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Patents - Misues Doctrine - Multiple Licenses with Price-Fixing Provisios as Shermen Act Violation

Herbert A. Bernhard S.Ed.
University of Michigan Law School

PATENTS—MISUSE DOCTRINE—MULTIPLE LICENSES WITH PRICE-FIXING PROVISOS AS SHERMAN ACT VIOLATION—In a suit for infringement of a moire process patent, relief was denied by the trial court[1] partially on the ground that plaintiff had misused its patent by violating section 1 of the Sherman Act.[2] Plaintiff had licensed two other moire finishers to use the patented process. Each license contained a proviso that plaintiff could specify the prices the licensee was to charge its customers for finishing cloth with the patented process. On appeal, *held,* affirmed. It is a violation of the antitrust laws for a patentee to issue more than one license containing price-fixing provisions. *Newburgh Moire Co. v. Superior Moire Co.,* (3d Cir. 1956) 237 F. (2d) 283.

The patent misuse doctrine states that a patent owner who uses his patent in a manner contrary to the public interest cannot maintain an infringement suit.[3] Using the patent so as to violate the antitrust laws constitutes patent misuse.[4] In the principal case, the court found such an antitrust violation from the fact that plaintiff's licenses had price-fixing provisions,[5] notwithstanding the Supreme Court's decision in the leading case of *United States v. General Electric Co.*[6] to the effect that the issuing

1 (D.C. N.J. 1952) 105 F. Supp. 372. Other issues in the principal case are discussed in (D.C. N.J. 1953) 116 F. Supp. 759; (3d Cir. 1955) 218 F. (2d) 580; (D.C. N.J. 1955) 136 F. Supp. 923.

2 26 Stat. 209 (1890), 15 U.S.C. (1952) §1.

3 See generally Rich, "Infringement Under Section 271 of the Patent Act of 1952," 21 GEO. WASH. L. REV. 521 (1953).

4 Carbice Corp. v. Am. Patents Devel. Corp., 283 U.S. 27 (1931). On the patents-antitrust relationships generally, see Oppenheim, "Patents and Antitrust—Peaceful Coexistence?" 54 MICH. L. REV. 199 (1955).

5 *Contra:* Westinghouse Electric Corp. v. Bulldog Electric Products Co., (4th Cir. 1953) 206 F. (2d) 574; Fruit Machinery Co. v. F. M. Ball & Co., 118 Cal. App. (2d) 748, 258 P. (2d) 852 (1953); General Electric Co. v. Willey's Carbide Tool Co., (E.D. Mich. 1940) 33 F. Supp. 969. See 2 CONTRACTS RESTATEMENT §515, illus. 12 (1932). See also Ronson Patents Corp. v. Sparklets Devices, (E.D. Mo. 1953) 112 F. Supp. 676; United States v. Wayne Pump Co., (N.D. Ill. 1942) 44 F. Supp. 949, app. dismissed 317 U.S. 200 (1942); Straight Side Basket Corp. v. Webster Basket Co., (2d Cir. 1936) 82 F. (2d) 245. Cf. Glen Raven Knitting Mills v. Sanson Hosiery Mills, (4th Cir. 1951) 189 F. (2d) 845; MacGregor v. Westinghouse Electric & Mfg. Co., (W.D. Pa. 1942) 45 F. Supp. 236, affd. (3d Cir. 1942) 130 F. (2d) 870; American Lead Pencil Co. v. Musgrave Pencil Co., 170 Tenn. 60, 91 S.W. (2d) 973 (1936); Casco Products Corp. v. Kenny, (S.D. N.Y. 1935) 24 U.S.P.Q. 171. Cf. also United States v. United States Pipe and Foundry Co., (D.C. N.J. 1948) 1948-49 CCH Trade Cases ¶62,285.

6 272 U.S. 476 (1926). General Electric and its licensee under the price-fixing license, Westinghouse, accounted for 85% of the total domestic electric lamp business; 8% more was done by thirteen other GE licensees (whose licenses contained quantity, but not price, restrictions).

of one such license was lawful.[7] It is true that in recent cases[8] some members of the Supreme Court have pointed out the apparent conflict between the *General Electric* decision and the rule enunciated a year later in *United States v. Trenton Potteries Co.*[9] that price fixing between competitors is a per se violation of the Sherman Act. Consequently, the exact bounds of the *General Electric* rule are presently obscure. In its decision in the principal case the Court of Appeals for the Third Circuit limited *General Electric* to its precise facts. The rationale of *General Electric* is that (1) a patentee should be allowed to insert into his licenses any condition which is reasonably within the scope of the reward embodied in the patent concept, and (2) since a patentee can set his own market price by refusing to license others, it is reasonable for him to exact a license condition which guarantees that his licensee will not undersell him.[10] Price protection encourages a patentee to grant licenses and thus actually engenders competition[11] in all respects except price.[12] This rationale, if valid at all, is equally applicable to the principal case,[13] since no logical antitrust distinction can be drawn from the mere fact[14] that two or more licenses with price-fixing arrangements were issued instead of only one. A license lawful when standing alone should not become unlawful when a similar license is granted to another, unless something equivalent to a conspiracy can be found.[15] The decision in the principal case is subject to the criticism that it makes no attempt to distinguish between the purely vertical bargaining here involved, in which apparently each license was negotiated separately and without concert between licensees, and situations with a hortizontal element of concert of action, which did appear in the cases which the court cites.[16] There are, of

7 But the patentee is not allowed to control the price at which the licensee's purchaser subsequently sells the product. Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940).

8 Thus in United States v. Line Material Co., 333 U.S. 287 (1948), Justices Douglas, Black, Murphy and Rutledge voted to overrule General Electric. See generally Hollabaugh, "Patents and Antitrust Laws," 25 UNIV. CIN. L. REV. 43 at 62 (1956). Compare Celler, "Patents and Monopoly," 38 J. PAT. OFF. SOC. 425 at 434 (1956).

9 273 U.S. 392 (1927). See generally Peppin, "Price-Fixing Agreements Under the Sherman Anti-Trust Law," 28 CALIF. L. REV. 297, 667 (1940).

10 Indeed, the patentee could obtain one form of lawful price-protection simply by making the royalty so high that the licensee could not afford to drop prices below those of the patentee.

11 But see Stedman, "Invention and Public Policy," 12 LAW AND CONTEM. PROB. 649 at 676 (1947). Cf. Hollabaugh, "Patents and Antitrust Laws," 25 UNIV. CIN. L. REV. 43 at 66 (1956).

12 E.g., brand competition. Cunningham, "Brand Loyalty—What, Where, How Much?" 34 HARV. BUS. REV. 116 (1956).

13 See Rogers, "Price Control Under Patent Agreements," 12 UNIV. PITT. L. REV. 569 at 576 (1951).

14 The opinion in the principal case is devoid of any statement as to the relative size of the litigating parties to each other or to others in the industry, nor is there any discussion of how important the licensed process was to the industry as a whole or how it compared with the other moire processes in extent of use.

15 REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS 241 (1955). But see Diggins, "The Patent-Antitrust Problem," 53 MICH. L. REV. 1093 at 1099 (1955).

16 In United States v. Line Material Co., note 6 supra, there was cross-licensing between patentees. In United States v. United States Gypsum Co., 333 U.S. 364 (1948),

course, many ways in which a patentee might use his patent so as to justify a conclusion that such use was improper under the antitrust laws,[17] but so long as the *General Electric* decision stands it is inconsistent with the principle of that case to find misuse in the mere existence of more than one license containing a price-fixing proviso.

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all former competitors in an entire industry were licensed, each individual license was entered into with knowledge on the part of the licensee of the adherence of all other licensees, and the intention of licensor and licensees to act in concert was apparent from the face of the licenses. This concert of action is emphasized in United States v. United States Gypsum Co., 340 U.S. 76 at 83 (1950). United States v. New Wrinkle, Inc., 342 U.S. 371 (1952), involved patent pooling. Further, the prices which the licensor might establish were to bind the licensee only if imposed at the same time and in the same terms upon the licensor and all other licensees.

[17] E.g., package licensing, condemned in the situation involved in Ethyl Gasoline Corp. v. United States, note 7 supra.