

Michigan Law Review

Volume 55 | Issue 5

1957

Patents - Licensing - Legality of Grant-Back Clauses

Eric E. Bergsten S.Ed.

University of Michigan Law School

Follow this and additional works at: <https://repository.law.umich.edu/mlr>



Part of the [Antitrust and Trade Regulation Commons](#), [Intellectual Property Law Commons](#), and the [Litigation Commons](#)

Recommended Citation

Eric E. Bergsten S.Ed., *Patents - Licensing - Legality of Grant-Back Clauses*, 55 MICH. L. REV. 697 (1957).

Available at: <https://repository.law.umich.edu/mlr/vol55/iss5/5>

This Response or Comment is brought to you for free and open access by the Michigan Law Review at University of Michigan Law School Scholarship Repository. It has been accepted for inclusion in Michigan Law Review by an authorized editor of University of Michigan Law School Scholarship Repository. For more information, please contact mlaw.repository@umich.edu.

PATENTS — LICENSING — LEGALITY OF GRANT-BACK CLAUSES — There is no authoritative definition of the term "patent grant-back."¹ It has been defined as a clause in a patent license which provides "for license or assignment to the licensor of any improvement patented by the licensee in the products or processes of the licensed patent."² In litigated cases grant-back clauses usually appear either in basic patent licenses or in licenses of the products or processes of an industry which the licensor dominates through control of a multitude of overlapping patents.

Relation to Patent Misuse

In 1946 in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co. (TransWrap)*³ the question of the criteria to be used in evaluating the legality of an improvement patent grant-back was clearly raised for the first time. The Supreme Court held that though grant-back clauses can easily be used to violate the antitrust laws, they are not illegal per se as a patent misuse.

In the *TransWrap* case the vendor, in connection with the sale of a business, exclusively licensed its patents to the vendee. One clause in the license required the vendee to submit to the vendor any patentable ideas so that the vendor could take out improvement patents if it so desired. The vendee was permitted to use the improvement patents in connection with both the basic patents and on any non-competing product without additional charge. The vendee failed to submit its improvements to the vendor. When the vendor then elected to terminate the license, the vendee sued for a declaratory judgment that the grant-back clause was contrary to public policy and unenforceable.

Prior to 1946 grant-back clauses occasionally appeared in litigated cases but in no case was the clause found to be illegal.⁴ In

¹ In several cases the term reciprocal licenses has been used to cover what is here meant by "patent grant-back."

² REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTI-TRUST LAWS 227 (1955), hereinafter referred to as REPORT. This comment deals only with grant-backs in bilateral licenses. For patent pool agreements containing grant-backs, see, e.g., *United States v. Besser Mfg. Co.*, (E.D. Mich. 1951) 96 F. Supp. 304, aff'd. 343 U.S. 444 (1952); *Cutter Laboratories v. Lyophile-Cryochem Corp.*, (9th Cir. 1949) 179 F. (2d) 80; *United States v. Associated Patents, Inc.*, (E.D. Mich. 1955) 134 F. Supp. 74, noted in 54 MICH. L. REV. 713 (1956); *United States v. Birdsboro Steel Foundry and Machine Co.*, (W.D. Pa. 1956) 139 F. Supp. 244.

³ 329 U.S. 637 (1947).

⁴ *Allbright-Nell Co. v. Stanley Hiller Co.*, (7th Cir. 1934) 72 F. (2d) 392; *Gasoline Products Co. v. Champlin Refining Co.*, (D.C. Me. 1931) 46 F. (2d) 511; *Bunker v. Stevens*, (C.C. N.J. 1885) 26 F. 245; *American Refining Co. v. Gasoline Products Co.*, (Tex. Civ. App. 1927) 294 S.W. 967.

1945 the Supreme Court in *Hartford-Empire Co. v. United States*⁵ approved a decree which, inter alia, enjoined the defendants from inserting a grant-back clause in licenses of glassware and glassmaking equipment patents but the Court disallowed that portion of the decree which would have extended the injunction to the other patents held by the defendants. The Court felt that the broad prohibitions of the district court decree, only one of which was the grant-back injunction, if applied to all of the defendants' patents, would have had a tendency to stop all inventions or acquisitions of patents in any field by the defendants, a result not desired by the Court. The decree would have set such important limitations upon the reward which could have been secured by the defendants from the ownership of patents as to make the defendants' patents practically worthless.⁶ Since Hartford-Empire was primarily a licensing rather than a manufacturing company, a patent was of little value to the defendants if it could not be effectively licensed.

The trial court found that the grant-back clause was lawful throughout and not within the doctrine of the misuse cases.⁷ The Court of Appeals for the Second Circuit speaking through Judge Learned Hand (Judge Swan dissenting) felt that the vendor had used its basic patent monopoly to force others to buy from it things outside of the four walls of the patent.⁸ It relied primarily on the fact that after the expiration of the basic patent, the vendor would have the control over the improvement patents that the vendee would have had. The result of this argument, based on the misuse cases, is that an assignment grant-back is illegal per se.

The Supreme Court disagreed.⁹ The patent statute expressly permits the assignment of patents and places no restrictions on the consideration for such assignment.¹⁰ The effect on the improvement patentee is the same whether he assigns for a monetary consideration or whether the consideration is the right to use the basic patent. The court then conceded that though a patentee has the right to refuse a license he cannot demand an unlawful condition. The court found that a grant-back clause did not constitute an unlawful condition because the patent laws already recognized the

⁵ 323 U.S. 386 (1945).

⁶ *Id.* at 423, 424.

⁷ *Stokes & Smith Co. v. Transparent-Wrap Machine Corp.*, (S.D. N.Y. 1945) 68 U.S.P.Q. 28.

⁸ *Stokes & Smith Co. v. Transparent-Wrap Machine Corp.*, (2d Cir. 1946) 156 F. (2d) 198.

⁹ *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947).

¹⁰ 66 Stat. 810 (1952), 35 U.S.C. (1952) §261.

monopoly right in the improvement patent. The basic patentee was using his property to acquire a lawful monopoly. The misuse doctrine does not apply where the patent monopoly is used to acquire other lawful monopolies. It exists only where the patent monopoly is used to control activities outside of any legalized monopoly. Therefore, since the grant-back provision is not a patent misuse and since the patent statute expressly recognizes the right of a patentee to assign his patents without regard to the consideration, a patent grant-back clause is not illegal per se.

This decision effectively cut off any further judicial discussion of a patent grant-back as a patent misuse as such. However, even at this late date it may be worthwhile to examine this phase of the decision.

If the problem presented by this case is analyzed as a question of the enforcement of a promise to assign improvement patents for which the consideration is the right to use certain basic patents, then there seems to be no choice but to say with the court that the promise to assign improvements is legal per se and the consideration is both adequate and legal. However, if this is analyzed as a license of a basic patent in partial consideration for which a promise to assign improvement patents is given, it would seem that we must still see whether the grant-back would constitute a patent misuse. The enforcement of the promise would give the licensor control over other articles which, but for the patent, he would not possess. In prior misuse cases this control was over unpatented articles.¹¹ The Court, however, seemed to feel that if a monopoly has been legally established in one limited area, it is no longer in the public interest who controls the monopoly short of a violation of the antitrust laws.

The public interest served by the patent laws is to stimulate the invention of new products and processes by giving an opportunity for monopoly profits from the patented article.¹² Here there may be no one who is stimulated to further invention. The licensor will gain income for the period of his existing patents and during the period of every improvement patent. The licensee has an in-

¹¹ E.g., *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). In the principal case the Court disregarded the fact that in *TransWrap* the ideas were to be unpatented when turned over to the licensor and it was only through the failure of the licensee to live up to its bargain that patents had already been issued.

¹² "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST., art. I, §8, cl. 8.

terest in lowering his costs at present by improving the basic patent but has a stronger interest in not making improvements because every improvement lengthens the time during which it will be necessary to be licensed. Since it is practically impossible to continue making any product for ten to fifteen years without improving it, the licensee may never be able to get out of the circle and still stay in the industry.¹³ By giving this additional power to the patentee, the court may have increased the incentive to produce basic inventions, but it would seem that this same incentive, if desired, would be better achieved through a lengthening of the patent monopoly by Congress.

Relation to Antitrust Laws

Legitimate Uses for Grant-Back. The use to which a particular business device is put will often determine whether it will be held to be in violation of the antitrust laws. *TransWrap* well illustrates the uses to which a patentee may legitimately wish to put a patent grant-back. The license was for a period of ten years, thereafter renewable for further periods of five years. Upon certain named contingencies (bankruptcy of the licensee, etc.) the license was to terminate. The expectation was that if the license did terminate the licensor would itself then resume producing the patented article. It was important to the licensor that it be assured that if it resumed manufacturing the patented article the article would be competitive. This would only be possible if it were to take over the improved product. This is also true if a licensor continues to produce the patented article under its basic patent and also licenses others. The licensor will not wish to lose out on improvements made by the licensees, not because it is desirous of controlling the industry with its patent block, but because it wishes to continue to compete with its licensees in the production of the patented article. If the licensee is able to use the licensor's patents, it seems only fair to allow the licensor to demand that he be allowed to use the

¹³ If the grant-back was to be an assignment, the basic patentee would become owner of the improvement patents as well. In addition, if the basic patentee licensed numerous licensees all of whom agreed to grant-back licenses with right to sublicense, each licensee would be able to use its own improvement patents but would still need to secure licenses of the improvements patented by the other licensees. Although they could secure licenses from each patentee individually, as a practical matter they would undoubtedly go to the basic patentee who could license substantially all of the industry's patents at one time. It is only where there is but one licensee of the basic patentee giving a license grant-back (or such a small number as to make feasible the securing of licenses of improvement patents from each other individually) that the licensee will eventually be able to produce without license from the basic patentee.

licensee's improvements. Similarly, if a decree requires compulsory licensing, then it may be felt that the patentee should be allowed to demand grant-backs of improvement patents or the licensees will be in the extraordinary position of being able to get all of the advantages of the licensor's inventiveness and yet be able to keep its own improvements for its own advantage.¹⁴ In a given fact situation this might even lead to the licensee achieving a monopoly position in an industry.

Type of Grant-Back. It was not necessary for the *TransWrap* licensor to secure an assignment of the improvement patents in order to protect itself. The only legitimate purpose of the grant-back was to enable the licensor to manufacture and license the improved machine if it were necessary for him to resume production. A nonexclusive license grant-back with power in the licensee to license others would have been sufficient protection. To the extent the improvement grant-back exceeded this standard the assignments served no legitimate ends. The potential control over an industry afforded by assignment grant-backs far exceeds the control afforded by nonexclusive licenses with power to sublicense.¹⁵

The cases have not expressly recognized this distinction. They have at times not even mentioned what rights under the improvement patents were to be granted back.¹⁶ Only in *United States v. General Electric Co. (carboly)*¹⁷ is it suggested that an exclusive license is more conducive to antitrust violation than a nonexclusive license. The interesting fact is that assignment grant-backs have been approved in the cases more often than not,¹⁸ while license grant-backs have more often than not been disapproved.¹⁹ The

¹⁴ *United States v. National Lead Co.*, 332 U.S. 319 at 360 (1947); *United States v. General Electric Co.*, (D.C. N.J. 1953) 115 F. Supp. 835.

¹⁵ See REPORT 228, 229.

¹⁶ *United States v. Imperial Chemical Industries*, (S.D. N.Y. 1952) 105 F. Supp. 215 at 232; *Houdry Process Corp. v. Sinclair Refining Co.*, (E.D. Pa. 1954) 121 F. Supp. 320.

¹⁷ (S.D. N.Y. 1948) 80 F. Supp. 989 at 1005. Earlier in the opinion, at 1000, Judge Knox said that the licenses were nonexclusive. With one exception the court does not explain why the nonexclusive licenses were in effect exclusive. See 17 UNIV. CHI. L. REV. 357, 367-369 (1950).

¹⁸ *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945) (partially allowed in decree); *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947) (not illegal per se); *Stokes & Smith Co. v. Transparent-Wrap Machine Co.*, (2d Cir. 1947) 161 F. (2d) 565 (on remand for antitrust finding); *Modern Art Printing Co. v. Skeels*, (D.C. N.J. 1954) 123 F. Supp. 426 at 433, revd. on other grounds (3d Cir. 1955) 223 F. (2d) 719. *Contra*, *United States v. Imperial Chemical Industries*, (S.D. N.Y. 1952) 105 F. Supp. 215.

¹⁹ *United States v. National Lead Co.*, (S.D. N.Y. 1945) 63 F. Supp. 513 at 518 (exclusive license); *United States v. General Electric Co. (carboly)*, (S.D. N.Y. 1948) 80 F. Supp. 989 at 1005 (see note 17 supra); *United States v. General Electric Co.*, (D.C.

explanation is that rarely can a monopoly be fashioned out of grant-backs alone. It is just coincidence that those cases in which the overall pattern lead to an antitrust violation included a license grant-back, while in those cases in which there was no antitrust violation there was an assignment grant-back. All other things being equal, an assignment grant-back is more likely to be found violative of the antitrust laws than a license grant-back.

Scope of Grant-Back. Normally the grant-back clause is limited to improvements in the licensed product or process. Occasionally a grant-back clause will extend to all future patents in the licensed field and could conceivably extend to all of the licensee's patents. It is not sufficient to look just to the words of the license to determine the scope of the grant-back, however. If the patent is basic to the industry, an improvement grant-back will still bring in all of the new patents, while a requirement of a grant-back of all new patents in a field would have little meaning if the field was restricted to some insignificant product or process.

While no case has held that a grant-back was illegal solely because of its scope, two cases point strongly in that direction. In *United States v. General Electric Co. (lamps)*²⁰ the "B" licensees were required to grant-back nonexclusive licenses with a right to sublicense all of their present patents on incandescent light bulbs and those patents which they subsequently acquired. The court found that General Electric used its position as holder of the basic patents to gain control of the improvements, and that it was engaged in a systematic funnelling of the industry's patents into its own hands. The court found that the main buttress of General Electric's position in the incandescent lamp industry was based on its patent position. The right to sublicense gave General Electric virtual ownership of the major portion of the patents in the industry. Undoubtedly if the grant-back had been limited to improvements

N.J. 1949) 82 F. Supp. 753 at 815 (nonexclusive with right to sublicense); *United States v. United States Gypsum Co.*, 340 U.S. 76 (1950) (reciprocal license in decree denied); *United States v. Aluminum Company of America*, (S.D. N.Y. 1950) 91 F. Supp. 333 at 409 (nonexclusive with right to sublicense); *United States v. General Electric Co. (lamps)*, (D.C. N.J. 1953) 115 F. Supp. 835 (license grant-back in decree denied as to existing patents but allowed as to "future patents"). *Contra*: *United States v. National Lead Co.*, 332 U.S. 319 (1947) (nonexclusive license grant-back allowed in decree); *United States v. E. I. du Pont de Nemours & Co.*, (D.C. Del. 1953) 118 F. Supp. 41 at 224, *affd.* 351 U.S. 377 (1956); *United States v. International Business Machines Co.*, (D.C. N.Y. 1956) CCH Trade Reg. Rep. ¶68,245 (nonexclusive license grant-back allowed in consent decree); *United States v. Western Electric Co.*, (D.C. N.J. 1956) CCH Trade Reg. Rep. ¶68,246 (nonexclusive license grant-back allowed in consent decree).

²⁰ (D.C. N.J. 1953) 115 F. Supp. 835.

on the specific patents licensed, there would still have been found an antitrust violation because of General Electric's dominant position in the industry. But the fact that General Electric demanded virtual ownership of every patent concerning incandescent lamps served to emphasize its monopolistic intentions.

In *United States v. National Lead Co.*²¹ the grant-back extended to all of the patents in the titanium pigment industry. The trial court found that the clause was part of a scheme to eliminate competition in the industry through control of the patents but did not state what features of the clause were the offensive ones. A court in a later case distinguished the grant-back clause before it from the one in *National Lead* by pointing out that National Lead's clause extended to all of the patents in the titanium pigment field.²²

Even if, as seems likely, the clause was illegal in part because of its scope, the court in *National Lead* does not condemn a broad clause per se, for the decree provided that the defendants might condition their licenses on a reciprocal license of any and all patents covering titanium pigments or their manufacture acquired by the licensees within five years of the date of the decree.

The clause in *United States v. E. I. du Pont de Nemours & Co.*²³ extended only to improvements to the basic moistureproof cellophane patent. The court pointed out that only nine patents had in fact been granted back because of the clause. This factor was one of several in du Pont's licensing policy all of which pointed to the conclusion that du Pont was not using its patent position to monopolize the moistureproof cellophane industry, nor had du Pont's position in the industry been enhanced in any way due to the grant-back clause in the cellophane licenses.

As the scope of the grant-back widens, the chance that it is being used by the licensor solely to effect a legitimate purpose lessens. No longer is the licensor who has ceased production relying on royalty income, as in *TransWrap*, merely assured that if the licensee defaults, it will be able to resume production with a competitive product. Nor is the licensor merely assuring itself that it will be able to produce as improved a product under the basic patent as any of its licensees. The effect of the broad grant-back is to assure the licensor that it will have as good a product in the

²¹ 332 U.S. 319 (1947).

²² *United States v. E. I. du Pont de Nemours & Co.*, (D.C. Del. 1953) 118 F. Supp. 41, affd. 351 U.S. 377 (1956).

²³ *Ibid.*

industry as any of its licensees, whether the product was made under the basic patent *or by another process*. There is no longer the risk that a competitor, if the competitor is a licensee, will develop a competing product or process which will leave the licensor in a non-competitive position. However, since there is no requirement that other firms in the industry will receive licenses to use the new products or processes, the licensor may find itself in the position of being the only firm in the industry assured of the use of a substantial portion of the new inventions of the industry. Although the reasoning of the *TransWrap* case prevents any grant-back clause from being found illegal *per se*, the use of a clause with a broad scope should alert a court to the possibility that the clause may be part of a broader picture of antitrust violation.

Duration of Grant-Back Right. Typically the licensee must grant back licenses or assignments during the period of the basic license, the granted-back licenses or assignments to continue for the life of the improvement patent. In only one case has the duration of the period over which the licensee must grant back been significant. In the *National Lead* decree²⁴ compulsory licensing was ordered of all existing patents and all patents to be acquired within the five years following the decree covering titanium pigments or their manufacture. At the same time the defendants were permitted to require a license grant-back of all similar patents of the licensee presently issued or to be issued during the same five years. The court was not consciously thinking of the effect of a grant-back clause extending for more than five years but was only trying to be fair to the defendants.

To date the cases indicate that if the grant-back clause operates over the period of the basic patent, no particular significance will be attributed to its duration. Nevertheless, the court should always consider the practical effect of a grant-back clause operating for a period up to seventeen years. Even though the clause may have been originally intended merely to protect the licensor's interest in the basic patent, and therefore may be considered a legitimate use for the clause, the industry may find that a clause extending over such an extended period has the practical effect of funnelling a significant portion of the new developments of the industry into the control of the licensor. If the consequence of this funnelling action is to contribute to market domination by the licensor or unreasonably to reduce the incentive to research by the licensees,

²⁴ *United States v. National Lead Co.*, 332 U.S. 319 (1947).

the court should consider the duration of the clause to be of significance in evaluating its lawfulness. It follows, therefore, that a clause which lasts for a period shorter than the length of the basic patent, and which has a correspondingly lesser effect on the licensees and the industry should be less likely to be found illegal. Similarly, a clause which lasts for a period longer than the life of the basic patent, and which has a correspondingly greater effect on the licensees and the industry should be more likely to be found illegal. Any deviation from the norm is apt to have some significance in showing whether the licensor intended to use the grant-back clause to help gain a dominant role in the industry even though the clause may not have played a major role.

Market Position. On the remand of *TransWrap* the circuit court of appeals treated with the utmost respect the order of the Supreme Court that grant-backs were not illegal per se.²⁵ The argument of the licensee that the grant-back gave the licensor a "double monopoly"²⁶ because the licensor now had two patents where before it had only one would be true of every assignment grant-back, and if this "double monopoly" were found to be a violation of the antitrust laws, every assignment grant-back would be illegal per se. The court used a different rationale. It correctly pointed out that during the period of the basic patent the "double monopoly" was one in name only. The article could be manufactured only on license from the basic patentee. The basic patentee's power to license was not increased²⁷ and only the improvement patentee's negative command of the art was lost. After the basic patent expired only the improvement patents were left. The bare ownership of improvement patents did not raise a violation of the antitrust laws. The court pointed out that the record showed no lessening of the competitive situation in the industry. Even if some of the improvement patents covered machines which were not covered by the licensor's basic patent, all that would be shown is that the licensor had extended his control over the industry. But only extensions of control which are unreasonable restraints of commerce are illegal. In using this reasoning the court was further extending the Supreme Court's decision that an assignment grant-back was not illegal per se. The Supreme Court's language was

²⁵ *Stokes & Smith Co. v. Transparent-Wrap Machine Co.*, (2d Cir. 1947) 161 F. (2d) 565.

²⁶ These words were first used by Justice Douglas in *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637 at 646.

²⁷ It should be noted, however, that it will often be easier to secure new licensees for the improved product than it would have been for the unimproved product.

used to refute only the claim that there had been a patent misuse because of an assignment grant-back. Since a grant-back clause by itself will almost never produce monopoly conditions in an industry, the courts have declared a grant-back to be a violation of the antitrust laws only when it has been part of an overall scheme to control the industry.

The defendants in *National Lead* produced practically 100 percent of the American titanium pigments. The balance was produced by two licensees of the defendants, both of whom were under production, territorial and pricing restrictions. In addition they were compelled to grant back exclusive licenses on all improvement patents which they developed in the licensed field. This whole picture of monopoly control through the use of patents was found to be illegal. In 1948, in *United States v. General Electric Co.* (carboly),²⁸ Judge Knox made clear the effect of the market position on the legality of a grant-back, a point which had been inherent, but not expressed, in the previous decisions.

"The trade position of the present defendants closely approximates that of the defendants in the *National Lead* case, and not that which is found in the *Transparent-Wrap* case. The employment of basic patents, or patents which may be basic, to compel the transfer of future patent rights, is condemned per se, when practiced on a scale such as is found in this suit."²⁹

Similarly, General Electric's dominant position in the incandescent lamp industry was due to its patent policies, including the use of grant-back clauses.³⁰ The court found that General Electric followed a conscious policy of funnelling into its control all of the patents of its licensees having to do with the industry.

The grant-back provision was also found illegal in *United States v. Imperial Chemical Industries*. Defendants were the dominant firms in the nylon industry, and the court found that the grant-back clause in question "perpetuate[d] control of the product, after expiration of the basic patent, for an unlawful use—the division of territories in restraint of United States trade."³¹

An interesting example of the effects of a grant-back clause when the licensor is the dominant firm in the industry is illustrated by *United States v. Aluminum Company of America*.³² The grant-

²⁸ (S.D. N.Y. 1948) 80 F. Supp. 989.

²⁹ *Id.* at 1006.

³⁰ *United States v. General Electric Co. (lamps)*, (D.C. N.J. 1953) 115 F. Supp. 835.

³¹ (S.D. N.Y. 1952) 105 F. Supp. 215 at 232.

³² (S.D. N.Y. 1950) 91 F. Supp. 333 at 409, 411.

back was of a nonexclusive license with right to sublicense. There were only two competitors of Alcoa, Kaiser and Reynolds. When either Kaiser or Reynolds patented an improvement, Alcoa was able to use it as well, but the other competitor could not. The only solution for Kaiser and Reynolds would be to cross-license each other, but if this were the case, there would be no particular reason to spend money on research—it would be less costly to leave this to Alcoa. The court found that there was evidence of such reasoning on Kaiser and Reynolds' part, for in 1949 Alcoa had 762 employees in research while Kaiser and Reynolds combined had 88.

It must always be remembered that it is not the market control of the defendant firm which determines the legality of the clause, however, but the effect which a given grant-back clause has on the market control. Judge Learned Hand's test based on the reasonableness of the restraint of trade induced by the clause³³ is still the law today. This test has been recently used in *United States v. E. I. du Pont de Nemours & Co.*, where there was no showing that as a result of the agreement du Pont's position was in any way enhanced, or that others who might have desired a license were precluded from entering the field,³⁴ and in *Modern Art Printing Co. v. Skeels*,³⁵ where a defense to a patent infringement suit based on a grant-back clause was dismissed because the court found no evidence pertaining to the effect of the clause on the industry.

Decrees

Once the defendant has been found guilty of an antitrust violation, the burden is on the defendant to show that the proposed decree is overly harsh and unnecessary.³⁶ Since the decree is intended only to prevent future abuse and not to punish for past transgressions, if the court finds that the industry's situation warrants the use of grant-backs, it can allow their use. In fact grant-backs have been allowed directly in one case and have been allowed by indirection in another.³⁷ The *National Lead*³⁸ decree allowed

³³ *Stokes & Smith Co. v. Transparent-Wrap Machine Co.*, (2d Cir. 1947) 161 F. (2d) 565.

³⁴ (D.C. Del. 1953) 118 F. Supp. 41 at 224.

³⁵ (D.C. N.J. 1954) 123 F. Supp. 426, revd. on other grounds (3d Cir. 1955) 223 F. (2d) 719.

³⁶ *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945); *United States v. Aluminum Company of America*, (S.D. N.Y. 1950) 91 F. Supp. 333.

³⁷ Grant-backs have also been allowed at least in consent decrees. *United States v. International Business Machines Corp.*, (S.D. N.Y. 1956) CCH Trade Reg. Rep. ¶68,245; *United States v. Western Electric Co.*, (D.C. N.J. 1956) CCH Trade Reg. Rep. ¶68,246.

³⁸ *United States v. National Lead Co.*, 332 U.S. 319 (1947).

for a grant-back clause where compulsory licensing was decreed of all patents then issued or to be issued within the next five years. There were only two expected licensees and each of them was in a position whereby if they were allowed to secure licenses to all of the defendants' patents but were not required to grant back reciprocal rights, conceivably the licensees would change places with the defendants in becoming the dominant factor in the industry.

Prior to the *TransWrap* case the Supreme Court had occasion to deal with a grant-back clause in *Hartford-Empire Co. v. United States*.³⁹ The lower court decree enjoined Hartford-Empire from providing that rights to improvements and inventions covering licensed machinery or processes or methods were to become the exclusive property of the lessor or vendor. Upon appeal to the Supreme Court the government conceded that grant-back provisions were not illegal per se and that the injunction went beyond the field illegally monopolized. Without discussion the Court amended the decree to permit the inclusion of a grant-back clause in all licenses except certain glassmaking machinery. This case was a logical forerunner to *TransWrap* in that it recognized the validity of grant-backs in general but looked to the effect the particular clause would have on the industry.

The single pervading thread of consistency in the decrees which have not allowed a grant-back clause is that the court felt that a grant-back clause would be detrimental to the restoration of competition in the industry. The courts have done their best not to harm defendants unnecessarily by the decrees.⁴⁰ Only in *United States v. Aluminum Company of America*⁴¹ and in the *General Electric lamp decree*⁴² were companies required to grant a free license in which no grant-back was allowed. Alcoa's licenses themselves were

³⁹ 323 U.S. 386 (1945).

⁴⁰ In *United States v. General Electric Co. (lamps)*, (D.C. N.J. 1953) 115 F. Supp. 835, the court indicated that the reason for not allowing a grant-back clause although compulsory licensing was decreed was to put General Electric at a competitive disadvantage. General Electric had so many natural advantages over its competitors that only by allowing its competitors to demand royalty free licenses from General Electric on General Electric's existing patents without allowing General Electric to demand licenses on its competitors' patents could competition be restored to the industry. While it seemed advisable to require General Electric to license all applicants for General Electric patents developed within five years of the decree, it did not seem necessary to prevent it from asking for licenses from an applicant in return.

⁴¹ (S.D. N.Y. 1950) 91 F. Supp. 333. Other decrees in which no grant-back was allowed but in which the defendant was allowed to charge reasonable royalties for the compulsory license are *United States v. National Lead Co.*, 332 U.S. 319 at 360 (1947); *United States v. United States Gypsum Co.*, 340 U.S. 76 at 100 (1950); *United States v. Imperial Chemical Industries*, (S.D. N.Y. 1952) 105 F. Supp. 215 at 232; *United States v. General Electric Co. (lamps)*, (D.C. N.J. 1953) 115 F. Supp. 835.

⁴² See note 40 supra.

royalty free but had a grant-back clause. The grant-back clause was declared unenforceable. But the court was very careful to point out the adverse effects which the grant-back clause had had and the probable effects which its retention would have. An argument was raised as to the constitutionality of the decree which declared the licenses royalty-free but did not allow the grant-back clause. The court did not feel that it was necessary to pass upon the question, however, for Alcoa had previously argued that the grant-back provisions were of small importance in its patent policy and that the reason for Alcoa's royalty-free licensing was to improve competitive conditions in the industry. To say now that the elimination of the grant-back clause was such a deprivation of property as to be unconstitutional was to place Alcoa in a bad light in regard to its overall patent policy.

Conclusion

When a patentee wishes to issue licenses containing a grant-back clause he has to go through the same type of analysis which a court must go through when called upon to evaluate the legality of such a clause. But whereas the court is interested only in the overall effect of the clause, the licensor must also decide upon the particular terms of the clause. He must determine whether the grant-back shall be of a license—exclusive or nonexclusive—or whether it shall be an assignment. He must determine how broad the grant-back shall be, i.e., whether it shall demand merely improvements on the basic patent, all future patents in the field, or some middle ground, and he must decide during what period of time the clause will operate. The two criteria by which he should decide these questions are the minimum terms which will give him the legitimate protection which he desires, and the effect the clause will have on the licensees and the industry. It is reasonable to believe that often the licensor is not governed by these two limitations, however, but rather by a third limitation inherent to business, viz., the relative bargaining power of the licensor and the licensee. This limitation is apt to be of little help, however, for in a situation where licensees have sufficient bargaining power to resist the demands of the licensor, there is little chance that the most flagrant grant-back clause will bring about monopoly conditions.

Although the court is not primarily interested in the individual terms of the clause but in the net effect of the clause on the licensor, licensees and the industry, an analysis of the individual terms will often show the real purpose and effect of the clause. It has been

suggested that in some cases a clause may help to induce competition in the industry. For example, the grant-back of a nonexclusive license, especially with authority to sublicense, may diffuse the benefits to all licensees and thus tend to encourage competitive use of the innovations.⁴³ However that may be, the court should look to the purpose and effect of the clause in the context of the industry situation to determine the legality of the clause. It should be determined what the effect of the clause is on the licensor *vis-à-vis* the licensees and the industry, as well as what the effect of the clause is on the licensees *vis-à-vis* the licensor, the other licensees⁴⁴ and the rest of the industry, and also what the effect of the clause is on the incentive to engage in research and to disseminate the fruits of such research on the part of the licensor, the licensees, and the remainder of the industry.

The small patentee who wishes to protect himself in the future production of the patented article by use of a grant-back clause is in little danger of being charged with an antitrust violation. It is only the big firm in the industry which has had an aggressive patent policy which is apt to have its grant-back clauses found illegal. Even in that case, however, a grant-back clause need not cause trouble if the clause is restricted to the minimum terms needed for protection of the basic patent.

Eric E. Bergsten, S.Ed.

⁴³ REPORT 229, but see note 44 *infra*.

⁴⁴ See Diggins, "The Patent-Antitrust Problem," 53 MICH. L. REV. 1093 at 1098 (1955).

"Again it would seem that a further point should be added. Grant-backs may also affect a licensee's competitive position *vis-a-vis* other licensees especially where the grant-back includes the right to sublicense. In a situation such as that in the *General Electric Lamp Case* [82 F. Supp. 753] the grant-back of a license to General Electric by a small licensee such as Chicago Miniature Lamp Company and the extension of that license to a larger licensee such as Westinghouse may adversely affect the competitive position of Chicago Miniature with respect to Westinghouse independently of other effects."