

ENEMY PATENTS

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During the period between the last Armistice and the outbreak of World War II, foreign-owned United States patents served as one of the major instruments of Axis economic penetration through which a number of critical American industries were brought under the influence or control of enemy nationals. This in itself made the whole subject of the control, administration and ultimate disposition of enemy patents of prime importance at the time the United States entered the war.

The problem of enemy patents took on still wider significance because at the time the Alien Property Custodian was appointed the entire subject of domestic patent administration was under review and the acts of the Custodian were scrutinized for possible suggestions for general policy. Critics of the patent system contended that the patent privilege was the most extensively used instrument of monopoly control. Abuse of the patent privilege was singled out as one of the principal means by which domestic and international cartels maintained their monopoly control over our markets at home and abroad. Charges flew thick and fast that the abuse of the patent grant resulted in the suppression or postponement of new inventions, in the stabilization of artificial price levels, in power delegated to private groups to tax an entire industry.

Defenders of the domestic patent system maintained that it had largely accomplished what the framers of the Constitution had intended when they gave Congress the "power to promote the Progress of Science and useful Arts." They held that the basic principles of the present system should be preserved and that the patent system should be adjusted to meet existing conditions.

This was the setting into which the Custodian was projected when he was given authority to control foreign-owned United States patent interests. The Custodian's position has been that he does not have the primary responsibility for solving the general problems of monopoly under the anti-trust laws. He is working within the patent system as it exists. His job has been to put enemy controlled inventions to work in the American economy and his program up to the present time has been largely concentrated on the achievement of this goal.

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Executive Order No. 9193, issued July 6, 1942,¹ gave the Custodian the authority to "direct, manage, supervise, control or vest" all foreign interests in patents. In the exercise of his broad powers, the Custodian has taken title to large numbers of enemy patents. He has, however, taken care not to disturb existing legitimate American, Allied, and neutral rights under enemy patents. Bona fide patent agreements have, therefore, not been upset; vested corporations have been permitted to retain and continue their own management of these patents which are necessary to and used in their business. However, in those cases where the use of foreign-owned patents by American industry was restricted by provisions which were either unlawful or contrary to sound public policy, the Custodian has been obliged to take affirmative steps to eliminate such controls.

Comparison of Basic Approaches, World Wars I and II

The patent policy adopted in World War II differs from the policy followed during the last war in two important respects: seizure and sale of patents. During World War I the Trading with the Enemy Act originally provided that enemy patents were subject to licensing only by application to the Federal Trade Commission (to whom the President's authority under Sec. 10 of the Act had been delegated) and that royalties were to be fixed equitably in court after the war. This procedure proved ineffective for the purposes of stimulating the use of enemy patents and was cumbersome in administration. Potential licensees were discouraged by uncertainty concerning their post-war rights and the prospects of litigation.² The Act was, therefore, amended to permit seizure of patents by the Custodian, but this change was not made until November 4, 1918, when hostilities had practically ceased. Approximately half of the 12,300 patents seized after November, 1918, were sold: about 5,100 to the Chemical Foundation, Inc.; about 1,120 to purchasers of vested corporations whose assets included patents. The remaining patents were licensed almost entirely to the Navy.

The announcement by the President on April 21, 1942, that he had directed the Custodian to seize all patents controlled by the enemy and that he intended to take steps to retain title to the enemy patents permanently in the Government constituted a basic change from the approach to the problem in World War I. For one thing, it ruled out the sale of patents.³ Second, it meant that the Custodian would vest enemy patents immediately while they could be of use in war production.

¹The Custodian's Office was created by Executive Order 9095, March 11, 1942, 7 FED. REG. 1971 (1942). Executive Order No. 9193 was an amendment of the earlier order and defined the Custodian's functions in more detail. 7 FED. REG. 5205 (1942).

²The Federal Trade Commission received applications for 246 patents and granted 76 licenses covering 206 patents. Less than a year after the war was officially declared to be ended, there were 131 suits pending in court in conformity with the provisions of the Act for obtaining royalties.

³The actual history of the treatment of enemy patents after the last war is more consistent with a policy of non-return than is generally realized. Despite post-war amendments of the Trading with the Enemy Act, directing return of patents to former owners, and the reversion of patents to enemy owners by way of business enterprises over which they regained control, less than 3,000 valid patents returned to former enemy owners. The other patents had either expired before there was any arrangement for return, or they remained in the hands of American businessmen who had purchased them as part of the assets of business enterprises, or they had been sold to the Chemical Foundation.

Experience during the last war had indicated that vesting was the most efficient method to encourage widespread use of enemy patents.⁴ It was also considered advisable to vest the patent interests of nationals of enemy-occupied countries. Residents of countries overrun by the enemy were unable to prosecute patent applications which had been filed by them or to administer patents which they owned. In addition there was the danger that transfers of title would occur under duress. In order to safeguard the interests of these victims of the enemy and to encourage the use of these patents by Americans they were vested. To assure his control of all interests of foreign⁵ nationals in patents for the benefit of Americans, the Custodian also vested such foreign interests in contracts relating to the use of patents licensed or assigned to Americans.

Extent of the Custodian's Patent Holdings^{5a}

The Custodian has taken title to approximately 46,000 patents, patent applications, and unpatented inventions.⁶ He is, therefore, the largest single patent holder in the United States with about 5 percent of the total number of unexpired patents now registered with the U. S. Patent Office.

It is impossible to evaluate in exact terms the economic significance of these patents, but they cover almost the entire range of fields in the classification used by the Patent Office. Licenses which have been made available cover highly strategic processes and products: beryllium production, tungsten-carbide technology, paint manufacture, high octane gasoline, polymerization of synthetic rubber, gyroscopes, marine propellers. The list also includes inventions relating to medicine, optical and magnetic instruments, radio and television, mining equipment.

PROMOTION PROGRAM

Since vested patents can contribute to production only when they come into use, the Custodian has taken the following steps to promote their use:

1. Published the specifications of more than 4,000 pending patent applications, thus making immediately accessible to American research and industry the most recent discoveries of foreign centers of research. This was an unorthodox step, since patent applications are usually maintained in strict secrecy until patents actually issue. Publication was considered appropriate as a means of assuring full knowledge of this important technical information by American science and industry during the war. Prosecution of vested patent applications by the Custodian's staff has resulted in the allowance of 2,193 patents. Six hundred thirty-two have been perma-

⁴ The legality of seizure and analogous doctrines are treated elsewhere in this symposium: McNulty, *Constitutionality of Alien Property Controls*, *infra* p. 135.

⁵ The Custodian has confined his vesting to patent interests of nationals of enemy and enemy-occupied countries. Hereafter, unless the terms enemy or enemy-occupied are specifically mentioned, the term "foreign" will refer to nationals of enemy and enemy-occupied countries, but not to other foreign nationals.

^{5a} See tables toward the end of this article.

⁶ This number does not include patents held by vested corporations and other patents which the Custodian also controls indirectly by way of vested contracts.

nently abandoned for lack of merit, and the remainder are under active prosecution before the Patent Office.

2. Published catalogues of vested patents and inventions.

3. Published abstracts of all vested chemical patents (about 8,000). These summary technical descriptions were prepared by the Chicago Section of the American Chemical Society in cooperation with the Office of Alien Property Custodian.

4. Is now publishing abstracts of all remaining patents and patent applications (approximately 37,000).

5. Organized libraries of vested patents on an experimental basis in Boston, Chicago, New York, Portland, Oregon, and Washington, D. C., serviced by technical field representatives. These men work closely with local and regional organizations to bring the vested patents into maximum use in their respective areas. Difficult war production problems have been solved with the assistance of the technical representatives. As reconversion becomes a reality, their job will be to help American business find in the vested patents new ideas, new products, and even new industries.

6. Exhibited a travelling library of vested patents in every major industrial area of the country. A staff of competent patent lawyers and technical men has been in attendance to assist potential users of the patents. Meetings of scientists and engineers, associations of businessmen, and Chambers of Commerce have placed their facilities at the disposal of the Custodian for such exhibits.

7. Collaborated with other Government agencies in finding new and productive uses for vested patents in military and civilian fields.

8. Cooperated with the Smaller War Plants Corporation in national and regional programs to assist small manufacturers in making more effective use of vested patents.

9. Provided Government agencies with lists of patents and inventions related to problems in which they are interested.

The only yardstick by which the effectiveness of the Custodian's program for putting enemy patents to work can be measured statistically at present is patent licensing reports. By November 15, 1944, the Custodian had received 1,526 applications requesting licenses under 15,460 vested patents. He had issued 1,100 licenses covering 8,181 patents. Analysis of more than 100 reports covering the use of 421 patents by licensees who had operated during all or part of the calendar year 1943 indicates that 21 percent of the patents licensed have already gone into production, and research was already in progress on an additional 56 percent of the licensed patents.

The licensing accomplished up to the present does not reflect in any great measure the probable use of vested patents during reconversion and post-war periods. The Custodian's licensing policy was announced by the President in December, 1942, and the statistics reported above, therefore, cover somewhat less than two years of licensing experience.

DISPOSITION OF VESTED INTERESTS IN PATENTS⁷

The patents which have come under the control of the Custodian fall into three broad groups:

1. Patents which had not been licensed prior to the date of vesting ("loose" patents);
2. Patents which had been licensed or assigned prior to the date of vesting;
3. Patents held by corporations vested or supervised by the Custodian.

The characteristics of these three groups were sufficiently distinct from each other to necessitate the formulation of different administrative policies for each group.

I. Patents Not Licensed Prior to Vesting

Enemy patents which were not already licensed to Americans at the time of vesting are licensed on a royalty-free, non-exclusive basis for the life of the patent. Patents which are vested from nationals of enemy-occupied countries are also licensed non-exclusively for the life of the patent. These licenses, however, are not royalty-free.

The Non-Exclusive Policy

The non-exclusive policy was adopted because it promised the fullest use of the largest number of patents and because it avoided the difficult problems which would have been involved in administering any other policy. Specifically, two other approaches were considered but discarded: complete exclusivity and completely free availability.

If the Custodian were to grant exclusive licenses, he would in each case have to determine the most appropriate recipient of the special privilege. The problem would be, therefore, to determine an effective guide in making the choice. One standard might be the price offered by the licensee for exclusivity. The Custodian could, for example, select the bidder who offered the highest royalty payment. He would not, however, be certain that the highest bidder was the highest qualified bidder. It would be necessary, in addition, to investigate the applicant's resources and his intentions to ascertain that the patent was not to be used to the detriment of the public welfare.

It was recognized, of course, that in some instances an exclusive license might be the only method of assuring full development of an invention. High development costs or the need for further experimentation, for example, might discourage a potential licensee from taking a non-exclusive license because of the fear that competitors would enter the field as soon as the invention was practicable and a market developed. The Custodian believed, however, that he could not readily determine before licensing which patents would be used most fully by the issuance of an exclusive license.

⁷ Under a license the owner retains title to the patent but grants to the licensee the right to use the patent. When the Custodian vests a patent, he succeeds to the title.

Under an assignment title passes from the original owner to the assignee. The Custodian does not vest any patent which has been assigned to an American in good faith.

On the other hand, it was apparent, too, that making inventions available without any restrictions, by throwing them into the public domain, would also have defeated the underlying purpose of the Custodian's policy. Unless the Custodian was absolutely sure that the patents which he dedicated were free of legitimate claims, holders of interests in foreign-owned patents would have been uncertain of the status of their rights and serious damage might have resulted to Americans. It was probable also that potential users of inventions would have hesitated to employ inventions thus dedicated to the public because of the existence of an area of doubt concerning the legitimate interests of Americans in such inventions.

The administration of such a program would also have been difficult. Since anyone would be free to use the invention, the Custodian would have no precise knowledge of the number of persons who were using the invention or the effectiveness with which they were using it. By the act of dedicating a patent, the Custodian would even have lost the privilege of subsequently asking for its return. This would, therefore, have made it impossible for him to correct title mistakes in vesting. Moreover, on the basis of past legal experience it is questionable that the Custodian has the authority to dispose of property on royalty-free terms unless he also provides for the recapture of that property.⁸

By licensing those persons who apply to him on a non-exclusive basis, the Custodian knows who is using the patent and he is in a better position to determine how adequately the patent is being used. He is not faced with the difficult problem of evaluating the potentialities of the applicant and the invention before any license is issued.

Granting licenses to all applicants, however, does not always enable all licensees to use the invention effectively. When he began operation of his office, the Custodian did not know the exact nature of all the patents he held. It was apparent, however, that some of the licenses covering improvement patents vested by the Custodian could not be used without the basic or dominant patent. To prevent holders of dominant patents from consolidating their monopoly positions by acquiring improvement patent licenses from the Custodian, the early license forms contained a cross-licensing provision. This provision in the early forms was later eliminated because many companies, through a mistaken fear that they would be forced to release all their patent rights, basic and other, to anyone who wanted them in any field, refused to take licenses and because it was frequently almost impossible to ascertain how much cross-licensing was necessary. Actually no cross-licensing ever occurred. When the license agreement was changed, licensees under the old system were permitted to come under the new agreement.

Royalty Policy

Under ordinary circumstances the royalty compensates the inventor for his efforts in creating an invention and for his willingness to disclose it. When an invention

⁸ See *infra* note 9.

has been made and disclosed, there is no further public purpose to be served in continuing the monopoly, except insofar as such protection is necessary as a means of preserving the patent system and its future flow of benefits. Any patent owner may dedicate his patent to the public if he sees fit, or give up his monopoly privilege in any degree he considers desirable, without endangering the patent system.

When the Custodian vests the enemy's interests in a United States patent, he succeeds to all of the enemy's privileges in the use of that invention. If he were to act as a private patent owner, the Custodian might value the patent only in terms of the income from its use or licensing, and would therefore have an incentive to govern the terms of his licenses so as to maximize that income. The Custodian could secure a monetary return for the use of a vested patent by granting an exclusive license, or by sale of the patent. He could secure a somewhat smaller income by issuing royalty-bearing, non-exclusive licenses.

If the benefits to be derived from licenses issued by the Custodian were narrowly restricted, it would be appropriate to demand royalties under the vested patents from the licensees. In such circumstances a policy of royalty charges would be justified even if no compensation was to be provided to the former patent owner. It was the judgment of the Custodian, however, that the patents vested as property of enemy nationals are of such widespread benefit to the public and of such basic importance to future improvements in the efficiency of production that a general policy of royalty-free licensing is justified. Although in a few cases benefits from the use of vested patents would be narrowly restricted, it was decided that it would not be administratively feasible to single out these cases and adopt for them a different royalty and licensing policy.

The Custodian was eager to secure the use of the inventions disclosed in his vested patents by all enterprisers who were interested in exploiting the inventions. By retaining title to the patents and making them freely available to all applicants, the Custodian assured all Americans that they would be able to use these inventions without any necessity of limiting production so as to meet royalty payments. He also eliminated the possibility that monopoly prices might be exacted under vested patents. The public would benefit through increased production and employment opportunities and lower prices, and through the stimulus to new inventions resulting from the unrestricted availability of many additional basic processes and products. During the war period, it was evident that most royalty charges imposed on licensees would be reflected in higher prices of Government purchases of war goods and private consumers' purchases of essential civilian commodities. A royalty-free policy for vested enemy patents also avoided delays and difficulties incidental to fixing royalties for a large number of patents. Absence of any standards for royalty rates makes their determination a delicate procedure open to the charge of "arbitrariness."

To defray expenses the Custodian charges an administrative fee of \$15 for each patent license.

When the Custodian's patent policy was announced in January, 1943, it included the statement that in the case of patents formerly owned by nationals of enemy-occupied countries, licenses would be granted royalty-free for the duration of the war and six months thereafter.

At the request of certain governments-in-exile who complained that the Custodian's policy was discriminatory (i.e., as compared with the treatment accorded other friendly foreign countries), the royalty-free provision was revised, particularly in view of the small number of license applications. The present policy is to charge royalties from the time the license is issued. When a license is needed for immediate war production, however, it may be granted royalty-free for the war period.

With the exception of patents relating to synthetic rubber, patents formerly owned by nationals of enemy-occupied countries have not been licensed royalty-free. Under an agreement between the Custodian and the Rubber Reserve Company the Custodian granted to Reserve a non-exclusive, royalty-free license, together with the non-exclusive right to grant royalty-free sublicenses to others, under all vested patents pertaining to synthetic rubber. Rights under vested enemy patents were granted to Reserve for the full life of the patents, but rights under patents vested as property of nationals of occupied countries were granted for the duration of the present national emergency only.

Licensing for the Life of the Patent

The exploitation of a patent usually requires some outlay of capital, and in certain cases the required expenditures may be very large. Licensees are, therefore, naturally reluctant to make capital investments to exploit patents unless they are sure that their licenses will continue in force for the life of the patent. In recognition of this fact the Custodian issues licenses under vested enemy patents for the life of the patent.

In the absence of express Congressional authority, however, a federal agency does not appear to have the power to dispose of property on royalty-free terms except upon the understanding that such property may be recaptured by the United States in the event the Government determines that other disposition must necessarily be made in the public interest. Licenses granted by the Custodian on royalty-free terms are, therefore, revocable.⁹

The Custodian was aware that this clause might deter some persons from apply-

⁹ The revocability clause is based on precedent. The Attorney General has repeatedly ruled that government-owned patents, government-owned silver, and government-owned land may be licensed royalty-free or rent free if *there is a public benefit*, but the license *must* be revocable. 22 Ops. ATT'Y GEN. 240 (1898) (license granted to a Railway Company to lay track on Government land must be revocable); 30 *id.* 470 (1915), accord; 34 *id.* 320 (1924) (Navy Department may grant a revocable license under a Government owned patent; revocability emphasized); 40 *id.* (Op. No. 49, April 7, 1942) (Treasury Department may lease or grant a revocable license for use of "free silver" in place of copper for war production).

Federal Trade Commission licenses under Section 10 of the Trading with the Enemy Act were by their terms revocable at the absolute discretion of the Commission. Chemical Foundation licenses were revocable upon the unreviewable determination of the Trustees. (License par. 13.)

ing for licenses, and he has, therefore, made it clear that, except in cases where an interest adverse to that of the Custodian has been established, it is his policy to maintain such licenses, and he will not exercise the broad power of revocation in the national interest without notice and hearing. (Section 6(a) of the present patent license issued by the Custodian.) Section 6(b) of the Custodian's patent license provides: "If an interest in a licensed patent adverse to that of the Custodian shall be established the Custodian may at his option terminate or renegotiate this license after notice to the licensee." This is for the protection of innocent third parties in the event that previously unknown interests in the licensed patent are brought to light. With this sole exception, it seems evident that licenses issued by the Custodian will not be revoked unless the licensee himself fails to live up to the terms of the license agreement.¹⁰

Special Advantages of a License from the Custodian

The license granted by the Custodian is not a warranty that the manufacture, use or sale of any licensed invention does not infringe the valid patents of others. This is in keeping with the principles of the patent law. A patent does not confer an affirmative right to practice the invention; it provides only the negative right to prevent others from doing so. Under a vested patent, therefore, the Custodian's licensee obtains no greater rights than those of the original owner.

The licensee does, however, obtain certain special advantages from a license issued by the Custodian. The licensee is assured (1) that a careful search has been made of all outstanding interests in the licensed patent; and (2) that the Custodian will defend him to the full extent of his legal power in suits which are brought by former enemy owners in the United States Courts, where the title or authority of the Custodian is drawn into question.

The Custodian's records of foreign interests in United States patents are the most complete records of their kind available in the country. They cover not only information obtained from a search of Patent Office files, but also detailed information obtained from reports submitted to the Custodian under requirements of certain General Orders.¹¹

Section 5(b) of the Trading with the Enemy Act, as amended, contains a provision exculpating any person acting in reliance on the Custodian's action. The comparable provision in the original Act (Section 7(e)) has already received judicial

¹⁰ During and after the last war, licenses issued by the Federal Trade Commission, the Alien Property Custodian, and the Chemical Foundation were revocable without cause. None of the licenses, however, were revoked without cause, and no enemy patents were returned to former owners without specifically keeping in effect all the licenses issued by these agencies which were still in force at the close of the war.

¹¹ General Order No. 2 issued by the Alien Property Custodian required nationals of designated foreign countries to report all interests in United States patents and patent applications. 7 FED. REG. 4634 (1942), 1 C. C. H. War Law Serv. (Statutes, Proclamations, Interpretations) §7202. General Order No. 3 required filing of a report by any person to whom a patent was granted while he was a citizen or a resident of a foreign country and any person claiming interest in such patent and who, since filing application for the patent, has changed citizenship or moved out of the designated foreign country. 7 FED. REG. 4635 (1942), 1 C. C. H. *op. cit.*, at §7203.

approval.¹² The exculpatory clause is a protection to the licensee who may, on the basis of it, remit a plaintiff in accordance with the intention of the statute to his remedy against the Custodian himself. Every license agreement carries this exculpatory clause. The Custodian has undertaken the defense of such suits to protect the licensee against the burden of nuisance litigation: "The Custodian will defend to the full extent of his legal power his authority to issue this license, to vest the licensed patents, and to cut off the rights of the former enemy owners, in any litigation brought against the licensee, or arising under this license, where the title or authority of the Alien Property Custodian is drawn into question." The Attorney General in an exchange of letters has assured the Custodian that the Department of Justice will represent the Custodian in suits brought against licensees where the Custodian's title to the patents vested is drawn into question, whether or not the challenge to his title is in specific terms.

II. Patents Licensed or Assigned Prior to Vesting

A large number of patents of foreign origin in use in the United States had been licensed or assigned to Americans before the Custodian undertook his vesting program. Where such licenses and assignments represented bona fide agreements of a lawful nature between Americans and foreign nationals, the Custodian's policy was not to disturb them. In some cases the agreements were in the form of exclusive or non-exclusive licenses, i.e., the foreign owner retained title but granted the use of the patent either to a single licensee or to several licensees. In assignments title to the patents was transferred to the assignee or purchaser. In return for these rights the licensee or assignee contracted to make certain monetary payments or to perform certain acts. For example, the contract might provide that the licensee or assignee exchange patents with the licensor or assignor. Frequently the contract also provided for the control of manufacture or sale under the patent.

The policy formulated for this group of patents was of necessity different from that applied to "loose" patents since protection of legitimate American interests was part of the total public interest. The Custodian, therefore, made no attempt to disturb exclusive licenses and assignments where lawful agreements had been legitimately executed and did not conflict with the public interest.

The real problem, of course, was the extent to which the Custodian could legally abrogate and change existing license and assignment agreements when they did not conform with the public interest. In his testimony before the Senate Committee on Patents on April 27, 1942, Leo T. Crowley, then Custodian, stated:

"We believe that the primary purpose of vesting and administering foreign-owned patents is to break any restrictive holds which these patents may have on American industry, particularly restrictions which may operate to impede war production. We propose to seek out such restrictions, with the aid of the Department

¹² See *Great Northern Ry. v. Sutherland*, 273 U. S. 182, 194 (1927); *Garvan v. Marconi Wireless Telegraph Co.*, 275 Fed. 486, 488 (D. N. J. 1921).

of Justice, the Board of Economic Warfare, and others, and to break them wherever we find them, by whatever means may be available."

Royalty Policy

Where patents were licensed on an exclusive basis, the Custodian continues to collect whatever royalties had customarily been paid to the foreign owners. The reason for this policy is twofold: by vesting the Custodian becomes successor to the foreign interest and is, therefore, entitled to those benefits which formerly accrued to the foreign owner. Moreover, since the royalty payments had been based on the right to certain exclusive privileges, the elimination of the royalty charge would be in the nature of a "windfall" gain. The Custodian is willing to exchange royalty-bearing, exclusive licenses under former enemy-owned patents for non-exclusive, royalty-free licenses.

Where non-exclusive licenses were already outstanding to Americans under patents vested from nationals of enemy-occupied countries, others were licensed, upon application, on the same royalty terms as the licenses already outstanding.

Patent Contracts

As of June 30, 1944, the Custodian had vested the interests of foreign nationals in 624 contracts relating to American patents. Basically patent contracts are agreements which specify certain conditions which govern the use of a patent by an assignee or licensee. Where a patent had been licensed to an American, the Custodian vested the patent and the foreign interests in any contractual relations governing the patent. Where a patent had been legitimately assigned to an American, the Custodian vested the foreign interests in the contract which governed the use of the patent.¹³

The main objectives in seizing interests in patent contracts are: (1) to obtain effective control over the patents and patent rights involved in such contracts; (2) to absorb funds which might otherwise be employed for the benefit of the enemy; (3) to prevent windfall gains to American licensees or assignees; and (4) to make it possible to remove unlawful or undesirable provisions which impose restraints on production or trade.

Nearly every patent contract has some provision requiring the licensee either to pay royalties, or to provide certain services, or to supply certain products and information, or to provide the licensor with the benefits of future improvements or rights which the licensee may develop or acquire.

The contract provisions do not in themselves indicate the effect which these provisions may have had on our economy. Such effects depend not only on the provisions governing the use of the patents but also on the existence of other related patents, unpatented substitutes, and, in general, on the position of the contracting parties in the industrial fields to which the patents are related.

¹³ If the assignment were made merely to avoid vesting of the patent by the Custodian or if the patents assigned under the contract are subject to so many restrictions that the contract is in effect a license, the Custodian may take title to the patents.

Provisions of Contracts

A detailed examination has been made of the provisions in more than half (333) of the 624 contracts in which the Custodian has vested foreign interests.¹⁴ No claim is made that these contracts are illustrative of typical provisions in domestic patent agreements, nor at this stage of administration of the vested patent contracts could it be said with any assurance that this group of contracts studied is representative of patent agreements between Americans and foreign nationals. The results of this statistical study are of interest, even with these qualifications. Certain types of provisions are fairly common in this group of contracts. For example, 59 percent of the agreements provided for the license or assignment of future patents. In some cases the provisions refer only to related patents, e.g., the contract may require that the licensee shall confer upon the licensor rights to any patent improvements and that new related patents secured by either party to the contract shall be subject to similar requirements. Whether the provisions cover all patents or only related patents, the intent is the same: agreements can be kept in force almost indefinitely since new patents are licensed or assigned under the same agreements before the original patent grant expires. Restrictions of this type may also discourage research to improve the original product or to develop substitutes.

In 43 percent of the contracts there were provisions relating to the field of use of the patents. Such provisions may serve legitimate purposes, such as assuring lower rates of royalty for minor uses of the patent, or safeguarding the patentee against unintentional sale rather than license of the patent. Restrictions on the field of use may also be employed as one method of dividing markets among producers. In some instances, non-exclusive licenses with severe restrictions on the field of use may serve to eliminate competition as effectively as an exclusive license.

Another device for dividing markets is the export restriction. In 38 percent of the contracts examined there was some provision for this purpose. Each party to the contract may agree not to sell in territory assigned exclusively to another or not to sell to customers who are likely to export to a specified territory.

Price fixing agreements and controls over investment, output, and sales are much less frequent than export or field of use restrictions. Where territories or fields are divided, determination of the level of production and price is usually left to the discretion of each party.

Several contracts specifically provided for the purchase of certain products to be made only from the licensor. Some of the contracts in this group restrict the licensee in the manufacture or sale of competing products and in the use of products or patents other than those directly involved in the particular license. Some agreements restrict the interests which may be held in concerns handling competing products. Such provisions are designed to protect the competitive position of the licensor by enabling him to secure commitments from his licensees which they might

¹⁴ Of those contracts studied, 160 were exclusive license agreements; 78 were non-exclusive; and 95 were assignments.

be unwilling to make under other circumstances. This use of the patent right is an extension of privilege to fields unrelated to the patent itself.

Almost all these international patent contracts include provisions for the exchange of information, e.g., results of technical experimentation; data concerning output, sales, price, and profit.

Custodian's Policy of Abrogating Restrictive Provisions

Contracts in which the Custodian vests an interest may contain various restrictive provisions and to the extent that the contracts have not been suspended or abrogated because of the war, these provisions remain in effect. Some of these restrictions are illegal under the anti-trust laws; others, although not illegal, may be undesirable from the broad viewpoint of public interest. The Custodian has adopted the policy of attempting to remove restrictions of both types wherever possible.

Restrictions on the use of patents, on the quantities of patented products which may be produced, and on the prices at which they may be sold, have, under certain circumstances, been held by the courts not to be illegal.¹⁵ Where such legal restrictions exist in contracts to which the Custodian has become a party, the Division of Patent Administration discusses them with the American parties to the contracts to determine whether certain public advantages could be obtained by the removal of such restrictions. If all parties to the contract consent voluntarily, the restrictions are removed.

In a few instances, for example, American parties to patent-licensing or assignment agreements have been relieved by the Custodian from observing restrictions on the right to export products made under the claims of the licensed or assigned patents. Since most current exporting is in promotion of the war effort and is carried on largely through lend-lease, it has not been affected by these provisions. When the time comes for the restoration of the peacetime commerce of the United States, it will be important that there shall exist no privately created barriers to that commerce. In other cases the licensee, at his request, has been freed from all provisions of the patent contract by exchanging his exclusive license for a non-exclusive, royalty-free license.

Administration of Patent Contracts

In order that he may be able to deal with restrictive provisions of agreements which appear contrary to public policy and to take effective steps to remedy unlawful restraints contained in vested patent contracts, the Custodian established a special operating staff to administer patent contracts within the Division of Patent Administration early last year. Responsibility for reviewing all vested contracts and

¹⁵ As recently as 1940 in a unanimous decision dealing with restricted licenses, the Supreme Court restated the law as follows: "The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention. . . . He may grant licenses to make, use, or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 456 (1940).

for undertaking whatever negotiations may be necessary in the public interest is placed in this Division. Existing agreements are to be modified, both at the request of American parties and on the Custodian's own initiative; negotiations are to be conducted to revise existing royalty rates when the Custodian is requested to do so by other Government agencies; restrictive provisions of patent agreements are to be eliminated where such provisions hamper American licensees or are contrary to the national interest; and action is to be taken with regard to unlawful contracts so that the patents involved can be released for general use. The Custodian's Office has worked out a plan of consultation and cooperation with the Department of Justice in the treatment of those contracts.

Although the Custodian is prepared to take court action to test the lawfulness of contracts where evidence of illegality exists, the plan of operation now in effect emphasizes the desirability of voluntary negotiation. American parties to vested contracts will be offered every opportunity to discuss restrictive provisions and other undesirable elements in the contracts and to reach a voluntary settlement.

III. Patents Held by Vested Corporations

When the Custodian vests the enemy interests in a corporate enterprise, he exercises his control through the selection of management personnel. This personnel is then entrusted with the administration of all the assets of the enterprise. In many companies patents are important assets: they may determine the ability of the firm to compete with other enterprises in the same field and they constitute marketable assets, sometimes of very great value. In some instances the patent assets largely determine the value of the non-patent assets. In view of these considerations and of the fact that Americans, Allies, and Neutrals frequently hold minority interests which he wishes to protect, the Custodian has consistently sought to preserve the value of the assets of the vested corporations. Patents of vested corporations are, however, administered in accordance with certain broad policies laid down by the Custodian. Of first and primary importance is the policy that no patent held by a corporation controlled by the Custodian shall be withheld from use in war production.¹⁶

The disposition of patents related to the anti-malarial drugs, Atabrine and Plasmochin, illustrates how a corporation, in which the Custodian's interest is indirect and not controlling, has made available patent rights of special military impor-

¹⁶ General Aniline & Film Corp., for example, the largest corporation controlled by the Custodian, announced the following policy in its ANNUAL REPORT, 1943: "All patent holdings are available for licensing for war requirements upon request of the proper Government authority.

"Patent rights in those fields in which the company is not actually engaged are available for licensing on reasonable terms and royalties to responsible and capable interests to the end that the most effective use may be made thereof in the varied phases of war production.

"Patent rights in those fields in which the Company is actually engaged are also available for licensing for the duration of the war, on reasonable terms and royalties, to responsible and capable licensees when the company is unable to supply the products it manufactures under such patents in sufficient quantities to meet the demands for war use or vitally war-connected use, or when it is so requested by proper Government authority."

tance. The patents covering these anti-malarial drugs had been assigned before the war to the Winthrop Chemical Company in which General Aniline and Film Corporation held a 50 percent stock interest. Under an agreement of May 8, 1942, among the interested enterprises, the authority to decide all matters concerning production of Atabrine was delegated to the Custodian. Licenses to produce the drug for use by the Government have been granted royalty-free to 11 companies for the duration of the war and six months thereafter. Under this licensing arrangement the production of Atabrine rose from 40,000,000 tablets in 1941 to 1,946,485,000 tablets in 1943.

Wherever patents held by vested corporations can be licensed non-exclusively without jeopardizing the competitive position of the firm, they are to be licensed by the vested corporation at a reasonable royalty fixed by the management. Schering Corporation, for example, circulated a list of 160 patents which it was willing to license on this basis.

Patent Holding Companies

A number of the vested and supervised corporations are patent holding companies and patent agencies, i.e., companies whose primary business is the licensing of patents which they own or which they have the right to exploit.

The patents held by these companies are administered by their managements in accordance with two basic policies laid down by the Custodian. Where a patent holding company owns patents which it had not licensed exclusively prior to vesting, the patents are licensed (1) non-exclusively, and (2) at reasonable royalty rates which are fixed by negotiation between the management and the licensee.

It is intended to liquidate patent holding companies wherever there are no significant non-enemy interests or creditor obligations and the company does not serve some particularly useful function. Patents are to be turned back into the Custodian's pool of patents to be licensed non-exclusively and royalty-free in the same manner that "loose" patents are administered.

The practical difficulties involved have made dissolution of patent holding companies slow work: in addition to complications of non-patent assets, auditing, outstanding debts, minority non-enemy interests, etc., litigation is a retarding factor. When a person who is qualified to sue brings an action under Section 9(a) of the Trading with the Enemy Act, seeking the return of stock or patents allegedly vested by mistake in error, no disposition of the property occurs until a determination of actual ownership is reached.

In the case of sale there are similar types of purely administrative problems which are equally complicated and time consuming. In addition, there is the problem of valuation of patent assets. Since holding companies derive their income from royalties, any renegotiation of such royalties necessitates a revaluation of the company.

STATISTICAL ANALYSIS OF THE CUSTODIAN'S PATENT HOLDINGS

Table 1 indicates the total number of patents, patent applications, unpatented inventions, and patent contracts vested by the Custodian. German interests were the largest group vested.

Table 2 is a distribution of the vested patents, patent applications, and unpatented inventions, according to the industries to which they relate.

TABLE 1

INDUSTRIAL PROPERTY IN WHICH INTERESTS WERE VESTED MARCH 11, 1942-JUNE 30, 1944,
CLASSIFIED BY TYPES OF PROPERTY AND NATIONALITY OF OWNERSHIP^a

Class of Property Vested	Ownership by Nationals of:			Total
	Enemy Countries	Enemy-Occupied Countries	Enemy and Enemy-Occupied Countries	
Patents	28,657	11,170	40	39,867
Part Interests in Patents	178	78	1	257
Patent Applications ...	3,374	1,241	2	4,617
Abandoned Patent Applications	386	93	1	480
Inventions	587	242	..	829
Patent Contracts	471	139	14	624 ^b

^a This table does not include all types of industrial property vested by the Custodian. He also vests trade-mark and copyright interests which are discussed in the preceding article of this symposium. This table does not include the number of patents held by vested corporations.

^b The Custodian vested 877 separate interests in these contracts.

TABLE 2

DISTRIBUTION OF VESTED PATENTS,^a PATENT APPLICATIONS, AND UNPATENTED INVENTIONS
(By Industry to Which They Relate)

Industry	Number of Patents, Patent Applications, and Unpatented Inventions
Machinery (except electrical)	6,624
Chemicals	4,327
Automotive Equipment and Automobiles	3,613
Electrical Machinery	3,460
Radio	2,151
Printing and Publishing	1,826
Mining and Metallurgy	1,785
Telephone and Telegraphy	1,784
Petroleum and Coal	1,720
Iron, Steel and Non-Ferrous Metals	1,686
Textiles	1,547
Stone, Glass and Clay	1,516
Plastics	1,240
Paper and Paper Products	1,122
Foods and Beverages	905
Apparel	887
Marine Propulsion	873

^a The total shown here is smaller than the total indicated in Table 1. This distribution was based on vestings at an earlier date.

Aeronautics	873
Firearms and Ordnance	774
Railways	443
Buildings	424
Tobacco	378
Amusement Devices	357
Locks and Hinges	293
Rubber	232
Agricultural Processes and Machinery	224
Lumber	180
Tools	107
Leather	96
Miscellaneous	3,031
Total	<u>44,796</u>

ULTIMATE DISPOSITION OF VESTED PATENTS

The determination of the policies to be followed in the disposition of vested patents and of what agencies shall have the authority to effect those policies at the end of the war is entirely within the province of Congress. The Custodian has thus far made no suggestions, and although two bills concerning the final disposition of vested property have already been presented to Congress, no action has yet been taken on them.¹⁷

The Custodian has assumed that Congress will want to provide for the return of the patents vested as property of nationals of *occupied countries* to the former owners as rapidly as possible after liberation. The vesting of their patents was designed to conserve and protect the property and to assure its effective use in our own war program.

The vesting of the patents of enemy nationals and the issuance of royalty-free licenses under them does not necessarily mean that the enemy nationals or their governments cannot eventually receive compensation for these patents. Whatever income the Custodian now receives for patents is distinctly divorced from both those claims for compensation which the enemy may later make and from the recognition which Congress may later take of those claims.

On the basis of Congressional action at the end of World War I, it is reasonable to assume that projected legislation will not affect adversely the current decisions being made by the Custodian in the administration of vested patents. After the last war, outstanding sales and licenses were confirmed, and all permitted returns were subject to the licenses, contracts, liens, and encumbrances created by action of the Alien Property Custodian. It is unlikely, therefore, that enemy patents seized during this war will be returned to their former owners or that American interests acquired in good faith will be disturbed.

¹⁷ H. R. 3672 (Gearhart Bill) 78th Cong., 1st Sess. (Nov. 15, 1943); S. 2038 and H. R. 5031 (same bill) 78th Cong., 2d Sess. (June 23, 1944).