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TRADE RESTRAINTS — PATENTS — EFFECT OF ILLEGAL CONDITION IN PATENT LICENSING AGREEMENT — Plaintiff, owning a patent on a process involving the use of unpatented lecithin in the production of chocolate, assured potential users that the process might be employed by them in the manufacture of chocolate on condition that all lecithin so used be purchased exclusively from plaintiff. Defendant at first complied with the condition but subsequently, while continuing to use the patented process, began to buy lecithin from plaintiff's competitors. Plaintiff brought suit for an injunction restraining infringement. Defendant, in counterclaiming for an injunction against future suits, in effect asked the court to hold that the implied license under which it had once practiced the process continued for the life of the patent, even though the condition was invalid and failed ab initio. The circuit court of appeals, in affirming the decree below,¹ held that plaintiff was properly denied relief, since its attempt to secure a limited monopoly of an unpatented article is condemned under the law as being contrary to public policy; that defendant was properly denied relief, since the court will not work a forfeiture on plaintiff by depriving it of all its patent rights against the defendant. *American Lecithin Co. v. Warfield Co.*, (C. C. A. 7th, 1939) 105 F. (2d) 207.²

It must be admitted that, in denying relief to the plaintiff, the court by inaction in effect imposed the very penalty that it would have inflicted had it granted relief to the defendant. Certainly to have granted defendant the injunction asked for would have required the court to ignore completely the actual understanding which existed between the parties for the sole purpose of laying a penalty upon plaintiff. Though the denial of relief to the plaintiff substantially imposes that same penalty, it follows only incidentally upon an application

¹ (D. C. Ill. 1938) 23 F. Supp. 326.

² Certiorari denied, 308 U. S. 609, 60 S. Ct. 171 (1939). The case has been noted in 8 GEO. WASH. L. REV. 869 (1940).

of the doctrine that parties seeking the aid of a court of equity must do so with "clean hands." The question which the court had to answer was whether the law's policy against an attempted extension of a patent monopoly to cover unpatented materials justified penalizing the plaintiff by extinguishing his ordinary patent rights against a direct infringer. The court could have looked merely to the present situation of the parties, and, disregarding the incidental enforcement of the illegal condition,³ could have granted the plaintiff's injunction because of defendant's use of a patented process without the permission of the patentee. But the court chose to regard the plaintiff as seeking an injunction for the purpose of securing a legal bludgeon to compel observance of the illegal condition. Therefore relief was denied the plaintiff, lest it aid a patentee in enforcing a condition repugnant to public policy as expressed both by statute⁴ and in decisions.⁵ In theory the infringement really amounts to a violation of the condition, for if the condition had been performed there could be no infringement.⁶ Though to have granted the plaintiff relief might not be inconsistent with the cases involving contributory infringement,⁷ it would seem that the policy expressed in those cases could better be effectuated by doing what the court in the principal case did.⁸ Systematic forbearance from the imposition of

³ Although the defendant would be barred from infringing, i.e., from using the process without leave, if the plaintiff later consented to the use, it could no longer be an infringement. It is quite plain that such permission would be forthcoming only if the defendant agreed to and did buy all its lecithin from the plaintiff. The practical effect of the injunction, therefore, would be to add a legal sanction to the enforcement of the illegal condition.

⁴ Under § 3 of the Clayton Act, 38 Stat. L. 731 (1914), 15 U. S. C. (1934), § 14, tying clauses such as in the instant case were made illegal. See also *United Shoe Machinery Co. v. United States*, 258 U. S. 451, 42 S. Ct. 363 (1921).

⁵ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, 37 S. Ct. 516 (1917); *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27, 51 S. Ct. 334 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458, 58 S. Ct. 288 (1938); *Ferguson Mfg. Works, Inc. v. American Lecithin Co.*, (C. C. A. 1st, 1938) 94 F. (2d) 729, cert. den. 304 U. S. 573, 58 S. Ct. 1042 (1938).

⁶ Use of the process in conformity with plaintiff's stipulations is use under an implied license. *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458 at 460-461, 58 S. Ct. 288 (1928); principal case at p. 210.

⁷ *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27, 51 S. Ct. 334 (1931); *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458, 58 S. Ct. 288 (1938); *Ferguson Mfg. Works, Inc. v. American Lecithin Co.*, (C. C. A. 1st, 1938) 94 F. (2d) 729. In these cases, the patentee brought suit against an alleged contributory infringer, who as patentee's competitor, sold the unpatented article to the licensee. Relief was denied on the ground that the patentee may not exact as the condition of a license that unpatented materials used in connection with the invention shall be purchased only from the licensor; and if it does so, relief against one who supplies such unpatented materials will be denied. Such decision was entirely proper, for to enjoin one from selling an unpatented article would be to enforce directly the illegal condition against one who is neither a party to the contract nor a direct infringer. On the facts of the principal case, however, such result may be said to be secondary, the primary and direct effect of the injunction being to restrain use of the patented process.

⁸ "The plaintiff argues that the defense of extra-legal monopolization, admittedly valid in contributory infringement cases, is not available in direct infringement cases.

illegal conditions as the price of a license will be the practical result of this decision. Patentees will refrain from such conduct, when they know that they are giving what amounts to a free license. The only hardship thereby imposed on patentees is the requirement of abstinence from that which the law already affirmatively forbids.⁹ Since relief is sought in a court of *equity*, its denial is justified when to grant it would be to aid, if only incidentally, in the enforcement of an illegal condition. This does not mean that a patentee would lose his usual patent rights against a direct infringer upon whom the patentee had never sought to impose the illegal condition. Since granting the patentee relief there would give no stimulus whatever to the illegal condition, relief in that case should be granted.

This argument would permit the plaintiff to monopolize the sale of lecithin by controlling the buyers in the trade, although the law forbids the same result by controlling the sellers in the trade. Yet, to sanction control over buyers is to permit the plaintiff to control his competing sellers. It might be said, therefore, that the plaintiff is urging this court to approve doing in one form what can not be done in another form.” Principal case at p. 211.

⁹ Sec. 3 of the Clayton Act, 38 Stat. L. 731 (1914), 15 U. S. C. (1934), § 14.