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International technology transfers must be undertaken with care to ensure that neither domestic nor foreign antitrust laws are violated and that rights in the technology are not misused. A transfer that restrains international or domestic commerce can render legal rights to the technology unenforceable and subject the parties to lawsuits, injunctions and liability for damages. Transferors and transferees, therefore, must be keenly aware of antitrust and other applicable laws, such as patent misuse, and recognize the extent of their extra-territorial effect.

Technology, whether it be in the form of patents or know-how, can be transferred by outright sale or assignment or by non-exclusive or exclusive licenses. Transfers may occur between unrelated parties or related entities, such as foreign subsidiaries or joint ventures.

Unless the transferor imposes conditions upon an outright sale or assignment, there is little or no risk of antitrust or misuse violations. Usually, however, the transferor retains some title to his technology and, by license, permits the transferee to use the technology. Even such licenses pose little risk of illegality unless the licensor seeks to restrain the activities of the licensee. The limits of such restraints may be set by the antitrust or competition laws of those countries whose commerce is affected by the transfer. The transfer therefore must be evaluated very carefully in light of the applicable antitrust or competition laws.[1]

It is the purpose of this paper to consider the effect of the U.S. antitrust laws on international transfers of technology.[2] The paper will de-

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[1] Some of the better known antitrust laws include those of the United States, Canada, the European Economic Community, and Japan.

[2] *See generally* VON KALINOWSKI, ANTITRUST LAWS AND TRADE REGULATIONS ch. 9 (1979); M. FINNEGAN & R. GOLDSCHEIDER, THE LAW AND BUSINESS OF LICENSING (1975); G. POLLZIEN & E. LANGAN, INTERNATIONAL LICENSE AGREEMENTS (2d ed. 1973); Kirkpatrick & Mahinka, *Antitrust and the International Licensing of Trade Secrets and Know-How: A Need for Guidelines*, 9 LAW AND POL'Y IN INT'L BUS. 729 (1977); Wallace, *Overlooked Opportunities—Making the Most of U.S. Antitrust Limitations on International Licensing Practices*, 10 INT'L LAW. 275 (1976); Wallace, *Multinational Patent and Know-How Arrangements*, 39 ANTITRUST L.J. 791 (1970); Stern, *The Antitrust Status of Territorial Limitations in Int'l Licensing*, 14 IDEA 580 (1970-71); Gibbons,

fine transferable technology, outline the applicable U.S. antitrust statutes and misuse doctrines and discuss their extra-territorial effect. In addition, the paper will analyze the legality of certain restrictive provisions commonly found in international licenses.

I. Transferable Technology

Generally, transferable technology takes two forms: patents and know-how. Know-how, however, may be subdivided into non-secret and secret know-how, the latter often being identified as trade secrets. These forms of technology are all transferable, either separately or in combination.

Under U.S. law a patent can be obtained for any new, useful and unobvious "process, machine, manufacture, or composition of matter."[3] The owner of a U.S. patent is granted the exclusive right to make, use and sell the patented invention for a seventeen year period.[4] Foreign patents are of similar scope though the duration of the patent rights varies from country to country.

While trade secrets[5] and non-secret know-how are not capable of such precise definitions, both represent substantial technological assets, and rights to both may be enforced under the laws of the United States.[6]

Know-how, which includes trade secrets, will for the purposes of this article be used in a generic sense to be "practical knowledge of how to do something with smoothness and efficiency; . . . accumulated practical skill or expertise."[7] Typically, know-how is the knowledge of how to make, market, distribute or sell products. Know-how can include recipes, formulas, designs, patterns, drawings, blueprints, technical records, specifications, lists of materials, operating instructions, analytical means for checking and controlling a process, workshop practice, market or selling experience, technical training and so forth.

Domestic Territorial Restrictions in Patent Transactions in the Antitrust Law, 34 GEO. WASH. L. REV. 893 (1965-66); Baxter, *Legal Restrictions on the Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966-67); Barton, *Limitations on Territory, Field of Use, Quantity and Price in Know-How Agreements with Foreign Companies*, 28 U. PITT. L. REV. 195 (1966).

3 35 U.S.C. § 101 (1976).

4 35 U.S.C. § 154 (1976).

5 The most often quoted definition of a trade secret provides trade secrets the same compositional scope as know-how.

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to gain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

RESTATEMENT OF TORTS § 757, Comment b (1939). However, the Supreme Court, quoting the above definition with approval, further explained, "the subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business." Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475 (1974).

6 *See* Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

7 WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 1252 (1971).

II. U.S. Antitrust Statutes Applicable to Technology Transfers

A number of U.S. antitrust statutes are applicable to domestic and international transfers of technology. Legal actions may be brought under these statutes by the U.S. Department of Justice,[8] by the Federal Trade Commission,[9] and by private parties.[10] If a technology license violates these antitrust laws, a number of remedies are available. A court can enjoin further illegal activity, hold the license to be unenforceable, and award damages and attorneys' fees.[11] Even if the wrongful activity does not rise to the stature of an antitrust violation, the courts may apply the doctrine of misuse and hold the licensed patent rights unenforceable until the misuse is purged.[12]

Sections 1 and 2 of the Sherman Act[13] are the provisions most often applied to restraints in technology transfers. Section 1 of the Sherman Act defines as illegal "every contract, combination in the form of trusts or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations. . . ."[14] Section 2 of the Act further states that it is illegal to "monopolize or attempt to monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states or with foreign nations. . . ."[15]

Similarly applicable to restrictions in technology transfer agreements is section 5(1)(1) of the Federal Trade Commission Act.[16] This section declares as unlawful "[u]nfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce."[17] The breadth of this section grants the Federal Trade Commission the power to question almost any restraint.

Portions of the Clayton Act[18] are also applicable to technology

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[8] 15 U.S.C. §§ 4, 15a (1976). The Department of Justice has provided guidelines regarding its enforcement policies related to national and international licensing of technology. *See* U.S. DEP'T OF JUSTICE, ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS (Jan. 26, 1977) [hereinafter ANTITRUST GUIDE]. *See generally* Fugate, *The Department of Justice's Antitrust Guide for International Operations*, 17 VA. J. INT'L L. 645 (1977); Timberg, *The Justice Department Guide for International Operations; International Antitrust Enforcement in the Year 1978*, 60 J.P.O.S. 636 (1978).

[9] 15 U.S.C. § 45(a)(5) (1976).

[10] 15 U.S.C. § 15 (1976).

[11] Scattered sections of 15 U.S.C. ch. 1 (1976).

[12] Under the misuse doctrine, provisions which are unlawful restraints will, under equity, defeat a patentee's or trade secret owner's right to recover from infringement, Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 668-69 (1944), or avoid the payment of royalty under a license. United States Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 465 (1957). The courts will not enforce an illegal contractual restriction or one against public policy which underlies the patent grant. Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 684 (1944). *See also* Memorandum of the U.S. Department of Justice concerning Antitrust and Foreign Commerce, 5 TRADE REG. REP. (CCH) ¶ 50,129 (1972).

[13] 15 U.S.C. §§ 1, 2 (1976).

[14] *Id.* § 1.

[15] *Id.* § 2.

[16] 15 U.S.C. § 45(a)(1) (1976).

[17] *Id.*

[18] 15 U.S.C. §§ 12-27; *see* 18 U.S.C. §§ 401, 402, 660, 3691; 29 U.S.C. § 52 (1976).

transfers. While the Clayton Act is more limited in its application than the statutes discussed above, it does make unlawful those restraints or acts which substantially lessen competition or tend to create a monopoly, such as exclusive dealing, tying of goods or services, or acquisition of technology rights.[19]

III. Extraterritorial Effects of the U.S. Antitrust Statutes

The U.S. antitrust laws clearly apply to licensing transactions between U.S. citizens when one or both use the technology in the United States. Those laws also apply to the use of technology outside the territorial limits of the United States where the use has a substantial effect on the import or export of goods or services.[20] A given international technology transfer, therefore, may be subject to the antitrust laws of the United States as well as the law of the country or countries where the technology is used.[21]

Generally, activities which occur in a foreign country and affect U.S. commerce are subject to the U.S. antitrust laws if there is a close connection between the activity and its effect, the effect is substantial, and the effect is a direct and foreseeable consequence of the activity.[22]

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[19] It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption or resale within the United States . . . , or fix a price charge therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

15 U.S.C. § 14 (1976).

> No corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, where in any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

15 U.S.C. § 18 (1976).

[20] *See generally* SECTION OF ANTITRUST LAW, ABA, ANTITRUST LAW DEVELOPMENTS 355-90 (1975); Brunsvold & Farabow, *The Impact of Antitrust Laws on International Licensing—Part I: United States Antitrust Laws*, 1 LIC. L. & BUS. REP. 41 (1978); Victor & Hood, *Personal Jurisdiction, Venue and Service of Process in Antitrust Cases Involving International Trade: Amenability of Alien Corporations to Suit*, 46 ANTITRUST L.J. 1063 (1978); Kintner & Griffin, *Jurisdiction Over Foreign Commerce Under the Sherman Antitrust Act*, 18 B.C. INDUS. & COM. L. REV. 199 (1977); Rahl, *Foreign Commerce Jurisdiction of the American Antitrust Laws*, 43 ANTITRUST L.J. 521 (1974); Wallace, *Multinational Patent and Know-How Arrangements, supra* note 2; Note, *International Law—Antitrust Law—Immunities to Extraterritorial Application of U.S. Antitrust Law*, 12 J. INT'L L. & ECON. 487 (1978); Note, *Extraterritorial Application of United States Laws: A Conflict of Laws Approach*, 28 STAN. L. REV. 1005 (1976).

[21] Generally, the acts of a person are subject to the law of the foreign nation where the act takes place. RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 9, Comment f (1971); RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES §§ 20, 30 (1965).

[22] RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 18 (1965).

Using different language, the Justice Department has reasoned that the antitrust laws are applicable when foreign transactions have "a substantial and foreseeable effect on U.S. commerce."[23]

The courts have constructed similar tests. In *United States v. Aluminum Co. of America*,[24] the Second Circuit explained that the United States may impose antitrust liabilities "for conduct outside its borders that has consequences within its borders which the state reprehends. . . ." The court considered agreements "unlawful though made abroad, if they were intended to affect imports and did affect them . . . ."[25]

In *Timberlane Lumber Co. v. Bank of America, N.T.&S.A.*,[26] the Ninth Circuit formulated a three-part jurisdictional test regarding the application of the Sherman Act to activities abroad. First, does the alleged restraint affect, or was it intended to affect, the foreign commerce of the United States? Second, is it of such a type of magnitude so as to be cognizable as a violation of the Sherman Act? And, finally, as a matter of international comity and fairness, should the extraterritorial jurisdiction of the United States be asserted to cover it?[27]

Obviously, the U.S. antitrust laws were not intended to regulate or control all activities in foreign countries or even those that may have some indirect and slight impact on U.S. imports or exports. Where the foreign action has only an incidental, or *de minimus* effect on U.S. commerce, a license is not subject to U.S. antitrust laws.[28] However, it appears that any foreign or U.S. based activity which has anything greater than an incidental or *de minimus* effect on importation to or exportation from the United States may be subject to the subject matter jurisdiction of U.S. antitrust laws.[29]

The U.S. antitrust laws do not distinguish between U.S. citizens and foreign nationals. Licenses between U.S. citizens, between a U.S. citizen and a foreign national or between foreign nationals may be subject to the U.S. antitrust laws. Of course, the U.S. antitrust laws can be applied only if a court has personal jurisdiction over the parties to the transfer

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23 ANTITRUST GUIDE, *supra* note 8, at 6. The Department of Justice believes its enforcement policy protects two interests: (1) the American consuming public by assuring it the benefit of competitive products and ideas produced by foreign and domestic competitors, and (2) American export and investment opportunities against privately imposed restrictions. ANTITRUST GUIDE, *supra* note 8, at 4-5.

24 148 F.2d 416 (2d Cir. 1945).

25 *Id.* at 434-44.

26 549 F.2d 597 (9th Cir. 1976).

27 *Id.* at 615.

28 In American Banana Co. v. United Fruit Co., 213 U.S. 347 (1909), the Court dismissed an antitrust action on the basis that the alleged unlawful acts took place wholly outside of the United States.

29 *See, e.g.*, Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951); Todhunter-Mitchell & Co. v. Anheuser-Busch, Inc., 375 F. Supp. 610 (E.D. Pa. 1974), *modified*, 383 F. Supp. 586 (E.D. Pa. 1974); United States v. Minnesota Mining & Mfg. Co., 92 F. Supp. 947 (D. Mass. 1950); United States v. Watchmakers of Switzerland Information Center, Inc., [1963] Trade Cases (CCH) ¶ 70,600 (S.D.N.Y. 1962), *modified*, [1965] Trade Cases (CCH) ¶ 71,352 (S.D.N.Y. 1965).

and if no exemptions apply.[30] It should be recognized, however, that every foreign owner of a U.S. patent is subject to the personal jurisdiction of at least one U.S. court for actions "affecting the patents or rights thereunder."[31]

IV. Antitrust Tests Applicable to Transfers of Technology

If read literally, the U.S. antitrust laws would make almost every condition or restriction in a technology transfer illegal. Realizing that such an interpretation of the statutes would restrain rather than free commerce, the courts have developed rules for judging legality, based in part on the reasonableness of the restraint. Certain restraints are considered so pernicious that the courts have refused to consider their reasonableness in a given situation and have declared them *per se* illegal. But exceptions have developed even as to the *per se* illegal restraints.

Initially the U.S. Supreme Court in *United States v. Trans-Missouri Freight Ass'n*,[32] interpreted section 1 of the Sherman Act to render illegal every contract or combination in restraint of trade, whether reasonable or not. This concept was subsequently tempered in *United States v. Addyston Pipe & Steel Co.*,[33] where Chief Justice Taft, then a circuit judge, read a common law background into the Sherman Act and found that those restraints which were ancillary to the main purpose of the arrangement, and necessary to effect that purpose, were to be judged for their reasonableness. In contrast, those restraints whose sole purpose is to suppress competition were considered illegal irrespective of their reasonableness.[34]

Later, in *Standard Oil Co. v. United States*,[35] Justice White recognized that the common law standard of reason must be used to determine the legality of a contractual restraint.[36]

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[30] Generally, jurisdiction over foreign persons or corporations is liberally based upon state long-arm statutes and the court's liberal interpretation of due process.

[31] 35 U.S.C. § 293 (1976).

[32] 166 U.S. 290 (1897).

[33] 85 F. 271 (6th Cir. 1898), *modified and aff'd*, 175 U.S. 211 (1899).

[34] The future chief justice said:

> This very statement of the rule implies that the contract must be one in which there is a main purpose, to which the covenant in restraint of trade is merely ancillary. The covenant is inserted only to protect one of the parties from the injury which, in the execution of the contract or enjoyment of its fruits, he may suffer from the unrestrained competition of the other. The main purpose of the contract suggests the measure of protection needed, and furnishes a sufficiently uniform standard by which the validity of such restraints may be judicially determined.

85 F. at 282.

[35] 221 U.S. 1 (1911).

[36] Justice White stated:

> Thus not specifying, but indubitably contemplating and requiring a standard, it follows that it was intended that the standard of reason which had been applied at the common law and in this country in dealing with subjects of the character embraced by the statute, was intended to be the measure used for the purpose of determining whether in a given case a particular act had or had not brought about the wrong against which the statute provided.

Combining the concepts of these and other decisions, the courts today consider a restraint permissible if the restriction or limitation is ancillary to the lawful main purpose of the contract, the scope and duration of the limitation is not substantially greater than necessary to achieve that purpose and the limitation is otherwise reasonable under the circumstances.[37] The special nature of patents and trade secrets allows certain restraints which would otherwise be illegal. However, to render an otherwise illegal restraint legal, the restraint must be within the technical scope of the patent or trade secret technology, and the duration of the restraint must not extend beyond the life of the patent or trade secret. Thus, the scope and duration of the restraint are critical factors in analyzing the legality of any restraint imposed on technology use.

In evaluating the legality of a restraint in a patent license, the parties must determine that the restraint is "reasonabl[y] within the reward which the patentee by the grant of the patent is entitled to secure."[38] As stated by the court in *United States v. New Wrinkle, Inc.*:[39]

> The possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly.[40]

The analysis of the legality of a trade secret restraint is similar to that used in regard to patent right restraints; i.e., an evaluation of the scope and duration of the restraint. The Ninth Circuit in *A. &E. Plastik Pak Co. v. Monsanto Co.*,[41] explained that proprietary know-how (trade secrets) confers upon its possessor the exclusive, although perhaps temporary, right to utilize it. The court correctly stated that restraints in a proprietary know-how agreement do not on their face "appear to be an agreement between competitors not to compete, for absent the licensed know-how . . . [the licensee] is in no position to compete."[42] The Court then analyzed trade secret restraints and determined that:

> The critical question in an antitrust context is whether the restriction

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Id. at 60. The application of this rule of reason analysis was more carefully defined by Justice Brandeis in Board of Trade of Chicago v. United States, 246 U.S. 231 (1918):

> Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts.

Id. at 238.

37 *See* Assistant Attorney General Richard W. McLaren, *Licensing Patent and Technology under U.S. Antitrust Laws*, 40 ANTITRUST L.J. 931, 936 (1971); ANTITRUST GUIDE, *supra* note 8, at 2-4.

38 United States v. General Elec. Co., 272 U.S. 476, 489 (1926).

39 342 U.S. 371 (1952).

40 *Id.* at 378 (citing United States v. Line Material Co., 333 U.S. 287 (1948)).

41 396 F.2d 710 (9th Cir. 1968).

42 *Id.* at 714-15.

> may fairly be said to be ancillary to a commercially supportable licensing arrangement, or whether the licensing scheme is a sham set up for the purpose of controlling competition while avoiding the consequences of the antitrust laws.[43]

The court in *Shin Nippon Koki Co. v. Irvin Industries, Inc.*,[44] reasoned that a restraint in a know-how license should be found to be ancillary and appropriate if:

> (1) the subject matter of the license is substantial, valuable, secret know-how;
> (2) such restraint is limited to the "life" of the know-how; i.e., the period during which it retains its secrecy; and
> (3) such restraint is limited to those products only which are made by use of the know-how.[45]

It has been suggested that to apply the rule of reason to every alleged antitrust violation could overburden the judicial system. The courts, therefore, have defined certain activities to be essentially *per se* violations.[46] While *per se* illegal restraints have exceptions, licensing parties relying upon such an exemption should use extreme caution to be certain that all the conditions of the exception are met.

V. Analysis of Certain Licensing Restrictions

Typically technology licensors will attempt to restrain the licensee's use of the technology to obtain an optimum return on the licensed technology. For example, a licensor might condition the grant of the license upon the taking of additional products or services from the licensor. Al-

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[43] *Id.*

[44] 186 U.S.P.Q. (BNA) 296 (N.Y. Sup. Ct. 1975).

[45] *Id.* at 298 (citing Barton, *supra* note 2; Macdonald, *Know-How Licensing and the Antitrust Laws*, 62 MICH. L.R. 351, 379 (1964); A. & E. Plastic Pak Co. v. Monsanto Co., 396 F.2d 710 (9th Cir. 1968)). *See also* T. ARNOLD, AN OVERVIEW OF U.S. ANTITRUST AND MISUSE LAW FOR LICENSOR AND LICENSEE (1979); Brunsvold & Farabow, *supra* note 20; Drysdale & Stephens-Ofner, *Know How Licensing*, 123 NEW L.J. 218 (1973); Goldscheider, *Encouraging the Flow of Goods and Services and Know-How Among Nations—The Role of Industrial Property and Antitrust Law*, 18 W. RES. L.R. 1618 (1967); Payne, *Trade Secret Licensing—Definition, Duration and Disposition*, 2 LIC. L. & BUS. REP. 123 (1979).

[46] The Supreme Court in Northern Pac. Ry. v. United States, 356 U.S. 1 (1958), explained that theory and its applications:

> However, there are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use. This principle of per se unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable—an inquiry so often wholly fruitless when undertaken. Among the practices which the courts have heretofore deemed to be unlawful in and of themselves are: *pricefixing*, United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 210; *divisions of markets*, United States v. Addyston Pipe and Steel Co., 85 F. 271, *aff'd*, 175 U.S. 211; *group boycotts*, Fashion Originators' Guild v. Federal Trade Comm'n, 312 U.S. 457; and *tying arrangements*, International Salt Co. v. United States, 332 U.S. 392.

Id. at 5 (emphasis added).

ternatively the licensor might require that the licensee share its technological advances with the licensor, restrict the licensee's use of the technology to particular territories, or restrict the use or sale of products made by the licensee.

While optimum recovery through control is a sensible goal, a licensor's desire to obtain the greatest possible return on his technology must be tempered by a thorough understanding of the antitrust laws. Furthermore, business goals may be attainable in various ways, some of which may entail more antitrust risk than others.

This paper will discuss certain[47] restraints typically found in technology transfers and consider the courts' application of the U.S. antitrust and misuse laws to these restraints. The license provisions discussed will be tie-ins, tie-outs, post expiration royalties, package licensing, total sales royalties, non-diminishing royalties, grant backs, veto powers, quantity restrictions, field of use restrictions, territorial restrictions, and resale restrictions.

A. Tie-ins

Basically, tying occurs when a party, using some leverage he possesses in one item, forces the taking of a second item as a condition to obtaining the first. The first item is the "tying item" and the second, "the tied item."[48] Thus, a tying arrangement in a technology transfer

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[47] The scope of this paper does not permit a detailed discussion of all possible restraints in a licensed agreement. Notably absent from a detailed discussion are price-fixing provisions and no contest clauses.

Although the Supreme Court in United States v. General Electric Co., 272 U.S. 476 (1926), did not find an antitrust violation when the patentee set the price at which his manufacturing licensee could sell a particular product, the rule of this case has been severely limited. *See, e.g.*, United States v. United States Gypsum Co., 333 U.S. 364 (1948); United States v. Line Material Co., 333 U.S. 287 (1948). The Department of Justice has stated that it views any price limitations as an antitrust violation, and the courts since *United States v. General Electric* have generally found price limitations to be illegal. *See, e.g.*, Newburgh Moire Co. v. Superior Moire Co., 237 F.2d 283 (3d Cir. 1956). *See also* United States v. Huck Mfg. Co., 227 F. Supp. 791 (E.D. Mich. 1964), *aff'd by an equally divided court*, 382 U.S. 197 (1965). No contest clauses were declared to be illegal in Lear v. Adkins, 395 U.S. 653 (1969) and are unenforceable.

[48] The controlling standards and rationale regarding a tying arrangement are set forth by the Supreme Court in Northern Pac. Ry. v. United States, 356 U.S. 1 (1958):

> For our purposes a tying arrangement may be defined as an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product. . . . Where such conditions are successfully exacted competition on the merits with respect to the tied product is inevitably curbed. Indeed, "tying agreements serve hardly any purpose beyond the suppression of competition." *Standard of California and Standard Stations v. United States*, 337 U.S. 293, 305-306. They deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products. For these reasons "tying arrangements fare harshly under the laws forbidding restraints of trade." *Time-Picayune Publishing Co. v. United States*, 345 U.S. 594, 606. They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a "not insubstantial" amount

occurs when (1) the technology transferor requires or coerces the transferee to take certain products or services (tied items) as a condition for receiving the desired technology or patent rights therein (tying item); (2) the seller of the patented item (tying item) forces the buyer to purchase other items (tied items) to obtain the patented items; or (3) the licensor of technology forces the licensee to take unwanted technology (tied technology) in order to obtain a license for wanted technology (tying technology). The latter is often referred to as mandatory package licensing and will be discussed in more detail in a later section.

The courts have found tying arrangements contrary to public policy since they permit the transferring party to extend his technology rights beyond their legal scope by forcing the purchase of products and services not protected by legitimate technology rights.[49] In this manner, competition in the tied product or service is unreasonably restrained.

Tying restraints are *per se* illegal. When a tying arrangement exists, sufficient economic power resides in the tying item to appreciably restrain free competition for the tied item,[50] and a not insubstantial amount of interstate commerce is affected.

The court may presume economic power where the tying product is patented or is a patent right itself.[51] That presumption, however, is suspect because in many situations patents provide little, if any, market power. While a few decisions recognize that a patent does not necessarily provide its owner with the requisite power,[52] the risk of such a presumption is high and should be carefully evaluated.

Despite the possible application of a *per se* rule to transfers of patented items or patent rights, under certain limited situations a tie may be permissible for a limited period of time. For example, where a tie is necessary to make the patented product work properly and thereby save the patentee from a loss of goodwill, such a tie may be permissible.[53] Simi-

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of interstate commerce is affected. *International Salt Co. v. United States*, 332 U.S. 392.

Id. at 5-6 (footnote omitted).

[49] *See* Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944); Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 (1944); B.B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); Morton Salt Co. v. G.S. Suppinger Co., 314 U.S. 488 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938); International Business Machines Corp. v. United States, 298 U.S. 131 (1936); Carbice Corp. America v. American Patents Dev. Corp. 283 U.S. 27 (1931); Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

[50] *See* United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610 (1977) (Fortner II); Fortner Enterprises v. United States Steel Corp., 394 U.S. 495 (1966) (Fortner I).

[51] United States v. Lowe's Inc., 371 U.S. 38 (1962). *See also* International Business Machines Corp. v. United States, 298 U.S. 131 (1936); International Salt Co. v. United States, 332 U.S. 392 (1947).

[52] *See* Northern Pac. Ry. Co. v. United States, 356 U.S. 1, 10 n.8 (1958); Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965); Aro Corp. v. Allied Witan Co., 531 F.2d 1368 (6th Cir. 1976), *cert. denied*, 429 U.S. 862 (1976).

[53] Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir. 1961), *cert. denied*, 368 U.S. 931 (1961). *Cf.* Electric Pipe Line, Inc. v. Fluid Systems, Inc., 231 F.2d 370 (2d Cir. 1956); Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77 (6th Cir. 1971); Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964).

larly, the tie of a product and corresponding services may be proper when the patented product and the corresponding service system is new and the business, being in its formative stage, requires the tied service to insure needed goodwill.[54] However, once the new business becomes established the continuation of the tie will probably be illegal.[55]

The practice of tying in patent licenses was declared a patent misuse by the U.S. Supreme Court in *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*[56] There the plaintiff held a patent on a part of a film projector and licensed the defendant under the patent with a covenant that the projector was to be used only with film also patented by the plaintiff. The Court held the restraint to be in conflict with the antitrust laws.[57]

Ties occur only when the licensee is required to take unwanted products or services; voluntary purchasing of goods or services from the licensor is permissible.[58] Thus, coercion is not assumed from the mere fact that the transferred technology is licensed or sold in a package or that the licensor sells the licensee certain components for use with the licensed technology.[59] Instead, the grant of the technology license must be conditional, in some manner, on the acceptance of separate rights, products or services for an illegal tie to exist. The court in *Valmont Industries, Inc. v. Yuma Manufacturing Co.*[60] explained:

> There are three types of licensing arrangements which the courts have treated as patent misuse: (1) tying arrangements—schemes *requiring* the purchase of unpatented goods for use with the patented appara-

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[54] United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

[55] *Id.* at 560.

[56] 243 U.S. 502 (1917).

[57] The Court said:

> Such a restriction is invalid because such a film is obviously not a part of the invention in the patent at suit; because it is an attempt, without statutory warrant, to continue the patent monopoly . . . and because to enforce it would be to create a monopoly in the manufacture and use of moving picture films, wholly outside the patent in suit and of the patent law as we have interpreted it.

Id. at 518.

[58] One possible exception is in the so-called label licensing area where the courts have seemingly implied coercion. *See* Rex Chainbelt, Inc. v. Harco Products, Inc., 512 F.2d 993 (9th Cir. 1975), *cert. denied*, 423 U.S. 831 (1975); Ansul Co. v. Uniroyal, Inc., 306 F. Supp. 541 (S.D.N.Y. 1971), *modified on other grounds*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972). Another possible exception is in the implied licensing area where the owner of a patented process sells unpatented articles with the implied license to practice the process. *See* B.B. Chemical Co. v. Ellis, 314 U.S. 495 (1942); Leitch Mfg. Co. v. Barber Co., 302 U.S. 458 (1938). In the label licensing area such licensing is permissible where the component or item sold is a material part of the invention that does not have substantial non-infringing uses. Rohm & Hass Co. v. Dawson Chemical Co., 599 F.2d 685 (5th Cir. 1979).

[59] The Tenth Circuit in McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966), explained:

> [I]n order to constitute a misuse, there must be an element of coercion, such as where there has been a request by a prospective licensee for a license under less than all of the patents and a refusal by the licensor to grant such a license.

Id. at 408.

[60] 296 F. Supp. 1291 (D. Colo. 1969).

tus; (2) license agreements *requiring* the licensee not to deal in competitive articles; and (3) coercive package licensing—*conditioning* the granting of a license under one patent upon the acceptance of another and different license. *Economic coercion* and restraint on free competition in unpatented articles are *necessary corollaries to each* of these arrangements, and thus the courts have had little difficulty in finding that the patentee has misused his patent when any one of these arrangements is present in a licensing agreement.[61]

A basic question is whether conditioning or coercion can exist absent a specific request by the licensee for the tying item separate from the tied item. Several general tests for determining whether coercion should be found have been constructed. The "request and refusal" theory finds support in a number of cases.[62] It is generally accepted that a licensee cannot be coerced to accept additional items or a particular license provision unless he asks for the purchase or license of something else. Where the licensor offers the licensee a reasonable alternative, that offer will substantially lessen any likelihood of a court finding coercion.[63]

The courts have also forwarded a "protestation" concept. The Supreme Court has characterized conditioning as the use by the licensor of the power of his technology "to override protestations of the licensee."[64] Another court questioned "whether the provision was bargained for or imposed and whether the licensee made 'protestations' which were overridden."[65]

There is substantial authority that to substantiate coercion there must be protestation by the licensee and a refusal in response to the protests.[66] At least one court has held that the buyer must persevere long enough in the request to feel the actual exertion of economic muscle before the antitrust laws are violated.[67]

Despite the above decisions, one court shifted the burden of proof to

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61 *Id.* at 1295-96 (footnotes omitted, emphasis added).

62 *See, e.g.*, Well Surveys, Inc. v. Perfo-log, Inc., 396 F.2d 15 (10th Cir. 1968), *cert. denied*, 393 U.S. 95 (1968); Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966); McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966); Ansul Co. v. Uniroyal, Inc., 306 F. Supp. 541, 562 (S.D.N.Y. 1969), *modified on other grounds*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972); Federal Sign and Signal Corp. v. Bangor Punta Operations, Inc., 357 F. Supp. 1222, 1240 (S.D.N.Y. 1973); Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649 (M.D. Ill. 1961).

63 *See* Plastic Contact Lens Co. v. W.R.S. Contact Lens Labs, Inc., 330 F. Supp. 441 (S.D.N.Y. 1970).

64 Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 139 (1969). *Accord*, Times-Picayune Publishing Co. v. United States, 345 U.S. 594 (1953); Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942); Carbice Corp. of America v. American Patents Dev. Corp., 283 U.S. 27 (1931); Motion Picture Patents v. Universal Film Mfg. Co., 243 U.S. 502 (1917); Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658 (2d Cir. 1974).

65 Glenn Mfg. Co. v. Perfect Fit Industries, Inc., 420 F.2d 319, 321 (2d Cir. 1970), *cert. denied*, 397 U.S. 1042 (1970).

66 *See* Federal Sign and Signal Corp. v. Bangor Punta Operations, Inc., 357 F. Supp. 1222 (S.D.N.Y. 1973); McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966); Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649 (N.D. Ill. 1961).

67 American Manufacturers Mutual Ins. Co. v. American Broadcasting-Paramount Theaters, Inc., 446 F.2d 1131 (2d Cir. 1971), *cert. denied*, 404 U.S. 1063 (1972).

the licensor to show non-coercion where a standard license was used in its marketing scheme. In that instance the court found a general feeling in the industry that it was "futile" to request a change in the standard license.[68] Such a shifting of the burden of proof appears to be in direct conflict with the majority of the court decisions which require the party asserting coercion to carry the burden of proof.[69]

In conclusion, the transferor can, within reasonable bounds, use salesmanship to sell his proposed package. However, once the potential licensee requests a smaller package, the risk begins to rise. If a potential licensee rejects the proposed package and requests a more limited package, the licensor should offer to license the desired technology on a reasonable economic basis. Moreover, a provision in a license agreement that requires purchase of unpatented items or services as a part of the licensee's obligation raises a serious question, if not presumption, of illegal conditioning. Thus, extreme care must be taken to exhibit the licensee's freedom of choice.

While the legality of tie-ins that substantially affect U.S. commerce will be subject to evaluation under U.S. antitrust laws, not all tie-ins in international technology transfers will have the requisite effect. The Department of Justice has stated that in the "international context, the presumption against the legality of a tie-in may not necessarily be an absolute and the Department may, in any event, be reluctant to spend resources on International tie-ins which do not have the tie-in effects on U.S. commerce."[70] However, the Justice Department quickly and properly noted that such tie-ins may violate the antitrust or competition laws of foreign jurisdictions where the commerce of that jurisdiction is affected.

B. Tie-outs

A tie-out is an agreement in which the technology transferor restricts his transferee's freedom to buy a competitor's product or sell competing products or services. Tie-outs are the same as tie-ins in anticompetitive effect and have been held to be improper since they free the transferor from competition in the tied-out product. The courts have

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[68] Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979).

[69] *See, e.g.*, Hazeltine Research, Inc. v. Avco Mfg. Corp., 227 F.2d 137 (7th Cir. 1955), *cert. denied*, 350 U.S. 987 (1956); Apex Electrical Mfg. Co. v. Altofer Bros., 238 F.2d 867 (7th Cir. 1956) (licensor had granted 176 package licenses and over 1.5 million dollars were paid in royalties); Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 122 U.S.P.Q. (BNA) 74 (S.D. Ind. 1959), *aff'd*, 281 F.2d 252 (7th Cir. 1960), *cert. denied*, 366 U.S. 211 (1961) (licensor had granted 733 coating licenses of which 463 were still in force and effect); Arthur J. Schmitt Foundation v. Stockholm Valves and Fittings, Inc., 292 F. Supp. 893 (M.D. Ala. 1966) (plaintiff had licensed significant U.S. supplier of a given resin covered by its package of patents). *See also* Ungar v. Dunkin' Doughnuts of America, Inc., 531 F.2d 1211, 1226 (3d Cir. 1976), *cert. denied*, 429 U.S. 823 (1976).

[70] ANTITRUST GUIDE, *supra* note 8, at 35.

adjudged tie-outs to be *per se* illegal.[71]

C. Post-expiration Royalties

Post-expiration royalty provisions provide for the payment of royalties beyond the life of the technology rights. They are highly suspect in patent transfers, but are permissible in trade secret transfers.

In the area of patents, the Supreme Court in *Brulotte v. Thys Co.*,[72] held that the exaction of use royalties after a licensed patent, or the last patent of a package, expires, is an unenforceable assertion of monopoly power beyond the patent grant. The Court reasoned that "the licensor was using the licenses to project its monopoly beyond the patent period" and concluded that "a patentee's use of a royalty agreement projecting beyond the expiration of the patent is unlawful *per se*."[73] The Court, in *Brulotte*, was not asked to find, and did not find, an antitrust violation. Instead, it merely refused to enforce a provision requiring continued payments of royalties after the last of a package of patents expired.

While post-expiration patent use royalties are unenforceable, payments after a licensed patent expires would appear to be proper if the royalties clearly relate to pre-expiration use. The crucial question, therefore, is whether the post-expiration collection is based upon post- or pre-expiration activity.[74]

Although the post-expiration use royalties regarding patents are unlawful, an arm's length agreement to pay for use of trade secrets beyond the expiration of the trade secrets is proper. In *Aronson v. Quick-Point Pencil Co.*,[75] the Court sustained a contract requiring payment of royalties based on the sale of keyholders made under licensed trade secrets for as long as the licensees sold the keyholder. The Court found the contract enforceable even though all secrecy in the keyholder terminated upon its marketing.[76]

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[71] *See, e.g.*, Compton v. Metal Products, Inc., 453 F.2d 38 (4th Cir. 1971); Shea v. Blaw-Knox Co., 388 F.2d 761 (7th Cir. 1968); F.C. Russell Co. v. Consumers Insulation Co., 226 F.2d 373 (3d Cir. 1955); McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir. 1948); National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943); Columbus Automotive Corp. v. Oldberg Mfg. Co., 264 F. Supp. 779 (D. Colo. 1967), *aff'd*, 387 F.2d 643 (10th Cir. 1968); Krampe v. Ideal Industries, Inc., 347 F. Supp. 1384 (N.D. Ill. 1972).

[72] 379 U.S. 29 (1964). *Accord*, Agrashell, Inc. v. Hammons Products Co., 479 F.2d 269 (8th Cir. 1973); Pipkin v. FMC Corp., 427 F.2d 353 (5th Cir. 1970); Modrey v. American Gage & Machine Co., 478 F.2d 470 (2d Cir. 1973).

[73] 379 U.S. at 32.

[74] *See* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 136-37 (1969); Modrey v. American Gage & Machine Co., 478 F.2d 470, 474-75 (2d Cir. 1973); Clayton Mfg. Co. v. Cline, 427 F. Supp. 78 (C.D. Cal. 1976).

[75] 440 U.S. 257 (1979).

[76] The Court reasoned that the:

> Enforcement of these contractual obligations, freely undertaken in arm's length negotiation and with no fixed reliance on a patent or a probable patent grant, will: 'encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention.'

Id. at 266, citing Kewanee Oil Co., 416 U.S. 470, 485 (1974). *See also* Warner-Lambert Pharma-

Since post-expiration royalties for patents are treated differently than those for trade secrets, it may be desirable to define such royalty payments separately where both patents and know-how are licensed. The collection of post-expiration royalties based on a patent and know-how license may constitute patent misuse, if the separability of royalties between patents and know-how cannot be proven.[77] Where the patents and know-how provisions are severable, they are separately enforceable.[78]

D. Mandatory Package Licensing

A package license is a license under which more than one patent or other form of technology is transferred. Both existing and future patents can be transferred by such a patent license. Furthermore, patents and know-how or a number of different pieces of know-how can be transferred in a package.

Package licensing is common today and is frequently used to avoid troublesome questions of infringement, bookkeeping and renegotiation. If such licenses are fashioned for the convenience of the parties, they are legal.[79] If coerced, legality may depend upon the applicability of one of the exceptions to the general rule of illegality.

The courts recognize mandatory package licensing as a form of tying. In *Cardinal of Adrian, Inc. v. Keystone Consol. Indus., Inc.*,[80] a suit against a patent licensee for unpaid royalties, the court noted:

> The objection to "package licensing" is based on antitrust law; to the extent that a patentee requires a licensee to pay for additional licenses in order to get the licenses he desires, the license agreement constitutes a "tying arrangement" which is per se illegal under antitrust law.[81]

In most circumstances, the element of coercion is key to the legality of a package license. Where coercion is proven, package licenses are usually illegal and unenforceable.[82] However, limited exceptions to this rule do exist.

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ceutical Co. v. John J. Reynolds, Inc., 1978 F. Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960).

[77] Clayton Mfg. Co. v. Cline, 247 F. Supp. 78 (C.D. Cal. 1976); *accord*, Duplan Corp. v. Deering-Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979).

[78] Robintech, Inc. v. Chemidus Wavin, Ltd., 450 F. Supp. 823 (D.D.C. 1978).

[79] *See* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969); Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); Well Surveys, Inc. v. Perfo-Log, Inc., 396 F.2d 15 (10th Cir. 1968), *cert. denied*, 393 U.S. 95 (1968); McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965), *cert. denied*, 383 U.S. 933 (1966).

[80] 195 U.S.P.Q. (BNA) 26 (E.D. Mich. 1977).

[81] *Id.* at 29 (citations omitted).

[82] Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979); American Security Co. v. Shatterproof Glass Corp., 268 F.2d 769 (3d Cir. 1959); *accord*, Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966). One court, in fact, found the coercive licensing of a package of patents to constitute an antitrust violation and awarded treble damages. However, limited exceptions to this rule do exist. Hazeltine Research, Inc. v. Zenith Radio Corp., 388 F.2d 25 (7th Cir. 1967), *modified on other grounds*, 395 U.S. 100 (1969).

The coercive licensing of a package of technology is not illegal if the particular package constitutes a single product.[83] This single product rule, however, is limited and should not be relied upon except within the narrow limits set forth in the case law. The courts have rejected broader single product defenses.[84] Nevertheless, analysis of a package license situation should not overlook the fact that illegal tying requires that two separate items exist. As a matter of policy, the inclusion of additional patents in a license that may or may not be used and paid for should not given rise to a presumption or conclusion of mandatory package licensing. Unfortunately, the language of the courts in considering such instances has not been clear and has suggested that the royalty rate charged for the "wanted" patents includes some increment of charge for the "unwanted" patents or unused patents.[85] In the words of one court, "the willingness to throw in any number of patents for one rate . . . is suspect."[86]

E. Total Sales Royalties

Under a total sales royalty provision, the royalty for the transferred technology is paid on the basis of the sale or use of products or services encompassed by the transferred technology rights. For example, the licensing parties may agree to a royalty based on a percentage of the total sales of all products sold by the transferee despite the fact that the transferred technology is used only in a portion of the products produced by the licensee. Total sales royalties are permissible, if agreed to voluntarily.

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[83] In International Mfg. Co. v. Landon, Inc., 336 F.2d 723, 730 (9th Cir. 1964), *cert. denied sub nom*, Jacuzzi Bros. v. Tandon, Inc., 379 U.S. 988 (1965), the court affirmed the licensor's policy of package licensing which covered only a single article. The court reasoned:

> it follows that it is not an unlawful tying arrangement for a seller to include several items in a single mandatory package when the items may be reasonably considered to constitute part of a single distinct product. A license package containing blocking patents may be considered a single distinct product since by definition, blocking patents disclose interdependent parts of the same product.

See also North Am. Philips Co. v. Stewart Engineering Co., 319 F. Supp. 335 (N.D. Cal. 1970); Standard Oil v. United States, 283 U.S. 163 (1931).

[84] Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979).

[85] American Security Co. v. Shatterproof Glass Corp., 268 F.2d 769, 777 (3d Cir. 1959); *accord*, Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979).

[86] Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp., 218 F. Supp. 1, 49 (D. Md. 1963), *aff'd*, 327 F.2d 497 (9th Cir. 1964). In the author's opinion, a more proper analysis would limit mandatory package licensing to instances where the royalty base is expanded by coercion. In such an instance, the licensee would pay for unwanted technology or patent rights. The licensor, by forcing such a payment, could be said to have suppressed competition in competing technologies. The tying analogy thus becomes clear. In contrast, where the royalty base is not expanded, the inclusion of additional technology has no effect on competition. The only effect that can be argued is that the licensee paid more in the form of a higher royalty. Such an argument assumes too much; the royalty price paid is controlled by the market place and cannot be attributed to anything other than the payment the licensee was willing to make for that technology he intended to use.

The Supreme Court in *Zenith Radio Corp. v. Hazeltine Research, Inc.*[87] observed that a total sales royalty device may be used when the "convenience of the parties rather than the patent power dictates the total sales royalty provision."[88] However, the Court further explained, "[w]e also think patent misuse inheres in a patentee's insistence on a percentage-of-sales-royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use."[89] In total sales royalty provisions, therefore, the primary issue is whether the licensor coerced the licensee to accept a royalty base larger than that in which the technology is used. If he did, the provision is unenforceable and may be the basis for an antitrust violation.[90] If he did not, the provision is proper.[91]

F. Non-Diminishing Royalties

A non-diminishing royalty requires the payment of a level royalty throughout the term of the technology license, even though some of the technology or patents within the package expire during the term of the license. Under the majority view, non-diminishing royalty provisions are illegal only if coerced.[92]

Two recent court decisions, however, could be read to view non-diminishing royalty provisions as analogous to post-expiration royalties and illegal irrespective of coercion.

In *Duplan Corp. v. Deering Milliken, Inc.*,[93] the court found that the acceptance of a package of patents was coerced. While the court did not specifically find that the level royalty provision was coerced, it apparently believed that the effect of the provision, when combined with a coerced package license, was to extend the royalty period until the last of the licensed patents expired. In addition, the court may have relied on a broad finding that the trade believed that it was futile to request any meaningful change in the licensor's standard licensing agreement.

In *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*,[94] the court considered the problem of level or non-diminishing royalties to be more critical where one key or basic patent existed and the licensee was forced to accept and pay royalties on numerous improvement patents until the last improvement patent expired. The result of such coercion is to use the

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87 395 U.S. 100 (1969).

88 *Id.* at 138.

89 *Id.* at 139.

90 324 F. Supp. 1133.

91 Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); McCullough Tool Co. v. Well Surveys, Inc., 342 F.2d 381 (10th Cir. 1965); Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649 (N.D. Ill. 1961); Plastic Contact Lens Co. v. Butterfield, 366 F.2d 338 (9th Cir. 1966); Plastic Contact Lens Co. v. W.R.S. Contact Lens Labs, Inc., 330 F. Supp. 441 (S.D.N.Y. 1970).

92 Well Surveys, Inc. v. Perfo-Log, Inc., 396 F.2d 15 (10th Cir. 1968); Beckman Instruments, Inc. v. Technical Dev. Corp., 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971); Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649 (10th Cir. 1965).

93 444 F. Supp. 648.

94 367 F.2d 678 (6th Cir. 1966). *See also* cases cited in note 62 *supra*.

leverage of a basic patent to require the licensee to pay royalties beyond the basic patent's expiration for technology rights he might not have otherwise wished to use.

G. Grant-Backs

In a grant-back provision, the transferee of the technology agrees to grant to the transferor, in whole or in part, rights to technology developed by the transferee. The grant-back may be an assignment, or an exclusive or non-exclusive license. It may be royalty-free or require a royalty payment from the transferor to the transferee. The legality of grant-back provisions is tested under the rule of reason.

The courts are not hesitant to hold unreasonable grant-back clauses to be unlawful.[95] Furthermore, the Department of Justice has, in the past, taken the position that an exclusive or assignment grant-back provision is unlawful.[96] Recently, however, the Justice Department indicated that in certain competitive situations an exclusive grant-back provision may be acceptable if properly limited as to technical scope and time.[97]

In *Transparent-Wrap Machine Co. v. Stokes & Smith Co.*,[98] the Supreme Court held "that the inclusion in the license of the condition requiring the licensee to assign improvement patents [to the licensor was] . . . not per se illegal and unenforceable."[99] However, the Court, in *Transparent-Wrap*, clearly stated that grant-backs could give rise to an antitrust violation.[100]

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[95] *See, e.g.*, United States v. Wisconsin Alumni Research Foundation, [1970] Trade Cases (CCH) ¶ 73,015 (W.D. Wis. 1970); United States v. Aluminum Co. of America, 91 F. Supp. 333, 410 (S.D.N.Y. 1950); United States v. General Elec. Co., 80 F. Supp. 989 (S.D.N.Y. 1948).

[96] Remarks of Bruce B. Wilson, Deputy Assistant Attorney General, Sept. 21, 1972, 5 TRADE REG. REP. (CCH) ¶ 50,146.

[97] ANTITRUST GUIDE, *supra* note 8, at 43. The Department states that two factors will probably influence its decision to challenge any exclusive grant-back. The first concern is the technical scope of the licensee's grant-back obligation and the second concerns the competitive relationship between the licensor and the licensee. *Id.*

[98] 329 U.S. 637 (1947).

[99] In considering the effects of the grant-back assignment the court reasoned:

> Respondent pays no additional royalty on any improvement patents which are used. By reason of the agreement any improvement patent can be put to immediate use and exploited for the account of the licensee. The benefit continues as long as the agreement is renewed. The agreement thus serves the function of supplying a market for improvement patents. Whether that opportunity to exploit the improvement patents would be increased but for the agreement depends on vicissitudes of business too conjectural to appraise.

Id. at 646.

[100] The Court said:

> Conceivably the device could be employed with the purpose or effect of violating the antitrust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents, a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee.

Id. at 646-47.

Recently, in *Duplan Corp. v. Deering Milliken, Inc.*,[101] the court found that a patent assignment grant-back provision had no adverse effect on competition, did not preclude the only licensee involved from using its own invention and did not discourage inventive activity. The court concluded that the grant-back clause did not constitute a violation of the antitrust laws.[102] However, the court found patent misuse because the scope of the grant-back far exceeded the scope of the licensed patents.

In conclusion, grant-backs are tested under the rule of reason. Generally a grant-back is legal if it is reasonably necessary to protect the transferor and does not deter the incentive of the transferee to innovate, does not extend beyond the life or the technical scope of the transferred technology and does not otherwise unreasonably restrain competition in the market affected by the technology.

H. Veto Power Clauses

Under a veto power clause, either the transferor or the transferee is restrained from granting further licenses to the technology without the express permission of the other party. Such a provision can allow a licensor and a non-exclusive licensee to control a particular market by agreeing not to license competitors in the market without first obtaining permission from the other. Under the majority view, a veto power clause is tested under the rule of reason. Nevertheless, the courts often view such clauses as illegal where the parties to the transfer are in competition.

In *Moraine Products v. ICI America, Inc.*[103] the court considered a case where the applicant for a limited exclusive license had to secure the consent of the licensor and its licensee. The court considered evidence demonstrating that the licensor and licensee conspired to divide the market and conflicting evidence supporting one party's assertion that sound commercial grounds supported the veto power clause. The court remanded the case, specifically rejecting the application of a *per se* rule.[104]

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[101] 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979).

[102] Other factors which militate against an antitrust finding include whether the licensee has the right to use, without increase in royalties, its own invention, Zajicek v. Kool-Vent Metal Awning Corp. of America, 283 F.2d 127, 132 (9th Cir. 1960), *cert. denied*, 365 U.S. 859 (1961); whether the arrangement enhances or hinders dissemination of the new technology and whether the grant-back is within the scope of the licensed technology, International Nickel Co. v. Ford Motor Co., 166 F. Supp. 551, 566 (S.D.N.Y. 1958); and whether there is a widespread network of such agreements between competing companies affecting an entire industry, Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F.2d 252 (7th Cir. 1960), *cert. dismissed*, 366 U.S. 211 (1961). *See also* McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965); Old Dominion Box Co. v. Continental Can Co., 273 F. Supp. 550, 572 (S.D.N.Y. 1967), *aff'd*, 393 F.2d 321 (2d Cir. 1968); Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901 (N.D. Ohio 1959), *aff'd in part*, 285 F.2d 911 (6th Cir. 1960), *cert. denied*, 368 U.S. 890 (1961); Blohm & Voss AG v. Prudential-Grace Lines, Inc., 346 F. Supp. 1116 (D. Md. 1972).

[103] 538 F.2d 134 (7th Cir. 1976). *Accord*, Noll v. O.M. Scott & Sons Co., 467 F.2d 295 (6th Cir. 1972); Old Dominion Box Co. v. Continental Can Co., 273 F. Supp. 550 (S.D.N.Y. 1967), *aff'd*, 393 F.2d 321 (2d Cir. 1968).

[104] The Court said:

> On such a record, the erection of a judicial presumption that the challenged li-

While the majority of the courts have applied the rule of reason test to veto power clauses, one court has viewed such clauses as *per se* violations. In *Mason City Tent & Awning Co. v. Clapper*,[105] the court held that an agreement giving a non-exclusive licensee a veto power in the selection of other licensees was violative of sections 1 and 2. In that decision the court concluded, "[i]t cannot be successfully contended by defendants that the terms of the license agreement . . . are not, per se, violative of section 1 of the Sherman Act . . . ."[106]

Regardless of whether a court applies a rule of reason or a *per se* test, veto power clauses are suspect. If the purpose and effect of the veto power is to permit competitors to control a market, the agreement will in all probability be declared an antitrust violation.[107]

I. Quantity or Volume Restrictions

Under a quantity or volume restriction provision the transferor sets the minimum or maximum number of products that can be manufactured using the transferred technology. Such restrictions are generally tested under the rule of reason.

Absent other restraining provisions or conspiracies, quantity or volume restrictions have been upheld as being within the patentee's or trade secret owner's exclusive rights.[108] Furthermore, process patent licenses containing limitations on the quantity of unpatented products which can be manufactured through use of the process have generally been upheld as being a reasonable limitation on the use of the process.[109] However, quantity restrictions can be illegal if the restriction is nothing more than

> cense agreement was pernicious or totally lacking any redeeming economic virtue is unwarranted. The continuing debate between patent and antitrust champions has not so conclusively established the anticompetitive purpose or effect of a mutual agreement not to grant sublicenses that this, or any other court, can properly eschew economic analysis and rule a priori that, upon execution, the January 19, 1961, license contract was illegal per se. Such a narrow focus on the specific terms of a licensing arrangement would ignore the body of sophisticated legal and economic literature to the effect that truncated judicial vision has frequently upset desirable commercial practices.

538 F.2d at 145.

[105] 144 F. Supp. 754 (W.D. Mo. 1956).

[106] *Id.* at 767.

[107] Clapper v. Original Tractor Cab Co., 165 F. Supp. 565 (S.D. Ind. 1958), *modified*, 270 F.2d 616 (7th Cir. 1959), *cert. denied*, 361 U.S. 967 (1960); Mason City Tent & Awning Co. v. Clapper, 144 F. Supp. 754 (W.D. Mo. 1956); United States v. Crown Zellerback Corp., 141 F. Supp. 118 (N.D. Ill. 1956); United States v. Besser Mfg. Co., 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952).

[108] *See, e.g.*, American Equipment Co. v. Tuthill Bldg. Material Co., 69 F.2d 406 (7th Cir. 1934); Ethyl Corp. v. Hercules Powder Co., 232 F. Supp. 453 (D. Del. 1963); United States v. E.I. duPont de Nemours & Co., 118 F. Supp. 41 (D. Del. 1953), *aff'd on other grounds*, 351 U.S. 377 (1956); *cf.* Rubber Tire Wheel Co. v. Milwaukee Rubber Wheel Co., 154 F. 358 (7th Cir. 1907), *appeal dismissed*, 210 U.S. 439 (1908).

[109] *See, e.g.*, Ethyl Corp. v. Hercules Powder Co., 232 F. Supp. 453 (D. Del. 1963); Q-Tips, Inc. v. Johnson & Johnson, 109 F. Supp. 657 (D.N.J. 1951), 207 F.2d 509 (3d Cir. 1953), *cert. denied*, 347 U.S. 935 (1954).

a guise for controlling the price of unpatented articles.[110]

J. Field of Use Restrictions

In a field of use restriction, the transferor limits the product line or industrial use to which his technology can be applied. Rather than granting all possible uses to one licensee, the licensor may reserve some uses for his own exploitation, or for the exploitation of specific licensees. In the absence of patent or trade secret rights, horizontally imposed agreements which divide customers or markets are deemed *per se* illegal.[111] However, field of use restrictions in patent and trade secret licenses that are imposed on manufacturing licensees are tested under the rule of reason.

In *General Talking Pictures Corp. v. Western Electric*,[112] the Court considered licenses of patents on electronic sound amplifiers. The licensor granted licenses to two parties for the commercial field and to a number of non-exclusive licensees for amplifiers for home use. The Court, holding that the restriction was proper, stated that it was "reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[113]

Field of use restrictions in patent and trade secret licenses serve the beneficial results of increasing royalty income, testing the feasibility of a new field, providing the public with full use and meeting specific needs and capabilities of a licensee. Such a restriction may permit the licensor to select several smaller companies who specialize in limited fields rather than seeking a larger company that has access and knowledge in a variety of fields.

Field of use restrictions imposed upon manufacturing licensees, licensees who use the licensed technology to make products, are in general sanctioned by the courts.[114] Field of use restraints imposed upon purchasers of a patented product, however, are more suspect and are governed by the rule regarding resale restrictions.[115]

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[110] *See* American Equipment Co. v. Tuthill Bldg. Material Co., 69 F.2d 406 (7th Cir. 1934); United States v. General Elec. Co., 82 F. Supp. 753 (D.N.J. 1949).

[111] United States v. Singer Mfg. Co., 374 U.S. 174 (1963); Addyston Pipe & Steel Co. v. United States, 85 F. 271 (6th Cir. 1898), *modified and aff'd*, 175 U.S. 211 (1899); United States v. Timken Roller Bearing Co., 83 F. Supp. 284 (N.D. Ohio 1949), *aff'd*, 341 U.S. 593 (1951); United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 322 U.S. 319 (1947).

[112] 305 U.S. 124 (1938).

[113] *Id.* at 127 (quoting United States v. General Elec. Co., 272 U.S. 476, 489 (1926)).

[114] *See, e.g.*, Hensley Equipment Co. v. Esco Corp., 383 F.2d 252 (5th Cir. 1967); Armstrong v. Motorola, Inc., 374 F.2d 764 (7th Cir. 1967); Bela Seating Co. v. Poloron Products, 297 F. Supp. 489 (N.D. Ill. 1968); Chemagro Corp. v. Universal Chem. Co., 244 F. Supp. 486 (E.D. Tex. 1965); Benger Laboratories, Ltd. v. R.K. Laros Co., 209 F. Supp. 639 (E.D. Pa. 1962), *aff'd*, 317 F.2d 455 (3d Cir. 1963), *cert. denied*, 375 U.S. 833 (1963); Eversharp, Inc. v. Fisher Pen Co., 204 F. Supp. 649 (N.D. Ill. 1961); Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901 (D. Ohio 1959), *aff'd in part*, 285 F.2d 911 (6th Cir. 1960), *cert. denied*, 368 U.S. 890 (1961); United States v. Birdsboro Steel Foundry & Mach. Co., 139 F. Supp. 244 (W.D. Pa. 1956); *In re* Reclosable Plastic Bags, 192 U.S.P.Q. (BNA) 674, 679 (U.S.I.T.C. 1977).

[115] Resale restrictions will be discussed in text accompanying notes 137-155 *infra*.

The distinction between the imposition of use restrictions on manufacturing licensees and on purchasers of the patented product was clearly drawn by the court in *United States v. Ciba-Geigy Corp.*[116] The court found that the use restrictions imposed on the purchaser were illegal *per se*, while finding similar use restrictions on manufacturing licensees to be proper.[117] Even though field of use restrictions in patent or trade secret licenses are generally acceptable, they are not free from attack. If a field of use restriction is used in a covert attempt to control resale,[118] or expand the limits of the patent,[119] the provision will probably be held illegal.

K. *Territorial Restrictions*

Under a territorial restriction, the transferor restricts the geographical territory in which the transferee can use the technology or market the products made or performed by the technology. Absent enforceable patents or trade secrets, horizontal agreements between competitors not to compete and to divide territories or markets are considered naked restraints of trade which are *per se* illegal.[120]

However, under federal statute, a patent owner is authorized to "convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."[121] Relying in varying degrees upon that provision, the courts have almost universally reasoned that domestic territorial limitations in patent licenses are legal.

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116 [1976-1] Trade Cases (CCH) ¶ 60,908 (D.N.J. 1976).

117 The court said:

> This argument fails to account for the existence of the patent monopoly. The proper standard for assessing the legality of a patent license is the legitimate scope of the monopoly. As the Supreme Court has said: '[T]he patentee may grant a license "upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."' General Talking Pictures Co. v. Western Electric Co., 305 U.S. 124, 127 (1938). This idea was restated two years later in a case much relied upon by the government, Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456 (1940). Therein the court described the licensing powers of a patentee in the following terms:
>
> > He may grant licenses to make, use or vend, restricted in point of space of time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give.
>
> Of course, where a patentee exercises his patent in an effort to expand his monopoly beyond that reasonably implicit in the patent grant, he may collide with the antitrust laws. Standard Sanitary Mfg. Co. v. United States, 226 U.S. 20, 48 (1912). Thus, the question arises whether the limitation to specialty form sales only contained in the Abbott license transcended the bounds of CIBA's patent on HCT. *Id.* at 68.

118 United States v. Glaxo Group, 203 F. Supp. 1 (D.D.C. 1969), *rev'd on other grounds*, 410 U.S. 52 (1973).

119 United States v. Studiengesellschaft Kohle, M.B.H., 426 F. Supp. 143 (D.D.C. 1976) (non-exclusive process patent licensee's exclusive license to sell the resultant unpatented articles cannot be enforced as a field of use restriction).

120 *See* cases cited in note 109 *supra*.

121 35 U.S.C. § 261 (1975).

The Supreme Court in *United States v. General Electric*[122] explained:

> The owner of a patent may assign it to another and convey (1) the exclusive right to make, use and vend the invention in the United States or (2) an undivided part or share of that exclusive right or (3) the exclusive right under the patent within and through a specified part of the United States.[123]

Similarly, in *Brownell v. Ketcham Wire & Mfg. Co.*,[124] the Ninth Circuit held a territorial license to be valid and stated:

> It is a fundamental rule of patent law that the owner of a patent may license another and prescribe territorial limitations. 35 U.S. Code, § 47, provided he may 'grant and convey an exclusive right under his application for patent or patent to the whole or any specified part of the United States.' Substantially similar language was carried over in to 35 U.S. Code, § 261 by the revision of the patent laws. Act of July 19, 1953, c. 950 § 1, 66 Stat. 810. These sections rest on the provisions of the Constitution in Art. 1, § 8, Clause 8. Patent laws therefore are equally as valid as antitrust laws.[125]

Other courts have consistently held that domestic territorial limitations are proper.[126]

The courts treat territorial restraints on the use of trade secrets and the sale of products made by the trade secrets similarly. The court in *Shin Nippon Koki Co. v. Irvin Industries, Inc.*,[127] stated that the rule of reason should be applied to such territorial restraints and explained the basis of its decision:

> The rationale behind the rule is that since the owner of a secret process, so long as he keeps it secret, is entitled to use it or not, as he pleases, with impunity from the antitrust laws, he should be encouraged to make it available for the benefit of the public at large. As an incentive to the accomplishment of this goal, and to insure him a satisfying reward for his creative skill and diligence, he should, like the owner of a patent, be allowed to place reasonable competitive restraints upon those to whom he has granted the rights to use and who, but for such grant, would be unable to compete with him.[128]

The U.S. antitrust laws will, under some circumstances, permit patent or trade secret licensors to divide world territories and prohibit imports or exports to or from certain territories or countries. For example, a licensor who has patent rights in a given country can by a territorial

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122 272 U.S. 476 (1926).

123 *Id.* at 489.

124 211 F.2d 121 (9th Cir. 1954).

125 *Id.* at 128.

126 *See, e.g.*, Becton, Dickinson & Co. v. Eisele & Co., 86 F.2d 267 (6th Cir. 1936); Blohm & Voss AG v. Prudential-Grace Lines, Inc., 346 F. Supp. 1116 (D. Md. 1972), *rev'd on other grounds*, 489 F.2d 231 (4th Cir. 1973); Deering, Milliken & Co. v. Tempo-Resisto Corp., 160 F. Supp. 463 (S.D.N.Y. 1958), *rev'd on other grounds*, 274 F.2d 626 (2d Cir. 1960); United States v. Parker-Rust-Proof Co., 61 F. Supp. 805 (E.D. Mich. 1945).

127 186 U.S.P.Q. (BNA) 296 (N.Y. Sup. Ct. 1975).

128 *Id.* at 298. *See also* Foundry Services v. Beneflux Corp., 110 F. Supp. 857 (S.D.N.Y. 1953); Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911); Fowle v. Park, 131 U.S. 88 (1889); Shin Nippon Koki Co. v. Irwin Industries, Inc., 186 U.S.P.Q. (BNA) 296 (N.Y. Sup. Ct. 1975). United States v. Westinghouse Elec. Corp., 200 U.S.P.Q. (BNA) 514 (N.D. Cal. 1978); United States v. E.I. duPont de Nemours & Co., 351 U.S. 377 (1956).

restraint prohibit its manufacturing licensees in other countries from importing products into the country where the patent rights exist.

In *Dunlop Co., Ltd. v. Kelsey-Hayes Co.*,[129] the court concluded that agreements limiting imports of a patented product to the United States were "merely territorial licenses granted by a patentee such as are permitted by 35 U.S.C. § 261."[130] The Department of Justice in its Antitrust Guide has stated that a patent is necessarily territorial in scope and that therefore a "territorial division created explicitly by such rights is not now regarded as being illegal *in itself* under the antitrust laws."[131] In *Brownell v. Ketcham Wire & Mfg. Co.*,[132] the court upheld a license agreement in which the foreign licensee agreed not to export any articles covered by the patent to any foreign nation and not to import any infringing articles into the United States. However, the Attorney General's Committee has questioned such export restrictions.[133]

While reasonable territorial restraints may be permissible, it may be considered unreasonable and illegal, *inter alia*, to use territorial restraints to divide world markets between competitors,[134] to restrict the sales territory of an unpatented product made under a patented process,[135] or to divide markets for subject matter outside of the confines of the patent grant.[136]

L. Resales Restriction-Exhaustion and the Rule of Reason

A resale restriction is a restriction imposed by the transferor on the sale or use of goods made with technology after the transferee has parted with title to the goods. For instance, the transferor may desire to place restrictions on a person purchasing goods made by his manufacturing licensee.

In *Adams v. Burks*,[137] the Supreme Court set down the "domestic exhaustion by sale" doctrine. In that decision the Court held that the first authorized domestic sale of a patented article exhausts the patent rights in that article. In *Adams*, the defendant purchased patented coffin lids from a licensee within the licensee's territory and used the lids outside of that territory. An assignee of patent rights within the area of

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[129] 484 F.2d 407 (6th Cir. 1973).

[130] *Id.* at 417.

[131] ANTITRUST GUIDE, *supra* note 8, at 25.

[132] 211 F.2d 121 (9th Cir. 1954).

[133] REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS 237 (1955).

[134] United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947); United States v. General Elec. Co., 80 F. Supp. 989 (S.D.N.Y. 1948); United States v. Imperial Chemical Indus., Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951).

[135] United States v. Studiengesellschaft Kohle, M.B.H., 200 U.S.P.Q. (BNA) 389 (D.D.C. 1978). *See also* ANTITRUST GUIDE, *supra* note 8, at 26 where the Department of Justice states that it is established that a process patent confers no rights to restrict sales of the unpatented product made by the process.

[136] United States v. Crown Zellerbach Corp., 141 F. Supp. 118 (N.D. Ill. 1956).

[137] 84 U.S. 453 (1873).

defendant's use sued for infringement. The Court held that the assignee could not bring the action since the patent rights in the product were exhausted by the sale. The Court reasoned that "in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use."[138]

The courts have consistently applied the domestic exhaustion by sale doctrine and have reasoned that an authorized sale of a patented product fully exhausts the patentee's rights to bring suit to place restrictions based solely upon its patent's rights.[139] Once the patent rights are exhausted, any restraint imposed directly or indirectly against the purchaser is tested under general antitrust law as if no patent or trade secret existed.

The domestic exhaustion by sale doctrine does, however, appear to have some limits. For example, a patentee can license a manufacturing licensee to make and sell the machine and can still impose use royalties upon the purchaser.[140] Furthermore, in *General Talking Pictures*[141] the patentee enforced his patent rights against a purchaser who knowingly used the patented product in a field outside of the field of use granted to the manufacturing licensee from whom the purchaser bought the product. Arguably these sales were unauthorized sales which did not grant the patentee full consideration for his patent. Nevertheless, it appears that any "unauthorized sale doctrine," if such a doctrine exists, would be limited and would not apply to innocent, good faith purchasers of patented products.

A primary consideration of a U.S. potential licensor in foreign licensing is often whether he can prevent the importation of infringing products made by his foreign licensee. Such imports may affect his sales appreciably in the United States.

In view of the exhaustion principle, an interesting question is whether a U.S. patentee can stop the importation of goods by a person who purchases the goods from the U.S. patentee's foreign licensor. Recently, the International Trade Commission reasoned that the U.S. patent rights should not be diminished by the importation of products made by a licensee under a corresponding patent in another country.[142] Fur-

138 *Id.* at 456.

139 *See, e.g.*, United States v. General Elec. Co., 80 F. Supp. 989 (S.D.N.Y. 1948); United States v. Univis Lens Co., 316 U.S. 241 (1942); Keeler v. Standard Folding Bed Co., 157 U.S. 59 (1895); Hobbie v. Jennison, 149 U.S. 355 (1893); Pfotzer v. Aqua Systems, Inc., 162 F.2d 779 (2d Cir. 1947); American Industrial Fastener Corp. v. Flushing Enterprises, Inc., 179 U.S.P.Q. (BNA) 722 (N.D. Ohio 1973); Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring System Co., 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd*, 268 F.2d 395 (3d Cir. 1959).

140 Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979); Cold Metal Process Co. v. McLouth Steel Corp. 41 F. Supp. 487 (E.D. Mich. 1941), *aff'd*, 126 F.2d 185 (6th Cir. 1942).

141 305 U.S. 124 (1938).

142 *In re* Reclosable Plastic Bags, 192 U.S.P.Q. (BNA) 674 (U.S.I.T.C. 1977). There the Commission reasoned that "no foreign license on the same product can interfere with the rights

thermore, in *Griffin v. Keystone Mushroom Farm, Inc.*,[143] the court held that the sale in Italy by the U.S. patentee's foreign licensee did not exhaust the patentee's U.S. patent rights. The court denied the defendant's motion for partial summary judgment on the exhaustion ground and reasoned that the patentee could even receive what the defendant termed a "double recovery"—a royalty under its Italian patents and a recovery for infringement of the U.S. patents.[144]

Pursuant to this recent case law, it appears that a patentee can bring an action against a third party purchaser who imports infringing goods. However, the exhaustion by foreign sale doctrine, particularly by a foreign licensee, is not clearly defined. Some courts have held that foreign sales exhaust a patentee's rights in the product[145] while others have held to the contrary.[146] The issue, therefore, may not yet be settled.

In a recent article regarding this exhaustion by foreign sale problem, two commentators suggested the following safeguards against resale imports. First, grant the foreign licensee only rights of manufacture, use or sale of the licensed article in particular foreign countries. Second, have the licensee acknowledge that no rights are being granted under U.S. patents. Third, obtain the licensee's express agreement that all foreign-manufactured products must contain a notice that the licensee has acquired no rights under U.S. patents, and that the purchase of the article is subject to enforcement of outstanding and valid U.S. patent rights.[147]

If the patent rights are exhausted, any resale restrictions regarding goods made by patented or unpatented technology are treated similarly. If the restraints result in the horizontal division of markets, the restraints are *per se* illegal.[148] On the other hand, if the restraints are vertical, such as restraints upon a distributor buying the products from a manufacturing licensee, the restraints are tested under the rule of reason. In *Continental T.V., Inc. v. GTE Sylvania, Inc.*,[149] the U.S. Supreme Court specifically overruled the *per se* doctrine enunciated in *United States v. Arnold-Schwinn*

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granted a U.S. patentee by U.S. patent laws . . . patent rights in the United States cannot be diminished by the importation of reclosable plastic bags made by a licensee under a corresponding patent in another country." *Id.* at 679. The Commission did not consider the effects of importation by a purchaser rather than a licensor.

[143] 199 U.S.P.Q. (BNA) 428 (E.D. Pa. 1978).

[144] *Id.* at 431.

[145] Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'r Corp., 266 F. 71 (2d Cir. 1920); Vogtlandische Maschinen-Fabrik v. Paradis, 11 F. Supp. 759 (D.N.J. 1935), *modified sub nom*, Reitzsch v. Paradis, 83 F.2d 273 (3d Cir. 1936); Holiday v. Mattheson, 24 F. 185 (S.D.N.Y. 1885).

[146] Boesch v. Graff, 133 U.S. 697 (1890); *In re* Reclosable Plastic Bags, 192 U.S.P.Q. (BNA) 674 (U.S.I.T.C. 1977); Featherstone v. Ormonde Cycle Co., 53 F. 110 (S.D.N.Y. 1892); *see also* A Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Daimler Mfg. Co. v. Conklin, 170 F. 70 (2d Cir. 1909), *cert. denied*, 216 U.S. 621 (1910).

[147] Farabow and Brunsvold, *United States Antitrust Law, International License and the Protection of the United States Market—Are They Compatible?*, 1 LIC. L. & BUS. REP. 1 (May 1978).

[148] *See* cases cited in note 109 *supra*.

[149] 433 U.S. 36 (1977).

and Co.[150] and stated that it is more appropriate "to return to the rule of reason that governed vertical restrictions prior to *Schwinn*."[151]

VI. Conclusion

A licensing program in the United States can, if properly constructed, avoid interference with the antitrust laws and still achieve reasonable business goals. The laws permit flexibility of approach and, where a reasonable business justification exists, allow restraints to be imposed on the use of licensed technology.

The risks incurred in attempting to achieve particular business goals can often be minimized by consideration of alternative avenues of approach to those goals in light of the applicable case law. Preventive maintenance should be a key consideration whenever commencing a licensing program. Thereafter, periodic reviews should be conducted, particularly in regard to highly successful licensing operations. A low risk course of action could, by changes in the law or the unwitting actions of those involved, be converted to one of a high risk.

Question and Answer Period

Question: Can import laws be used to prevent importation of goods made outside the United States in breach of a trade secret agreement?

Mr. Payne: I would say yes. If you can get jurisdiction over the entity or the individual, you can enforce the agreement in a U.S. court. In addition, I believe that one could use ITC proceedings in this area since this activity might be considered an unfair practice under section 337. The ITC proceedings are interesting. They are available for patent infringement cases, and typically must be finished within a year. Extensions may be granted, however the ITC pushes you through discovery and the final proceeding very quickly.

Question: Are reasonable, *i.e.*, non-exclusive short-term grant-back provisions, generally acceptable and enforceable against licensees outside the United States?

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150 388 U.S. 365 (1967).

151 433 U.S. at 59. For discussion of the impact of the *Sylvania* decision *see* Note, *Sylvania and Vertical Restraints on Distribution*, 19 B.C.L. REV. 751 (1978); Potofsky, *The Sylvania Case: Antitrust Analysis of Non-Price Vertical Restraints*, 78 COLUM. L. REV. 1 (1978); Note, *Sylvania and Beyond: An Expanding Rule of Reason for Distribution Restraints*, 4 J. CORP. L. 169 (1978); Posner, *The Rule of Reason and the Economic Approach: Reflections on the Sylvania Decision*, 45 U. CHI. L. REV. 1 (1977); Birdwell, *Exhaustion of Rights and Patent Licensing Market Restriction*, 60 J.P.O.S. 203 (1978).

Prior to the *Sylvania* decision, courts had combined the exhaustion principle and *Schwinn* to find vertical resale restrictions on patented items to be illegal. *See, e.g.*, United States v. Glaxo Group, Ltd., 302 F. Supp. 1 (D.D.C. 1969); American Industries Fastener Corp. v. Flushing Enterprises, Inc., 179 U.S.P.Q. (BNA) 722 (N.D. Ohio 1973). Furthermore, a court has recently applied the rule of reason and found that vertical resale restrictions on patented items violated the antitrust laws. Munters Corp. v. Burgess Industries, Inc., 194 U.S.P.Q. (BNA) 146 (S.D.N.Y. 1977), *aff'd*, 201 U.S.P.Q. (BNA) 756 (S.D.N.Y. 1978).

Mr. Payne: I am not sure, but I think the answer is yes. These provisions are enforceable in the EEC. They are even enforceable in most of the developing countries, but Mexico, Brazil and other developing countries have prohibited the exclusive grant-back. However, some countries have also required compensation paid to the licensee whenever the licensor receives rights back from the licensee. The result of all of this is if you have a non-exclusive or an exclusive grant-back, you may find the country requiring some form of compensation back to the licensee.

Question: Is there a distinction under the antitrust laws between a non-U.S. inventor who obtains a U.S. patent, then licenses a U.S. entity to use the patent, and a non-U.S. inventor who simply licenses the U.S. entity to use the technology without obtaining a patent?

Mr. Payne: Yes. There is a distinction to this extent. If the technology is not licensed and eventually becomes publicly available, your ability to restrict the territorial and use activities of the licensee varies, because once information is publicly available you have lost your right to restrict in those areas. Rather you now fall under general antitrust laws and may well be committing *per se* violations of the antitrust laws. Because of section 261 of the Patent Laws, you can divide both territorially and as to use. The same is true, I believe, of trade secrets. There is no statute supporting this with regard to trade secrets, but the case law, particularly *Shin Nippon Koki Co. v. Irvin Industries, Inc.* [1], a New York state case, tends to support that concept. There is also an *A & E Plastic* case.[2]

Question: If a patent is held on the manufacturing process of an item, and the item itself is patented, so that both the process for making it and the term are patented, are there any antitrust implications with regard to a requirement that both patents be licensed at the same time?

Mr. Payne: This problem introduces the area of mandatory package licensing. Is there a problem with requiring your licensee to take both? Yes. If the product can be made by other processes, there may be an attack of possible tying. If you force the licensee to take your process patent and pay something for that process patent when in fact he could operate under some other technology to make the product, this may be deemed tying. There is, however, an exception to the mandatory package licensing restriction called a blocking patent exception. It typically comes up when you have an improvement patent and a broader patent but you cannot practice the improvement patent without infringing the broader patent. If the licensee wants the improvement patent, then there is nothing wrong with forcing him to take the broader patent. The same could be true in the fact pattern presented in your question, if in order to make the patented item, you automatically infringe the process patent. Consequently, if you have a blocking situation where the unwanted pat-

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[1] 186 U.S.P.Q. (BNA) 296 (N.Y. Sup. Ct. 1975).

[2] A. & E. Plastic Pak Co. v. Monsanto Co., 396 F.2d 710 (9th Cir. 1968).

ent is going to be infringed by what the licensee does, then there is nothing wrong with forcing him to take the unwanted patent.