between member states. The United Kingdom legislation applies for the most part to trade within the United Kingdom. United Kingdom membership of the E.E.C. therefore will not call for any modification of the existing provisions of the legislation concerning monopolies and mergers."

In view of the developments now taking place in the anti-trust law of the European Economic Community, as it is open to argument in a strict legal sense as to whether this neat separation of functions is so easy to make.

On the one hand, there will be agreements which are not registrable under the domestic legislation but may be registrable at Brussels. Thus the Restrictive Trade Practices Act 1956 deals only with the situation where both parties to a restrictive Agreement carry on business in the United Kingdom. The Community rules of competition are not so limited for they relate to any agreement that affects trade between the Member States. On the other hand, a merger between two British companies may be considered justifiable under the domestic legislation but may be objectionable under the Community legislation.

However, any reader who has engaged in a licencing negotiation with a foreign company will know that attitudes and customs are often as an important factor as any easily identifiable difference in law. An American negotiator may express optimism that his company or client can readily agree to a certain condition. A British negotiator may with hesitation state that possibly his Company or client can agree to a certain condition in a licence but there will be difficulties. Both may well mean the same thing.

Similarly in the anti-trust field there are some basic differences in attitudes. Anti-trust considerations are often in the minds of representatives of American companies when they are negotiating an agreement. The defence of patent misuse has become popular when there is an action for patent infringement. In England it is unlikely that two companies negotiating a patent licence will consider any anti-trust law implications and the defence of patent misuse is not recognised as such. In the writer's opinion it is unlikely that the present law, as modified by the Fair Trading Bill, will change this British attitude. Of course, the provision calling for registration of patent pooling agreements is new but a requirement for registration is in no sense an indication that an agreement, or part of it, will be held invalid or unenforceable.

What is much more an open question is what will be the effect of actions taken by the Commission of the European Economic Community on British law. The Commission is showing an increasing interest in the subject of patent licencing as such. If this influences the Director-General of Fair Trading, there could be a change in the British attitude. There are enough powers in the present and proposed statute law to enable this to take place. Could this happen in the near future? In the writer's opinion, this is unlikely, but this is very much only an opinion and other students of the subject may take different views.

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## GLAXO AND ITS RAMIFICATIONS: THE CAMPAIGN TO "WRECK AND REBUILD" CONTINUES

*by*
*Howard W. Fogt, Jr. and Marcus A. Hollabaugh**

*(Presented before the Patents and Proprietary Information Panel Electronic Industries Association)*

Amid anguished cries that a "roving commission' of faceless government lawyers and treble damage lawyers will now make patent validity a question in every anti-trust case in which a defendant owns a patent, the Supreme Court on January 23, 1973 rendered its decision in *United States v. Glaxo Group Limited, et al.*[1] The decision was immediately challenged by some as an irrational, unjustified and unwarranted extension of power that could only further undermine the salutary purpose of the Patent System "to promote the progress of science and useful arts."[2] While perhaps reasoned exception can be taken to the Court's decision, the position adopted there with respect to patent validity determinations certainly is not only consistent with recent Federal court pronouncements and attitudes but also underscores the need for thoughtful exploration of avenues to strengthen the integrity of the patent system.

Justice White delivering the majority opinion perceived the questions presented for decision to be:

> whether the Government may challenge the validity of patents involved in illegal restraints of trade, when the defendants do not rely upon the patents in defense of their conduct, and whether the District Court erred in refusing certain relief suggested by the Government.[3]

Answering both questions in the affirmative, the Court held:

1. Where patents are directly involved in antitrust violations and the Government presents a substantial case for relief in the form of restrictions on the patents, the Government may challenge the validity of the patents regardless of whether the owner relies on the patents in defending the antitrust action.
2. In order to "pry open to competition" the market closed by the antitrust violations, an order for mandatory, nondiscriminatory sales to all bona fide applicants is appropriate relief, and where, as in this case, the manufacturer may choose not to make bulk form sales, and the licensees are not bound by the court's order for mandatory sales, further relief in the form of reasonable royalty licensing of the patents is also proper.[4]

Our comments today will relate to the question of patent valididty challenges.

With respect to the patent validity portion of the

*Glaxo* holding, the Court's opinion is interesting not because this affirmation of power rests on logical precedential evolution (which it probably does not) but rather because the Court could not or would not divine any rationale to reach a contrary result. It is the very casualness by which the Court dealt with this issue that is significant for it reflects a deeper and more serious problem confronting the patent system. Two benchmarks in the Glaxo proceedings structure this problem. On June 4, 1969, Judge Gasch entered his memorandum opinion and order which, in part, denied the Government's challenge to patent validity on the ground that the Government has no right to seek a judgment of invalidity in these circumstances.[5] Judge Gasch concluded that while the Court in the First *Bell Telephone* case[6] had left such a door open, the Court in the third *Bell Telephone* case[7] had slammed it shut. Judge Gasch indicated that the third *Bell Telephone* opinion had limited challenges to validity to situations involving fraudulent or deceitful procurement. The Court in Bell Telephone III had said:

> Least of all was it intended to be affirmed that the courts of the United States, sitting as courts of equity, could entertain jurisdiction of the suit by the United States to set aside a patent for an invention on the mere ground of error of judgment on the part of the patent officials. That would be an attempt on the part of the courts in collateral attack to exercise an appellate jurisdiction over the decisions of the Patent Office, although no appellate jurisdiction has been by the statutes conferred. We are of the opinion, therefore, that the question, as stated, is not open for consideration in this case.[8]

Accordingly, Judge Gasch stated:

> Thus, the present state of the most apposite case law strictly interpreted indicates that the Government may only sue to cancel a patent when "fraud or deceit" is alleged. The motion underpinning this is that a fraud perpetrated on the United States should be actionable by it. Correspondingly, the Government may not sue to cancel a patent for any reason. It may not sue when to do so would merely collaterally attack the judgment of the Commissioner. . .
>
> The patent system is an intricate if sometimes excoriated structure and unlike the areas to which the Government analogizes, a section of the Government which has already been devoted to concern itself with this interest. A specific agency has been authorized under highly particularized circumstances to grant patents. Limited rights of review and appeal from that decision exist. Others have been proposed. . .
>
> Proposals for revision have been rejected by Congress. Commentators have suggested that the authority of the United States to sue to cancel a patent should be broadened beyond situations where it is alleged that a fraud has been practiced upon it. Others have argued that an "inherent power" such as the Government here suggests should be utilized. Still others lament that because (as of 1960) the Government had sued only nine times to cancel a patent on the grounds of fraud, any expansion of power to sue to cancel would be practically meaningless; the Government rarely uses the power it has. Similarly, it is noteworthy that there are alternative means of protecting the interest now asserted by the Government which merit careful evaluation.
>
> With these variables in mind, *it would be impetuous for this Court to set about curing the ills of both the patent system and the antitrust laws in a "wreck and rebuild" fashion by fertilizing a dormant power in the Department of Justice to challenge patents collaterally for any reason.* The Supreme Court has noted two exceptions to a system which precludes the Government from independently seeking the cancellation of a patent. Neither of the exceptions applies to the facts now before the Court.[9]

Nevertheless, on the very next day, then Assistant Attorney General, now Judge McLaren, indicated that the Antitrust Division would not back away from the challenge and said:

> One other development will be of interest to you and to the patent bar in general. In the *Glaxo* case, which I mentioned earlier, we are seeking not only the elimination of unlawful restrictions in the license agreements, but we are also challenging the validity of the patent itself. Incidentally, we had a slight setback in this program yesterday when the District Court ruled that the Government had no standing to challenge validity in the absence of fraud. However, in the course of other antitrust attacks on licensing restrictions, we will continue to assert challenges to the validity of patents when we believe this to be justified. An invalid patent is a much greater threat to competition than any of the restrictions to which I referred, since any anticompetitive restrictions which we might countenance to encourage innovation in the case of a valid patent become unlawful if our assumption of a valid patent is incorrect. As Judge Frank of the Court of Appeals for the Second Circuit once stated, "an invalid patent masquerading as a valid one is a public menace. . ."
>
> We also believe that attacks on invalid patents will have a beneficial effect on the quality of patents generally. Evidence of the Government's very willingness to sue will tend to promote a high standard of integrity among those prosecuting patent applications and thereby provide additional protection to the public against the burden of invalid patents. Therefore, where we believe the invalidity of a patent to be clear, we will not hesitate to attack it. And, of course, where we believe a patent has been procured by fraud, we will bring suit to cancel the patent grant.[10]

Indeed, the "wreck and rebuild" battle on which Judge Gasch had declined to become a combatant was on.

In its brief on appeal, the Antitrust Division laid down the gauntlet:

> The patent laws grant a statutory monopoly to the holder of a patent. Invalid patents, however, are unwarranted burdens on free commerce . . .

> (T)he paramount consideration in administering the patent system is protecting the public interest, and that the monopoly resulting from a patent is permitted only when "the prerequisites to obtaining a patent are strictly observed" . . . and there is a valid patent. These principles have particular significance in this suit, which the government brought to protect the public from licensing practices found to be unlawful under the antitrust laws and involving the appellees' patents. The patents were essential to the illegal scheme alleged in the complaint. If the patents are invalid, there is a double impediment to free competition — the invalid patent and the antitrust violations effectuated thereby — and both should be eliminated . . . *United States v. American Bell Telephone Co.,* 167 U.S. 224 upon which the District Court relied, does not limit the government's right to challenge patents to situations where fraud or deceit is alleged. The restrictive language in that opinion so indicating was unnecessary to the decision there. *In any event, the limited scope of the government's authority to challenge patents there stated is no longer sound and should not be followed.*[11]

Purporting to premise its actions on an unerring line of authorities, the Majority accepted, in large measure, the position of the Antitrust Division and said:

> We think that the principle of these cases is sufficient authority for permitting the Government to raise and litigate the validity of the ICI-Glaxo patents in this antitrust case. . .
>
> In arriving at this conclusion, we do not recognize unlimited authority in the Government to attack a patent by basing an antitrust claim on the simple assertion that the patent is invalid. Nor do we invest the Attorney General with a roving commission to question the validity of any patent lurking in the background of an antitrust case. But the district courts have jurisdiction to entertain and decide antitrust suits brought by the Government and where a violation is found, to fashion effective relief. This often involves a substantial question as to whether it is necessary to limit the bundle of rights normally vested in the owner of a patent, which in itself can be a complex and difficult issue. The litigation would usually proceed on the assumption that valid patents are involved, but if this basic assumption itself challenged, *we perceive no good reason, either in terms of the patent system or of judicial administration, for refusing to hear and decide it.*[12]

If Glaxo could be explained merely in terms of an effort to put the Government on the same footing as a private litigant,[13] its rationale would be of little moment. But, the Court's result cannot so easily be explained away for it manifests a much more substantive problem that has been the concern of the federal judiciary.

Does the Patent Office adequately protect the public interest from invalid patents? Federal courts have been telling us, in one form or another, for sometime that the answer is clearly no. From their perspective, this conclusion is hardly surprising when one considers that well over two-thirds of the patents challenged in litigation during the recent past have been found to be invalid.[14] Now this is not to say that the same percentage of patents that are issued are invalid since presumably only the weaker ones are challenged. Nevertheless, it does in part tend to explain why courts have, with great frequency, emphasized that new avenues must be opened for testing patent validity. One only need recall the outrage Mr. Justice Douglas expressed in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Co.*[15]

> The attempts through the years to get a broader, looser conception of patents than the Constitution contemplates have been persistent. The Patent Office, like most administrative agencies, has looked with favor on the opportunity which the exercise of discretion affords to expand its own jurisdiction. And so it has placed a host of gadgets under the armour of patents — gadgets that obviously have had no place in the constitutional scheme of advancing scientific knowledge.
>
> A few that have reached this Court show the pressure to extend monopoly to the simplest of devices: * * * (case citations omitted).
>
> The patent involved in the present case belongs to this list of incredible patents which the Patent Office has spawned. The fact that a patent as flimsy and as spurious as this one has to be brought all the way to this Court to be declared invalid dramatically illustrates how far our patent system frequently departs from the constitutional standards which are supposed to govern.[16]

More recently, Judge Tenney noted:

> to be honest, this court is rather amazed to find that a patent as flimsy and as spurious as this one has been granted by the Patent Office. Clearly, the Patent Office is still not applying the strict constitutional standard required in all patent cases since under no circumstances could the Patent Office have found that the granting of a patent on two wire trapezoidal frames joined together to form a rack to hold record albums promotes the progress of science and the useful arts as commanded by Article I §8 of the Constitution.[17]

Indeed, the Second Circuit noted:

> We recognize that there is a presumption, which is rebuttable, in favor of the Lemelson patent, and that the burden of establishing the invalidity of the patent is on Topper. However, it has long been recognized that "the most that can be said of the presumption is that it requires that reasonable doubt on the question of validity be resolved in favor of the patent holder." Such a doubt we do not have. Moreover, the volume of patent applications processed by the Patent Office, and the *ex parte* nature of their proceedings undermine the weight of the statutory presumption. Finally, the failure of the Patent Office to actually cite patents that comprise, in part, the prior art further undercuts the weight of the presumption.[18]

Given this judicial skepticism, is it any wonder that the Federal Courts have expanded the opportunities for patent validity challenge? The courts, of course,

are bound by their oath of office to protect the public interest by insuring that issued patents do indeed promote science and the useful arts as mandated by the Constitution. Indeed, prior to the time the Sherman Act was ever applied in patent litigation (many years ago), the Court in *Pope Manufacturing Co. v. Gormully*[19] placed this contemporary problem in perspective when it said:

> It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.

As we know, the Court continues to emphasize that "the public interest in the elimination of specious patents"[20] necessitates the encouragement of "authoritative testing of patent validity."[21] The Court is perfectly aware of the crisis facing the patent system and, since they are committed to the Constitutional mandate of patentability, they, albeit reluctantly, conclude that the patent system's shortcomings must be overcome.

If we in the private bar view these events with misgivings, then it is incumbent on us to give thoughtful and careful consideration to reforms necessary to strengthen and improve the integrity of not only patent office procedures but also the patent system itself. My suggestions relate to possibly reducing the number and improving the quality and importance of applications. First, no longer can we enjoy the luxury of the view that if there is no prior art to preclude the granting of a patent, we should counsel our clients to file an application. There is still a second test — does the alleged invention measure up to the standard of invention really contemplated by the patent laws. In short, we cannot lose sight of the fundamental principles on which the patent system is based. Where the patent granted actually discloses new and patentable inventions and which are thereby valuable additions to America's storehouses of useful knowledge, the public receives a quid-pro-quo for the temporary monopoly given the inventor. If, on the other hand, the alleged invention upon which the patents are founded make no such contribution, then the effect is restraint on the public generally without the compensating benefit to the public contemplated by the framers of the patent system. My point is this — shouldn't we, individually and working together with the Patent Office, pursue and support standards and procedures to insure that the patent applications which are filed are reasonably consistent with the purposes of the patent system.

Second, for too long some have hidden behind the view that the patent granting process is an adversary proceeding. It may well be but when the adversary — the Patent Office — is woefully understaffed and overworked, the benefits of and rationale for the adversary system are lost. Accordingly, I join Bruce Wilson in commending the Senate Patent Subcommittee for its revision of Section 115 of the Patent Reform Bill to

(1) require not only the inventor but also all those who substantially participate in prosecuting the application to file oaths setting forth their actual knowledge about the invention;
(2) require applicants to call to the attention of the Patent Office any relevant prior art which the applicant has specifically considered in connection with his application and which are known with reasonable certainty to be prior art;
(3) require an explanation as to why his invention is patentable over that prior art.[22]

Although time consuming and perhaps expensive to prepare, such patentability briefs should materially aid not only the examiner and the ultimate disposition of the application but also the public by insuring greater reliability in the patent process. Finally, one other matter deserves attention. The patent bar has a great stake in preserving the integrity of the patent system. Anything we can do to strengthen the system should be done. For example, strong encouragement should be given to increasing the practice of "noticing" alleged inventions (for prior art protection purposes) where the client has no present intention of using the patent that ultimately might be granted by the Patent Office.

Whether these suggestions are useful or not, we must come to grips with this present crisis. The National Science Foundation estimates that spending on research and development may reach $31,000,000 in 1973.[23] Much of this valuable effort will aid this Nation's storehouse of useful knowledge and technology and, as such, deserves the protection of the limited monopoly which the patent system affords. Yet the stimulus to engage in such research and development may be blunted if the patentee and the public is not assured of the integrity of the patent process. If the patent system is made more reliable, the "wreck and rebuilding" of cases like Glaxo will continue in the haphazard fashion we have witnessed in the recent past. The patent system will be reformed whether we like it or not. How such reform proceeds is the question. The choice is ours.

**About the Speakers: Howard W. Fogt, Jr. and Marcus A. Hollabaugh are members of the firm, Hollabaugh and Jacobs, Washington, D.C. The paper was given by Fogt, Jr., Associate in the firm, who received his legal education at the University of Virginia. He is a member of the District of Columbia Bar, Ohio State and American Bar Associations.*

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[1] *United States v. Glaxo Group Ltd., et al.*, 41 United States Law Week 4195 (1973).
[2] United States Consitution, Article I, Section 8, paragraph 8.
[3] *Supra*, n. 1.
[4] *Id.*
[5] *United States v. Glaxo Group Ltd., et al.*, 302 F. Supp. 1 (D.D.C. 1969)
[6] *United States v. American Bell Telephone*, 128 U.S. 315 (1888)
[7] *United States v. American Bell Telephone*, 167 U.S. 224 (1897)
[8] *Id.*, at 269-70
[9] Emphasis added. *Supra*, n. 5 at 14-15.

[10]McLaren, "Patent Licenses and Antitrust Considerations" *PTC Research Institute,* June 5, 1969, p. 7.
[11]*United States v. Glaxo Group, Ltd., supra,* n. 1, Brief for the United States, pp. 17 and 19.
[12]Emphasis added. *Supra,* n. 1 at 4197.
[13]See *MacGregor v. Westinghouse Electric & Mfg. Co.,* 329 U.S. 402 (1947); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.,* 329 U.S. 394 (1947); *Sola Electric Co. v. Jefferson Electric Co.,* 317 U.S. 173 (1942).
[14]According to one calculation, more than 72% of the patents which have been litigated in the Court of Appeals since 1966 were held invalid. Gausewitz, Brief in Support of Proposed Amendment to 35 U.S.C. Sec. 103, *Los Angeles Patent Law Association,* p. 8.
[15]340 U.S. 147 (1950).
[16]340 U.S. at 156-58.
[17]*Ken Wire & Metal Products, Inc. v. Columbia Broadcasting Systems, Inc.,* 172 U.S.P.Q. 632, 626 (S.D. N.Y. 1971).
[18]*Lemelson v. Topper,* 450 F. 2d 845, 849 (2d Cir. 1971).
[19]144 U.S. 224, 234 (1892).
[20]*Lear, Inc. v. Adkins,* 395 U.S. 653, 674, n. 19 (1969).
[21]*Blonder-Tongue Labs v. University Foundation,* 402 U.S. 225, 230 (1971).
[22]Bruce R. Wilson, "Patents and Antitrust: How Clear is the Water?" Philadelphia Patent Law Association, November 30, 1972.
[23]*U.S. News & World Report,* January 22, 1973, p. 35.

## THE NEW MEXICAN LAW ON REGISTRATION AND TRANSFER OF TECHNOLOGY FROM THE LICENSOR'S POINT OF VIEW

*by*
*Marcus B. Finnegan**

*(This talk was presented by Marcus B. Finnegan in Mexico City on February 22, 1973 at the "Roundtable on Technology" concerning the new Mexican law which went into effect on January 29, 1973.)*

As the President-Elect of the Licensing Executives Society, I am flattered that you have asked me to speak to you on the new Mexican law on the registration and transfer of technology from the licensor's point of view.

Since I am from the U.S., it is, of course, easiest for me to speak about the point of view of U.S. licensors towards the new law, and to perhaps assume that the viewpoint of U.S. licensors will be closely analogous to the viewpoint of licensors in general. Undoubtedly, the United States' investment in Mexico is larger than that of any other single foreign country, and therefore it is natural that you would be most interested in the U.S. point of view.

Speaking generally, there was a great deal of comment in the U.S. press and from U.S. companies when the proposed provisions of the new Mexican law were first announced. This comment, as you know, was mostly unfavorable, and stressed the strictness and harshness of the new Mexican law.

Things have now settled down to some extent, and U.S. licensors have begun to take a closer, more analytical look at what effect these new provisions of law will actually have on them, particularly as licensors of technology into Mexico. As I see it, there are two main problems which caused the original, somewhat violent reaction in the United States to the new law when it was initially proposed.

First, up to now, U.S. licensors have had virtually complete freedom to do as they pleased in Mexico, as compared to the restrictions that have been imposed upon them for many years in the U.S. itself by enforcement of the antitrust laws. Today, however, Mexico has, by one stroke of the pen, created a law that is fully as strict and probably more strict than the U.S. antitrust law.

Quite naturally, U.S. licensors reacted unfavorably upon discovering that the same prohibitions that they had been confronted with and dislike in the U.S. now exist in Mexico, where no such prohibitions existed before. The point is that U.S. licensors have always been opposed to these prohibitions in the U.S. So it is to be expected that they also heartily dislike and complain about having to face similar prohibitions in Mexico.

Second, the new Mexican law has aroused U.S. licensors, because a number of its provisions are written in very broad language, and the acceptability or unacceptability of these provisions to licensors will depend almost entirely on how they are interpreted and administered. Clause 1 of Article 7 of the new law is an example of such a provision, and I will discuss this in more detail in a moment. There are other clauses in Article 7 that are also capable of either a liberal or a strict construction, and the way these clauses are construed can make a tremendous difference on the impact that the new law has on a licensor.

The foregoing are general observations about licensors' attitudes towards the new Mexican law. I think it is much more helpful and instructive, however, to examine specific provisions of the new law and to predict how licensors would regard each of these specific provisions. As we shall see, there are some provisions of the new law which licensors will readily accept or regard as harmless. There are other provisions, however, which may give licensors genuine concern and depending upon how these provisions are construed and administered, they could produce either a favorable reaction or a strongly negative reaction on licensors.

Certainly, it will be very important to Mexico to ensure that this new law is wisely administered by a person having competence in the fields of licensing and industrial property. If administration of the new law should be put into incompetent hands, there would be an opportunity for vast mischief to result.

After all, the incentive to make a profit is still the basic motivating force which will cause licensors to want to transfer their technology into Mexico. If licensors feel that the new law has filled the path to profit with traps and barriers, they will be reluctant to invest their resources in transferring their technology to Mexico and will prefer to expend their resources in moving that technology into more profitable and less strictly controlled markets. There is thus a fine line between effective administration of the new law from the point of view of Mexico and an administration of the law that will not discourage licensors from investing in the transfer of technology to Mexico to the extent where the law becomes self-defeating.