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UNITED STATES ANTITRUST LAWS AND INTERNATIONAL TRANSFERS OF TECHNOLOGY—THE GOVERNMENT VIEW

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I RECALL that early in my career in the Antitrust Division one of my colleagues who attended a settlement conference in an international patent and know-how licensing case, came out of it and said, "You know, listening to the discussion was a lot like following a three-dimensional chess game."

I recalled that remark as I tried to analyze this topic, and I now think perhaps the subject is akin to a five-dimensional chess game. Starting with a body of quite old American law, which deals with the protection of the patent right and the various statutes that have enforced the constitutional provision providing for a patent system and the encouragement of invention,[1] you superimpose the Sherman Antitrust Act.[2] Add, perhaps as a side issue, the common law and various state laws concerning trade secrets and ancillary restraints.[3] Mix in federal or state law on trademarks,[4] realizing that in international patent licensing you may have to deal with the patent laws of many other countries together with varying foreign trademark laws;[5] and finally you must consider the usual international problems of jurisdiction and extraterritoriality.[6]

When I talk to classes about this there is usually a student who asks something like, "Well, what if I have an American patent, trademark and know-how license with a British sub-license, and I own American rights and the British rights; I license the Englishman and we have a restriction in the contract which is valid under English law but might be illegal under American antitrust law?" Normally I answer wisely

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1. U.S. Const. art. I, § 8, cl. 8; 35 U.S.C. §§ 101-03 (1970). See discussion in Graham v. John Deere Co., 383 U.S. 1, 5-12 (1966).

2. 15 U.S.C. §§ 1 et seq. (1970).

3. See generally Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Goodwin, Misappropriation: A Retreat from the Federal Patent and Copyright Preemption Doctrine, 43 Fordham L. Rev. 239 (1974).

4. The relevant federal law is the Lanham Act, 15 U.S.C. §§ 1051 et seq. (1970).

5. See, e.g., John Lecroy & Son, Inc. v. Langis Foods, Ltd., 376 F. Supp. 962 (D.D.C. 1974).

6. See generally W. Fugate, Foreign Commerce and the Antitrust Laws 29-143 (2d ed. 1973).

that I cannot answer that question without a month of factual and legal investigation.

Let me start, first, with some of the reasons why the problem does not lend itself to simple answers. One qualification, which patent lawyers are fond of stressing and which an economist can see most clearly, is that the concept "patent monopoly" and the words "antitrust monopoly," though related, are different. Antitrust philosophy started in England, I believe, with a suspicion of state-granted monopoly rights and the abuse thereof which has never entirely left the system. A patent, of course, is a state-granted monopoly right.

However, the idea of a monopoly in antitrust is to some extent related to the economic concept of a significant and relevant market. Obviously, not all patents are economic monopolies in any meaningful sense. One can illustrate this point easily. If I were to invent a cigarette lighter which could be worked with the toe, rather than the finger, I could probably get a patent on it if no one else had ever thought of it. But since there are at least a thousand other varieties of devices which will light a cigarette, the economic importance of my monopoly right would be minimal, and one would probably be indifferent to the way I dealt with it.

Thus, antitrust really concerns itself with those particular instances where the patent or trademark right coincides with an industry or with a product of great commercial significance; in other words, where a substitute technology is usually not immediately available at equivalent costs. An exception is the case of patent fraud, which may well be an antitrust offense regardless of the economic importance of the subject of the patent.[7]

Another peculiarity of the patent right is that it is strictly territorial, at least at present[8]—that is, an American patent provides a monopoly only in America. Consequently, if you are going to use the American patent right to hold a monopoly anywhere else, you can not achieve that under the American patent system. You achieve it essentially by foreign registration and/or by means of some type of contract. But, of course, the legality of contracts has normally been governed, among other things, by the antitrust laws.

Thus, although antitrust rules have sometimes been expressed in terms of codes of conduct, with specific "do's" and "don'ts" about what kinds of patent licensing practices may or may not be legal, I want to stress that, in applying the antitrust laws to patents, before condemning a restriction or practice, we usually first determine whether the

7. See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965); Stern, A Future Look at Patent Fraud and Antitrust Laws, 52 J. Pat. Off. Soc'y 3 (1970).

8. See Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 531 (1972).

patent, know-how or trademark is of commercial or economic significance over any period of time.

In trying to work through this difficult area, my premise is that the application of the antitrust laws should be sensible and consistent. I find that it all culminates in essentially three antitrust issues or dangers; perhaps under these, one can make some sense of it. We center on three analytical issues: whether there has been over-extension of the technology right; what subdivisions of the right should be permissible; and whether exchanges or combinations of rights may raise cartel dangers. Although I think that, to a large extent, the third area is the most important, the other two are not to be slighted.

Over-extension of a technology right assumes that a person armed with a governmentally protected monopoly is like someone with a dangerous animal, and thus must be subject to strict responsibilities. I think the most dangerous over-extension is to obtain the legal monopoly fraudulently. This has become an important area of American antitrust litigation.[9]

If you can convince the Patent Office to give you a monopoly when, in fact, your product should not be patentable because some other person has already discovered it, you achieve the ultimate antitrust coup. You have a legal monopoly, and you have governmental protection against new competition. In *United States v. Union Camp Corp.*,[10] a company which obtained a patent monopoly had discovered during the application process that a competitor already had developed the technology. Since this rendered the product unpatentable, the company made an agreement with the competitor to share the monopoly with him if he would never disclose the fact that it wasn't patentable. We proceeded against them for a criminal, *i.e.*, intentional, violation of the Sherman Act's section 2 prohibition against monopolization, and obtained pleas in the suit.

Prevention of fraudulent acquisition of patent rights may be more important under United States law than under foreign law, because once the right is established we generally do not police profits, and we generally do not require licensing—with some exceptions.[11] Since we do neither of those things, and thus essentially allow a monopoly return to the inventor of a product of commercial significance, it becomes very important to determine whether the patent was valid in the first place. Because of this, we have had additional engraftings on the element of validity. One enlargement, as I have mentioned, is

9. See, e.g., In re Antibiotic Antitrust Actions, 333 F. Supp. 317, 320-24 (S.D.N.Y. 1971).

10. 1969 Trade Cas. ¶ 72,689 (E.D. Va.).

11. See Rhinelander, The Roche Case: One Giant Step for British Antitrust, 15 Va. J. Int'l L. 1, 34-37 (1974).

the doctrine that fraudulently obtaining a patent is an antitrust violation—a monopolization or an attempt to monopolize.

Secondly, an agreement with the licensee that he will not challenge the validity of the patent has been ruled to be against the public policy of the United States and unenforceable. The rationale behind this is that it is the public, not merely the licensee, which is injured if an invalid patent continues in its monopoly operation simply because of an agreement that someone directly benefiting from rights under the patent will not challenge its validity.[12]

Thirdly, we have developed a doctrine that misuse of the patent in an antitrust sense may cause it either to be invalidated,[13] or at least may require licensing or even royalty-free licensing.[14] All of these stem from our policy against excessive or abusive use of the patent monopoly right.

Also included within the concept of over-extension of the right, I think, are all the variety of practices which usually go under the heading of tie-ins. In the United States as well as in many other countries and under a number of international codes, it is usually held to be illegal and improper for a person holding a valuable patent right to require, as a condition of licensing that right, that the licensee take a second patent,[15] a package of patents,[16] related technology,[17] another product that is separate,[18] agree not to deal in the products or technology of a second company,[19] exclusively grant back any im-

12. Lear, Inc. v. Adkins, 395 U.S. 653, 670-71 (1969).

13. United States v. Glaxo Group Ltd., 410 U.S. 52, 58-60 (1973).

14. Id. at 59; Besser Mfg. Co. v. United States, 343 U.S. 444 (1952).

15. United States v. Loew's, Inc., 371 U.S. 392 (1947) (license to show feature films may not be conditioned on acceptance of license to show lesser grade films).

16. American Securit Co. v. Shatterproof Glass Corp., 268 F.2d 769, 777-78 (3d Cir.), cert. denied, 361 U.S. 902 (1959) (license to use glass tempering machine may not be packaged so that licensee must pay fixed royalty for use of all licensor's patents).

17. Rockform Corp. v. Acitelli-Standard Concrete Wall, Inc., 367 F.2d 678 (6th Cir. 1966) (various building construction patents may not be licensed as one system—the most important patent should be separable from the group).

18. International Salt Co. v. United States, 332 U.S. 392 (1947) (lease of patented salt processing machines may not be conditioned on purchase of lessor's salt and other unpatented products).

19. McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir.), cert. denied, 335 U.S. 813 (1948) (license to use patented pipe cutter may not prohibit licensee from using any other pipe cutter); National Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3d Cir. 1943) (license to manufacture patented washers may not be conditioned on licensee's agreement not to manufacture possible competing goods not covered by the patent); Park-In Theatres, Inc. v. Paramount-Richards Theatres, 90 F. Supp. 730, 734 (D. Del.), aff'd per curiam, 185 F.2d 407 (3d Cir. 1950), cert. denied, 341 U.S. 950 (1951) (license to construct, use, or operate patented drive-in theatre could not be conditioned on licensee's agreement not to construct other types of open-air theatres not covered by the patent).

provement made,[20] or pay royalties on non-patented products.[21] There are, I think, more variations on this, but it seems to me they all go back to the leverage or tie-in question, essentially to the argument that there has been an over-extension of the right by requiring this additional condition.

There is considerable writing on the economic aspect of the subject, and many economists have taken the view that this rather wide-scale condemnation of tie-ins is probably a little overzealous.[22] These economists argue that if the patent is valid, if the monopoly is significant, and if the product is sold in a non-price controlled market—that is, a market which is not in a regulated industry or not in an economy which has price control—the person with the patent, trademark or trade secret right, if prohibited from all these combinations of products or services, will simply charge more. They argue that there really is no economic difference whether the patentee charges a royalty of ten dollars on condition that you buy the raw materials from him, or he charges a royalty of twelve dollars because you don't buy raw material or parts from him.

Despite this argument, which has appeal in some cases, I think that the tendency of the law is probably going to continue, or perhaps even accelerate, in the direction of condemning virtually all tie-in practices. It appears that the economists have not convinced judges, antitrust plaintiffs and other affected groups that the perpetrators of tie-ins really could exact an equal return solely by raising license fees or royalties. I believe that another reason for this trend is that antitrust, besides its direct economic goals, involves fair competition and equity values. The image is always portrayed of the poor fellow who happens to sell only the tied product, and who is suddenly losing his customers to the person who held the patent and who engaged in the tie-in. The general feeling is that it is unfair, simply unjust—regardless of whether there is any economic cost—to allow the person who holds the patent or the trademark to use it to take business away from or deny business opportunities to people who thought they were selling a non-patented

20. United States v. Wisconsin Alumni Research Foundation, 1970 Trade Cas. ¶ 73,015 (W.D. Wis.) (consent decree) (licensee cannot be required to assign to licensor any future patents or technology relating to improvements in the patent licensed). But see Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637, 648 (1947) (license of wrapping machine not per se illegal when conditioned on assignment of improvements to licensor).

21. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 136 (1969) (licensee of television and radio patents cannot be required to pay licensor a percentage royalty on sales of his other products).

22. See Bowman, Tying Agreements and the Leverage Problem, 67 Yale L.J. 19 (1957); Markovitz, Tie-ins, Reciprocity and the Leverage Theory, Pt. I, 76 Yale L.J. 1397 (1967), Pt. II, 80 Yale L.J. 195 (1970).

product, whether it be the ingredients in Chicken Delight, or the little paper cards that go in IBM machines.[23] Moreover, in the real world there may be many reasons why the patent owner could not exploit his monopoly right fully if denied the opportunity for indirect compensation through tie-ins.

Lastly, another unwarranted extension of the patent monopoly is to seek to use it to restrict the disposal of the goods on resale. This runs contrary to well-settled law that the monopoly is exhausted on first sale, and to the holdings in the *Schwinn*[24] and *Glaxo*[25] cases that restraints on resale violate the Sherman Act.

The second broad category of patent antitrust issues concerns subdivision of the monopoly right. For example, a company which has the sole right to manufacture and sell a product may license one company to sell only west of the Mississippi, another to sell only east of the Mississippi, and still a third only for medical use, thus giving rise to several territorial or field of use restrictions. The classic position of the patent bar, and the position of some courts, has been that if you have a whole monopoly you can keep half and license away half. The question is asked why the public is any worse off if two people share a monopoly than if one person simply exploits it. It is also sometimes suggested that territorial or field use divisions aid small businesses which cannot afford to develop all territories or uses.[26]

Under this view it would never be illegal simply to subdivide the right. Of course, there are some cases which seem to suggest that the Supreme Court of the United States once accepted this theory,[27] particularly as to field-of-use restrictions, although most modern writers indicate that the liquidity issue is in grave doubt at present. To the Antitrust Division, the major antitrust problem arising out of subdivision of a monopoly right is that it may create a cartel among the licensees, as in the *United States Gypsum*[28] and *Masonite*[29] cases.

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23. Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972); IBM v. United States, 298 U.S. 131 (1936).

24. United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967).

25. United States v. Glaxo Group, Ltd., 302 F. Supp. 1, 8-11 (D.D.C. 1969).

26. See, e.g., Frost, Restrictions on Field of Use and Territories, 42 ABA Antitrust Section 633, 637 (1973); Gibbons, Domestic Territorial Restrictions in Patent Transactions and the Antitrust Laws, 34 Geo. Wash. L. Rev. 893, 896 (1966).

27. General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175, 181, aff'd on rehearing, 305 U.S. 124, 127 (1938). A chemical license in the commercial field, prohibiting reformulation for use in the home gardening field, was sustained in Chemagro Corp. v. Universal Chem. Co., 244 F. Supp. 486 (E.D. Tex. 1965). The government's subsequent challenge of the Chemagro licenses was settled by consent decree banning the challenged practice. United States v. Farbenfabriken Bayer A.G., 1969 Trade Cas. ¶ 72,918 (D.D.C.).

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

29. United States v. Masonite Corp., 316 U.S. 265 (1942).

Also, there are significant differences in analyzing the territorial subdivision question as it applies to foreign rather than domestic commerce. Domestically, section 261 of the Patent Act,[30] sanctions territorial *assignments* for patents, though it does not speak expressly of licensing. Thus, it is debatable whether this section creates an implied statutory antitrust exemption for territorial allocation within the United States.[31] Regardless, the section would not apply in other countries or in foreign commerce.

One court of appeals, in *Dunlop Co. v. Kelsey-Hayes Co.*,[32] reasoned that if territories can be divided in the United States it obviously can be done abroad. With all due deference, I do not believe that this follows obviously at all. As noted, section 261 of the Act does not apply abroad. Moreover, the same types of patent rights do not necessarily exist abroad—rather they depend on whatever system each nation has and how it has been utilized.

The other peculiarity of territorial subdivisions internationally is that there are at least three different ways to effectuate them. You can enforce them, in a sense, simply by granting rights under a foreign patent while retaining your own under the United States law, and then suing for infringement if the foreigner sells here. You can employ section 1337 of the Tariff Act[33] to exclude the goods; or lastly you can attempt to enforce them by putting a territorial subdivision in the contract and then suing for breach of the contract if the foreign licensee sells here.

The Antitrust Division has said that because you have the first two rights, and because those are limited by a number of public policy considerations, the third practice, the use of a contractual agreement, will be looked at with great suspicion.

The third major area of antitrust concern in international patent licensing is the cartel danger that arises from various forms of combination of industrial property rights. For instance as the *Besser*[34] case held, by buying up or combining competing patent rights firms can create a broad monopoly that is clearly illegal.

Cross-licensing among actual or potential competitors which results in a consistent pattern of market allocation may be looked at as an agreement between those competitors that creates a cartel, particularly if it relates to future patents and has broad economic effects. Such

30. 35 U.S.C. § 261 (1970).

31. The argument that section 261 does not authorize territorial restrictions is explicated in Baxter, Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis, 76 Yale L.J. 267, 349-52 (1966).

32. 484 F.2d 407, 417-18 (6th Cir. 1973), cert. denied, 415 U.S. 917 (1974).

33. 19 U.S.C. § 1337 (1970).

34. Besser Mfg. Co. v. United States, 343 U.S. 444 (1952).

conduct was condemned in the *National Lead*[35] and *ICI*[36] cases, involving international licensing.

Another form of illegal combination is an agreement between one competitor and another as to whether or how to license a potential competitor of either. In other words, *A* says to *B*, "I'll license or cross-license you if you agree not to give a license to *C*." This is almost certainly an antitrust violation, and would be so considered under the usual conspiracy or cartel law, despite the fact that patents or trademarks are involved.[37]

This certainly does not mean that all or most patent licenses are illegal, or are likely to be. International licensing situations are most often examined as relatively standard antitrust cases in terms of possible elimination of actual or potential competition, or the occurrence of particular types of unfair or unwarranted conduct. Most licensing arrangements are unobjectionable, and suits in this area have been relatively rare.

I have attempted by means of this analysis to help you to understand how we make the often difficult determination whether an international licensing arrangement is legally acceptable, and I hope it has persuaded you that our enforcement approach is as consistent and balanced as can reasonably be achieved in a complex field.

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35. United States v. National Lead Co., 332 U.S. 319 (1947).
36. United States v. Imperial Chem. Indus., 100 F. Supp. 504 (S.D.N.Y. 1951).
37. See United States v. Krasnov, 143 F. Supp. 184 (E.D. Pa. 1956), aff'd per curiam, 355 U.S. 5 (1957).