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PATENTS - MONOPOLIES - CONTRIBUTORY INFRINGEMENT OF PROCESS PATENT

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PATENTS — MONOPOLIES — CONTRIBUTORY INFRINGEMENT OF PROCESS PATENT — Plaintiff was the owner of a patent for the process of using bituminous emulsion to retard evaporation during the curing of concrete roads. Plaintiff supplied bituminous emulsion, an unpatented material, to road builders, permitting them to use the patented curing process, but had no express licenses or royalty contracts with these contractors. Defendant, a competing manufacturer of the emulsion, sold some of this material to a road builder, knowing that it was intended to be used in infringing the process patent. Plaintiff brought suit for contributory infringement against the supplier of the materials. *Held*, that the owner of a process patent may not by suit for contributory infringement suppress competition in the sale of unpatented material used in conjunction with the process. *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458, 58 S. Ct. 288 (1938).¹

One who intentionally aids or cooperates with another in infringing a patent is liable as a contributory infringer.² The courts at one time found contributory infringement as a matter of course whenever supplies were furnished principal infringers,³ but as monopolistic practices accomplished through licensing agreements led to abuse of the remedy, change in the economic philosophy of the times⁴ and change in the personnel of the Supreme Court⁵ brought

¹ The case had an interesting history in the lower courts. The district court found the patent void, thereby avoiding the necessity of passing on the question of infringement. (D. C. N. J. 1936) 14 F. Supp. 212. The Circuit Court of Appeals, Third Circuit, held the patent valid and further found defendant liable for contributory infringement. 89 F. (2d) 960 (1937).

² 3 WALKER, PATENTS, Deller's ed., 1764 (1937); WAITE, PATENT LAW 294 (1920); Roberts, "Contributory Infringement of Patent Rights," 12 HARV. L. REV. 35 (1898). McCormack, "Restrictive Patent Licenses and Restraint of Trade," 31 COL. L. REV. 743 (1931), explains that the reason for the doctrine is to give practical effect to the type of patent which is easy to infringe by enabling the patentee to reach those who manufacture supplies used in infringement. Among the recent cases finding contributory infringement of process patents are *Electro Bleaching Gas Co. v. Paradon Eng. Co.*, (C. C. A. 2d, 1936) 12 F. (2d) 511, and *Westinghouse E. & M. Co. v. Precise Mfg. Corp.*, (C. C. A. 2d, 1926) 11 F. (2d) 209.

³ *Wallace v. Holmes*, 9 Blatchf. 73, Fed. Cas. No. 17,100 (1871); *Leeds & Catlin Co. v. Victor Talking Mach. Co.*, 213 U. S. 325, 29 S. Ct. 503 (1909). Subsequently overruled by the Supreme Court were: *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, (C. C. A. 6th, 1896) 77 F. 288 and *Henry v. A. B. Dick Co.*, 224 U. S. 1, 32 S. Ct. 364 (1912).

⁴ This change in economic philosophy is reflected in the enactment of the Sherman and Clayton Anti-Trust Acts, section 3 of the latter act making special reference to "articles patented or unpatented." Peaslee, "Effect of Federal 'Anti Trust Laws' on Commerce in Patented and Copyrighted Articles," 28 HARV. L. REV. 394 (1915); Lamb, "Relation of the Patent Law to the Federal Anti-Trust Laws," 12 CORN. L. Q. 261 (1927).

⁵ In 1917 the Supreme Court specifically overruled the Dick case, decided only

about a complete reversal of many of the early cases. In a series of decisions the Supreme Court has very decidedly cut down the efficacy of the remedy.⁶ Out of the maze of conflicting decisions, several attempts have been made to state a rationalization. At first a distinction was suggested between defendants who supplied "dynamic" and "passive" elements of the patented machine,⁷ but this theory was exploded by subsequent decisions.⁸ The better reasoned theories proceed on the following analysis: the liability of the contributory infringer involves a preliminary inquiry into the relationship between the principal infringer and the patentee. It is clear that the patentee may keep his invention to himself and prohibit others from using it without making use of it himself.⁹ Hence, when he licenses or tacitly permits someone to use his invention, he merely releases to a limited extent a restriction against use imposed by the patent laws.¹⁰ Some writers have attempted to align the cases by arguing that when the patentee grants a license he must release all his right against that licensee, because the patent right is a single right which cannot be released in parts but must be released in its entirety.¹¹ Other writers argue that the patent right really con-

three years previously. The effect of change of personnel in the intervening three years is shown by Smith, "Contest over Latitude of Patent Rights," 8 A. B. A. J. 355 (1922).

⁶ Motion Picture Patents Co. v. Universal Film Co., 243 U. S. 502, 37 S. Ct. 416 (1917); Carbice Corp. v. American Patent Development Corp., 283 U. S. 27, 51 S. Ct. 334 (1931); and the principal case.

⁷ In Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U. S. 425, 14 S. Ct. 627 (1894), the patentee of a toilet paper delivering mechanism arranged with purchasers to buy the rolls of paper from him. Defendant, who supplied rolls in violation of the agreement, was held not to be a contributory infringer. In Leeds & Catlin Co. v. Victor Talking Machine Co., 213 U. S. 325, 29 S. Ct. 503 (1909), a similar arrangement was made between the owner of a phonograph patent for the supply of records. Defendant, who supplied records, was held liable as an infringer. Some writers, therefore, distinguished the two cases on the ground that the rolls of paper were merely passive or replacement elements of the combination of delivering mechanism and roll whereas the record was an essential, active element of the combination of phonograph and record. The distinction is criticized by Rich, "Contributory Infringement," 14 J. PAT. OFF. SOC. 376 (1932).

⁸ In the Carbice case, 293 U. S. 27, 51 S. Ct. 334 (1931), the supplier of solid carbon dioxide, the refrigerant essential to the operation of the patented container of ice creams, was held not liable as a contributory infringer. Certainly the refrigerant must have been the "dynamic" or active element in the combination and hence the distinction between active and passive elements fails. Neville, "Tying Clauses and Resale Price Maintenance under the Patent and Anti-Trust Laws," 4 DETROIT L. REV. 143 (1934).

⁹ Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U. S. 405, 28 S. Ct. 748 (1907). Many "reformers" of the patent laws have suggested that owners of patents be compelled to license them at reasonable royalties. Schechter, "Would Compulsory Licensing of Patents be Unconstitutional?" 22 VA. L. REV. 287 (1936).

¹⁰ See 15 MICH. L. REV. 581 (1917). See also the opinion of Taft, C. J., in United States v. General Electric Co., 272 U. S. 476 at 489, 47 S. Ct. 192 (1926).

¹¹ Suggested by Neville, "Tying Clauses and Resale Price Maintenance under the Patent and Anti-Trust Laws," 4 DETROIT L. REV. 143 (1934). Powell in "Nature

sists of a vast number of rights and the patentee may release some of these rights and retain others.¹² However, the cases do not fully support either theory, for the patentee may retain some rights, but some he may not retain.¹³ The determining factor as to what restrictions may not be retained is that, since the state in its exercise of the police power may entirely prohibit the exercise of the patent monopoly,¹⁴ the federal government in its power of restricting monopolies in restraint of trade¹⁵ may prohibit the patentee from exercising some of the rights

of a Patent Right," 17 COL. L. REV. 663 at 678 (1917), although he disapproves of the theory, says that the Supreme Court apparently applies it and that "there is no logical flaw in holding that the patent right is a simple rather than a composite right and therefore confers on the patentee no authority to split his right of exclusion into many rights of partial or conditional exclusion." See also 5 CAL. L. REV. 425 (1917) and 31 HARV. L. REV. 298 (1917).

¹² See the dissent of Holmes, J., in *Motion Picture Patents Co. v. Universal Film*, 243 U. S. 502 at 519, 37 S. Ct. 416 (1917), and the majority opinion of Taft, C. J., in *United States v. General Electric Co.*, 272 U. S. 476, 47 S. Ct. 192 (1926); also 15 MICH. L. REV. 581 (1917). Powell concludes that the nature of the patent monopoly, i. e., whether it be a single or a composite right, differs with the purpose in hand. Powell, "Nature of a Patent Right," 17 COL. L. REV. 663 (1917).

¹³ Many types of restrictions on the licensee are permitted, especially territorial, time and purpose restrictions. McCormack, "Restrictive Patent Licenses and Restraint of Trade," 31 COL. L. REV. 743 (1931); Keasbey, "Restrictive Covenants as Applied to Territorial Rights in Patented Articles," 10 HARV. L. REV. 1 (1896); 25 HARV. L. REV. 641 (1912); 45 HARV. L. REV. 150 (1931). On the general subject, see ELLIS, *PATENT ASSIGNMENTS AND LICENSES* 378 et seq. (1936). The patentee may limit the length of time that the licensee may use the patent. *Mitchell v. Hawley*, 16 Wall. (83 U. S.) 544, 21 L. Ed. 322 (1872). He may limit the use of the patent to the licensee's own place of business and to manufacture by licensee's own employees. *Providence Rubber Co. v. Goodyear*, 9 Wall. (76 U. S.) 788, 19 L. Ed. 587 (1869). Limited to articles coming up to a certain standard of excellence, *Indiana Mfg. Co. v. Nichols & Shepard Co.*, (C. C. Mich. 1910) 190 F. 579.

On the other hand, many restrictions are prohibited. See the cases limiting the source of supply of materials used by the licensee in practicing the invention—the *Motion Picture Patents* case, the *Carbice* case, and the principal case. Resale price fixing by means of patents is not permitted. *Bauer & Cie v. O'Donnell*, 229 U. S. 1, 33 S. Ct. 616 (1913), and *Federal Trade Comm. v. Beech-Nut Packing Co.*, 257 U. S. 441, 42 S. Ct. 150 (1921). Chaffee says that what restrictions are permitted depends on how the court considers they restrict trade. Chaffee, "Equitable Servitude on Chattels," 41 HARV. L. REV. 945 at 999 (1928).

¹⁴ Thus in *Patterson v. Kentucky*, 97 U. S. 501, 24 L. Ed. 1115 (1878), the defendant was the owner of a patent on illuminating oil but the oil did not come up to state safety standards and he was found guilty of violating the statute against sale of oil below the standard. In *Welton v. Missouri*, 91 U. S. 275, 23 L. Ed. 347 (1875), the seller of patented goods was held to be subject to a state license tax. A patent on method of drawing lottery tickets fell before a state prohibition of lotteries, *Vannini v. Paine*, 1 Harr. (Del.) 65 (1833).

¹⁵ The Sherman and Clayton Anti-Trust Acts have given the federal courts common-law powers of regulation of monopolies in restraint of trade. See Peaslee, "Effect

he retains after he has, by his license, released some rights.¹⁶ It is submitted that in determining when the courts will interfere with the patentee's right to sue infringers they will take into consideration whether, as a practical matter, the exercise of the patent monopoly will result in a limited monopoly in an unpatented material¹⁷ and whether the owner of the patent seeks to derive his profits not from the invention itself but from the unpatented supplies with which the invention is used.¹⁸ The principal case is significant in that the owner of the patent had no express contract relations with the principal infringer but merely permitted other contractors who purchased bituminous emulsion from it to use its patented process. However, the practical result, so far as the patentee's efforts to acquire a monopoly over unpatented materials is affected, is the same whether the contributory infringer induces the principal infringer to exceed the limits of a license granted him by the owner of the patent or whether he induces him to infringe the patent itself, though there be no license. The case is also the first decision by the Supreme Court extending the principles governing contributory infringement to cases involving process patents.¹⁹

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of Federal 'Anti-Trust Laws' on Commerce in Patented and Copyrighted Articles," 28 HARV. L. REV. 394 (1915).

¹⁶ This theory is suggested by Grosvenor, "Rule of Reason' as Applied by the United States Supreme Court to Commerce in Patented Articles," 17 COL. L. REV. 208 (1917). Mr. Grosvenor was a special attorney-general in several of the "trust busting" cases involving patents which were heard by the Supreme Court at this time and prepared briefs in several of these cases. His theories, in so far as they agree with those of the Supreme Court, are, therefore, of especial interest.

¹⁷ This limitation was first set forth in concrete form by Brandeis, J., in the Carbice case and it is repeated in the principal case. It is implicit in all the decisions. The validity of the limitation is questioned by Burgess, "Contributory Infringement Predicated on the Sale of a Staple Commodity," 14 J. PAT. OFF. SOC. 15 (1932).

¹⁸ In both the Carbice case and the Leitch case the court carefully avoids overruling the Leeds & Catlin case, supra note 7. In the Carbice case Brandeis, J., sets forth the distinction that the Victor Co., in the Leeds & Catlin case, sought to derive its profits from the sale both of the machines and the records and that the tying clause in that case was therefore valid, whereas in the Carbice case the profit was derived solely from sale of the refrigerant. This distinction is criticized as "unsatisfactory and beclouded" by Rice, "Tangle of Contributory Infringement," 11 N. Y. UNIV. L. Q. REV. 48 (1933).

¹⁹ The principal case shows one more limitation on the efficacy of the process patent. For a discussion of the legal and practical difficulties facing the inventor of a process in attempting to secure adequate protection of his invention, see comment on "Patentability of the Product of a Process," 36 MICH. L. REV. 811 (1938).