

Once-Popular Patent Licensing Defenses Blunted

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U.S. Congress acts on patent reform: PL 100-703 must be reconciled with

In the mid and late 1970s, the patent law was revised by many interest lawyers, and the Department of Justice most particularly, in a barely tolerated alteration to the *Shawcross and Clayton Acts*. The famous 1952 "Mine No-Nie"¹ speech, offered by a Department of Justice lawyer (see *WVA (79C)* No. 211 at 4-7 January 30, 1976), condemned *in* *re* certain patent licensing and exploitation practices, and reinvigorated the law into the early years of the Reagan Administration.

Factors of the decline of patent misuse was a long-standing objective of the Reagan Administration. The then Chief of the Assistant Director's Intellectual Property Section, Roger Anderson, spoke against it in a speech on November 3, 1982, despite the fact that the government had relied on the doctrine in defending against 35 U.S.C. §1498 actions in the *Case of Clinton* (see e.g., *Case-Wallace, Inc. v. United States*, 489 F.2d 1274 (Ct. Cls. 1973)). Those remarks were later echoed by Assistant Attorney General McCrath on April 5, 1984. Bills to change the doctrine were repeatedly introduced in the 1980s, most recently as S. 438 and H.R. 808 in the 100th Congress, Second Session. These bills followed S. 1208, 100th Congress, First Session, which the Senate had added to H.R. 3, the Chemical Trade Reform Act, but which the House Committee on that bill deleted.

Now, finally, in a last-minute maneuver in the dying hours of the 100th Congress, Second Session, Congress has blunted, but not destroyed, the misuse doctrine.

THE LEGISLATIVE HISTORY — IN BRIEF

The initial bill leading to the amendment of 35 U.S.C. §271 was S. 408. As proposed, S. 408 ("The Intellectual Property Antitrust Prevention Act of 1987") prohibited finding the existence of market power on the sole basis that a product is patented or copyrighted, and also barred in all instances through amendment of §271(a)(2) a finding of patent misuse in the absence of a finding that the conduct in question violated the antitrust laws.

Proposed Section 301 of the S. 408 provided that:

It is hereby declared to be the policy of the United States to protect, promote, preserve and create the holder of an intellectual property right (patent or copyrighted work) in respect to his or her instance of the artwork, in connection with the marketing distribution of a product of such intellectual right, such a right, such right shall not be presumed to have created or to establish market power, including economic power and product uniqueness or differentiation, or monopoly power.

While proposed Section 301 would have revised 35 U.S.C. §271(d) of the Patent Act to read:

All patent misuse otherwise existed to refer to infringement or contributory infringement of a patent shall be deemed either to be denied either in deemed guilty otherwise or the violation of the patent right by reason of its or its licensing practices or claims or methods relating to its or its patent, unless such practices or actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws.

As for congressional action (due to a close, however, a limited vote

size of S. 438 was approved as a rule to H.R. 8972, the authorization bill for the United States Patent and Trademark Office).

Public Law 100-703 came about when the House refused to accept the addition of the original S. 438, "a non-patent amendment," to the authorization bill. (Hearings received H.R. 8972 for consideration, the Senate approved an amendment that added a title II containing the original S. 408, and passed the bill as amended.) Representative Moorhead said:

As it is known, happening in the next year, the other body chose to delete certain with a couple of items that to some concerned.

These "items" were the provisions of S. 438 to the effect that in an antitrust action "any intellectual property right" shall not be presumed to define a market or to establish market power, including economic power and product uniqueness or differentiation, or monopoly power," and that patent misuse could not be found unless the challenged "practice of actions or inactions, in view of the circumstances in which such practices or actions or inactions are employed, violate the antitrust laws."

The title to H.R. 8972 that was accepted contained no provision with respect to when a finding of market power is appropriate and, unlike S. 438, raised the threshold for a finding of patent misuse only in certain limited cases. Specifically, patent misuse may not be found in cases involving refusal to license, or use any rights to the patent or sale of the patented product.

*Jesse, Dep. Exec. S. Rep., Chemical Trade Reform Act.

of tying arrangements, either tying the patent license or sale of the patented product to a license under another patent or purchase of a separate product, unless "the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

THE PROVISION AS ENACTED

On November 19, 1988, President Reagan signed into law P.L. 100-703, which, in Title II, alters the statutory provisions in the Patent Code relative to the doctrine of patent misuse as follows:

TITLE II.—PATENT MISUSE REFORM

Sec. 201. Patentable Acts by Patent Owners.

Section 271(d) of title 35, United States Code, is amended with respect to the period in the last clause and inserting in the last clause the following: "introduced, imported or sold any rights to the patent, or (3) licensed the license of any rights to the patent in the sale of the patented product to the substantial extent or in a manner that is equivalent to a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned."

Sec. 202. Effective Date.

The amendment made by this title shall apply only in cases filed on or after the date of the enactment of this Act.

It appears, therefore, that what came to be enacted as P.L. 100-703 was the result of a last-minute compromise between H.R. 100-649 (S. 70, 1988) (Statements of Representatives Kastenbaum and McCoskey) and H.R. 100-749 (S. 1, 1988) (Statements of Senators DeLoach and Leahy).

THE DOCTRINE OF PATENT MISUSE AND THE EFFECTS OF THE ACT

Generally, the doctrine of patent misuse is an equitable doctrine under which a patent owner who

has utilized his patent in the course of violating the antitrust laws, or who has acted to extend his right to exclude under his patent beyond the scope of the grant, is precluded from enforcing his patent until he has purged himself of the misuse. P.L. 100-703 purposed to concern itself only with an amendment to that doctrine, but was the act so limited?

The lead is to 35 U.S.C. § 271(d), in which P.L. 100-703 is an amendment, is as follows:

In the patent owner section, was inserted in order for to improve or contribute to improvement of existing articles, patent relative demand quality of insurance, displacement of the patent right by means of the having done this or more of the following:

The protection against being "deemed guilty of . . . illegal extension of the patent right" seems clearly broad enough to protect a patent holder who has done one of the enumerated acts from being guilty of a violation of the antitrust laws, as well as being freed from a charge of patent misuse. If, for example, "market power" in P.L. 100-703 should come to mean "monopoly power," then patent tying should be immune from attack under Sherman II or Clayton II unless monopoly power were found to be present.

Because there is no qualifying adjective in front of "market power," such as "substantial," or "monopoly," one might question how Congress intended "market power" to be construed under the act. The legislators were very clear that they intended to leave the courts a free rein. "Market power" plus a tie is all that need be proved to establish patent misuse. No "effects" test, be it an unreasonable restraint of trade or substantially lessened-competition, is included.

In this respect, the legislation follows the mainstream of current patent misuse law, under which neither an effect on competition, nor an impact on the consumer raising misuse as a defense need be shown. Under existing law, it is enough that there is tying (not protected by § 271(d)(1) or (2)) with respect to the patent in suit to constitute patent misuse. Senate Leahy protested this aspect

of the doctrine as "broad": "This issue has been litigated over where the conduct has no anticompetitive effect or where it has not injured the infringing party who raises misuse as a defense." But nothing in the act appears to change it.

What meaning, however, is to be ascribed to the phrase "in view of the circumstances"? This phrase is used in the context of there being no patent misuse based on tying, "unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." The "circumstances," then, are circumstances that bear on the existence or not of "market power." Clearly, the district in *Jefferson Parish Hospital District No. 2 v. Hyde*, 488 U.S. 2, 14 (1988), that if "the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power," no longer represents the law in patent tying cases. Market-tying allegations must be taken into account. Obviously, market power cannot be determined without first defining the market, so "the circumstances" must be considered in market definition.

Senator Leahy made clear that he expected the courts to use traditional antitrust analysis in "market power" determinations under the act.

For example, he argued in "market power" determinations made for patent misuse purposes whether or not in the usual case except in an unusual matter arising in the same factual circumstances.

A full-blown antitrust analysis is now appropriate for patent tying cases, just as it has been for over the last 30 years in *Paley* (patent monopolization) cases.

Despite the fact that the act does not include any "anticompetitive effects" test, and presents a finding of patent misuse upon the determination only that there was a tie and that the patentee had market power, Representatives Kastenbaum and Sherman (DeLoach) and Leahy all said that no patent misuse determination could be made unless the

"circumstances" showed that there were anticompetitive effects not balanced by efficiencies.

This position, however, addresses an issue that the act does not make material. As Representative Moorhead said:

Also, as I indicated the statement if you engage in tying arrangements that result in what is not patent misuse when you can show market power.

The inquiries suggested would have been relevant had S. 438 become law, for it provided that patent misuse could not be found unless there was also a finding that the patent had been used to violate the antitrust laws. The relevant antitrust laws invariably have some type of competitive effects test, so looking at the "circumstances" to determine if that test is met is both understandable and feasible.

APPLICATION OF THE ACT TO MISLEADING ATTORNEYS

The act comes into play when the conditioning involves "another" patent or purchase of a "separate" product. In the patent context, determining what is a "separate" product is not difficult. It is a product outside the scope of the properly construed claims of the patent. If, for example, the claims of a patent covered the combination of a novel synthetic gentamicin in a drug setting, the act would not cover a refusal to sell the gentamicin unless the buyer also purchased the setting from the patent owner because, from a patent standpoint, they would not be separate products. On the other hand, because they were not separate products, there would be no tying in the first place and, therefore, no patent misuse issue would exist.

The act does not speak in terms of tying, but of "conditioning." In an express tying agreement, conditioning is present. Most of other tying-type misuses — changing what is effectively a lower royalty rate on purchase of an unpatented input for use in your patented combination that is charged for an express patent license ("discriminatory royalty tying"), and bringing a patent infringement action against

persons who do not buy the unpatented input from you while not using those who do ("implied tying").

The first of these two tying-type misuse offenses, "discriminatory royalty tying," arguably does not involve conditioning, for the licensee is free to take a license from the patentee without buying the unpatented input, albeit he effectively pays more to do so. But in a straight antitrust context, charging a "penalty rate" to a store owner who would not accept the store owner's demand that the store purchase groceries from the store owner was held not to be tying. The Second Circuit held there that "in an attempt to force a tie which results only in an agreement to pay a higher price for the tying product is not a tying violation" (*Key Food Stores, Inc. v. Parson Corp.*, 483 F.2d 277, 31 (2d Cir.), cert. denied, 459 U.S. 1038 (1982)). If this is an analogy that the free choice between purchasing an unpatented input pursuant to which you get a label patent license at 5% and taking an independent license at 2% (assuming 2% is not so high as to be predatory), it would seem that there is no conditioning. If not, courts may be willing to rethink the question whether these so-called discriminatory royalty tying cases should be held misuse.

As to the "implied tying" cases, the addition of subparagraph (B) to §271(a) may prove significant. Almost no comment was made on subparagraph (B). Representative Kastenmeier said only:

Collisions of the "related to use of license" or "no combination" misuses concern cases with the current statute and relate more to a matter of public policy.

And so it is and so it stays. Apart from the *Vitamin Technologies v. Vitamin Allotment Research Foundation*, 188 F.2d 941 (9th Cir.), reh. den., 64 U.S.P.Q.2d 283 (9th Cir.), cert. denied, 323 U.S. 876 (1945), and *Statistik Office Research, Inc. v. Stat-both Corp.*, 386 F. Supp. 656 (M.D.C. Ill., 1975) cases, both of which are fairly regarded by the bar as "spurs," a patentee's refusal to practice his patent and/or his re-

lusal to license his patent have been privileged and without sanction under either the antitrust laws or the doctrine of patent misuse.

The gateway of the "implied-tying" cases is not the selling of the unpatented input which carries with it an implied license, but the refusal to license on a comparable basis those who will not buy such inputs from the patent owner. But E, under subparagraph (A), which has no "market power" limitation, such refusal is now privileged, implied tying may have disappeared as a patent misuse.

Compulsory package licensing is clearly within the coverage of the act as well, for the act covers conditioning "the license of any rights to the patent . . . on the acquisition of a license to rights in another patent." Unless the "market power" test is met, such package licensing is no longer patent misuse even if compulsory.

Overlooked grantbacks, which have been held to be a patent misuse, may also be within the coverage of the act. A grantback is analytically different in that, instead of saying "to get my 'A' you must buy my 'B,'" one is saying that "to get my 'A' you must give me your 'B.'" In both cases, there are separate products involved and in both cases it is the market power, or not, inherent in 'A' that allows the owner of 'A' to achieve his objective with respect to 'B.' Therefore, it would not be surprising to find a court applying the act to grantbacks, and the statute would seem to permit such a finding, for it reads: ". . . conditioned the license of any rights to the patent on the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product" without stating which of the two parties must do the purchasing or the acquiring; apparently, the act applies regardless.

One last comment may be appropriate. If anything is clear, it is that Congress intended to effect an amelioration of the doctrine of patent misuse. If a practice would not have been a patent misuse under case law as it existed prior to the act, there certainly it should not be held

to be patent misuse under the act.

The Congressional commentary on what came to be P.L. 90-703 is replete with statements that the work of Congress in this area is undecided, and that P.L. 90-703 is a mere way-station to a more significant "reform" of the patent misuse doctrine.

The act clearly will permit the

patent owner with an embryonic business to get started by using tying agreements. Beyond that, only the congressmen will offer authoritative counseling on a statute making patent enforceability turn on whether "in view of the circumstances, the patent owner has market power," involving, as it does, market definition, litiga-

tion, however, the act should have the effect of making summary judgment for an infringer on a tying patent misuse defense all but inevitable and may permit some partial summary judgments for the patent owner.

Fairer litigation, however, and increased litigation, should especially take root if Public Law 90-703