Influenza Antiviral Drugs and Patent Law Issues

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Summary

The potential for a worldwide influenza pandemic caused by bird flu has heightened public interest regarding the availability and affordability of influenza antiviral medications such as Tamiflu. As countries prepare for the possibility of a pandemic flu outbreak, orders for Tamiflu have far exceeded the production capacities of the Swiss pharmaceutical company Roche, Inc., that owns the exclusive right to manufacture the patented drug. In addition, poor countries in Asia and Africa, where any bird flu crisis could occur first, suggest that they cannot afford to stockpile supplies of Tamiflu for treating their human populations at current prices.

This report identifies and analyzes the patent law aspects of the current avian influenza drug situation. First, the report explains the role that patent rights have played in affecting the availability of Tamiflu. Second, the report examines options for increasing the drug’s production, including the possibility of governments abrogating Roche’s patent rights by issuing compulsory licenses to other drug companies to manufacture generic versions of Tamiflu without Roche’s consent. Such option is available to countries under the Trade-Related Aspects of Intellectual Property (TRIPS) Agreement, a component of the treaties that created the World Trade Organization (WTO) in 1995. The U.S. government’s authority to declare compulsory licenses is Section 1498(a) of Title 28 of the U.S. Code. It is contended that such suspension of Roche’s patent rights to Tamiflu are necessary to mass produce the drug to meet the enormous demand, but this proposition has been challenged. Other legal mechanisms to increase the supply of, and lower the price for, Tamiflu include voluntary licensing agreements with other pharmaceutical companies.

This report will be updated as events warrant.
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Background

Avian influenza, or “bird flu,” is a contagious virus that normally infects only birds but occasionally crosses the species barrier to infect humans.¹ In 1997, a particular strain of avian influenza, the H5N1 virus, infected 18 people in Hong Kong, killing 6 of them.² Since mid-2003, more than 100 human H5N1 cases have been diagnosed in Southeast Asia, causing more than 50 deaths.³ According to the World Health Organization, of the few avian influenza viruses that have crossed the species barrier to infect humans, the H5N1 virus has caused the largest number of cases of severe disease and death in humans.⁴

The H5N1 virus is alarming because, if it mutates into a form that easily infects many humans, it has the potential to cause a deadly “pandemic,”⁵ or a global disease outbreak in humans. In the 20th century, there were three pandemics, in 1918, 1957 and 1968, that killed millions of people worldwide.⁶ On November 1, 2005, President George W. Bush issued a letter to the American public in which he described the “National Strategy for Pandemic Influenza,” the federal government’s plan to address the potential outbreak of avian influenza. In this letter, the president stated:

It is impossible to know whether the currently circulating H5N1 virus will cause a human pandemic. The widespread nature of H5N1 in birds and the likelihood of mutations over time raise our concerns that the virus will become transmissible between humans, with potentially catastrophic consequences. If

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¹ For more detailed information concerning avian influenza, see CRS Report RS21747, Avian Influenza: Agricultural Issues, by Jim Monke.
³ Id.
⁵ An influenza pandemic “occurs when a new influenza A virus emerges for which there is little or no immunity in the human population, begins to cause serious illness and then spreads easily person-to-person worldwide.” U.S. Department of Health & Human Services., What Is An Influenza Pandemic?, at [http://www.pandemicflu.gov/general/whatis.html].
This fear of a global flu pandemic has compelled many countries to prepare for the threat by stockpiling antiviral drugs and attempting to develop vaccines against the disease. President Bush explained that vaccines and antiviral drugs are “the foundation of our [influenza virus] infection control strategy.” The President’s plan proposes to spend $1 billion to build a national reserve of antiviral medications such as Tamiflu and Relenza, enough for 20 million doses. There are several bills pending in the 109th Congress that directly address influenza pandemic preparedness.

**Tamiflu Production Shortage.** Oseltamivir phosphate, marketed under the brand name Tamiflu, is an antiviral drug manufactured by the Swiss pharmaceutical company Roche, Inc. Tamiflu is not a vaccine, but is perhaps the most efficient antiviral treatment for influenza. The drug eases flu symptoms by preventing the influenza virus from spreading inside the human body. Some research studies have shown that Tamiflu is effective against the H5N1 avian and human virus strains.
However, it is unknown how well Tamiflu would work to control a pandemic.\footnote{Some strains of avian influenza virus have developed a resistance to Tamiflu. However, scientists speculate that a Tamiflu-resistant virus would not be transmissible from person to person, and that in any event, resistant strains would not be the ones spreading in a pandemic. David Brown, \textit{Bird Flu Virus That Is Drug-Resistant Is Found in Vietnamese Girl}, WASH. POST, Oct. 15, 2005, at A09.} Also, the drug must be ingested within 48 hours of the onset of flu symptoms for maximum efficacy.\footnote{Factsheet Tamiflu, supra note 14, at 1.} This requirement raises concerns about the utility of Tamiflu, since it is often difficult for patients to realize within such a short time whether their symptoms are caused by the flu or the common cold.\footnote{See Elisabeth Rosenthal, \textit{Better Planning Is Needed for Flu Drugs, Experts Say}, N.Y. TIMES, Oct. 19, 2005, A8.} In addition, since Tamiflu has a shelf life of five years,\footnote{Roche, Inc., \textit{Roche Prepared to Work With Government To Supply Tamiflu}, at [http://www.rocheusa.com/newsroom/current/2005/pr2005110102.html].} a pandemic may not strike during that time period, raising the possibility that stockpiles of the medicine may go unused and become useless.

As the exclusive manufacturer of Tamiflu, Roche has had difficulty meeting the strong demand for the patented drug.\footnote{Roche, Inc., \textit{Roche Prepared to Work With Government To Supply Tamiflu}, at [http://www.rocheusa.com/newsroom/current/2005/pr2005110102.html].} According to the company, manufacturing the drug is complicated, involving ten main steps, and takes a long time, from six to eight months to produce a capsule of Tamiflu once all the raw materials have been sourced.\footnote{See Andrew Pollack, \textit{Governments Pressing Roche For More of Its Flu Medicine}, N.Y. TIMES, Oct. 20, 2005, at C7. Sales of the once-obscure Tamiflu drug have increased from $76 million in 2001 to approximately $1.1 billion in 2005. Erica Bulman, \textit{Tamiflu Patent: Two-Edged Sword}, SAN JOSE MERCURY NEWS, Nov. 12, 2005, at B1.} The World Health Organization has estimated that, at Roche’s present manufacturing capacity, “it will take a decade to produce enough oseltamivir [Tamiflu] to treat 20% of the world’s population.”\footnote{Factsheet Tamiflu, supra note 14, at 2.}

The Tamiflu production shortage has prompted both international and domestic pressures on Roche to ease its patent monopoly and permit other companies to manufacture generic versions of the drug.\footnote{World Health Organization, \textit{Antivirals Drugs: Their Role During a Pandemic} (Nov. 2005), at [http://www.who.int/csr/disease/avian_influenza/antivirals2005_11_3/en/index.html].} Such action would likely help to increase supplies of the flu treatment to meet the backlog of orders, as well as make the drug more affordable. Companies in India and Taiwan have already successfully reproduced Tamiflu in small quantities in a laboratory environment, although Roche argues that it is much more difficult and time-consuming to mass produce the drug.\footnote{See Donald G. McNeil, Jr., \textit{Indian Company to Make Generic Version of Flu Drug Tamiflu}, N.Y. TIMES, Oct. 14, 2005, at A3.} One of the challenges of producing large quantities of Tamiflu is obtaining enough
supplies of its key active ingredient, shikimic acid, extracted from the pods of a Chinese cooking spice called star anise.\textsuperscript{24} However, there may not be enough star anise in China or elsewhere to produce Tamiflu on a massive scale.\textsuperscript{25} To address this supply shortage, Roche has begun experimenting with a fermentation process using genetically altered E. coli bacteria to make the shikimic acid.\textsuperscript{26} Some scientists are confident that the fermentation process will prove to be more effective in producing the acid than processing star anise.\textsuperscript{27}

\textbf{Intellectual Property Issues}

\textbf{Patent Policy.} One of the primary purposes for United States patent law is to provide individuals and institutions with economic incentives to engage in research and development that lead to new products or processes. By granting inventors with a limited monopoly\textsuperscript{28} over the use of their discoveries, patent holders will be able to receive a return on investment from their creations. Without patent protection, competitors could “free ride” on the inventor’s research and development efforts and easily duplicate or otherwise practice the new inventions without having incurred the costs to develop them.\textsuperscript{29}

\textbf{Patent Holder Rights.} A patent holder has the right to exclude others from making, using, selling, offering to sell, and importing the protected invention.\textsuperscript{30} Whoever performs any one of these five acts during the term of the invention’s patent, without authorization of the patent holder, is liable for infringement. Since the Patent Act expressly states that “patents shall have the attributes of personal property,”\textsuperscript{31} owners may sell their patent rights in a legal transfer called an “assignment.”\textsuperscript{32} Alternatively, owners may grant others a “license” to exercise one of the five statutory patent rights. A license is not a transfer of ownership of the patent, but rather is the patent owner’s permission to another entity to use the invention in a limited way, typically in exchange for periodic royalty payments during the term of the patent.\textsuperscript{33}

\begin{itemize}
\item \textsuperscript{24} Andrew Pollack, \textit{Is Bird Flu Drug Really So Vexing? Debating the Difficulty of Tamiflu}, N.Y. TIMES, Nov. 5, 2005, at C3.
\item \textsuperscript{25} \textit{Id}.
\item \textsuperscript{26} Sabin Russell, \textit{Manufacturers Crank Out Tamiflu At a Fever Pitch}, S.F. CHRON., Nov. 10, 2005, at A4.
\item \textsuperscript{27} \textit{Id}.
\item \textsuperscript{28} This time period is generally twenty years from the date of filing the patent application for most inventions. 35 U.S.C. § 154.
\item \textsuperscript{29} ROGER SCHECHTER & JOHN THOMAS, PRINCIPLES OF PATENT LAW 9-13 (2d ed. 2004).
\item \textsuperscript{30} 35 U.S.C. § 271(a).
\item \textsuperscript{31} 35 U.S.C. § 261.
\item \textsuperscript{32} SCHECHTER & THOMAS, supra note 29, at 362.
\item \textsuperscript{33} \textit{Id} at 363-64 (citations omitted).
\end{itemize}
**Tamiflu’s Patent Dispute.** Scientists working for a California biotech company, Gilead Sciences, Inc., invented Tamiflu in 1996. To help develop the drug for U.S. Food and Drug Administration approval and its subsequent marketing and production, Gilead licensed all its commercial and manufacturing rights to Roche in exchange for a $50 million license fee and royalty payments during the life of the drug’s patent. Tamiflu is patent protected until 2016.

In June 2005, Gilead notified Roche that it was terminating the 1996 license agreement pursuant to a clause that provides for contract cancellation due to a “material breach” of its terms. This termination would result in a reversion of Tamiflu’s manufacturing and commercial rights back to Gilead. Gilead claimed that Roche for many years has failed to use “best efforts” to manufacture and promote the drug, and is $18 million behind in royalty payments. The agreement mandates an arbitration process to resolve the dispute. On November 16, 2005, the companies announced that they had reached an amicable settlement, which amends the earlier agreement. Under the terms of the settlement, Roche will reimburse Gilead $62.5 million in retroactive cost of goods adjustments, and Gilead will retain the $18.2 million that Roche had paid under protest concerning royalties owed from 2001 to 2003. However, Gilead’s share of the royalties on net sales of Tamiflu will remain unchanged, ranging from 14 to 22 percent depending on the volume of sales per year. Roche and Gilead will also establish joint committees to oversee the coordination of global manufacturing and commercialization, issuing third-party licenses to generic drug makers, and pandemic planning.

**Patent Law and Public Health Crises.** Prior to the influenza pandemic threat, two other public health crises raised patent law issues: concerns over the supply of Cipro, a drug patented by the German firm Bayer, during the anthrax bioterrorism scare in late 2001; and access to affordable medication for developing

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34 For more information concerning the FDA drug approval process, see CRS Report RL30989, *The U.S. Drug Approval Process: A Primer*, by Blanchard Randall IV.


37 *Factsheet Tamiflu, supra* note 14, at 1.


39 Id.


41 Id.

42 In October 2001, anthrax was sent through the U.S. mail to some members of Congress and members of the media. For more information concerning the Cipro incident and the intersection of homeland security and intellectual property law, see CRS Report RL32051, *Innovation and Intellectual Property Issues in Homeland Security*, by John R. Thomas.
countries in the 1990s to fight the HIV/AIDS epidemic in their populations. Some commentators had argued for “overriding” the patent rights of the drug manufacturers in those cases, in order to allow for generic suppliers to enter the market.

Those same arguments are being made in the case of Tamiflu. In early October 2005, Roche repeatedly refused to license a generic version of Tamiflu. The company cited the complex, time-consuming, and potentially explosive drug manufacturing process, as the reason for retaining its exclusive rights to produce Tamiflu: “No one can do it faster. Our assumption is that it would take a generic company about three years to gear up. Therefore, it does not make sense to out-license manufacturing.”

This corporate position prompted criticism from domestic and international government leaders. United Nations Secretary-General Kofi Annan argued that intellectual property laws should not prevent developing countries from obtaining supplies of Tamiflu and similar antiviral influenza medication in emergency health situations. Senator Charles Schumer also had suggested that Congress might consider a “temporary suspension” of the Tamiflu patent if Roche did not agree to license the drug’s production to other companies. Other Members of Congress expressed similar desire to abrogate Roche’s patent rights in the interest of public health.

Under such pressure, Roche softened its stance and agreed to discuss sublicensing arrangements with countries and companies interested in producing

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45 A Roche spokesperson had stated, “Roche ... fully intends to remain the sole manufacturer of Tamiflu.” See Sabin Russell, Flu Vaccine Maker Won’t Share Patent; Roche Rejects Calls To Allow Production of Generic Versions, S.F. CHRON., Oct. 13, 2005, at A1.


47 Id.


generic versions of Tamiflu. However, Roche has cautioned that sublicenses will only be issued to third parties that “can realistically produce substantial amounts of the medicine for emergency pandemic use, in accordance with appropriate quality specifications, safety and regulatory guidelines.”

Legal Options

The primary legal mechanisms to accomplish permissible encroachment upon a privately owned patent include (1) compulsory licenses under a government’s statutory authority to issue them; (2) compulsory licenses pursuant to an international treaty that grants this right; and (3) voluntary licensing agreements negotiated between the patent owner and third parties. This report addresses each of these options in turn.

28 U.S.C. § 1498(a). In the United States, the Takings Clause of the Fifth Amendment to the U.S. Constitution authorizes the federal government to take private property for public use. Such eminent domain power over intellectual property is explicitly provided by statute, codified at 28 U.S.C. § 1498(a). This law empowers the federal government to take the intellectual property of a private entity, subject to reasonable compensation being paid to the patent holder. Section 1498(a) provides in part:

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner’s remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

By exercising this statutory authority, the federal government declares a “compulsory license” that allows third-party use of a patented invention without the authorization of the patent holder. If a compulsory license was issued in the case of Tamiflu, the patent holder may not enjoin generic manufacturers from producing the drug and selling it to the government for its stockpiles. The only legal remedy available to Roche would be the right to bring suit in the U.S. Court of Federal Claims to recover “reasonable and entire compensation” from the federal government.

The pharmaceutical industry warns that imposing compulsory licenses on avian flu drugs pursuant to § 1498(a) would “take away incentives for other companies to undertake the difficult and costly work of searching for new antivirals and vaccines

51 Factsheet Tamiflu, supra note 14, at 3.
52 For more information concerning eminent domain, see CRS Report 97-122, Takings Decisions of the U.S. Supreme Court: A Chronology, by Robert Meltz.
for this possible health crisis.”

Since drug products are time-consuming and expensive to develop but relatively easy to copy, the pharmaceutical industry is particularly dependent upon the patent system. Opponents of compulsory licensing argue that patent protection permits drug companies to benefit from their investment in research and development, and encourages them to continue to engage in such efforts. Some observers assert that “[b]reaking the patent through a compulsory license would actively discourage Roche from either producing the drug or lending its expertise, which would be directly counterproductive.”

On the other hand, some maintain that if Roche remains the sole manufacturer of Tamiflu, it may not be able to produce enough of the drug to satisfy the emergency need for it. From this perspective, if Roche refuses to issue voluntary licenses for generic drug companies to manufacture Tamiflu, a compulsory license may help to increase the drug’s production. At a congressional hearing on November 4, 2005, Department of Health & Human Services Secretary Michael Leavitt stated that he did not intend to issue a compulsory license for Tamiflu, since he was concerned that “violating” the patent would remove incentives for future drug research and development. In another congressional hearing several days later, Secretary Leavitt stated that a compulsory license would probably not be needed in light of Roche’s clear intent “not to let intellectual property issues to become a barrier” to generic manufacturing of Tamiflu, and Roche’s demonstrated willingness to work with other companies to produce the drug.

**TRIPS and Compulsory Licenses.** The Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”) is an international agreement on intellectual property that is one component of the treaties that created the World Trade Organization (WTO) in 1995. The TRIPS Agreement establishes minimum standards of protection for patents, copyrights, trademarks, and trade secrets that each WTO signatory state must give to the intellectual property of fellow WTO members. Compliance with TRIPS is a prerequisite for WTO membership.

Article 31 of the TRIPS Agreement addresses the right of WTO member states to award compulsory licenses. This article specifies a number of procedural and substantive conditions for issuing compulsory licenses, including the following:

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58 Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, art. (continued...)
Domestic law must permit compulsory licenses to be granted.
Manufacturing of a patented invention under a compulsory license shall be predominantly for the supply of the domestic market of the WTO member state authorizing such use.
Authorization for such use must be terminated if and when the compulsory license’s motivating circumstances cease to exist and are unlikely to recur.
The patent owner must be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorization.
Under normal circumstances, the proposed user must have tried to obtain permission from the patent holder on reasonable commercial terms and conditions. If these efforts fail to obtain a voluntary license, the government may issue a compulsory license.

Notably, Article 31 does not discuss the circumstances under which compulsory licenses would be justified. However, for “national emergencies” and “other circumstances of extreme urgency,” Article 31 provides that a compulsory license may issue without the proposed user having to first make an effort to obtain a voluntary license from the patent holder. This time-saving, “national emergency” provision in TRIPS was clarified by the WTO in November 2001 and again in August 2003. The November 14, 2001 “Declaration on the TRIPS Agreement and Public Health” (Doha Declaration) affirms that the TRIPS Agreement “can and should be interpreted and implemented in a manner supportive of WTO Members’ right to protect public health and, in particular, to promote access to medicines for all.” In addition, the Doha Declaration explains that each WTO member state “has the right to determine what constitutes a national emergency or other circumstances of extreme urgency, it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency or other circumstances of extreme urgency.”

Confronted with these public health emergencies, WTO members with insufficient or no manufacturing capacities in the pharmaceutical sector may be unable to make effective use of compulsory licensing under the TRIPS Agreement. The WTO’s proposed solution to this problem was announced on August 30, 2003,
when the WTO General Council issued a decision that allows member states, meeting certain strict conditions, to import generic versions of drugs produced under compulsory licenses issued by other countries. Specifically, this “Paragraph 6 Agreement” permits a waiver of Article 31(f) of the TRIPS Agreement, which specifies that compulsory licenses are to be used predominantly for the supply of the domestic market. Thus, countries that produce generic drugs under a compulsory license may export them to other WTO members that are unable to manufacture the medicine to meet their urgent needs.

As many nations attempt to stockpile antiviral drugs to prepare for the possible bird flu pandemic, the TRIPS “national emergency” provision for compulsory licenses has garnered public interest as a possible way to increase the production and supply of Tamiflu. However, at the time of the Paragraph 6 Agreement, the United States and 22 other developed countries decided to “opt-out” of using the compulsory license system as importers, under any and all circumstances. Some observers have speculated that the reason for this decision is to discourage compulsory licensing and put pressure on developing countries not to use it. Yet this opt-out may now effectively prevent developed countries from importing generic versions of Tamiflu made by companies in countries such as India and Israel. With Roche’s production capacity limitations affecting the ability of countries to procure enough Tamiflu to treat their populations, the decision to opt-out has become the focus of increased criticism and appeal for change. However, in a congressional hearing on November 8, 2005, Department of Health & Human Services Secretary Michael Leavitt downplayed the consequences of the opt-out decision, arguing that in a global pandemic situation, each country will likely only have access to what it produces domestically, as countries will want to keep domestically-produced flu drugs inside their own borders.


69 Id.; see also Statement of Consumers International to TRIPS Council (Oct. 25, 2005), available at [http://www.consumersinternational.org/shared_asp_files/uploadedfiles/EC5FF641-1FF9-4F8F-AF7C-AE669EE7242A_TRIPSCouncilstatement1.doc].

Sublicensing Agreements. If Tamiflu was subject to a compulsory license, Roche would still be entitled to receive three to five percent royalties. However, Roche would have no ability to control the sale price of the drug, and a cheaper generic version would mean smaller royalty payments. Roche thus prefers an alternative to the use of compulsory licensing, which are sublicensing agreements voluntarily negotiated by the company with third-parties of its choosing. Roche has selected 8 drug manufacturers out of 150 interested companies, with which it plans to hold sublicensing discussions by the end of November 2005.

Sublicensing agreements are contracts that permit other companies to manufacture and market generic versions of Tamiflu, in exchange for the companies paying licensing fees to Roche and agreeing to certain conditions. For example, the agreements may restrict the sale of generic Tamiflu to emergency government stockpiles, prevent re-exports of the drug, and time-limit the sublicense. An advantage of a sublicensing scheme is that generic companies can seek and obtain Roche’s manufacturing expertise to ensure quality production. In addition, sublicensing allows for coordination of obtaining the active ingredient in the antiviral drug, shikimic acid. However, some critics have asserted that these voluntary sublicensing agreements might only help rich countries to stockpile Tamiflu, and do little to improve the treatment’s availability for poorer countries. They maintain that under such agreements, Roche would likely still retain the right to control pricing and could reap large profits on generic Tamiflu.

Conclusion

Should the H5N1 virus, or some other avian influenza strain, cause a human pandemic, antiviral drugs, in the absence of a vaccine, will likely play a critical role to help prevent infection and to relieve the flu symptoms of those infected. However, the exclusive manufacturer of Tamiflu, the most effective influenza

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72 Factsheet Tamiflu, supra note 14, at 3 (stating that Roche is willing to “negotiate with any partner about granting a license [for Tamiflu] at equitable conditions. ... Selection criteria are quality, technical ability, capacity and the speed of bringing that capacity on stream.”).
73 Russell, supra note 26.
76 See discussion of shikimic acid, supra page 4.
77 Brook K. Baker, Roche’s Secret, Sub-Licenses for Tamiflu Will Not Bring Poor People in From the Cold, available at [http://www.health-now.org/site/article.php?menuId=12 &articleId=504].
78 For individuals at severe risk of infection, antiviral drugs may be used for protective purposes (called prophylaxis of influenza) by administering the medication for at least seven days during a community outbreak of influenza. See [http://www.tamiflu.com/hcp/prophylaxis/prophy_index.asp].
antiviral drug, is struggling to meet the high demand from countries seeking to build drug stockpiles in preparation for a pandemic. The Tamiflu supply shortage has sparked public debate concerning the practicality and morality of protecting intellectual property rights during a possible health crisis, which can directly affect the availability and affordability of medicine for populations in dire need of it. Voluntary licenses between Roche and generic drug manufacturers could help to increase production of Tamiflu to satisfy global demand. Compulsory licenses are also a possibility if Roche’s sublicensing efforts fail to adequately expand production, or if poorer countries determine they cannot afford Roche’s licensing fees.\(^79\)

\(^{79}\) Kanter, supra note 74.