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## The Administration's Legislation: The National Cooperative Research Act of 1984, the National Productivity and Innovation Act of 1983, 18 J. Marshall L. Rev. 607 (1985)

Kelly L. Morron

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# THE ADMINISTRATION'S LEGISLATION: THE NATIONAL COOPERATIVE RESEARCH ACT OF 1984, THE NATIONAL PRODUCTIVITY AND INNOVATION ACT OF 1983

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#### INTRODUCTION

The government has become increasingly concerned with the declining ability of the United States to continue its traditional role of leading the world in the advancement of technology. Although the United States continues to make some outstanding achievements in the innovation of technology, there is a popular perception that the competitive edge has worn away in many of our industries. An inability to maintain a high level of technological innovation could have serious economic effects on the maintenance of a competitive status in both domestic and foreign markets. Additionally, a decrease in the advancement of technology may result in a weakened military posture.

Within the past several years, this real or perceived economic injury has triggered a reaction of protectionism in the United States with respect to nationally-based commercial enterprises. Domestic firms and the American public informed Congress that legislation was necessary to conserve America's economic resources and to protect American industries, jobs, and the economic balance. Concurrently, an economic theory propounding a noninterventionist governmental policy became popular. This policy supports a free market to foster competition by limiting both regulation and the instigation of antitrust suits, which have been perceived as restricting beneficial competition.

President Reagan, who firmly maintains a policy of governmental noninterventionism, appointed William F. Baxter as Assistant Attorney General, Department of Justice Antitrust Division, in 1981. Baxter brought with him noninterventionist views and this outlook has since been reflected strongly in Antitrust Division policy. At the same time, Congress responded to the country's economic slump by proposing and implementing legislation aimed at stimulating domestic industry, notably by creating tax benefits, promoting risk ventures, and increasing protection for technological advances (intellectual property). This article identifies and discusses attempts to ameliorate the country's economic problems through legislation proposed in the early 1980's addressing the perceived underlying inhibitors of free competition: antitrust liability of joint research ventures, and judicial misconstruction of intellectual property laws and doctrines. Of the pending legislation, the

Administration itself has proposed what is potentially the most important. The precursor of The National Cooperative Research Act of 1984 (the NCRA),<sup>1</sup> a bill entitled The National Productivity and Innovation Act of 1983,<sup>2</sup> and its copending legislation, is discussed and evaluated to determine whether the legislation will achieve the goals of advancing technological innovation and competition.

A. *Economic Background for Recent Intellectual Property and Antitrust Legislation*

In the past decade, the federal government has become concerned that the United States economy has failed to keep pace with its trading partners and other industrialized countries.<sup>3</sup> A decrease in the United States' comparative level of technological innovation may have serious economic consequences, not only in terms of ability to maintain a competitive edge in foreign markets, but also, perhaps as a result of the loss of a competitive international position, in the domestic market.<sup>4</sup> Injury to the domestic economy may result from competition with foreign concerns for American purchasers because the United States presents few trade barriers to its industrialized trading partners.<sup>5</sup>

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1. PUB. L. NO. 98-462, 98 Stat. 1815 (1984) (to be codified at 15 U.S.C. §§ 4301-05).

2. S. 1841, 98th Cong., 1st Sess., (1983); H.R. 3878, 98th Cong., 1st Sess. (1983); CONG. REC. S12,214-22 (daily ed. Sept. 17, 1983); 26 PAT. TRADEMARK & COPYRIGHT J. (BNA) 456-57 (Sept. 15, 1983).

3. B. BITTKER & L. STONE, FEDERAL INCOME TAXATION 17 (5th ed. 1980) [hereinafter cited as BITTKER].

4. See S. REP. NO. 427, 98th Cong., 2d Sess. 1-3 (1984); *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 3 (1983) (statement of Malcolm Baldrige, Secretary of Commerce) [hereinafter cited as Baldrige]; *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 2-3 (1983) (statement of Gerald Mossinghoff, Commissioner of Patents and Trademarks) [hereinafter cited as Mossinghoff]; Garvey, *Study of Antitrust Treble Damage Remedy*, reprinted in 46 ANTITRUST & TRADE REG. REP. (BNA) 356, 367 (Mar. 1, 1984) (report to the House Committee on the Judiciary), [hereinafter cited as Garvey]; *Panel Discussion Interview with William F. Baxter, Assistant Attorney General Antitrust Division*, 50 ANTITRUST L.J. 151, 168 (1981) [hereinafter cited as *Panel Discussion*].

5. The basis for this theory is that major U.S. trading partners, notably Japan and West Germany, which maintain high levels of innovation and invention, have few trade barriers to the United States' markets, in which they have developed strong shares. See *supra* notes 3 and 4. The corresponding decrease in market share for domestic firms may cause the failure of many American companies, both large and small, and a decrease in profits for others. As a result, after-tax capital drops, and savings and investments in risk ventures continue to fall, sustaining inflation and recession. This theory, however, is not universally accepted. Baxter disagrees strongly with this reasoning. *Panel Discussion*, *supra* note 4, at 168.

There is thus a real need to increase the ability of domestic industries to develop and commercialize new technologies—the products of intellectual application and ingenuity—which will enable the United States to remain competitive with other countries. Innovation, the introduction of change into the established order, is the key to such development and, therefore, is vital to the economy. Innovation stimulates economic and industrial growth, employment, new products and processes, and increases efficiencies in the production and distribution of existing products, processes and services. Thus, innovation is fundamental to successful economic competition and must be optimized for the United States to maintain its competitive status in world trade.

Joint research and development ventures play an important role in the innovation process. Although large organizations often have the capability to conduct their own research programs, smaller and less wealthy firms may be unable to engage in independent research and development.<sup>6</sup> When smaller organizations form joint research ventures, they are able to maximize efficiency by sharing the costs to produce and commercialize profitable products. This organizational structure also enables larger companies to compete more successfully, both nationally and internationally, in many worldwide technological markets. Thus, research and development joint ventures allow many organizations to remain competitive.

The decrease in the rate of technological advances in the United States and the nation's inability to maintain a relatively competitive advantage in international markets have been attributed to several diverse factors.<sup>7</sup> The first is a decrease in capital formation and savings, which in turn is attributable to several different sources. Inflation and the concomitant recession of the United States economy have been described as major sources of the problem because both decrease the funds available for technological investment. The steady rate of inflation since the 1960's has effec-

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6. Baldrige, *supra* note 4, at 3; *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 4 (1983) (statement of William A. Niskanen, Member, Council of Economic Advisors) [hereinafter cited as Niskanen]. It has been proposed that such small firms are leaders in the innovation of high technology products today. Scheirer, *Small Firms and Federal Research and Development*, (1977) (report to the Rabinow Panel) (available from the National Technical Information Service, Department of Commerce, and the Office of Federal Procurement, Report No. OMB/OFPP/CA-77/1) [hereinafter cited as Scheirer].

7. See generally Niskanen, *supra* note 6, at 2-3 (discussing factors contributing to decline of innovation); *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 1st Sess. 10 (1983) (statement of Charles H. Herz, General Counsel, National Science Foundation) (fear of antitrust sanctions as deterrent to joint ventures) [hereinafter cited as Herz]; *Interview with William F. Baxter, Assistant Attorney General Antitrust Division*, 51 ANTITRUST L.J. 23, 39 (1982) (business uncertainty about current legal environment).

tively increased taxpayers' marginal tax rates without increasing real income.<sup>8</sup> The effect of inflation is that taxes become a greater burden on high income groups, who must at some point reduce their savings to bear the costs.<sup>9</sup> The decrease in savings has had a significant impact on investment in risk ventures, such as research and development joint ventures, because the savings of the higher income groups and corporations generally support these activities.<sup>10</sup> As taxes consume a greater proportion of income, the supply of capital for investment decreases, which in turn decreases the incentive to invest in risk ventures associated with innovation.

A second factor accused of inhibiting the development of research joint ventures, and thus restricting economic expansion, is governmental intervention in commercial and economic affairs, which many argue should be left to the more perfect control of the market itself.<sup>11</sup> Proponents of this theory believe that the present state of the economy resulted from preceding administrations' "erratic macro-economic policies [which] have caused upwardly spiraling inflation and interest rates, and increasingly wild fluctuations of the economy between boom and bust . . . [and which] have also distorted the operation of the market."<sup>12</sup>

A third reason proposed for the recent decline of economic productivity and growth is the belief that firms are handicapped by the restrictions of the United States' antitrust laws. Investors fear that

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8. BITTKER, *supra* note 3, at 13.

9. *Id.* at 15-17.

10. *Id.* at 16-17.

11. This is commonly associated with economists of the "Chicago school" of economic theory. In general, its proponents are price theoreticians who are skeptical of existing enforcement procedures and governmental intervention in commercial economics, and who assert that the marketplace is best left free to its own competitive controls ("laissez-faire" economics). See, e.g., Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925 (1979); see also Baldrige, *supra* note 4, at 5-6; Herz, *supra* note 7, at 1. For example, the Chicago school proposes that tying arrangements be tested under the rule of reason, as they are often beneficial to competition, and the laws limiting them may be injurious to free competition and consumer well-being. Posner, *supra* at 934-36. An often conflicting school of economic theory is known as the Harvard school, whose proponents are economic structuralists. They believe that the structure of the industrial organization of the market dictates the value of the activities of the participants, thus government intervention is warranted to free the market of organizations and activities that could create economic breakdown. A tying arrangement to an economist of this school should be *per se* illegal, as the activity creates leverage for the tying party, and thus inherently possesses no redeeming value. See *id.*

12. Rule, *Private Enterprise Policy and the National Productivity and Innovation Act* (address during the National Foreign Trade Council Foundation Seminar, Oct. 19, 1983) [hereinafter cited as Rule]. Mr. Rule evidently has strong views on this subject. He argues that competitive market forces allocate resources most efficiently, whereas "bureaucratic mechanisms . . . allocate resources on the basis of the relative electoral strength of competing interest groups . . . [which often have] little to do with the public interest." *Id.* at 4-5.

even the most well-meaning joint research ventures risk prosecution under the antitrust laws with all its attendant penalties, including the trebling of damages.<sup>13</sup> Joint ventures realize economies of scale and thereby lower the average cost of the average output product. In contrast, joint ventures that become too large in number of members and market share may eventually result in the restriction of output and, thus, increase the risk of anticompetitive behavior. There is no means to determine whether any particular joint venture performing at or near scale economies will be perceived as pro or anticompetitive.

In response to the perceived decline of the national economy, a strong sense of protectionism arose. Domestic firms and the public informed their elected representatives that conservation of the domestic economy, industries, and jobs was of paramount importance. In response, Congress proposed and implemented legislation aimed at stimulating domestic industry by creating tax benefits and promoting risk ventures through: 1) decreasing the risks attendant to antitrust litigation, 2) increasing the protection for technological advances (intellectual property), and 3) increasing federal funding for research and development.<sup>14</sup>

#### B. *Economic Policies of the Antitrust Division*

The federal antitrust laws and the threat of severe penalties were apparent deterrents to the formation of research and development joint ventures, which the past several administrations have recognized as touchstone enterprises for increasing the rate of the United States' growth in technological fields. To appreciate the importance of the legislation proffered in response to the decrease in national productivity, it is necessary to understand the antitrust policies underlying the proposed legislation. The policies held by the Department of Justice Antitrust Division, which leads governmental enforcement of the antitrust laws, are outlined below. Economics have become the foundation for antitrust enforcement policy in the Antitrust Division within the past ten years. The following section describes the platform on which the antitrust policies of the government are based.

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13. Baldrige, *supra* note 4, at 4; Garvey, *supra* note 4, at 362; *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. 3 (1984) (statement of Joseph R. Creighton, Vice President and General Counsel of Harris Corporation) [hereinafter cited as Creighton]; The United States and Canadian Chapter of the Licensing Executives Society, Inc., *Statement In Support Of The National Productivity and Innovation Act of 1983* 2 [hereinafter cited as LES Statement]; see Niskanen, *supra* note 6, at 4-5.

14. Baldrige, *supra* note 4, at 1-2. Legislative protection for intellectual property is seen as an incentive for inventors and their investors, thus promoting invention and innovation.

President Reagan, an ardent noninterventionist, appointed William F. Baxter to the position of Assistant Attorney General, Department of Justice Antitrust Division, in 1981.<sup>15</sup> Baxter is an economist of the "Chicago school," although he originally followed the structuralist or "Harvard school" approach to economics.<sup>16</sup> Baxter's personal economic beliefs comported with the President's policy of governmental nonintervention, and these two factors are reflected in the policies he supported as the head of the Antitrust Division.<sup>17</sup> Accordingly, Baxter decried governmental control of the market on a national or international scale<sup>18</sup> via the use of subsidies or regulatory mechanisms such as the imposition of tariffs.<sup>19</sup> The Division under Baxter did recognize, however, that governmental intervention to increase productivity and enhance the economy is valid under some circumstances because government must provide and enforce the law. In doing so, however, technology and the improvement of productivity should be promoted without giving uni-

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15. Baxter left the Division in February, 1984 to accept a faculty position at Stanford University. His three years of influence on the Division's economic policy were so strong, however, that it is proper to discuss the Division and its policies in terms of Baxter's presence there. His successor, J. Paul McGrath, has just begun to implement his own policies. Although it is evident that there are differences between the two Division leaders, both are Chicago school economists.

16. See Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966); see also *supra* note 11.

17. This does not mean that under Baxter the Division refused to enforce the antitrust laws, but rather that the Division preferred to allow the market's own competitive forces to implement corrective action, leading to "less rather than more government intervention in the market." Rule, *supra* note 12, at 2. See generally *Panel Discussion, supra* note 4.

18. Baxter, *Antitrust Law and the Stimulation of Technological Invention and Innovation* 55 (discussion paper for the Preparatory Conference on Government Organization and Operation and the Role of Government in the Economy, San Diego, California, July 19-21, 1983) [hereinafter cited as Baxter].

19. *Id.* at 59. In his speech at the San Diego Preparatory Conference, Baxter stated:

Free trade is the best guarantee of maximizing world wealth. . . . High tariffs impede the promise of efficient resource allocation by prohibiting countries from taking full advantage of their comparative advantage. Subsidies are even more pernicious because they may actually reverse comparative advantages as production moves not to that location where fewest resources are required but rather to the location where subsidies are the greatest. . . .

Clearly, a free market economy and free trade are not perfect. The market does not respond instantaneously and painlessly to exogenous shocks. However, the free market is far superior to any of the alternatives, including a government directed industrial policy. Quite simply, logic and experience strongly suggest that the free market is a far more efficient and successful mechanism for economic decision-making than is the political mechanism.

Unlike the market, which facilitates the transfer of assets to their most highly valued use, political institutions tend to allocate resources on the basis of the relative electoral strength of competing interest groups.

*Id.* at 59-60 (citation deleted).



lateral support to any individual industry.<sup>20</sup> Governmental intervention is also appropriate when national security is at stake. Thus, the government should prevent dissemination of technological information which could jeopardize national defense, and should support industries necessary to defense that are otherwise unable to compete. According to Baxter, however, such protectionist measures "will rarely be the most cost-effective means for achieving national security goals."<sup>21</sup> The government should also set policy in the areas of education, basic research, foreign relations, and fiscal policies when such activities are dictated by the need for uniform social goals, or when the intervention would serve to increase national productivity. The test involves the extent to which intervention will affect the market. If the benefits of governmental intervention in the market outweigh the harm (costs) of the disrupted economy that would result, the intervention is justified.<sup>22</sup>

With respect to stimulation of the economy through the increase of productivity, the Division under Baxter promoted plans to ensure that the federal antitrust laws and the economic environment would not inhibit investment in research and development. Throughout the early 1980's, the Division enthusiastically supported legislation modifying the antitrust and intellectual property laws to prevent technological inhibition and governmental encroachment on normal market activity.<sup>23</sup> The Division has also criticized proposals that would impose bureaucratic restraints or controls on those firms which supported research and development.<sup>24</sup>

The Antitrust Division's noninterventionist economic policy is also reflected in its stand on non-price vertical restraints on distribution. These include a number of practices, such as dealer terminations, territorial restraints, exclusive distributorships, and dual distributorships. Having travelled from the rule of reason analysis for non-price vertical restraints in *White Motor Co. v. United States*<sup>25</sup> to the *per se* standard in *United States v. Arnold Schwinn & Co.*,<sup>26</sup> the Supreme Court and the Antitrust Division have apparently halted their gyrations after the Court's well-reasoned decision in *Continental T.V., Inc. v. GTE Sylvania, Inc.*<sup>27</sup> In *Sylvania*, the

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20. *Id.* at 65.

21. *Id.*

22. According to Baxter, the only situation where the benefits would outweigh the detriments is in the case of "an overwhelming market failure." *Id.* at 66.

23. *E.g.*, The National Productivity and Innovation Act, S. 1841, 98th Cong., 1st Sess. (1983), H.R. 3878, 98th Cong., 1st Sess. (1983).

24. *See supra* note 18 and accompanying text.

25. 372 U.S. 253 (1963).

26. 388 U.S. 365 (1967).

27. 433 U.S. 36 (1977).

Court held that non-price vertical restraints warranted rule of reason analysis under which procompetitive effects of the defendant's conduct are taken into account to determine violative conduct.<sup>28</sup>

The current viewpoint is that a sufficient number of socially beneficial justifications exist to analyze non-price vertical restraints under the rule of reason. It is believed that non-price vertical restraints promote interbrand competition and have other procompetitive effects. Although there is no current formal statement by the Antitrust Division on vertical non-price restrictions, Richard J. Favretto, a former Director of Operations for the Antitrust Division, delivered a speech in 1978 indicating the factors which the Division considered important in scrutinizing vertical non-price restraints:<sup>29</sup>

*Sylvania's* rule of reason analysis dictates that we weigh the effect of vertical restrictions in reducing intrabrand competition against possible benefits these restrictions may have on promoting interbrand competition. If the benefits outweigh the adverse effects, then, the restraints are reasonable. In making this analysis, the Antitrust Division is likely to look primarily at three factors: (1) the market power of the company imposing the restraints; (2) the extent to which the restraints impede intrabrand competition; and (3) the justifications asserted for the restraints in terms of promoting interbrand competition.<sup>30</sup>

One aspect of non-price restrictions viewed as anticompetitive is that all such restraints have some effect on price<sup>31</sup> and that they

reduce intrabrand competition by limiting the number of sellers of a particular product competing for the business of a given group of buyers. . . . Although intrabrand competition may be reduced, the ability of retailers to exploit the resulting market may be limited both by the ability of consumers to travel to other franchised locations and, perhaps more importantly, to purchase the competing products of other manufacturers.<sup>32</sup>

Among the procompetitive effects of vertical restrictions is the acquisition of market presence or efficiencies in the distribution of products which permit new or small manufacturers "to induce competent and aggressive retailers to make the kind of investment of

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28. *Id.* at 59.

29. Favretto, *Vertical Restraints and Other Current Distribution Issues in the Wake of Sylvania*, (speech before the Southwestern Legal Foundation Symposium, Dallas, Texas, May 12, 1978), reprinted in TRADE REG. REP. (CCH) ¶ 50,370 (June 5, 1978), excerpts reprinted in S. OPPENHEIM, G. WESTON & J. MCCARTHY, FEDERAL ANTITRUST LAWS 616-18 (4th ed. 1981) [hereinafter cited as WESTON].

30. WESTON, *supra* note 29, at 616.

31. *Id.* at 615 (citing Liebler, 1979 Supplement to ANTITRUST ADVISOR § 2.26 (2d ed. 1978), and Pitofsky, *The Sylvania Case: Antitrust Analysis of Non-Price Vertical Restrictions*, 78 COLUM. L. REV. 1, 22 (1978)); see Posner, *The Rule of Reason and the Economic Approach: Reflections on the Sylvania Decision*, 45 U. CHI. L. REV. 1, 8 (1977); see also *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977).

32. *Sylvania*, 433 U.S. at 54.

capital and labor that is often required in the distribution of products unknown to the consumer."<sup>33</sup> Another justification is that established manufacturers can utilize vertical price restraints to maximize market penetration "to induce retailers to engage in promotional activities or to provide service and repair facilities necessary to the efficient marketing of their products."<sup>34</sup> These and similar services are vital for many high cost items and they are necessary to maintain the manufacturer's good will. Such activities would not be offered in a purely competitive situation because free riders would take advantage of those who contributed the investment.<sup>35</sup> A vertical price restriction is not considered anticompetitive if it is necessary to comply with quality controls imposed by statute, regulation,<sup>36</sup> or the nature of the product itself.<sup>37</sup>

There has been increasing concern regarding the line between vertical activity that is considered price-fixing and is treated as a *per se* offense in the courts, and vertical activity that is not price-fixing that manufacturers may attempt to justify.<sup>38</sup> A 1982 interview with William F. Baxter<sup>39</sup> indicated that the Division may be conforming to the majority's analysis in *Sylvania*, in which Justice White's concurring opinion was referred to as questioning the *per se* approach to resale price maintenance.<sup>40</sup> In response to a request for clarification of the Division's stance on the application of the rule of reason for vertical restrictions, including resale price maintenance, Baxter indicated that the Division was searching for a case in which to press for a uniform standard for all vertical restrictions.<sup>41</sup>

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33. *Id.* at 55.

34. *Id.* This was a basis for the dissent in *Schwinn* by Justices Stewart and Harlan, who saw the need for the proper promotion of a manufacturer's product reflected in the requirement for an "active and stable dealer organization." *United States v. Arnold Schwinn & Co.*, 388 U.S. 365, 383 (1967).

35. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282, 285 (1975); see *Sylvania*, 433 U.S. at 55.

36. *Sylvania*, 433 U.S. at 55 n.23 (citing as examples mandatory compliance under the Consumer Product Safety Act, 15 U.S.C. § 2051 *et seq.* (1976) and the Consumer Product Warranties Act, 15 U.S.C. § 2301 *et seq.* (1976)).

37. *Copper Liquor, Inc. v. Adolph Coors Co.*, 506 F.2d 934, 936-37 (5th Cir. 1975); see *Adolph Coors Co. v. FTC*, 497 F.2d 1178, 1189 (10th Cir. 1974), *cert. denied*, 419 U.S. 1105 (1975).

38. See Report, 46 ANTITRUST & TRADE REG. REP. (BNA) 356, 370 (March 1, 1984); Liebler, 1979 Supplement to ANTITRUST ADVISOR § 2.26 (2d ed. 1978); Pitofsky, *The Sylvania Case: Antitrust Analysis of Non-Price Vertical Restrictions*, 78 COLUM. L. REV. 1, 12-26 (1982).

39. Interview with William F. Baxter, Assistant Attorney General Antitrust Division, 51 ANTITRUST L.J. 23 (1982).

40. *Sylvania*, 433 U.S. at 59-71 (White, J., concurring).

41. Interview with William F. Baxter, Assistant Attorney General Antitrust Division, 51 ANTITRUST L.J. 23, 32-33 (1982). The case which Baxter was looking for may have arrived in *Monsanto Co. v. Spray-Rite Service Corp.*, 104 S. Ct. 1464 (1984). Monsanto was alleged to have required Spray-Rite to meet

### C. Legislation Proposed to Increase Investment in Innovation

In the early 1980's, much legislation was proposed to increase national productivity and stimulate the economy. The bills were proposed to counteract the country's failure to maintain a competitive edge in the international marketplace, or to stimulate the country's flagging technological productivity, whichever evil was perceived by the particular sponsor to be the most significant factor in the economic decline of the United States over the preceding twenty years. Some of the bills promoted innovation indirectly, while others addressed invention and research and development head on.

In the area of technology, nonprofit organizations and small businesses are leaders of productivity and competition, because they must be creative yet efficient to compete with larger more established companies.<sup>42</sup> In 1980, the Patent and Trademark Amend-

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price restrictions—a traditional price-fixing case. 104 S. Ct. at 1465-67. In its *amicus* brief, the Justice Department argued that such cases should be given rule of reason, rather than *per se*, analysis. *Id.* at 1469-70 n.7. The Supreme Court declined to overrule its seventy-three year old precedent, *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373 (1911), and found Monsanto guilty under a *per se* analysis. 104 S. Ct. at 1469, 1472-73.

Another such case is *NCAA v. Board of Regents*, 104 S. Ct. 2948 (1984), in which the NCAA, a joint venture that establishes rules and regulations governing many intercollegiate sporting events, was alleged to have placed price restraints on its member colleges by preventing them from individually participating in prices negotiations for telecasts. 104 S. Ct. at 2952. The Tenth Circuit had held that the NCAA's telecast plan was *per se* illegal price fixing. 707 F.2d at 1160. In its *amicus* brief to the Supreme Court, the Department of Justice and the Federal Trade Commission argued that in a situation where the *per se* analysis was not clearly applicable, either a full or truncated rule of reason analysis should be applied. *Amicus* Brief of Solicitor General at 31-32, *NCAA v. Board of Regents*, 104 S. Ct. 2948 (1984). Carried to its logical conclusion, this argument dictates that all vertical restraints be analyzed under the rule of reason in one form or another, as it is rare, if ever, that the *per se* analysis clearly applies. The Solicitor General argued that:

[A] retailer should not be able to tell a manufacturer that the manufacturer, whatever his own views about the way his product should be handled at the retail level, must permit that retailer to sell his product as the retailer wishes and the manufacturer has nothing to say about it. It should be a two-way consensual arrangement about how the product is handled at the point of sale.

*Id.* The Supreme Court agreed. 104 St. Ct. at 2969. Although the NCAA's telecasts constituted facial horizontal price fixing, the Court

recogni[zed] that a certain degree of cooperation is necessary if the type of competition that petitioner and its member institutions seek to market is to be preserved. It is reasonable to assume that most of the regulatory controls of the NCAA are justifiable means of fostering competition among amateur teams and therefore procompetitive because they enhance public interest in intercollegiate athletics.

*Id.* Application of a *per se* rule was held unwarranted. *Id.*

42. Scheirer, *supra* note 6. The results of Scheirer's investigations showed that small firms were responsible for a surprisingly large proportion of ongoing national research and development in high technology fields. The report dis-

ments of 1980<sup>43</sup> (the Bayh-Dole Act) were enacted to increase the incentive for small inventive entities to innovate, and to commercialize resultant inventions. The legislation was also intended to promote participation of small businesses and nonprofit organizations in federal procurement. The stated objective of the Bayh-Dole Act reflected concern for the economic wellbeing of the country, and exemplified the policy underlying the bills related to research ventures during this time period:

It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of small business firms in federally supported research and development efforts; to promote collaboration between commercial concerns and nonprofit organizations, including universities; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise; to promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area.<sup>44</sup>

The Economic Recovery Tax Act of 1981<sup>45</sup> supported commercialized innovation by creating a tax credit for investment in certain research-oriented ventures. This Act provided a twenty-five percent tax credit for companies investing in additional research and development.<sup>46</sup> In 1983, after years of debate on the subject, the

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closed that: (1) firms of less than 1,000 employees accounted for about one-half of the major innovations in the United States; (2) in such firms, the percentage of innovations to sales was greater by one-third than in larger companies; and (3) in such firms, the ratio of innovations to research and development staff was about four times greater than in larger firms. *Id.*

43. 35 U.S.C. §§ 200-11 (1976).

44. *Id.* at § 200. The effect of the Bayh-Dole Act on the economy has been described by Charles H. Herz, General Counsel for the National Science Foundation:

At our Agency and most others this changed existing law and practice very little, if at all. Yet the change in perceptions that followed was remarkable. Businessmen who 'knew' that the Government always took contractor patents suddenly became willing to consider business dealings with the Government that before they would have thought out of the question.

Herz, *supra* note 7, at 14. For a more detailed description of the Act and its implications see M. Sundeen & K. Morron, *Commercializing Federally Funded Inventions*, (presented at the National Meeting of the American Chemical Society, St. Louis, Missouri, April 9, 1984), and M. Sundeen & K. Morron, *From Federal Grants To Business Profit*, CHEMTECH 677 (Nov. 1984).

45. Pub. L. No. 97-34, 95 Stat. 172 (1981).

46. *President's Statement on the National Productivity and Innovation Legislation*, 19 WEEKLY COMP. PRES. DOC. 1234 (Sept. 12, 1983) [hereinafter cited as *President's Statement*]; *President's Message to Congress on the National Productivity and Innovation Legislation*, 19 WEEKLY COMP. PRES. DOC. 1236 (Sept. 12, 1983) [hereinafter cited as *President's Message*].

Patent Term Restoration Act of 1983 (the PTRRA) was proposed.<sup>47</sup> The purpose of this bill was to "amend the patent law to restore the term of the patent grant for the period of time that nonpatent regulatory requirements prevent the marketing of a patented product."<sup>48</sup> In effect, the PTRRA would extend the patent term by up to seven years to compensate for regulatory delays in marketing a patented product or using a patented process.<sup>49</sup>

Many of these bills were proposed to alter the relationship between research and development joint ventures and the antitrust laws. Their authors sought to "encourage business concerns to undertake jointly research and development programs in order to achieve greater efficiency and an improved capacity for competition"<sup>50</sup> by proposing various reforms of the regulatory mechanisms of the Department of Justice<sup>51</sup> and revisions of the antitrust laws.<sup>52</sup>

#### THE ADMINISTRATION'S PROPOSED LEGISLATION—THE NATIONAL PRODUCTIVITY AND INNOVATION ACT OF 1983

As part of an international trade bill designed to improve the competitiveness of United States companies in international markets by stimulating their productivity and technological growth, the Reagan Administration developed a legislative proposal that the President's Cabinet approved in March, 1983.<sup>53</sup> The four-part bill was intended to sweep broadly by amending the United States' anti-trust, patent, and copyright laws to increase protection for joint venturers and owners of intellectual property, as well as by molding the regulatory mechanisms of the Department of Justice. The Administration expressed hope that the package would "insure that the antitrust and intellectual property laws are fully compatible with efficient creation and development of technology, while, at the same time, maintaining strong safeguards against anticompetitive behavior."<sup>54</sup> Assistant Attorney General William F. Baxter reputedly drafted much of the proposal.<sup>55</sup>

That bill, the National Productivity and Innovation Act of 1983

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47. S. 1306, 98th Cong., 1st Sess. (1983). Many others have since followed. See H.R. 5324, H.R. 5529, H.R. 6034, H.R. 6228, S. 1711, S. 2549, S. 2926, 98th Cong., 2d Sess. (1984).

48. S. 1306, 98th Cong., 1st Sess. (1983).

49. *Id.* Food and Drug Administration approval is one such administrative delay.

50. H.R. 108, 98th Cong., 1st Sess. § 2 (1983).

51. *E.g.*, H.R. 108, H.R. 1952, H.R. 3641, H.R. 3975, S. 568, S. 737, S. 1383, S. 1561, 98th Cong., 1st Sess. (1983).

52. *E.g.*, H.R. 108, H.R. 3393, H.R. 3641, H.R. 3975, H.R. 4043, S. 1383, 98th Cong., 1st Sess. (1983).

53. 44 ANTITRUST & TRADE REG. REP. (BNA) 681 (Mar. 31, 1983).

54. *President's Statement*, *supra* note 46, at 1235.

55. 44 ANTITRUST & TRADE REG. REP. (BNA) 681 (Mar. 31, 1983).

(the Act)<sup>56</sup> was proposed simultaneously in the House (H.R. 3878), by Representative Moorhead, and in the Senate (S. 1841), by Senator Thurmond, on September 13, 1983. The Act dictated the antitrust analysis to be applied to certain research joint ventures, limited the application of treble damages in both private and state instigated antitrust actions brought against patent licensors and joint ventures, narrowed the scope of conduct characterized as patent or copyright misuse, and increased the protection for process patents and resultant products.<sup>57</sup> As originally proposed, the Act contained four substantive titles following the first, which set forth the Act's short title.<sup>58</sup> Title II addressed itself to joint research and development ventures, while Titles III, IV and V concerned intellectual property. By November, 1983, hearings on the bill had been held in the House Subcommittee on Monopolies and Commercial Law, and in the Senate Committee on the Judiciary.

In March, 1984, Senator Thurmond proposed to amend the Act. The proposed amendment deleted Titles III, IV and V, and made some minor changes in Title II.<sup>59</sup> The amendment was effected on April 4, 1984, leaving Title II as the only substantive provision of the Act. Following minor revisions, both the House and Senate passed the bill as amended.<sup>60</sup> President Reagan signed the bill into law as the National Cooperative Research Act of 1984 (the NCRA) on October 11, 1984.

Title II of the National Productivity and Innovation Act of 1983—the precursor to the NCRA—will first be analyzed. Title III, IV and V, though not enacted as part of the NCRA, will then be addressed. It is the author's hope that the substance of these remaining titles will ultimately become law.

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56. S. 1841, 98th Cong., 1st Sess. (1983), H.R. 3878, 98th Cong., 1st Sess. (1983), CONG. REC. S12,214-22 (daily ed. Sept. 17, 1983), *reprinted in* 26 PAT. TRADEMARK & COPYRIGHT J. (BNA) 456-57 (Sept. 15, 1983).

57. *Id.*

58. The full title of the Act is: A Bill to Promote Research and Development, Encourage Innovation, Stimulate Trade, and Make Necessary and Appropriate Amendments to the Antitrust, Patent, and Copyright Laws. S. 1841, 98th Cong., 1st Sess. § 101 (1983), H.R. 3878, 98th Cong. 1st Sess. § 101 (1983).

59. See *infra* notes 128-34, 240-43.

60. The House of Representatives passed the amended act as H.R. 5041 on May 1, 1984 by a vote of 417-0. CONG. REC. H3184 (daily ed. May 1, 1984). The Senate passed S. 1841 as amended by a vote of 97-0 on July 31, 1984. CONG. REC. S9512 (July 31, 1984). Differences between the two bills as amended still remained, however. The Senate thereafter appointed conferees to resolve the differences. On September 26, 1984, the Senate approved the conference committee's resolution. CONG. REC. S11,842-45 (Sept. 26, 1984). The House joined in approval on October 1, 1984. CONG. REC. H10,565-70 (Oct. 1, 1984).

## A. Title II—Joint Research and Development Ventures

### 1. History and Purpose

Unlike purely horizontal combinations, joint ventures, especially those formed for the purpose of conducting research and development, have the potential for contributing enormous benefits to society and the economy. In contrast to mergers, joint ventures, which by definition have a limited scope and duration, present little danger of collusion on price setting and restrictions on outputs. Thus they are given scrutiny under the rule of reason, and many complicated factors are weighed before illegality is determined.

The Division's current policy on research and development joint ventures is stated in its *Antitrust Guide* on the subject.<sup>61</sup> The present policy adheres to that proposed by the Carter Administration on industrial innovation, which was to stimulate competition through the use of antitrust policies. President Carter and his Administration, unlike President Reagan and the Antitrust Division under Baxter and McGrath, postulated that rigorous enforcement of the antitrust laws would stimulate competition. This, in turn, would increase invention and innovation, which are basic to a competitive stance for the United States in international markets.<sup>62</sup> Because the role of research joint ventures is to promote innovation, the reasoned and selective enforcement of the antitrust laws with respect to joint ventures would maximize their productivity—whether it is basic or applied research, or the development of products for the market.

The *Guide* provides a thumbnail sketch describing the scrutiny of joint ventures: “[L]ess intense about ‘pure’ basic research, undertaken without ancillary restraints on use of the results, to more intense at the developmental end of the research spectrum, particularly if ancillary restraints are involved.”<sup>63</sup> In every case, a rule of reason standard is applied.<sup>64</sup>

With respect to the effect of joint research ventures on competition in the market, the Division employs a Sherman Act, Section 1 or Clayton Act, Section 7 analysis, whichever is appropriate, to determine whether a decrease in competition has occurred.<sup>65</sup> An acceptable justification to a challenge of anticompetitive behavior is that the object of the venture agreement would not otherwise have been produced. This would be the case, for example, if the individu-

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61. U.S. Department of Justice Antitrust Division, *Antitrust Guide Concerning Research Joint Ventures* (Nov. 1980) [hereinafter cited as *Guide*].

62. *Id.* at 3.

63. *Id.* at 1.

64. *Id.* at 6, 16.

65. *Id.* at 4-14.



als in the venture would not have been able to afford the cost of risks involved in the innovative process had they acted independently.<sup>66</sup> Other examples include ventures into an industry with no prior history of joint research<sup>67</sup> or with entry barriers,<sup>68</sup> or where there is a probability that free riders could appropriate without compensation research done by a sole entity.<sup>69</sup> On the other hand, if any of the individuals had been able to perform independently and would have, even if others had not participated, there must be a significant argument for scale efficiencies to justify the venture.<sup>70</sup>

Collateral restraints are a second element used to decide the legality of joint ventures. These restraints are judged under a Sherman Act, Section 1 analysis.<sup>71</sup> Examples of *per se* unjustifiable ancillary restraints are those having as their "primary purpose to fix prices or divide markets, as well as most tying arrangements and group boycotts."<sup>72</sup> However, ancillary restrictions reasonably related to the legitimate goals of the venture are judged under the rule of reason.<sup>73</sup> Examples of reasonable ancillary agreements in

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66. *Id.* at 8-9; Baxter, *supra* note 18, at 11.

67. *Guide, supra* note 61, at 9.

68. *Id.* at 10.

69. Free riders are those who benefit from another's skill, industry, or capital outlay without having contributed to the production of the innovation. The problem arises when research is not protectable under the intellectual property laws, and is not feasibly protected as a trade secret. Baxter describes the result as one of great disparity between the rewards the inventor can reap and the value of the innovation to society. Baxter, *supra* note 18, at 7. If free riders can not be avoided, there may be a "serious underinvestment in the creation of new technology." *Id.*

70. *Guide, supra* note 61, at 9.

71. *Id.* at 14.

72. *Id.* at 14-15.

73. This involves three inquiries to determine whether the restraints are reasonable: 1) whether the restrictions are "reasonably ancillary" to the primary goal of the venture; 2) whether the restrictions have a scope and duration limited to achievement of the objective; and 3) whether the restrictions, in conjunction with other agreements, produce unreasonably anticompetitive effects. *Id.* at 15. In the leading case on joint ventures, *United States v. Penn-Olin Chemical Co.*, 378 U.S. 158 (1964), Pennsalt had formed a joint venture corporation with Olin-Mathieson. *Id.* at 162. Pennsalt produced sodium chlorate in the western United States, and Olin-Mathieson had previously considered entering the market. *Id.* at 162. The venture was limited to the production of one product, and sales were limited to the geographic market of the southeastern United States. *Id.* at 164. The Court found no evidence showing that competition would be lessened, and remanded to determine whether either of the companies would have remained a potential competitor "in the wings." *Id.* at 176-77. The criteria considered were:

- (1) the number and power of the competitors in the relevant market;
- (2) the background of their growth;
- (3) the power of the joint venturers;
- (4) the relationship of their lines of commerce;
- (5) the competition existing between them and the power of each in dealing with the competitors of the other;

the context of intellectual property are cross-licensing and exchange of know-how in the pertinent technology necessary for success of the venture.<sup>74</sup> Examples cited as usually unreasonable are those concerning price, prohibitions on the solicitation of another's customers, the failure to introduce new products, and the discontinuation of a product that competes with another's.<sup>75</sup> Joint exploitation of the final product may also invite closer scrutiny.<sup>76</sup>

The third element evaluated to decide the legality of joint ventures—denial of access to results of the venture to those not members of the association—may be an antitrust violation if there is “significant competitive impact.”<sup>77</sup> This would be the case if the object of the venture becomes vital to effective competition in the markets with which the venture members deal,<sup>78</sup> or if the participants in the joint venture dominate their respective markets.<sup>79</sup> The *Guide* indicates that “access problems” may require both Sherman Act, Sections 1 and 2 analyses.<sup>80</sup> The “problem” with limitations on access, according to the *Guide*, is that they at least facially resemble boycotts or concerted refusals to deal,<sup>81</sup> both of which are *per se* violations. Justifications for denials of access may be introduced, however,<sup>82</sup> and in the event that the product of the venture is li-

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- (6) the setting in which the joint venture was created;
  - (7) the reasons and necessities for its existence;
  - (8) the joint venture's line of commerce and its relationship to that of its parents;
  - (9) the adaptability of its line of commerce to non-competitive practices;
  - (10) the potential power of the joint venture in the relevant market;
  - (11) an appraisal of what the competition in the relevant market would have been if one of the joint venturers had entered it alone instead of through the joint venture;
  - (12) the effect, in the event of this occurrence, of the other joint venturer's potential competition; and
  - (13) such other factors as might indicate potential risk to competition in the relevant market.

*Id.* at 177.

74. *Guide*, *supra* note 61, at 19.

75. *Id.* at 20.

76. *Id.* at 20-21.

77. *Id.* at 21. This is, in effect, a threat that if such “significant impact” can be related to a refusal to license the subject technology, the joint venturer may be unreasonably restraining competition. The mandate to include others in the results of joint ventures effectively imposes upon the venturers the necessity of adopting a compulsory licensing policy, although the Division here carefully avoids the denomination. *Id.* at 21-24.

78. *Id.* at 21; see *Silver v. New York Stock Exchange*, 373 U.S. 341 (1963); *Associated Press v. United States*, 326 U.S. 1, 17 (1945); *United States v. Terminal R.R. Ass'n*, 224 U.S. 383, 409-10 (1912).

79. *Guide*, *supra* note 61, at 30.

80. *Id.* at 21 n.1.

81. *Id.* at 22.

82. *Id.*

censed, the venturers may charge a reasonable royalty.<sup>83</sup>

Interestingly, in a 1983 San Diego speech, William F. Baxter refuted this portion of the *Guide*.<sup>84</sup> He observed that allocative efficiency is optimized, on a short term basis, by free use of the subject technology upon payment of a fixed low fee, but that over the long run, compulsory access would smother innovation and be detrimental to consumer welfare. Unless the technology was subsidized by the public through the mechanism of a competitive market, "there would be no profit motive on the part of those capable of innovating to spur the research and development of new technologies."<sup>85</sup> This speech reflects the current policy of the Division on the subject of intellectual property and joint research ventures, and is another indication of Baxter's economic influence on Division policy. In the *Guide*, the Division concludes that "[t]he antitrust laws give businesses reasonable and ample flexibility in designing research joint ventures," and that, although the Justice Department "can and does consider alternative methods of conducting research that may restrict competition less than the particular method chosen . . . it does not engage in gratuitous second-guessing of business decisions."<sup>86</sup>

Title II was proposed to ensure that antitrust laws do not unnecessarily restrict the formation of research and development joint ventures, and to reduce the deterrent effect that the treble damage award has on procompetitive joint venture efforts.<sup>87</sup> These goals are accomplished by requiring that the rule of reason be applied in deciding alleged violations of the antitrust laws by joint research and development programs, and by providing a notification system whereby research and development joint ventures may file pertinent market-related data with governmental entities to foreclose the imposition of treble damages if the venture subsequently violates an antitrust law.

## 2. Elimination of the *Per Se* Standard

Section 201 of the National Productivity and Innovation Act (NCRA Section 2) defines the term "joint research and development program" extensively.<sup>88</sup> Section 201(1) (NCRA Sections 2(a)(6) and 2(b)) enumerates a group of investigative ventures to be considered joint research and development programs for the pur-

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83. *Id.* at 23.

84. Baxter, *supra* note 18, at 7-8.

85. *Id.*

86. *Guide*, *supra* note 61, at 24.

87. *President's Statement*, *supra* note 46, at 1235; *President's Message*, *supra* note 46, at 1236.

88. S. 1841, 98th Cong., 1st Sess. § 201 (1983), H.R. 3878, 98th Cong., 1st Sess. § 201 (1983).

poses of the title.<sup>89</sup> It also provides guidelines to determine whether a venture is to be considered such a program. Section 201(2) (NCRA Section 2(a)(1)) defines "antitrust laws" to include the Sherman Act, Wilson Tariff Act, and Clayton Act. The Federal Trade Commission Act is also included but only to the extent that it applies to unfair methods of competition, thereby implicitly excluding its deceptive practices provisions.

Section 202 (NCRA Section 3) proscribes application of the *per se* standard in antitrust suits to programs defined in the previous section.<sup>90</sup> Thus, this section effectively mandates application of the rule of reason to joint research and development ventures. Under prior *per se* analysis no pure joint venture has been found to violate the antitrust laws in the absence of other anticompetitive conduct.<sup>91</sup> An argument can therefore be made that this provision is not necessary to protect joint ventures. Its proponents assert that it will prevent courts from deviating from prior case law to find joint venturers guilty under the *per se* standard.<sup>92</sup> Even in the absence of legislation, however, such a result is highly unlikely to occur, given the present political and economic atmosphere.

Another drawback to Section 202 is that it does not deter organizations that possess a *prima facie* research and development joint venture facade from participating in traditionally forbidden horizontal market behavior. Without the *per se* standard, many private plaintiffs would hesitate to sue, fearing that the costs associated with the more extensive rule of reason litigation would not be economically feasible. Furthermore, when litigation is instigated, defendant companies may feel more confident that their questionable conduct cannot be readily disposed of by the courts, and that a superficially adequate defense may provide the justification needed to succeed in litigation. In the event that the conduct is found to violate the antitrust laws, the single damages provision of the bill (discussed below) might make such conduct economically feasible and attractive to those who would profit significantly from the venture, *i.e.*, those whose profits would exceed the amount of the single damages award.

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89. The Senate conferees on S. 1841 regarded this definition as "designed to reflect the special concern with innovative joint efforts necessary to help United States firms compete internationally, and to eliminate several types of potentially anticompetitive conduct from coverage under the bill." S. REP. No. 427, 98th Cong., 2d Sess. 4 (1984), *reprinted in* 1984 U.S. CODE CONG. & AD. NEWS 3105, 3107-08.

90. S. 1841, 98th Cong., 1st Sess. § 202 (1983), H.R. 3878, 98th Cong., 1st Sess. § 202 (1983).

91. *See supra* note 73 and accompanying text.

92. *See Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 301-02 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980).

### 3. Remedies

Section 203 (NCRA Section 4) provides that private parties injured by any conduct that is subsequently found to violate the antitrust laws will be compensated only to the extent of actual damages, that interest on the damages will be awarded for the time period from the date of service of process to the date of judgment,<sup>93</sup> and that the cost of the suit, including attorney's fees, will be awarded.<sup>94</sup> The normal damage assessment for private plaintiffs under the federal antitrust laws is provided for in Section 4 of the Clayton Act, which provides "[t]hat any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws . . . shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."<sup>95</sup>

In recent years, much legislation has been introduced to modify the remedies available to private parties in certain types of antitrust suits.<sup>96</sup> This legislation has taken several forms. Thus it is important to evaluate the pros and cons of the trebling provision as it exists today in order to analyze the consequences of the proposed alterations.

Professor George Garvey of the Catholic University Columbus School of Law recently submitted a report to the House Committee on the Judiciary in response to a request by Congressman Rodino.<sup>97</sup> His study analyzing existing materials concerning the courts' use of treble damage provisions provides a lucid summary of the topic. According to Professor Garvey, there are two purposes for treble damage awards: compensation and punishment.<sup>98</sup> Punishment itself is comprised of two separate aspects, retribution and deterrence.<sup>99</sup> Various courts have focused on these different aspects, although all recognize the several purposes of the trebling provision.<sup>100</sup> Garvey stated that there was little information to be found in the literature describing the economic implications of the treble damage award.<sup>101</sup> He found in general, however, that compensation is not widely accepted by economists as a valid goal of private ac-

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93. The interest awarded under the Act was changed in the enacted version to "beginning on the earliest date for which injury can be established and ending on the date of judgment. . . ." NCRA § (4)(d).

94. S. 1841, 98th Cong., 1st Sess. § 203 (1983), H.R. 3878, 98th Cong., 1st Sess. § 203 (1983).

95. 15 U.S.C. § 12 (1976).

96. *E.g.*, Export Trading Company Act of 1982, 15 U.S.C.A. §§ 4001-21 (Supp. 1984).

97. Garvey, *supra* note 4.

98. *Id.* at 357.

99. *Id.*

100. *Id.* See Garvey, *supra* note 4, at 358 (discussion of *Hanover Shoe and Illinois Brick*).

101. *Id.* at 361.

tions, and that deterrence was more favored as a goal because it promotes competition by economically injuring the monopolist.<sup>102</sup> Economists who focus on deterrence as a goal of enforcement emphasize the need to impose a penalty large enough to deny the violator profits derived from illegal conduct. To achieve adequate deterrence, the multiplier in the damage provision must offset any likelihood that the violation would remain undetected.<sup>103</sup> It is difficult to assess, however, the probability that a violation would go undetected, and there is always the danger that non-concealed procompetitive conduct would be overdeterred (any deterrence of procompetitive conduct is overdeterrence), while concealed illicit activities would be underdeterred. This analysis can be criticized because risk-averse managers would be overdeterred by large penalties, while the conduct of risk-neutral managers would not be altered if the penalties were high and enforcement were low, or if the penalties were less costly and enforcement were thorough. Thus, enforcement costs may be kept at a minimum if the penalties are large, but as long as enforcement procedures remain imperfect, *i.e.*, they impose liability on some who do not deserve it and allow some violators to go free, heavy penalties might unduly discourage conduct which is procompetitive.<sup>104</sup> Another factor worth examining in assessing the treble damage award is the possibility that suits will be instigated more frequently if the amount of the award is large.<sup>105</sup> Despite these concerns, Garvey concludes that the treble damage remedy is effective, and that "any modification of the remedy should . . . be approached cautiously."<sup>106</sup>

The tenet that obviously anticompetitive behavior should be punished more severely than conduct which possesses some procompetitive aspects is widely accepted in antitrust practice, and it has not been seriously questioned.<sup>107</sup> The perception that treble damages might provide a disincentive for procompetitive behavior, however, has recently become a concern to economists and the government.<sup>108</sup>

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102. *Id.*

103. *Id.* at 362.

104. *Id.*

105. *Id.*

106. *Id.*

107. Baxter, *supra* note 18, at 48. "[A]ntitrust remedial law should be amended to eliminate mandatory treble damages for all but the most serious antitrust violations." *Id.*

108. *The National Productivity and Innovation Act of 1983: Hearings on H.R. 3878 Before the Subcomm. on Monopolies and Commerce Law of the House Comm. on the Judiciary, 98th Cong., 1st Sess. (1983)* (statement of William F. Baxter, Assistant Attorney General Antitrust Division) [hereinafter cited as *House Hearings*]; *LES Statement, supra* note 13; *President's Message, supra* note 46, at 1236; *President's Statement, supra* note 46, at 1236; Baldrige, *supra* note 4, at 4; Baxter *supra* note 18; Creighton, *supra* note 13; *The National Pro-*

The present Administration and most commentators currently favor the imposition of single rather than treble damages for research and development joint ventures that are found to violate the antitrust laws. A widely recited basis for this proposal is that:

The treble damages remedy is appropriate and necessary to deter conduct that is plainly and inherently anticompetitive and that is carried out in secret. . . . However, where the conduct may very well be procompetitive and is carried out in the open, the availability of punitive damage remedies is unfair and counterproductive.<sup>109</sup>

Inherent in this statement are two propositions. First, traditional "*per se*" behavior should be punished more harshly than behavior considered worthy of rule of reason analysis, and that trebling damages is a fair way to address such a violator's anticompetitive conduct. Second, the treble damages penalty may deter some research and development joint ventures which the government seeks to encourage.<sup>110</sup>

Proponents of the theory that treble damages are universally unfair focus on the unfairness to the defendant who has already been found guilty of an antitrust violation. It is the author's opinion that the injured plaintiff has too often not been counted among those who have an interest in the damages issue. Unfairness will therefore be discussed with respect to both parties.

Opponents of treble damages argue that the liberalization of pleading and practice rules since implementation of the Clayton Act has led to an increase in damage awards to unworthy, as well as worthy plaintiffs.<sup>111</sup> They assert that this practice has increased since the Supreme Court's ruling in *Bigelow v. RKO Radio Pictures, Inc.*,<sup>112</sup> in which the Court held that damages need not be proven with precision. Although damages are not awarded on the basis of speculation alone, courts, as well as juries, award substantial damages on the basis of less than airtight evidence. Moreover, the relaxed standard for proof of damages may have increased the number of suits.<sup>113</sup> Opponents also claim that large defendants may be effectively coerced into inequitable settlements with small plain-

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*ductivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary, 98th Cong., 2d Sess. (1984)* (statement of J. Paul McGrath, Assistant Attorney General Antitrust Division) [hereinafter cited as McGrath]. This theory has developed concurrently with the Chicago school of economic theory, although it is certainly not so limited in popularity.

109. Baxter, *supra* note 18, at 48.

110. Thus, "[e]ven though the uncertainty will be slight in most cases, the risk is substantially increased by the length, complexity and cost of antitrust suits and by the fact that a successful claimant under the antitrust laws is automatically entitled to three times the damages actually suffered." *Id.*

111. Garvey, *supra* note 4, at 364.

112. 327 U.S. 251 (1946).

113. Garvey, *supra* note 4, at 364.

tiffs to avoid the risk of greater loss in litigation.<sup>114</sup> Finally, opponents of the treble damages remedy argue that the class action, as a device in private antitrust enforcement, subjects defendant firms to such great potential monetary loss should the case go to trial that many defendants settle early, even if the allegations are meritless.<sup>115</sup>

To combat the unfairness of the mandatory treble damage remedy, courts have increased the incidence of summary disposition of antitrust cases.<sup>116</sup> In addition, it has been observed that since 1973 the Supreme Court has altered its antitrust philosophy by considering more data on the economic impact of commercial activities, other than price-fixing and horizontal market allocations, that exhibit procompetitive effects.<sup>117</sup> The result of this change in philosophy is that, although the unfairness of the damages assessed is ameliorated by considering procompetitive effects, the potential for unfair imposition of damages remains (assuming the imposition of damages is unfair to begin with). Furthermore, the incidence of private actions is becoming skewed due to manipulations of standing by the courts. "If courts were not compelled to treble potentially significant damages, particularly when defendants appear blameless or the conduct is arguably procompetitive . . . they would not so often place restrictions on plaintiffs' right to sue."<sup>118</sup> To the extent that the treble award encourages private enforcement, the uncertainty of private plaintiff standing is a disincentive for suit.

In the author's opinion, a plaintiff that is permitted only to recover actual damages is treated unfairly. When all or a substantial part of the damages are difficult to assess, the incentive for an injured party to sue will decrease. The incentive to sue also decreases when the potential reimbursement will not sufficiently cover the costs of potentially devastating litigation. If the potential financial reimbursement is low enough, the incentive to sue will decrease to the point where an injured party will not sue and thus will not be compensated at all by an antitrust violator.

Critics of the treble damages remedy also argue that it greatly deters procompetitive and potentially procompetitive activity.<sup>119</sup> It is inherently desirable that enforcement of the antitrust laws be efficient. Those who perform illegal acts, such as *per se* violators, should always be found liable, whereas innocent parties, whose activities do not fall within the proscriptions of antitrust policy, and

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114. *Id.*

115. *Id.*

116. *Id.* at 365.

117. *Id.*

118. *Id.* at 366.

119. *Id.* (citing R. POSNER, ANTITRUST LAW: AN ECONOMIC PERSPECTIVE 222 (1976)).



which may have valuable procompetitive effects, should not be found liable. It is also self-evident that to catch all of the violators, the activities of many innocent parties must be scrutinized. Professor Garvey found that a very aggressive enforcement policy could deter socially beneficial conduct by being overbroad in its effect. The Supreme Court has acknowledged this conclusion.<sup>120</sup> Thus, critics claim that treble damages, whether perceived as punitive or merely economically injurious, may deter legal conduct that approaches the borderline of illegality; the greater the potential losses from litigation, the fewer questionable activities the risk-averse manager will undertake.<sup>121</sup> Of course, under such an analysis the conclusion is inescapable that products resulting from conduct close to the borderline will not be produced, and to that extent the production level and economy will be depressed.

Another argument against the treble damages remedy is that, although the deterrence policy underlying its use is facially reasonable, there is no empirical data describing firms' deterrence from certain conduct due to trebling. Indeed, this postulation requires proof of a negative, which may well be impossible to adduce.

A criticism that can be raised against an actual damages remedy is that reasonable activity, such as research joint ventures, which the courts have traditionally accorded rule of reason analysis, is not well-defined. Collusion has always been given the *per se* standard, but boycotts and tying arrangements, which are similarly treated activities, can in some circumstances be justified.<sup>122</sup> Thus, the definition of justifiable conduct is not precise in the absence of all the particular facts of the case. Granting to certain groups, such as research investors, the privilege to submit what might be an unjustifiable amount of evidence in response to a *prima facie* case may be seen as an unjustifiable waste of judicial resources when it is apparent that the conduct undertaken by the defendant has no redeeming value.

Another drawback to detrebling is that if damages are difficult to determine, an injured party will have a decreased incentive to sue. As previously mentioned, this undermines the theory that detrebling would increase the fairness of the award. When there are disincentives to sue, the incentives to assume greater risks on the part of the actor may lead to an increase in injurious conduct that

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120. *United States v. United States Gypsum Co.*, 438 U.S. 422 (1978). Excessive enforcement "holds out the distinct possibility of overdeterrence; salutary and procompetitive conduct lying close to the borderline of impermissible conduct might be shunned by businessmen who chose to be excessively cautious in the face of uncertainty regarding possible exposure to criminal punishment for even a good-faith error of judgment." *Id.* at 441.

121. Garvey, *supra* note 4, at 366.

122. *Id.* at 369.

approaches the fine line between legal and illegal behavior, or the assumption of a greater risk, *i.e.*, the attempt to approach even closer to that line to reap a profit.

Perhaps the most persuasive argument against detrebling damages is that if conduct is sufficiently unreasonable and anticompetitive to support a finding of illegality, the method of analysis (*per se* or rule of reason) should not be the basis for distinguishing the penalty. Stimulation of the economy is not a sufficient reason for actors in a joint research venture to warrant more leniency than, for example, colluders who also may be able to argue an increase in competition due to their activity. In both cases the actions are illegal. The rejoinder to this argument is that joint venturers who violate the antitrust laws have inadvertently crossed the less than bright line of illegality in an attempt to promote the economy. This is not a valid argument. There is no excuse for a violator's movement so far into the grey zone of joint venture activities, which have been accorded rule of reason analysis. The finding of a violation in such a case indicates that the parties were attempting to walk the line and reap as many of the rewards as they could at the expense of the public, which has given them the benefit of a less burdensome standard in the courts. It can be argued that such behavior warrants even harsher treatment than treble damages.

At least two alternatives to detrebling have been proposed. Joseph Creighton, Vice President of the Harris Corporation of Florida, suggests that if Congress is willing to detreble in the case of research joint ventures because of their procompetitive potential, it is reasonable to eliminate the award of damages altogether for those ventures that follow the disclosure system proposed in H.R. 3878, S. 1841.<sup>123</sup> This suggestion has not been widely supported. Professor Garvey suggests that the assessment of the value of treble damages is not yet complete, and that substantive changes of the antitrust laws should be considered as a more certain alternative.<sup>124</sup>

Under Section 203(a) (NCRA Section 4(a)), those entitled to recovery under Section 4 of the Clayton Act and the other provisions in this section, would recover not only their damages, but also simple interest on the damage amount for the time period between the service of the complaint and the date of judgment.<sup>125</sup> This provision for the award of damages did not represent a change in antitrust law (Section 4 of the Clayton Act states the same time

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123. Creighton, *supra* note 13. For a discussion of the notification and disclosure provisions see *infra* notes 131-37 and accompanying text.

124. Garvey, *supra* note 4.

125. S. 1841, 98th Cong., 1st Sess. § 203(a) (1983), H.R. 3878, 98th Cong., 1st Sess. § 203(a) (1983). As enacted, NCRA § 4(d) changed the time frame for interest calculation. See *supra* note 93.

frame),<sup>126</sup> but it did differ from the normal time period for the award of interest under 28 U.S.C. § 1961(a), which allows the recovery of interest "calculated from the date of the entry of the judgment."<sup>127</sup> Prejudgment interest was included in the proposed legislation to compensate more fully the plaintiff, who, under the other provisions of the Act, would be receiving single rather than treble damages.<sup>128</sup> Furthermore, the provision deters the defendant, who under the Act would be subject to the rule of reason and permitted to advance a full defense, from protracting the litigation to increase profits. Conversely, the provision would adversely affect the defendant whose risk-averse managers wish to produce an assertive defense, and it may increase the pressure on such a party to settle early or put on (in the defendant's opinion) a less than satisfactory defense.

Section 203(a) of the Act further provides for the award of reasonable attorneys' fees to the prevailing plaintiff.<sup>129</sup> This is not different from the present law under Section 4 of the Clayton Act. Interestingly, Section 203(b) (NCRA Section 5(b)) does not limit the remedy to States acting as *parens patriae* to actual damages as do the present antitrust laws.<sup>130</sup>

#### 4. Pre-Venture Notification Procedure

Section 204(a) of the proposed legislation (NCRA Section 6(a)) permits joint venturers to file a notification with the Antitrust Division in return for the privilege of asserting, in unsuccessful private antitrust litigation, liability limited to single damages.<sup>131</sup> The limited liability is restricted to conduct disclosed in the notification. To the extent that the interested parties are forming a venture with the objective of research and development, this provision effectively supersedes the notification provisions of the Hart-Scott-Rodino

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126. 15 U.S.C. § 15 (1982).

127. 28 U.S.C. § 1961(a) (1982).

128. See, e.g., Baxter, *supra* note 18, at 49-50. As enacted, NCRA § 4(d) more fully compensates the plaintiff than the interest calculation proposed in § 203(a). See *supra* note 93.

129. S. 1841, 98th Cong., 1st Sess. § 203(a) (1983), H.R. 3878, 98th Cong., 1st Sess. § 203(a) (1983). As enacted, NCRA § 5(a) permits attorneys' fees to the "substantially prevailing claimant." This was the last major difference to be resolved between the Senate and House bills before enactment of the NCRA.

130. S. 1841, 98th Cong., 1st Sess. § 203(b) (1983), H.R. 3878, 98th Cong., 1st Sess. § 203(b) (1983). This provision was later amended to allow only single recovery for states. See *infra* note 241.

131. S. 1841, 98th Cong., 1st Sess. § 204(a) (1983), H.R. 3878, 98th Cong., 1st Sess. § 204(a) (1983). The information required under Section 204(a) included: 1) the identity of the participating parties; 2) the nature, scope and duration of the program; and 3) any ancillary agreements or understandings. *Id.* As enacted, notification under NCRA § 6(a) need only contain the identities of the parties, and the nature and objectives of the venture.

Act.<sup>132</sup>

Section 204(b) (NCRA Section 6(b)) indicates that information received in a notification will be published in the Federal Register within thirty days of submission.<sup>133</sup> The purpose of Section 204(b) publication is to permit those who may be injured to come forward with complaints, or at least to put them on notice to prevent injury due to an unknown collaboration in a related field. This effect is abrogated by the ability of the filing entity, under Section 204(c) (NCRA Section 6(d)), to request that specified information be withheld from publication for a specified period of time.<sup>134</sup> If venturers decide they do not wish to disseminate certain information, Section 204(d) (NCRA Section 6(e)) states that they have only thirty days from submission to withdraw the notification materials.<sup>135</sup> Thirty days is a very short time in which to deal with any government agency, and it compounds the problems of advanced notification.

Prenotification publication can be an enormous deterrent to participate in the notification program, as much of the information may be considered trade or business secrets. Also, a potential venturer, large or small, may be concerned that publication, however limited in scope, will attract unwelcome attention that could lead to antitrust allegations by private parties, even though the government takes no action. Information describing the number and identity of the investors alone could divulge the type of research project or program being undertaken, which the venturers might wish to remain a secret. Dissemination of the activities being undertaken or objectives of the research may result in a loss of exclusivity, as such information would inform competitors of the feasibility of a particular enterprise that the competitors may then also wish to attempt. Such disclosures would decrease the incentive to invest because the technological advances and advantages for the venturers would be lost.

Section 204(e) (NCRA Section 6(f)) states that action taken by the agencies pursuant to the notification procedure is not subject to

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132. PUB. L. NO. 94-435, Title II, 90 Stat. 1394 (1976). The Hart-Scott-Rodino Act, enacted to avoid merger problems associated with unscrambling a *fait accompli*, has been criticized for its overbroad notification provisions. WESTON, *supra* note 29, at 535. The information originally required by proposed Section 204(a) would have been similarly burdensome. Deletion of many of these requirements from NCRA § 6(a) as enacted has lessened this burden considerably. *See supra* note 131.

133. S. 1841, 98th Cong., 1st Sess. § 204(b) (1983), H.R. 3878, 98th Cong., 1st Sess. § 204(b) (1983).

134. S. 1841, 98th Cong., 1st Sess. § 204(c) (1983), H.R. 3878, 98th Cong., 1st Sess. § 204(c) (1983). As enacted, NCRA § 6(d) does not allow the filing party to request withholding of the information filed under NCRA § 6(a)'s less specific notification requirement.

135. S. 1841, 98th Cong., 1st Sess. § 204(d) (1983), H.R. 3878, 98th Cong., 1st Sess. § 204(d) (1983).

judicial review.<sup>136</sup> The object of this section was to inform those who file that the purpose of any governmental action would be to oversee, rather than to regulate, the challenged venture. This is clearly a form over substance problem. Regardless of the categorization, the effect of agency action on the venturer is the same. If judicial review is precluded, a venturer which believes that it has been injured by an agency's conduct, whether with respect to a notification procedure or subsequent investigative conduct, possesses no procedural safeguards. The argument in defense of this provision is that the injured party can follow established agency procedures to pursue redress. Making these procedures the exclusive remedy, however, may deter venturers from the filing route altogether. Because there are no requirements for certification, approval, or even agency investigation, it is unlikely that the notification procedure will yield many agency antitrust challenges.<sup>137</sup> The burden of the procedure to potential venturers may therefore outweigh the benefit of advance notification to the government.

## 5. Related Legislation

Many legislative proposals relating to joint research and development ventures have been sponsored in the past four years.<sup>138</sup> Because they deal only with joint venturers, criticism has been aimed at their limited approach to the enhancement of productivity.<sup>139</sup> Some of the legislative proposals require firms that intend to initiate a joint research venture to comply with defined standards before they may receive approval to proceed from the Department of Justice or the Federal Trade Commission.<sup>140</sup> These bills have come under considerable attack:

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136. S. 1841, 98th Cong., 1st Sess. § 204(e) (1983), H.R. 3878, 98th Cong., 1st Sess. § 204(e) (1983).

137. Only twenty percent of filings pursuant to the Hart-Scott-Rodino Act are ever investigated. WESTON, *supra* note 29, at 535. Far fewer are ever challenged.

138. See *supra* notes 50-52 and accompanying text.

139. The United States and Canadian Chapter of the Licensing Executives Society, Inc., in support of the Administration's original proposal, stated that:

Most of the pending bills deal only with joint R&D efforts and for this reason are adequate to treat only one symptom of a widespread economic disease. This disease has many causes, and our purpose here is not to offer a panacea to cure it or reverse its course. However, we can suggest or, more properly, urge ways to treat a greater number of its symptoms and hopefully to give U.S. industry the strength to eradicate the disease on its own.

We urge the elimination of barriers to the formation of joint research ventures. . . . In short, we urge enactment of the single pending bill which accomplishes all of [the necessary objectives]. That bill is . . . the National Productivity and Innovation Act of 1983.

LES Statement, *supra* note 13, at 3-4.

140. *E.g.*, H.R. 108, H.R. 1952, H.R. 3641, H.R. 4043, 98th Cong., 1st Sess. (1983). The standards under these bills are known as "safe harbors."

[S]imply because a venture fits the mold does not guarantee the avoidance of anticompetitive abuse and inefficiency. In fact, the 'if it fits the mold, it's okay' approach is merely another form of the per se approach, except as applied here it would be a standard of per se antitrust legality.<sup>141</sup>

Other proposed bills have been criticized because of specific requirements they impose, for example, compulsory licensing of the technology produced or mandatory acceptance of any firm that wished to join the venture.<sup>142</sup> Such a federally-imposed involuntary distribution of property may constitute uncompensated taking, which is rare in the area of intellectual property, and which would decrease the incentive to innovate by eliminating the rewards of successful competition in the marketplace.<sup>143</sup> Another criticism of several of the proposals is that they would impose upon the agencies a regulatory role unattractive because it would increase the costs to the public,<sup>144</sup> and because governmental interference in commerce is abhorrent to the present Administration.<sup>145</sup>

### B. Title III—Intellectual Property Licensing Under the Antitrust Laws

The areas of law, besides tax, that have had a profound impact on private sector research and development are antitrust and intel-

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141. LES Statement, *supra* note 13, at 13-14; see Baxter, *supra* note 18, at 46; Andewelt, *The National Productivity and Innovation Act of 1983: An Effort to Improve the Legal Climate for the Creation and Exploitation of Intellectual Property*, at 9 (speech before the Los Angeles Patent Law Association, Nov. 15, 1983) [hereinafter cited as LAPLA]. See also *House Hearings*, *supra* note 108, at 6, in which Baxter states that "none of the standards that have been proposed would be as effective as the current antitrust standard in distinguishing procompetitive ventures from anticompetitive ones. In fact, the proposed substitute standards could encourage anticompetitive joint research and development ventures and would inhibit many desirable ones."

142. Baxter, *supra* note 18, at 46; *House Hearings*, *supra* note 108, at 6.

143. Baxter, *supra* note 18, at 62; LAPLA, *supra* note 141, at 9; McGrath, *supra* note 108, at 7.

144. Baxter, *supra* note 18, at 62; LAPLA, *supra* note 141, at 9.

145. Baxter, *supra* note 18, at 6, 54, 60, 62, wherein Baxter states:

A number of other proposals to increase the country's productivity are far more drastic; they would require that the market mechanism itself be supplanted, in varying degrees, by bureaucratic decisionmakers. . . . [A]ll the proposals seem to be premised on the beliefs that markets and the private sector are incapable of dealing with our economic problems and that the government should step in. . . . [But, unlike] the market, which facilitates the transfer of assets to their most highly valued use, political institutions tend to allocate resources on the basis of the relative electoral strength of competing interest groups . . . [which] might well prevent the government from making [market] correction[s] for fear of losing that government subsidy. . . . The general insensitivity of the political mechanism to that message is likely to result in errors that are both massive and enduring, because political constituency is likely to be strengthened by the capital infusion.

lectual property.<sup>146</sup> The policies underlying statutes regulating patents, trademarks, trade secrets, and copyrights are identical in at least one respect: in exchange for intellectual innovation, the inventor or intellectual property owner is granted an exclusive right to the property. The owner of intellectual property, thus, possesses the right, as do owners of tangible property, to assign or license the property for monetary reward. These rights provide an incentive to produce, *inter alia*, technological advances, which in turn benefit society by stimulating competition.<sup>147</sup> Thus, for the same reasons it considers joint research and development ventures socially beneficial, the present Administration supports the licensing of intellectual property.

Intellectual property licensing has many beneficial effects on productivity and the stimulation of competition.<sup>148</sup> The product or process may possess properties that the owner may be unable to exploit, but, when licensed to others, may stimulate the development of other uses. The patent also may be more extensively exploited by others, thus maximizing its usefulness. If the patent is a pioneer in an industry, it may be the only means for others to enter the field.<sup>149</sup> Under a license, information enabling others to further innovate may be disseminated. Licensing can further advance competition by delivering products and processes to the marketplace more quickly, or at a lower cost, than would be possible by reliance solely upon the licensee's own resources.<sup>150</sup>

On the other hand, intellectual property licensing may lead to abusive restraints of trade, which tend to decrease competition. Antitrust problems arise when licenses contain certain horizontal or vertical restrictions, such as restrictive territorial allocations or price-fixing. The license may impermissibly extend the owner's rights by mandating royalties past the legally granted period of exclusivity, or may require purchases from the patent owner unrelated to the patent.

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146. See Rule, *supra* note 12, at 12.

147. See Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966). The discussion in this article focuses primarily on the property rights in patents, with a short discussion of trademarks and copyrights. For a more in-depth analysis, the reader should consult the references cited throughout this section.

148. See Baxter, *supra* note 18, at 28; L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 525-26 (1977); WESTON, *supra* note 29, at 875-77.

149. This is particularly true for small companies, which may not possess the resources for development in the field of art to which the license pertains. WESTON, *supra* note 29, at 875-77.

150. For a more extensive discussion of the benefits of license arrangements, both to owners and society, see WESTON, *supra* note 29, at 877.

## 1. Department of Justice Patent Licensing Policy

Until recently, both the Antitrust Division and the federal courts have regarded patent licenses and licensing agreements with hostility. Beginning in the late 1960's, the Department of Justice began to establish a list of licensing practices which the Department found offensive under the antitrust laws. Officials of the Department gave luncheon meetings across the country to explain these rules for the benefit of the patent bar. The most comprehensive and well known of these speeches was given in 1975 by Bruce B. Wilson, then Deputy Assistant Attorney General, Antitrust Division.<sup>151</sup> At that time, he set forth what became known as the "nine no-no's" of forbidden licensing practices, each of which was thought to deserve *per se* Division condemnation due to inherently anticompetitive attributes.<sup>152</sup> The test which led to development of the nine "no-no's" consisted of two questions. First, was the particular licensing provision justifiable as necessary to the patentee's exploitation of his lawful monopoly? Second, were less restrictive alternatives more likely to foster competition available to the patentee? Where the answer to the first question was no, and to the second yes, the Department considered challenging the restriction involved.<sup>153</sup>

This "no-yes" test was seen as an attempt to alter the rule set out in *United States v. General Electric Co.*,<sup>154</sup> which dictated a rule of reason approach for patent licensing agreements. Under *General Electric*, licenses were to be found acceptable under the antitrust laws unless the conditions were not "reasonably within" the reward envisioned by the patent grant.<sup>155</sup> The patent bar, as well as Con-

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151. Wilson, *Law on Licensing Practices: Myth or Reality?* (speech before the American Patent Law Association, Washington, D.C., Jan. 21, 1975) [hereinafter cited as Wilson].

152. *Id.* According to the nine "no-no's," a licensor may not: 1) condition the license on purchase of unpatented materials; 2) require assignment to the licensor of related patents later issued to the licensee; 3) restrict purchasers in the resale of licensed products; 4) restrict a licensee's freedom to deal in products or services not within the scope of the patent; 5) agree with a licensee to deny further licenses without the licensee's consent; 6) condition the license on taking an entire license "package"; 7) condition the license on royalties not reasonably related to the licensee's sales of the licensed products; 8) restrict a licensee's sale of products made by use of the patented process; 9) require adherence to any minimum price respecting sale of the licensed products. *Id.*

153. See generally WESTON, *supra* note 29, at 885.

154. 272 U.S. 476 (1926).

155. *Id.* The Court stated:

Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or 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. . . . We think [the patent owner] may [limit the selling by limiting the method of sale and the price] provided the conditions of sale



gress, criticized the Department's "no-yes" test.<sup>156</sup> The President's Commission on the Patent System explicitly proposed imposition of the rule of reason to promote patent and antitrust policies.<sup>157</sup>

In response to this criticism, the Department proposed a test to determine the legal standard for licensing agreements which was addressed to the legality, rather than the illegality, of the arrangement. The "ancillary restraint" test was expressed as follows: "First, the restriction must be ancillary to carrying out the lawful primary purpose of the agreement. Second, the scope and duration of the restraint must be no broader than is necessary to support that primary purpose. And third, the restriction must be otherwise reasonable under the circumstances."<sup>158</sup>

In 1978 and 1979 the Division's attitude towards the rights of patent owners began to change. This was reflected in the speeches of Ky P. Ewing, Jr., Deputy Assistant Attorney General, Antitrust Division.<sup>159</sup> Ewing proposed that the policies underlying the antitrust and patent laws are not in conflict at all. Notwithstanding the

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are normally and reasonably adopted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold.

*Id.* at 489-90.

156. See generally WESTON, *supra* note 29, at 885.

157. *Id.* at 853. Recommendation XXII of the President's Commission stated:

The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, [sic] or any interests therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable, and (2) a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a licensee, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure the patent owner the full benefit of his invention and patent grant. This recommendation is intended to make clear that the 'rule of reason' shall constitute the guideline for determining patent misuse.

There is no doubt, in the opinion of the Commission, of the importance to the U.S. economy of both the U.S. patent system and the antitrust laws. Each is essential and each serves its own purpose within the framework of our economic structure. However, conflicts between the two have arisen. But this does not mean that the two systems are mutually exclusive, that a strong patent system is a threat to the antitrust laws, or that the latter cannot be effectively enforced so long as a patent system grants limited monopolies.

*Id.*

158. Wilson, *supra* note 151.

159. Ewing, *Antitrust Enforcement: A Positive Force for Innovation* (speech before the Institute of Electrical and Electronics Engineers, Conference on U.S. Technology Policy, Arlington, Virginia, Sept. 20, 1978), cited in WESTON, *supra* note 29, at 852-53 [hereinafter cited as *A Positive Force*]; Ewing, *Remarks on Antitrust Enforcement and the Patent Laws*, May 5, 1979, 50 ANTITRUST L.J. 515 (1981) [hereinafter cited as Lipsky].

long-term hostility of the Division towards intellectual property licensing agreements, he declared that "[f]reedom to invent, develop, make and sell the 'better mousetrap'—free of any unreasonable restraints, whether imposed by private parties or government—is what antitrust policy is all about."<sup>160</sup> Thus, consumers are the potential beneficiaries of the patent system, and competition can be increased by the introduction of a patented product.<sup>161</sup>

In 1981, Abbot B. Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Division, adopted Ewing's proposition and took it one step further by describing the origin of the value of patent rights as the patentee's ability to exploit the market power of his intellectual property.<sup>162</sup> Lipsky, however, departed from Ewing's philosophy with respect to the Division's attitude towards the nine "no-no's." Lipsky asserted that for conduct to violate the antitrust laws, the practice must be anticompetitive due to its horizontal nature. Because all nine no-no's were vertical restrictions, and as such possessed aspects of "rational economic policy," they deserved to be treated almost as *per se* legalities.<sup>163</sup> He then discussed briefly, and rejected, each of the no-no's.<sup>164</sup>

Roger B. Andewelt, Chief of the Intellectual Property Section of the Antitrust Division, has more recently discussed the Division's rejection of the no-no's.<sup>165</sup> He asserted that patent licensing provisions can be viewed as vertical arrangements, which the Division regards as inappropriate for *per se* treatment. The rule of reason analysis would then be applied. He proposed three interdependent economic concepts:

First, the existing patent grant should not be viewed as a threat to our free enterprise system, but rather as an important part of it. Second, exploitation of market power . . . should be proscribed only when it functions anticompetitively. Third, the determination of when a . . . licensing arrangement has anticompetitive effects can be complex, and . . . should be fact-specific with the inquiry focusing on the terms of the arrangement and the structure of the economic markets affected.<sup>166</sup>

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160. *A Positive Force*, *supra* note 159; WESTON, *supra* note 29, at 852.

161. *See A Positive Force*, *supra* note 159.

162. *See Lipsky*, *supra* note 159.

163. *Id.* at 516-17.

164. *Id.* at 518-23.

165. Andewelt, *Basic Principles to Apply at the Patent-Antitrust Interface* (speech before the House Patent Law Association, Dec. 3, 1981); Andewelt, *Competition Policy and the Patent Misuse Doctrine* (speech before the Bar Association for the District of Columbia Patent, Trademark, and Copyright Section, Washington, D.C.), *reprinted in* 51 PAT., TRADEMARK & COPYRIGHT J. (BNA) 41 (Nov. 3, 1982) [hereinafter cited as *Competition Policy*].

166. *Competition Policy*, *supra* note 165. Andewelt indicated that even if these principles were adopted, patent owners would still be deterred by the application of the misuse doctrine, which has often been applied in a *per se* manner. *Id.*

In July of 1983, William F. Baxter addressed the failure "to recognize the importance of intellectual property and its efficient exploitation" by the Division and the courts.<sup>167</sup> In his opinion, this short-sightedness has impeded the nation's productivity and economic growth.<sup>168</sup> He described licensing restrictions as often necessary to maximize the output of, and returns to, patented property.<sup>169</sup> These restrictions include field of use provisions, non-horizontal price restrictions in non-exclusive licenses, grant-back clauses, and even tying agreements, as long as the effect is not a horizontal restriction. Each of these has procompetitive aspects, and should not be prohibited without the benefit of a factual analysis. Horizontal restraints usually exhibit no procompetitive effects, and should be treated summarily, but Baxter stressed that care must be taken to avoid the summary condemnation of circumstances, such as patent licensing arrangements, which are usually vertical agreements.<sup>170</sup> Finally, he warned that although the courts and governmental agencies have become more rational in their approach towards intellectual property licensing agreements, misperceptions still exist under the guise of the misuse doctrine.<sup>171</sup>

Thus, the Division is moving away from *per se* rules, and although this might be seen as a policy package promoted by Baxter and the present Administration, there are indications that this will not be a short-lived trend. The Division's spokespersons are persuasive, and their criticisms of the *per se* standard for licensing provisions are logical. Taken in conjunction with the economic outlook that has fostered this trend, it is reasonable to expect that the enforcement policies of the Division will long remain economically oriented.

## 2. Substance of Title III

Title III was proposed to "insure that antitrust laws encourage procompetitive intellectual property licensing" and to "ensure intellectual property owners the fruits of their ingenuity,"<sup>172</sup> as well as to encourage "procompetitive intellectual property licensing" which is intended to "spread new knowledge" and promote economic development and commercialization of technology.<sup>173</sup> Donald Banner, President of Intellectual Property Owners, Inc.,

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167. Baxter, *supra* note 18, at 27.

168. *Id.* He described the Division's previous embracing of the nine no-no's as unduly hostile. *Id.*

169. *Id.* at 28.

170. *Id.* at 35-41.

171. *Id.* at 41.

172. *President's Statement, supra* note 46, at 1235; *President's Message, supra* note 46, at 1237.

173. Baldrige, *supra* note 4, at 2.

testified in Senate hearings that the application of the rule of reason would "ensure that courts would not strike down licenses without economic analysis" and "give businesses confidence that courts will not return to the hostile attitude toward licensing that some courts [have] displayed. . . ."174 The title prohibits courts from condemning intellectual property provisions until their procompetitive effects have been analyzed. It also eliminates the possibility that a license clause found to violate the antitrust laws will subject the contracting parties to treble damages.

Section 301 provides for the addition of a new section to the Clayton Act prohibiting *per se* treatment of licenses concerning intellectual property, including "copyrights, trade secrets, trademarks, know-how, or other intellectual property."<sup>175</sup> The licenses sought to be protected are those which have been treated harshly by the courts, but which possess procompetitive aspects, such as field of use licenses, licenses containing nonprice-fixing restrictions, grant-back licenses, and certain tying arrangements.<sup>176</sup> It further requires simple interest on judgments, calculated as under Section 203. This section is important to intellectual property owners because it would statutorily prohibit the *per se* analysis Bruce B. Wilson first enunciated in 1969, and would codify the recent trend of the Division and courts to treat facially restrictive licensing clauses under the rule of reason standard. The Division, through Baxter, generally considers these arrangements vertical in nature, because the patent owner is not in competition with the licensee.<sup>177</sup> Thus, these licenses should be considered "fact-specific," with the inquiry focusing on the terms of the arrangement and the structure of the economic markets affected under the rule of reason.<sup>178</sup> The arguments for and against statutory regulation of judicial construction of intellectual property licenses are similar to those expressed earlier in this article with regard to research and development joint ventures. Intellectual property owners will gain some certainty, both with respect to judicial treatment and the imposition of monetary damages. The current trend, however, is toward rule of reason treatment in any case, and it does appear to be stable. Thus, to that extent, the value of imposing upon the public another statute is decreased. This provision has not excited any negative reaction from

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174. *Hearings on S. 1535 and S. 1841 Before the Subcomm. on Patents, Copyrights and Trademarks of the Comm. on the Judiciary*, 98th Cong., 2d Sess. 51 (1984) (statement of Donald W. Banner, President of Intellectual Property Owners, Inc.) [hereinafter cited as Banner].

175. S. 1841, 98th Cong., 1st Sess. § 301 (1983), H.R. 3878, 98th Cong., 1st Sess. § 301 (1983).

176. Baxter, *supra* note 18, at 27-37.

177. *Id.* at 37.

178. *Id.* at 27-37, *Competition Policy*, *supra* note 165.

economists or politicians, and has been universally favorably received.<sup>179</sup>

### C. Title IV—Patent and Copyright Misuse

#### 1. History and Purpose

Misuse is an equitable defense against infringement where the court is asked to evaluate the conduct of the patentee, or patent owner, rather than that of the infringer. While conduct that would be an antitrust violation is misuse, the misuse doctrine is broader, encompassing activities that would not be antitrust violations if the conduct was inequitable or anti-beneficial to the public.

If misuse is found, the courts withhold any remedy for infringement or breach of a license agreement until the conduct that constituted the misuse has ceased and its effects have been purged—even against an infringer who has not been harmed by the plaintiff's activities. This policy permits free use of the intellectual property and destroys its value to the owner. Although the doctrine has been applied in all patent and copyright situations in which antitrust violations occur, it is in patent tying cases that the doctrine originally arose and evolved.

The misuse defense was created largely in response to the development of contributory infringement during the nineteenth and early twentieth centuries. Contributory infringement was a judicially constructed device permitting a patent owner to extend his exclusive rights to unpatented components of the subject invention though the patent claim did not encompass them.<sup>180</sup> The misuse defense virtually eliminated liability for contributory infringement, condemning any attempted control by the patentee over unpatented items necessary to the patented invention.<sup>181</sup> Patent misuse

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179. Baxter *supra* note 18; House Hearings, *supra* note 108; LES Statement, *supra* note 13, at 16; Mossinghoff, *supra* note 4.

180. The contributory infringement doctrine had its broadest interpretation in *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), in which the manufacturer of a patented printing machine successfully alleged contributory infringement against its competitors, who sold unpatented paper and ink products necessary to the operation of the manufacturer's machine. The Court thus extended infringement liability to those other than the patentee who sold items necessary to the operation of the patented invention, and permitted the manufacturer to condition the purchase of his machine on purchase of his accessories.

181. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) (defense successful where patentee sought to extend patent through domination of market for unpatented accessory); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (legality of attempts to control unpatented goods measured against antitrust rather than patent standards); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942) (misuse found where no antitrust violation or injury proven); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938) (license available only by operation of law after purchase of accessory material struck down); *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931) (re-

denied any extension of patent rights to cover elements beyond the scope of the patent claim, because such an extension appropriated rights already in possession of the public.

The interplay of contributory infringement and patent misuse created much doubt and confusion in the patent bar. Section 271 of the 1952 Patent Act<sup>182</sup> was created to resolve this problem. Its proponents described the statute as requiring that "the mere use or enforcement of the right to be protected against contributory infringement . . . shall not be regarded as misuse of the patent."<sup>183</sup> The proposed amendment to Section 271 in Title IV of the National Productivity and Innovation Act of 1983 would not eliminate the doctrine of patent misuse, but would limit its application to allegations of fraud in the procurement of the patent and other circumstances in which an economic approach is not feasible.<sup>184</sup>

Two broad types of cases now define the situations in which misuse will likely be found.<sup>185</sup> The first category involves decisions of the patent owner with respect to whether to license, and at what royalty. Courts have found misuse when the patent owner: (1) licensed one licensee at a rate different from that charged another,<sup>186</sup> (2) refused to license a patent already licensed to others,<sup>187</sup> and (3) charged rates deemed unreasonably excessive.<sup>188</sup>

The second category of cases involves situations in which the licensors have attempted to extend the scope of patent rights. Within this set of cases, courts have found misuse when patent owners have required a licensee to: (1) purchase unpatented products as a condition of receiving a license for a patented product (a tie-in),<sup>189</sup> (2) refrain from dealing in products that compete with the patented product (a tie-out or exclusive dealing),<sup>190</sup> (3) purchase ad-

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striction on sale of patented goods to extend rights to cover necessary unpatented accessory struck down); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 343 U.S. 502, 519 (1917) (attempt to allow use of patented machine only with patentee's unpatented accessory held gravely injurious to the public interest).

182. 35 U.S.C. § 271 (1982).

183. H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952); S. REP. No. 1979, 82d Cong., 2d Sess. 8 (1952).

184. *Competition Policy*, *supra* note 165, at 46.

185. *Id.* at 44.

186. *Laitram Corp. v. King Crab, Inc.*, 244 F. Supp. 9, *modification denied*, 245 F. Supp. 1019 (D. Alaska 1965).

187. *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1969).

188. *American Photocopy Equip. Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966).

189. *E.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

190. *McCullough v. Krammer Corp.*, 166 F.2d 759 (9th Cir.), *cert. denied*, 335 U.S. 813 (1948); *National Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255 (3d Cir. 1943).

ditional licenses to obtain a license for the desired patent (a compulsory package license),<sup>191</sup> or (4) pay royalties based on sales of a unpatented product.<sup>192</sup>

In a recent address, Roger B. Andewelt explained that in cases where royalties and the decision of the patent owner to license were at issue, the effect of a misuse holding where there was no showing of an antitrust violation was "to treat market power derived from patents more harshly than market power derived from other lawful means."<sup>193</sup> According to Andewelt, there is no logical economic reason "why the public would benefit from such harsher treatment for market power derived through patents."<sup>194</sup> Moreover, the public interest is served by license agreements, and thus is disserved by a broad application of the *per se* doctrine to those situations.

If an attempt to extend the scope of the patent was at issue, Andewelt stated:

The notion that affecting commerce outside the scope of the patent is *per se* contrary to public policy is precisely the type of formalistic line drawing that should not survive. . . . To the extent that the misuse doctrine proscribes conduct on economic grounds that is not unlawful under antitrust analysis, the doctrine is inconsistent with a sound competition policy because it can deter procompetitive or otherwise desirable conduct.<sup>195</sup>

Title IV was proposed to eliminate the discrepancies between the doctrine of misuse and the economic analysis used as the basis for antitrust laws. Amending the patent and copyright laws to require that allegations of misuse be based on a showing of anticompetitive effect<sup>196</sup> would "preclude courts from classifying conduct as patent or copyright misuse on the ground that the conduct in some way suppressed competition unless, after careful analysis, it was determined that the conduct constituted a violation of the antitrust law."<sup>197</sup>

## 2. Substance of Title IV

Section 401 would amend 35 U.S.C. § 271, by merging the present subsection (d) into subsection (c) to ensure that these subsections are read together,<sup>198</sup> as the Supreme Court dictated in

191. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, *on remand*, 418 F.2d 21 (7th Cir. 1969), *rev'd*, 401 U.S. 321 (1971).

192. *Id.*

193. *Competition Policy*, *supra* note 165, at 44.

194. *Id.*

195. *Id.*

196. *President's Statement*, *supra* note 46, at 1235; *President's Message*, *supra* note 46, at 1237.

197. *House Hearings*, *supra* note 108, at 11.

198. S. 1841, 98th Cong., 1st Sess. § 401(a), (b) (1983), H.R. 3878, 98th Cong., 1st Sess. § 401(a), (b) (1983).

*Dawson Chemical Co. v. Rohm & Haas Co.*<sup>199</sup> Section 401(c) then adds a new subsection (d) to the present Section 271, listing six patent licensing practices that could not provide the basis for a holding of misuse or illegal patent extension unless such practices are found substantially likely to lessen competition in the particular circumstances.<sup>200</sup>

The first exempted practice is "licens[ing] the patent under terms that affect commerce outside the scope of the patentee's claims." This provision supports the *Rohm & Haas* exception to traditional tying rules. It clearly condones the conduct of Rohm & Haas which led to the 1980 Supreme Court decision.

The Supreme Court in *Rohm & Haas* addressed the scope of the misuse doctrine with respect to the limitations imposed upon it by the original Section 271(d).<sup>201</sup> The primary issue was Rohm & Haas' refusal to license a nonstaple, previously known chemical necessary for the function of the process patent. The majority concluded that Rohm & Haas' behavior fell within the scope of the patent owner's rights, as the chemical was a nonstaple item with a use dependent upon Rohm & Haas' patented method. The *Rohm & Haas* tying situation is one that often occurs due to the large number of unpatentable, known chemicals which possess no known useful properties.<sup>202</sup>

At least partly in support of *Rohm & Haas*, the Administration included Section 401 in the National Productivity and Innovation Act of 1983. The three subsections listed in the present Section 271(d) explicitly permit the types of activities that Rohm & Haas spent years defending. Thus, this amendment would not alter by legislation the *Rohm & Haas* decision. However, the first exemption stated in Section 401(c) is "licens[ing] the patent under terms that affect commerce outside the scope of the patent's claim," which would extend *Rohm & Haas* by condoning activities by the patent owner such as conditioning the purchase of commercial staples on the licensing of the patented invention.

It should be noted that the conditioning of the purchase of commercial staples was the same conduct the Court approved in *Henry v. A.B. Dick Co.*,<sup>203</sup> which caused an intense legislative and judicial backlash. Having seen the swing from the contributory infringement doctrine that encouraged patent owners in *A.B. Dick* to the

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199. 448 U.S. 176 (1980).

200. S. 1841, 98th Cong., 1st Sess. § 401(c) (1983), H.R. 3878, 98th Cong., 1st Sess. § 401(c) (1983).

201. 448 U.S. 176 (1980).

202. Brief for the American Chemical Society as *Amicus Curiae*, *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

203. 224 U.S. 1 (1912).



opposite extreme in the *Mercoid* decisions,<sup>204</sup> the author questions whether it is wise to enact legislation that would mandate the judicial application of the antitrust laws to favor the intellectual property owner to as extreme a position as that advanced in *A.B. Dick*.<sup>205</sup> Because courts are tempering their opinions on economic-based allegations, not only with the use of economic data, but by judicial manipulations with standing, Section 401(c)'s first exemption may be superfluous, or even harmful to the courts' decision-making processes.

The second activity permitted under Section 401(c) is the "restriction of a licensee of the patent in the sale of the patented product or in the sale of a product made by the patented process." This provision would be utilized when a court finds infringement in the use or sale of the product of a patented process. Section 401(c) would also allow resale restrictions on licensees. With regard only to the permissibility of resale restrictions, the second exemption would be a valuable addition to the patent laws. Vertical restraints may be logically seen to produce potentially procompetitive effects by increasing the potential for financial rewards to the owner who assists those downstream in the distribution process to commercialize optimally the property.<sup>206</sup>

This provision also provides intellectual property owners with important rights in the sale and use of unpatented products that result from their patented manufacturing process. This exemption is mentioned in connection with Title V below, with which it should be read. It provides investors the incentive to develop new methods of production and use for known compounds, an incredibly costly investment. An antitrust analysis of the activities Section 401(c) describes would be the best way to assess their effects on the patent owner and the market.

The third activity protected from misuse under Section 401(c) is "obligating a licensee of a patent to pay royalties which differ from those paid by other licensees or which are allegedly excessive." This provision would codify dictum found in *Brulotte v. Thys Co.*,<sup>207</sup> in which the Supreme Court stated that "[a] patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly," for each of the patentee's licensees.<sup>208</sup> It does not require similar royalty prices for all of the licensees.

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204. *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

205. T. Irving & K. Morron, *Dawson Chemical Company v. Rohm & Haas Company, An Exception to Traditional Tying Rules* (presented at the National Meeting of the American Chemical Society, St. Louis, Mo., Apr. 9, 1984).

206. See *supra* text accompanying notes 25-41.

207. 379 U.S. 29 (1964).

208. *Id.* at 33.

The provision would legislatively reverse the *Shrimp Peelers* cases,<sup>209</sup> in which misuse was found because the patent owners charged different royalty rates to licensees based on the value of the patented invention to the particular licensees. This provision supports the widely held criticism of those *per se* decisions. It is reasonable because determining appropriate differential royalties should be left to the owner, as an extension of the right to determine the amount of royalties the property is worth to the public—a right the Supreme Court approved in *Brulotte*. In such cases, a rule of reason analysis is appropriate.

The fourth exemption is “obligat[ing] a licensee of the patent to pay royalties in amounts not related to the licensee’s sales of the patented product or a product made by the patented process.” This provision would reverse the result of *Zenith Radio Corp. v. Hazeltine Research, Inc.*,<sup>210</sup> in which total sales royalties, or royalties on the patent based on the sale of an unpatented product, were found to be misuse. This exemption follows logically from the third, for the same underlying policy.

The fifth exemption in Section 401(c) is the exemption from misuse for “refus[al] to license the patent to any person,” which supports and would codify the Supreme Court holding in *Rohm & Haas*. The sixth exemption is a catch-all, exempting any activities not mentioned in the five preceeding provisions, previously held to be misuse, absent a showing of an antitrust violation. Such situations might be those which fall within the FTCA Section 5 “unfair” methods of competition.

Section 401 and its interpreters raise a perplexing question about the scope of the misuse doctrine should the Title eventually be enacted. Andewelt<sup>211</sup> and other proponents of the new legislation have indicated that there are situations in which an antitrust violation would not be found under the provisions of Section 401, but “where courts, in exercise of their equitable jurisdiction, properly should refuse to enforce a valid patent.”<sup>212</sup> Such a case might involve inequitable conduct in the procurement of the patent. To refuse enforcement despite the lack of statutory violation under such circumstances “is sound, however, because there is a clear and definite public policy behind [it].”<sup>213</sup>

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209. *LaPeyre v. FTC*, 366 F.2d 117 (5th Cir. 1966); *Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966); *In re Grand Caillou Packing Co.*, 65 F.T.C. 799 (1964).

210. 395 U.S. 100, *on remand*, 418 F.2d 21 (7th Cir. 1969), *rev'd*, 401 U.S. 321 (1971).

211. *Competition Policy*, *supra* note 165, at 46.

212. *Id.*

213. *Id.*

Section 402 of the bill amends the analogous provision in the copyright statute by substantially the same language.<sup>214</sup>

### 3. Evaluation

Under the misuse doctrine as it presently exists, and as it will remain even if Section 401 is enacted, remedies for infringement will not be available when misuse is found. In addition, not only are the property rights unenforceable, they are rendered a nullity until the effects of the conduct have been "purged," a term with a wide latitude of meaning.

One of the purposes of Title IV is to increase certainty in patent infringement litigation, where misuse is a common defense. As the law stands today, many practitioners are concerned about the lack of certainty regarding the factors that a court will consider to determine whether misuse has occurred. This concern may lead to hesitancy on the part of some intellectual property owners to license with confidence.<sup>215</sup> On the other hand, many intellectual property practitioners are comfortable with the development of the decisional law, and believe that a recognizable and workable pattern exists.<sup>216</sup>

If Title IV is passed with no clarification of its language, the author is unsure whether certainty would be increased. Although economic factors are considered to determine an antitrust violation, there is a great deal of uncertainty in that area of the law, as well as in the area of misuse. Furthermore, under Section 401, misuse could still be found without resort to economic data for purely equitable allegations, such as fraud in procurement of the patent, or inequitable conduct before a court. A patent owner would still have to be concerned with both patent misuse and antitrust allegations.

Those who support the proposed legislation argue that because antitrust violations are easier for a court to determine, making litigation more predictable for the parties, Title IV would yield fairness in litigation.<sup>217</sup> This opinion is laudably equitable in the abstract, but it ignores the fact that misuse is an equitable doctrine which arose to fill the need for a remedy in cases of inequitable conduct. If the remedy imposed by a determination of misuse is harsh, why should inequitable conduct, as distinct from economically anticompetitive behavior alone, not be dealt with harshly? There is no inherently logical reason to require the same penalty for different conduct.

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214. S. 1841, 98th Cong., 1st Sess. § 402 (1983), H.R. 3878, 98th Cong., 1st Sess. § 402 (1983).

215. Baxter, *supra* note 18, at 45, 48-49; LAPLA, *supra* note 141, at 10.

216. LAPLA, *supra* note 141, at 19-20.

217. *Competition Policy*, *supra* note 165, at 44.

Furthermore, as Section 401 is written, although perhaps not intended by its drafters, misuse *and* antitrust violations may be found for the same conduct, creating two standards for one remedy. In addition, two different types of conduct, purely equitable and purely economical, may both be considered misuse. This creates one standard for two types of conduct. The language should be rephrased to describe more clearly the intent of the drafters. Banner agrees that revisions to clarify Title IV should be implemented before these provisions are enacted.<sup>218</sup>

Title IV leaves unstated one procedural question, piqued by Garvey,<sup>219</sup> with respect to patent misuse determined under the proposed antitrust-economic standard. Patent misuse has been found in favor of defendants who were not financially injured by the inequitable conduct of the patent owner.<sup>220</sup> In contrast, antitrust litigation under *Illinois Brick Co. v. Illinois*<sup>221</sup> and *Hanover Shoe, Inc. v. United Shoe Mach. Corp.*,<sup>222</sup> is usually dependent upon a showing of direct financial injury. The question remains whether direct financial injury to the defendant counter-plaintiff will be required, or whether indirect injury will be sufficient to support allegations of misuse. It is the author's contention that the theory of recovery for those indirectly injured by inequitable conduct under *Morton Salt* and conforming cases should prevail. In light of the policies of the proponents of the bill, however, the issue will probably be resolved in favor of the doctrine which permits compensation only to those who directly suffer financial loss.

Those who testified concerning Title IV during the Senate Hearings generally approved the title, and suggested that both Titles III and IV would "eliminate judicially created doctrines that discourage use of potentially procompetitive licensing arrangements . . . particularly among small businesses by requiring an economic analysis by a court."<sup>223</sup> Titles III and IV were also interpreted to provide certainty to the legally permissible scope of patent licensing.<sup>224</sup>

The enactment of Title IV would implement the Supreme Court's dictum in *Rohm & Haas*: "If both the patent misuse and contributory infringement doctrines are to coexist, then, each must have some separate sphere of operation with which the other does not interfere."<sup>225</sup> In *USM Corp. v. SPS Technologies, Inc.*,<sup>226</sup> Judge

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218. Banner, *supra* note 174.

219. Garvey, *supra* note 4, at 358.

220. See *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942).

221. 431 U.S. 720 (1977).

222. 392 U.S. 481 (1968).

223. Banner, *supra* note 174, at 51.

224. *Id.* at 53.

225. 448 U.S. at 198.

Posner, perhaps in response to this proposal by the Supreme Court, considered whether "the patent-misuse doctrine goes beyond these specific practices [which extend a patent owner's rights] and constitutes a general patent licensing distinct from the antitrust law."<sup>227</sup> The court queried: "If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested?"<sup>228</sup> Posner reasoned that because the federal antitrust laws reach to every aspect of economic manipulation, it would be difficult to define a distinct purpose or standard for the misuse doctrine.<sup>229</sup> The court observed that the "increasing convergence" of the two principles dictates that misuse be evaluated under antitrust analysis.<sup>230</sup>

Section 401 of the proposed bill would, in effect, attempt to codify both courts' dicta. Congress has attempted to create two non-overlapping standards for misuse, depending on the alleged infringing conduct of the patent owner, by imposing on courts the necessity of performing an antitrust analysis for alleged practices which would potentially impair competition. Conduct which does not possess that potential will be assessed under an equitable or fairness standard.

Title IV possesses the most exciting potential in the proposed legislation. Its enactment would stabilize this area of the law and create a manageable standard for analysis when courts are presented with patent misuse and related antitrust issues. The language of the provisions should be tightened to express its intent more clearly, but, in the balance, Congress has combined well-reasoned dictates of the Supreme Court with presently established policies to promote the objectives of maximizing the innovator's rewards to stimulate innovation and thus enhance the economy.

#### D. Title V—Process Patents

Process patents are an important component of competition, and thus their commercialization stimulates the economy. An example given by Gerald Mossinghoff, former Commissioner of Patents and Trademarks, is the process for manufacturing insulin.<sup>231</sup> Insulin is naturally occurring, and is thus precluded from patent protection under United States law. New methods for its production are patentable, however, and they can be extremely valuable, both to society and, potentially, to the patent owner. The owner of such a patented process is at a disadvantage under the existing pat-

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226. 694 F.2d 505 (7th Cir. 1982), *cert. denied*, 103 S. Ct. 2455 (1983).

227. 694 F.2d at 511.

228. *Id.* at 512.

229. *Id.*

230. *Id.* at 511-12.

231. Mossinghoff, *supra* note 4, at 7.

ent laws where the owner of a product patent is not: the owner of a product patent may prevent the manufacture, sale and use of the invention even if the product is manufactured abroad. The owner of a process patent may not.

Under the current laws, an owner of a process patent has no means of controlling the use or sale of the unpatented and unpatentable products of a process. Despite the fact that a process may be a pioneer invention and a model of utility and efficiency, under two types of situations patent owners are prevented from reaping the benefits of their invention.

First, other companies that manufacture the product using a different process may continue to sell the product at their normal price. Even though the patent owner's process is more cost effective over the long run, if he or she cannot recoup the research and development expenditures by increasing the profits at the beginning of the federally-granted protection period, the business concern might not be able to remain viable, and the useful invention would be abandoned. The invention might also not be considered worth developing from the outset.

Second, competitors manufacturing the product might realize the advantages of the patented process and take a "free ride" on the inventor's skill, foresight, industry, and capital outlay by manufacturing the product outside of the United States using the patented process. The result would be that the owner of the process patent could be undercut or limited by imports of a product whose manufacture that owner facilitated.

Title V of the National Productivity and Innovation Act of 1983<sup>232</sup> was included to encourage research and development of useful inventions by extending the exclusive rights of the owner of a process patent to products made by that process. The objective of Section 502 is to permit the owners of process patents the same exclusory rights granted under present law to product patent owners.<sup>233</sup> Section 503 is a procedural section that would shift to an alleged process infringer the burden of showing that its product was not manufactured with the patented process.<sup>234</sup> This burden would be imposed only when the court finds that two conditions have been met. First, a substantial likelihood must exist that the product was produced by the patented process. Second, the plaintiff must have exhausted all reasonably available means, through discovery or

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232. S. 1841, 98th Cong., 1st Sess. §§ 501-03 (1983), H.R. 3878, 98th Cong., 1st Sess. §§ 501-03 (1983).

233. S. 1841, 98th Cong., 1st Sess. § 502 (1983), H.R. 3878, 98th Cong., 1st Sess. § 502 (1983).

234. S. 1841, 98th Cong., 1st Sess. § 503 (1983), H.R. 3878, 98th Cong., 1st Sess. § 503 (1983).

otherwise, to determine the process that was actually used in the production of the product.

Many other countries provide similar protection for their process patent owners.<sup>235</sup> The provisions of Title V attempt to provide process patent owners in the United States the same rights now possessed by United States product patent owners and many foreign product and process patent owners.

Another benefit of Title V to the process patent owner is the effective use of the Customs Service to limit importation of infringing products. Sections 502 and 503 amend the present 35 U.S.C. § 154 to permit process patent owners the right to exclude others from using or selling products manufactured by such a process outside the United States.<sup>236</sup> At the present time, a process patent owner may register with the Service, but exclusion under 19 U.S.C. § 1337(a) will not be implemented unless the owner can show, first, that the products are manufactured by his process, and second, that the effect of such importation is "to destroy or substantially injure an industry . . . or to prevent the establishment of . . . an industry, or to restrain or monopolize trade and commerce in the United States. . . ."<sup>237</sup> These burdens of proof on the complainant are so onerous that registration is not a realistic option for many process patent owners, while the holders of product patents need only prove infringement under 35 U.S.C. § 271 to obtain exclusionary protection. If Section 401(c)'s second exemption (which would revise Section 271 to include the unpatented products of patented processes) is enacted, that, in conjunction with Title V, would make registration a feasible and rewarding option. Proponents thus see Sections 502 and 503 as "closing the loophole" in process patent protection.<sup>238</sup>

There has been no controversy over the objectives of proposed Title V, and all those who have publicly discussed the provisions have favored them.<sup>239</sup> The author, however, foresees a problem with

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235. For instance, in European Patent Convention (EPC) countries, patentees reap the benefit of EPC Article 64(2), which provides: "If the subject matter of the European patent is a process, the protection conferred by the patent shall extend to the products directly obtained by such process."

236. Baxter, *supra* note 18; *President's Statement*, *supra* note 46, at 1235; *President's Message*, *supra* note 46, at 1237.

237. 19 U.S.C. § 1337(a) (1982).

238. See, e.g., *Hearings on S. 1535 and S. 1841 Before the Subcomm. on Patents, Copyrights and Trademarks for the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. 45 (1984) (statement of Donald W. Banner, President, American Intellectual Property Association).

239. *Hearings on S. 1535 and S. 1841 Before the Subcomm. on Patents, Copyrights and Trademarks on the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. 18 (1984) (statement of Gerald J. Mossinghoff, Assistant Secretary and Commissioner of Patents and Trademarks); *Hearings on S. 1535 and S. 1841 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate*

the application of Title V in at least one situation: it will cause unfairness to the foreign-based defendant importer that owns a process which is a trade secret or otherwise undisclosed intellectual property in its own country. Not wishing to disclose a trade secret, the importer will be unable to show under Section 503 that the product is not manufactured by the plaintiff's process. This may destroy its United States market as a result of the remedies available to American patentees under 19 U.S.C. § 1337. On the other hand, this is probably not a common occurrence, and when it does occur, the defendant will have the opportunity to produce affidavits or evidence which could be held confidential at an *in camera* review.

In conclusion, Title V of the proposed bill would provide the owners of process patents the same exclusionary rights granted under current law to product patent owners, and would thus serve to increase productivity and competition by stimulating the initiation of development and commercialization of process inventions. The author endorses Section 502 wholeheartedly, and believes that implementation of such a provision would provide adequate and deserved protection to United States patent owners to allow them to maximize their returns.

### E. Amendments to the Act

#### 1. Background

The most radical of all proposed amendments to the Act was the deletion of Titles III, IV, and V, dealing with intellectual property, effective on April 4, 1984.<sup>240</sup> This left Title II as the only substantive provision of the Act.

A subsection (c) was added to Section 203 to limit recoveries to single damages in cases brought by states against joint research and development ventures.<sup>241</sup> Section 204(b) was amended with respect to its basic presumption of disclosure for pre-venture notification filing information. The amendment would reverse the priorities so that such information will be maintained in confidence by the gov-

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*Comm. on the Judiciary*, 98th Cong., 2d Sess. 40 (1984) (statement of Bernard R. Pravel, President, American Intellectual Property Law Association); *President's Statement*, *supra* note 46; *President's Message*, *supra* note 46; *Banner*, *supra* note 174; *Baxter*, *supra* note 18, at 52; *LAPLA*, *supra* note 141, at 13; *LES Statement*, *supra* note 13, at 21-23; *McGrath*, *supra* note 108; *Rule*, *supra* note 13, at 18; *House Hearings*, *supra* note 108, at 12.

240. See *supra* notes 59-60 and accompanying text.

241. *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. (1984) (opening statement of Senator Strom Thurmond, Committee Chairman). Section 203(b) permitted States to recover three-fold damages plus a reasonable attorney's fee. The amendment limiting states to single damages was implemented and exists as NRCA § 4(b).



ernment agencies to which it was submitted. Because Section 204(c) was rendered superfluous by the amendment to subsection (b), it was deleted.<sup>242</sup> Finally, the provision of Section 205 awarding reasonable attorneys' fees to all successful parties was later added.<sup>243</sup> All these deletions and amendments ultimately resulted in the NCRA.<sup>244</sup>

During the Hearings on these amendments, J. Paul McGrath, the new Assistant Attorney General, Antitrust Division, noted the trend of the courts in recognizing the numerous potential procompetitive results of research joint ventures, and in applying rule of reason analysis to antitrust cases in which joint research and development ventures were involved. Nonetheless, McGrath believed that the antitrust laws and their attendant penalties inhibited entry into research and development ventures due to the continued perception of businesspersons that some courts will condemn such efforts summarily.<sup>245</sup>

McGrath supports the enactment of Titles III, IV, and V, which he considers incentives for the creation, dissemination and protection of valuable new ideas. He hopes they are passed, because he believes that they compliment the benefits provided by Title II.<sup>246</sup> Although these titles have been deleted, McGrath believes it is imperative for the assurance of joint venture investors that some statutory protections be supplied as soon as possible.<sup>247</sup> Thus, the Department of Justice supported the passage and implementation of the proposed amendment even without Titles III, IV, and V.

In his statement at the same hearings, D. Bruce Merrifield, Assistant Secretary of Commerce for Productivity, Technology and Innovation, expressed the opinion that the then present Business Review Procedure described by the Hart-Scott-Rodino Amendments of 1976 had not decreased the concern of commercial enterprises regarding the effects of antitrust litigation.<sup>248</sup> According to Merrifield, those procedures fail to provide the filing enterprise with immunity from challenge by the Department of Justice, and do not mandate a specific judicial analysis for challenges under the antitrust laws.<sup>249</sup> He asserted that the bill as amended would in-

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242. See *supra* notes 131-34 and accompanying text.

243. See NCRA § 5(a).

244. See *supra* notes 241-43.

245. McGrath, *supra* note 108, at 2.

246. *Id.* at 3-4.

247. See *id.* at 3.

248. *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary, 98th Cong., 2d Sess. 5 (1984)* (statement of D. Bruce Merrifield, Assistant Secretary of Commerce for Productivity, Technology and Innovation).

249. *Id.* at 5. Section 203 does not, in conjunction with section 204, "shield the venture from future DOJ challenge" except to the extent that the proposed

crease incentives to innovate by decreasing start-up risks, which are translated by industry perceptions into barriers to innovation.<sup>250</sup>

The amendment to decrease states' recovery was met with resistance by the states, as was indicated by the Hearings' testimony of William Leech, Chairman of the Antitrust Committee of the National Association of Attorneys General.<sup>251</sup> The states perceive the amendment as over-correcting the problem sought to be alleviated.<sup>252</sup> In particular, they view the proposed limitation of the remedy in state actions to single damages as a step that would weaken the federal antitrust laws.<sup>253</sup> They believe that the treble damages remedy provides an incentive for private parties to enforce the laws,<sup>254</sup> and provides deterrence to joint venture activities that are anticompetitive.<sup>255</sup>

Leech, based on his belief that "there is [no] demonstrable basis upon which to find that joint ventures have been eliminated or substantially reduced by reason of existing . . . treble damages [remedies]" and that joint ventures are not treated as *per se* offenses in the courts,<sup>256</sup> concluded that more time is needed to formulate a well-reasoned decision that would alter the balance of the antitrust laws to create such a negative impact on the states.<sup>257</sup>

Other testificants opposed the provisions for detrebling (Section 203), and for awarding fees to successful defendants (Section 205), for essentially the same reasons as Leech.<sup>258</sup> In particular, Tydings and Kohn asserted that proposed Section 205 was unwarranted because awards to prevailing defendants are not permitted in other antitrust suits. They believe that Section 205 would chill

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pre-venture approval is in effect, and the conduct of the joint venturers, as interpreted by the Department, falls within the bounds of the notification. *Id.*

250. *Id.* at 6-7.

251. *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. (1984) (statement of William M. Leech, Jr., Attorney General and Reporter, State of Tennessee, Chairman, Antitrust Committee of the National Association of Attorneys General).

252. *Id.* at 4.

253. *Id.* at 5.

254. This is an understandably important economic consideration for states at this time, when the Administration's "new federalism" is increasing financial burdens on state governments. The result of this federal policy is that the states have fewer resources with which to support enforcement procedures. *See id.*

255. This is indirectly the same as the "incentive to enforce" argument. At least theoretically, the greater the deterrence value of a remedy, the less state resources need be expended on enforcement.

256. *Id.* at 7-8.

257. *Id.* at 5.

258. *The National Productivity and Innovation Act of 1983: Hearings on S. 1841 Before the Senate Comm. on the Judiciary*, 98th Cong., 2d Sess. (1984) (statement of Joseph D. Tydings and Harold E. Kohn).

private antitrust litigation.<sup>259</sup> Antitrust defendants are entities which have often been successful, and so are able to cope financially with antitrust litigation.<sup>260</sup> Tydings and Kohn concluded that the inclusion of the single damages remedy and defendant counsel fees provisions in the Act may prevent its passage because of opposition such as theirs, and because, were such legislation to pass, Congress would be deluged by proposals to decrease damages and provide for defendants' counsel fees in all antitrust litigation.<sup>261</sup>

## 2. Evaluation of Amendments

Because Section 204 mandates confidentiality, disclosure by venturers may be encouraged. However, as these disclosures will no longer benefit the public by giving notice of collaborations, their beneficial effect will be diluted.

The potential benefit of detrebling the remedy in state-instigated actions is stimulation of collaborative efforts due to the reduction of the risk of severe financial loss in unsuccessful antitrust litigation. On the other hand, detrebling decreases the potential financial loss to joint venturers which, in turn, may increase their risk-taking and eagerness to engage in conduct which is closer to the line between illegal and legal conduct under the antitrust laws (equivalent to the decrease in the deterrent effect of the antitrust remedy). If this occurs, there will also be an increase in the likelihood of antitrust violations which, due to the lack of limitless resources and the decrease in potential awards, will decrease the effectiveness of state enforcement procedures.

Although it is clear how costs for prevailing defendants could be an incentive to engage in collaborative research and development, on balance it is probably an unnecessary step that, in conjunction with the other allowances of Title II, weighs perhaps too heavily in favor of joint venturers.

The arguments of Tydings and Kohn are valid; defendants in antitrust litigation are often financially capable of handling legal fees.<sup>262</sup> Because this provision passed, Congress may soon be inun-

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259. *Id.* at 3.

260. This is a logical and obvious conclusion. Those who have not been successful have no significant market power, or have failed entirely. In either case, such an entity poses no threat to another firm in the same markets.

261. *Id.* at 5.

262. Granted, this does not take into consideration the prospective entrants who, even though "successful" may not be in a position to cope with antitrust litigation and its attendant costs, but it is evident that if antitrust defendants went out of business very often, there would not be as much antitrust litigation as there is. Furthermore, firms in the position of defendant place the ultimate financial burden of their litigation on the public, who will either support the company through its purchases, or withdraw support, in which case the enterprise, according to the free market theory, would not survive.

dated with proposals to pass similar provisions for all antitrust litigation.<sup>263</sup> This may be too much of a burden to exchange for the questionable public benefits.

### CONCLUSION

The policies of the Reagan Administration reflect the national concern with the state of the economy. The currently popular, and probably correct, noninterventionism and free market economic theories support the promotion of innovation as a means of increasing productivity and competition. These results would not only stimulate the domestic economy, but would enhance our competitive edge in international trade as well.

Innovation and the promotion of technological advances are intimately related both to basic inventive concepts and their commercial development. Thus, the connection between the protection of basic intellectual property rights and joint research ventures of investors is apparent. The Administration proposed the National Productivity and Innovation Act of 1983 to promote intellectual property rights and research and development joint ventures.

The first substantive title of the Act, Title II, forbids application of the *per se* analysis to research and development joint ventures in antitrust litigation, decreases the mandatory treble damages remedy to actual damages, and alters the traditional judgment period of interest. Both the alteration of the standard and the judgment period have been almost unanimously supported by commentators in the fields of economics, antitrust and intellectual property law. Procompetitive aspects have always been considered by courts, however, when judging allegations of antitrust violations with respect to research ventures. The detrebling provision stimulated much controversy, and whether it was sound policy to enact such a provision is highly questionable. For these reasons Title II may have been unnecessary, imposing upon the public unwarranted costs of legislation. Because of the detrebling provision, Title II may lead to adverse competitive effects in the American economy and market.

Title III imposed similar mandatory rule of reason standards on the judiciary for intellectual property licensing agreements being challenged with antitrust violations. These provisions suffer the same criticisms as does Title II.

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263. This is an intriguing thought. Perhaps this was the ultimate objective of Baxter, an avid proponent of reducing the treble damage remedy in all antitrust suits. McGrath, on the other hand, is on record as opposing the universal abolition of treble damages. CONG. REC. S9512, S9519 (daily ed. July 31, 1984); see CONG. REC. S11842, S11843 (daily ed. Sept. 26, 1984).

Titles IV and V were the most potentially effective portions of the proposed legislation. In Title IV, the bill attempted to protect national interests by placing limitations on the scope and effect of the antitrust laws and the doctrine of intellectual property misuse. Title IV required the alteration of judicial analysis of the patent and copyright misuse doctrines to equate it with that of the antitrust laws. Section 401(c) may dictate permanent departures from present judicial constructs, and for this reason it should be deleted. The remaining provisions, however, make this Title the most constructive and potentially useful to the economy. The radical nature of Title IV also makes it the most exciting of the substantive portions of the proposed legislation.

Title V of the proposed legislation contained a provision that may express the unspoken intent of the framers of the 1952 patent statute by explicitly permitting the owner of a process patent to have control over introduction into the market of products produced by the same process, wherever produced. The effect of this provision, in conjunction with Title IV, would prevent the domestic innovator and inventor from being undermined by the introduction of such goods by one who has no license and does not otherwise promote the economy by utilizing the domestic labor force.

Unfortunately for the public, the legislation was largely emasculated by the deletion of the substantive titles concerning intellectual property rights. The bill's proponents considered Titles III, IV, and V sufficiently controversial to put into jeopardy the passage of the bill as a whole and decided to sever the titles dealing with intellectual property from the original package.

Since the enactment of the NCRA, the only activity with respect to the titles deleted during the amendments has been the introduction of a bill by Representative Moorhead very similar to Title V of the National Productivity and Innovation Act of 1983.<sup>264</sup> It is unclear whether further action will be taken to promote the objectives of Titles III, IV, and V. To the extent that innovation depends on invention and ingenuity, it is hoped that the promotion and passage of Title II, which pertains only to the interface between research and development joint ventures, may achieve its intended result. However, it is the author's conviction that this title of the bill is superfluous. It adds nothing to the current state of the law, nor will it increase competition and trade in the United States.

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264. H.R. 1069, introduced in the House on February 7, 1985. 29 *PAT., TRADE-MARK & COPYRIGHT J.* (BNA) 391 (Feb. 14, 1985).