

1-1-1964

Restrictions Inherent in the Patent Monopoly :A Comparative Critique

Richard M. Buxbaum

Berkeley Law

Follow this and additional works at: <http://scholarship.law.berkeley.edu/facpubs>



Part of the [Law Commons](#)

Recommended Citation

113 U. Pa. L. Rev. 633 (1964)

This Article is brought to you for free and open access by Berkeley Law Scholarship Repository. It has been accepted for inclusion in Faculty Scholarship by an authorized administrator of Berkeley Law Scholarship Repository. For more information, please contact jcera@law.berkeley.edu.

University of Pennsylvania Law Review

FOUNDED 1852

Formerly
American Law Register

VOL. 113

MARCH 1965

No. 5

RESTRICTIONS INHERENT IN THE PATENT MONOPOLY: A COMPARATIVE CRITIQUE

RICHARD M. BUXBAUM †

It is commonly asserted dogma that no antitrust problem can arise from the exploitation of restrictions inherent in the legal patent monopoly.¹ The catalogue of these restrictions varies—at different times it has included such examples as licenses to manufacture, use, and sell in only a part of the territory for which the patent was granted, licenses to manufacture, use, and sell only one of the products covered by a product patent's claims, and even licenses to manufacture, use, and sell only at prices set by the licensor. The fallacy of the maxim is clearly demonstrated by the treatment of price fixing and tie-in restrictions in American decisions.² Yet in various ways courts still give it currency, and recently it has gained renewed vitality in the legislation of the European Economic Community.³ Both the

† Professor of Law, University of California at Berkeley. A.B. 1950, LL.B. 1952, Cornell University; LL.M. 1953, University of California. Member, New York and California Bars.

¹ See, e.g., *United States v. General Elec. Co.*, 272 U.S. 476 (1926). For recent statements, see Schumacher, *Die Durchführung der Artikel 85 und 86 des Rom-Vertrages*, 12 WIRTSCHAFT UND WETTBEWERB [hereinafter cited as WuW] 475 (1962); Tetzner, *Die Erschöpfung des Patentrechts*, 15 NEUE JURISTISCHE WOCHENSCHRIFT [hereinafter cited as NJW] 2033, 2036 (1962).

² See, e.g., *Switzer Bros. v. Locklin*, 297 F.2d 39 (7th Cir. 1961), *cert. denied*, 369 U.S. 851 (1962); *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283 (3d Cir. 1956).

³ Treaty for the Establishment of the European Economic Community, March 25, 1957 [hereinafter cited as Rome Treaty], 298 U.N.T.S. 14 (1958). See also 50 AM. J. INT'L L. 865 (1957).

much discussed Regulation 17 of the Council of Ministers⁴ and the ancillary Commission Announcement of December 21, 1962,⁵ in essence purport to free these "inherent restrictions" from the reach of the Community's antitrust law.

This Article will attempt to demonstrate not only the error of the dogma, but its uselessness.

I. THE EUROPEAN COMMUNITY: ANTITRUST LAW AND PATENT LICENSING

The antitrust provisions of the treaty establishing the European Economic Community, especially article 85, Regulation 17 of the Council of Ministers, and the December 21, 1962, Announcement of the Commission seem unduly solicitous of patent rights. Although in fact the situation proves complicated, a satisfactory accommodation of patent rights and antitrust principles has not been achieved by this legislation. The treaty provision itself is almost as general and programmatic as the Sherman Act; even the exemption possibilities are phrased in general terms.⁶ Regulation 17, on the other hand, devotes a great deal of attention to the question of patent licenses.⁷ In general the regulation sets up a scheme whereby only the Commission can grant the benefits of an exemption from antitrust regulation under

⁴ Regulation 17, Feb. 21, 1962, 1962 Journal Officiel des Communautés Européennes [hereinafter cited as J.O.C.E.] 204, as amended, Regulation 59, July 10, 1962, 1962 J.O.C.E. 1655, CCH 1963 COMMON Mkt. REP. ¶ 2401-2631.

⁵ Appended to Regulation 153, Dec. 24, 1962, 1962 J.O.C.E. 2922. See also the abortive effort to set out a general exemption scheme in 1962 J.O.C.E. 2627 as corrected 1962 J.O.C.E. 2687, and more recently, the efforts to promulgate a categorical exemption scheme by means of a regulation of the Council of Ministers. See European Parliament, Doc. No. VI/Commission (1964), discussed in Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101, 144 (1964). The latter has just been promulgated. See note 142 *infra*.

⁶ Rome Treaty, art. 85(3):

However, the provisions of paragraph (1) may be declared inapplicable to: any agreement or category of agreements between enterprises, any decision or category of decisions of associations of enterprises, and any concerted practice or category of concerted practices, which contribute to the improvement of the production or distribution of commodities or to the promotion of technological or economic progress, while reserving an appropriate share of the resulting profit to the consumers and without:

- (a) imposing on the enterprises involved any restrictions not indispensable for the attainment of these objectives, or
- (b) enabling such enterprises to eliminate competition in respect of a substantial portion of the commodities involved.

Translation from Riesenfeld, *The Protection of Competition*, in 2 AMERICAN ENTERPRISE IN THE EUROPEAN COMMON MARKET: A LEGAL PROFILE 200-01 (Stein & Nicholson ed. 1962). Unless otherwise indicated all translations are by the author of the present Article.

⁷ See Deringer, *Kommentar zum EWG—Kartellrecht* (in 1962-1965 issues of WtW). See also Ladas, *Antitrust Law in the Common Market With Special Reference to Industrial Property Agreements*, 23 OHIO ST. L.J. 709 (1962).

article 85(3) to restrictive arrangements that otherwise fall within the sanction of article 85(1), and this only upon timely notification of the Commission of these arrangements.⁸ A different and less stringent approach is taken to certain less "dangerous" types of agreements, including some patent licenses. Article 4(2) of the regulation enumerates arrangements for which no notification deadline is set. These can be submitted at any time in the future without prejudicing their acceptance.⁹ These "nonnotifiable" agreements—agreements which may but need not be submitted—include:

restraint[s] on . . . rights of any person acquiring or using industrial property rights—particularly patents, utility models, registered designs or trademarks—or on the rights of any person entitled, under a contract, to acquire or use manufacturing processes or knowledge relating to the utilization or application of industrial techniques.¹⁰

The last nine words qualify both the patent and know-how licenses mentioned. It is therefore a logical, if negative, inference from this listing that there are other "lesser" restraints—those inherent in the patent itself—which not only can be left unnotified, but which do not fall within the purview of article 85 at all. This inference was confirmed by a Practical Guide, issued by the Commission in the summer of 1962.¹¹ This document, which attempted by illustration to define related (and therefore nonnotifiable) and unrelated (notifiable) restraints, separated both types from what it labeled "inherent restrictions." The last group was listed in detail in the Announcement of

⁸ For agreements existing before the regulation went into effect (March 13, 1962) there was a notification deadline of February 1, 1963, with some exceptions. Regulation 17, arts. 4, 5, 1962 J.O.C.E. 206-07, CCH 1963 COMMON MKT. REP. ¶¶ 2431, 2441. For new agreements, oddly enough, there is no express deadline by which notification must be given if an exception is ever to be obtainable—and it is by no means clear that a deadline is even implied. It is conceivable, though not reasonable in light of the stricter treatment of old agreements, that the Commission can be notified of new agreements whenever the parties thereto decide to apply for any exemption. See Buxbaum, *Incomplete Federalism: Jurisdiction Over Antitrust Matters in the European Economic Community*, 52 CALIF. L. REV. 56, 71 (1964).

⁹ This step was taken for administrative purposes, to save the Commission's limited manpower for the consideration of more important cartel arrangements and for investigatory activities. See Linssen, *The Antitrust Rules of the European Economic Community*, 18 RECORD OF N.Y.C.B.A. 289 (1963). The temporary moratorium may be rescinded in the future if staffing and similar considerations permit, although this probably will not occur within the next few years. VerLoren van Themaat, *Gedanken zur Wettbewerbspolitik im Gemeinsamen Markt*, 13 WuW 555 (1963).

¹⁰ Regulation 17, art. 4(2) (ii) (b), CCH 1963 COMMON MKT. REP. ¶ 2431.

¹¹ Service de Presse et D'Information des Communautés Européennes, Guide Pratique Concernant les Articles 85 et du Traité Instituant la C.E.E. et Leurs Règlements D'Application. See the English version in CCH 1963 COMMON MKT. REP. ¶¶ 2701-37.

December 21,¹² which was intended by the Commission to place these restrictions outside the scope of article 85:

- (1) a restriction to one or more of the types of exploitation of the invention (manufacture, use or sale) contemplated by the patent law;
- (2) a restriction (a) on the manufacture of the patented product, or (b) on the use of the patented process—to a certain technical area;
- (3) a quota restriction concerning number of items or usages;
- (4) a restriction of patent use in regard to:
 - (a) Duration (shorter license period than the patent)
 - (b) Territory (geographical or by firm)
 - (c) Person (prohibition of assignment or sublicensing, etc.).

The Commission obviously and consciously relied upon the German cartel law to sanctify this "inherent rights" concept.¹³ Indeed, most commentators have automatically made reference to this detailed statute for the substantive content of the "inherent restraints" phrase.¹⁴ Section 20(1) of the German statute, which condemns patent licenses containing restrictions that go beyond the scope of the patent, lists a group of restrictions that by legislative fiat are declared to be within the patent and therefore not covered by the statute—restrictions also involving production quotas, duration, territory, scope, or method of use.

It can be argued, however, that the German statute represents an expression of policy concerning the desired reach of the antitrust prohibitions,¹⁵ while the Commission seems to regard the December An-

¹² See 1962 J.O.C.E. 2922.

¹³ Law of July 27, 1957, [1957] 1 Bundesgesetzblatt 1081 (Ger.). Compare VerLoren van Themaat, *supra* note 9, at 565.

¹⁴ See, e.g., Deringer, *Kommentar zum EWG-Kartellrecht VO Nr. 17 Art. 4 Anmerkungen 16 und 17*, 13 WuW 90-91 (1963); Becker, *Vertical Agreements under the EEC "Antitrust" Law*, in *THE ANTITRUST STRUCTURE OF THE EUROPEAN COMMON MARKET* 88, 119 (Crowley ed. 1963). Compare Ladas, *supra* note 7, at 729.

¹⁵ Cf. Begründung zu dem Entwurf eines Gesetzes gegen Wettbewerbsbeschränkungen, App. I, Drucksache No. 1158, Deutscher Bundestag, 2. Wahlperiode, Jan. 22, 1955 (explanation by the Ministry of Economics of the draft of this section) in MÜLLER-HENNEBERG & SCHWARTZ, *GESETZ GEGEN WETTBEWERBSBESCHRÄNKUNGEN; KOMMENTAR* 1057, 1089 (1958) (not reprinted in 1963 edition); GÜNTHER, *SYSTEMATISCHE DARSTELLUNG WETTBEWERBSBESCHRÄNKENDER ERSCHEINUNGSFORMEN IN AUSTAUSCH-VERTRÄGEN ZWISCHEN EINZELUNTERNEHMEN UNTER BERÜCKSICHTIGUNG DES GESETZES GEGEN WETTBEWERBSBESCHRÄNKUNGEN* 71-72 (Dissertation Köln 1960); Lemhoefer, *Die Verwaltungspraxis des Bundeskartellamtes bei Erlaubnisbeschlüssen nach § 20 Abs. 3 (§ 21 Abs. 1) GWB*, 66 *GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT* [hereinafter cited as GRUR] 573, 589-90 (1964). But see Möhring, *Dekartellisierung und Lizenzvertrag*, 52 GRUR 496, 503 (1950); Lampert, *Patente und Entkartellierung*, 52 GRUR 1 (1950).

nouncement as an expression of necessary and inherent limitations on the application of any antitrust sanction to patents.¹⁶ The German statute, however, claims support from decisions interpreting the Allied Decartelization Ordinances,¹⁷ which decisions in turn were based on a group of earlier opinions¹⁸ defining the scope of patent licenses under principles of "Treu und Glauben"—general Civil Code obligations of good faith¹⁹—not under antitrust principles.

The appropriateness of a listing based on these principles is therefore open to challenge, although any criticism, to be justified, will have to examine the entire "restrictions inherent in the patent monopoly" concept.

II. INDUSTRIAL REALITIES UNDERLYING PATENT LICENSING

The usual economic justification for permitting this kind of restrictive licensing of patents is that on balance more competition is opened up than is restrained by such licenses—the licensor who might have monopolized the field is conferring a benefit when he allows any competition.²⁰ An ancillary argument contends that often the patentee's only means of realizing the fruits of his legal monopoly is through restrictive licensing.²¹

¹⁶ See Regulation 153, Dec. 24, 1962, 1962 J.O.C.E. 2922 (explanation of the above categorizations).

¹⁷ Law No. 56, Mil. Gov. Gaz., Germany (United States Area of Control), issue C (April 1, 1947), at 2; Regulation No. 78, 16 Mil. Gov. Gaz. (British Zone of Control) (February 12, 1947), at 412. See in each case article V, § 9(c)(7), condemning "[the] devising of any arrangement, in connection with the exploitation of patents or other similar exclusive privileges, so as to extend the monopoly or privilege to matters not contained in the authorized grant." Cf. Bundesgerichtshof [hereinafter cited as BGH] (I Zivilsenat), March 18, 1955, 17 Entscheidungen des Bundesgerichtshofes in Zivilsachen [hereinafter cited as B.G.H.Z.] 41 (Ger. Fed. Rep.) ("Kokillenguss"); Decision of BGH, June 18, 1957 (I Zivilsenat), in WuW/Entscheidungen/BGH 200, 7 WuW 664 (1957). But cf. Bruchhausen, *Zur kartellrechtlichen Zulässigkeit von örtlichen Beschränkungen und Konkurrenzverboten in Lizenzverträgen*, 65 GRUR 561 (1963). Compare Decision of Oberlandesgericht Hamburg, Dec. 8, 1954 ("Baustofflizenz"), in WuW/Entscheidungen/OLG 84, 5 WuW 585 (1955). See generally LIEBERKNECHT, *PATENTE, LIZENZVERTRÄGE UND VERBOT VON WETTBEWERBSBESCHRÄNKUNGEN* 140-76 (1953).

¹⁸ See, e.g., BGH (I Senat), May 20, 1953 ("Konservendosen"), in WuW/Entscheidungen/BGH 45, 3 WuW 558 (1953); Reichsgericht [hereinafter cited as RG], June 27, 1913, 83 Entscheidungen des Reichsgerichts in Zivilsachen [hereinafter cited as R.G.Z.] 9 (I Zivilsenat) (1914). Compare RG (I Zivilsenat), Nov. 5, 1930, 130 R.G.Z. 242 (1931).

¹⁹ Law of Aug. 18, 1896, § 157, Bürgerliches Gesetzbuch, [1896] Reichsgesetzblatt 195 (Ger.). See generally LÜDECKE & FISCHER, *LIZENZVERTRÄGE* 40-43 (1957) (later edition not available).

²⁰ See, e.g., *Q-Tips, Inc. v. Johnson & Johnson*, 108 F. Supp. 845 (D.N.J. 1951), *aff'd*, 207 F.2d 509 (3d Cir. 1953), *cert. denied*, 347 U.S. 935 (1954).

²¹ See, e.g., *United States v. General Elec. Co.*, 272 U.S. 476 (1926). But cf. VAUGHAN, *THE UNITED STATES PATENT SYSTEM* 29-32 (1956).

There is a particular problem with combination patents, which can scarcely be exploited without some restrictive licensing. See Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 34-35 (1957). Compare *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), with *Buxton, Inc. v. Julen, Inc.*, 223 F. Supp. 697 (S.D.N.Y. 1963).

These arguments rest upon one assumption: there is "a" field covered by "a" patent, and the scope of this patent is congruent with the product that is to be competitively manufactured by the licensee. Today this assumption is seldom valid. With admittedly many exceptions, patent coverage now generally means an undefined amount of protection in many patents over a variety of processes and product lines. A clutch of patents belonging to an enterprise in a modern field like petrochemicals or electronics cannot efficiently be disentangled to ascertain which of the exact processes (and to a lesser extent products or apparatus) used or manufactured by competitors are covered by the claims.²² Conversely, it is often impossible to ascertain, with any reasonable expenditure of time and money, the exact extent to which a given process is covered by a multitude of patent claims in various hands.²³ To some extent the prevalence of package licensing confirms these remarks.²⁴ The patents owned by an enterprise often have nuisance value without affording real freedom of operation to that enterprise. Even though one firm may have pursued a particular approach to a commercial research and development problem and obtained a relatively dominant position as to one of several solutions,

²² See, e.g., *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 332 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954).

²³ A good example is the struggle over patent protection in the polypropylene field. See *Spencer Gets Set To Market Polypropylene*, Chemical & Engineering News [hereinafter cited as C&EN], May 9, 1960, p. 28; *Marketing Deals Blossom in Polypropylene*, C&EN, May 8, 1961, p. 21; *Standard of California To Make Polypropylene*, C&EN, Jan. 1, 1962, p. 29; *Hercules Gets Polypropylene Process Patent*, C&EN, Sept. 3, 1962, p. 25.

For a discussion of the tetracycline patent tangle, see *Legal Action on Tetracycline Piles Up*, C&EN, July 20, 1964, p. 21. For the diffusion transfer and other office copier patent problems, see *The Revolution in Office Copying*, C&EN, July 13, 1964, pp. 115, 121-22; C&EN, July 20, 1964, p. 84.

See generally Sanders, *The Upgrading of Patented Inventions and Their Use Here and Abroad II*, 7 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 185 (1963); Sanders, *Trends in Inventions: U.S. and Abroad*, 7 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 85 (1963).

²⁴ See, e.g., *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950); *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964), *cert. denied*, 85 Sup. Ct. 701 (1965); *Hazeltine Research, Inc. v. Zenith Radio Corp.*, TRADE REG. REP. (1965 Trade Cas.) ¶71,355 (N.D. Ill. 1965). For other cases, and a review of the antitrust implications of mandatory packaging, see Note, *Mandatory Package Licensing: A New Patent Misuse*, 44 VA. L. REV. 727 (1958); Note, *Package Patent Licenses and Public Policy*, 21 GEO. WASH. L. REV. 61 (1952).

A related phenomenon is the "defined field license," whereby the licensee is granted freedom to operate in a described technological field to the extent that any of the licensor's patents would otherwise block it from so doing. For a discussion of the technical aspects of such licenses, see Cooke, *Defined Field Licenses*, 39 J. PAT. OFF. SOC'Y 635 (1957); of antitrust implications thereof, see Harmon, *Anti-trust and Misuse Implications of the Defined Field License*, 45 J. PAT. OFF. SOC'Y 463 (1963).

it normally will have filed enough "blocking" applications to straddle other solutions; and competing firms will have done the same.²⁵

Under these conditions the validity of the economic justification is doubtful. Do mutual licenses, granting each party freedom from the other's patent claims, but only for one product matrix for the first and another for the second, or in one territory for the first and another for the second, actually open up more competition than they restrain? The question is further complicated by possible invalidity of patents and the difficulty of determining, even where valid, the true limits of their claimed coverage.²⁶ Nonchallenge covenants, express or implied by law, and bootstrap provisions concerning coverage can create the facade of patent coverage where it may not exist.²⁷

²⁵ "Besides its implications for the polyethylene business, the Du Pont-Phillips settlement points up one of the newer facts of life in the chemical industry. It is becoming increasingly hard for firms to get or keep 'technological monopolies' in competitive product areas. Many observers believe that the days when a producer could get long-term exclusive rights through patent coverage are gone." *Du Pont and Phillips Settle Polyethylene Suit*, C&EN, Sept. 4, 1961, p. 25. See also the pungent statements of Wyzanski, J., in *United Shoe Mach. Corp. v. Industrial Shoe Mach. Corp.*, 223 F. Supp. 826, 834-35 (D. Mass. 1963), judgment vacated, 335 F.2d 577, 580 n.3 (1st Cir. 1964), cert. denied, 33 U.S.L. WEEK 3251 (Jan. 26, 1965).

²⁶ See Stedman, *Invention and Public Policy*, 12 LAW & CONTEMP. PROB. 649, 656-61 (1947); AMERICAN PATENT L. ASS'N BULL. 37-38, for a brief statistical resume of judicial declarations of invalidity.

Domestically, at least, the difficulties and entanglements caused by present interference litigation also motivate such arrangements. For a description see Frost, *Some Possibilities and Limitations of Patent Interference "Reform,"* 7 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 162 (1963).

²⁷ See generally Kronstein, *Arbitration Is Power*, 38 N.Y.U.L. REV. 661 (1963); note 90 *infra*. Several German cases pose serious problems as to the evasion of public law standards by either arbitration arrangements, see BGH (Kartellsenat), Dec. 5, 1963 ("Mikrophon"), in WuW/Entscheidungen/BGH 597, 602, 14 WuW 877, 882 (1964); private settlements, see BGH (I Zivilsenat), Feb. 15, 1955 ("rote Herzwandvase"), 16 B.G.H.Z. 296 (1955); or simple agreements concerning scope, see BGH (I Zivilsenat), Oct. 5, 1951 ("Tauchpumpe"), 3 B.G.H.Z. 193 (1951); BGH (Kartellsenat), Jan. 10, 1964 ("Abbauhammer"), in 19 BETRIEB-BERATER 1319 (1964). See also van den Heuvel, *The Impact of the E.E.C.—Treaty (Treaty of Rome) on Industrial Property With Regard to Antitrust Regulations*, 9 SOCIAAL-ECONOMISCHE WETGEVING [hereinafter cited as Soc. Ec. Wet.] 233, 237 (1961) (Dutch example). In many industrial sectors where exploding research and development costs of new technology strain the resources of the largest firms, patent and know-how licensing is merely one of the aspects of the pooling of research and its results. See del Marmol, *Distribution Methods in Restraint of Competition Used by Market Dominating Enterprises*, in II CARTEL AND MONOPOLY IN MODERN LAW 475, 488 (1961). Joint research projects, automatic access to competitors' new developments, and joint ventures are commonplace today. Licenses of industrial technology thus have structural and integrative effect, an effect that so far has been difficult to supervise under the grosser definitions implicit in monopolization and antimerger statutes. See, e.g., *Smith-Corona Marchant, Inc. v. American Photocopy Equip. Co.*, 217 F. Supp. 39 (S.D.N.Y. 1963); Weinstein, *The Application of Section 7 of the Clayton Act to Patents, Copyrights, and Trademarks*, 5 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 328 (1962). But see Sanders, Rossman & Harris, *Patent Acquisition by Corporations*, 3 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 217 (1959); 1964 AMERICAN PATENT L. ASS'N BULL. 47-52. This is another ground for doubting the applicability to a modern economy of the somewhat naive economic justification of patent license restrictions. For a more basic discussion of the themes suggested by the text in this and the immediately preceding notes, see Kahn, *Fundamental Deficiencies*

The situation is not much different in Western Europe. Fewer patent applications are filed, and "flooding" with patents is not as common as in the United States,²⁸ due in part to the expense of keeping issued patents in force.²⁹ This difference, however, is partly offset by the wider reading often given to patent claims in Western European countries and the practice of extending coverage to what in America would not be claimable, whether as improvements or under the doctrine of equivalents.³⁰ Under these circumstances the typical "package" may be smaller, but its units larger. Thus the problems in Europe and America are to a great extent identical, although the internal boundaries of the patents are drawn differently.

of the American Patent Law, 30 AM. ECON. REV. 475, 478; Kahn, *The Role of Patents*, in COMPETITION CARTELS AND THEIR REGULATION 308, 312-14 (Miller ed. 1962). For discussion of a related problem, see Bergstrom, *Antitrust Immunity or Exemption for Activities Involving Government Contracts—"Weapon Systems" and "Team Bidding"*, 59 NW. U.L. REV. 433 (1964).

²⁸ See LIEBERKNECHT, *PATENTE, LIZENZVERTRÄGE UND VERBOT VON WETTBEWERBSBESCHRÄNKUNGEN* 50-51 (1953) (German law). This self-restraint may also be due to the ready availability, under § 15 of the German Patent Law, of a compulsory license to the owner of an improvement patent that is useable only through infringement of the basic patent. Patentgesetz, May 9, 1961, [1961] I BGBI 549 (Ger.); see REIMER, *PATENTGESETZ UND GEBRAUCHSMUSTERGESETZ* 248-50, 577-78 (2d ed. 1958).

The debate over the solution of these problems in a European patent framework is described in Winkler, *Schutzzumfang der Patente insbesondere in Hinsicht auf das Abkommen des Europarats und des Europapatents*, 66 GRUR 525 (1964).

²⁹ For a comprehensive listing, see 1-2 *MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS AND TRADE MARKS THROUGHOUT THE WORLD* (Octrooibureau los en Stigler ed. 1964).

³⁰ France: Art. 2, Loi sur les brevets d'invention, art. 2, July 5, 1844, [1831-1848] Sirey Lois Annotées (2d ser.) 810 (1875); see I CASALONGA, *TRAITÉ TECHNIQUE ET PRATIQUE DES BREVETS D'INVENTIONS* 187-93, 218 (1949); REYMOND, *LES SYSTÈMES DE DÉFINITION DES INVENTIONS EN DROIT DES BREVETS* 21-30 (Dissertation Lausanne 1959).

Germany: Patentgesetz § 6; see KNÖPFLE, *DIE BESTIMMUNG DES SCHUTZUMFANGS DER PATENTE* 25-39 (1958); Lindenmaier, *Der Schutzzumfang des Patents nach der neueren Rechtsprechung*, 46 GRUR 49 (1944).

The regime of improvements patents (patent d'addition, Zusatzpatent) in § 16 of the French and § 10 of the German patent laws is also relevant. See *Cour de Lyon*, April 2, 1962, in 97 ANNALES DE LA PROPRIÉTÉ INDUSTRIELLE, ARTISTIQUE ET LITTÉRAIRE 37 (1963); Bundespatentgericht, Jan. 9, 1963, in [1963] BLATT FÜR PATENT-, MUSTER- UND ZEICHENWESEN 157, annotated in 65 GRUR 366 (1963); REIMER, *PATENTGESETZ UND GEBRAUCHSMUSTERGESETZ* 482-99 (2d ed. 1958). See generally 1 TROLLER, *IMMATERIALGÜTERRECHT* 187-94 (1959); 2 *id.* at 866-68. But see Kellermann, *Die gewerblichen Schutzrechte im Gesetz gegen Wettbewerbsbeschränkungen*, 8 WuW 643, 653-54 (1958).

Recent developments may indicate a less generous attitude toward the scope of patent coverage. See, e.g., BGH (I Zivilsenat), March 17, 1964, 17 NJW 1722 (1964). Compare Bonnet v. Bottieau, *Cour De Cassation* (Ch. Comm.), Decision of June 12, 1961, in 96 ANNALES DE LA PROPRIÉTÉ INDUSTRIELLE ARTISTIQUE ET LITTÉRAIRE 1 (1962). See also Franzosi, *Sul Contento del Diritto Di Brevetto*, 11 RIVISTA DI DIRITTO INDUSTRIALE 1, 314, 369 (1962). For a comparison with American patent law generally, see Riesenfeld, *The New United States Patent Act in the Light of Comparative Law*, 102 U. PA. L. REV. 291 (1954).

On the doctrine of equivalents, see *Graver Tank & Mfg. Co. v. Linde Air Prods.*, 339 U.S. 605 (1950). A good recent elaboration is in *Bullard Co. v. General Elec. Co.*, 234 F. Supp. 995 (W.D. Va. 1964).

III. DOCTRINE OF "INHERENT PATENT RIGHTS" ANALYZED

A. "Real" and "Obligatory" Rights

Identification of the logical base for the "inherent patent rights" doctrine presupposes the availability of an exact definition of the concept. We may begin therefore with an excellent description of the doctrine, found in a discussion of article 4(2) of Regulation 17 by an official of the Commission's Directorate General for Competition:³¹

A license agreement which holds itself completely within the limits of the patent law does not restrain competition. Only such agreements are to be considered, therefore, which contain restraints on competition going beyond the patent law, if these competitive restraints are able to affect the commerce between member states.³²

German writers in particular have refined this concept further³³ by distinguishing between restrictions inhering in the res of the patent (called "dinglich" or "patentrechtlich"), and restrictions imposed collaterally (called "obligatorisch" or "schuldrechtlich").³⁴

³¹ Schumacher, *supra* note 1, at 481. See also ASSEMBLÉE PARLEMENTAIRE EUROPÉENNE, RAPPORT FAIT AU NOM DE LA COMMISSION DU MARCHÉ INTÉRIEUR SUR UN PREMIER RÈGLEMENT D'APPLICATION DES ARTICLES 85 ET 86 DU TRAITÉ DE LA C.E.E. 25, para. 101 (Doc. 57, 1961).

³² In the United States patent licenses can affect interstate commerce because the patent monopoly, national in scope, is used in interstate commerce by definition. In the EEC, at present, the patent is coextensive with state boundaries; in this sense, licenses as such would not affect interstate commerce. Formally this might be so; functionally, it is not. If a French firm holding a German patent requires its German licensee to procure supplies only from it, potential interstate commerce with French suppliers is as much restricted as is potential intrastate commerce with German suppliers. Thus the relation between national patent rights and national trade has no real bearing on the problem, quite apart from any change that may be occasioned by a "European patent." See note 109 *infra*.

³³ See, e.g., LÜDECKE & FISCHER, PATENTLIZENZVERTRÄGE 379-84 (1957); REIMER, *Patentgesetz und Gebrauchsmustergesetz* 349 (2d ed. 1958); REIMER, *PATENTGESETZ UND GEBRAUCHSMUSTERGESETZ* 388 (1st ed. 1949). See also Möhring, *Dekartellisierung und Lizenzvertrag*, 52 GRUR 496 (1950); Gleiss & Deringer, *Patentmonopol und Wettbewerbsfreiheit*, 2 WuW 346 (1952). For a similar rationale by an Italian commentator, see Sena, *Brevetto e Monopolio*, 12 RIVISTA DI Diritto Industriale 287, 300-07 (1963).

³⁴ Strictly speaking, the concept "Dinglichkeit," "real-ness," in the German civil classification structure is a subgroup of "Absolutheit," "absoluteness," and is limited to tangible property. Intangible property such as patent rights falls only within the larger class. See 1 VON TUHR, *DER ALLGEMEINE TEIL DES DEUTSCHEN BÜRGERLICHEN RECHTS* 133-37, 146-48 (1910); 3 *id.* at 545-47. See also 1 ENNECERUS & NIPPERDEY, *LEHRBUCH DES BÜRGERLICHEN RECHTS* 2-7, 456, 461-65 (15th ed. 1959); Schmid, *Über dingliche Gewerberechte*, 44 ARCHIV FÜR DIE CIVILISTISCHE PRAXIS [hereinafter cited as ACP] 1, 9-17, 182-83 (1861).

As to the same categorization in the French code structure (subject to the "personalistic" distinction, see note 44 *infra*) see 3 PLANIOL & RIPERT, *TRAITÉ*

One speaks of a restriction inherent in the patent law (real) when the right of use is restricted as such; in other words, is from the outset not complete but granted only with a minus, so that a "part" thereof is lacking and the transgression of the permitted limits makes the manner of use impermissible (against the patent) It is otherwise with only contractual restrictions. There is no exception of a sector of the right of use as such, but merely an "internal" agreement between the parties which runs "along" concurrently with the actual license grant.³⁵

The categorization obviously stresses the means for remedying the licensee's transgressions of the license.³⁶ A violation of the first kind of restriction is an act of infringement, since it violates directly the right of exclusion from dominion over property which is the essence of the patent. A violation of the second kind of restriction is not automatically an act of infringement, and the patented ware is therefore a legitimate item of commerce. The licensor may sue for breach of contract, perhaps even terminate the license, but before the last step is taken, a third party may freely use or deal in these items.³⁷

The particular wording, emphasized by German and French scholars of the law of industrial property and its licensing, indicates an effort to graft upon patent licenses notions of "property" and "right" derived from a more general private law context.³⁸ "Dinglich" and "obligatorisch" or "schuldrechtlich" are adjectives brought into

PRATIQUE DE DROIT CIVIL FRANCAIS 41-50, 56-57 (2d ed. 1952); 1 RIPERT & BOULANGER, TRAITÉ DE DROIT CIVIL, 288-91 (1957); 2 *id.* at 780-85.

On the distinctions between patents, copyrights, etc. and normal intangible property rights, see Kohler, *Das Autorrecht*, 18 JHERING JAHRBÜCHER [hereinafter cited as JHER. JAHRB.] 129, 199-202 (1880).

Compare statement of Holmes, in 1 HOLMES-POLLOCK LETTERS 53 (1941) (quoted in *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 678 (1944) (Jackson, J., dissenting)): "A patent is property carried to the highest degree of abstraction—a right *in rem* to exclude, without a physical object or content."

³⁵ LÜDECKE & FISCHER, PATENTLIZENZVERTRÄGE 379 (1957).

³⁶ See generally RIGAUD, *LE DROIT RÉEL* 63-73 (1912). "[In] the field of procedure, the distinction between real rights and obligatory rights is manifested by [the Romans] . . . in a manner so happy and consistent that it has passed as a body into our modern law and has created a solid base on which the theory of real rights and obligatory rights has been raised." *Id.* at 64.

This is manifested in the cases. See *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895); *Rubber Co. v. Goodyear Co.*, 76 U.S. (9 Wall.) 788 (1869); 2 ROUBIER, *LE DROIT DE LA PROPRIÉTÉ INDUSTRIELLE* 269-72 (1954) (citing the French jurisprudence).

³⁷ See generally BENKARD, PATENTGESETZ, GEBRAUCHSMUSTERGESETZ PATENTANWALTGESETZ 327-28 (4th ed. 1963).

³⁸ See 1 ENNECERUS & NIPPERDEY, *op. cit. supra* note 34, at 428-76; 3 Planiol & Ripert, *supra* note 34, at 41-53; von Gierke, *Die Einheit des Rechts*, 111 ZEITSCHRIFT FÜR DAS GESAMTE HANDELSRECHT 39, 62-70 (1947). For further citations to national code treatment of these concepts, see Yiannopoulos, Book Review, 12 AM. J. COMP. L. 116 (1963).

modern classification structures from Roman private law.³⁹ They are conceptual labels that distinguish respectively rights over a thing, exercisable against the world, and rights to demand specified behavior from particular persons because of the existence of certain voluntary or involuntary relationships.

Real rights are those private rights which confer an immediate power of control over a thing. . . . Real rights belong to the category of "absolute" rights or rights available as against everybody because their effect is simply to empower the person in whom they vest to act in a particular manner. Any right that entitles a person to act *himself*—e.g. a right of control based on . . . a patent right . . .—is an absolute right, and absolute rights form, as such, the antithesis to "obligatory" rights. . . . An obligatory right only enables me to exercise a control over a thing through the medium of another person's act . . . ; a real right entitles me to act myself, and thereby effects an immediate enlargement of my powers as against everybody.⁴⁰

Whether the origin of the classification stems from a listing of claims for which an *actio in rem* was available⁴¹ or from more dogmatic and schematic efforts of logic,⁴² whether an absolute right is distinguished from an "obligatory" right by the former's direct relation to a thing,⁴³ or whether both can in fact exist only through their effect on other persons,⁴⁴ is beyond the scope of this Article. In the modern

³⁹ See SOHM, THE INSTITUTES 307-09, 327-37 (3d ed. Ledlie transl. 1907). Compare 1 WINDSCHEID, LEHRBUCH DES PANDEKTENRECHTS 116-73 (9th ed. 1906). For a critique of this development (aimed at an earlier draft of the German Civil Code), see GIERKE, DER ENTWURF EINES BÜRGERLICHEN GESETZBUCHS UND DAS DEUTSCHE RECHT 40-48 (1889).

The Germanic private law, however, also knew similar classifications and has by some been credited with at least partial parentage of the present system. See HUEBNER, HISTORY OF GERMANIC PRIVATE LAW 162-64 (Philbrick transl. 1918). See also GERBER, SYSTEM DES DEUTSCHEN PRIVATRECHTS 137-52 (15th ed. 1886).

⁴⁰ SOHM, *op. cit. supra* note 39, at 307-09, 308 n.1.

⁴¹ FUCHS, DAS WESEN DER DINGLICHKEIT 14-17 (1889); THIBAUT, SYSTEM DES PANDEKTEN-RECHTS 46-48 (1823). See the general review of this position in Oertmann, *Der Begriff der Dinglichkeit*, 31 JHER. JAHRB. 415 (1892), which the author modified in *Zur Struktur der subjektiven Privatrechte*, 3 ACP 129 (1925).

⁴² See, e.g., 1 ENNECCERUS & NIPPERDEY, *op. cit. supra* note 34, at 450-51. For citations see Raiser, Book Review, 18 JURISTENZEITUNG 422 (1963).

⁴³ See, e.g., 1 ENNECCERUS & NIPPERDEY, *op. cit. supra* note 34, at 450-51; cf. LEHMANN, ALLGEMEINER TEIL DES BÜRGERLICHEN GESETZBUCHES 80 (12th ed. 1960).

⁴⁴ See 1 KOHLER, LEHRBUCH DES BÜRGERLICHEN RECHTS 178-79 (1906); Kohler, *Das Autorrecht*, 18 JHER. JAHRB. 129, 186-87 (1880).

This position resembles the "personalistic" view of § 544 of the French Civil Code. CODE CIVIL art. 544 (Fr. 63d ed. Dalloz 1964). See generally 1 PLANIOL, THE CIVIL LAW pt. 2, at 282-83 (La. State Law Institute transl. 1959); note 34 *supra*. The Italian doctrine is less clear. See ASCARELLI, TEORIA DELLA CONCORRENZA E DEI BENI IMMATERIALI 510-12 (2d ed. 1957); Barbero, I "Beni Immateriali" Come Oggetto Di Diritto, 11 RIVISTA DI DIRITTO INDUSTRIALE 297 (1962).

context the distinction is used to determine the procedure by which a patentee undoes violations of the agreement, and substantively whether any remedy is available even against third parties which deal with the transgressing licensee. The consequences, however, of attaching to patent licenses the context customarily ascribed to "Dinglichkeit" are unfortunate, because a misleading element is thus introduced among the criteria for judging these patent licenses. At present, in the emerging law of the European Economic Community, for example, this concept of "inherent rights," as historically developed, is being given an unnecessary substantive content even as it is procedurally misunderstood.

Substantively, if the grant of a territorially restricted license, for example, is deemed to be legitimate conduct by the parties thereto, then perhaps a violation of the restriction should permit redress in the manner an "absolute right" of the patentee would be normally redressed: by an action for infringement. This conclusion should not be turned around and given a life of its own such to compel consequences the legal order may wish to prevent.⁴⁵ The existence of a right to redress a breach of a territorial restriction by an infringement action⁴⁶ should not preclude judging a contract purporting to convey such a restricted right to be a contract in restraint of trade. How to judge such a restraint in fact, or how to meet the objection that any grant of freedom to use a patent, even on conditions, is a freeing of trade from the legal monopoly permitted the patentee, is a separate matter. The issue now is whether the normal categorization of license restrictions has normative force.

Procedurally, too, misconceptions arise from the "plus-or-minus" concept of patent licensing, in the main because the "Dinglichkeit" or "droit réel" categorization historically involved the rights of an owner of a thing.⁴⁷ The categorization by its very nature applies with awkwardness and difficulty to the violation of limitations placed upon the manufacture, use, or sale of a product, process, or apparatus under a grant of immunity.⁴⁸ A grant of less than the whole immunity from a patent, if not honored, allows the patentee to assert a claim of infringement of his remaining patent rights against the whole world.

⁴⁵ See *United States v. Masonite Corp.*, 316 U.S. 265, 277 (1942). Compare *LIEBERKNECHT, op. cit. supra* note 28, at 108-12.

⁴⁶ See LÜDECKE & FISCHER, *PATENTLIZENVERTRÄGE* 390 (1957).

⁴⁷ This is not strictly accurate. Intangible property rights are classified as "absolute" rights, as are the more common "real" rights in tangible property. The former, of course, can be described in negative terms of exclusion (as, to a lesser extent, can the latter). See Kohler, *Das Autorrecht*, 18 JHER. JAHRB. 129 (1880). Compare the somewhat cryptic characterization of the license in the earlier version of *OFFENHEIM, CASES ON FEDERAL ANTITRUST LAWS* 690 (1948).

⁴⁸ But cf. WESTERMANN, *SACHENRECHT* 8 (4th ed. 1960).

These nontransferred remainders, of course, are what is "inherent" in the patent as a result of this chain of logic.⁴⁹ They must be, for otherwise what element of ownership was retained by the patentee that it can exercise as "an absolute right" through the medium of an infringement action!⁵⁰ If the limited utility of these conceptions is appreciated, the need to apply the concept "inherent in the patent monopoly" as a logical barrier to the application of antitrust law disappears; and so does any notion that a restriction not going beyond the patent, because it "inheres" in the monopoly, cannot by its very nature be a restraint on competition.⁵¹

B. Judicial Utilization of the Concept

The barrenness of the orthodox concept is illustrated by earlier cases that had to resolve conflicting policies of private law.⁵² An outstanding example is the now discredited case of *Henry v. A. B. Dick Co.*⁵³ The company sold a patented mimeograph machine with a marked (and thus public) restriction that "it may be used only with the stencil paper, ink and other supplies made by A. B. Dick," all of them unpatented. The license restriction was conceded to be a contract breached by the machine owner when she purchased supplies from the defendants (at a time when tie-in clauses were valid). Since the company could gain little from pursuing the private purchasers, it sued defendants under the patent law, charging them with aiding and abetting the machine owner's infringement. The Supreme Court, in allowing the action, stated:

The property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale is unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of

⁴⁹ Compare the grantor's rights following the grant of a fee simple determinable as against those following the grant of a fee simple subject to a condition subsequent.

⁵⁰ Compare OPPENHEIM, *op. cit. supra* note 47, at 690.

⁵¹ As the discussion below makes clear, this conclusion does not justify the further conclusion, drawn by the TNEC's Final Report, that all such "inherent" restrictions should be forbidden. SEN. DOC. NO. 35, 77th Cong., 1st Sess. 36269 (1941).

⁵² See *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 Fed. 288 (6th Cir. 1896). See also *Commercial Acetylene Co. v. Widrig*, 190 Fed. 201 (E.D. Mich. 1910); *Tubular Rivet & Stud Co. v. O'Brien*, 93 Fed. 200 (D. Mass. 1898). Compare *Reichsgericht (I Zivilsenat)*, March 26, 1902, 51 R.G.Z. 139 (Ger.); 1 REIMER, PATENTGESETZ UND GESETZ BETREFFEND DEN SCHUTZ VON GEBRAUCHSMUSTERN 390 (1949) (earlier edition).

⁵³ 224 U.S. 1 (1912).

use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases.⁵⁴

In dissent Mr. Chief Justice White clearly distinguished between the logical categorization of these restrictions and the policy of granting to a patentee rights against third parties dealing with his licensees:

[A]s the result of a case decided some years ago by one of the Circuit Courts of Appeals,⁵⁵ which has been followed by cases in other Circuit Courts of Appeals⁵⁶ . . . what prior to the first of those decisions on a sale of a patented article was designated a condition of sale, governed by the general principles of law, has come in practice to be denominated a license restriction, thus, by the change of form, under the doctrine announced in the cases referred to, bringing the matters covered by the restriction within the exclusive sway of the patent law.⁵⁷

But that is not all. Since the Court chose to allow a patentee to pursue directly, as infringers, third parties dealing with a licensee who had breached a collateral restriction, it would follow a fortiori that the knowing or innocent status of the licensee-infringer would be irrelevant. If the right inherent in the patent to prevent others from producing the patented item is exercisable against the world, including infringing licensees, it should not be qualified by any concept of bona fides.⁵⁸ Even *Henry v. A. B. Dick Co.* did not proceed this far, but instead indicated that the directly infringing licensee, let alone the contributory infringer, could only be reached because of the public notice of the restriction given by means of the marking on the machine.⁵⁹ This example should suffice to show that there always have

⁵⁴ *Id.* at 24-25.

⁵⁵ The mentioned case is not named, but it is apparently *Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co.*, 77 Fed. 288 (6th Cir. 1896).

⁵⁶ Apparently *Cortelyou v. Charles E. Johnson & Co.*, 145 Fed. 933 (2d Cir. 1906). See also cases cited in *Henry v. A. B. Dick Co.*, 224 U.S. 1, 38 n.1 (1912).

⁵⁷ *Id.* at 56.

⁵⁸ See, e.g., 1 REIMER, *op. cit. supra* note 52, at 391 (citing especially RASCH, DER LIZENZVERTRAG IN RECHTSVERGLEICHENDER DARSTELLUNG 88 (1933)). The same is generally true in the United States as to infringement situations uncomplicated by license problems—letters patent are public records, *Boyden v. Burke*, 55 U.S. (14 How.) 575 (1852), of whose contents all are bound to take notice.

⁵⁹ *Id.* at 38 n.1 and cases there cited (especially *Cortelyou v. Charles E. Johnson & Co.*, 145 Fed. 933 (2d Cir. 1906)).

A similar rule may apply in some other countries, depending upon statutory requirements as to the infringer's knowledge of the existence of the complainant's patent. See, e.g., van den Heuvel, *supra* note 27, at 237. The same rule now obtains in the United States by statute if the infringed products are not marked. 66 Stat. 813 (1954), 35 U.S.C. § 287 (1958).

For British practice, see *Incandescent Gas Light Co. v. Brogden*, 16 R. Pat. Cas. 179 (Eng. 1899).

been policy limits to the rigorous application of these formal doctrines. The doctrines may be useful, as generalizations from experience, to courts and legal advisors in the exercise of their casuistic function; they are not barriers to a policy-dictated expansion or contraction of remedies.⁶⁰

There is nothing new in remarking on the senselessness of letting these extraneous private law concepts guide or limit the use of anti-trust policies.⁶¹ The priority and overriding nature of the latter were thrashed out when freedom of contract was the issue⁶² and remained preeminent when the sanctity of private property was argued.⁶³ Even modern commentators, however, are often caught in the conceptual snare of the inherent patent right when they frame their discussions, in more sophisticated terms, around the "legitimate reward" the patentee may reap from its patent and the conduct appropriate to reaping that reward. Consider, for example, the following typical discussion:

In judging the acceptability of license restrictions we must proceed from the starting point that competition is for the first time begun by the grant of a license. The licensor can open it without restrictions, but he can also open it with restrictions; compared with the situation before the grant of the license this is still a plus. There can be no talk of a restraint on competition. The patent owner in no way expands his monopoly thereby. In judging these license conditions it cannot be material whether the license is real or obligatory, whether one considers the restrictions as granting to the

⁶⁰ The law of things [Sachenrecht] is no longer an autonomous legal sphere to itself, nor does the law make the number of real rights a group closed by conceptual necessity; instead, it is only the requirements of political economy and the considerations of legal policy that can decide whether and to what extent a right should be protected as a real, *i.e.*, absolute, one.

FUCHS, *op. cit. supra* note 41, at 17. For a similar view by one who otherwise favors an entirely different conceptual approach as to the nature of "Dinglichkeit", see Raiser, Book Review, 18 JURISTENZEITUNG 422 (1963).

⁶¹ See Koch, *The European Economic Community*, 6 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 97, 102 (1962) (separate conference issue). In more general terms, see Broda, *Die Mitarbeit Österreichs an der Europäischen Rechtsvereinheitlichung*, 4 ZEITSCHRIFT FÜR RECHTSVERGLEICHUNG 193, 199 (1964).

⁶² *United States v. Masonite Corp.*, 316 U.S. 265, 276-77 (1942). Even Mr. Justice Holmes, dissenting in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), with his illusory epigram, "Generally speaking the measure of a condition is the consequence of a breach, and if that consequence is one that the owner may impose unconditionally, he may impose it conditionally upon a certain event," *id.* at 519, added, "I leave on one side . . . what I might think . . . if the question were upon the effect of a combination of patents such as to be contrary to the policy that I am bound to accept from the Congress of the United States," *id.* at 521. See also *Bement v. National Harrow Co.*, 186 U.S. 70 (1902).

⁶³ *Cf. Ferguson v. Skrupa*, 372 U.S. 726 (1963); *Patterson v. Kentucky*, 97 U.S. 501 (1878). For an analogous problem in the accommodation of property rights to taxation policies, see Mutze, *Rechtliches Oder Wirtschaftliches Eigentum?*, 16 NJW 513 (1963). See also *Free v. Bland*, 369 U.S. 663 (1962); *Wissner v. Wissner*, 338 U.S. 655 (1950).

licensee from the first only a restricted right or whether he first obtains an unrestricted right, this is, however, *uno actu* again restricted. The economic significance must be decisive. A glance at the American decisions cited above shows that there too restrictions concerned with the exploitation of the protected right are not forbidden, as long as they remain within the statutory patent monopoly. It is only a question of drawing the boundaries of this statutory monopoly.⁶⁴

Essentially, this comment substitutes the "plus" of new commerce for the older, more arid arguments about the "plus" versus "minus" definition of inherent restraints.⁶⁵ Is this not, however, merely refining the unrealistic early conceptual formulation by a further step? The "starting point" in the quoted passage assumes what in fact is the very matter to be analyzed: that competition is begun by the license grant. This conclusion renders relatively insignificant the writer's later opinion that "the difference between real and obligatory license restrictions is valueless."⁶⁶ This very conclusion already characterized most of the early American decisions, culminating perhaps in *United States v. General Elec. Co.*⁶⁷ It is a conclusion found, along with the same two-step reasoning process, even in some pre-antitrust decisions in Germany.⁶⁸ It no more resolves the problem than do the earlier formulations. From our standpoint all of these formulations are circular and do not go to define the reach of the antitrust laws to patent licenses.

IV. APPLICATION OF THE ANTITRUST LAWS TO PATENT RIGHTS

A. Reasons for Application

The factors precluding the definition of the antitrust laws' scope by these formulations divide into two broad groups, reasons having to do with the persons and those concerning the patents involved.

First, even on the assumption that "the" patent exists in all its surface simplicity, there is seldom an identity of the relevant field of the patent and the relevant field, occupied by actual enterprises, in which its restrictive exploitation will be felt. This lack of congruence

⁶⁴ LIEBERKNECHT, *op. cit. supra* note 28, at 167.

⁶⁵ *Id.* at 118.

⁶⁶ *Id.* at 169. For a similar extensive, articulate yet unsatisfactory description, see GÜNTHER, *op. cit. supra* note 15, at 63-69; MAGEN, *LIZENZVERTRAG UND KARTELL-RECHT* 80-82 (1963).

⁶⁷ 272 U.S. 476 (1926). See the similar statements made even by Stedman, *The U.S. Patent System and Its Current Problems*, 42 TEXAS L. REV. 450, 466 (1964).

⁶⁸ See, e.g., Reichsgericht (I Zivilsenat), June 27, 1913, 83 R.G.Z. 9, 14 (Ger.).

is analytically important.⁶⁹ The restrictive licensing of a patent can inhibit more competition than it opens up whenever the product, process, or apparatus covered by its claims is only a part of the product, process, or apparatus affected by the particular licensee's operations under the license. The "relevant market" affected by the limited license is in that case broader than the "market" covered by the patent claims.

An example: two national competitors manufacture loudspeakers. One obtains patent coverage on an amplifier component and grants the other an exclusive license to manufacture the claimed product, territorially limited to one-half the country, or perhaps limited to industrial end customers. The licensee then shifts from its former loudspeaker to one embodying the new component and limits its commercial activities to half the country or to industrial applications. The licensor acts likewise as to its reserved area or product. Perhaps it is begging the question to assume away a possible underlying agreement to divide markets.⁷⁰ Nevertheless, assuming this away for the moment and turning solely to the "inherent restriction" problem, has "competition" between these parties—in the loudspeaker market—been opened up or throttled by the agreement? If the new patent represents such an advance that its embodiment in a loudspeaker would sweep all loudspeaker competition before it, thus converting the loudspeaker market into a legal monopoly for the patentee, then, perhaps, a restrictive license assures more competition in that broader market than would exist without it.⁷¹ Otherwise, however, the territorially restricted license has affected a market far broader than that claimed by the patent. In some cases even congruence between patent claim and product market may not alone preclude this result. If the patentee was a hitherto negligible factor in loudspeaker competition and now licenses major competitors, the competition inhibited by the latter's territory or product division would likely be more significant than that con-

⁶⁹ See *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948); Note, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505 (1964). See also *Northern Pac. Ry. v. United States*, 356 U.S. 1, 10 n.8 (1958).

⁷⁰ For example, the more easily attacked cross-license by both parties, with territorial restrictions, is treated as a horizontal conspiracy in German law because of this "underlying agreement" factor. OLG Hamburg, ("Baustofflizenz"), Dec. 8, 1954, in *WuW/Entscheidungen*/OLG 84, 5 *WuW* 585 (1955) (decided under the decartelization ordinance); *BERICHT DES BUNDESKARTELLAMTES ÜBER SEINE TÄTIGKEIT IM JAHRE 1958* [hereinafter cited as *BKARTA REP.* with year] 76 (so stating as to exclusive cross-licenses); *LUKES, DER KARTELLVERTRAG* 308 (1959); *BAUMBACH-HEFERMEHL, WETTBEWERBS UND WARENZEICHENRECHT* 1365 (8th ed. 1960); cf. *BKARTA REP.* 1959, at 153.

⁷¹ See text accompanying note 20 *supra*.

ceivably resulting from the patentee's newly invigorated and, by the patent claims, fully supportable entry into the loudspeaker market.⁷²

In these examples the licensee may be acting in fear of the competitive effect of the patentee's new position; or it may be acting out of an aggrandizing though unilateral motive, bargaining for this split in patent exclusivity in the expectation of creating a market division. In either event an objective evaluation of "new competition" is necessary; in other words an evaluation made or subject to review by anti-trust enforcement agencies. This discussion applies, though perhaps to a lesser degree, to all situations where product competition is ended, shifted, or modified as the result of a patent license. Even if the patent claims generally cover an improved product that is roughly congruent with the "relevant competitive market," the question of whether competition in that market has been increased or hampered is no less complex, and resolvable only by the same analysis.⁷³

The second basic reason for questioning the assumption that a license by definition opens up new competition arises from the economic realities described in part II of this Article.⁷⁴ Until the technical aspects of the licensed patents—in particular their validity and scope—are correctly ascertained, this assumption should be withheld. Unfortunately, there is no model available against which to test the form of the license for such questionable incidents; a case-by-case approach to these limited licenses is the only feasible way of discovering the existence of trade restrictive situations.⁷⁵

Thus any *a priori* abstract listing of provisions appropriate to achieve the licensor's "legitimate" rewards via the exploitation of its patents is nothing more than a hindrance to legitimate analysis. The maximizing of financial rewards is irrelevant to the application of anti-

⁷² Compare the (easier) problems raised by multiple identical licenses from an autonomous or jointly-owned patent holding company, see, *e.g.*, *Standard Oil Co. v. United States*, 283 U.S. 163 (1931), or from the research company that supports itself through the licensing of its own inventions, see, *e.g.*, *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950); *United Shoe Mach. Corp. v. Industrial Shoe Mach. Corp.*, 223 F. Supp. 826, 831-32 (D. Mass. 1963), *judgment vacated*, 335 F.2d 577 (1st Cir. 1964), *cert. denied*, 33 U.S.L. WEEK 3251 (Jan. 26, 1965).

⁷³ As in the case of Sherman Act conspiracies created in dealership situations, the "agreement" needed for the conspiracy is the license itself. The nonidentical motivation of the parties in entering the agreement does not negate the requisite intent, nor, therefore, the conspiracy. See, *e.g.*, *United States v. Masonite Corp.*, 316 U.S. 265 (1942). See also *Simpson v. Union Oil Co.*, 377 U.S. 13 (1964); *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963).

⁷⁴ See pp. 637-40 *supra*.

⁷⁵ In the EEC context, this means that eventually the nonnotifiable status of such license arrangements, under article 4(2) of Regulation 17, should probably be terminated. In any event the nonnotification system is designed to be a temporary administrative expedient only. See note 9 *supra*.

trust principles.⁷⁶ Consensual restraints of preexisting or potential trade should be decisive.⁷⁷ If a license agreement can achieve that result, it should at least be subject to review for its anticompetitive possibilities.⁷⁸ A test of the patent's validity and scope is a necessary condition for establishing the product or commerce area over which the patent in fact can exercise dominion. The very items that need be found to establish the validity of the enforcement agencies' exercise of jurisdiction over these licenses will also be prime evidence of restrictive arrangements.⁷⁹

B. Jurisdictional Basis for Application

Since an antitrust sanction can be imposed because of the described two-fold disparity between the claimed justification and its real status, it now becomes relevant to sketch the procedures for investigating these disparities. It might first be argued that any license suffering from these disparities, themselves the jurisdictional basis for introducing antitrust sanctions, may be attacked—even one that does no more than authorize the licensee to manufacture free of an infringement threat and contains no other provisions whatsoever. Indeed, some European commentators who favor strong antitrust measures have already asserted, as a variant of this position, that the promise to pay a royalty exhausts the reciprocal promise not to sue for infringement entailed in any license, and that all other contractual statements, even such as "a license for less than the normal patent dura-

⁷⁶ See, e.g., *Cutter Lab., Inc. v. Lyophile-Cryochem Corp.*, 179 F.2d 80 (9th Cir. 1949) (discussion of grant back provisions). The use of "reasonable reward" as a legitimating factor for restricted licenses stems from the case of *United States v. General Elec. Co.*, 272 U.S. 476, 489 (1926) (in other respects now discredited). See also pp. 647-48 *supra*.

⁷⁷ Compare the burden of proof of "conspiracy" required in *Baker-Cammack Hosiery Mills, Inc. v. Davis Co.*, 181 F.2d 550 (4th Cir.), *cert. denied*, 340 U.S. 834 (1950) (pooling of patents).

⁷⁸ Compare the more stringent view of Mr. Justice Black, dissenting in *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 128, 132-33 (1938), though here there was involved only the rights of a purchaser of a product made by a licensee outside the use-field of its license.

⁷⁹ This approach, central to our discussion, would avoid the question-begging that still characterizes the argument, if not the result, in many decisions in this field. A good example is the treatment of a license restricted to one field of use in the just mentioned case of *General Talking Pictures Corp. v. Western Elec. Co.*, *supra* note 78, at 126-27. The court uses pre-Sherman Act cases as authority for finding this kind of restricted license "legal." That any private contract is at first glance "legal" hardly needs citation; the old cases cited thereto, and the old arguments, involve the procedural problems of pursuing violations of such agreements. Then the 1926 GE dogma allowing license conditions if "reasonably within the reward" is used, and the condition under discussion sanctioned because it is of that character. *Ibid.* But it is then disclosed to be of that character *because* it is an old practice, the legality of which has never been questioned—again citing the pre-Sherman Act cases! See *Note, Patent Use Restrictions*, 75 HARV. L. REV. 602, 608-09 (1962).

tion," are separately reviewable, as agreements, for possible antitrust violations.⁸⁰

In my opinion this is an unnecessarily broad approach. It is unjustifiable not because—at least in the variant European version—it ignores the need for showing such disparities, for in fact this view probably requires a test of the disparities in deciding whether a violation exists. It is unjustifiable, in either version, because it challenges too many patent licenses, forgetting why they would be challenged if they were naked restraints unencumbered by their patent covering. In other words this view assumes jurisdictional warrant for testing for antitrust violations without giving any consideration to the nature of the license.

As noted, this seems too loose an approach. There should be an independent jurisdictional basis for an antitrust review, a review involving the search for the two-fold disparity already mentioned. This jurisdictional basis exists if the license agreement, absent patent justification, fits the formal definitions courts have derived from the Sherman Act (or definitions inferable from article 85 of the Rome Treaty, to continue the comparison):

- (1) A horizontal agreement between present or potential competitors to divide market areas is a contractual restraint of trade and as such a per se violation of section 1 of the Sherman Act.⁸¹ A patent license limiting the licensee to a certain area would be the analogous contract in the "inherent restraint" setting.
- (2) A horizontal agreement between present or potential competitors to divide markets by products or customers is a contractual restraint of trade and as such a per se violation of section 1 of the Sherman Act.⁸² A patent license limiting the licensee to a certain product or end customer group within the purported patent claims would be the analogous contract in the "inherent restraint" setting.
- (3) A horizontal agreement between present or potential competitors to control output is a contractual restraint of trade and as such a per se violation of section 1 of the

⁸⁰ Suggestions that such positions are being argued can be gleaned from the recently published note of VerLoren van Themaat, *Die Bedeutung von Art. 36 für die Kartellrechtliche Beurteilung von Patentlizenzverträgen nach Art. 85 des EWG-Vertrages*, [1964] *GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT-AUSLANDS UND INTERNATIONALES TEIL* [hereinafter cited as *GRUR-AIT*] 21, and from Koch, *supra* note 61, at 97-102.

⁸¹ *Addyston Pipe & Steel Co. v. United States*, 175 U.S. 211 (1899).

⁸² *United States v. Trenton Potteries Co.*, 273 U.S. 392 (1927).

Sherman Act.⁸³ A patent license limiting the licensee to an output quota would be the analogous contract in the "inherent restraint" setting.⁸⁴

The same restrictions, particularly the first two, can be found in the use of vertical arrangements as carriers for a manufacturer's attempt to set up a territorially or customer-limited distribution system.⁸⁵ These, of course, do not sound in promissory or prohibitory restrictive terms; like licenses for less than the patent's duration, they are simply phrased as conveying less than the whole power available under the patent. Nevertheless, since if "translated" they would read as familiar horizontal or vertical restrictive agreements, they establish the jurisdictional basis for antitrust review for the two types of disparities already defined.⁸⁶ These, if we may now speak of them as two lines of inquiry, are factual—neither can be pursued by looking alone to the form of the license.

C. Nature of the Inquiry Into the Patent

The inquiry into the "patent" is difficult to describe, as it impinges upon the duties and expertise of the patent office and may even be blocked to some degree by present national rules. These barriers will be explored as the scope of the inquiry is detailed.

⁸³ American Column & Lumber Co. v. United States, 257 U.S. 377 (1921).

⁸⁴ The other two "inherent restrictions," limitations to less than the full duration of the patent and to less than all three types of exclusivity (manufacture, use, and sale) granted by each letter patent, seem to me to be generally innocuous from an antitrust point of view. It is possible, of course, that the latter could be the vehicle for converting a former or potential competitor into a supplier or agent of the licensor. See *United States v. Masonite*, 316 U.S. 265 (1942). In that event the analysis and argument of this paper could apply to permit scrutiny of that provision as well, if these provisions, without their patent covering, could be characterized as Sherman Act violations. The latter probably could be; I am not sure that the same is true of the former. In a "vertical" license agreement, as between manufacturer and distributor, the former provision would again be more difficult to place in the Clayton Act context.

⁸⁵ See, e.g., *Switzer Bros. v. Locklin*, 297 F.2d 39 (7th Cir. 1961); *F. C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373 (3d Cir. 1955). Compare 78 REV. INT'L DE LA CONCURRENCE 16 (1963).

The right, under private and patent law principles, to split the rights to make, to use, or to sell has been accepted since *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873) (dictum).

⁸⁶ Compare *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948). For a review of the possible disposition of related problems arising under the cover of a trademark license, see Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 71 YALE L.J. 1171, 1197-204 (1963) (reprinted 53 TRADEMARK REP. 1130 (1963)); JANSKY, *WARENZEICHENLIZENZVERTRAG* (Dissertation Köln 1964). A major portion of the Commission's first "big case" involves territorial divisions through trademark licensing. Decision of Sept. 23, 1964 ("Grundig-Consten"), 1964 J.O.C.E. 2545, 2547-48.

Three types of questions seem important:

- (1) Did the parties to the license by previous arrangement manipulate the issuance of the "patent" to a party that might not otherwise have received it?⁸⁷
- (2) Did the parties manipulate the issuance of the "patent" so that it claims greater coverage, or greater validity, than would be the case had the patent office proceedings been free of such manipulative action?⁸⁸
- (3) Did the parties by agreement preclude themselves from challenging the scope or the validity of the "patent" when they (other than the patentee) would be the logical and perhaps the only ones to perform that adversary function?⁸⁹

The first two problems have just been raised in a vivid manner by the Federal Trade Commission's decision in the *American Cyanamid Co.* case⁹⁰ and by the passage of the recent statute on undisclosed interference arrangements, which "voids" patents issued as a result of such agreements.⁹¹ Both the decision and the statute indicate that these practices can operate to create misleading or nonexistent patent coverage, which in turn can be used to carry license limitations that naked would have no antitrust immunity. Both also confirmed the reasonableness of allowing the investigation of these somewhat technical issues by the antitrust enforcement agency—not in rivalry with the

⁸⁷ *American Cyanamid Co.*, TRADE REG. REP. ¶ 16527 (FTC Aug. 8, 1963), *final order entered*, TRADE REG. REP. ¶ 16699 (FTC Dec. 17, 1963). Appeals have been docketed in the Sixth Circuit. See Note, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505, 1507 n.7 (1964). For further excellent discussions of the case, see Barnes, *Recent Patent-Antitrust Developments*, 1964 AMERICAN PATENT L. ASS'N BULL. 142; Note, 64 COLUM. L. REV. 601 (1964).

⁸⁸ *American Cyanamid Co.*, *supra* note 87.

⁸⁹ *United States v. Carter Prods., Inc.*, 1962 Trade Cas. ¶ 70547 (S.D.N.Y. 1962) (consent decree).

⁹⁰ TRADE REG. REP. ¶ 16527 (FTC Aug. 8, 1963), *final order entered*, TRADE REG. REP. ¶ 16699 (FTC Dec. 17, 1963). Appeals have been docketed. See note 87 *supra*. See also *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963).

⁹¹ 35 U.S.C. § 135 (Supp. IV, 1963); see Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTI-TRUST BULL. 101, 139-40 n.124 (1964).

On the reasons for this legislation and the difficulties of preventing the manipulation mentioned in the text, see *Hearings on H.R. 11015 Before Subcommittee No. 3 of the House Committee on the Judiciary*, 87th Cong., 2d Sess. (1962); *Hearings on H.R. 12513 Before the Subcommittee on Patents, Trademarks and Copyrights of the Senate Committee on the Judiciary*, 87th Cong., 2d Sess. (1962). See generally 8 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 85-94 (Conference Number 1964); Davis, *Patent Licensing and the Anti-Trust Laws: Some Recent Developments*, 46 J. PAT. OFF. Soc'y 12, 32 (1964).

On the implications of *United States v. Singer Mfg. Co.*, *supra* note 90, for this collusive settlement problem, see the discussion by Timberg in 1964 AMERICAN PATENT L. ASS'N BULL. 59. See also Kronstein, *Arbitration Is Power*, 38 N.Y.U.L. REV. 661 (1963); Kronstein, *Business Arbitration—Instrument of Private Government*, 54 YALE L.J. 36 (1944).

patent office's role or decision,⁹² but because the latter's decision may have been influenced and even made a vain thing by these activities.⁹³

The third problem, concerning peripheral nonchallenge agreements⁹⁴ or bootstrap provisions as to coverage,⁹⁵ is another matter. These clauses are cousin to the collusive settlement of interferences, but can only be uncovered when the enforcement agency makes its own check of the field definition in the license, vis-à-vis the patent claims.⁹⁶ In any technologically complex area this is an almost hopeless task, whether it be for the agency to prove this disparity or for the respondent to establish full congruence between the two relevant definitions.⁹⁷

⁹² Compare von Köhler, *Behördenkonkurrenz im Kartellrecht*, 79 DEUTSCHES VERWALTUNGSBLATT 214, 215 (1964), who argues that the German Federal Cartel Office should not become a "technical supervisory agency" in this field. See also the discussion of EEC reactions to the *American Cyanamid* decision by Dixon, in 8 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 112, 114 (Conference Number 1964).

⁹³ Cullen & Vickers, *Fraud in the Procurement of a Patent*, 49 GEO. WASH. L. REV. 110 (1960). See the Commission's evaluation of the deception practiced upon the patent examiner in *American Cyanamid Co.*, TRADE REG. REP. ¶16527, at 21406 (FTC Aug. 8, 1963). See also *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963). Compare *P & D Sales & Mfg. Co. v. Winter*, 334 F.2d 930 (6th Cir. 1964), reversing 222 F. Supp. 111 (N.D. Ill. 1963).

For general impression of the motivations leading to settlements and licenses, see *Hearings on H.R. 11015*, *supra* note 91; *Hearings on H.R. 12513*, *supra* note 91; *Hearings on S. Res. 2303 and 2491 Before the Senate Committee on Patents*, 77th Cong., 2d Sess. 69, 94, 669, 681, 698, 756, 1141, 1270, 3305 (1942) (Bone Hearings). Compare BGH, Decision of Oct. 5, 1951 (I Zivilsenat), 3 B.G.H.Z. 193.

⁹⁴ It is important to recall that under varying national standards there may be an estoppel to challenge validity by operation of law following the acceptance of license status. *United States v. Harvey Steel Co.*, 196 U.S. 310 (1905). As to the federal or local nature of this rule, see *Brulotte v. Thys Co.*, 379 U.S. 29 (1964); *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173 (1942). See also *Lage v. Caldwell Mfg. Co.*, 221 F. Supp. 802, 807 (D. Neb. 1963); *JFD Electronics Corp. v. Channel Master Corp.*, 229 F. Supp. 514 (S.D.N.Y. 1964). Concerning this rule of law, see the discussion of German jurisprudence in LÜDECKE & FISCHER, *LIZENZVERTRÄGE* 162-68 (1957). Concerning more specific contractual provisions not to challenge, and their treatment under German law, see PEETZ, *DIE NICHTANGRIFFSKLAUSEL IN LIZENZVERTRÄGEN* (Dissertation Göttingen 1961). While German law and comment on this topic is the most extensive and intensive in the EEC, it should be noted that the German Cartel Law authorizes such provisions—§ 20(2) (4)—and in its very specificity may not necessarily be a model for the Commission.

⁹⁵ Again on the German law hereon, see LÜDECKE & FISCHER, *op. cit. supra* note 94, at 724-25; PEETZ, *op. cit. supra* note 94, at 74-77. For a discussion of French law, see 2 ROUBIER, *LE DROIT DE LA PROPRIÉTÉ INDUSTRIELLE* 280-81 (1954).

⁹⁶ It seems, unfortunately, that the Commission is agreeing to the omission of field definitions from the license agreements being submitted, presumably because of the argument that these are business confidences which are to be kept inviolate pursuant to article 20 of Regulation 17. See note 143 *infra*.

⁹⁷ As a result, if the burden were left with the respondents, most of these license agreements would be open to challenge, at least from the jurisdictional point of view. That this should not foreclose upholding their validity in any given case, see pp. 665-66 *infra*.

For a good exposition of the more or less traditional view against such a jurisdictional construction as is here broached, see Oppenheim, *Patents and Antitrust: Peaceful Coexistence?*, 54 MICH. L. REV. 199 (1955).

The specific decisional barriers in the United States against the initiation of such attacks by the enforcement agencies, especially the Department of Justice, are not serious.⁹⁸ It is true that the right of the Government to sue to annul a patent for fraud is limited.⁹⁹ The old *Bell Telephone* cases¹⁰⁰ not only suggest a doctrine of exclusive jurisdiction in the Patent Office—which has little power to act once the issue of the patent is final¹⁰¹—but impose stringent factual requirements upon the Government's statutory right to annul patents for fraud.¹⁰² Indeed, the right of individual defendants to object to infringement acts against them by interposing the defense of fraudulent procurement was raised by the Supreme Court as a reason against Government action.¹⁰³

It should be remembered, however, that these cases were all decided prior to the enactment of the Sherman Act, and that the Government's action as here proposed is not to annul a patent but to attack restrictions which, it alleges, cannot be justified by a purported patent-covering, due to the invalidity of that patent. This course of action has been specifically sanctioned by the Supreme Court in *United States v. United States Gypsum Co.*,¹⁰⁴ in the following terms:

The United States does not claim that the patents are invalid because they have been employed in violation of the Sherman Act and that a decree should issue canceling the patents; rather the government charges that the defendants have violated the Sherman Act because they granted licenses under patents which in fact were invalid. If the government were to succeed in showing that the patents were in fact invalid, such a finding would not in itself result in a judgment for cancellation of the patents.

⁹⁸ See generally Note, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505 (1964); Cullen & Vickers, *supra* note 93.

⁹⁹ See generally *ibid.*

¹⁰⁰ *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897); *United States v. American Bell Tel. Co.*, 128 U.S. 315 (1888).

¹⁰¹ Note, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505, 1509 (1964).

¹⁰² See *United States v. American Bell Tel. Co.*, 167 U.S. 224, 237-40, 267-69 (1897); *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Sys. Co.*, 169 F. Supp. 1, 21-25 (E.D. Pa. 1958), *aff'd*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 984 (1959).

¹⁰³ *United States v. American Bell Tel. Co.*, *supra* note 102, at 267. See generally Cullen & Vickers, *supra* note 93, at 116-17, 125-26. Private parties, on the other hand, have similar difficulties in bringing affirmative actions to declare patents invalid. For a recent example, see *Food Mach. & Chem. Corp. v. Walker Process Equip., Inc.*, 335 F.2d 315 (7th Cir. 1964), *cert. granted*, 85 Sup. Ct. 657 (1965) (No. 602) (counterclaim). See also *E. W. Bliss Co. v. Cold Metal Process Co.*, 102 F.2d 105, 110 (6th Cir. 1939); *Emhart Corp. v. Continental Can Co.*, TRADE REG. REP. (1964 Trade Cas.) ¶ 71316 (S.D.N.Y. 1964); *I.C.E. Corp. v. Armco Steel Corp.*, 201 F. Supp. 411, 413-14 (S.D.N.Y. 1961). *But cf. Stewart-Warner Corp. v. Westinghouse Elec. Corp.*, 325 F.2d 822, 827 (2d Cir. 1963), *cert. denied*, 376 U.S. 944 (1964).

¹⁰⁴ 333 U.S. 364 (1948).

In an antitrust suit instituted by a licensee against his licensor we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition, even though the licensee has agreed in his license not to do so. . . . In a suit to vindicate the public interest by enjoining violations of the Sherman Act, the United States should have the same opportunity to show that the asserted shield of patentability does not exist.¹⁰⁵

The right of the Federal Trade Commission to proceed against restrictive arrangements carried by doubtful patents would seem equally well established by this language.¹⁰⁶ The previously mentioned *American Cyanamid* decision¹⁰⁷ indicates the feasibility of FTC action in this field. While an evaluation of the feasibility of this approach for the Commission of the European Economic Community would be foolhardy, absent a thorough review of the exclusive roles played by the various national patent offices,¹⁰⁸ the present drive toward a unified patent system¹⁰⁹ at least makes it appropriate and likely that the problem is now being reviewed.¹¹⁰ Certainly the position of the Commission on the entire patent-antitrust relation has not yet jelled.¹¹¹ The Community's powers to request harmonization of

¹⁰⁵ *Id.* at 387-88 (footnote omitted); cf. *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944).

¹⁰⁶ See Note, *Improperly Procured Patents: FTC Jurisdiction and Remedial Power*, 77 HARV. L. REV. 1505 (1964). More specifically addressed to the type of remedy available to the FTC is Note, *Compulsory Licensing of Patents by the Federal Trade Commission*, 59 NW. U.L. REV. 543 (1964).

¹⁰⁷ TRADE REG. REP. ¶16527 (FTC Aug. 8, 1963).

¹⁰⁸ For a comparative study of these roles, see AUFBAU, VERFAHREN UND RECHTSSTELLUNG DER PATENTÄMTER (Ulmer ed. 1960). On the possibilities of actions in civil courts, see BOSSUNG, GRUNDFRAGEN EINER EUROPÄISCHEN GERICHTSBARKEIT IN PATENTSACHEN 33 (1959).

¹⁰⁹ For a brief review of the efforts of the EEC to approximate national patent laws, and the later decision to prepare a draft convention, see Stein, *Assimilation of National Laws as a Function of European Integration*, 58 AM. J. INT'L L. 1, 25-27 (1964). See also BOARD OF TRADE, TRANSLATION OF A DRAFT CONVENTION RELATING TO A EUROPEAN PATENT LAW (HMSO 1962); OUDEMANS, THE DRAFT EUROPEAN PATENT CONVENTION (1963); 45 J. PAT. OFF. SOC'Y 153 (1963). On the motivation and recent history of these efforts, see Robbins, *The European Patent Convention—Some Present Viewpoints of the European Patent Profession*, 45 J. PAT. OFF. SOC'Y 295 (1963). A fuller study of earlier harmonization and unification efforts is REIMER, EUROPÄISIERUNG DES PATENRECHTS (1955).

¹¹⁰ For discussions of some of the substantive and procedural problems still being debated, see Froschmaier, *Some Aspects of the Draft Convention Relating to a European Patent Law*, 12 INTERNATIONAL & COMPARATIVE L.Q. 886 (1963). Some variant views are expressed by Klotz, *A Great Opportunity Lost?—The New Draft Relating to a European Patent Law*, 45 J. PAT. OFF. SOC'Y 416 (1963).

¹¹¹ See pp. 643-47 *supra*. In recent months there has been a renewed debate concerning the applicability of article 36 of the Rome Treaty to prevent the proscription of restrictive patent licenses under article 85. The Director General of Competition has rejected this argument; for the most accessible version of his position, see VerLoren van Themaat, *supra* note 80, and the version in 1 COMMON MARKET L. REV. 428 (1964). In fact he does not deny the possible applicability of article 85

national laws to achieve Community aims give its authorities the possibility of adopting some such procedure.¹¹²

D. A Suggested Analysis Into the Parties' Position

The first major line of inquiry, into the relative position of the parties, is a more traditional undertaking, and one that is illustrated by at least some American decisions.¹¹³ An example is *United States v. Crown Zellerbach Corp.*,¹¹⁴ in which the Government attacked a patent license agreement between American Linen Supply and Crown Zellerbach, by which the latter received an exclusive license under patents covering the mechanism for dispensing towels from cabinets, limited to the eastern United States, and covering all end uses except sales to linen or cloth towel jobbers. This field and the western part of the country were thus reserved to American Linen Supply, apparently by express provision to that effect in the agreement. In sustaining the

to the types of licenses discussed here. See VerLoren van Themaat, *Gedanken zur Wettbewerbspolitik im Gemeinsamen Markt*, [1963] GRUR-AIT 555.

The debate was continued by Monnet, *La Portée De L'Article 36 Par Rapport A L'Article 85 Du Traité De La C.E.E.*, "Concernant les Contrats de les Licence de Brevets," 12 Soc. Ec. WER 181 (1964), who reasserts the primacy of patent property over antitrust considerations. To this see the remarks of the Procureur Général (Langemeijer) in Hoge Raad (Civ. Kamer), April 10, 1964 (*Constructa Werke G.m.b.H. v. De Geus en Uittenboger N.V.*), in 12 Soc. Ec. WER 267, 269 (1964), and Hepp, *Les Conventions de License Exclusive*, 12 Soc. Ec. WER 85 (1964).

¹¹² Rome Treaty, art. 100. See generally Stein, *Assimilation of National Laws as a Function of European Integration*, 58 AM. J. INT'L L. 1 (1964).

¹¹³ See, e.g., *Stearns v. Tinker & Razor*, 252 F.2d 589, 600-05 (9th Cir. 1958); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 176 F.2d 799, 803 (1st Cir. 1949), *aff'd*, 339 U.S. 827, 834-35 (1950); *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Sys. Co.*, 169 F. Supp. 1, 28-31 (E.D. Pa. 1958), *aff'd*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959). I am of the opinion that even *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128-30 (9th Cir. 1954), is compatible with the text. Compare *McCullough v. Kammerer Corp.*, 166 F.2d 759, 762-63 (9th Cir.), *cert. denied*, 335 U.S. 813 (1948) (condemning a superfluous agreement, the aim of which could have been achieved, via the patents, without agreement); *Grand Caillou Packing Co.*, TRADE REG. REP. ¶ 16927, at 21955, 21978-88 (FTC June 4, 1964) (discriminatory licensing of patents).

More generally, I believe that once cases like *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931), and especially *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), were decided, the analysis and methodology suggested in the text became legitimate. Riesenfeld contends that the passage of § 271(d) of the 1952 Patent Act, 66 Stat. 811 (1952), 35 U.S.C. § 271(d) (1958), did not change this situation. *The New United States Patent Act in the Light of Comparative Law*, 102 U. PA. L. REV. 291, 320-21 (1954). Compare *Buxton, Inc. v. Julen, Inc.*, 223 F. Supp. 697 (S.D.N.Y. 1963). For a review of the more cautious approach to this problem in Europe, see Reimer, *Verträge über Patente, Gebrauchsmuster und Sortenschutzrechte*, in GEMEINSCHAFTSKOMMENTAR 575, 583 (2d ed. 1963). See also BGH, *Decision of Aug. 8, 1960 (Kartellsenat)*, in 63 GRUR 627 (1961) (Ger. Fed. Rep.).

An idea of the complexity of applying the patent misuse concept to the appropriate licensing of process patents can be gleaned from *Ethyl Corp. v. Hercules Powder Co.*, 232 F. Supp. 453 (D. Del. 1964).

¹¹⁴ 141 F. Supp. 118 (N.D. Ill. 1956); *accord*, *United States v. American Linen Supply Co.*, 141 F. Supp. 105 (N.D. Ill. 1956). For a recent case that manifests a similar freedom to explore the economic background of such a license, see *Benger Labs., Ltd. v. R. K. Laros Co.*, 209 F. Supp. 639 (E.D. Pa. 1962), *aff'd per curiam*, 317 F.2d 455 (3d Cir.), *cert. denied*, 375 U.S. 833 (1963).

complaint under section 1 of the Sherman Act against a motion to dismiss, the court discussed the possible use of both territorial and customer restrictions to effect a restraint of trade. It assumed the legality of territorial restrictions per se, basing its conclusion, in my opinion erroneously, upon the assignment statute of the Patent Code.¹¹⁵ It went even further and approved these clauses as "a reasonable means for the patentee to secure the reward granted to him,"¹¹⁶ an unnecessary and perhaps inappropriate remark, but ruled that such provisions are subject to antitrust scrutiny when imposed upon the patentee "for the benefit of the licensee."¹¹⁷ To the extent that this merely condemns specific contractual restrictions upon the patentee aliunde the patent usage, it is not particularly noteworthy. More is involved than that, however, in two respects. First, while the court distinguished *General Talking Pictures Corp. v. Western Elec. Co.*,¹¹⁸ ostensibly on the ground that in *Crown Zellerbach* the restrictions regarding customers were for the licensee's benefit, in fact the "exclusion" of American Linen Supply from paper sales was the natural concomitant of its grant to Crown Zellerbach of an exclusive license to sell to paper jobbers. Any "agreement" by Zellerbach would have been superfluous—the limitation inhered in the exclusive partial license. Secondly, the court criticized as unreal the nature and thus the purpose of the "end-use" limit in this limited license:

[The] General Talking Pictures case involved separate identifiable fields of use of the patented device; the home radio market on the one hand, and the commercial sound recording and reproducing market on the other. From the

¹¹⁵ 66 Stat. 810 (1952), 35 U.S.C. § 261 (1958). For a discussion of its use to justify restrictions, especially territorial, in licenses, see *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128 (9th Cir. 1954); Note, *Patent Use Restrictions*, 75 HARV. L. REV. 602 (1962).

While *Brownell v. Ketcham Wire & Mfg. Co.*, *supra*, is generally followed without question, see, e.g., *Lindbeck v. Wyatt Mfg. Co.*, 324 F.2d 807 (10th Cir. 1963), some uncertainty about territorial restrictions has been expressed. See 1963 AMERICAN PATENT L. ASS'N BULL. 19. Compare *id.* at 159 (resolution of that doubt).

The Draft European Patent Convention, see note 109 *supra*, contains a similar, perhaps more purposeful, clause. Article 29(1) provided that "a European patent may be licensed for the whole or part of the territories in which it is effective." For an explanation of the purpose of this provision and the dispute over article 29 as a whole due to its antitrust implications, see OUDEMANS, *THE DRAFT EUROPEAN PATENT CONVENTION* 39-41 (1963); Weiser, *Patent and Antitrust Development and Prospects of the European Economic Community*, 8 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 1, 14-16 (1964) (interview with Dr. Franz Froschmaier, Secretary, Working Group Patents, EEC, and comments of Dr. Eberhardt Günther, President, German Federal Cartel Office).

¹¹⁶ *United States v. Crown Zellerbach Corp.*, 141 F. Supp. 118, 127 (N.D. Ill. 1956).

¹¹⁷ *Id.* at 127-28.

¹¹⁸ 305 U.S. 124 (1938). For the treatment of these "end-person" restrictions in German law, see Kellermann, *Die gewerblichen Schutzrechte im Gesetz gegen Wettbewerbsbeschränkungen*, 10 WUW 603, 605-06 (1960).

complaint it appears that the paper towel cabinets containing ALSCO's patented parts are used in precisely the same way by the paper jobbers allocated to Crown and by the linen supply companies reserved to ALSCO. Simple division of a list of potential customers in a single market presents considerations not dealt with in the cited cases, considerations that can be weighed only upon a full record disclosing the extent of competition between paper jobbers and linen supply companies and the intention behind the allocation.¹¹⁹

Why so—if limited field licenses are a “reasonable means of securing the patentee’s reward”—unless the criteria suggested in this paper are indeed the relevant ones? The inference of the last quoted sentence may be even more radical than necessary, if extending to a situation where the licensor through its patents could have precluded all competition in linen and paper towel dispensing. An actual or potential restraint of competition beyond that exercisable by the patent monopolist under an appropriately strict reading of its patent coverage should probably first be found before any such license is condemned. That aside, however, the particular language used by the court seems to show a clear awareness that restraints attackable as antitrust violations can occur even when cast as inherent limitations in a unilateral license. The test is not foreclosed by the license form.

The central problem in this general line of inquiry as to the parties’ position is the disparate competitive potential of the patentee and of his licensees. Undoubtedly it is often the licensing of patents, not their direct use, that enables a patentee to exploit their financial potential. It is nevertheless a matter of concern for antitrust policy when a patent owner, which itself is a minor factor in a given competitive market, restrictively licenses one or more major competitors, even if the coverage is narrow and specifically relatable to the patent. To use the *Crown Zellerbach* example again, suppose that a towel dispenser producer, until now active in California only, obtains patent coverage on an improved dispenser mechanism and restrictively licenses the two major producers in that field, which are active competitors in the entire United States including California, one to the eastern territory, the other to the western, excluding California. As a result competition between the two major competitors has been ended through a “legal” division of territory, and, incidentally, the patentee has reserved a safe market for himself. Alone, and exploiting the patent monopoly, the patentee was in no position to cover the demand and would have faced competition from admittedly inferior “unimproved”

¹¹⁹ *United States v. Crown Zellerbach Corp.*, 141 F. Supp. 118, 128 (N.D. Ill. 1956).

cabinets. It seems that here, too, a territorial license can, in a particular factual context, work a restraint of trade beyond that legitimated by the patent monopoly and thus can be subject to normal antitrust proscriptions.

In summary the present labels used to dispose of patent licensing problems—"inherent restrictions," "legitimate reward," and the like—are labels for conclusions, not aids to analysis, and should be abandoned in favor of a more pragmatic approach. A very cursory and summary attempt to sketch some of the factors relevant to such an approach has been attempted. In its defense one more comment should be made. It can be argued that all of the problems discussed could be attacked by traditional means—that they are all extrinsic, separate, or underlying contractual arrangements accompanying the ostensibly autonomous patent license and are therefore in any event subject to the Sherman Act or the Rome Treaty.¹²⁰ Perhaps so. Perhaps territorial divisions through multiple parallel licenses are only the result of prior agreement to divide markets;¹²¹ certainly mutual cross licenses dividing territories could be challenged, without more.¹²² But the problem is one of practice and of proof. In the Common Market especially, where the self-policing concept leaves the enforcement agency to a great degree at the mercy of its incoming mail,¹²³ failure to require that the Commission be notified of these license arrangements, because of some imagined conceptual barriers to their scrutiny, will result *pari passu* in a failure to uncover these "underlying" agreements, which by their nature do not often come to light save through the licenses. In the United States the issue is more one of appropriate analysis of license arrangements and of less timidity in reviewing them in context; the substantive decisions, so far as can be determined from the factual record available within each reported opinion, seem entirely reasonable to date.¹²⁴

V. THE ANNOUNCEMENT OF DECEMBER 21

The December 21 Announcement¹²⁵ has been indirectly criticized by the foregoing analysis. In any realistic sense, however, this

¹²⁰ See, e.g., Deringer, *Kommentator zum EWG—Kartellrecht Art. 85 Abs. 1 Anmerkung 57*, 13 WuW 65-66 (1963).

¹²¹ *Accord*, Standard Oil Co. v. United States, 283 U.S. 163 (1931); see note 72 *supra*.

¹²² See note 70 *supra*. A good recent example is *In re Automatic Tel. & Elec. Co., Ltd.'s Application*, 109 SOL. J. 28 (1965).

¹²³ See Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101, 143-44 (1964).

¹²⁴ More accurately, I would say this of the modern, post-1945 opinions. For a collection of cases under the relevant categories, see NORDHAUS & JUROW, *PATENT-ANTITRUST LAW* 62-75 (1961).

¹²⁵ See note 5 *supra*.

announcement immunizes none of these challengeable practices, because of two wide-ranging limitations by which it circumscribed the immunity it seemed to grant:

The above statement [of per se immunity] does not apply to patent pools, cross-licenses and multiple parallel licenses.¹²⁶

The question of the applicability of article 85(1) of the Treaty to agreements . . . concerning the use of other industrial property rights [trademarks, etc.] or of legally unprotected "achievements" of technological benefit [know-how] . . . must be reserved for a later decision.¹²⁷

It is difficult to conceive of any important licensing arrangements that are completely unilateral in scope,¹²⁸ unless what are essentially cross-licenses are fragmented into single contracts in a simple-minded attempt to evade the notification issue and come under the immunity. Even where a one-way license is granted, the majority of such cases probably include at least a grant back provision, the use of which not only precludes extension of the announcement's grant of immunity to any such agreement, but may also make the agreement subject to notification.¹²⁹ The only license of any significance that may fit the narrow confines set up by the announcement is a license granted ancillary to a dealership agreement¹³⁰ or to a sale or lease of a product to a consumer. These are, if anything, "vertical" restraints inherent in a particular distribution structure, not horizontal restraints between actual or potential competitors. While these, too, should be available for scrutiny, they are more readily acceptable than are horizontal arrangements.

¹²⁶ 1962 J.O.C.E. 2918, 2922-23.

¹²⁷ *Id.* at 2923.

¹²⁸ For an impression of prevalent types of licenses, see Behrman, *Licensing Abroad of American-Held Patents, Trade-Marks, and Techniques*, 1 PATENT, TRADE-MARK & COPYRIGHT J. OF RESEARCH & EDUCATION 145 (1957); Behrman, *Foreign Licensing*, *id.* at 220, 228; Behrman, *Advantages and Disadvantages of Foreign Licensing*, 2 *id.* at 137, 138-41 (1958); Behrman, *Licensing Abroad Under Patents, Trademarks, and Know-How by U.S. Companies*, 2 *id.* at 181, 220-23, 249-62; Behrman & Schmidt, *Royalty Provisions in Foreign Licensing Contracts*, 3 *id.* 272, 281-84 (1959); Behrman & Schmidt, *New Data on Foreign Licensing*, 3 *id.* 357. For more general impressions, see Frowein, *Der deutsche Lizenzverkehr mit dem Ausland*, [1964] GRUR-AIT 565; Lichtenstein, *Der Lizenzvertrag mit dem Ausland*, 17 NJW 1345 (1964).

¹²⁹ See Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101, 113 (1964); Deringer, *Inhalt und Auswirkungen der ersten Kartellverordnung der europäischen Wirtschaftsgemeinschaft*, [1962] GRUR-AIT 283, 294.

¹³⁰ See, e.g., *F. C. Russell Co. v. Consumers Insulation Co.*, 226 F.2d 373 (3d Cir. 1955); *Skee Ball Co. v. Cohen*, 286 Fed. 275 (E.D.N.Y. 1922). See also *Technical Tape Corp. v. Minnesota Mining & Mfg. Co.*, 247 F.2d 243 (2d Cir. 1957).

The limitation concerning know-how is equally important in practice, and for the same reasons.¹³¹ That the Commission saw fit to exclude licenses involving know-how from the benefits of the announcement is somewhat puzzling; most likely, the reasons were legalistic as well as practical.¹³² Know-how, though the subject of protection by national law,¹³³ is not an industrial property right conferred or attributed to a given thing by any official act of a national authority, nor is it uniformly defined by each municipal legal system.¹³⁴ It has the characteristic of being consumed in the manufacturing or at least distribution process; unlike patent rights, know-how does not normally run with products manufactured through its use so as to subject the unknowing purchaser to infringement-like liability. Conceivably it is located at the seat of the enterprise that developed or acquired it. This, it is understood, is the view favored by the German Federal Cartel Office. On the other hand, while it can be licensed for use anywhere, its vindication against illegal exploitation may depend, as stated, upon the definition placed upon it by the law of the state in which the use occurred, rather than of the state of the licensor's domicile, although this approach may be qualified by the application of certain conflict of laws doctrines.¹³⁵

In any event these distinguishing characteristics apparently made it expedient to apply article 85 to the restricted know-how license, limited, *e.g.*, in territory or product end use. In fact it should not be more difficult, conceptually, to test a restriction tied to (or "inherent in") a license of know-how under the realistic standards suggested above than should be the case with patent licenses. The differing

¹³¹ See van Notten, *Know-How Licensing in the Common Market*, 38 N.Y.U.L. REV. 525 (1963); studies cited note 128 *supra*.

¹³² See Buxbaum, *The Applicability of the German Cartel Law to Licenses of Foreign Patents*, 8 ANTITRUST BULL. 925, 929-30, 931 n.16 (1963); Ladas, *Legal Protection of Know-How*, 7 PATENT, TRADEMARK & COPYRIGHT J. OF RESEARCH & EDUCATION 397, 415-17 (1963).

¹³³ See, *e.g.*, § 17, Gesetz gegen den unlauteren Wettbewerb (Law against Unfair Competition), June 7, 1909, [1909] RGBL 1499 (Ger.), as amended. Statutory protection in other European countries is more general. See Ladas, *supra* note 131; van Notten, *supra* note 132. For a study of its treatment in German and EEC law, see Skaupy, *Know-how Vereinbarungen und Kartellrecht*, 66 GRUR 539 (1964).

¹³⁴ While protection of know-how is usually treated as a problem of unfair competition, its aggressive usefulness, as in restrictive licensing, makes it more properly a subject for separate discussion. For such particular discussion, see Macdonald, *Know-How Licensing and the Antitrust Laws*, 46 J. PAT. OFF. SOC'Y 338, 346-48 (1964); Nastelski, *Der Schutz der Betriebsgeheimnisse*, 59 GRUR 1 (1957); Rotondi, *Unfair Competition in Europe*, 7 AM. J. COMP. L. 327, 334-37 (1958). Compare note 133 *supra*, with van Notten, *supra* note 131, at 533 n.36. For comparative discussions of unfair competition, see, *e.g.*, Derenberg, *The Influence of the French Code Civil on the Modern Law of Unfair Competition*, 4 AM. J. COMP. L. 1 (1955); Rotondi, *Unfair Competition in Europe*, 7 AM. J. COMP. L. 327 (1958).

¹³⁵ See, *e.g.*, Wengler, *Laws Concerning Unfair Competition and the Conflict of Laws*, 4 AM. J. COMP. L. 167 (1955); van Notten, *supra* note 131, at 544.

standards set up by the Commission are less an indication of any failure to appreciate the former's nature than of the futility of its formal approach to the latter.

The December 21 Announcement, of course, must be read in conjunction with the definition of nonnotifiable, though not necessarily immune, agreements found in article 4(2) of Regulation 17.¹³⁶ It is not yet possible to predict what will be the attitude of the Commission toward patent licenses as concerns the requirement that it be notified of all arguably harmful arrangements, whether two-party or multi-lateral.¹³⁷ The question is not alone one of notification, since the flagrant cases will hardly be submitted, but of establishing a policy toward all of these agreements. While a strict policy of denying exemption to many licensing arrangements will hardly encourage their submission, it might prevent their execution in the future. The trouble with such an approach is that it throws out the baby with the bath water. No one disputes the legitimacy of many if not most agreements and of their probable exempt status under article 85(3); yet such a strict warning, when coupled with an undefined immune area and a further undefined nonnotifiable area, puts cooperating enterprises to a sorry choice. They may forego doubtful arrangements or hide their existence. Neither is a satisfactory social result. If maximum freedom to achieve technical progress is desired, without the abandonment of a genuine antitrust enforcement policy, and if the multiple-role prosecutor and judge-agency structure is for better or worse continued,¹³⁸ then what may be needed is as universal a notification procedure as possible. Business interests could then press legitimate licensing arrangements to their fullest without fear of having a tentative loophole retroactively closed. Evaluation of specific agreements could go on in context, and the possible delay of a year or two in working through them would be of much less significance than the complete breakdown of evaluation likely at present.¹³⁹ A fuller notification system may, as stated, bring no change in the handling of truly illicit arrangements except to make them somewhat harder to carry through; but it would create a healthier climate as to that greater number of agreements which should be scrutinized both to relieve the

¹³⁶ See note 4 *supra*.

¹³⁷ This refers both to arrangements presently notifiable and to those presently nonnotifiable, but which may in time be made subject to notification.

¹³⁸ Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101, 143-44 (1964).

¹³⁹ Appropriate use of the temporary nonnotification procedure would, admittedly, allow a more orderly disposition of this workload, but even with relatively full notification orderly disposition should be achievable under the suggested working conditions outlined in the text. See pp. 665-66 *infra*.

doubts of their potential signatories and to effectuate the overriding public policy set forth in the Rome Treaty.

The actual standards to be used in condemning or exempting submitted agreements will have to be derived from experience. Obviously the full inquiry above outlined need hardly be undertaken for every "inherently restrictive" patent license. Even in the horizontal cases, a rule of per se illegality for all licenses not passing muster under the mentioned tests would probably be too severe. The always existing, if always uncertain, justification of an issued patent may itself be a countervailing consideration no matter what the soundness of the patent. In that event it might be more appropriate to proscribe only licenses between parties enjoying an oligopolistic or substantial position in the relevant market.¹⁴⁰ Certainly in vertical cases the license restraints should be as open to a "rule of reason" defense as are identical distribution agreements not covered by patents.¹⁴¹

An initial exemption might be granted for most licenses after a low-threshold screening procedure.¹⁴² The notification system, however, could give the Commission the information necessary for allowing

¹⁴⁰ Compare the "abuse of dominant position" regime of article 86 of the Rome Treaty, which can be applied to the relevant activities of oligopolists. See Buxbaum, *Antitrust Regulation Within the European Economic Community*, 61 COLUM. L. REV. 402, 417 (1961); DERINGER, *op. cit. supra* note 120.

¹⁴¹ At least to the extent of the review suggested in *White Motor Co. v. United States*, 372 U.S. 253 (1963), and especially in the concurrence of Mr. Justice Brennan. *Id.* at 264. On the merits, see Note, *Restricted Channels of Distribution Under the Sherman Act*, 75 HARV. L. REV. 795 (1962). On the review problem generally, see Note, *Patent Abuse and Antitrust: The Per Se Rule*, 64 HARV. L. REV. 626 (1951). For an interesting recent view of the "rule of reason" as a method rather than a substantive concept, see Loevinger, *The Rule of Reason in Antitrust Law*, 50 VA. L. REV. 23 (1964).

It has been suggested, in my opinion erroneously, that the Commission has less discretion in this field than a "rule of reason" analysis would allow. See Beier, *Die Kartellrechtliche Beurteilung von Alleinvertriebsverträgen im Gemeinsamen Markt und den USA*, [1964] GRUR-AIT 84, 86-87.

¹⁴² This would, however, require notification. In addition it probably could not be satisfied by the mass ("categorical") exemption procedure as to which the Council of Ministers is presently considering a new regulation. A translation of the draft proposal may be found in 7 EUROPEAN ECONOMIC COMMUNITY BULL. (Supp. April 1964). For the instructive parliamentary debate thereon, see Europäisches Parlament, Verhandlungen, Doc. VI/64, No. 71, at 99-112. (Sitzungsbericht, May 11-14, 1964).

See also Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101, 144-44b (1964); Deringer & Tessin, *Gruppenausnahmen im EWG-Kartellrecht in Aussicht*, 10 AUSSENWIRTSCHAFTS DIENST DES BETRIEBS-BERATERS 71 (1964). For a variant approach, see Catalano, *Les Contrats dit "d'exclusivité" et l'art. 85 du Traité C.E.E.*, [1964] RECUEIL DALLOZ 173, 180 (use of an article 155 (Rome Treaty) Council directive to fix the criteria under which the Commission should grant 85(3) exemptions).

A liberalized version of the "categorical exemption" regulation was promulgated by the Council of Ministers on February 2, 1965. It seems to extend to patent licenses and even to licenses of know-how, in terms broader than those used in Regulation 17. See Ageuce Internationale D'Information pour la Presse, Europe Documents No. 302, Feb. 6, 1965.

it to check interesting licenses in their economic context.¹⁴³ In this connection the limited duration of any exemption¹⁴⁴ may permit the Commission to refuse to renew an exemption because an intervening investigation made suspect either the industry or the firm.¹⁴⁵ While refusal to renew is not completely discretionary, but requires changed circumstances,¹⁴⁶ the fruits of such an investigation should justify a finding of changed circumstances.¹⁴⁷ Alternatively, a "conditional exemption," pending this type of investigation, might be granted upon the consent of the submitting parties,¹⁴⁸ who would thereby gain a degree of immunity from official proceedings or private litigation.¹⁴⁹

This is not the place to debate whether a patent misuse jurisprudence may develop out of private litigation, particularly in the defense of infringement actions.¹⁵⁰ Viewed from the needs of the Commission, at least, the patent misuse doctrine may be an appropriate tool for administrative proceedings.¹⁵¹ In this case, however, the analogy to *United States Gypsum*¹⁵² does not seem fully appropriate:

¹⁴³ At least if field definitions in licenses are part of the material submitted. At present the Commission permits the deletion of the technological parts of the license (including definitions of patent coverage) in the submissions for negative attestations and exemptions. See Forms A and B appended to Regulation 27, 1962 J.O.C.E. 118.

¹⁴⁴ Regulation 17, art. 8(1), 5 J.O.C.E. 207 (1962), CCH 1963 COMMON MKT. REP. ¶ 2471.

¹⁴⁵ Regulation 17, arts. 11-15, 1962 J.O.C.E. 208-10, CCH 1963 COMMON MKT. REP. ¶ 2501-41, allow for such investigations. For a more limited view of the Commission's investigatory powers in this regard, compare Würdinger, *Zum Auskunftsrecht der Organe der EKGS und der EWG gegenüber privaten Unternehmen*, 14 WtW 579 (1964).

¹⁴⁶ Regulation 17, art. 8(3)(a) 1962 J.O.C.E. 207, 1963 CCH COMMON MKT. REP. ¶ 2471: "where the *de facto* situation has changed with respect to a factor essential in the granting of the decision."

¹⁴⁷ This is admittedly a broad reading of article 8(3)(a); however, it gives appropriate weight to article 8(2), which requires that all the article 85(3) (Rome Treaty) conditions essential to the granting of the original exemption continue to exist. A finding that this is no longer the case—especially as to the one involving the ability of the challenged practice to empower the participants to eliminate competition in a substantial part of the relevant product market—, derived from such a more intensive interim investigation, should not be precluded because of the earlier, less well-founded exemption.

¹⁴⁸ This approach seems permissible because of the inference in article 8(3)(b) that stipulations may be attached to the originally granted exemption.

¹⁴⁹ Regulation 17, art. 9(1), 1962 J.O.C.E. 207, 1963 CCH COMMON MKT. REP. ¶ 2481. For discussion see Buxbaum, *Incomplete Federalism: Jurisdiction Over Antitrust Matters in the European Economic Community*, 52 CALIF. L. REV. 56, 60, 68-73 (1964).

¹⁵⁰ *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173 (1942). The relationship between these matters is discussed in *Stearns v. Tinker & Rasor*, 252 F.2d 589, 600-01 (10th Cir. 1958). See Weiser, *Antitrust Policy and Industrial Property in the European Economic Community*, 38 N.Y.U.L. REV. 496, 511-12 (1963); cases cited note 113 *supra*.

¹⁵¹ But see van Notten, *supra* note 131, at 545 n.95 (speaking of the misuse defense in private infringement suits). For a strong criticism of the current patent misuse doctrines, see Nicoson, *Misuse of the Misuse Doctrine in Infringement Suits*, 9 U.C.L.A.L. REV. 76 (1962).

¹⁵² *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948).

the respondent failing the suggested tests has misused its patent and therefore cannot claim immunity for the uncovered practices. The agency is not invalidating the patent, but denying it effect in the particular situation.¹⁵³

The present procedure cannot yet be definitely evaluated, despite the fears expressed here. The dangers inherent in it, however, can be suggested. The procedure may represent too costly a concession to the enterprises to be supervised; at the same time it leaves them in far too uncertain a position, which is bound to create further demands for "clarification"—i.e., further substantive concessions.¹⁵⁴ The procedure is unwieldy, while its formal nature and in part conflicting aims will always lead to some avoidance tactics, even if the conservative approach of full notification is adopted.¹⁵⁵ Nevertheless, to do less than to embark upon this major administrative task, requiring enormous resources and much sophistication, might be the first step on the road to doing nothing. It may be that one way to ease the task is to avoid conceptual snares of the kind discussed in this Article.

¹⁵³ At least where the analysis stressed the "persons" involved. Where the tests resulted in challenging scope or validity of the patents involved, the *Gypsum* rationale would apply.

¹⁵⁴ See, e.g., Gleiss & Hootz, *Gruppenfreistellungen nach EWG-Kartellrecht für Alleinvertriebs und Patentlizenzenverträge*, 17 BETRIEBS-BERATER 1304 (1962).

¹⁵⁵ See generally Buxbaum, *Patent Licensing: A Case Study on Antitrust Regulation Within the European Economic Community*, 9 ANTITRUST BULL. 101 (1964); Steindorff, *Die Durchsetzung des Wettbewerbsrecht in der EWG—Wirksamkeit und Rechtsstaatlichkeit*, in ANFGABE DER WELTBEWERBSPOLITIK IM GEMEINSAMEN MARKT 47 (1964).