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## COMPULSORY LICENSING BY JUDICIAL ACTION: A REMEDY FOR MISUSE OF PATENTS

*Neal Seegert\**

### I

#### FUNDAMENTAL PROBLEMS INVOLVED

The Constitution of the United States gives to Congress the power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>1</sup> Since 1790 Congress has, in exercise of this power, enacted legislation securing those rights.<sup>2</sup> The basic present day statutes provide as follows:

"Any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof, or who has invented or discovered and asexually reproduced any distinct and new variety of plant, other than a tuber-propagated plant, not known or used by others in this country, before his invention or discovery thereof, and not patented or described in any printed publication in this or any foreign country, before his invention or discovery thereof, or more than one year prior to his application, and not in public use or on sale in this country for more than one year prior to his application, unless the same is proved to have been abandoned, may . . . obtain a patent therefor."<sup>3</sup>

"Every patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of sev-

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<sup>1</sup> Art. 1, §8, cl. 8. For the background of English origins, see WALKER, PATENTS, c. 1 (1937); Outline of the History of the United States Patent Office, 18 J. PAT. OFF. SOC. NO. 7 (1936); WOOD, PATENTS AND ANTITRUST LAW, c. 1 (1942).

<sup>2</sup> For history and development of the patent law in the United States, see WOOD, PATENTS AND ANTITRUST LAW, c. 3 (1942); Outline of the History of the United States Patent Office, 18 J. PAT. OFF. SOC. NO. 7 (1936); DEPT. OF COMMERCE, THE STORY OF THE AMERICAN PATENT SYSTEM: 1790-1940 (1940).

<sup>3</sup> R.S. §4886; 29 Stat. L. 692 (1897); 46 Stat. L. 376 (1930); 53 Stat. L. 1212 (1939). Design Patents—R.S. §§4929, 4933.

enteen years, of the exclusive right to make, use, and vend the invention or discovery (including in the case of a plant patent the exclusive right to asexually reproduce the plant) throughout the United States and the Territories thereof, referring to the specification for the particulars thereof."<sup>4</sup>

Thus an inventor if he meets the requirements of the statute and complies with its mandates secures the *exclusive* right to make, use, or sell the patented invention for seventeen years. Whether this right is a property right,<sup>5</sup> a privilege "conditioned by a public purpose",<sup>6</sup> a franchise,<sup>7</sup> or a contract,<sup>8</sup> has been the subject of much recent discussion.<sup>9</sup> Similarly writers differ as to whether the right conferred is or is not a "monopoly".<sup>10</sup> At any rate, two major propositions are basic; first, that the patent right is based on the premise that progress of science and the arts is to be promoted, not merely that the inventor is to be rewarded;<sup>11</sup> second, that a condition to the grant is complete disclosure of the invention so that on the expiration of the patent anyone skilled in the art may be able to practice it.<sup>12</sup>

The policy behind the patent laws has at least three aspects: first, to encourage invention; second, to provide incentive for investment of speculative capital in new fields that progress in science and industry may be aided and a higher standard of living achieved;<sup>13</sup> third, to encourage disclosure, as mentioned above. Some critics have attacked the present system on the ground that the assumptions on which the patent laws are based no longer accord with present day methods of competitive

<sup>4</sup> R.S. §4884; 46 Stat. L. 376 (1930).

<sup>5</sup> "That a patent is property, protected against appropriation both by individuals and by government, has long been settled." *Hartford-Empire Co. v. United States*, 323 U.S. 386 at 415; 65 S.Ct. 373 (1945); 324 U.S. 570, 65 S.Ct. 815 (1945).

<sup>6</sup> *Special Equipment Co. v. Coe*, 324 U.S. 370 at 382, 65 S.Ct. 741 (1945)—dissenting opinion.

<sup>7</sup> Hamilton, "Patents and Free Enterprise," T.N.E.C. MONOGRAPH No. 31, p. 158 (1941); Meyers and Lewis, "The Patent 'Franchise' and the Antitrust Laws," 30 GEO. L. J. 117, 260 (1941-42), pp. 121-125.

<sup>8</sup> See *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 at 255, 66 S.Ct. 101 (1945).

<sup>9</sup> See generally OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS*, pp. 468 et seq. (1948).

<sup>10</sup> *Ibid.*, p. 78 for a discussion of the term "monopoly." That a patent is not a monopoly, see WALKER, *PATENTS*, p. 25 (1937). That the true distinction to be made is not whether or not a patent is a monopoly, but whether it is good or bad, see WOOD, *PATENTS AND THE ANTITRUST LAW*, p. 15 (1942).

<sup>11</sup> Spencer, "Scientific Property," 18 A.B.A.J. 79 (1932).

<sup>12</sup> *Pennock v. Dialogue*, 2 Peters 1 (1829).

<sup>13</sup> See BENNETT, *THE AMERICAN PATENT SYSTEM*, c. 8 (1943); FOLK, *PATENTS AND INDUSTRIAL PROGRESS*, pp. 167-181 (1942).

enterprise.<sup>14</sup> On the other hand, the Federal Patent Planning Commission has reported:

"The American patent system established by the Constitution giving Congress the 'power to promote the progress of science and useful arts', is over 150 years old. The system has accomplished all that the framers of the Constitution intended. It is the only provision of the Government for the promotion of invention and discovery and is the basis upon which our entire industrial civilization rests.

"The American people and their Government should recognize the fundamental rightness and fairness of protecting the creations of its inventors by the patent grant. The basic principles of the present system should be preserved. The system has contributed to the growth and greatness of our Nation; it has—

(1) Encouraged and rewarded inventiveness and creativeness, producing new products and processes which have placed the United States far ahead of other countries in the field of scientific and technological endeavor;

(2) Stimulated American inventors to originate a major portion of the important industrial and basic inventions of the past 150 years;

(3) Facilitated the rapid development and general application of new discoveries in the United States to an extent exceeding that of any other country;

(4) Contributed to the achievement of the highest standard of living that any nation has ever enjoyed;

(5) Stimulated creation and development of products and processes necessary to arm the Nation and to wage successful war;

(6) Contributed to the improvement of the public health and the public safety; and

(7) Operated to protect the individual and small business concerns during the formative period of a new enterprise.

"The strongest industrial nations have the most effective patent systems and after a careful study, the Commission has reached the conclusion that the American system is the best in the world. . . ."<sup>15</sup>

This is not, of course, to say that abuses have not crept into the system

<sup>14</sup> See Hamilton, "Patents and Free Enterprise," T.N.E.C. MONOGRAPH No. 31 (1941), p. 158; Kahn, "Fundamental Deficiencies of the American Patent Law," 30 AM. ECON. REV. 475 (1940), for discussion see OPPENHEIM, CASES ON FEDERAL ANTITRUST LAWS, pp. 475-481 (1948).

<sup>15</sup> FIRST REPORT OF NATIONAL PATENT PLANNING COMMISSION, H. DOC. 239, p. 1, 78th Cong., 1st sess. (1943).

and some reforms are not needed, but rather that the underlying theories of the patent law are still sound.<sup>16</sup>

In contrast to the exclusive right to make, use and sell granted by the patent law, the underlying policy of the anti-trust laws is the maintenance of a competitive system.<sup>17</sup> Section 1 of the Sherman Anti-Trust Act provides: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared illegal. . . ."<sup>18</sup> Section 2 continues: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. . . ."<sup>19</sup> Similarly the Clayton Act<sup>20</sup> contains prohibitions against price discrimination and resale price maintenance. Whether the policies of these two sets of laws are consistent or opposed is again a matter of disagreement. Wood says: "Fundamentally, however, the two are perfectly consistent—that is, the Sherman Act applying only to unreasonable restraints has no application to the monopoly secured by patent right."<sup>21</sup> Compare, however, the approach of Justice Rutledge in the dissenting opinion in the *Hartford Empire* case: "Basically these are opposed in policy, the one granting rights of monopoly, the other forbidding monopolistic activities."<sup>22</sup> Speaking of the interaction of the policies of these two sets of laws, Wood says, "This anomaly results in what we have called the patent-anti-trust dilemma. For while the rights of the patentee must yield in any case of conflict with the interests of the public at large, it is imperative that the curtailment and abridgment of his rights be no greater than is necessary. In the adjustment of the delicate balance between the rights of the individual and the public welfare it is vital that the task be undertaken with the idea of granting the inventor the maximum reward consistent with sound policy."<sup>23</sup>

<sup>16</sup> See WOOD, PATENTS AND ANTITRUST LAW (1942); WOOD, THE UNITED STATES PATENT SYSTEM, A SURVEY, Am. Enterprise Ass'n., Nat'l. Economic Prob. 420 (1946).

<sup>17</sup> For a discussion of the economic conceptions of competition and monopoly, see OPENHEIM, CASES ON FEDERAL ANTITRUST LAWS, pp. 70-81 (1948).

<sup>18</sup> 26 Stat. L. 209 (1890).

<sup>19</sup> 26 Stat. L. 209 (1890).

<sup>20</sup> 38 Stat. L. 730 (1914).

<sup>21</sup> WOOD, PATENTS AND ANTITRUST LAW, p. 40 (1942).

<sup>22</sup> *Hartford-Empire Co. v. United States*, 323 U.S. 386 at 452, 65 S.Ct. 373 (1945).

<sup>23</sup> WOOD, THE UNITED STATES PATENT SYSTEM, A SURVEY, Am. Enterprise Ass'n., Nat'l. Economic Prob. 420, p. 17 (1946).

## II

## ABUSES OF PATENT SYSTEM

A. *Attempts to Extend Duration*

Having viewed the fundamental problems, it is pertinent to outline some of the alleged abuses of the American patent system as it operates in our modern business and industrial economy and to canvass some of the proposed remedies. First are abuses that might be termed attempts to extend the duration of the patent monopoly. These stem mainly from the procedural aspects of the patent laws. Foremost among them is the problem of long pendency of applications, particularly the dilatory tactics that are possible under the law, which postpone issuance of the patent, thus extending the time duration of the patent protection.<sup>24</sup> Closely allied are problems of lack of sufficient facilities and personnel in the Patent Office, the complicated internal procedures and practices, the time-consuming interference procedures, and other similar sources of abuse inherent in the patent laws as they stand.

B. *Failure to Use*

Second are the problems of non-use of patents, "suppression," and "fencing in."<sup>25</sup>

"It may be said that, properly considered, there is an important distinction between suppression and non-use. The case of suppression is one where for the sake of greater profits, the patentee himself shelves and refuses to license others to use a technologically meritorious invention capable of being worked on a commercially practicable scale. . . . Whether there is a wilful suppression in the sense defined above or non-use based upon valid economic reasons is a subject on which controversy continues unabated. Most discussion is on the level of opinion evidence."<sup>26</sup>

The writer goes on to list as factors frequently mentioned as matters of justification for non-use the following: lack of capital for development work and marketing; avoidance of drastic displacement of labor; unavailability of complementary devices; prohibitive costs due to too rapid scrapping of existing expensive equipment; public not ready to

<sup>24</sup> See generally "Government and Economic Life," BROOKINGS INSTITUTION, pp. 132-134 (1939).

<sup>25</sup> By "fencing" is meant the acquisition of many improvement patents so that the original patentee, usually a competitor, cannot improve his invention. "Blocking" is the acquisition of many improvement patents by the patentee walling in the basic patent so that others cannot enter the field.

<sup>26</sup> OPPENHEIM, CASES ON FEDERAL ANTITRUST LAWS, pp. 693-94 (1948).

accept new ideas; lack of value and merit of invention; existence of superior competitive products. Many leading scientists and industrialists have testified that suppression of patents is virtually non-existent.<sup>27</sup> The attitude of the courts toward non-use of patents has long been settled in the doctrine of the *Paper Bag* case<sup>28</sup> to the effect that to preserve his exclusive right to make, use, or sell, an inventor need not work his invention. Nor have the courts been prone to entertain bills to compel patentees to license others.<sup>29</sup> Recent developments, however, may forecast overruling of the *Paper Bag* case. The dissenting Justices in *Special Equipment Co. v. Coe*,<sup>30</sup> referring to the *Paper Bag* case thought that it was time to dispose of that rule.<sup>31</sup>

Whatever may be the future course of the law, most will agree that the deliberate keeping of patents out of use to create monopolistic conditions in the art or to retard technological advancement is economically indefensible.

"The *Paper Bag* and *Special Equipment* cases reserve for future determination the question whether, upon an explicit showing in the record of a particular case of prospective or actual non-use of the patent, a court of equity will refuse to compel the issuance of the patent or refuse to enjoin patent infringement if the non-use is contrary to public policy. When such clear proof is adduced, it is probable that a doctrine of unreasonable non-use of patents may emerge as a basis for denial of equitable relief. Simple non-use, however, is not a violation of either common law or the public policy of the patent and anti-trust laws."<sup>32</sup>

### C. Extension of Patent Scope

Finally, there are abuses that might be categorized as unwarranted extensions of the scope of the patent monopoly. Since these are the abuses that have generally been considered by the courts as misuses of the patent and to which the courts have, in some instances, applied the

<sup>27</sup> See Jewett, "Are Patents Suppressed? Record Fails to Support Charges," *JL. OF COMMERCE*, 31 (March 11, 1943). Compare T.N.E.C. HEARINGS, Part 3, pp. 885, 908, 1000, 1003; Hamilton, "Patents and Free Enterprise," T.N.E.C. MONOGRAPH No. 31 (1941); VAUGHAN, *ECONOMICS OF OUR PATENT SYSTEM*, c. 6 (1925).

<sup>28</sup> *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 28 S.Ct. 748 (1908).

<sup>29</sup> *F.A.D. Andrea, Inc. v. Radio Corp. of America* (D.C. Del. 1936), 14 F. Supp. 226. See also *Radio Corp. of America v. Hygrade Sylvania Corp.* (D.C. N.J. 1934), 10 F. Supp. 879, 883.

<sup>30</sup> 324 U.S. 370, 65 S.Ct. 741 (1945).

<sup>31</sup> For a general survey and excellent analysis of the legal situation, see Frost, "Legal Incidents of Non-Use of Patented Inventions Reconsidered," 14 *GEO. WASH. L. REV.* 273, 435 (1946).

<sup>32</sup> OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS*, p. 702 (1948).

remedy of compulsory licensing, they will be more fully treated in part III of this paper. For the present purpose, however, of drawing a general background for the later analysis the general nature of these abuses will be outlined.

First, there is the problem of consolidation or concentration of patents in few hands,<sup>33</sup> the corollary situations of patent pools,<sup>34</sup> cross-licensing,<sup>35</sup> and international cartels based on patent control.<sup>36</sup> Second, there is the problem of restrictions on use of patented inventions: (1) restrictions placed upon a purchaser or sub-purchaser,<sup>37</sup> (2) restrictions placed upon a lessee of patented machinery, and (3) restrictions in licensing of patented inventions.<sup>38</sup> Third, there may be abuses in licensing by virtue of restrictions on quantity of production and territory for selling. Fourth, there is the problem of unwarranted extension of the patent monopoly through the device of tying restrictions.<sup>39</sup> Finally, there is the problem of price fixing, both horizontal and vertical, and resale price maintenance.<sup>40</sup>

That many or all of these problems may involve both extension of the patent monopoly and violation of the anti-trust laws is apparent from the mere listing. At the very least it provides a setting for a consideration of the various reforms that have been suggested from time to time.

#### D. *Suggested Remedies*

Aside from those who would abolish the patent system altogether,<sup>41</sup> the critics of our patent system fall more or less into two groups; first, those who believe a thorough rewriting of the patent laws, with a view

<sup>33</sup> For a brief but concise survey of this situation, see BROOKINGS INSTITUTION, *GOVERNMENT AND ECONOMIC LIFE*, pp. 142-145 (1939).

<sup>34</sup> Strictly speaking, a patent pool exists only where title to the patent is transferred. See Workman, "Patent Pools in Relation to Patent Law," 13 A.B.A.J. 585 (1927); "Patent Pools and the Sherman Act," 40 YALE L.J. 1297 (1931).

<sup>35</sup> Licensing occurs where the patentee gives up a part of his exclusive right to make, use, or sell to one or more other persons. See Beach, "Patent Cross-Licensing Agreements and Methods of Their Administration," 19 J. PAT. OFF. SOC. pp. 578, 646 (1937).

<sup>36</sup> For general discussion of the varied meanings of the word "cartel", see OPPENHEIM, *CASES ON FEDERAL ANTI-TRUST LAWS*, pp. 780-782 (1948). See also Toulmin, "The Law of International Private Agreements," 32 VA. L. REV. 335 (1946).

<sup>37</sup> See Chafee, "Equitable Servitudes on Chattels," 41 HARV. L. REV. 945 (1928).

<sup>38</sup> See WOOD, *PATENTS AND ANTI-TRUST LAW*, pp. 53-63 (1942); Waite, "Validity of Conditions in Patent Licenses," 41 MICH. L. REV. 419 (1942); Folk, "Patent License Conditions," 22 J. PAT. OFF. SOC. 184 (1940).

<sup>39</sup> See Handler, "Tying Restrictions in Patent Licenses," *Trade Regulation Comments No. 4*, C.C.H. TRADE REGULATION SERVICE (1938); McCormick, "Restrictive Patent Licenses and Restraint of Trade," 31 COL. L. REV. 743 (1931).

<sup>40</sup> See WOOD, *PATENTS AND ANTI-TRUST LAW*, pp. 41-53 (1942); Callmann, "Patent License Agreements Between Competitors and the Monopoly Issue," 28 GEO. L.J. 871 (1940); Wood, "Agreements Concerning Patent License Restrictions," 37 ILL. L. REV. 350 (1943).

<sup>41</sup> See Petro, "Patents: Judicial Developments and Legislative Proposals," 12 U. OF CHI. L. REV. 80, 352 (1944-45).



toward restricting the scope of the patent, is necessary to stamp out the abuses, and second, those who maintain that the anti-trust laws if properly enforced would remedy the situation. Legislative proposals have advocated changes both in the procedural aspects as well as the substantive aspects of the patent law. On the procedural side, some of the more important suggestions have been to date the period of patent protection from the filing of the application, with a twenty year expiration period,<sup>42</sup> eliminating the problem of long pendency; to simplify time consuming interference procedure,<sup>43</sup> and to cut down the cost of litigation by establishing a single court of patent appeals<sup>44</sup> or a patent commission.<sup>45</sup> Many other miscellaneous proposals have been made.<sup>46</sup> Proposed changes in the substantive law have included: changes in the standard of invention with a view toward cutting down the number of patents issued and protecting only the more desirable inventions;<sup>47</sup> limitations on the privilege of assignment;<sup>48</sup> requirements of recording of patent transfers and agreements;<sup>49</sup> and finally, proposals for compulsory licensing of patents.<sup>50</sup> Some of these proposals would compel licensing of all patents, others would restrict the operation to unused or suppressed patents, patents on inventions related to public health, safety, or national defense, or merely as a remedy for misused patents. One other type of suggested change should be noted; namely, the proposals to abolish patent license restrictions.<sup>51</sup>

<sup>42</sup> See FIRST REPORT OF NATIONAL PATENT PLANNING COMMISSION, pp. 18-19 (1943); T.N.E.C. HEARINGS, pt. 3, p. 860.

<sup>43</sup> See SECOND REPORT OF THE SCIENCE ADVISORY BOARD, p. 336 (1935); T.N.E.C. HEARINGS, pt. 3, p. 862.

<sup>44</sup> See T.N.E.C. FINAL REPORT, p. 37 (1941); FIRST REPORT OF NATIONAL PATENT PLANNING COMMISSION, p. 16 (1943); Rice, "A Court of Patent Appeals," 17 J. PAT. OFF. SOC. 18 (1935); T.N.E.C. HEARINGS, pt. 31, p. 18046.

<sup>45</sup> See Rice, "A Constructive Patent Law," N.Y.U. SCHOOL OF LAW, CONTEMPORARY LAW PAMPHLETS, series 1, no. 12 (1939).

<sup>46</sup> See OPPENHEIM, CASES ON FEDERAL ANTITRUST LAWS, p. 496 (1948).

<sup>47</sup> See T.N.E.C. HEARING, pt. 3, pp. 894, 1019; FIRST REPORT OF NATIONAL PATENT PLANNING COMMISSION, pp. 14-15 (1943).

<sup>48</sup> See T.N.E.C. HEARING, pt. 2, pp. 557-558, pt. 3, pp. 845-848.

<sup>49</sup> See T.N.E.C. FINAL REPORT, p. 37; FOLK, PATENTS AND INDUSTRIAL PROGRESS, pp. 336-337 (1942); FIRST REPORT OF NATIONAL PATENT PLANNING COMMISSION, p. 10 (1943).

<sup>50</sup> See Wyss and Brainard, "Compulsory Licensing of Patents," 6 GEO. WASH. L. REV. 499 (1938); Borkin, "Patent Abuses, Compulsion to License and Recent Decisions," 43 COL. L. REV. 720 (1943); BARNETT, PATENT PROPERTY AND THE ANTI-MONOPOLY LAWS, pp. 549-551 (1943); Reik, "Compulsory Licensing of Patents," 36 AM. ECON. REV. 813 (1946); Schechter, "Would Compulsory Licensing of Patents be Unconstitutional?," 22 VA. L. REV. 287 (1936); T.N.E.C. FINAL REPORT, p. 36 (1941); see also discussion in WOOD, PATENTS AND ANTITRUST LAW, pp. 194-199 (1942), and BROOKINGS INSTITUTION, GOVERNMENT AND ECONOMIC LIFE, pp. 150-151 (1939).

<sup>51</sup> See discussion in WOOD, PATENTS AND ANTITRUST LAW, pp. 200-211 (1942); T.N.E.C. FINAL REPORT, p. 36 (1941).

Meanwhile the courts have developed some remedies for abuses of the patent monopoly. Mention should be made of Judge Arnold's attempts to raise the standard of invention and refusal to issue patents where it appears that the invention is not to be used: the decisions in *Potts v. Coe*,<sup>52</sup> *Monsanto Chemical Co. v. Coe*,<sup>53</sup> and *Special Equipment Co. v. Coe*.<sup>54</sup> By far, however, the most important developments have come in the use of the device of compulsory licensing of patents for misuse as initiated by the *Hartford-Empire* decision,<sup>55</sup> and allowance of the defense of patentee's violation of the anti-trust laws in actions involving patents.<sup>56</sup> It is the latter two developments that will be the subject of analysis and discussion in part IV of this paper.

### III

#### WHAT IS "MISUSE"?

To analyze and evaluate properly the development of compulsory licensing through judicial action as a remedy for misuse of patents, it is first necessary to determine what the courts have considered such misuse. At the outset one problem common to all of the varieties of misuse must be considered: namely, whether when a patentee exceeds the proper scope of the patent protection the violation is to be judged by the doctrines of the anti-trust laws including application of the "rule of reason,"<sup>57</sup> or whether the violation is to be considered a per se violation of the anti-trust laws. The conventional doctrine has been that,

" . . . the anti-trust laws are deemed to be violated only when, in the specific situation of extra-patent control, there is a definite factual showing of illegality as measured by the standards of the anti-trust laws. This may mean that either there is a per se violation of the anti-trust laws or there is a violation of the anti-trust law based upon an application of the 'rule of reason'. . . . When it is found, therefore, that the patentee has stepped outside the bounds of his patent grant, determination of whether his conduct also violates

<sup>52</sup> App. D.C. (1944) 145 F. (2d) 27. See "Recent Developments in the Law of Patents Under Thurman Arnold," 45 COL. L. REV. 422 (1945); Gottschalk, "Further Comments on Recent Patent Decisions and Current Trends," 26 J. PAT. OFF. SOC. 151, 184, 186 (1944).

<sup>53</sup> 145 F. (2d) 18 (App. D.C. 1944).

<sup>54</sup> 324 U.S. 370, 65 S.Ct. 741 (1945); 58 HARV. L. REV. 726 (1945); 93 U. OF PA. L. REV. 456 (1945); 27 J. PAT. OFF. SOC. 770, 774 (1945).

<sup>55</sup> *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945); 324 U.S. 570, 65 S.Ct. 815 (1945).

<sup>56</sup> See generally, Lockhart, "Violation of Anti-Trust Laws as a Defense in Civil Actions," 31 MINN. L. REV. 507 (1947).

<sup>57</sup> The rule has its origins in the famous *Standard Oil Case* of 1911, 221 U.S. 1, 31 S.Ct. 502.

the anti-trust laws may involve consideration of any one or more of the following diverse situations:

(1) Restraint of trade by contract, combination or conspiracy under Sections 1 and 3 of the Sherman Act.

(2) Monopolizing, attempting to monopolize, or combining or conspiring to monopolize under Section 2 of the Sherman Act.

(3) Substantial lessening of competition or tendency to create a monopoly in any line of commerce under Section 3 of the Clayton Act.

(4) Violation of Section 5 of the Federal Trade Commission Act in combination, conspiracy and monopoly cases where the Commission has concurrent jurisdiction for violations of the Sherman Act.

(5) In foreign trade cases, application of the standards of the Webb-Export Trade Act, the Wilson Tariff Act anti-trust provision and other provisions relevant to restraints on imports or exports.

(6) Possible applications of standards of special anti-trust acts applicable to agriculture, shipping, fisheries, wire and radio, transportation and power."<sup>58</sup>

The newer theory developing is that any unwarranted extension of the patent grant is per se a violation of the public policy of the anti-trust laws. This theory was given impetus in the opinion of Justice Douglas in the second *Mercoïd* case,<sup>59</sup> and followed up with the decision in *United States v. International Salt Co.*,<sup>60</sup> where the court held that tying clauses are per se a violation of section 1 of the Sherman Act. Carried to its logical extremes this doctrine would make all extensions beyond the scope of the patent grant violations of the anti-trust laws on the basis of violating the policy of the laws. Whether the violation arises under any specific provision of the legislation would become immaterial. It would no longer be necessary to determine the extent of the control or to apply the "rule of reason." With this general doctrinal background in mind attention may now be turned to the specific practices which the courts have deemed to be misuse of patent rights.

### A. Concentration of Patents

The first category of misuses to be considered will be that relating to patent concentration, patent pools, cross licensing, and international

<sup>58</sup> OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS*, p. 486 (1948).

<sup>59</sup> *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944). See also Wood, "The Tangle of Mercoïd Case Implications," 13 *GEO. WASH. L. REV.* 61 at 79-81 (1944).

<sup>60</sup> 6 F.R.D. 302 (D.C. N.Y. 1946); *International Salt Co. Inc. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947). See generally OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS*, pp. 482-491, 677-683 (1948).

cartels based on patent control. One characteristic of the patent laws must be kept in mind at this point: namely, that the patentee's right to exclude others from making, selling, or using his invention may be waived wholly or in part by assignment or license to others.<sup>61</sup> Without this provision patent concentration could occur only to the extent of one man's inventiveness. The law being as it is, however, patent control may be achieved through the acquisition of patents by assignment or exclusive license from the inventor, by pooling, or by cross licensing. Viewing these arrangements in and of themselves, the law, in general, has found very little violation of the anti-trust laws.

To be sure, "the extent to which a single individual or concern may acquire patent rights in the absence of agreements with others so to concentrate patents is still unsettled".<sup>62</sup> However, where pools and cross licensing are concerned, the legality of the arrangement has generally been determined by the application of the general principles of the anti-trust law.<sup>63</sup> Thus the courts have declared illegal pools which resulted in agreements, conspiracies, or monopolies which were found unreasonably to restrain trade and commerce.<sup>64</sup> Again in the famous *Bath Tub* case<sup>65</sup> it was found that the cross licensing arrangement was merely a camouflage for practices forbidden by the anti-trust laws. On the other hand, in *Standard Oil Co. (Indiana) et al. v. United States*<sup>66</sup> a cross licensing arrangement was found valid where there was no unreasonable restraint.

It should be noted that many cases involving patent pools and cross licensing agreements have contained other features which have been deemed misuses of patents, and that the arrangement has been stricken down because of those elements rather than the mere fact of the pool.<sup>67</sup> One of the most recent cases exemplifying this is the *Hartford-Empire*

<sup>61</sup> *Bement v. National Harrow Co.*, 186 U.S. 70, 22 S.Ct. 747 (1902); U.S. Rev. Stat. tit. 60 §4898 (1898).

<sup>62</sup> OPPENHEIM, *CASES ON FEDERAL ANTITRUST LAWS*, p. 553 (1948).

<sup>63</sup> See WOOD, *PATENTS AND ANTITRUST LAW*, c. 4 (1942); "Patent Pools and The Sherman Act," 40 *YALE L.J.* 1297 (1931); Callmann, "Patent License Agreements Between Competitors and The Monopoly Issue," 28 *Geo. L. J.* 871 (1940); Workman, "Patent Pools in Relation to Patent Law," 13 *A.B.A.J.* 585 (1927); Podell and Kirsch, "Patent Pools and the Antitrust Laws," 13 *A.B.A.J.* 430 (1927); Toulmin, "Patent Pools and Cross Licenses," 22 *VA. L. REV.* 119 (1935).

<sup>64</sup> *National Harrow Co. v. Hench et al.* (C.C.A. 3d, 1897), 83 F. 36; *Blount Mfg. Co. v. Yale & Towne Mfg. Co.* (C.C. Mass. 1909), 166 F. 555; *United States v. New Departure Mfg. Co.* (D.C. N.Y. 1913), 204 F. 107.

<sup>65</sup> *Standard Sanitary Manufacturing Co. v. United States*, 226 U.S. 20, 33 S.Ct. 9 (1912).

<sup>66</sup> 283 U.S. 163, 51 S. Ct. 421 (1931).

<sup>67</sup> *United States v. United Shoe Machinery Co.*, 247 U.S. 32, 38 S.Ct. 473 (1918); *United States v. Vehicular Parking, Ltd.* (D.C. Del. 1944), 54 F. Supp. 828.

case. Indeed, most of the evils commonly attributed to patent pools stem rather from other conditions of the agreement than from the pool itself. This, of course, points up one of the dangers of patent pools, which when coupled with the difficult problem of determining the reasonability of the arrangement, brings this area of the law into a prominent position with the critics.

On the other hand, others stress the necessity and benefits of patent pooling, pointing out that especially in the case of "blocked" patents, cross licensing is indispensable and in fact increases competition and furthers industrial and technological progress.<sup>68</sup> The general consensus seems to be that patent pooling or cross licensing is both necessary and desirable. A word should be said about international cartels based on patent control.<sup>69</sup> In the leading recent decision, *United States v. National Lead Co. et al.*,<sup>70</sup> the Supreme Court held illegal an international cross licensing arrangement which constituted a monopoly in restraint of trade.

### B. Restrictions on Use

1. *Of patented article.* The second category of practices in which the courts have found misuse of patents relates to those having to do with restrictions on use<sup>71</sup> of either the patented article or the patented invention.<sup>72</sup> Looking first at the situation involving the patented article, one must distinguish two situations; first, sale of the article, and second, lease of the article, usually a device or machine.

Insofar as the purchaser is concerned, the courts have developed the doctrine that sale of the patented article removes it completely from the patent monopoly;<sup>73</sup> with the sale goes an unrestricted license to use. The problem has usually been how far the patentee may impose restrictions by contractual agreement. In general this is a question of general law and will be determined on the basis of its unreasonableness as a restraint of

<sup>68</sup> See WOOD, PATENTS AND ANTI-TRUST LAW, pp. 99-117 (1942); "Patent Pools and the Sherman Act," 40 YALE L.J. 1297 (1931).

<sup>69</sup> See Toulmin, "The Law of International Private Agreements," 32 VA. L. REV. 335 (1946); OPPENHEIM, CASES ON FEDERAL ANTI-TRUST LAWS, c. 14 (1948).

<sup>70</sup> *United States v. National Lead Co.*, 63 F. Supp. 513 (1945); aff'd 332 U.S. 319, 67 S.Ct. 1634 (1947). See Zlinkoff & Barnard, "The Supreme Court and a Competitive Economy: 1946 Term," 47 COL. L. REV. 914 at pp. 933-948 (1947).

<sup>71</sup> See generally, Chafee, "Equitable Servitudes on Chattels," 41 HARV. L. REV. 945 (1928).

<sup>72</sup> The problems of tying clauses and price fixing will be treated separately *infra*.

<sup>73</sup> *Adams v. Burke*, 17 Wall. 453 (1873); *Boston Store v. American Graphophone Co.*, 246 U.S. 8, 38 S.Ct. 257, (1918); *Victor Talking Machine Co. v. Kemeny*, (C.C.A. 3d, 1921) 271 F. 810.

trade.<sup>74</sup> Such restrictions may be imposed either by express contractual provision or may be in the form of a notice attached to the article. Few cases aside from those involving tying clauses or price restrictions have arisen in this field,<sup>75</sup> but the legality of certain restrictions on the use of unpatented articles where the restriction is reasonable provides an apt analogy.<sup>76</sup> The courts have not, however, been prone to uphold restrictions on the place of use.<sup>77</sup>

On the other hand, where a lease of the patented article is involved, the courts have upheld restrictions which were reasonable.<sup>78</sup> Thus it may be possible for the patentee who leases patented machinery to restrict the uses to which the machine may be put, the quantity that may be produced, or the place in which it may be used.<sup>79</sup>

2. *Of patented invention.* The courts have been much more willing to uphold reasonable restrictions in licenses to make or sell under the patented invention. Thus the licensor may restrict the place of manufacture,<sup>80</sup> limit the type of product to be made,<sup>81</sup> designate the classes of persons to whom the licensee may sell,<sup>82</sup> restrict the conditions under which sales may be made and the purposes for which the article may be sold,<sup>83</sup> and restrict the quantity of output.<sup>84</sup> Similarly the right of the

<sup>74</sup> See Havighurst, "Legal Status of Industrial Control by Patent," 35 *ILL. L. REV.* 495, (1941); *Motion Picture Patents Co. v. Universal Film*, 243 U.S. 502 at 509, 37 S.Ct. 416 (1917).

<sup>75</sup> *General Talking Pictures Corp. v. Western Electric Co. Inc.*, 305 U.S. 124, 59 S.Ct. 116 (1938) involves the problem, but the case was decided on other grounds.

<sup>76</sup> See *Waring v. WDAS Broadcasting Station, Inc.*, 327 Pa. 433, 194 A. 631 (1937); *Waring v. Dunlea*, (D.C. N.C. 1939) 26 F. Supp. 338.

<sup>77</sup> *Hobbie v. Jennison*, 149 U.S. 355, 13 S.Ct. 1047 (1893); *Edison Electric Light Co. v. Goelet*, 65 F. 613 (C.C. N.Y. 1894); see generally Keasbey, "Restrictive Covenants as Applied to Territorial Rights in Patented Articles," 10 *HARV. L. REV.* 1 (1896); compare *Boesch v. Graff*, 133 U.S. 697, 10 S.Ct. 378 (1890).

<sup>78</sup> *United States v. United Shoe Machinery Co.*, 247 U.S. 32, 38 S.Ct. 473 (1918); see Folk, "Scope of the Patent Monopoly and the Relation of the Anti-trust Laws to the Patentee's Individual Exercise of his Patent Rights," 2 *N.A.M. LAW DIGEST*, 149, 154 (1939).

<sup>79</sup> *Ibid.*

<sup>80</sup> *Providence Rubber Co. v. Goodyear*, 9 Wall. 788 (1869); *Dorsey Revolving Harvester Rake Co. v. Bradley Mfg. Co.*, (C.C., N.Y. 1874) 7 Fed. Cas. n. 4015.

<sup>81</sup> *Good Humor Corp. v. Popsicle Corp.*, (D.C. Del. 1932) 59 F. (2d) 344, *aff'd* (C.C.A. 3d, 1939) 66 F. (2d) 659.

<sup>82</sup> *Radio-Craft Co. v. Westinghouse Electric & Mfg. Co.* (C.C.A. 3d, 1925) 7 F. (2d) 432; *Westinghouse Electric & Mfg. Co. v. Tri-City Radio Electric Supply Co.*, (C.C.A. 8th, 1927) 23 F. (2d) 628.

<sup>83</sup> *Straight Side Basket Corp. v. Webster Basket Co.*, 4 F. Supp. 644 (1933), 10 F. Supp. 171 (1935), (C.C.A. 2d, 1936) 82 F. (2d) 245; *Vulcan Mfg. Co. v. Maytag Co.*, (C.C.A. 8th, 1934) 73 F. (2d) 136; *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 58 S.Ct. 849 (1938); 305 U.S. 124, 59 S.Ct. 116 (1938).

<sup>84</sup> *Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co.*, (C.C.A. 7th, 1907) 154 F. 358, *app. dismissed*, 210 U.S. 439, 28 S.Ct. 764 (1908); *Aspinwall Mfg. Co. v. Gill* (C.C., N.J. 1887) 32 F. 697; *cf. American Equipment Co. v. Tuthill* (C.C.A. 7th, 1934) 69 F. (2d) 406.

licensor to require the licensee to purchase patented improvements from a particular manufacturing source has been upheld.<sup>85</sup> The legality of this type of restriction has been criticized, though attempts to change the law by legislation have not met with success.<sup>86</sup>

3. *Of nonpatented material—tying clauses.* Where the licensor has attempted to impose conditions concerning the use of nonpatented material by means of a tying clause, the courts have found a much more fertile field for declaring the practice a misuse of the patent. A correlative situation is one in which the patentee holds a combination patent or a patented process or method and in licensing or selling one part of the combination or the use of the process, method, or combination, attempts to require the licensee to buy an unpatented element or material from himself or a designated person. The trend has been to declare more and more of these attempts illegal. At this point one should keep in mind the discussion above concerning the two possible theories on which courts have declared the practices now under consideration illegal, and hence a misuse of the patent monopoly. The earlier cases considered the conditions purely under the anti-trust laws and tested the restrictions in the light of the rule of reason except where the anti-trust laws themselves declared the practices a per se violation. Thus in the second *United Shoe Machinery* case<sup>87</sup> the tying clauses were held invalid under section 3 of the Clayton act.<sup>88</sup> Similarly a requirement in a lease of machines that the lessee should use only tabulating cards manufactured by the lessor was held invalid.<sup>89</sup>

However, a requirement that dealers should not sell or use in the repair of Chevrolet motor vehicles any part not manufactured or authorized by the Chevrolet Motor Company was upheld because there was no showing that the restriction in any way substantially lessened competition or tended to create a monopoly.<sup>90</sup> In contrast, the later cases involving patent licenses find the restriction invalid on a finding that the patent

<sup>85</sup> *Steiner Sales Co. v. Schwartz Sales Co.*, (C.C.A. 10th, 1938) 98 F. (2d) 999, cert. denied, 305 U.S. 662, 59 S.Ct. 364 (1939).

<sup>86</sup> See Justice Dept. Amicus Curiae Brief in *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175, 58 S.Ct. 849 (1938); 305 U.S. 124, 59 S.Ct. 116 (1938). For proposal to outlaw all restrictions in licenses as to price, amount, purpose, or manner of use or area, see T.N.E.C. Report, S.Doc. 35, 77th Cong., 1st sess. (1941).

<sup>87</sup> *United Shoe Machinery Corp. v. United States*, 258 U.S. 451, 42 S.Ct. 363, (1922).

<sup>88</sup> Section three of the Clayton Act prohibits tying clauses, requiring that a competitor's goods shall not be used, in contracts of lease or sale where the effect is substantially to lessen competition. The section is expressly applicable to all goods, patented or unpatented. 38 Stat. L. 730 (1914), 15 U.S.C.A. §14 (1934).

<sup>89</sup> *Internat'l Business Machines Corp. v. United States*, 298 U.S. 131, 56 S.Ct. 701 (1936).

<sup>90</sup> *Pick Mfg. Co. v. General Motors Corp.*, (C.C.A. 7th, 1935) 80 F. (2d) 641 aff'd., 299 U.S. 3, 57 S.Ct. 1 (1936).

monopoly has been overstepped and the condition a violation of the public policy of the anti-trust laws. Thus in the *Motion Picture Patents* case<sup>91</sup> an attempt to restrict the use of the licensor's device to use with the licensor's film was held invalid. In the *Carbice* case<sup>92</sup> a requirement that the licensee buy an unpatented element of a combination from the licensor was held invalid. The doctrine was extended in the *Leitch* case<sup>93</sup> to invalidate a condition that the user of a patented process buy unpatented materials used in the process from the licensee. Finally in the *Mercoïd* case<sup>94</sup> the Supreme Court held that the patentee of a combination, a heating system, whose only source of revenue was the supplying of the unpatented elements of the combination, could not enjoin as a contributory infringer one who supplied those elements. The *International Salt* case<sup>95</sup> gave definite shape to the doctrine of per se violation of the anti-trust laws where the patent right is overstepped. Thus the doctrine of the Supreme Court to outlaw "every use of a patent as a means of obtaining a limited monopoly of unpatented material"<sup>96</sup> leaves little doubt as to the invalidity of the type of restriction under consideration, whatever may be the rationale of the cases in the future.

### C. Price-fixing Agreements

1. *Horizontal price-fixing.* The final category in which the courts have found unwarranted extensions of the patent monopoly lies in the field of price-fixing and resale price maintenance agreements. In the field of price-fixing or horizontal price control (that is, pricing agreements between competitors on the same level of the distribution process), the Supreme Court has consistently found price-fixing agreements per se an unreasonable restraint of trade regardless of the fairness of the price.<sup>97</sup>

This rule has been applied to agreements involving patents, with

<sup>91</sup> *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 37 S.Ct. 416 (1917); *Overrules, Henry v. Dick Co.*, 224 U.S. 1, 32 S.Ct. 364 (1912).

<sup>92</sup> *Carbice Corporation of America v. American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334 (1931). See McCormack, "Restrictive Patent Licenses and Restraint of Trade," 31 *COL. L. REV.* 743, 747, 761 (1931).

<sup>93</sup> *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 58 S.Ct. 288 (1938). See also *Barber Asphalt Co. v. La Fera Grecco Contracting Co.*, (C.C.A. 3d, 1940) 116 F. (2d) 211; *American Lecithin Co. v. Warfield*, (D.C., Ill. 1941) 42 F. Supp. 270.

<sup>94</sup> *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944). See Wood, "The Tangle of Mercoïd Case Implications," 13 *GEO. WASH. L. REV.* 61 (1944); Frost, "Patent Infringement and The Public Interest—The Mercoïd Case," 12 *GEO. WASH. L. REV.* 345 (1944).

<sup>95</sup> *International Salt Co. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947).

<sup>96</sup> *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 at 463, 58 S.Ct. 288 (1938).

<sup>97</sup> *United States v. Socony-Vacuum*, 310 U.S. 150, 60 S.Ct. 811 (1940); *United States v. Trenton Potteries Co.*, 273 U.S. 392, 47 S.Ct. 377 (1927).



one exception, if indeed, this exception any longer exists. The doctrine was announced in the early case of *Bement v. National Harrow Co.*<sup>98</sup> that a patentee might, in a license agreement, fix the price at which the licensee could sell the patented article without violating the anti-trust laws. Speaking of this doctrine the Supreme Court in the *General Electric* case<sup>99</sup> said: "If the patentee goes further and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so provided the conditions of sale are normally and reasonably adopted to secure pecuniary reward for the patentee's monopoly."<sup>100</sup> This exception to the general rules has, however, been very narrowly restricted as will be seen from a discussion of some of the following cases.

It is proper at this juncture to point out two settings in which the question may arise; first, where there is a license in which the patentee imposes price restrictions on competing licensees; second, where there are agreements among licensees and with the patentee as to price restrictions.<sup>101</sup>

As to the first, the *Wayne Pump Co.*<sup>102</sup> case would seem to indicate that a licensee and a patentee may agree that the same restrictions shall be imposed on all licensees. The case is, however, not authority on this point since the court expressly disposed of the case on other grounds. A more likely indication of the court's attitude is found in the analogous field of copyrights where the court held such arrangements to be invalid.<sup>103</sup>

As to the second situation, agreements fixing the price are more clearly invalid if the attitude of the court in other recent cases is indicative.<sup>104</sup> Note should also be made of the case where the patentee of a machine tries indirectly to control the price of the unpatented product of the machine by restricting the amount of allowable production. This restriction in a license was held invalid.<sup>105</sup>

<sup>98</sup> 186 U.S. 70, 22 S.Ct. 747 (1902).

<sup>99</sup> *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

<sup>100</sup> *Ibid.* 490. *Accord*, *Straight Side Basket Corp. v. Webster Basket Co.*, (C.C.A. 2d, 1936) 82 F. (2d) 245; *American Lead Pencil Co. v. Musgrave Pencil Co.*, 170 Tenn. 60, 91 S.W. (2d) 573 (1936).

<sup>101</sup> See Wood, "Agreements Concerning Patent License Restrictions," 37 ILL. L. REV. 350 (1943).

<sup>102</sup> *United States v. Wayne Pump Co.*, (D.C. Ill. 1942) 44 F. Supp. 949, *aff'd.* 317 U.S. 200, 63 S.Ct. 191 (1942).

<sup>103</sup> *Interstate Circuit, Inc. v. United States*, 306 U.S. 208, 59 S.Ct. 467 (1939).

<sup>104</sup> See *United States v. Hartford-Empire Co.*, 323 U.S. 386, 65 S.Ct. 373 (1945); *United States v. Masonite Corp.*, 316 U.S. 265, 62 S.Ct. 1070 (1942).

<sup>105</sup> *American Equipment Co. v. Tuthill Building Material Co.*, (C.C.A. 7th, 1934) 69 F. (2d) 406.

Finally, in its two most recent decisions in this field, the Supreme Court has further narrowed the doctrine of the *General Electric* case. In *United States v. United Gypsum Co.*<sup>106</sup> the Court refused to allow the rule of the *General Electric* case to cloak a conspiracy to fix the price of a patented product in violation of the Sherman Act. In the companion case, *United States v. Line Material Co. et al.*,<sup>107</sup> the Court speaking through Justice Reed, held that the rule of the *General Electric* case would not extend beyond the pure patentee-licensee situation to include this case in which there had been a cross licensing between the holder of the basic patent and the holder of an improvement patent in which the latter was by the agreement to fix the price of the patented article for all licensees. Indeed, four Justices<sup>108</sup> concurring in the result would have overruled the *General Electric* case thus doing away with the last vestige of the exception. Three Justices dissented,<sup>109</sup> and one took no part in the case.<sup>110</sup> Thus the validity of price-fixing in patent licenses has been restricted to a very narrow compass if it can be said to have survived at all.

2. *Vertical price-fixing.* In the field of resale price maintenance or vertical price-fixing, leaving aside for the moment the Miller-Tydings amendment<sup>111</sup> to the Sherman Act, the development has been much the same. In the *Dr. Miles* case,<sup>112</sup> a contract not to sell below a stated price was held invalid as a violation of the Sherman Act. The doctrine was soon applied to the sale of patented articles in *Bauer & Cie v. O'Donnell*<sup>113</sup> where the Court held that price control could not be imposed by notice on either patented or unpatented articles. Similarly in *Boston Store v. American Graphophone Co.*<sup>114</sup> it was held that resale price maintenance could not be effected by an express contract. These cases are based on the general proposition that a sale of the article removes it from the scope of the patent monopoly.<sup>115</sup>

On the other hand, where the patentee licenses a bona fide agent to

<sup>106</sup> 333 U.S. 364, 68 S.Ct. 525 (1948).

<sup>107</sup> 333 U.S. 282, 68 S.Ct. 550 (1948). For further developments along this line see *United States v. General Electric Co.*, 79 U.S. PAT. Q. 124 (D.C. N.Y. 1948) Cf. *Transparent Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 67 S.Ct. 610 (1947).

<sup>108</sup> JJ. Douglas, Black, Murphy and Rutledge.

<sup>109</sup> JJ. Burton, Frankfurter, and Chief Justice Vinson.

<sup>110</sup> J. Jackson.

<sup>111</sup> 50 Stat. L. 693 (1937).

<sup>112</sup> *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 31 S.Ct. 376 (1911).

<sup>113</sup> 229 U.S. 1, 33 S.Ct. 616 (1913).

<sup>114</sup> 246 U.S. 8, 38 S.Ct. 257 (1918). For annotation on resale price maintenance of patented articles, see 7 A.L.R. 477, 19 A.L.R. 928, 103 A.L.R. 1336.

<sup>115</sup> *Adams v. Burke*, 17 Wall. (84 U.S.) 453 (1873); *Boston Store v. American Graphophone Co.*, 246 U.S. 8, 38 S.Ct. 257 (1918); *Victor Talking Machine Co. v. Kemeny*, (C.C.A. 3d, 1921) 271 F. 810.

sell the article he may fix the price at which the agent will sell the article.<sup>116</sup> But where a purported agency arrangement is used to cover up a concerted effort to fix resale prices, the conspirators have been enjoined under the Sherman Act.<sup>117</sup> Similarly, the Court held invalid an arrangement whereby a patentee licensed gasoline refiners on condition that they sell only to jobbers licensed by the patentee, with whom the patentee had made price-fixing agreements.<sup>118</sup> Finally, the Court held invalid price-fixing agreements where the licensee merely sold the article in incomplete form, the final embodiment of the patented article to be completed by the sub-purchaser.<sup>119</sup>

3. *Effect of valid patent.* One more group of cases must be considered before the picture is complete. This is the situation which occurs where price-fixing might be valid under the rule of the *General Electric* case if the patent involved is a valid patent. Of course, if the patent is invalid, the agreement is a simple price-fixing or resale price maintaining arrangement invalid under the Sherman Act. The law prior to the group of cases under consideration, however, estopped the licensee from questioning the validity of the patent.<sup>120</sup> In *Sola Electric Co. v. Jefferson Electric Co.*<sup>121</sup> a licensee being sued for royalties and injunction against violation of a price-fixing provision was for the first time allowed to raise the question of the invalidity of the patent to show violation of the Sherman Act in the agreement. This doctrine was extended to actions at law, as distinguished from the denial of equitable relief in the *Sola* case, in the *Katzinger*<sup>122</sup> and *MacGregor* cases.<sup>123</sup> Finally, in the *U. S. Gypsum* case<sup>124</sup> the Supreme Court held that the government in an anti-

<sup>116</sup> *United States v. General Electric Co.*, 272 U.S. 476, 47 S.Ct. 192 (1926).

<sup>117</sup> *United States v. Masonite Corp.*, 316 U.S. 265, 62 S.Ct. 1070 (1942). See Mulholland, "Agency as a Concept and Marketing Device Under the Anti-Trust Laws," 13 *Geo. Wash. L. Rev.* 93 (1944).

<sup>118</sup> *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 60 S.Ct. 618 (1940). See "Effect of Sherman Act on Fixing Prices of Patented Goods by Agency Licensing Agreements," 51 *Yale L.J.* 299 (1941).

<sup>119</sup> *United States v. Univis Lens Co.*, 316 U.S. 241, 62 S.Ct. 1088 (1942).

<sup>120</sup> In a long line of decisions the court had assumed that a licensee could not question the validity of the patent. See *Kinsman v. Parkhurst*, 18 How. (59 U.S.) 289 (1856); *United States v. Harvey Steel Co.*, 196 U.S. 310, 25 S.Ct. 240 (1905); see also dissent in *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 67 S.Ct. 421 (1947) where the authorities are summarized.

<sup>121</sup> 317 U.S. 173, 63 S.Ct. 172 (1942). See also 47 *Col. L. Rev.* 477 (1947), 41 *Mich. L. Rev.* 984 (1943).

<sup>122</sup> *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 67 S.Ct. 416 (1947). See 15 *Geo. Wash. L. Rev.* 236 (1947), and Zlinkoff and Barnard, "The Supreme Court and a Competitive Economy: 1946 Term," 47 *Col. L. Rev.* 914 (1947).

<sup>123</sup> *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 67 S.Ct. 421 (1947). See also related cases of *Nachman Spring Filled Corp. v. Kay Mfg. Co.*, (C.C.A. 2d, 1943) 139 F. (2d) 781; *Scott Paper Co. v. Marcalis Mfg. Co.*, 326 U.S. 249, 66 S.Ct. 101 (1945).

<sup>124</sup> *United States v. United States Gypsum Co.*, 333 U.S. 364, 68 S.Ct. 525 (1948).

trust action might attack the validity of a patent in order to show the violation of the anti-trust laws which would result if the patent were invalid. Thus the Court has further widened the area in which misuses of patents may be found.

4. *Effect of Miller-Tydings amendment.* There remains only to consider what effect the Miller-Tydings amendment<sup>125</sup> to the Sherman Act has had on the resale price maintenance of patented articles. It reads in part as follows:

“ . . . Provided that nothing contained herein shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears . . . the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intra-state transactions, under any statute, law or public policy now or hereafter in effect in any State. . . . ”<sup>126</sup>

The cases involving patented articles which have arisen since the passage of this amendment have been very few, partly because a patented article seldom can come within the requirements of the statute. The attitude of the courts, however, appears to be one of strictly construing the statute as evidenced by the holding in *Eastman Kodak Co. v. Federal Trade Commission*<sup>127</sup> where it was held that, in determining whether or not the petitioner's magazine film was in free and open competition with commodities of the same general class produced or distributed by others, reference must be had to other magazine type film, not to movie film in general. Similarly in the *Univis* case<sup>128</sup> the Miller-Tydings amendment was deemed inapplicable since the defendant was not a manufacturer of the “commodity” which the licensees sold, and the licensees were not engaged in the “resale” of the same commodity they bought. Thus the Miller-Tydings amendment appears to do very little in the direction of widening the field of permissible resale price maintenance where patented articles are concerned. Indeed, the more original the invention, the less likelihood there is of the article's coming within the requirements of the statute.

<sup>125</sup> 50 Stat. L. 693 (1937).

<sup>126</sup> All but four of the states have passed such legislation. See comment, 28 CAL. L. REV. 477, 479 (1940).

<sup>127</sup> (C.C.A. 2d, 1946) 158 F. (2d) 592; 15 GEO. WASH. L. REV. 511 (1947).

<sup>128</sup> *United States v. Univis Lens Co.*, 316 U.S. 241, 62 S.Ct. 1088 (1942); 37 ILL. L. REV. 181 (1942); 29 VA. L. REV. 112 (1942).

## IV

## COMPULSORY LICENSING AS A SOLUTION

A. *How Remedy May Be Applied*

Having thus surveyed the practices which are deemed within the permissible scope of the patent monopoly and conversely those practices which are considered misuse of the patent, attention may now be turned to a consideration of the cases in which the courts have employed the remedy of compulsory licensing. At the outset it must be understood that the remedy may be applied in two different ways. First, in an action brought by the United States or an individual under the anti-trust laws, the court may decree compulsory licensing. Second, the same net result may be reached in an action brought by the patentee by denying him relief either in equity or at law, as has been noted earlier, by virtue of which he is unable to enforce his patent or a license agreement. In other words, by allowing as a defense violation of the anti-trust laws or misuse of the patent on the part of the patentee a net result of compulsory licensing is obtained.<sup>129</sup> The latter development is first in point of time, dating back to the *Motion Picture Patents* case.<sup>130</sup> There the patentee of a motion picture projector was denied injunctive relief against a user of the projector who bought films produced by other companies contrary to the license tying provision. Because the patentee was misusing his patent he was denied equitable relief.

From that beginning the doctrine has been applied both in infringement actions and in actions to enforce license provisions or collect royalties, the type of misuse barring relief running practically the entire gamut of misuses previously discussed. The great expansion of the doctrine came with the *Carbice* case<sup>131</sup> and the line of cases following it,<sup>132</sup> culminating in the *Mercoïd* cases.<sup>133</sup> These cases were actions against alleged contributory infringers.<sup>134</sup> Finally in *Morton Salt Co. v. Sup-*

<sup>129</sup> See generally Lockhart, "Violation of the Antitrust Laws as a Defense in Civil Actions," 31 MINN. L. REV. 507 at 552 (1947); James, "Use of Patents to Control Unpatented Materials," 28 J. PAT. OFF. SOC. 427 (1946); Borkin, "Patent Abuses, Compulsion to License and Recent Decisions," 43 COL. L. REV. 720 (1943).

<sup>130</sup> *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S.Ct. 416 (1917).

<sup>131</sup> *Carbice Corp. v. American Patents Corp.*, 283 U.S. 27, 51 S.Ct. 334 (1931).

<sup>132</sup> *Leitch Mfg. Co. v. Barber Asphalt Co.*, 302 U.S. 458, 58 S.Ct. 288 (1938); *Barber Asphalt Corp. v. La Fera Grecco Contracting Co.*, (C.C.A. 3d, 1940) 116 F. (2d) 211.

<sup>133</sup> *Mercoïd Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268 (1944); *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278 (1944).

<sup>134</sup> It is outside the scope of this paper to discuss the doctrine of contributory infringement. For a discussion of the impact of the *Mercoïd* cases on the doctrine, see Wood, "The

*piger Co.*<sup>135</sup> an injunction was denied a patentee in an action against a direct infringer because of the patentee's misuse of the patent. A similar result was reached in the *Chemical Co.*<sup>136</sup> case decided the same day. Thus it is clearly established that misuse of a patent may result in denial of relief to the patentee whether he proceeds against a direct or a contributory infringer. Subsequent decisions<sup>137</sup> bear out this doctrine with one possible exception, the case of *Metallizing Engineering Co., Inc. v. Metallizing Co. of America*,<sup>138</sup> which seems to raise a dissenting voice.<sup>139</sup>

Similar results have been obtained where a patentee who has misused his patent attempts to enforce the provisions of a license agreement or collect royalties. In the *Sola* case<sup>140</sup> the patentee sued to collect royalties and to enjoin violation of a provision of the license and was denied relief because he had been using the patent in an attempt to maintain resale prices. Likewise in the *Katzinger*<sup>141</sup> and *MacGregor*<sup>142</sup> cases where patentees merely sought to collect royalties they were denied relief because of their misuse of the patent monopoly. While not involving a patent, the latest words of the Supreme Court on the matter of the availability of the defense of violation of the anti-trust laws in actions on a contract<sup>143</sup> would seem to inject some confusion into the picture. However, the majority opinion in that case certainly cannot be cited as authority for the proposition that the statutory remedies given by the anti-trust

Tangle of *Mercoid Case Implications*," 13 *Geo. Wash. L. Rev.* 61 (1944); Bateman, "Should Anti-Trust Law Penalties or Unenforceability of the Patent Monopoly be Invoked for Misuse of the Patent Grant?," 29 *J. Pat. Off. Soc.* 16 at 48 (1947); Frost, "Patent Infringement and the Public Interest—The *Mercoid Cases*," 12 *Geo. Wash. L. Rev.* 345 (1944); 42 *Mich. L. Rev.* 915 (1944); 42 *Ill. L. Rev.* 377 (1947).

<sup>135</sup> 314 U.S. 448, 62 S.Ct. 402 (1942).

<sup>136</sup> *B. B. Chemical Co. v. Ellis*, 314 U.S. 495, 62 S.Ct. 406 (1942).

<sup>137</sup> *Standard Register Co. v. American Sales Book Co., Inc.*, (C.C.A. 2d, 1945) 148 F. (2d) 612; *Landis Machinery Co. v. Chaso Tool Co., Inc.*, (C.C.A. 6th, 1944) 141 F. (2d) 800; *Frank Adam Electric Co. v. Westinghouse Electric Mfg. Co.*, (C.C.A. 8th, 1945) 146 F. (2d) 165; *National Lockwasher v. Garrett*, (C.C.A. 3d, 1943) 137 F. (2d) 255; *Strocchio Products Inc. v. Mullenbach et al.*, 67 U.S. Pat. Q. 168 (D.C., Cal. 1944); *Miller v. Zaharias*, 72 F. Supp. 29 (D.C. Wis. 1947); *Barber-Coleman Co. v. National Tool Co.* (C.C.A. 6th, 1943) 136 F. (2d) 339.

<sup>138</sup> (D.C. N.Y. 1945) 62 F. Supp. 274. Cf. *National Aluminate Corp. v. Permutit Co.*, (C.C.A. 8th, 1944) 145 F. (2d) 175; *International Carbonic Engineering Co. v. Natural Carbonic Products, Inc.*, (D.C. Cal. 1944) 57 F. Supp. 284; *Libbey-Owens-Ford Glass Co. v. Sylvania Industrial Corp.*, (D.C. N.Y. 1945) 64 F. Supp. 516; *Container Patents Corp. v. Stant et al.*, (C.C.A. 7th, 1943) 143 F (2d) 170.

<sup>139</sup> For a discussion of recent cases, see Bateman, "Should Anti-Trust Law Penalties or Unenforceability of the Patent Monopoly be Invoked for Misuse of the Patent Grant?" 29 *J. Pat. Off. Soc.* 16 (1947).

<sup>140</sup> *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173, 63 S.Ct. 172 (1942). See also *Nachman Spring-Filled Corp. v. Kay Mfg. Co.*, (C.C.A. 2d, 1943) 139 F. (2d) 781.

<sup>141</sup> *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 67 S.Ct. 416 (1947).

<sup>142</sup> *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 67 S.Ct. 421 (1947).

<sup>143</sup> *Bruce's Juices v. American Can Co.*, 330 U.S. 743, 67 S.Ct. 1015 (1947).

laws are to be considered exclusive as to all violations of those laws. Thus the availability of the defense of misuse of a patent or violation of the anti-trust laws as applied in the patent cases previously discussed cannot be said to be impaired.

### B. *Effect of Purge of the Misuse*

There remains to be considered the effect of a patentee's purging himself of the misuse on his ability to enforce the patent. Both the *Morton Salt* and the *Chemical Co.* opinions indicate that when the misuse has been abandoned and its evil effects dissipated the patentee might then be entitled to relief.<sup>144</sup> In *Novadell-Agene Corp. v. Penn et al.*<sup>145</sup> the court did not specify what acts would constitute a purging, but did indicate that the impairment of the patent monopoly would continue only so long as the misuse persisted. One court issued an injunction against future infringement on a showing during trial that the patentee had changed his method of doing business.<sup>146</sup> Another held that the patentee's purge was complete five weeks after original denial of relief and was allowed an accounting for infringement occurring after the purge.<sup>147</sup> On the other hand, the Supreme Court in the *Chemical Co.* case<sup>148</sup> indicated that mere willingness to abandon the illegal practice expressed during litigation would not be enough to justify granting of relief. While the cases are few and the picture not very complete, it appears that until Congress declares that misuse of a patent works its forfeiture, a patentee should be deprived of the aid of the courts only so long as he continues the misuse and its effects persist.

### C. *Effect of Denial of Relief to Patentee*

One more problem involved in this aspect of compulsory licensing by judicial action must be considered; namely, the fact that denial of judicial relief to a patentee who has misused his patent results in compulsory licensing royalty free, or in other words, a forfeiture of the patent at least for a limited time. In contrast where the court has compelled licensing in an anti-trust decree, it has insisted on licensing at a reason-

<sup>144</sup> *Morton Salt Co. v. G. S. Suppiger*, 314 U.S. 488 at 493, 62 S.Ct. 402 (1942); *B. B. Chemical Co. v. Ellis*, 314 U.S. 495 at 498; 62 S.Ct. 406 (1942).

<sup>145</sup> (C.C.A. 5th, 1941) 119 F. (2d) 764.

<sup>146</sup> *Universal Sewer Pipe Corp. v. General Const. Co.*, (D.C. Ohio 1941) 42 F. Supp. 132. See also *Campbell v. Mueller* (C.C.A. 6th, 1947) 159 F. (2d) 803.

<sup>147</sup> *Sylvania Industrial Corp. v. Visking Corp.*, (C.C.A. 4th, 1943) 132 F. (2d) 947. See also *Slaytor & Co. v. Stebbins Anderson Co.* (D.C. Md. 1940) 31 F. Supp. 96. Cf. *A. L. Smith Iron Co. v. Dickson*, (C.C.A. 2d, 1944) 141 F. (2d) 3.

<sup>148</sup> *B. B. Chemical Co. v. Ellis*, 314 U.S. 495, 62 S.Ct. 406 (1942).

able royalty.<sup>149</sup> It has been suggested by some writers<sup>150</sup> that the denial of equitable relief does not necessarily preclude a damage action at law for past infringement, thus in effect allowing the patentee compensation for the use of the patent during the period of his misuse.<sup>151</sup> Another writer maintains, "Despite these indications to the contrary, there are good reasons to anticipate the defeat of a plaintiff seeking only damages for past infringement during a period while he was using the patent to violate anti-trust policy."<sup>152</sup> No cases to date have raised this issue and it is difficult to predict the result in the present state of the law.

#### D. *Anti-trust Decree Provisions*

The second aspect of compulsory licensing of misused patents involves compulsory licensing provisions of anti-trust decrees. This device appeared earlier in a number of consent decrees in anti-trust actions,<sup>153</sup> but received its first approval by the Supreme Court, where the provision was not consented to, in the *Hartford-Empire* case.<sup>154</sup> There the defendants were guilty of a variety of violations of the anti-trust laws<sup>155</sup> and licensing of the patents involved was truly compelled as an element of the relief afforded the government in breaking up the monopoly in the glass industry. An important feature of the decision, however, was the refusal of the Court to compel the licensing of patents royalty free. Rather, provision was made for the licensing of patents at a reasonable royalty to all who might thereafter apply for a license. If a reasonable royalty could not be agreed upon, the applicant could apply either to the

<sup>149</sup> See provisions of decrees in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945), 324 U.S. 570, 65 S.Ct. 815 (1945); *United States v. National Lead Co.*, 332 U.S. 319, 67 S.Ct. 1634 (1947).

<sup>150</sup> 56 YALE L.J. 77 at 112-116 (1945); 45 COL. L. REV. 601 at 618 (1945).

<sup>151</sup> Since August, 1946, the statute relating to damages for infringement has provided compensation shall be not less than a reasonable royalty for use of the patent, U.S. Rev. Stat. tit. 60 §4921 (1898); 60 Stat. L. 778 (1946). See Wolff, "The Measure of Damages in Patent Infringement Actions," 28 J. PAT. OFF. SOC. 877 (1946).

<sup>152</sup> Lockhart, "Violation of the Anti-Trust Laws as a Defense in Civil Actions," 31 MINN. L. REV. 507 at 561 (1947).

<sup>153</sup> *United States v. Kearney & Trecker Corp.* (D.C. Ill. 1941), *United States v. Standard Oil* (D.C. N.J. 1942), *United States v. Aluminum Co. of America* (D.C. N.Y. 1942), *United States v. General Electric Co.* (D.C. N.J. 1942), *United States v. Aqua Systems, Inc.* (D.C. N.Y. 1942)—royalty free; *United States v. American Bosch Corp.* (D.C. N.Y. 1942)—royalty free until termination of war. In *United States v. General Electric Co.*, C.C.H. Trade Reg. Serv. ¶ 52,777 (D.C. N.J. 1942) and *United States v. American Bosch Corp.*, C.C.H. Trade Reg. Serv. ¶ 52,888 (D.C. N.Y. 1942) there were provisions for reciprocal licensing.

<sup>154</sup> *Hartford-Empire Co. v. United States*, 323 U.S. 386, 65 S.Ct. 373 (1945). Second opinion, 324 U.S. 570, 65 S.Ct. 815 (1945); 56 YALE L.J. 77 (1946); Marcus, "Patents, Antitrust Law and Antitrust Judgments Through Hartford-Empire," 34 GEO. L.J. 1 (1945); 45 COL. L. REV. 601 (1945); Coburn, "Compulsory Licensing by the Courts," 28 J. PAT. OFF. SOC. 180 (1946); "Patents and the Anti-trust Laws: The Glass Container Industry," 53 HARV. L. REV. 1173 (1940).

<sup>155</sup> See 34 GEO. L.J. 1 at 32 (1946).



court or to the attorney general for appropriate action. In the second compulsory licensing case to reach the Supreme Court, the *National Lead* case,<sup>156</sup> the government, along with one of the co-defendants, strenuously urged that the Court compel licensing of certain patents royalty free. With very little reconsideration of the *Hartford-Empire* decision, the Court refused this suggestion.<sup>157</sup> A lower federal court followed the lead of the *Hartford-Empire* case in *United States v. Vehicular Parking Ltd. et al.*<sup>158</sup> compelling licensing only at a reasonable royalty. Meanwhile, in a number of consent decrees compulsory licensing has been provided for, usually at a reasonable royalty.<sup>159</sup> Thus the doctrine of compulsory licensing by anti-trust decree appears to be firmly established.

### E. Enforcing the Decrees

There remain for consideration some of the problems raised by compulsory licensing provisions of anti-trust decrees if their administration is to be effective. The first relates to general administration of the decree. To date this matter has devolved upon the anti-trust division of the Justice Department. One writer points out the difficulties of this solution and suggests other possible alternative agencies for such administration;<sup>160</sup> namely, a master of the court, the Federal Trade Commission, an arbitration board, or a newly created patent commission. Considering the possible alternatives, it appears that the Justice Department is

<sup>156</sup> *United States v. National Lead Co.*, 332 U.S. 319, 67 S.Ct. 1634 (1947).

<sup>157</sup> See discussion in Zlinkoff & Barnard, "The Supreme Court and a Competitive Economy: 1946 Term," 47 *Col. L. Rev.* 914 at 933 (1947).

<sup>158</sup> (D.C. Del. 1944), 54 F.Supp. 828, decree modified (D.C. Del. 1945), 61 F. Supp. 656. See *International Salt Co. v. United States*, 332 U.S. 392, 68 S.Ct. 12 (1947).

<sup>159</sup> *United States v. Bendix Aviation Corp.*, C.C.H. Trade Reg.Serv. ¶ 57,444 (D.C. N.J. 1946); *United States v. General Electric Co.*, C.C.H. Trade Reg.Serv. ¶ 57,448 (D.C. N.J. 1946); *United States v. Diamond Match Co.*, C.C.H. Trade Reg. Serv. ¶ 57,456 (D.C. N.Y. 1946); *United States v. Libbey-Owens-Ford Glass Co.*, C.C.H. Trade Reg.Serv. ¶ 57,489 (D.C. Ohio 1946); *United States v. American Air Filter Co.*, C.C.H. Trade Reg. Serv. ¶ 57,492 (D.C. Ky. 1946); *United States v. Owens-Ill. Glass Co.*, C.C.H. Trade Reg. Serv. ¶ 57,498 (D.C. Cal. 1946); *United States v. Timken-Detroit Axle Co.*, C.C.H. Trade Reg. Serv. ¶ 57,603 (D.C. Mich. 1947); *United States v. American Locomotive Co.*, C.C.H. Trade Reg.Serv. ¶ 57,621 (D.C. Ind. 1947); *United States v. Rail Joint Co.*, C.C.H. Trade Reg.Serv. ¶ 57,287 (D.C. Ill. 1944), royalty free; *Crosby Steam Gage & Valve Co. v. Manning, Maxwell & Moore*, C.C.H. Trade Reg.Serv. ¶ 57,336 (D.C. Mass. 1945), royalty free; *United States v. American Lecithin Co.*, C.C.H. Trade Reg.Serv. ¶ 57,542 (D.C. Ohio 1947), part royalty free, part reasonable royalty; *United States v. Patent Button Co.*, C.C.H. Trade Reg.Serv. ¶ 57,579 (D.C. Conn. 1947); *United States v. Auditorium Conditioning Co.*, C.C.H. Trade Reg.Serv. ¶ 57,428 (D.C. N.Y. 1945), royalty free; *United States v. Electric Storage Battery Co.*, C.C.H. Trade Reg.Serv. ¶ 57,645 (D.C. N.Y. 1947); *United States v. Scovill Mfg. Co.*, C.C.H. Trade Reg.Serv. ¶ 62,223 (D.C. Conn. 1948); *United States v. Automatic Sprinkler Co.*, C.C.H. Trade Reg.Serv. ¶ 62,230 (D.C. Ill. 1948); *United States v. Dick & Co.*, C.C.H. Trade Reg.Serv. ¶ 62,233 (D.C. Ohio 1948), royalty free; *United States v. Gamewell Co.*, C.C.H. Trade Reg.Serv. ¶ 62,236 (D.C. Mass. 1948).

<sup>160</sup> See 56 *YALE L.J.* 77 at 104 (1945).

probably the best administrative agency for this purpose provided it has sufficient facilities for the job.

Another problem that is raised by those decrees that require a reasonable royalty be paid for the use of the patent is the problem of determining the royalty. Admittedly the solution is difficult, but no more so than many other problems for judicial determination. Congressional recognition of this term<sup>161</sup> in the determination of damages for patent infringement would seem to bear this out. Furthermore, there is some case law already in existence involving the problem.<sup>162</sup> Thus the determination of a reasonable royalty is not an unsurmountable barrier, especially since in the majority of cases it will be settled by negotiation in any event. One step toward simplification of this problem was taken in the *Vehicular Parking* case<sup>163</sup> when an applicant was allowed to intervene in the anti-trust proceeding for a determination of the terms and conditions upon which he might be granted a license under the patents.

To be really effective the remedy of compulsory licensing for misuse of patents perhaps should be made a matter for declaratory relief so that in the absence of government action a petitioner might bring the patentee into court to adjudicate his alleged misuse of the patent and appropriate relief given. The only other alternatives for such a petitioner are to infringe the patent hoping that his defense of violation of the anti-trust laws will be upheld, or to wait until the government acts, if at all. Neither are very conducive or safe courses for such petitioner. On the other hand, a patentee ought not be subject to harassment at the suit of everyone who thinks the patentee is misusing the patent. These and other problems raised by compulsory licensing of patents by judicial action are by and large unsolved, but it should be remembered that the device is comparatively new and that judicial doctrines develop slowly.

### *F. Desirability of Judicially Effected Compulsory Licensing*

Any evaluation of the desirability of compulsory patent licensing by judicial action must be made in the light of the "patent anti-trust dilemma" inherent in which is the desire to effectuate the policies of the anti-trust laws and at the same time preserve the legitimate scope of patents and the policy of the patent laws. That judicial action is the best

<sup>161</sup> See U.S. Rev. Stat. tit. 60 §4921 (1898); 60 Stat. L. 778.

<sup>162</sup> *Dowagiac Mfg. Co. v. Moline Plow Co.*, 235 U.S. 641, 35 S.Ct. 221 (1915). See *Egry Register Co. v. Standard Register Co.*, (C.C.A. 6th, 1928), 23 F. (2d) 438; *Activated Sludge, Inc. v. Sanitary Dist. of Chicago*, (N.D. Ill. 1946), 64 F.Supp. 25. See 65 F.Supp. 271 (1946) for this phase of the *Hartford-Empire* case.

<sup>163</sup> *United States v. Vehicular Parking Ltd.*, C.C.H. Trade Reg. Serv. ¶ 57,601 (D.C. Del. 1947).

medium for accomplishing this balance is the opinion of most thoughtful writers. Speaking of the compulsory licensing provision of the *Hartford-Empire* decree, one writer has said:

"Although this appears on first consideration to be a loss, I am not so sure it does not in fact constitute a gain. No one can deny that there have been instances of deliberate and willful abuses by patentees of the fundamental purposes of the patent system, and that such abuse has not infrequently involved the use of restrictive licenses. Such abuses as have existed are, of course, the fuel for the perennial movements in Congress for so-called remedial legislation. The advocates of this remedial legislation, unfamiliar with the patent system, have perhaps not unnaturally selected a fire axe instead of a screwdriver to fix what is after all a rather delicate mechanism. But, to pursue the metaphor, this selection may in part have been due to the fact that no screwdriver was available.

"The Supreme Court has now furnished us in the *Hartford-Empire* case with something at least much more like the necessary screwdriver. The remedy of compulsory licensing at a reasonable royalty, applied by the courts only after there has been a definite finding of an abuse of patent rights such as is involved in a violation of the antitrust laws, is a very flexible and specific remedy which can be fashioned by the courts to fit the circumstances of the particular case involved. . . ." <sup>164</sup>

Indeed, Mr. Arnold himself, speaking of the enforcement of the anti-trust laws has said:

"These principles (of The Rule of Reason) have no meaning except when applied to concrete situations; the reasonableness of combination cannot be determined in the abstract. A case by case adjustment between the techniques of mass production on one hand and free competition on the other is the only method by which reasonable and fair enforcement of the anti-trust laws can be effected. . . . The great advantage of applying the Rule of Reason is that it allows us to take up one problem at a time in the light of its particular facts. This is the only way of avoiding the pitfalls of general regulation and permanent social planning." <sup>165</sup>

Again the same author, speaking of patent abuses wrote: "Such situations are easy to deal with if there is an organization in the Antitrust Division able to take care of complaints and to watch the distribution of the principal necessities of living." <sup>166</sup>

<sup>164</sup> Coburn, "Compulsory Licensing by the Courts," 28 J. PAT. OFF. SOC. 180 at 188 (1946). See also 45 Col. L.Rev. 601 (1945).

<sup>165</sup> Arnold, "Antitrust Law Enforcement, Past and Future," 7 LAW AND CONTEMPORARY PROBLEMS 5 at 14 (1940).

<sup>166</sup> ARNOLD, THE BOTTLENECKS OF BUSINESS, p. 30 (1940).