on until 1974, and to a certain extent are still continuing. The first phase of the investigation, which went on until 1971, involved pharmacological investigations into tolerance and the behaviour of the drug in the human organism. The second phase (which continued until 1972) was concerned largely with the determination of dosages and ascertaining any side-effects, or indications of toxicity, or

carcinogenic properties. The third phase (completed in 1974) involved further clinical trials, at the end of which the final assessment of the new drug was made, and the decision was taken to introduce it to the market.

The BAYER chemists had, however, to solve a major problem before the manufacture of Nifedipine could be considered. A necessary intermediate in the production of Nifedipine is 2-nitrobenzaldehyde. Although this has been known to chemists at least since the last century, it was only available at the date of the patent in small quantities which were produced at great cost. Accordingly, before Nifedipine could be exploited commercially, an economical, industrially feasible process for the production of 2-nitrobenzaldehyde had to be developed. In 1972, BAYER's deponent Meyer was assigned to a project to develop a technical process for the production of the necessary 2-nitrobenzaldehyde. It was only after considerable and unavoidable delay that a commercial product could be achieved in

1974. The development work fully occupied the period 1972-1974 during which BAYER's considerable resources were occupied in a highly intensive manner. Commercial production could be started only in 1975.

Another problem was in regard to the devising of a suitable formulation for self-administration of Nifedipine by the patient.

It is unnecessary to go into detail. Generally, what was required was a formulation which would infallibly ensure exact dosage, would act speedily and could be taken by the patient during an attack of angina pectoris, which is usually accompanied by intolerable pain and feelings of extreme anxiety. Difficulties arose because Nifedipine does not readily dissolve in water, and it is extremely light-sensitive, so that irreversible decomposition rapidly occurs if it is in dissolved form. From 1967 until 1974 work was done to fill an urgent need to provide Nifedipine in such fluid form that it is sufficiently

stabilized for practical use and that its pronounced coronary dilating action can immediately take place in the patient's body. Eventually there was developed an instant oral release capsule containing a solution of Nifedipine and having a shell of gelatine incorporating an opacifier and a dye. The patient bites the capsule, thereby releasing its contents into his mouth from where the medicament is immediately absorbed into his system. The final satisfactory commercially acceptable formulation was produced only in 1974.

After conducting market-surveys during May-July 1973, BAYER took the decision to market Nifedipine in South Africa. But even after the abovementioned problems had been solved, it was still not possible for BAYER to proceed to derive remuneration from the patent. It had first to obtain registration of the drug by the Medicine Control Council ("the MCC") in terms of the Medical & Related Substances Control Act 101 of 1965. In addition it is a requirement of the Act that

MCC approval should be obtained for the printed package insert which is packed with the medicine. This insert is a data sheet containing scientific and factual information (including indications, contra-indications, side-effects, dosage recommendations and special warnings and precautions). The product can legally be advertised only in terms of the claims in the approved package insert.

The process of obtaining registration is unavoidably time-consuming. Firstly, documentation of all relevant data must be compiled for the registration application. A comprehensive collection of scientific trial documents (e.g. expert opinions on chemical, pharmacological and analytical-pharmaceutical trials and other medical reports) must be submitted to the MCC to prove the safety and efficacy of the new drug. The documents are examined by the MCC and there usually follow more questions and possibly more trials before the drug is registered. Only then is it legally permissible to market the

drug.

Registration of ADALAT in Germany was granted on 20 March 1974, and the medicine was first introduced to the German market on 2 January 1975. BAYER-MILES received the documentation which was necessary for submission to the MCC in March 1974. From May to August 1974 further information relating to both technical and clinical aspects of the medicine was called for by, and submitted to the MCC. The first application for registration in South Africa was lodged on 1 October 1974. On 10 March 1975 BAYER-MILES was informed by the MCC that the application was not approved, pending the submission of further information. In June 1975 the MCC advised BAYER-MILES that registration limited to angina could be obtained and notification of this conditional approval was received in July 1975. BAYER decided not to accept limited registration but continued with efforts to obtain approval for the claims as set out in the package insert originally submitted. In August 1975

approval was requested for the original claims in the package insert. In January 1976 the MCC advised that a full new application would have to be submitted to the MCC "as the original evidence submitted to the MCC was no longer available". Because of the delays which would result, the amended application was then withdrawn, and formal registration enabling promotion and marketing of ADALAT for angina only was finally approved on 6 February 1976.

ADALAT was first sold in small quantities in South Africa in May 1976. Initially marketing was restricted because of the inability of BAYER-MILES to use advertising material prepared in Germany, most of which had to be reworked for South African use. It was accordingly only after October 1976 that the marketing of the product could be undertaken with the support of adequate advertising and other promotional means.

It was BAYER's submission that the case was one falling within Principle (7) of the SAR case. By reason of the

problems relating (a) to the manufacture of 2-nitrobenzaldehyde, (b) to the formulation of ADALAT, and (c) to the delays occasioned in the process of registration with the MCC, BAYER was not able to exploit the patent and earn a remuneration from it during the period from the beginning of the term of the patent until May 1976.

It is unnecessary to deal separately with (b), because the delay occasioned by it was largely co-extensive with that caused by (a).

The cogency of the lost time resulting from (a) and (c) depends on all the facts and circumstances. SAD relied on those referred to in Principles 8(a), 8(b) and 8(c) set out in the SAR case.

With regard to Principle 8(a), the invention undoubtedly has a very great measure of utility and merit and has enjoyed considerable commercial success. The inference is that if BAYER could have exploited the invention during the lost

time, it would have derived considerably more remuneration over the full term of the patent than it did derive in fact.

In an affidavit filed on behalf of SAD, it was said that BAYER's founding affidavit did not " indicate to what extent the price at which Adalat products are sold on the South African market was calculated to compensate Bayer -

(a) .....

(b) for revenue lost during any initial delays".

On the basis of this statement it was submitted that Principle 8(b) in the SAR case was also applicable. In dealing with the submission that BAYER may have loaded its prices to compensate for lost time, the learned Commissioner said that this was speculation - the evidence on which it was based was mainly argument without any facts to support it; and he was satisfied that the price was not loaded. In the Court a quo ELOFF DJP said that he had some difficulty with the concept of "loading of prices to make up for lost time":

> "It is unrealistic to think of an organisation such as Bayer which operates in a free enterprise system and is naturally set on maximizing profits, to specifically build into its price structure some element of 'making - up for lost time'. It should be well known that market forces dictate what prices can be charged...."

I respectfully agree. But in any event, for the reasons given above the contention set out as Principle 8(b) in the SAR case is unfounded and fallacious.

In regard to Principle 8(c), the question is whether, up to the time of the solution of the problem of the commercial production of 2-nitrobenzaldehyde, the invention was "incapable of earning any remuneration due to some weakness or shortcoming inherent in it". The learned Commissioner said in his judgment:

> I do not agree ... that there was an inherent weakness or shortcoming in Nifedipine. Right from the beginning the drug was perfectly effective and the formulation and its production were in no way concerned with its effectiveness."

That was also the view of ELOFF DJP. It was submitted in argument on behalf of BAYER that the real invention of the present patent was Nifedipine; no change or development of Nifedipine had taken place since the application for the patent; the merit which it undoubtedly had was inherent in it from the beginning; and the problems which were solved did not affect the medical efficiency of Nifedipine.

Those submissions are no doubt factually correct. But they are wide of the mark. WESSELS JA was not in the passage quoted in Principle 8(c) dealing with the effectiveness of the invention as such. He was dealing with the invention regarded commercially, that is, from the point of view of being capable of producing remuneration. That is clear from the passage read as a whole.

The distinction is illustrated by the case of De Beers Industrial Diamond Division (Pty) Ltd v General Electric Co

1983(1) SA 207(A) ("the De Beers case") which was also a judgment of WESSELS JA.

The subject-matter of the invention in that case (which was covered by Patent no R61/1151) was the cubic form of boron nitride (CBN). It was said in an affidavit filed in support of an application for an extension of term that -

> "The invention of R61/1151 was thus extremely important and represented an invaluable step towards developing commercially viable CBN products. Nevertheless, while the compacts of R61/1151 represented a marked improvement over single crystal applications, the problem of brittleness and impact resistance persisted, to the extent that CBN compacts were just not cost-effective. No appreciable commercial use of the compact could be justified. Something more was needed ..... Until the composite technology was developed there was no commercial market for the compacts of R61/1151. The latter's time had not yet come." (My emphasis.)

WESSELS JA said at 215 C-D :-

> "It appears, therefore, that the sterile period from the commencement of the term of the patent up to (1972) cannot be used to support or establish the allegation that it had not derived adequate remuneration from the 1961 patent, for during that period, owing to an inherent weakness or shortcoming in the invention, it could not have earned remuneration. See Lennon's case supra at 1084 B-C."

The weakness or shortcoming was that CBN compacts were "just not cost-effective"; "no appreciable commercial use of the compact could be justified" and "there was no commercial market for the compacts of R61/1151".

In my opinion, this reasoning is directly applicable to this case. In the De Beers case, until a commercial process could be developed, it was not possible to exploit the invention commercially and so to earn remuneration from it. This was a weakness or shortcoming in the invention, regarded commercially. Similarly in the present case. Consequently, the lost time because of the problem relating to 2-nitrobenzaldehyde cannot be

taken into account in assessing whether there was inadequate remuneration.

It was considered by ELOFF DJP :

> ".... that even if BAYER would have solved the problems mentioned earlier ..., within weeks of patenting, it would in any event have had to await the completion of the tests. The need to complete the testing procedure was the major cause of the delay ..."

I do not think, with respect, that it is relevant that delay before the drug could be marketed would have occurred in any event. It is of the essence of a case based on the lost time principle that the invention should have been capable of earning remuneration during the sterile period. If it was incapable of earning remuneration during that period due to some weakness or shortcoming inherent in it, then cadit quaestio (See the Lennon case at 1084B-C). It is not ad rem that during the sterile period the invention would in any event have been prevented from

earning remuneration because of "some unconnected, extraneous factor or circumstance". Nor is it ad rem that, as argued on behalf of Bayer, if Bayer had attacked the 2-nitrobenzaldehyde problem in 1970, it would have solved it at that time. The Court cannot speculate as to what the facts might have been if different decisions had been taken, but must take the facts as it finds them. In this case the fact is that until the 2-nitrobenzaldehyde problem was solved, Nifedipine was inherently incapable of producing remuneration. It may be argued that this view is formalistic and may operate unfairly on the patentee. The answer is that it is the logical view, and that an applicant for an extension of term is not obliged to rely on the lost time principle.

In my opinion therefore both the learned Commissioner and the majority of the court a quo erred in regarding time lost before the solution of the 2-nitrobenzaldehyde problem as being relevant to proof of inadequate remuneration under the lost time

principle.

The time lost after the solution of the 2-nitrobenzaldehyde problem stands on a different footing. That was due, not to any weakness or shortcoming inherent in the invention, but to an "unconnected, extraneous factor or circumstance", namely, the statutory requirements relating to registration by the MCC. During the period between late 1974 and May 1976, the invention was capable of earning remuneration but did not earn it due to that factor or circumstance. That fact can therefore be used to substantiate BAYER's allegation of inadequate remuneration.

I did not understand counsel for SAD to dispute this. What they submitted was that the inadequacy of remuneration resulting from this lost time was due to the "fault" of the applicant, which in terms of Principle (10) was a relevant consideration for the Commissioner in the exercise of his discretion under Principle (9).

They submitted that in this context "fault" could be any act or omission by the patentee which resulted in a loss of remuneration, whether or not there was blameworthiness. That submission cannot be supported. (See the Voest case at 331H-332A; the Lennon case at 1079H-1080B; and the SAR case at 820H-821A, where it was said that "fault in this context embraces various degrees of blameworthiness".) The principle in regard to fault was stated by Blanco White, Patents for Inventions, 4th ed. p.280, as follows:

> "The patentee must do all he can to exploit the invention profitably in its lifetime; he may not ask for an extension because of an inadequacy of remuneration that is (or may be) his own fault, nor will the indulgence of extension be granted to him if he has been apathetic in the exploitation of the patent in this country."

SIMONDS J said In the Matter of Hele-Shaw & Beacham's Letters Patent (1942) 59 RPC 29 at 48 :

"It is, in my judgment, a principle ever to be borne in mind that, in the exercise of this jurisdiction, the Court will only help those who help themselves. A monopoly is against public interest; it is justifiable only as an encouragement and reward for inventors. If during the statutory period the patentee is a laggard so that the public do not get the benefit of his invention, he cannot fairly claim a further period which may redound to their detriment and his advantage."

Counsel for SAD submitted that this lost period was largely due to the fault of BAYER-MILES in a number of respects. Steps to obtain registration in South Africa should have been taken concurrently with steps to obtain registration in Germany, and BAYER-MILES should not have delayed its application until after registration in Germany was granted on 20 March 1974. The delay caused by the decision not to accept limited registration when it was granted for angina pectoris in July 1975 cannot be relied on - this was a voluntary decision by BAYER and BAYER-MILES, which then had the result that formal registration was

only approved on 6 February 1976. Because advertising material had not been prepared timeously, marketing, supported by adequate advertising, was not possible until October 1976.

The question for decision by the Commissioner on this aspect of the case was this: Has the patentee done all that he reasonably can to exploit the invention profitably, or has he been apathetic in the exploitation of the patent? It is open to question whether, in order to answer that broad question, the Commissioner is called upon to undertake a detailed examination of the patentee's business and policy decisions. Ordinarily, a patentee's commercial policy will be directed to obtaining the maximum benefit from its patent. Unless a decision is an unreasonable one, it should not be faulted, even if it is seen, with the benefit of hindsight, to have been mistaken. (Cf. Burrel, S A Patent Law & Practice, 2nd ed. p.303).

However that may be, it is sufficient in this case to say, without discussing the specific points raised, that I agree

with ELOFF DJP when he said in his judgment in the court a quo,:

> "My overall impression is that Bayer-Miles acted throughout with reasonable expedition. I do not think that the points made by counsel are of any merit ... I would conclude that there was no fault and no significant unexplained delay at any stage."

In my opinion therefore the learned Commissioner was clearly correct in his decision to extend the term of the patent. The invention has an unusually high degree of merit and there was no remuneration during the lost period in 1975-1976. In determining the period of extension at five years, however, the Commissioner acted on a wrong principle, in that he did not correctly apply Principle 8(c) as exemplified in the De Beer's case (supra). As a result, this court is now free to determine the period of any extension which should be granted.

Counsel for BAYER submitted that in the light of

present knowledge the value of the invention to the public was even greater than was appreciated in 1967, and that this should be taken into account in determining the period. As mentioned above, promising investigations are presently being conducted to establish the efficacy of ADALAT for a number of heart indications other than angina pectoris.

In my opinion these possibilities cannot be taken into account. BAYER's case was based solely on the lost time principle. Since the new applications were not known during the lost years, no remuneration could have been earned by them during that period.

In my opinion the period of extension should be one year. This is less than the period lost as a result of the necessity to obtain registration from the MCC, but the observation of COLMAN J has been borne in mind. See his judgment in the Transvaal Provincial Division in the Firestone case, supra, as quoted in the Randfontein Non-White Sanatorium case,

supra, at 173 A:

> "A blind application of simple proportion would no doubt be open to criticism. Proper remuneration would not ordinarily come in at a steady rate from the first to the last day of a patent's term; and an additional year's monopoly after 1964 is not necessarily commensurate in commercial value with a year lost during the previous decade."

These, the learned judge said, are circumstances to which the Commissioner should have due regard. Cf. also Firestone SA (Pty) Ltd & Others v Gentiruco AG, 1968(1) SA 611 (A) at 637A.

In the Commissioner's Court it was ordered that the opponent should pay the applicant's costs in relation to the extension application insofar as such costs have been increased by the opposition to the application. In that court, an extension was granted as prayed, namely, one of five years. As a result of the judgment of this court an extension of one year will be substituted. In those circumstances I do not think that the applicant should have all the costs arising from the

opposition.

I would make the following order:

1. The appeal is allowed with costs including the costs of two counsel.

2. The order of the court a quo is set aside and the following is substituted therefor:

   (a) The appeal against paragraph 1 of the order made by the Commissioner of Patents (i.e. the order relating to the amendment of the specification) and the order for costs relating thereto is dismissed with costs including the costs of two counsel.

   (b) The appeal against paragraph 2 of the said order (i.e. the order relating to the extension of the term of the patent) is allowed with costs including the costs of two

counsel, and the following is substituted therefor:

"2(i) A new patent is issued on the same terms and conditions as South African Patent No 68/1482 as amended in terms of paragraph 1 for a period of one year from 8 March 1984.

(ii) The opponent is ordered to pay one-half of the applicant's costs in relation to the application for extension insofar as such costs were increased by the opposition. Such costs are to include the costs of two counsel."

H C NICHOLAS AJA

CORBETT CJ)
MILNE JA) Concur.
KUMLEBEN JA)

B:b

66a/8

CASE NO 623/87
/CCC

IN THE SUPREME COURT OF SOUTH ~~AFRICA~~

APPELLATE DIVISION

In the matter between:

SOUTH AFRICAN DRUGGISTS LIMITED APPELLANT

and

BAYER AKTIENGESELLSCHAFT RESPONDENT

CORAM: CORBETT CJ, NESTADT, MILNE, KUMLEBEN JJA et NICHOLAS AJA

DATE HEARD: 17 February 1989

DATE DELIVERED: 26 May 1989

J U D G M E N T

NESTADT, JA:

I, too, reject appellant's argument that the price at which Adalat was sold had been so calculated as to compensate respondent for revenue lost

2/.....

during the sterile period. But, unlike my Brother NICHOLAS, I do not do so on the basis that whether or not a patentee has engaged in the exercise referred to in paragraph 8(b) of the SAR case is irrelevant. His conclusion sounds the death-knell of the recoupment argument and, in casu, naturally disposes of it without more ado. The reasoning is, with respect, attractive but I am not convinced of its correctness. As appears from the SAR case (at 820 B - D), the proposition that the actual remuneration could have been inadequate even though it was substantial is not irreconcilable with and does not necessarily oust the recoupment argument. It may be an over-simplification to say that the question of recoupment is subjective and therefore cannot be taken account of. It is akin to the mitigation of contractual or delictual damages. It is a question of

fact which, when it occurs, manifests itself in an increased or loaded price. I do not see why it is futile to try to ascertain whether compensation for lost time has been built into the price. That is what is required to be done. It may be an inherently unlikely phenomenon, but it can occur (and be proved). "Economic realities" is a variable - and factual - concept. It cannot be assumed that a patentee will always and necessarily charge what the market will bear, ie an optimum or maximum price. And the evidence may well show that in the sterile period the patentee would have charged less than the inflated price fixed for the fruitful period (in order to recoup for the lost time).

I would, therefore, rather assume that appellant was entitled to contend that respondent's

prices were, so to speak, loaded. However on the facts, and despite appellant's argument to the contrary, I am not persuaded that the learned Commissioner erred in finding that there had been no recoupment as alleged. MacARTHUR J dealt with the point as follows:

> "(T)he opponent's submission that the applicant may have loaded its prices to compensate for the lost time is in my opinion speculative. The opponent gives no real basis in support of such a proposition and overlooks the evidence which indicates that the applicant's selling price to South Africa is in conformity with its selling price to other countries. In addition to this ADALAT has had to compete in South Africa with at least three other drugs of a similar type and function. In my view the probabilities are strongly in favour of the selling price having a normal mark-up. The evidence adduced by the opponent to support its proposition that the price may have been loaded was mainly argument without any facts to support it. I am satisfied that the price was not loaded ..."

In my opinion, no fault can be found with this reasoning.

Subject to the aforementioned qualification, I agree with the judgment of NICHOLAS AJA and with the order proposed by him.

NESTADT, JA