of pharmaceutical patents was introduced. This would, it was hoped, encourage the production of generic substitutes for various prescription drugs.

It has been, subsequently, alleged that these measures reduced the profits of the established Canadian producers and that independent research into pharmaceuticals in Canada was thereby discouraged. The U.S. controlled firms involved have, more recently, persuaded some members of Congress and some elements in the U.S. Administration that this compulsory licensing of pharmaceutical patents is an "unfair" practice, and it has, it is understood, been added to the agenda of U.S. complaints about Canadian policies. The issue is still open; in response to U.S. pressure, and in response to pressure from U.S. controlled subsidiaries in Canada, a commission of enquiry has been established, under Professor Harry Eastman of the University of Toronto, to make a detailed study and report.[18]

Meanwhile, the Canadian tax authorities have alleged that U.S. controlled subsidiaries in Canada have reduced their repored Canadian profits, and paid less tax in Canada, by paying their parent firms inflated transfer prices.[19] (Transfer pricing is, of course, a legitimate concern of tax authorities; in the U.S. the prices paid by and to U.S. firms and their foreign subsidiaries are scrutinized under the Internal Revenue Code.[20] In Canada transfer pricing of affiliates of foreign firms, including the pricing of exports of Canadian controlled firms, is also scrutinized under Section 17 of the Income Tax Act.)

The issue of Canadian compulsory licensing of pharmaceutical patents is still not settled; it is an interesting example of how trade policy, competition policy, patent policy and tax administration are involved in a single policy issue.

A somewhat similar issue is raised by the Mexican policy with regard to pharmaceuticals; that policy has been designed to encourage the manufacture in Mexico by Mexican-controlled firms of pharmaceuticals developed by foreign companies. It is reported that the U.S. Administration has made signature of a bilateral trade agreement conditional on changes in the Mexican pharmaceutical policy. A somewhat similar issue has arisen in the EEC; Italy has no patents for pharmaceuticals and, accordingly, importers into other member states of Italian drugs may be sued for patent infringement.[21]

For large markets, such as the U.S., the technique of compulsory licensing of patents has implications largely in terms of competition within the market. For smaller countries, compulsory licensing has implications for trade policy. It has long been established, of course, that compulsory licensing, subject to the payment of appropriate royalties, is the compromise between those who believe that a patent system is indispensable and those who believe it merely confers monopoly.[22]

An important current case about patents is the curent U.S.-EEC dispute involving Dupont of the U.S. and Akzo N.V., a Dutch firm. Dupont filed a petition with the USITC (under Section 337 of the Tariff Act) alleging patent infringement by Akzo. The ITC imposed a prohibition on Akzo's product (aramid fibre). Akzo asserts that this ban is illegal in that it does not take into account legal proceedings in Richmond, Virginia, in which Akzo claims Dupont has infringed a U.S. patent registered by Akzo. (Whether the ITC order will continue in effect is a matter for the President; he has the discretion to confirm or set