

What *Line Material* Did Not Decide

Case does not rule out patent price fixing; later case weakens meaning of Line Material

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(*United States v. Line Material Co.*¹ is a 1948 United States Supreme Court case which is cited as the authority for the proposition that the *G.E. Mazda*² doctrine, permitting a manufacturing patentee to set the price at which his manufacturing licensee may sell, has been severely limited.³ Whether *Line Material* is that authority may, at first, seem academic and of little concern, but not so when we take a look, in the Spring of 1975, at the posture of the patent-antitrust interface and at the current credibility quotient of the purveyors of that conclusion.

THE LAW OF *G.E. MAZDA* AND *LINE MATERIAL*.

The *G.E.* case is almost a half century old. It was actually two distinct cases, both as to issues and as to parties. The one issue, which is important only in that we should dispense with it, involved only *G.E.* and embraced its *del credere* agency distribution system for lamps. The second issue, with which we are here concerned, dealt with the *G.E.*-Westinghouse cross patent license and involved both *G.E.* and Westinghouse.⁴ The decision on that issue, although attacked, has never been overturned.

In 1912, General Electric owned three patents for making tungsten filament lamps, which gave it a virtual monopoly on the manufacture of such lamps. General Electric had entered into a patent license arrangement with the Westinghouse Co. giving the right to make and sell lamps under the patents, subject to a grant back license from Westinghouse, and to the restriction that Westinghouse would maintain the selling price of the licensed product according to the selling price set by General Electric. In 1922, the United States sued General Electric and Westinghouse for violation of the Sherman Act, alleging that an illegal monopoly was being effected through the patent license between Westinghouse and General Electric.⁵

The issue which the Supreme Court decided was whether General Electric, as the owner of the patents entirely controlling the manufacturing, use, and sale of incandescent lamps, had a right to impose upon Westing-

house "the condition that its sales should be at prices fixed by the licensor (*G.E.*) and subject to change according to its discretion."⁶ The Supreme Court said "yes". But of much greater significance was the Court's analysis of the nature of the patent right which warranted that conclusion. It is that analysis more than the decision itself which has created divisive positions in the antitrust circles.

The Supreme Court's analysis started from the premise that the owner of a patent may assign it to another, convey the exclusive right to make, use, and vend the invention throughout the United States, convey an undivided part or share of that exclusive right, or convey the exclusive right under the patent within and throughout a specific part of the United States.⁷

Having explained the ownership right and right to conveyance, the Court then explained the licensing right:

Conveying less than title to the patent, or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or *upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.*⁸

The Court went on to explain what a patentee who grants a license, may do in limiting the licensee in the exercise of the right to sell, by posing the question: "If the patentee ... licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price?"⁹ and answering it:

We think he may do so, provided the conditions of sale are normally and reasonably adapted to pecuniary reward for the patentee's monopoly.¹⁰

Thus, the Court held that it was perfectly reasonable for *G.E.*, who licensed Westinghouse to make and vend tungsten filament light bulbs but retained the right to make and vend on its own account, to say to Westinghouse, "(Y)es, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself."¹¹

And no matter whatever else is said in or about the *G.E.* decision, the license to reasonably capture reward is an outstanding milestone in the preservation of personal property rights. Inexplicably, a segment of the antitrust bar has treated that milestone as a personal millstone and has sought to destroy it, depreciate it, and finally dedicate it away. None of those efforts have been successful.

The only effort to destroy the *G.E.* decision that gained a level of consideration was the *Line Material* case. That case is interesting, not for what it decided, but for what it did not decide.

In form, the *Line Material* opinion is actually presented in three subdivisions: the opinion of the Court (the first

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subdivision) as presented by Mr. Justice Reed; the concurring opinion (the second subdivision) of Justices Douglas, Black, Murphy and Rutledge; and the dissenting opinion (the third subdivision) of Justices Burton, Vinson and Frankfurter. As to the three subdivisions, Justice Reed, the author of the opinion of the Court, apologized:

The writer accepts the rule of the *General Electric Case* as interpreted by the third subdivision of this opinion. As a majority of the Court does not agree with that position, the case cannot be reaffirmed on that basis. Neither is there a majority of overrule *General Electric*.¹²

As the Supreme Court always has the option of doing nothing, there is obviously something unrecorded in the Court's considerations that made them decide in this stalemate not to decide anything at all. And it is just as likely as not, that unrecorded something was irrelevant to the issues of the case. Hence, the imponderable. Eight judges agreed that *Line Material* presented a *G.E.* issue on which they would split four and four; wherefore, five judges decided they would write a compromise decision that would not touch *G.E.* and three judges decided they would have no part of the compromise. It was a circumstance out of which one would expect bad law.

In the facts of the case, Southern States Equipment Co. owned a dominant patent for a line fuse cut-out, and licensed Line Material, in return for a cross license under an essential improvement patent owned by Line Material. Both had the right to sublicense and each agreed to maintain prices so long as the other required its licensees to do so. The other licensees were required to do so. The district court found that apart from the license there was no undertaking between the parties to fix prices; that under *G.E.* there is no violation of the antitrust laws; wherefore, the government's complaint was dismissed.¹³ In the Supreme Court the government urged that there was such a "host of difficult and unsettled questions" arising from the *G.E.* holding that the simplest solution was to overrule the decision.¹⁴

The Court rejected that simplistic solution with the statement that *G.E.* continues as a precedent, and if neither a restraint of trade nor an effort to monopolize is involved, "a patentee may license another to make and vend the patented device with a provision that the licensee's sale price shall be fixed by the patentee."¹⁵ Justice Reed posed the issue of the case as

whether ... two or more patentees in the same patent field may legally combine their valid patent monopolies to secure mutual benefits for themselves through contractual agreements, between themselves and other licensees, for control of the sale price of the patented devices.¹⁶

He then decided that

when patentees join in an agreement as here to maintain prices on their several products, that agreement ... is unlawful per se under the Sherman Act.¹⁷

It is of little consequence that Justice Douglas in his concurring opinion was displeased with the opinion of the Court because he thought that *G.E.* should have been "done in." Justice Burton, in his dissenting opinion, was displeased because he thought the decision was contrary

to *G.E.* We probably learn more about the reason for the decision by observing that between 1942 and 1947 (the case was decided in 1948) no fewer than 10 bills had been introduced into Congress which, if passed, would have outlawed price limitations in patent licenses.¹⁸ None passed, but the pressure was there.

Having failed in its frontal attack in the 1940's, the Department of Justice tried again in the 1960's in the case of *United States v. Huck Manufacturing Co.*¹⁹ Huck Manufacturing Co. had a patent on lock bolts and licensed Townsend Co. subject to the agreement that Townsend would maintain Huck's prices according to Huck's published current price schedule. The government charged that this action constituted a violation of the Sherman Act. The simple finding of the district court was that the arrangement was not a violation of the Sherman Act because it was a *G.E.* case situation.²⁰ On direct appeal to the United States Supreme Court the district court was upheld in a per curiam decision. Hence, the Department of Justice's second attack on *G.E.* crumbled and died.

An interesting aspect of the *Huck* case, as presented to the district court, was that Townsend had given a cross-license to Huck under related patents.²¹ There was no evidence that Townsend ever had any improvements, but it raises a question as to how virile the *Line Material* decision was in changing scene of the 1960's. The Court did not dispose of the question as moot but, to the contrary, treated the cross-license as if there were in fact cross-patents and then found that any patents that would have been subject to the cross-license to be dominated by the Huck patents, whereby Huck would have obtained no monopoly power it did not already have.²²

Interestingly, that was precisely the fact circumstance upon which the Supreme Court in *Line Material* hung its compromise decision in 1948. The *Huck* district court found exactly to the contrary on this point and, when this contrary holding was presented to the Supreme Court, the Court did nothing. Hence, as of 1965, the *Line Material* decision waived, leaving a question of its ability to stand firm if attacked.

THE TALK THAT HAS FOLLOWED

It is the *Antitrust Developments 1955-1968*²³ which inaccurately states: "The 1955 Report observed that the *G.E. Mazda* doctrine ... had been severely limited."²⁴

In turning to "the 1955 Report"²⁵ one finds that no such observation was made. Quite to the contrary, the Report stated:

A number of efforts have been made to overrule the *General Electric* case. These culminated in the *Line Material* decision where no majority of the Supreme Court could be obtained either to affirm or overrule *General Electric*. We are not unmindful of this decision nor the vigorous dissent of four justices in favor of overruling *General Electric*. We think, however, that in the absence of horizontal agreement among licensees, or any plan aimed at or resulting in industry wide price fixing, licenses with price fixing provisions fall within the orbit of the patent and need not run afoul of the antitrust laws.²⁶

The supplement to *Antitrust Developments 1955-1968* carried the attack on *G.E.* to the incredible, for it excuses *Huck* in an almost juvenile manner by stating that "but for the procedural defects in government's case" the Supreme Court would have overruled *G.E.* in *Huck*.²⁷ In the soon to be published second edition of *Antitrust Developments* the history of *Line Material* and *Huck* begins to read incredulously, more like a fairy tale if not like wishful thinking, for it says:

When the Justice Department renewed its attack on the doctrine in *United States v. Huck Manufacturing Co.* ... the District Court's decision ... was again affirmed ... The (*G.E.*) doctrine may have survived that challenge only because the government did not directly attack it in the District Court and accordingly may have waived the issue before the Supreme Court ...²⁸

Although that kind of "may have" conjecture has no place in an authoritative test, it does reflect the dedication with which the destruction of *G.E.* is being pursued. That mission was announced by the Department of Justice a number of times from 1969 through 1972.²⁹ There is no reason to believe that the mission does not remain the same, although it is obvious that the subject is not talked about with the frequency that it was a few years ago. Perhaps there is reason for that.

THE JUSTICE DEPARTMENT'S QUIESCENCE

The Justice Department was successful in defeating both the McClellan Patent Law Revision Bill³⁰ and the Scott Amendments³¹ which sought to add a licensing rule of reason based upon the "reasonably within the reward" test of *G.E.* The Department of Justice then embarked upon writing its own bill which became the Administration's Patent Reform Act of 1973.³² It was so overbearing in its antipatent posture that both Senator McClellan and Senator Fong of the patent subcommittee of the Senate Judiciary Committee wrote public letters criticizing and rejecting the bill as cumbersome.³³ The Department of Justice bill died in the 93rd Congress. It has little hope of revival.

Without predicting a reaction, it is fair to observe a loss of credibility to the authors of the Patent Reform Act of 1973 and to predict a forthcoming move — a balanced approach to patent philosophy by both Congress and the Department of Justice. This approach will be reflected not only in legislation (which will not be drafted by the Justice Department), but by the sparsity of comment upon patent licensing practices, which will mean fewer comments on *G.E.* by the Justice Department.

Line Material like *Huck* did not touch the *G.E.* philosophy. *Line Material* was a labor for which Justice Reed apologized and which none of the other judges liked. It found a particular set of facts which it said did not come within the rule of *G.E.* and presented a decision as a dilemma. The Supreme Court stated in *Line Material* that competitor-patentees may not join in an agreement to maintain prices even with a patent, but then let the district court declare otherwise in *Huck*. Hence, it is totally uncertain in view of *Huck* whether *Line Material* has any real meaning. The Supreme Court has not touched the *G.E.*

doctrine that a patent owner can license "upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."³⁴ Price fixing permission follows along with it even though little used. But the doctrine advises that, should the circumstance arise where the reward of the patent could not be secured by royalty, there should not be any reluctance to use what is reasonable and available to secure that reward.

It is questionable as to what *Line Material* ruled out, but in any event, it ruled out neither patent price fixing nor the right to use that which is reasonably within the reward of the grant of the patent.

CITATIONS

1. 333 U.S. 287 (1948).
2. *United States v. General Electric Co.*, 272 U.S. 476 (1926).
3. ABA, *Antitrust Developments 1955-1968*, at 171 (1968).
4. The issues were first raised in *United States v. General Electric Co.*, 358 F. Supp. 731 (S.D.N.Y. 1937).
5. 272 U.S. at 479.
6. *Id.* at 488.
7. *Id.* at 489.
8. *Id.* (emphasis added).
9. *Id.* at 490.
10. *Id.*
11. *Id.*
12. *United States v. Line Material Co.*, 333 U.S. 287, 304 (1948).
13. *Id.* at 289.
14. *Id.* at 302.
15. *Id.* at 303.
16. *Id.* at 305.
17. *Id.* at 314.
18. *Id.* at 303 n. 18.
19. 227 F. Supp. 791 (E.D. Mich. 1964), *aff'd per curiam*, 382 U.S. 197 (1965).
20. *Id.* at 805.
21. *Id.* at 804.
22. *Id.*
23. *Supra* note 3.
24. *Id.* at 171.
25. Report of the Attorney General's National Committee to Study the Antitrust Laws (1955).
26. *Id.* at 235.
27. ABA, *Antitrust Developments 1955-68*, at 57 (Supp. 1968-73).
28. Manuscript, p. 5. See also McLaren, *Patent Licenses and Antitrust Considerations*, 5 Trade Reg. Rep. ¶ 50, 106, at 55, 123 (Jan. 17, 1972).
29. Donnem, *The Antitrust Attack on Restrictive Patent License Provisions*, 5 Trade Reg. Rep. ¶ 50, 111, at 55, 154-55 (Jan. 17, 1972); McLaren, *Patent Licenses and Antitrust Considerations*, *supra* note 28; BNA Antitrust and Trade Reg. Rep., No. 413, at X-13 (June 10, 1969); McLaren, *Patent Code Revision*, 5 Trade Reg. Rep. ¶ 150, 120 at 55, 191 (Jan. 17, 1972); Wilson *Patent Licensing Per Se Violations*, 5 Trade Reg. Rep. ¶ 50, 146, at 55, 248 (Oct. 9, 1972).
30. S. 643, 92d Cong., 1st Sess. (1971).
31. Scott Amendment No. 24 to S. 643, 92nd Cong., 1st Sess. (1971).
32. S. 2504, 93d Cong., 2d Sess. (1974).
33. BNA Patent, Trademark & Copyright Journal, No. 185 at A-1; BNA Patent, Trademark & Copyright Journal, No. 188 at A-2.
34. 272 U.S. at 488.