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THE PATENT-ANTITRUST PROBLEM

*Bartholomew Diggins**

THE Patent-Antitrust section of the *Report of the Attorney General's National Committee to Study the Antitrust Laws* is an excellent analysis of the existing law and is an invaluable handbook for practitioners in this difficult field. The writer's approach to the problem is different from that of the committee and before commenting specifically on the *Report* it is only fair to state the writer's views of the problem lest differences in viewpoint give the impression of criticism of the *Report*.

In any approach to the patent-antitrust problem there is a basic question: does a "patent-antitrust problem" exist? The *Report* of the Attorney General's Committee indicates that there is such a problem and that the problem involves many ramifications which are difficult of solution. The writer believes that there is no such problem.

The patent laws secure to the patent owner the right to exclude others from making, using or selling the patented invention,¹ and the antitrust laws forbid restraint of trade, monopoly and attempts to monopolize. Within its proper, lawful scope a patent is a lawful monopoly; attempts to obtain or to use a patent within its scope are lawful attempts to monopolize; and the extent to which trade is restrained within the scope of a patent is a lawful restraint. So long as a patent owner stays within his patent grant he has no antitrust problems and when he goes outside the terms of his grant, he has no patent protection. The many so-called "patent-antitrust" cases do not resolve or decide conflicts between the patent laws and the antitrust laws but rather define the line at which one steps outside the protection of the patent laws into the prohibitions of the antitrust laws.

A patent is a valuable business asset² but like any other business asset, it has its uses and its limitations. A screw driver is invaluable for driving screws but useless for driving nails. Similarly a patent on a salt-dispensing machine might be invaluable in securing a monopoly in the manufacture, use or sale of salt-dispensing machines, but it is a source of antitrust responsibility, civil, criminal and financial in seeking a monopoly of salt.³ Monopolization by acquiring competitors

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¹ 35 U.S.C. (1952) §154.

² DIGGINS AND NITSCHKE, *PATENT PRACTICES AND THE ANTITRUST LAWS* 39-42 (1951).

³ *International Salt Co. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402 (1942).

is illegal⁴ as is a conspiracy or combination to monopolize.⁵ Similarly, patents do not justify monopolization by acquisition⁶ or combination or conspiracy.⁷

Patents realistically evaluated and skillfully handled can be the cornerstone of a lawful monopoly⁸ while overextension of patents can lead to triple damage judgments⁹ or criminal convictions.¹⁰

Most of the so-called "patent-antitrust" cases illustrate attempts to use a patent to accomplish a result for which the patent is not adapted. Thus patents on salt machines were used to monopolize salt,¹¹ a patent on a refrigerating transportation package was used to monopolize solid carbon dioxide,¹² a patent on a method for preventing evaporation from concrete during curing was used to monopolize bituminous emulsion,¹³ and a patent on a domestic heating system was used to monopolize switches.¹⁴ Patents have also been used to enforce restrictions after the patented products have passed beyond the patentee's power to control.¹⁵

The fact that the courts have condemned such practices is not a condemnation, limitation, or restriction of the patent right and does not involve conflict between patent law and antitrust law. Rather, the so-called patent-antitrust decisions merely "render to Caesar the things that are Caesar's" and keep the two laws each in its proper sphere.¹⁶ No difficulty is found when a patent on lamps is used to monopolize lamps,¹⁷ a patent on welding flux is used to monopolize

⁴ *United States v. Pullman Co.*, (D.C. Pa. 1943) 50 F. Supp. 123.

⁵ *American Tobacco Co. v. United States*, 328 U.S. 781, 66 S.Ct. 1125 (1946).

⁶ *United States v. Vehicular Parking, Ltd.*, (D.C. Del. 1944) 54 F. Supp. 828, 61 U.S.P.Q. 102 at 118 (conclusion of law No. 25).

⁷ *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20, 33 S.Ct. 9 (1912); *United States v. Line Material Co.*, 333 U.S. 287, 68 S.Ct. 550 (1948).

⁸ *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

⁹ *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278 (1944).

¹⁰ *United States v. General Electric Co.*, (D.C. N.Y. 1948) 80 F. Supp. 989 (Carboly Case).

¹¹ *International Salt Co. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 495, 62 S.Ct. 402 (1942).

¹² *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334 (1931).

¹³ *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 58 S.Ct. 288 (1938).

¹⁴ *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944).

¹⁵ *Bauer v. O'Donnell*, 229 U.S. 1, 33 S.Ct. 616 (1913); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 60 S.Ct. 618 (1940).

¹⁶ "Rights conferred by patents are indeed very definite and extensive. . . . The Sherman Act is a limitation of rights. . . ." *Standard Sanitary Mfg. Co. v. United States*, 226 U.S. 20 at 49, 33 S.Ct. 9 (1912).

¹⁷ *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

welding flux,¹⁸ or a patent on shoe machinery used to monopolize shoe machinery.¹⁹

It is the assumption that there is conflict between the patent laws and the antitrust laws which causes the difficulty and confusion. In the *Mercoïd* case²⁰ Justice Douglas believed that the result of that decision was "to limit substantially the doctrine of contributory infringement." Logically the decision did no such thing.

Misuse depends upon acts and practices of the patentee irrespective of other considerations. If a patentee is using a patent on one thing to monopolize or restrain trade in another, he is misusing the patent no matter what the alleged infringer is doing. In the *Mercoïd* cases, the patentee's misuse or unclean hands constituted a complete defense before the Court reached the question whether *Mercoïd* was or was not a contributory infringer. The question of contributory infringement never became an issue in the *Mercoïd* cases because no matter what *Mercoïd* was doing, the patentee by his own conduct had forfeited his right to relief under the patent laws.

The so-called patent antitrust problem therefore involves nothing more than a delineation of the extent of the patent right (which is clearly defined by statute) and if the practice in question is within the patent right, it is lawful. It is only practices which are outside or beyond the patent right which violate the antitrust laws.

The basic remedy lies in either securing patents which will accomplish the desired result²¹ or, if this cannot be done or if patents are already issued, in evaluating the scope of the patents realistically and utilizing them within their proper, lawful scope. The plan of exploitation should be tailored to fit the patent, and it is the Procrustean approach of fitting the patent to a plan which causes the trouble.

The patent laws implement the constitutional objective of promoting the progress of science and the useful arts. When patent rights are distorted, or exceeded or expanded, the result weakens the patent laws and brings the patent system into disrepute. Strict adherence to the patent laws will strengthen the system and simultaneously avoid antitrust problems.

¹⁸ *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 U.S. 271, 69 S.Ct. 535 (1949), rehearing 339 U.S. 605, 70 S.Ct. 854 (1950).

¹⁹ *Williams Mfg. Co. v. United Shoe Machinery Co.*, 316 U.S. 364, 62 S.Ct. 1179 (1942).

²⁰ 320 U.S. 661 at 669, 64 S.Ct. 268 (1944).

²¹ Cases cited in notes 17, 18, and 19 *supra*.

A patent defines the invention which it covers with particularity and distinctness²² so that the patentee, licensees, competitors and the public may know with certainty what the patent covers. Within that coverage, whether it be broad or narrow, the patentee has a monopoly protected by law. The patentee who wishes to extend his patent today may well be the victim of an extension by his competitor tomorrow;²³ the patentee in one case is the infringer in the next. Whether the monopoly of a patent be large or small, any permitted extension of that monopoly casts all who are concerned with patents into a sea of doubt and uncertainty. The so-called patent-antitrust cases not only involve antitrust violations but strike at the integrity of the patent system.

THE COMMITTEE REPORT

The *Report* explains the patent-antitrust topic in logical, orderly fashion beginning with a brief discussion of the nature of the patent right and continuing through acquisition, nonuse, individual license limitations, multiple license limitations, cross licenses, pools or interchanges, infringement suits, the misuse defense and remedies.

The introductory discussion of the nature of the patent right brings out the fact that a patent gives its owner the right to exclude others from making, using, or selling the invention defined in the patent claims but it does not point out that this is the only right a patent gives.

The patent right is a naked right to exclude others from making, using, or selling the invention²⁴ and does not even give its owner the positive right to practice the invention.²⁵ Most other forms of property include the right to use and enjoy as well as the right to exclude others from use and enjoyment so that while a patent may have "the attributes of personal property,"²⁶ it does not have all of the attributes of the more familiar forms of property, and the legal concepts which are applicable to property where ownership includes both the right to use and the right to exclude do not necessarily apply to patents where ownership consists of a mere right to exclude. Thus,

²² 35 U.S.C. (1952) §112.

²³ In *United States v. General Electric Co.*, (D.C. N.Y. 1948) 80 F. Supp. 989, General Electric was a party to a combination of patentees, and in *United States v. Line Material Co.*, 333 U.S. 287, 68 S.Ct. 550 (1948), General Electric was in effect a victim of a similar combination.

²⁴ 35 U.S.C. (1952) §154.

²⁵ "A patent is property carried to the highest degree of abstraction—a right . . . to exclude, without a physical object or content." 1 HOLMES-POLLOCK LETTERS 53 (1941), quoted by Justice Jackson in the *Mercoide* case, 320 U.S. 661 at 678, 64 S.Ct. 268 (1944). See also *Patterson v. Kentucky*, 97 U.S. 501 (1878).

²⁶ 35 U.S.C. (1952) §261.

a license is not a transfer of "less than the whole of the patent right,"²⁷ since ordinarily a license does not give the licensee any part of that right to exclude.²⁸ The usual license merely frees the licensee from the patentee's right to exclude. The distinction is important in considering compulsory licensing.

The *Report* states:

"Virtually all of the patent-antitrust matters we consider stem from the impact of the antitrust laws upon the utilization and transfer of patent rights which in their inception fall squarely within the patent law." (p. 225)

Most of the decided cases do not involve utilization and transfer of patent rights which in their inception fall squarely within the patent law but rather involve excursions outside or beyond the metes and bounds of patent coverage. Restrictions which apply after the patent right has been exhausted²⁹ or restrictions beyond the patent scope have been condemned,³⁰ but where a particular practice or restriction has been found to be squarely within the patent laws, it has been upheld.³¹

A. Acquisition

1. By Grant

"... violation of the Sherman Act should, as the cases suggest, require abuse of the patent grant or proof of intent to monopolize beyond the lawful patent grants." (p. 226)

This conclusion relates to utilization of patent rights rather than acquisition. It is difficult to see how acquisition of patents by grant could violate the antitrust laws even if a patent monopoly were de-

²⁷ REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, March 31, 1955, p. 225 (hereinafter cited REPORT, followed by the page number). Page numbers in the text refer to the *Report*.

²⁸ "A licensee has no property in the patent. He possesses no interest in the franchise. His rights touch only the invention, and do not affect the monopoly of the patent, otherwise than by stopping the licensor from exercising its prohibitory powers in derogation of the privileges conferred by the license. ROBINSON ON PATENTS, §763,806. They constitute but a mere exemption from suit for acts done within the scope of the license." *Moto Meter Co. v. National Gauge & Equipment Co.*, (D.C. Del. 1929) 31 F. (2d) 994 at 996.

²⁹ *Bauer v. O'Donnell*, 229 U.S. 1, 33 S.Ct. 616 (1913); *Adams v. Burke*, 17 Wall. (84 U.S.) 453 (1873); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 60 S.Ct. 618 (1940).

³⁰ *Mercoid v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944).

³¹ *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926); *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 58 S.Ct. 849 (1938), 305 U.S. 124, 59 S.Ct. 116 (1938). See also *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945) on "blocking off" and "fencing in."

liberately and intentionally acquired, and the *Hartford-Empire* decision³² makes immaterial the purpose and intent in securing a patent by grant.

2. By Purchase

"Impropriety [in the acquisition of patents by purchase] will arise only where such acquisition is part of an illegal purpose or plan." (p. 227)

The *Report* then gives the following points to be considered:

"(a) the nature, number and value of the patents acquired, in relation to the market for competing patented or unpatented processes or products; (b) whether the inventor is using the patent, or has the ability and plans to use it, as against evidence of the purchaser's actual or intended use; (c) whether the purchase has the purpose and probable effect of resolving patent conflict; (d) the purpose and effect of . . . the increase or decrease in competition in the relevant geographic and product market." (p. 227)

One further consideration should be added to this list. Acquisition by purchase is also improper if it has an illegal result, monopoly.³³ Perhaps this is implicit in (a),³⁴ but even though the purchaser's immediate intent may be to resolve patent conflicts or to free himself from risk of infringement, the acquisition would probably be illegal if monopoly in fact is the result,³⁵ and a purpose or intent to monopolize is present if the acquisition of monopoly power comes about as a consequence of business conduct or arrangement.³⁶

3. By Grant Back

" . . . in determining the legality of grant backs, their purpose and effect is relevant; more particularly, what is their effect on (1) the licensor's position as to patents or the products they cover, and (2) each party's incentive to research." (p. 229)

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*

³² *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945).

³³ *United States v. Vehicular Parking, Ltd.*, (D.C. Del. 1944) 54 F. Supp. 828, 61 U.S.P.Q. 102 at 118 (conclusion of law No. 25).

³⁴ See *REPORT* 227, n. 21.

³⁵ In *United States v. Pullman Co.*, (D.C. Pa. 1943) 50 F. Supp. 123, the court held a monopoly illegal even though acquired without illegal practices, and in *United States v. Aluminum Co. of America*, (2d Cir. 1945) 148 F. (2d) 416, the court held that anticipating increases in demand and providing capacity to meet the increase violated §2 of the Sherman Act.

³⁶ *United States v. Aluminum Co. of America*, (D.C. N.Y. 1950) 91 F. Supp. 333.

*Case*³⁷ 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.

B. *Nonuse of Patented Inventions*

"We believe that an improper purpose unduly to restrain trade, to monopolize or attempt to monopolize through individual nonuse should give rise to antitrust liability. On the other hand where there is no affirmative showing that the purpose or effect of nonuse is unreasonably to restrain trade, to monopolize or attempt to monopolize, the patentee's conduct does not transgress the antitrust laws. Clearly, however, contracts, combination or conspiracy among patentees to refrain from using or to refuse to license others to use patented inventions should be deemed unreasonable *per se*." (p. 231)

This is an accurate statement of the existing law. The patent statute sets the conditions for the grant of a patent and so long as those conditions are met and fulfilled, the patentee is, absent a conspiracy, free to use or not use the invention as he sees fit.³⁸ However, the courts are inclined to be strict with unused patents (paper patents),³⁹ and even if there is no purpose to restrain trade or monopolize, nonuse of a patent having a public interest may render the patent unenforceable in certain cases.⁴⁰

C. *Patent Licenses*

1. *Individual License Limitations*

a. *Price*

"We think, however, that in the absence of horizontal agreement among licensees, or any plan aimed at or resulting in industry-wide price fixing, licenses with price fixing provisions fall within the orbit of the patent and need not run afoul of the antitrust laws." (p. 235)

This particular recommendation is inconsistent with the recommendation that the Miller-Tydings and McGuire amendments be

³⁷ *United States v. General Electric Co.*, (D.C. N.J. 1949) 82 F. Supp. 753.

³⁸ *Hartford-Empire Co. v. United States*, 323 U.S. 386 at 432, 65 S.Ct., 373 (1945); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 28 S.Ct. 748 (1908). See also Frost, "Legal Incidents of Non-Use of Patented Inventions Reconsidered," 14 GEO. WASH. L. REV. 273, 435 (1946).

³⁹ *Cocks v. Rip Van Winkle Wall Bed Co.*, (9th Cir. 1928) 28 F. (2d) 921.

⁴⁰ *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Foundation*, (9th Cir. 1944, 1945) 146 F. (2d) 941, cert. den. 325 U.S. 876, 65 S.Ct. 1554 (1945).

repealed.⁴¹ The Miller-Tydings and McGuire amendments permit only vertical price fixing on commodities "in free and open competition with commodities of the same general class produced by others" and horizontal price fixing between competitors is expressly prohibited. When goods are not competitive in fact, even vertical price fixing is illegal.⁴²

Price fixing under the *General Electric* decision is necessarily horizontal price fixing and in that case General Electric and Westinghouse together manufactured and sold 85 percent of all "modern electric lights."⁴³ Thus the committee recommends repeal of statutes which prohibit all horizontal price fixing and would not permit even vertical price fixing of color film of a single manufacturer but recommends that horizontal price fixing involving manufacturers of 85 percent of all electric lamps be permitted.

The *General Electric* doctrine has been so limited to the specific facts stated in the Supreme Court's opinion⁴⁴ that the very patents involved in the *General Electric* case would not support price fixing today and probably would not have supported price fixing when that case was decided had the patents been analyzed for the Supreme Court.⁴⁵

The *General Electric* case was decided on the basis of three patents which, the Supreme Court stated, "cover completely the making of the modern electric lights with the tungsten filaments. . . ."⁴⁶ In fact, two of the patents did not cover the lamp at all: one patent covered only a filament and the other had valid claims only to a process for making a filament.⁴⁷ These patents would not justify fixing the price of the lamp.⁴⁸

⁴¹ REPORT 154.

⁴² *Eastman Kodak Co. v. Federal Trade Commission*, (2d Cir. 1946) 158 F. (2d) 592, cert. den. 330 U.S. 828, 67 S.Ct. 869 (1947).

⁴³ *United States v. General Electric Co.*, 272 U.S. 476 at 481, 47 S.Ct. 192 (1926).

⁴⁴ *United States v. Vehicular Parking, Ltd.*, (D.C. Del. 1944) 54 F. Supp. 828 at 838, n. 14.

⁴⁵ The *General Electric* case was tried on stipulated facts. *United States v. General Electric Co.*, (D.C. Ohio 1925) 15 F. (2d) 715 at 716.

⁴⁶ 272 U.S. 476 at 481, 47 S.Ct. 192 (1927).

⁴⁷ Just and Hanaman patent No. 1,018,502 claims only a filament, and product claims of Coolidge patent No. 1,082,933 were held invalid [*General Electric Co. v. DeForest Radio Co.*, (3d Cir. 1928) 28 F. (2d) 641] leaving only claims to a method of making the filament. Most of the product claims of patent No. 1,082,933 were disclaimed January 25, 1929, a little less than two years before the patent expired. Since the tungsten filament lamp involved only the substitution of a tungsten filament for the carbon filament in the original Edison lamp (patent No. 223,898), the invention was in the filament and not in the lamp. *Bassick Mfg. Co. v. R. M. Hollingshead Co.*, 298 U.S. 415, 56 S.Ct. 787 (1936).

⁴⁸ REPORT 234, n. 47 reads as follows: "*Barbor Colman Co. v. National Tool Co.*, 136

The third patent in the *General Electric* case highlights Louis B. Schwartz' dissent to the recommendation. That patent, No. 1,180,159, is for a combination which includes all of the elements of prior lamps, a bulb, base, filament, lead-in wires, stem, etc., plus an unpatented inert gas in the bulb. Under that patent, prices could not be fixed on a vacuum lamp but could be fixed on a lamp where the only change is substitution of an inert gas for the vacuum. Whether the Supreme Court appreciated and intended this result in 1926 is open to serious doubt and it is almost certain that the present Supreme Court would not approve price fixing under such circumstances.

The recommendation apparently contemplates multiple as well as single licenses and approves price fixing by a patentee "in the absence of horizontal agreement among licensees" but in discussing the fair trade laws, the *Report* recognized that "vertical" resale-price agreements between a seller and several distributors actually restrain competition among the distributors and extinguishes price competition on that level as effectively as any "horizontal" price fixing agreement.⁴⁹ Fixing the price of a plurality of patent licensees would effect horizontal price fixing between licensees in the same way as the vertical price fixing in the *Dr. Miles* case⁵⁰ or under the fair trade laws.⁵¹

The *General Electric* case holds that price fixing is "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" and on this premise it is difficult to see why the doctrine should be restricted to product patents.⁵² The owner of a patent on a process or machine for producing an old article in a more efficient and less expensive way might well wish to reap his "pecuniary reward" by producing and selling the article.⁵³ If reward is the test, there is no apparent reason for limiting the power to fix prices to one single

F. (2d) 339 (6th Cir. 1943) (machine patent and process patent do not justify fixing the sales price of unpatented products of the machine and process); *Cummer-Graham Co. v. Straight Side Basket Corp.*, 142 F. (2d) 646 (5th Cir. 1944); *American Equip. Co. v. Tuthill Bld'g. Mat'l. Co.*, 69 F. (2d) 406 (7th Cir. 1934) (patentee cannot fix price of unpatented bricks produced with patented brick handling machine). But see *Straight Side Basket Corp. v. Webster Basket Co.*, 82 F. (2d) 245 (2d Cir. 1936) (patentee may fix sales price of unpatented product of patented machine). See also *United States v. General Electric Co. (Carboloy)*, 80 F. Supp. 989, 1004 (S.D. N.Y. 1948), but see *General Electric Co. v. Willey's Carbide Tool Co.*, 33 F. Supp. 969 (E.D. Mich. 1940)."

⁴⁹ REPORT 150.

⁵⁰ *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 31 S.Ct. 376 (1911).

⁵¹ But see *Westinghouse Electric Corp. v. Bulldog Electric Products Co.*, (4th Cir. 1950) 179 F. (2d) 139.

⁵² 272 U.S. 476 at 490. See note 48 supra.

⁵³ For example, patent No. 988,230 covers a process for producing synthetic sapphires. If the patentee wished to reap his reward by making and selling sapphires why should he not be allowed to fix his licensee's price?

type of patent when the patent statute makes no distinction between patents.⁵⁴

Without considering the public policy issues involved in granting a patentee the right to fix prices, the doctrine of the *General Electric* case seems practically unworkable as limited by the courts. So unworkable is the doctrine that the Supreme Court has never upheld price fixing in a single case where the full facts were before it.⁵⁵ Whatever the law should be as a matter of policy, the fact is that the *General Electric* doctrine is, as stated by one writer, "most noteworthy for its lack of vitality."⁵⁶ The doctrine should be made intelligible and workable or dropped.

b. *Field of Use, Quantity and Territorial Limitations*

"A patentee may license the manufacture or use of the patented invention only within a certain field, or for a fixed quantity of manufacture or use, or within a fixed territory." (p. 236)

The discussion in support of this proposition is an accurate analysis of existing case law. Even though, as Mr. Schwartz maintains, such limitations have been criticized, the proposition is in accord with the decided cases and Congress has not seen fit to change the law.

The final conclusion reached by the committee in this section—that a patent will not support an agreement by the licensee not to export—fails to distinguish between a license limitation and an agreement. Bearing in mind that a license is merely a release or waiver or exemption of the patent owner's right to exclude⁵⁷ that release, waiver or exemption may be as broad or narrow as the patent owner chooses to make it. Acts of the licensee beyond the license fall within the patent owner's right to exclude, and the patentee's remedy is an infringement suit. If the restriction on the licensee is a contract re-

⁵⁴ In the statute [35 U.S.C. (1952) §101], process, machine, manufacture, composition of matter and improvement are treated equally.

⁵⁵ The Supreme Court has upheld price fixing in two cases: *Bement v. National Harrow Co.*, 186 U.S. 70, 22 S.Ct. 747 (1902), and *United States v. General Electric*, 272 U.S. 476, 47 S.Ct. 192 (1926). In *Bement*, only one of a group of licenses was before the Court and the National Harrow practices were held illegal in *National Harrow v. Hench*, (C.C. Pa. 1896) 76 F. 667, *affd.* (3d Cir. 1897) 83 F. 36. *National Harrow Co. v. Quick*, (C.C. Ind. 1895) 67 F. 130. See Meyers and Lewis, "The Patent 'Franchise' and the Antitrust Laws," 30 GEO. L. J. 117 at 134 (1941); Barnard and Zlinkoff, "Patents, Procedure and the Sherman Act," 17 GEO. WASH. L. REV. 1 at 34, n. 135 (1948). In the *General Electric* case, the full patent story (see note 23 *supra*) was not before the Court.

⁵⁶ Wood and Johnson, "Patents and the Antitrust Laws," 1950 UNIV. ILL. LAW FORUM 544 at 562.

⁵⁷ See note 28 *supra*.

striction enforceable by a breach of contract action, the question ceases to be a patent question. Logically, it would seem that a restrictive "agreement" should be tested by the antitrust laws rather than the patent laws.

c. Tying Clauses

"... where the tying product is patented, the patentee should be permitted to show that in the entire factual setting, including the scope of the patent in relation to the other patented or unpatented products, the patent does not create the market power requisite to illegality of the tying clause." (p. 238)

The committee's statement that "a tying clause in a patent license is like a tying clause in any other contract" overlooks economic and business realities. Inherent in a patent is the right to sue for infringement and this potent factor for establishing and maintaining tying arrangements is not present in non-patent cases. Where unpatented products are involved, the purchaser may normally secure his requirements from other competitive sources⁵⁸ with perhaps little more than inconvenience or disruption of purchasing habits. When a patent is involved, disregard of a tying restriction also involves infringement which can mean long, expensive, uncertain litigation⁵⁹ which only the brave or affluent dare to risk. Patent litigation is notoriously and inevitably expensive⁶⁰ and the mere possibility of an infringement suit may be enough to maintain tying arrangements even though based upon narrow and unimportant patents. As one author has said, "It would not be good business for them to buy \$500 worth of materials and then get tangled up in a \$20,000 lawsuit because they are using those materials."⁶¹

The cornerstone of the patent law is the particularity and distinctness of the patent coverage⁶² and this recommendation suggests that the patentee be permitted to exceed the bounds of his patent so long as he does not transgress criteria fixed by other laws. This would

⁵⁸ *Standard Oil of California v. United States*, 337 U.S. 293, 69 S.Ct. 1051 (1949).

⁵⁹ *Mid-Continent Investment Co. v. Mercoide* customer for infringement in 1935 [*Mid-Continent Investment Co. v. Smith*, (D.C. Mo. 1937) 35 U.S.P.Q. 204] and it required nearly nine years of litigation to have the *Mid-Continent Investment Co.* practices declared illegal [*Mercoide Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944)] after the Court of Appeals for the Seventh Circuit had held the practices legal [(7th Cir. 1942) 133 F. (2d) 803].

⁶⁰ It is not uncommon for the defense of an infringement suit to cost \$20,000 to \$50,000. Haynes, "Management Looks at Patents," 37 J. PAT. OFF. SOC. 140 at 144 (1955).

⁶¹ *Id.* at 144.

⁶² 35 U.S.C. (1952) §112.

destroy the integrity of the patent system since one could no longer determine patent scope from the patent itself but would be forced to determine patent scope from such vague, uncertain factors as "relation to other patented and unpatented products" and "market power." This uncertainty would affect patentees, licensees, competitors and the public alike and the legality of a tying practice would never be finally settled since such considerations as the relationship with other products and market power can vary with changing conditions.

d. *Restrictions on the Patentee*

"Contractual restrictions limiting the patentee's own freedom of action, on the other hand, are clearly beyond the scope of any patent protection and must be evaluated under antitrust standards. Some such restrictions may be proper as reasonably ancillary to the rights the patentee has conveyed." (p. 238)

This proposition accurately states the existing case law but even ancillary restrictions on the patentee must be carefully scrutinized. Ancillary covenants not to compete are common in connection with the sale of other property⁶³ but a similar covenant in a patent transfer is ineffective if the transferor shows that he is practicing the prior art.⁶⁴

e. *Package Licensing*

"Package licensing should be prohibited only where there is refusal, after a request, to license less than a complete package. Additionally, the licensor should not be required to justify on any proportional basis the royalty rate for less than the complete package, so long as the rate set is not so disproportionate as to amount to a refusal to license less than the complete package." (pp. 239-240)

The problem of package licensing is undoubtedly difficult to solve in a manner which is practical and does not involve an unlawful tying situation. In a group of patents, each of several, standing alone, might justify a particular royalty rate, one percent, for example. On the other hand, the product covered by the patents may be such that it cannot carry a total royalty in excess of three percent, for example, regardless of the number of patents involved.

A situation of this type arose in the *Vehicular Parking* case.⁶⁵ There it was charged that an intervenor's parking meter infringed each of

⁶³ *United States v. Addyston Pipe & Steel Co.*, (6th Cir. 1898) 85 F. 271, *affd.* 175 U.S. 211, 20 S.Ct. 96 (1899).

⁶⁴ *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S.Ct. 101 (1945).

⁶⁵ (D.C. Del. 1944) 54 F. Supp. 828.

four patents and the matter was referred to a master to determine a reasonable royalty. In an unreported decision, the master ruled that all four patents were infringed and that a reasonable royalty would be one percent for each patent up to a total of three percent. While this ruling struck a balance between the value of each patent individually and a reasonable royalty for the product, its effect would also be to coerce the intervenor into taking a license under all four patents despite differences in expiration dates since the only alternative would be to face an infringement suit with only the issue of validity left open.

The *Report* also concludes:

"Moreover, where several 'per piece' licenses are requested and offered, the mere fact that the sum of the 'per piece' license royalties exceeds the package royalty rate should not of itself be considered a condition that all or no patents be taken, again, so long as the 'per piece' rate is not so disproportionate as to amount to a refusal to license less than the complete package." (p. 240)

This practice would constitute a strong inducement to take the license on the entire package and unless there was a substantial economic advantage in "the exclusion of products—from the royalty computation," the licensee would ordinarily take the package. It is difficult to see any basis upon which to justify charging a greater royalty for less than the whole package than is charged for the entire package.

The possible effect of discouraging the production of products covered by doubtful or invalid patents is another factor to be considered with this recommendation. As in the case of tying contracts, the cost of patent litigation is a coercive factor.⁶⁶ By keeping the royalty increment on doubtful patents at a low level, the owner of a group of patents can minimize the danger of a challenge to the doubtful patents. Who would risk \$20,000 to \$50,000 on an uncertain lawsuit to avoid paying \$2,000 or \$3,000 per year for immunity?

f. *Restrictions on Purchasers*

"Our starting point is the general rule that the first authorized sale of a patented article 'exhausts' the patent monopoly. To the extent this means that the patent cannot justify further restrictions on the use of the article, we consider this doctrine sound." (p. 240)

Apparently this proposition received unanimous approval and is an accurate statement of existing law.

⁶⁶ Notes 60 and 61 *supra*.

2. Multiple Licensees

"In general, a patent license, valid when standing alone, does not become invalid because other licenses are granted. Illegality would attach only through a finding equivalent to a conspiracy among the licensees." (p. 241)

The multiple licensee problem presents serious difficulties when the licenses contain restriction on price, quantity, territory or field of use. The *General Electric*⁶⁷ and *General Talking Pictures*⁶⁸ doctrines involved reward to the patentee and the *Ethyl*⁶⁹ and *Interstate Circuit*⁷⁰ decisions held that restrictions for the protection of the licensee are illegal. A price limitation in a single license (as in the *Bement* and *General Electric* cases)⁷¹ protects only the patentee and leaves the patentee free to vary prices as he chooses. On the other hand, price restrictions in two or more licenses not only protect the patentee but also protect each licensee from price competition by every other licensee.⁷² The same problems are involved to a greater or lesser degree when limitations on use, quantity or territory are imposed.

The committee suggests that the test of legality be the presence or absence of a conspiracy or its "equivalent" among licensees, and the discussion of the *Dr. Miles* case⁷³ on page 150 of the *Report* indicates that horizontal price uniformity between licensees resulting from individual agreements with a patentee would have the effect and therefore be the "equivalent" of a conspiracy among licensees. The test is whether restrictions in multiple licenses "deter competition between rivals in the exploitation of their licenses."⁷⁴

3. Cross License Agreements

"Under a cross-licensing agreement, all or part of the consideration for licensing one patent is a license back under another. By itself, such an agreement entails no antitrust problems. How-

⁶⁷ *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

⁶⁸ *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 58 S.Ct. 849 (1938), 305 U.S. 124, 59 S.Ct. 116 (1938).

⁶⁹ *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 60 S.Ct. 618 (1940).

⁷⁰ *Interstate Circuit, Inc. v. United States*, 306 U.S. 208, 59 S.Ct. 467 (1939).

⁷¹ Note 55 *supra*.

⁷² But see *Westinghouse Electric Corp. v. Bulldog Electric Products Co.*, (4th Cir. 1950) 179 F. (2d) 139; *United States v. U. S. Gypsum Co.*, 333 U.S. 364, 68 S.Ct. 525 (1948), and discussion in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 at 134, 68 S.Ct. 915 (1948). See also Barnard and Zlinkoff, "Patents, Procedure and the Sherman Act," 17 GEO. WASH. L. REV. 1 at 53 (1948).

⁷³ *Dr. Miles Medical Co. v. John D. Parti & Sons*, 220 U.S. 373, 31 S.Ct. 376 (1911).

⁷⁴ *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 at 144, 68 S.Ct. 915 (1948).

ever, it may encounter antitrust difficulties, either because of an illegal license restriction or some element of illegal horizontal agreement beyond the patent license." (p. 242)

The *Report* discusses the *Line Material* case⁷⁵ and suggests that the test for illegality in a cross license is the existence of horizontal restriction (e.g., price fixing). Considered strictly as a cross license, this is undoubtedly the major test.⁷⁶ However, a cross license and a grant back are indistinguishable so far as patent rights are concerned and the tests to be applied with respect to grant backs⁷⁷ should also be applied to cross licenses.

4. *Interchange of Patent Rights*

"... a patent interchange may be essential to feasible patent utilization or, in contrast, facilitate undue competitive restraint. In any given case, a determination of legality requires an examination of the purpose of the interchange, the power possessed by the interchange when formed, and its operating practices. Depending upon the situation, some of these factors, or even one of them, may be decisive. In other instances, all demand consideration. In all instances, the sound resolution of the antitrust status of the interchange demands recognition, on the one hand, of the necessity of the interchange to resolve patent problems and, on the other, of the opportunity it may bring to engage in anti-competitive conduct." (pp. 246-247)

The *Report* also makes the further qualification:

"All members agree, however, that where . . . monopoly results, a pool should be required to license all applicants without discrimination and at reasonable royalties. This requirement is essential to avoid placing non-participants at a cost disadvantage and further enhancing the market position of the participants. Even when monopoly is absent, however, licenses should be made available to every applicant in the industry where the participants in the interchange give up their independent discretion to license under the interchanged patents." (pp. 245-246)

Even as qualified, there was a sharp dissent, which suggests that parties litigate their rights to a conclusion rather than compromise conflicts by pooling. However, if patentees were forced in all cases to litigate their rights, the final results would often come too late to have

⁷⁵ *United States v. Line Material Co.*, 333 U.S. 287, 68 S.Ct. 550 (1948).

⁷⁶ But see Wood, "Patent Combinations and the Anti-Trust Laws," 17 *Geo. Wash. L. Rev.* 59 at 76 (1948), in which the author suggests that a cross license between two large companies may be illegal per se.

⁷⁷ See p. 1098 *supra*.

any effect on competition, especially competition from small competitors. In the case of one important patent, the issue of validity was not finally resolved until thirty days before the patent expired.⁷⁸

In a situation such as the *Cracking Patents* case⁷⁹ it is unlikely that any small producer would venture into the field until the giants had resolved their conflicts, and if some abuses may result from resolution of conflicts by interchange, the advantages of prompt and general utilization of the technology probably outweighs the dangers of abuse so long as there is a way to detect and remedy abuses. It is probably illegal to impose any restrictions as to price, quantity, territory or field of use under pooled patents⁸⁰ and general, unrestricted, licensing at reasonable royalties is probably the only safe course.⁸¹

5. *Infringement Suits*

Under this heading, the *Report* treats two distinct topics: (1) antitrust violation resulting from the bringing of an infringement suit with an illegal purpose or as part of an illegal plan and (2) antitrust violation or misuse as a defense. For convenience, these two aspects of infringement suits will be treated separately.

Misuse of Infringement Suits

"One or numerous infringement suits, by themselves, constitute no antitrust violation. Infringement suits may, on the other hand, play a part in an overall plan to unduly restrain or monopolize commerce. Threats of suit under a group of narrow and weak patents may be potent to harass and deter competition." (pp. 247-248)

"a. Where it is shown that an infringement suit has, in fact, been brought as an integral part of an agreement or plan to violate the antitrust laws and that the defendant sustain resulting damages, treble damages for antitrust violation should be recoverable, whether or not there was a colorable claim of infringement." (p. 248)

Infringement litigation and threats of litigation can be a powerful weapon in suppressing competition and competitors.⁸² On the other hand, since patents are not self-enforcing, a patent may be considered

⁷⁸ Bassick Mfg. Co. v. R. M. Hollingshead Co., 298 U.S. 415, 58 S.Ct. 787 (1936).

⁷⁹ Standard Oil Co. (Indiana) v. United States, 283 U.S. 163, 51 S.Ct. 421 (1931).

⁸⁰ United States v. Line Material Co., 333 U.S. 287, 68 S.Ct. 550 (1948).

⁸¹ Wood, "Patent Combinations and the Anti-Trust Laws," 17 GEO. WASH. L. REV. 59 at 81 (1948). See also Wood and Johnson, "Patents and the Antitrust Laws," 1950 UNIV. ILL. LAW FORUM 544 at 573.

⁸² Notes 60 and 61 *supra*.

as merely a right to bring suit. A patentee is entitled to free access to the courts and since the outcome of any litigation is uncertain, and the outcome of patent litigation especially so,⁸³ a holding of invalidity or noninfringement does not and should not, in and of itself, subject the patentee to antitrust or other liability.⁸⁴

The recommendation draws a line between the patentee's right to litigate and patent litigation as an instrument of monopolization or restraint of trade. Such a line is difficult if not impossible to draw with precision even though the presence or absence of a monopolistic purpose or intent may be clear in a particular case. The committee recommends that a patentee should incur antitrust liability when, and only when, an infringement suit is an "integral part" of an illegal plan. The difficulty in applying the recommendation will lie in determining whether a particular suit is an "integral part" of the illegal plan, but from the discussion it is apparent that the recommendation is a statement of the ruling in *Kobe v. Dempsey*⁸⁵ and not a proposal of new and uncertain tests.

Misuse of the Misuse Defense

"b. On the other hand, there may be misuse of the defense of antitrust violation as, for example, where the defense is in bad faith and for the purpose of frustrating the patentee's right to relief. This is basically a problem of judicial control. We therefore recommend that the courts should make full use of their powers to curb such attempts to defeat justice. Useful methods include pretrial procedures to ascertain whether a good faith antitrust defense is presented. Similarly, the court might give weight

⁸³ Pipkin patent No. 1,687,510 for the inside frost lamp bulb had an unusually checkered career. It was held invalid in the District Court for the Northern District of Ohio [(D.C. Ohio 1934) 20 U.S. P.Q. 199] and that holding was reversed on appeal [General Electric Co. v. Save Sales Co., (6th Cir. 1936) 82 F. (2d) 100]. In the Second Circuit, it was held invalid by the district court [General Electric Co. v. Wabash Appliance Corp., (D.C. N.Y. 1937) 19 F. Supp. 887] and that holding was also reversed on appeal [(2d Cir. 1938) 93 F. (2d) 671]. Later, in a contempt proceeding, the District Court for the Eastern District of New York gave the patent a limited interpretation [(D.C. N.Y. 1939) 29 F. Supp. 1003]. In the Third Circuit, the district court again held the patent invalid [General Electric Co. v. Jewel Incandescent Lamp Co. (D.C. N.J. 1942) 47 F. Supp. 818] and this time the court of appeals affirmed [(3d Cir. 1944) 146 F. (2d) 414]. Validity was finally set to rest when the Supreme Court held the patent invalid [General Electric Co. v. Jewel Incandescent Lamp Co., 326 U.S. 242, 66 S.Ct. 81 (1945)]. Validity was settled more than 11 years after the district court decision in the Save case and three months before the patent expired.

⁸⁴ Threats of infringement litigation constitute actionable unfair competition [Emack v. Kane, (C.C. Ill. 1888) 34 F. 46; Kaplan v. Helenhart Novelty Corp., (2d Cir. 1950) 182 F. (2d) 311] but even oppressive litigation has been held to be within the patentee's right to sue. See discussion of Eisler litigation in United States v. General Electric Co., (D.C. N.J. 1949) 82 F. Supp. 753 at 777-778.

⁸⁵ *Kobe v. Dempsey Pump Co.*, (10th Cir. 1952) 198 F. (2d) 416, cert. den. 344 U.S. 837, 73 S.Ct. 46 (1952).

to the bona fides of the defense or counterclaim in exercising power to award costs or damages and attorneys' fees to the patentee." (pp. 248-249)

"... we believe that antitrust violation should be considered a defense to a patent infringement action only when it is shown that the patent in suit is integral to the violation and that the grant of customary patent relief conflicts with antitrust goals. Further, in any patent infringement suit in which antitrust violation is the basis of defense, or counterclaims, the court, pursuant to Rule 42(b) of the Federal Rules of Civil Procedure, should order separate trials of the antitrust issues and the patent issues. Such separation may be essential not only 'in furtherance of convenience and to avoid prejudice,' but also 'to serve the ends of justice.' Trial of the infringement issue should precede trial of antitrust questions except where, in court discretion, a balancing of all factors favors prior trial of antitrust issues." (p. 249)

Like the patentee's right to sue, an alleged infringer's right to present his defenses should be protected, but the misuse defense can also probably be abused. The committee recommendation regarding defenses refers to the misuse defense and also to antitrust violation as a defense and it is not clear that the recommendation is referring to a single defense.⁸⁶

It is also not clear whether the recommendation is proposing a new and stricter test for the "antitrust" defense to replace the body of law which has built up in the misuse cases. Applied literally, the language of the proposal would seem to require proof of an antitrust violation and proof that the patent was an "integral part" of the violation to make out an antitrust defense. In the development of the misuse doctrine, the courts speak of "the attempt to use the patent unreasonably to restrain commerce."⁸⁷ Since the later cases hold that patent misuse is a *per se* antitrust violation,⁸⁸ the proof of misuse is necessarily proof of an antitrust violation of which the patent is an integral part.

⁸⁶ In the earlier cases, the Supreme Court held misuse a defense and found it "unnecessary to decide whether respondent has violated the Clayton Act. . ." [Morton Salt v. G. S. Suppiger Co., 314 U.S. 488 at 494, 62 S.Ct. 402 (1942)] implying that misuse short of an antitrust violation would be a defense. However, since *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278 (1944), and *International Salt Co., Inc. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947), which held patent misuse to be a *per se* violation of the antitrust laws, the distinction is academic. See Lockhart, "Violation of the Anti-trust Laws as a Defense in Civil Actions," 31 MINN. L. REV. 508 at 550 (1947).

⁸⁷ *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 at 34, n. 4, 51 S.Ct. 334 (1931).

⁸⁸ See note 86 *supra*.

The procedural recommendations of separate trials for the patent and the antitrust issues with the patent issues tried first seems to be unwarranted interference with judicial discretion. Where the misuse involves tying, the additional proof required to show plaintiff's practices⁸⁹ would in many cases be relatively short so that infringement, validity and misuse could be easily and conveniently determined in a single trial. Often in proving damages or commercial success, the facts from which misuse would follow (plaintiff's sales practices) are placed in evidence in connection with the infringement and validity issues.

In cases where the patent derives its potency from the cost of infringement litigation, trial of the patent issues first, especially where a number of patents are involved, might accomplish the very result which the misuse defense seeks to nullify.

6. *The Patent Misuse Doctrine*

a. *Scope*

The committee endorses and approves the doctrine enunciated in the misuse cases⁹⁰ and then states:

"We believe, however, that the doctrine should extend only to those cases where a realistic analysis shows that the patent itself significantly contributes to the practice under attack."
(p. 251)

Again the question of the hazards and expense of patent litigation is an important factor which is almost impossible to evaluate in advance. However, if a patent is involved at all in a particular practice, the potential victim of the practice must balance the expense and uncertainty of litigation against the possible cost or disadvantage of accepting and conforming to the practice.

⁸⁹ The crucial point in the misuse cases seems to be plaintiff's effort to reap his profit from something outside the patent such as unpatented products or supplies. The following statements are typical: "The sole business of the Dry Ice Corporation is the manufacture of solid carbon dioxide which it sells under the name of 'DryIce.' It does not make or sell the patented transportation packages in which solid carbon dioxide is used as a refrigerant. It does not issue to other concerns licenses to make such packages upon payment of a stipulated royalty. It does not formally license buyers of its dry ice to use the invention in suit." *Carbice Corp. v. American Patents Development Corp.*, 283 U.S. 27 at 29-30, 51 S.Ct. 334 (1931). "The principal business of respondent's subsidiary, from which its profits are derived, is the sale of salt tablets." *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 at 491, 62 S.Ct. 406 (1942). "Mercoid, like Mid-Continent and Minneapolis-Honeywell, does not sell or install the [patented] Cross heating system. But the Circuit Court of Appeals found that Mercoid manufactured and sold combustion stoker switches for use in the Cross combination patent." *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 at 664, 64 S.Ct. 268 (1944).

⁹⁰ See REPORT 250, n. 114.

A suggestion as to a test to be applied in misuse cases may be found in the committee's discussion of the tying cases where it is suggested that "the patent may be narrow and unimportant, in which event it may confer virtually no real market power."⁹¹ But this is an unrealistic approach. The Pipkin patent of *General Electric*⁹² and the Gullborg patent in *Bassick Mfg. Co. v. R. M. Hollingshead Co.*⁹³ were both "unimportant" because invalid, but by the time this fact had been finally determined the life of the patents had been spent. Each patent, though invalid, retained its vitality for over sixteen and three-fourths of its seventeen-year life.

Also, "market power" is an uncertain factor. An actual or potential competitor who is bluffed or frightened out of the market on an invalid or narrow patent, or who is forced out because he cannot afford to litigate, is as effectively eliminated from competition as one who is compelled to bow to a valid patent. It would be impossible for a court to learn and evaluate all such factors.

A patent should be evaluated by the criteria set by the patent laws not by tests contained in other laws designed to treat other conditions. The antitrust laws regulate "trade" and "commerce" which are dynamic, ever-changing, elusive concepts. For that reason, the restrictions imposed by the antitrust laws are broadly worded.⁹⁴ On the other hand, while technology is also a dynamic, ever-changing concept, a particular invention is more a static, unchanging thing, and a patent covering a particular invention should be definite and certain. The general terms used in the antitrust laws are therefore unsuited to the type of facts upon which the patent system is based.

b. *Contributory Infringement and Patent Misuse*

The committee approved section 271 of the 1952 Patent Code and stated that its provisions "are reasonable expressions of Congressional intention (a) to codify specifically the remedy of contributory infringement and affirmatively to declare that within the ambit of the comparatively narrow doctrine so defined the action is itself not a misuse; and (b) to cut down the breadth of the all-inclusive applications of the patent misuse doctrine stemming from the implications of the *Mercoïd* and other cases." (p. 253)

The fact that some committee members are "unclear" as to the precise effect of section 271 is not surprising. It certainly does not

⁹¹ REPORT 238.

⁹² See note 83 *supra*.

⁹³ 298 U.S. 415, 58 S.Ct. 787 (1936).

⁹⁴ *Appalachian Coals, Inc. v. United States*, 288 U.S. 344, 53 S.Ct. 471 (1933).

overrule the misuse cases, and one commentator, especially familiar with section 271 summarized: "But when all is said and done the net effect is simply to add to the law on the interpretation of patents, with respect to their scope, a statutory provision which renders them more effective as protection for inventions."⁹⁵

It has always seemed to the writer that there was no conflict and only slight if any relationship between the misuse doctrine and the remedy of contributory infringement. If a patentee is misusing his patent it makes no difference whether he seeks relief by direct or contributory infringement.⁹⁶ If, on the other hand, the patentee is using the patent properly, relief is available against both direct and contributory infringers. The test is whether the patentee is seeking his reward within the patent or outside the patent. The misuse doctrine is concerned only with what the patentee is doing, while contributory infringement involves only what the alleged infringer is doing. Misuse and contributory infringement are completely distinct.

Had American Patents Development Corporation been using the patented cartons or licensing their use for a fee; had Barber Asphalt been laying concrete according to the patent or licensing contractors to do so for a fee; had Mid-Continent or its licensee been installing patented furnace systems or licensing their installation for a fee; had Morton Salt or International Salt been engaged in using their inventions in the canning business or in licensing canners to do so for a fee; then these companies would have been practicing or licensing the practice of their patented inventions, and the writer believes that decisions in the *Carbice*, *Barber Asphalt*, *Mercoide*, *Morton Salt* and *International Salt* cases would have been different whether against a direct or contributory infringer. Instead these companies were using their patents to monopolize, respectively, "dry ice," bituminous emulsion, switches and salt, none of which was patented and the Supreme Court found the patentees' practices unlawful and the patents unenforceable before any question of contributory infringement was properly reached.

The confusion arises from the fact that in some cases, a patentee seeking to monopolize unpatented parts has instituted suit for contributory infringement against a competing supplier of the unpatented

⁹⁵ Rich, "Infringement under Section 271 of the Patent Act of 1952," 21 GEO. WASH. L. REV. 521 at 545 (1953).

⁹⁶ The American Lecithin cases involved a patent on the use of lecithin to prevent greying of chocolate and the patentee was seeking to secure a monopoly of lecithin. Relief was denied in an action for contributory infringement [*J. C. Ferguson Mfg. Works, Inc. v. American Lecithin Co.*, (1st Cir. 1938) 94 F. (2d) 729, cert. den. 304 U.S. 573, 58 S.Ct. 1042 (1938)], as well as in an action for direct infringement. *American Lecithin Co. v. Warfield Co.*, (7th Cir. 1939) 105 F. (2d) 207, cert. den. 308 U.S. 609, 60 S.Ct. 171 (1939).

parts. Because the remedy sought highlights the patentee's objective to control unpatented parts, the courts have confused one with the other. The difficulty with contributory infringement is that too often a patentee who is using his patent to secure a monopoly of unpatented parts or supplies uses the contributory infringement remedy against his competitor in the sale of the unpatented parts or supplies. This difficulty is not in the remedy of contributory infringement but in the patentee's practices. As stated by Justice Douglas, "Where there is a collision between the principle of the *Carbice* case and the conventional rules governing either direct or contributory infringement, the former prevails."⁹⁷ The misuse question involves only conflict with the *Carbice* principle not the form of the remedy which the patentee seeks. Reference to limiting the doctrine of contributory infringement and the implication that the residuum left of that doctrine might be negligible constitute pure dictum since the case was effectively decided on the basis of the patentee's conduct, misuse or unclean hands, regardless of the nature of the action against the defendant.

c. Patent Misuse as an Antitrust Violation

"We reject the view that any violation of patent law necessarily violates the antitrust laws. From some abuses of patent policy may flow consequences not drastic enough to meet antitrust prerequisites of effect on competition. In addition, many patent abuses are more effectively curbed by simply denying equitable relief as a matter of patent policy. Holding every patent law transgression to be at the same time an antitrust violation would, moreover, put the patent owner on a different footing than owners of other property subject to antitrust. For antitrust has its own measure of permissive and wrongful conduct. To say that action beyond the borders of the patent grant is a *per se* antitrust violation is to ignore the Supreme Court's distinctions between the variant statutory standards of the Sherman, Federal Trade Commission and Clayton Acts as well as to repudiate the body of interpretations distinguishing between offenses unreasonable *per se* and those not." (p. 254)

The courts have never explained the reasons for holding patent misuse to be a *per se* violation of the antitrust laws. Two reasons suggest themselves: (1) the cost and uncertainty of patent litigation and (2) the monopoly characteristics of a patent.

The cost and uncertainty of patent litigation have been fully discussed and few other legal instruments of restraint involve the same

⁹⁷ *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 at 669, 64 S.Ct. 268 (1944).

hazards. For example, if the salt-dispensing machines of International Salt had been unpatented, leasing the machines at a nominal royalty on condition that the salt be purchased from International Salt would have violated the antitrust laws since the Court found that the tests of the Clayton Act had been met.⁹⁸ However, a canner could then have built or purchased a dispensing machine with no risk beyond the cost of the machines. When the practice involves patented machines, the canner would have in addition to the cost of the machine, the cost of defending an infringement suit and the possibility of damages and an injunction.

The legal monopoly characteristics of a patent may also be a vital consideration. A patent is the grant of a monopoly and within the terms of the grant it is authorized by law and is a lawful monopoly. Beyond the terms of the grant the patent has no legal basis and the decisions may mean that monopolization or restraint beyond the grant is unlawful monopolization or restraint. Further, patent misuse differs from a non-patent Clayton Act violation in that a patentee can know with certainty whether or not he is exceeding the terms of his patent while the Clayton Act may be violated in other ways without knowledge of whether the acts done had the proscribed effect.

Finally, there is some doubt as to the practical existence of a line between the per se doctrine in patent misuse cases and the test of substantially lessening competition in the non-patent Clayton Act cases.⁹⁹ The degree to which commerce must be lessened to violate the Clayton Act has been shrunk almost to the vanishing point so that the difference between the per se violation in a patent case and the application of "statutory standards" in non-patent cases is probably of little more than academic importance in most instances.

7. Remedies

With respect to the remedies to be provided in antitrust cases involving patents, the *Report* states:

"A majority of the Committee members deem compulsory license free of royalties and dedication penal rather than remedial in character, and hence beyond the Sherman Act's authority to 'prevent and restrain' violations." (p. 256)

⁹⁸ ". . . to substantially lessen competition or tend to create a monopoly. . . ." 38 Stat. L. 731 (1914), 15 U.S.C. (1952) §14.

⁹⁹ *Standard Oil Co. of California v. United States*, 337 U.S. 293, 69 S.Ct. 1051 (1949).

In this conclusion, compulsory royalty-free licensing, dedication and injunction against suit are treated as equivalents. Both the majority and the minority agree that compulsory licensing at reasonable royalty is a proper remedy when the facts warrant. The majority feel that "royalty free licensing and dedication differ in kind from divestiture." (p. 257) But there is no analysis of the differences between patents as property and other forms of property insofar as it might affect the two remedies. "Confiscation," "dedication," "cancellation" and "divestiture without compensation" are merely epithets in the absence of such analysis.

The objective of the Sherman Act is to "prevent and restrain" violations¹⁰⁰ but it is also to "effectively pry open to competition a market that has been closed by defendant's illegal restraints."¹⁰¹ The remedy in an antitrust case thus has the dual purpose of terminating the restraint and establishing or re-establishing competition.

Where physical property is involved and divestiture is decreed, it is reasonable to assume that the divested property will be used for its intended purpose. Divested theatres,¹⁰² for example, would normally be used as theatres and would compete with the theatres of the former owner so that competitive conditions would be re-established. Both the antitrust violator and the new owner would have the facilities to compete. The fact that the antitrust violator was compensated for the divested theatre would not directly affect competition in an adverse way.

Because a patent is a mere right to exclude, divestiture is not so simple. Assume that an antitrust violator was divested of his patent, that is, the patent was sold to another. Then the purchaser would be entitled to exclude the violator from the market and the violator would be eliminated as a competitor. Eliminating any competitor, even an antitrust violator, is contrary to the policy of the antitrust laws.

The General Electric lamp situation offers an example. The General Electric tungsten filament incandescent lamp monopoly antedated the Westinghouse agreement of March 1, 1912, and in 1926 that monopoly was held to be a lawful patent monopoly.¹⁰³ The same commercial monopoly continued and in 1949 was held illegal.¹⁰⁴

¹⁰⁰ 26 Stat. L. 209 (1890), 15 U.S.C. (1952) §4.

¹⁰¹ Quoted from *International Salt Co. v. United States*, 332 U.S. 392 at 401, 68 S.Ct. 12 (1947), at p. 354 of the Report.

¹⁰² *Schine Chain Theatres, Inc. v. United States*, 334 U.S. 110, 68 S.Ct. 947 (1948).

¹⁰³ *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

¹⁰⁴ *United States v. General Electric Co.*, (D.C. N.J. 1949) 82 F. Supp. 753.

The decree was not entered until 1953¹⁰⁵ when the monopoly had been in effect for over forty years. The court was thus faced with the difficult task of framing a decree to prevent and restrain a monopoly of unusual age and complexity and to "pry open to competition" a market which had never been competitive since modern incandescent lamps were invented. To establish competition it was as important to preserve General Electric as a competitor as it was to safeguard other members of the industry and to open the industry to newcomers.

The government proposed two remedies: dedication of patents and partial divestiture of plant facilities. Had partial divestiture been granted, General Electric could have used its remaining facilities, and the purchasers of the divested facilities could have competed with General Electric, with each other and with others in the industry. Payment to General Electric for the divested facilities would not have had an adverse effect on other competitors. The court found divestiture unnecessary and denied that relief but, to eliminate the monopoly and establish competition, the court ordered dedication of General Electric's lamp patents.

To have decreed divestiture of patents might have eliminated General Electric as a competitor and would have rendered useless General Electric's vast manufacturing facilities. This would have exceeded partial plant divestiture to an unbelievable degree, assuming that the General Electric patents are valid. Divestiture of a lamp plant would not affect General Electric's use and operation of its other lamp plants while divestiture of valid patents would prevent General Electric's lamp manufacturing operations entirely.

Production-wise, General Electric had at least 58 percent of the industry with the economies and other advantages such huge production permits. General Electric was permitted to retain these advantages but had it been permitted to charge a royalty on its patents, other manufacturers in the industry would have been at a cost disadvantage equal at least to the amount of the royalty. The benefit to General Electric of a small royalty from a small manufacturer of lamps might be negligible but the added royalty burden might make the small manufacturer unable to compete.

Because of the peculiar nature of patent property, remedies such as divestiture have an effect quite different from that when other forms of property are involved, and what would be confiscation or de-

¹⁰⁵ *United States v. General Electric Co.*, (N.J. 1953) 115 F. Supp. 835.

struction in the case of tangible property might be the only remedy which is effective in patent cases to eliminate monopoly and yet leave the antitrust violator, as well as others, free to compete for the market. Experience shows that the remedy is one which the courts will grant sparingly as a last resort and as an alternative to more drastic relief.¹⁰⁶

¹⁰⁶ Dedication was denied in such cases as *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945); *United States v. Vehicular Parking, Ltd.*, (D.C. Del. 1944) 54 F. Supp. 828; and *United States v. National Lead Co.*, 332 U.S. 319, 67 S.Ct. 1634 (1947).