

⁴Address by Assistant Attorney General Richard W. McLaren, *Patent Licenses and Antitrust Considerations*, before The Patent, Trademark and Copyright Research Institute of the George Washington University, June 5, 1969.

⁵*United States v. General Electric Co.*, *supra*, n. 2, at 489.

⁶*United States v. Glaxo Group Ltd.*, Civil No. 558-68 (D.D.C., filed March 4, 1968) *United States v. Ciba Corp.*, Civil No. 791-69 (D.N.J., filed July 19, 1969); *United States v. Ciba Corp. and C.P.C. International, Inc.*, Civil No. 792-69 (D.N.J., filed July 9, 1969); *United States v. Fisons Ltd.*, 69 C 1530 (N.D. Ill. 1969); *United States v. Bristol-Myers Co.*, Civil No. 822-70 (D.D.C., filed March 19, 1970), *In re Ampecillin Litigation*, M.D.L. DKE No. 50.

⁷*General Talking Pictures v. Western Electric Co.*, 305 U.S. 124 (1938).

⁸*United States v. Hartford Empire Co.*, 46 F. Supp. 541 (N.D. Ohio 1942), *aff'd* 323 U.S. (1945), *reconsidered* 324 U.S. 570 (1945).

⁹*American Photocopy Equip. Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966).

¹⁰*La Peyre v. F.T.C.*, 366 F.2d 117 (5th Cir. 1966); *Laitram Corp. v. King Crab, Inc.*, 244 F. Supp. 9 (D. Alaska 1965); *Peelers Company v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966).

¹¹*Bela Seating Co., Inc. v. Poloron Products, Inc.*, F.2d (1971).

¹²395 U.S. 100, 135-140 (1969).

¹³*Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

¹⁴*Lear v. Adkins*, 395 U.S. 653 (1969).

¹⁵*Painton v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970).

¹⁶C.F. Address by Assistant Attorney General McLaren, *Common Law Protection of Unpatented Ideas*, before Symposium on Patent Law (September 25 and 26, 1969).

¹⁷*United States v. Westinghouse Electric Corp.*, Civil No. 670-852-SAW (N.D. Cal., filed April 19, 1970).

¹⁸*Westinghouse Electric & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342 (1924); *Sola Electric Co. v. Jeffercon Electric Co.*, 317 U.S. 173 (1942); *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 401 (1947).

¹⁹*Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

²⁰*American Cyanamid Co. v. Federal Trade Commission*, 363 F.2d 757 (6th Cir. 1966), *aff'd on rehearing*, 401 F.2d 574 (6th Cir. 1968). See also *American Cyanamid Co., et al.*, 63 F.T.C. 1747, 1892-1895 (1963) (Opinion of Commissioner Elman).

²¹*United States v. Union Camp Corp.*, 1969 Trade Cases §72,689 (E.D. Va. 1969) (Consent order).

²²Address by Commissioner Mary Gardiner Jones, *The Impact of the Patent and Antitrust Laws on Consumers*, before Fourth New England Antitrust Conference, Boston (November 6, 1970).

²³Oppenheim and Scott, *Limitations in Domestic Patent and Know-How Licensing: An Empirical Study*, 14 IDEA 123 (1971).

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Mr. Edwin M. Zimmerman — Luncheon Speaker

PATENT AND ANTITRUST CRUSADES: THEIR CAUSES AND CURES

by

Edwin M. Zimmerman*

I.

A little over four years ago a sophisticated and sensitive practitioner, who was not particularly inclined to the habit of keeping clients happy by fulminating against the assorted stupidities of enforcement agencies and courts, could sensibly give his clients advice on restrictions on price, restrictions as to field of use, quantity restrictions, and territorial restrictions, along the following lines:

He could say that price control restrictions in patent licenses were probably doomed despite the failure of the Department of Justice in the *Huck* case.¹

He could say that field of use restrictions were, almost as a matter of Hornbook law, well within the protection of the patent system even despite the old rule in *Adams v. Burke*² that the sale of a patented product forecloses further control on it. As a cautious lawyer, however, he would note the caveat that if field of use restrictions were used as a device to accomplish other forbidden ends and, in particular, were so used in cross-licensing agreements, they could in those circumstances be in trouble. But otherwise they should raise few problems.

He could advise his clients that since quantity restrictions often served the purpose of enabling a patentee to decide to issue a license, such restrictions only rarely affected competition adversely and the courts would uphold them as consistent with antitrust policy.³

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Finally, as to territorial restrictions, he could say that Congress clearly stated in its legislation that territorial restrictions by assignment or license were permitted within the United States,⁴ though, of course, as *Adams v. Burke* illustrates, the purchaser of the patented product was not to be bound. In the international area, he could say that one had an automatic and necessary right to license under foreign but not American patents, reserving the right to take action in support of the retained patent rights.

The same careful practitioner today, whose antenna remains sensitive to the nuances of enforcement policy and possible court response, would have to shift his advice in significant respects in at least three of these four items.⁵ He would still be as bleak as he was four years ago on the prospects for price restrictive licensing. He could, however, no longer assure his client that field of use licensing was as a matter of Hornbook law beyond reproach. He would have to note that if the field of use restrictions, whether exclusive or not, were imposed upon a licensee who purchased a patented product, it would be subject to attack and that there are now lower court decisions which take a dim view of restrictions on purchasers.⁶ He would also have to advise his client that exclusive field of use restrictions imposed upon manufacturing licensees have also been attacked by the Department of Justice,⁷ and that in speeches and writings present and past officials of the enforcement agencies, as well as a Presidential task force, have indicated that the grant of exclusive licenses for different fields of use to licensees who were potentially capable of competing with one another should be regarded as at least presumptively unlawful.⁸ The client using the exclusive field of use device would therefore be advised that unless he had strong justifications, he ran the risk of a lawsuit.

Again as to quantity restrictions, the sensitive practitioner today would probably give his client less optimistic advice than that which he gave four years ago. He would advise his client that in a number of complaints the Department of Justice attacked the imposition of restrictions on the ability of licensees to resell in bulk form or under generic names.⁹ These complaints were filed both in cases of licensees who purchased the patented product,¹⁰ and in the case of manufacturing licensees.¹¹ He would note lower court decisions upholding the Government in the case of purchasers of a patented product.¹² He could tell his client that, arguably, quantity restrictions could be differentiated from restrictions on selling in bulk, but that there was reason to suppose that the enforcement agencies would regard a quantity restriction as, perhaps, having the same vulnerability as a bulk restriction or a price restriction.¹³ He could also suggest, probably quite correctly, that the enforcement agency would probably regard the assertion that the quantity limitation device enabled additional licensing to occur, with the same skepticism that they regard such arguments when advanced in justification of a price restriction or a bulk restriction.

Finally, even as to territorial restrictions a careful practitioner would probably advise his client that while he thought the argument of a clear congressional basis

for territorial restrictions within the United States on manufacturing licenses was reliable, there are eminently respectable scholars who after analysis of the history of the code reach the conclusion that the code cannot be so relied upon.¹⁴ He would also note the possibility that, as argued by a former head of the Antitrust Division, exclusive territorial licensing may, like exclusive fields of use, someday be regarded as presumptively unlawful.¹⁵ Moreover, today's practitioner in counseling his client on the consequences of international territorial allocations based upon patent rights would have to note that implicit in the *Westinghouse-Mitsubishi* complaint¹⁶ and explicated in speeches of enforcement officials, is the warning that at least under some circumstances the enforcement agency might regard partial grants of patent or know-how rights between prospective competitors as amounting to unlawful territorial agreements on an international plane.¹⁷

In sum, in the three areas of patent licensing as to which, as recently as four years ago, advice could be given with reasonable assurance as to the lack of problems, any such advice must now be heavily qualified. Indeed, it would be imprudent not to warn in the exclusive field of use and the quantity restriction areas of a significant threat of enforcement action.

II

My purpose today is to attempt to suggest reasons why this change has occurred in so brief a period, and to ask whether we are witnessing a revolutionary antitrust crusade that warrants a patent counter-crusade. As you will shortly see, I think, I have not set up for myself questions which admit of pat answers.

To provide a context in which to consider the question of why this change occurred, I would like first to review in summary form the general approach of those who argue the antitrust side of these issues. The antitrusters will, of course, usually pay due obeisance to the patent system, sometimes, perhaps, a bit disingenuously. The patent system is regarded as a probable necessity — though there are some hardcore antitrust extremists, I suppose they would be called, who question whether even that proposition is supportable. In any event, most will acknowledge that because ideas when disclosed are usually readily copyable, the expenditure of research funds might well be inhibited unless the researcher had some assurance that when he attempted to sell the fruits of his research he could recover research costs as well as the actual cost of making the invention. In a patentless society he may have some difficulty in recovering more than the costs of practicing the invention if others quickly mimic it and drive its price down to a competitive level. This of course will inhibit invention or inhibit disclosure, either of which would be contraproductive to an economy which values ideas.

Having tipped his hat to the existence of a basic justification for a patent system, the antitrusteer would make some additional observations. He would note that our patent system is not so contrived as to guar-

antee that every invention wearing the shield of a patent is in fact a cognizable improvement in human ingenuity. He will note that in fact most patents if challenged do not survive with their validity intact. The antitrust lawyer would further argue that weak or doubtful patents could often be used as the fulcrum of a patent licensing system which serves to cartelize a market, thereby in fact imposing restraints on competition leading to misallocation of resources without compensating advantages to the economy as a whole. He would also argue that the patent system inherently involves certain costs which cannot be ignored in making any evaluation of the values to be accorded it as against a competing national policy. Among these costs are the possible inhibition or inventive activity in areas well occupied by existing patents, and the restrictions the patent law imposes on the use of improvements on the patented invention.¹⁸

Of course, supporters of the patent system and those strongly on the patent side of the present controversy will, for their part, stress the importance of the patent reward in stimulating invention and disclosure.

Other arguments are frequently made which are, I think, debaters' points that do not advance the analysis one way or the other. One such argument on the antitrusters' side stresses the point that licensing restrictions are essentially contractual matters and, accordingly, exposed as are other contracts to antitrust prohibitions. On the patent side, conclusory arguments are made that the patent right is a piece of property which, like a fist full of gold, the patentee can spend as he wishes, all for the purpose of maximizing his return. But even tangible property is subject to governmentally imposed restrictions, and abstract property, such as the right to exclude, can be as whole or as fragmented as society wishes to define it.

What I have described as the basic approach of the antitrust lawyer is in a sense peculiarly reflected by the changes in practitioners' advice that I just detailed. The antitrust lawyer worries about cartelization based on patents of dubious validity and the possibility of such cartelization would involve licensing practices which set prices among licensee competitors, divide their fields of use, limit their production, or allocate their territories. You will note that the advice a cautious practitioner presently gives has been bearish as to price and now is more bearish as to field of use, quantity, and territorial restrictions than it was a short time ago. It is also worth noting that in the cluster of lawsuits filed by the Department of Justice in the past three years there have also been attempts to challenge the validity of patents,¹⁹ to challenge the legality of promises not to contest validity,²⁰ and to challenge possible instances of fraud upon the Patent Office.²¹ As you know, in a private lawsuit, the Supreme Court has removed the impediment of the licensee estoppel doctrine,²² thereby facilitating the greater likelihood of challenge.

The shift, therefore, at least at the present, and without by any means having definitive court rulings on how enforcement theories will stand up, has been toward implementation of antitrust enforcement policy in those areas where, according to the antitrust

theorists, cartelization is most suspect.

In asking the question why this shift has so rapidly occurred, one would naturally make two inquiries: have instances of abuse so proliferated recently as to impel this shift? Or has additional information been received which enables a more precise conclusion to be reached that the potential evils in patent licensing do in fact outweigh the virtues of a broad and unrestricted system of rewarding patentees? I think the honest answer is that neither is the case — it is by no means clear that abuses have proliferated; and, in my own judgement at least, I think the profound lack of empirical knowledge we had four years ago over how the patent system works is still the present condition. (In this connection, by the way, I gain no empirical enlightenment from those who reason that since we are a great technological country *ergo* the value of the patent system as it has existed in the past is established to the extent of making any alteration a treacherous undertaking. It is equally true that the American economy has become great under an antitrust system which is even more unique to this country than is the patent system, and I suppose this line of argument leads to a plausible inference that greater reliance on antitrust would make the system even greater. I find neither argument useful.)

What has in fact happened is that for a variety of reasons, many of which are probably not inevitable and largely reflect the interests of those leading the Antitrust Division, questions which could well have been raised in the past are now being raised. Moreover, implications of previous decisions are now being pursued. I suppose, for example, that *Adams v. Burke* could have been apotheosized earlier and the whole doctrine against restraints on alienation could well have been given the same preeminence that it is now being given years ago. No doubt the existence of *United States v. Schwinn*²³ helped. But it was not essential.

There are of course other factors at work which perhaps explain why antitrust officials have been more prone recently than formerly to question licensing practices. Important scholarly articles began probing the asserted justifications for certain licensing restrictions.²⁴ In the absence of empirical data which is presently unavailable and may, for all I know, be eternally so, use has been made in these articles of inferences which economic theory suggested — *e.g.*, would it be in a patentee's interest to collect royalties from a large group of licensees in a competitive marketplace or from an oligopoly? With some assist from this deductive reasoning, the Department of Justice embarked upon a series of attacks on restrictions which presumably did not appear, on the basis of such analysis, to provide more in the way of additional licensing and the propagation of available knowledge than they did in the way of probably competitively restrictive results. Again I note, of course, that these judgments were made by the enforcement agencies on the basis of analysis and, I suppose, the courts will and must ultimately decide how plausible that analysis is.

I think I must conclude that but for the accident of the interests and training of particular enforcement officials this type of questioning of licensing practices



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might not have occurred within recent years; just as I could conclude that with similar randomness it could have occurred ten years ago or ten years from now. The inference I draw from that is that the questions were there, and the unresolved conflicts were there. There appears to be a crusade now, perhaps mainly because there was not an occasional foray ten or fifteen years ago; or the crusade, if not now, would have occurred later.

Having said this, I must nonetheless take account of the fact that because of the way history actually developed we seem to be getting an unusual intensity of change, or the threat of change, in the Antitrust patent licensing field in a relatively short space of time. I should note, of course, that in addition to the series of complaints that began to be filed in early 1968 up through *Westinghouse-Mitsubishi*, there have in recent years been highly controversial decisions in cases between private parties²⁵ as well as highly controversial articles, including one by Donald Turner, suggesting the appropriateness of a policy of requiring a patentee who has granted a license to grant comparable licenses to all qualified applicants unless he can show the necessity for the grant of an exclusive license for a reasonable period.²⁶ These do not make for a sense of serenity for the patentee.

Given this concentration in one three-year period, of enforcement activity, of controversial private litigation, and of works by important scholars suggesting new policies, there are in addition to the subjective sense of persecution among those on the receiving end, an exacerbation of the usual problem of the counselor and the corporate executive who while accustomed to moving with ever-developing principles of law in the patent antitrust area is not accustomed to coping with as many possible changes at one time as are now suggested.

I do wish to qualify this observation in one respect. As I noted earlier, a number of the seeming changes in enforcement policy have antecedents in prior cases and I think it is fair to say were always in the back of the mind of the careful draftsman. It is not clear to me, for example, how much of a surprise it was to the patent bar for the enforcement agency to attack the licensing of unpatented products by a process patentee. Nor is it clear to me that the problems of lawyers working in the patent license area were significantly

greater after the *Schwinn* decision than the problems of lawyers drafting distribution arrangements.

The response to this unusual concentration of flux is a proposal for a legislative solution. The Scott amendments are the present focal point of this response. Without joining the long and distinguished line of commentators arguing pro and con the amendments, I would simply observe as to them in their present form that they apparently do far more than simply set to rest doubts raised by recent innovative theories of the enforcement agencies. They undo some decisions of duration which have become part of the accepted, if not beloved, rules of the game in this area. They also have an undiscerning sweep in rectifying both the trivial and the important, the aberrational and the significant, which I suppose is not necessarily a disadvantage if one could be sure that particularized statutory enactments in this field did not create as much mischief as they purported to resolve. And finally, it is hardly clear, to me at least, that the amendments provide the certainty that presumably is the justification for a legislative interposition at this time to resolve the problems posed by the unusual flux.

III.

I have no clear wisdom to offer. I suggest, however, two possible alternatives. Perhaps legislation far more narrow in scope and purpose than that proposed is what should be considered. But I also suggest that in perspective the case for legislation is not yet made. The courts have yet to pass upon in authoritative form many of the arguments and theories propounded. Some, I think, are good theories; some are good theories but possibly used in improper cases. Some I suspect are doubtful theories which the courts will ultimately dispose of. The current crop of cases are wending their way through the courts and the net result is still to be seen. I am inclined to counsel patience both because I think the present embarrassment of uncertainty can be coped with adequately, and because I am wary of legislation on difficult and complex issues precipitated in the atmosphere of counter-crusade that now prevails.

I close, thinking of a description given by Gilbert Murray of the habits of the ancient Greeks who did not memorialize their military victories in statuary or longstanding monuments. Instead, he said, these most humanistic of peoples would erect a wooden stake at the point on the field where the tide of battle turned and when that stake, as it soon would, decayed and fell away, nothing remained to mark the victory. In a way, I suggest we mark this confrontation between two great national policies with speeches and discussions such as this which will quickly wither, and that we avoid erecting, in a spirit of militancy, a permanent monument in the form of legislation we may learn to rue.

(Footnotes may be obtained by writing to the Editor, LES NOUVELLES)

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