Price-Fixing under Patent License Agreements

Grant W. Kelleher
Price-Fixing Under Patent License Agreements

Grant W. Kelleher*

The Sherman Antitrust Act is a declaration by Congress that "competition, not combination, should be the law of trade." It is intended to preserve "an unrestricted competitive system" by prohibiting "any combination whatever to secure action which essentially obstructs the free flow of commerce." It has been likened to a "charter of freedom" with "a generality and adaptability comparable to that found to be desirable in constitutional provisions" and with an absence of particularization "which might defeat its purposes by providing loopholes for escape." The thrust of the Act is not measured by "rights" which existed at the time of its passage; "the Act is its own measure of right and wrong, of what it permits or forbids." Among the interdictions of the Act none appears more sweeping or uncompromising than the prohibi-

*Special Assistant to the Attorney General of the United States; LL.B. Montana State University, 1934.

1 Act of July 2, 1890, c. 647, §§ 1, 2, 26 Stat. 209, 15 U. S. C. §§ 1, 2. Section 1 of the Act provides, in part, as follows:

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal....

Section 2 of the Act provides, in part, as follows:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor....


5Appalachian Coals, Inc. v. United States (1933) 288 U. S. 344, 360-361, 77 L. Ed. 825, 53 S. Ct. 471.

tion against concerted price-fixing by those engaged in the interstate sale of commodities. Any combination formed for the purpose and with the effect "of raising, depressing, pegging, or stabilizing the price of a commodity in interstate or foreign commerce is illegal per se" and in this respect the law "establishes one uniform rule applicable to all industries alike."

Despite the broad sweep thus attributed to the Act, there is a large area in which it has only a limited application. The Constitution has conferred upon Congress the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries," and, pursuant to this delegation of power, Congress has enacted legislation to protect by patent "the exclusive right" of an inventor "to make, use, or vend the invention or discovery" in the United States for a term of seventeen years. The effect of this legislation is to create in the patentee a 17-year lawful monopoly in the patented article.

It is plain that the Sherman Act was not intended to intrude upon the monopoly conferred upon the inventor by the patent laws. The Act is designed to protect the public against the arrogation of monopolistic power by private persons without Government sanction. The patent monopoly is a grant by the Federal Government which is intended to further the public interest by promoting "the progress of science and useful arts." There is, therefore, no inherent clash between the Sherman Act and the patent laws so far as the latter give to the inventor the exclusive right to make, use, and vend.

Modern industrial and commercial conditions, however, frequently make it desirable today for the patentee to license others to make, use, and vend. It is here that conflict with the policy of the antitrust laws arises. Patent licenses frequently contain agreements between the patentee and the licensee by which

---


11Morton Salt Co. v. The G. S. Suppiger Co. (decided Jan. 5, 1942) U. S. .......
PRICE-FIXING UNDER PATENT LICENSE

the competition of the license is substantially restricted. These agreements are of various kinds, but the usual and most important from the point of view of the antitrust laws is an agreement by the licensee to sell at prices designated by the patentee. Despite the repeated condemnation by the Supreme Court of concerted price-fixing among competitors, the Court first held in 1903, and reaffirmed this holding in 1926, that such an agreement in a patent license does not violate the Sherman Act.

The swath cut by this exception to the general rule that price-fixing is unlawful under the Sherman Act is wide. Every major industry owes its existence to patented inventions. A great portion of the common articles of commerce and trade and a large part of the machinery and equipment used in producing goods are patented. The United States Patent Office has issued over 2,000,000 patents, 740,000 of which are extant, and the Office is issuing an increasing number of patents each year. Moreover, there is a growing concentration of patents in the hands of corporations, to which the public must look for the bulk of the commodities which it buys.

The danger to the competitive system from patent license restrictions upon competition has recently become apparent from investigations by the legislative and executive branches of the Government. In a message to Congress on April 20, 1938, the President proposed an investigation looking toward possible “amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies.” The result of his message was a joint resolution of Congress

"Hearings Before TNEC, Part III, p. 839.
"See the dissenting opinion of Mr. Justice Black in General Talking Pictures Corp. v. Western Electric Co. (1938) 304 U. S. 175, 186, 82 L. Ed. 1273, 58 S. Ct. 749.
"In the 50-year period between 1880 and 1930, the number of patent applications filed with the Patent Office increased 260% and patents issued increased 233%. Hearings Before TNEC, Ex. 179, Part III, p. 1123. During the 10-year period between 1921 and 1931, there was a 31% increase in the number of patents issued. Id., Ex. 180, p. 1123.
"Between 1921 and 1938, 57% of all patents issued went to corporations and the number going to corporations with assets of over $50,000,000 increased from less than 5% in 1921 to slightly over 17% in 1936. Id., Exs. 187 (p. 1127) 183 (p. 1125).
creating a committee, known as the "Temporary National Economic Committee," to investigate, among other things, the effect of existing patent policies upon competition and price levels." Simultaneously with the investigation which the TNEC conducted, the Antitrust Division of the Department of Justice, prompted by complaints "showing a widespread tendency to misuse the patent privilege to evade the Federal antitrust laws," conducted a general investigation through grand juries "of the use of patents, patent pooling agreements and patent licensing agreements by which certain industries in the United States are controlled and dominated by one or several large companies . . . ."²⁴

In 1941 the TNEC reported that the patent monopoly "has been shamefully abused" and has been used "to control whole industries, to suppress competition, to restrict output, to enhance prices, to suppress inventions, and to discourage inventiveness." The Committee, composed of members of both major political parties, unanimously recommended that "the holder of a patent should not be permitted to restrict a licensee in respect of the amount of any article he may produce, the price at which he may sell, the purpose for which or the manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce or sell such article."²⁵

During the two years which have elapsed since the Department commenced its investigation, 26 cases, civil or criminal, have been instituted, charging violations of the antitrust laws by the use of patent license agreements.²⁶ The products which

²⁴Pub. Res. No. 113, 75th Cong. 3d Sess.: (1938), §2(a) (3).
²⁵DEPARTMENT OF JUSTICE PUBLIC STATEMENT, Dec. 11, 1939.
are the subject of these agreements are numerous and varied; they include, among many others, wallboard, gasoline pumps, eyeglasses, machine tools, electric light bulbs, and glass containers.*

The Department's investigation has revealed that it is a common practice for companies owning patents to control the price policies of entire industries by licensing most of their competitors to manufacture under the patents and reserving the right to fix the selling price of the patented articles.* Where patents are so used, it is generally claimed that this is lawful under the decision in United States v. General Electric Co.* The unanimity and vigor with which the TNEC condemned the use of patents to fix prices and the widespread use of patent—


*United States v. United States Gypsum Co., supra.
*In United States v. United States Gypsum Co. (D. C. D. C. Civil No. 8017), supra, for example, it is admitted that since 1929 the price at which all gypsum wallboard has been sold in the United States east of the Rocky Mountains has been fixed by the United States Gypsum Company under patent license agreements executed between that company and all other companies manufacturing wallboard in the eastern area of the United States. See Answer of United States Gypsum Company filed in the District Court of the United States for the District of Columbia, August 1, 1941.

(1926) 272 U. S. 476, 71 L. Ed. 362, 47 S. Ct. 192.
ents for this purpose which the Department’s investigation has revealed indicate that there is strong reason for reconsideration by the Court of its holding in that case. This may occur in the near future and it is, therefore, timely to consider the background of the case, its rationale, and the later decisions which bear upon the holding of the case. Such is the purpose of this discussion.

I.

While the right to assign a patent is provided by statute, the license is a creature of the common law. An assignment of a patent passes to the assignee a property interest in the patent which gives him the right to sue for infringement, either separately or jointly with the patentee depending upon the nature of the assignment. A license does not effect a transfer of title, but simply gives to the licensee a non-exclusive franchise to make, use, or vend the patented product; in substance, it amounts to little more than a covenant by the patentee not to sue the licensee for infringement.

Long before the Sherman Act became law, the Supreme Court recognized that a patentee might restrict his licensee as to the purposes for which the patent might be used and the period of its use, and that he might, by contract, bind the purchaser of a patented article to observe such limitations. On the

---

27In Rubber Co. v. Goodyear (1869) 9 Wall. 788, 76 U. S. 788, 19 L. Ed. 506, the license was licensed to use a patented composition for vulcanizing rubber at his own establishment, the license “not being intended to convey any right to make any contract with the government of the United States.” The Court held that the use of the patented composition to manufacture under contracts with the United States constituted infringement. In Mitchell v. Hawley (1872) 16 Wall. 544, 83 U. S. 544, 21 L. Ed. 322, the license provided that the licensee might manufacture and use patented machines and vend the machines to others, but only during the life of the original patent grant and not during any extension thereof. The Court held that the use of the machine, after the expiration of the original grant, by a purchaser from a licensee constituted infringement.
other hand, it became established that the purchase and exercise of the unrestricted right to use a patented article terminated the monopoly of the patentee with respect to that article. Thus, when a patentee permitted another to construct and operate patented machines, upon their construction and operation the licensee "acquired full dominion over the property of the machines, and an absolute and unrestricted right to use and operate them until they were worn out." This was followed by the decision in *Adams v. Burke* that the purchaser of a patented product—in that instance, coffin lids—from an assignee having an exclusive right to manufacture, use, and sell the lids only in the city of Boston was free to use them throughout the United States.

In *Bloomer v. McQuewan*, the Court for the first time asserted that a patent gives to the owner the right merely to exclude others from making, using, and vending the patented article. Accordingly, it was soon held that a patent in no way expanded the common law right of the patentee to make, use, and vend, and that, therefore, the fact that an article was patented did not prevent a state from exercising its police power to regulate the sale by the patentee of the patented article.

In the first case involving the validity of a restricted license to reach the Supreme Court after the passage of the Sherman

---

Wilson v. Rousseau (1846) 4 How. 646, 45 U. S. 646, 11 L. Ed. 1141; Bloomer v. McQuewan (1852) 14 How. 539, 55 U. S. 539, 14 L. Ed. 532; Bloomer v. Millinger (1863) 1 Wall. 340, 68 U. S. 340, 17 L. Ed. 581. See also Chaffee v. Boston Belting Co. (1859) 22 How. 217, 63 U. S. 217, 16 L. Ed. 240. Each of these cases involved the effect of a renewal of a patent upon a grantee of the unrestricted right to use the patented article.


*Bloomer v. McQuewan*, supra, p. 350.

In *Hobbie v. Jennison* (1893) 149 U. S. 355, 37 L. Ed. 766, 13 S. Ct. 879, the Court held that the same rule applied where the purchaser bought with knowledge of the restriction upon the assignee. In *Keesler v. Standard Folding Bed Co.* (1896) 157 U. S. 659, 39 L. Ed. 848, 15 S. Ct. 738, the Court held that the purchaser might also sell the patented article any place in the United States without becoming liable for infringement.

Act, the Court concluded that the restrictions were void because contrary to public policy and in restraint of trade. This decision gave some indication that the Court might consider the Sherman Act as a severe limitation upon the contractual rights of a patentee, and might narrowly construe the right of a patentee to control his licensee. If such was the intention of the Court, it was shortlived.

In 1896, the court of appeals for the sixth circuit decided the now celebrated Button-Fastener case, which was to affect profoundly the decisions of the Supreme Court. The opinion in the case was written by Circuit Judge Lurton, who sixteen years later, as a justice of the Supreme Court, was to write the opinion in Henry v. A. B. Dick, adopting the rule of the Button-Fastener case. His opinion was concurred in by Circuit Judge Taft who, as Chief Justice of the Supreme Court, handed down the opinion in the General Electric case in 1926. The effect of the decision was to expand the rights of a patentee beyond anything theretofore indicated and to make the Sherman Act virtually inapplicable to patent license agreements.

Heaton-Peninsular was the owner of patents upon a machine for affixing buttons to shoes with the use of metallic fasteners. The company chose to exploit its patents, not by the sale of patented machines, but by the sale of unpatented fasteners which it manufactured. To this end, it attached a license notice to all machines which it sold that the machines were to be used only with fasteners sold by Heaton-Peninsular. Eureka Specialty sold fasteners to vendees of the machines with knowledge that the fasteners were to be used in the machines and Heaton-Peninsular sued for contributory infringement.

The defendant contended (1) that, under Adams v. Burke, the sale exhausted the patent monopoly and that, therefore, a suit for infringement did not lie, and (2) that the arrangement was in restraint of trade because it was an attempt to monopo-

"Pope Mfg. Co. v. Gormully (1892) 144 U. S. 224, 36 L. Ed. 414, 12 S. Ct. 632. The Court declined to order specific performance of a patent license agreement in which the licensee covenanted never to make or sell certain articles covered by patents owned by the licensor and never to contest the validity of the patents or plaintiff's title thereto. The agreement also required the licensee to sell at prices to be fixed by the licensor. While the validity of this provision was not involved, the Court cited it (p. 232) as an example of "other covenants in this contract which show that the plaintiff intended to reserve to itself a large supervision and control of the defendant's business."


"Supra."
lize an unpatented product—button fasteners. On the first point, the court decided that, since the sale of machines in this instance was conditional, *Adams v. Burke* was inapplicable because that case involved an unconditional sale. The patent gave to the patentee the exclusive right to use, and he was, therefore, free to attach any condition he chose upon others desiring to use the patented machine so long as the condition did not offend positive law. The imposition of such a condition had the effect of continuing the machine "within the prohibition of the monopoly" and any use in violation of the condition constituted infringement.

Nor did the court believe that the monopoly of unpatented fasteners achieved through the use of the patent upon the machine violated the Sherman Act. The monopoly in the unpatented staple, the court concluded, was but an incident of the lawful monopoly upon the machine which the law had given the patentee."

The impact of this decision upon the Supreme Court was first felt six years later when the Court in *Bement v. National Harrow Co.* was called upon for the first time to pass upon the lawfulness under the Sherman Act of a patent license agreement in which the licensor reserved the right to fix its licensee's selling price. National Harrow Company was the assignee of patents owned by seven of the leading manufacturers of harrows, including Bement, the defendant. Bement was licensed by National Harrow to manufacture and sell harrows under certain of the patents and agreed to sell at prices specified in the license contract. National Harrow sued in a New York state court for violation of the contract. National Harrow and its predecessor had entered into similar contracts with the other manufacturers who had assigned their patents to National Harrow, and one state court and three federal courts had held that the contractual arrangements were but a device to fix prices on an industry-wide basis and were, therefore,

"The court declared that the patentee had an absolute right to use the machine exclusively, or even to suppress it. If Heaton-Peninsular had elected not to license others to use its machine and had decided to engage in the manufacture of shoes, it could have lawfully used only its own fasteners in its machine, the effect of which would have been to give the company a monopoly upon fasteners used in the patented machine. Who then, asked the court, can complain that the same result is accomplished by an arrangement under which the right to the exclusive use of the patented machine is surrendered and the patentee contents himself with a monopoly of the market for the unpatented article used in the machine?"

"Supra."
void because in restraint of trade." The Supreme Court side-stepped this question by concluding that the report of the referee before whom the evidence was heard failed to show that National Harrow had entered into agreements with manufacturers other than Bement, and viewed the case as presenting only the narrow question whether a price-fixing agreement in a single patent license agreement was lawful under the Sherman Act. The Court, relying upon the Button-Fastener case, held that the requirement that the licensee sell at prices fixed by the patentee was "an appropriate and reasonable condition" because the patent holder had an absolute right to the exclusive use of his invention and "the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States."

_Bement v. National Harrow_ was the first case in which the Supreme Court indicated approval of the doctrine of the Button-Fastener case. It was followed by the _Paper Bag_ case in which the Court, in accordance with dictum of the Button-Fastener case, held that a patentee might sue for infringement, despite the fact that he had intentionally suppressed his patent, and by _Henry v. Dick_, in which, in a 4 to 3 decision, it was held that a patentee might sell a patented machine and restrict its use to unpatented material.

The decisions in the _Paper Bag_ and _Dick_ cases represented the high-water mark of the Button-Fastener doctrine. Encroach-

---


"Id., p. 93.

"Id., pp. 89, 91.


"_Supra_.

"The facts in the Dick case were almost identical with those in the Heaton-Peninsular case. A. B. Dick sold its patented mimeographing machine with a "license restriction" attached to the machine providing that the machine was to be used only with paper, ink, and other supplies made by Dick. Henry sold ink to a vendee of the machine with knowledge that it was to be used in the patented machine and Dick sued for contributory infringement. The Court had twice before been asked to pass upon the question of whether the patentee might restrict the use of the patented product after its sale (Cotton-Tie Co. v. Simmons (1882) 106 U. S. 89, 27 L. Ed. 79, 1 S. Ct. 52; Cortelyou v. Johnson (1907) 207 U. S. 196, 52 L. Ed. 167, 28 S. Ct. 105), but in each case had found it unnecessary to determine the question. Cf. Morgan Envelope Co. v. Albany Paper Co. (1894) 152 U. S. 425, 38 L. Ed. 500, 14 S. Ct. 627, in which the Court animadverted upon the use of a patent to obtain a monopoly upon an unpatented article.
PRICE-FIXING UNDER PATENT LICENSE

In the term following that in which the *Dick* decision was handed down, the Court had before it the legality under the Sherman Act of a group of license agreements under which sixteen manufacturers of 85% of the enameled ware sold in this country were licensed to use a patented tool in the manufacture of enameled ware and agreed to sell at prices fixed by the licensor and to require all jobbers to whom the manufacturers sold to enter into license agreements by which the jobbers bound themselves to resell the ware at prices determined by the manufacturers. The lower court held that, since enameled ware was unpatented, the owner of the patent upon the tool had no right to fix the price at which the ware was sold. The Supreme Court found it unnecessary to decide whether the right to fix prices under *Bement v. National Harrow* applied to the unpatented product of a patented tool as well as to a patented product. It held that the license agreements, taken together, constituted an unlawful combination because the purpose and effect of the agreements was to eliminate competition throughout most of the industry, both horizontally and vertically. This price-fixing scheme, the Court said, "transcended what was necessary to protect the use of the patent or the monopoly which the law conferred upon it" and "passed to the purpose and accomplished a restraint of trade condemned by the Sherman law."

The *Standard Sanitary* case involved the first direct attack by the Government against the use of patents to restrain trade. It resulted in a decision which restored much-needed vitality to the Sherman Act. Each license agreement between the patent

---


*Supra.*


*After the decision in *Bement v. National Harrow,* supra, the court of appeals for the seventh circuit concluded that "patented articles, unless or until they are released by the owner of the patent from the dominion of his monopoly, are not articles of trade or commerce among the several states" and, consequently, that patent license agreements eliminating price competition throughout an industry were not unlawful. *Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co.* (C. C. A 7th, 1907) 154 F. 358. For a similar holding by the same court, see Indiana Mfg. Co. v. J. I. Case Threshing Machine Co. (C. C. A 7th, 1907) 154 F. 365. This court has recently declared (American Equipment Co. v. Tuthill (C. C. A. 7th, 1934) 69 F. (2d) 406) that the Rubber Tire Wheel case "must be read in the light of and as modified by later decisions of the Supreme Court." The decisions of the district court in Indiana Mfg. Co. v. J. I. Case (C. C. E. D. Wis. 1909)
holder and a manufacturer was, separately considered, lawful under the holding of the Court in the Bement case. Likewise, the jobber agreements had some color of legality since it was generally believed at that time that a patent holder might control the resale price of a patented article." The decision went far to dissipate the current conception created by the Dick and related cases that the patentee's rights must be treated as absolute and were, therefore, virtually unaffected by the Sherman Act. The decision plainly was a "strategic retreat" from the holding of the Dick case.

The second retreat of the Court occurred in 1913. By that time, the illegality under the Sherman Act of resale price maintenance agreements had become established. Two years before, the Court had held that contracts fixing resale prices for unpatented articles violated the Sherman Act." This was followed by a decision that, since the copyright law did not authorize resale price maintenance," an attempt to control the resale price of copyrighted books violated the Sherman Act." In Bauer & Cie v. O'Donnell," the patentee's rights yielded to the philosophy of the Sherman Act thus articulated. In that case, the Court was presented for the first time with the question whether a patentee might require a purchaser to abide by resale prices set by the patentee. In Bobbs-Merrill v. Straus," the Court had concluded that the "sole liberty" given to the author of printing and vending his writing" was not as broad as the sole right

148 F. 21, and Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co. (C. C. E. D. Wis. 1906) 142 F. 531, probably represent the law today.

After the decision in the Button-Fastener case, various lower federal courts held that a patentee might fix the resale price for his patented product. See Victor Talking Machine Co. v. The Fair (C. C. A. 7th, 1908) 123 F. 424; Edison Phonograph Co. v. Kaufmann (C. C. Pa. 1901) 105 F. 960; National Phonograph Co. v. Schlegel (C. C. A. 8th, 1904) 128 F. 733; The Fair v. Dover Mfg. Co. (C. C. A. 7th, 1908) 166 F. 117. Some of these decisions were relied on by the Court in the Dick case in support of its holding that a patentee might control the use of a patented article in the hands of a purchaser, and this holding logically led to the conclusion that, if a patentee could control the use of a patented product by a purchaser, he might control the sale by the purchaser. See Motion Picture Patents Co. v. Universal Film Mfg. Co., supra, pp. 515-516.

The quoted words are from Monograph No. 31, Patents and Free Enterprise, p. 65, written by Walton Hamilton for the TNEC.

Dr. Miles Medical Co. v. John D. Park & Sons Co. (1911) 220 U. S. 373, 55 L. Ed. 502, 31 S. Ct. 376.


229 U. S. 1, supra.

Supra.

Supra.

given to an inventor to make and vend his invention and that, therefore, assuming (without deciding) that an inventor might control the resale price of a patented article, the copyright law afforded no such right to the author. In *Bauer v. O'Donnell*, the Court found such a distinction between the copyright and patent laws incongruous. The Court declared that Congress "had no intention to use the term 'vend' in one sense in the patent act and 'vending' in another in the copyright law" and concluded that "the terms used in the statutes are to all intents the same." Consequently, the Court held that, since the right conferred upon an author did not authorize resale price control, it necessarily followed that the same right conferred upon an inventor did not permit such price control.

The decision in the *Bauer* case presaged the eventual overruling of the *Dick* case. The two holdings were logically irreconcilable and the effort of the Court to distinguish the two in *Bauer & Cie v. O'Donnell* was unconvincing. It was Congress, however, which provided the impetus for the repudiation by the Court of *Henry v. Dick*.

In 1914, Congress, concerned with the monopolistic menace of tying agreements which bound purchasers or lessees of machines to use unpatented materials with the machines," passed Section 3 of the Clayton Act," which makes it unlawful for any person engaged in interstate commerce "to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, . . . , on the condition . . . that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor . . ." where the effect thereof may be substantially to lessen competition or to create a monopoly.

Shortly after the passage of the Act, a circuit court of appeals concluded that a license arrangement substantially the same as that involved in the *Dick* case violated this section of the Clayton Act." When the case came before the Supreme


Motion Picture Patents Co. v. Universal Film Mfg. Co. (C. C. A. 2d, 1916) 235 F. 398. The Motion Picture Patents Co. was the owner of a patent covering a part of the mechanism in motion picture projectors for feeding film through the machine. The machine was sold to exhibitors with the restriction that the machine was to be used only with films of Motion Picture Patents Co. Universal supplied film to
Court, the Court noted that Section 3 of the Clayton Act was passed "as if in response" to the decision in Henry v. Dick and was "a most persuasive expression of the public policy of our country..." The Court did not content itself, however, with a holding that Section 3 of the Clayton Act barred agreements which the Court in the Dick case had held were permissible under the patent monopoly. Instead, it re-examined the principle of the Dick case and in a sweeping opinion concluded that the principle there enunciated was unsound.

Peril to the public interest from such agreements is the leitmotiv of the opinion. The Court pointed out, relying upon early cases, that the primary purpose of the patent laws "is not the creation of private fortunes for the owners of patents." Instead, the right of the inventor is subordinate to the dominant purpose of the patent laws "to promote the progress of science and useful arts." "The obvious possibility for gain" in the use of restrictions approved by the Button-Fastener case "led to an immediate and widespread adoption of the system, in which these restrictions expanded into more and more comprehensive forms . . ." According to the Court, the plan of Motion Picture Patents Co. represented the extreme of practices which the doctrine of the Button-Fastener case seemed to approve. "The patent law furnishes no warrant for such a practice and the cost, inconvenience and annoyance to the public which the opposite conclusion would occasion forbid it."m

The Court held that the protection given by a patent is limited to the machine described in the patent; the patent laws have no concern with the material with which or upon which the machine operates. The right, if any, to restrict the use by another to particular materials is derived, not from the patent, but from the general law, and, accordingly, the enforceability of such a restriction must depend upon the same law applicable to other kinds of contractual arrangements. The contract of Motion Pic-

---

"Motion Picture Patents Co. v. Universal Film Mfg. Co., supra, pp. 517-518.


"Motion Picture Patents Co. v. Universal Film Mfg. Co., supra, pp. 510-511.

"Id., pp. 515-516.

"Id., p. 516. In Henry v. Dick, supra, the Court, in response to the contention that restrictions upon purchasers were contrary to public policy, stated (p. 35) that "arguments based upon suggestions of public policy not recognized in the patent laws are not relevant. The field to which we are invited by such arguments is legislative, not judicial."
PRICE-FIXING UNDER PATENT LICENSE

price Patents was not enforceable because to enforce it would be to create a monopoly in unpatented film.

The decisions in the Bauer and Motion Picture Patents cases paved the way for a reconsideration of the holding in Bement v. National Harrow, the basic premise of which—that the right to impose any condition upon use which the patentee may choose is an incident of the right to exclude—was termed by the Court in the Motion Picture Patents case "a defect" in "thinking", which "springs from the substituting of inference and argument for the language of the [patent] statute and from failure to distinguish" between the rights conferred by the patent laws and the rights which a patentee might create by private contract.

II.

In 1912, the General Electric Company entered into a license agreement with its largest competitor, Westinghouse Electric & Manufacturing Company, in which it licensed Westinghouse to use certain patents covering the manufacture of electric light bulbs with the tungsten filament and reserved the right to fix Westinghouse's price for light bulbs. In United States v. General Electric Company, involving the legality under the Sherman Act of the price provision of this license, the Court was called upon to reconsider its holding in the Bement case.

In a brief opinion, the Court rejected the principal argument of the Government that Bement v. National Harrow had in effect been overruled by the Motion Picture Patents case, and concluded that the price provision of the Westinghouse license was lawful. The gist of the holding is contained in the following excerpt from the opinion:

"...The patentee may make and grant a license to another to make and use the patented articles, but withhold

---

272 U. S. 476.


29In the same suit, the Government attacked General Electric's deliberation system by which it controlled the price at which its distributors sold electric light bulbs. The Supreme Court held that the distributors were bona fide agents and that, therefore, the system was lawful, thus laying the legal groundwork for one of the currently popular methods of vertical price control. The Government is seeking a reconsideration of this holding in United States v. Masonite Corp., now on appeal to the Supreme Court. The complaint of the Government was dismissed by the district court. (S. D. N. Y. 1941) 40 F. Supp. 852.

30BRIEF FOR THE UNITED STATES, pp. 64-74.

31The doctrine repudiated by the Motion Picture Patents case was, according to the Court, much broader than was necessary for the holding in the Bement case, since (p. 493) "the price at which a patented article sells is certainly a circumstance having a more direct relation, and is more germane to the rights of the patentee, than the unpatented material with which the patented article may be used."
his right to sell them. The licensee in such a case acquires an interest in the articles made. He owns the material of them and may use them. But if he sells them, he infringes the right of the patentee, and may be held for damages and enjoined. If the patentee goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' He does not thereby sell outright to the licensee the articles the latter may make and sell, or vest absolute ownership in them. He restricts the property and interest the licensee has in the goods he makes and proposes to sell."

Aside from the fact that the Court paid lip service to the demise of the Button-Fastener holding but gave posthumous recognition to the ratio decidendi of the case, the soundness of the Court's reasoning is, it is believed, extremely doubtful.

It is true, as the Court said, that when a patentee retains the right to make and sell a patented product which he has licensed another to make and sell, licensee price control directly protects the right thus retained by the patentee. If the patentee's right to sell were a right granted by the patent laws, then it might follow that the patentee should be permitted to invoke those laws to enforce conditions designed to protect the exercise of that right. But a patentee's right to make, use, and vend is not a right derived from the patent laws. It is "a right under

"United States v. General Electric Co., supra, p. 490

"As in the Button-Fastener case, the emphasis in the General Electric case is upon the "pecuniary reward of the patentee." Moreover, in the Button-Fastener case, the condition imposed upon the use of the machine by a purchaser was deemed lawful because the patentee had the right absolutely to prohibit the use of the machine by another. In the General Electric case, the Court found that the condition upon the sale of the patented bulb was lawful because the patentee had the right absolutely to prohibit the sale of the bulb by another.

the common law not arising under the federal patent laws and not within the grant of power to Congress to enact such laws

Consequently, the Court, in effect, has held that a patent may be used to protect, not only the right conferred by the patent to exclude others, but the common-law right of the patentee to make and sell which the Court has repeatedly stated was unaffected by the patent laws.

Moreover, if a price provision of a license protects a right granted by the patent, a violation of the provision should give rise to an action for infringement. It seems clear, however, that a sale by a licensee below minimum prices fixed by a patentee would not constitute infringement of the patent.

Where a patentee conveys the right to make, use, and vend, and reserves only the right to fix the licensee’s selling price, he has not restricted the right of the licensee to share in the patentee’s monopoly by reserving for himself any part of the monopoly conferred by the patent. The licensee is free to sell without any restriction, provided he sells at prices specified by the patentee. The price provision of the license is merely a condition upon the exercise of the unrestricted right to make, use, and vend.

A comparison of the cases in which the Court has permitted the patentee to sue his licensee for infringement with those where the Court has declined to permit such an action demonstrates that a breach of a condition imposed upon the exercise of an unrestricted right to make and vend is not a ground for infringement proceedings. In each of the cases in which the Court has held that a suit for infringement lies against the licensee, the patentee had refrained from granting to the licensee the unrestricted right to make, use, or vend, and had carved out an area in which the patentee alone might exercise the rights conferred by the patent. In each case the licensee had gone beyond the rights conferred by the license and had invaded the part of the monopoly reserved by the patentee. On the other hand, the Supreme Court has repeatedly held that, where there has been a breach by the licensee of a condition of a license (e.g., payment


"In Rubber Co. v. Goodyear, supra, the patentee reserved the right to sell to the United States Government. In Mitchell v. Hawley, supra, the patentee reserved the right to make, use, and vend during the period of the extension of the patent grant. In General Talking Pictures Co. v. Western Electric Co., supra, the patentee reserved the right to supply the patented article for commercial use. In Littlefield v. Perry (1874) 21 Wall. 205, 88 U. S. 205, the equitable owner of the patent reserved the exclusive right to apply the principle of the patent, except for "one special purpose."
of royalties), the patentee must sue upon the contract and cannot bring an action for infringement." In those cases the patentee reserved no part of his monopoly so far as his licensee was concerned. Instead, he granted the unrestricted right to make, use, and vend, provided the licensee met the condition of the license involved in the particular case.

Finally, where, as in the General Electric case, it is contemplated by the patentee that his licensee will exercise the unrestricted right to make, use, and vend, it is fair to assume that the royalty provided in the license is intended to constitute full consideration for the sale of this right. Under the holding of the cases referred to before, the license, therefore, constitutes an outright sale for full consideration of the unrestricted right to make, use, and vend, and, when the licensee makes the patented article, it should be deemed to be no longer within the monopoly of the patentee."

From what has been said, it would seem that if any limitation upon the price competition of a licensee is legally defensible it must rest upon the contractual and not the patent rights of the patentee. The question then arises, Is price control a lawful exercise of the contractual rights of the patentee?

The Sherman Act prohibits only those contracts which are in unreasonable restraint of trade." In determining whether a contract is unreasonable, the courts are guided by the common-law doctrine of restraint of trade." At common law an agreement by the buyer of property not to use it in competition with the business retained by the seller was considered reasonable because ancillary to the main purpose of a lawful contract of sale,"


"Supra, p. 5.

"Bloomer v. McQuewan, supra; Bloomer v. Millinger, supra; Adams v. Burke, supra; Bauer v. O'Donnell, supra.

"Standard Oil Co. v. United States (1911) 221 U. S. 1, 55 L. Ed. 619, 31 S. Ct. 502.

"Apex Hosiery Co. v. Leader (1940) 310 U. S. 469, 498, 84 L. Ed. 1311, 60 S. Ct. 982.

"For a discussion of the common-law doctrine applicable to ancillary agreements not to compete, see United States v. Addyston PIPE & Steel Co. (C. C. A. 6th, 1898) 85 F. 271, 279-291; Oregon Steam Navigation
and, in accordance with this rule, the Supreme Court has held that an agreement by the transferee of a secret process for the production of a proprietary medicine not to sell the medicine below prices specified by the transfer does not involve an unreasonable restraint of trade. There is, therefore, ground for argument that an agreement by a licensee not to compete with his licensor, which is ancillary to the sale of the right to make and vend a patented product, does not fall within the prohibitions of the Sherman Act.

Covenants not to compete were lawful at common law, however, not because they benefited the contracting parties, but because they tended to promote transactions which might not be carried out without the security against competition which the covenant afforded. If, therefore, a covenant not to compete in a patent license agreement is a reasonable restraint of trade, there must be ground to believe that such a covenant is necessary to induce a patentee to license others to use his patent. If the effect of outlawing such covenants would be to prevent patent licenses because of the patentee's fear of the competition of his licensee, there might be good reason to permit price control. On the other hand, if the advantages to the patentee of licensing others are likely to overcome any apprehension which he might have of his licensee's competition, then the justification recognized at common law for such an ancillary agreement not to compete does not exist and the interest of the public in free competition would seem to dictate that such covenants be condemned.

In the General Electric case, the district court stated that the risk of having the patentee's business destroyed by his licensee would compel the patentee "as a matter of ordinary business prudence... to keep his patent monopoly wholly within his own hands" unless he could control his licensee's competition. Whether this is true where there is merely a patented improvement upon a product of an established industry is at least open to some debate.

There may be decided disadvantages to single exploitation by the patentee of the market for the improved product. This may require substantial expansion in production and marketing.


facilities involving heavy expense. Competitors, if unable to duplicate the improvement, will inevitably undersell in order to retain their position in the market and the result may well be a more unstable price structure than before the improved product went upon the market. The improvement may also stimulate others in the industry to develop non-infringing improvements which may neutralize the advantage gained by the patentee. Or the rest of the industry, desperate to preserve its competitive position, may attempt to use the patented improvement and, thus, require the patentee to engage in expensive patent litigation which may result in judicial action substantially impairing the value of the patent.

The possibility of avoiding all of this and at the same time obtaining substantial financial returns through royalties from those licensed might well lead the patentee to conclude that the advantages from licensing his competitors overcome the risk of their competition.\(^{29}\)

Even assuming that a categorical ban upon price control in patent licenses might not be in the interest of the public, the lawfulness of contractual provisions for such control should at least be determined upon the facts and circumstances of each case, since such is the traditional approach of the courts in appraising ancillary covenants not to compete.\(^{30}\) If there has been no substantial lessening of competition and price control appears essential to stimulate licensing, a covenant not to compete might be considered lawful. If, on the other hand, a substantial lessening of competition has occurred in an industry theretofore competitive and the effect of the licensing arrangement is to permit the patentee to dominate an entire industry, price control might well be deemed unlawful because of its adverse effect upon competition, which it is the policy of the Sherman Act to preserve.\(^{31}\)

\(^{29}\)The Ford Motor Company has followed the practice for years of licensing others to use its patents royalty free. \textit{Hearings Before TNEC, Part II, pp. 256-257.} Packard Motor Company customarily grants patent licenses without any price or other restrictions. \textit{Id., pp. 304-305.} Most of the members of the automobile industry are members of the Automobile Manufacturers' Association which has promoted and supervises a cross-licensing arrangement between members of the Association whereby each member pools in the Association all patents owned by it and is entitled without restriction to use any of the patents pooled by the other members. This arrangement was the product of a desire to avoid litigation and the confusion and uncertainty which results from disputes as to the scope and validity of patents. As a result of the arrangement, there has not been a single patent suit among the members of the Association in 22 years. \textit{Id., pp. 285-303.}


\(^{31}\)Compare Appalachian Coals, Inc. v. United States, \textit{supra}, with Socony Vacuum Oil Co. v. United States, \textit{supra}. 
Other considerations, such as the nature of the patent, the scope of the license, both temporally and spatially, and the purpose of the parties in executing the license, might well bear inquiry, if the legality of price control is to be appraised along traditional lines.

What has been said so far upon the subject of covenants not to compete as to price is based upon the assumption that their lawfulness under the Sherman Act is influenced by the common law. This, however, is a matter of some doubt. In 1927, the Supreme Court for the first time held that price-fixing by those controlling a trade or business in any substantial manner was unlawful despite the reasonableness of the prices agreed upon. This holding has since been followed by the declaration of the Court in Ethyl Gasoline Corp. v. United States that "agreements for price maintenance of articles moving in interstate commerce are, without more, unreasonable restraints within the meaning of the Sherman Act . . ." and by the sweeping statement of the Court in United States v. Socony-Vacuum Oil Co. that "whatever may have been the status of price-fixing agreements at common law . . ., the Sherman Act has a broader application to them than the common law prohibitions or sanctions. See United States v. Trans-Missouri Freight Association, 166 U. S. 290, 328 . . . Whatever economic justification particular price-fixing agreements may be thought to have, the law does not permit an inquiry into their reasonableness. They are all banned because of their actual or potential threat to the central nervous system of the economy."

It is hardly reasonable to suppose that the Supreme Court in the Socony-Vacuum case inadvertently relied upon the Trans-Missouri case, the holding of which—that all restraints were unlawful under the Sherman Act notwithstanding their reasonableness at common law—was rejected by the Supreme Court in the later case of Standard Oil Co. v. United States. It seems more likely that the sweeping language of the Court and its reliance upon this case indicate a disposition on the part of the Court to give a literal interpretation to the language of the Sherman Act where price-fixing agreements are involved and, thus, to abandon the common law "rule of reason" as a determinant of the legality of such agreements.

2 (1940) 309 U. S. 436, 458, 84 L. Ed. 852, 60 S. Ct. 618.
4 Supra.
III.

It is a matter for some encouragement to those concerned with the conflict between the patent laws and the Sherman Act which has resulted from the decision in the General Electric case that decisions since that case which bear upon its holding at least indicate no intention on the part of the Court to expand upon the holding. There is, moreover, enough in the later cases to support the belief that the trend of the Court has once again changed, and that an attempt to induce the Court to limit, or even to overrule, the General Electric decision might prove fruitful.

After its decision in Bauer & Cie v. O'Donnell and before the General Electric case, the Supreme Court had twice refused to sanction the use of ingenious patent licensing plans to obtain resale price maintenance, and had once held that the control of


The only case decided since the General Electric case which might appear to indicate the contrary is General Talking Pictures Co. v. Western Electric Co., supra, in which the Court held that the vendee of a patented radio tube purchased from a licensee who was licensed to sell only for use for noncommercial purposes was liable for contributory infringement when the vendee made commercial use of the patented tube. While the Court relied upon the General Electric case (304 U. S. 175, 181-182; 305 U. S. 124, 127), the case is really based upon Mitchell v. Hawley, supra, in which the Court held that a temporal restriction upon use followed the patented article to the hands of a purchaser. The decisions in both Mitchell v. Hawley and the General Talking Pictures case, in so far as they permit control after sale of the patented article, are difficult to reconcile with the early decisions of Adams v. Burke, supra, and Hobbie v. Jennison, supra (see the dissenting opinions of Mr. Justice Black in the General Talking Pictures case, 304 U. S. 183, 305 U. S. 128), but, for reasons previously explained, supra, pp. 21, 22, the doctrine of those cases could still be sound, although that of the General Electric case was overruled.

106 The Government stated in its brief in the Ethyl case that it will ask the Court in an appropriate case to reconsider its holding in the General Electric case (Ethyl Gasoline Corp. v. United States, supra, Brief For the United States, p. 72). In United States v. Univis Lens Co. (S. D. N. Y. 1941) 41 F. Supp. 258, now on appeal to the Supreme Court, the Government is urging that the General Electric case be overruled.

107 Supra.

of purchasers' prices under such a plan violated the Sherman Act.\textsuperscript{13} The General Electric decision was an incentive for another attempt to use the rights of the patentee to control resale prices. In Ethyl Gasoline Corp. v. United States,\textsuperscript{14} the Court adhered to the earlier authorities and again refused to countenance price control after the sale of the patented article.

Ethyl was engaged in the manufacture and sale of a patented fluid compound to be added to gasoline to eliminate "knocking" in automobile motors. The corporation held patents upon the gasoline in which the fluid was mixed, as well as upon the fluid. It licensed most of the major refiners to mix the fluid with the gasoline and to sell the patented gasoline, but only to jobbers also licensed by Ethyl.

Both the refiner and jobber licenses were silent as to jobber resale prices, but the licensing plan was implemented by an investigative system under which Ethyl investigated the "business ethics" (price-cutting proclivities) of applicants for jobber licenses and of jobber licensees. Unfavorable reports on the "business ethics" of a jobber were frequently cause for refusal by Ethyl to license a jobber, and, if a licensed jobber indulged in price-cutting, it was a simple matter, because of the prevailing view in the industry that such practices would lead to cancellation of jobber licenses, for Ethyl to correct this by calling it to the attention of the jobber or his supplying company.

Despite the fact that the restraint upon the sale of gasoline by jobbers was achieved, in part, through a restriction imposed by the licensor upon the refiner licensees limiting those to whom the refiners might sell—a limitation which found some support in the General Electric case—the Supreme Court had no difficulty in holding along settled lines that the plan violated the Sherman Act. In the view of the Court, the licenses and the machinery supplementing them involved an attempt to control the resale price of gasoline in the hands of jobbers after there had been an intervening sale. The sale of gasoline to the jobbers terminated the patent monopoly, and resale price maintenance was, therefore, unlawful under the Sherman Act.\textsuperscript{15}

\textsuperscript{13}United States v. Schrader's Son, Inc. (1920) 252 U. S. 85, 64 L. Ed. 471, 40 S. Ct. 251.

\textsuperscript{14}Supra.

\textsuperscript{15}The Government contended that the program of Ethyl involved coercion to destroy the freedom of action of jobbers in reselling gasoline within the doctrine of Federal Trade Commission v. Beech-Nut Packing Co. (1922) 257 U. S. 441, 66 L. Ed. 307, 42 S. Ct. 150 (\textit{Brief for the United States}, pp. 84-91). Ethyl contended (\textit{Brief for the Ethyl Corporation}, pp. 61-71) that it was simply exercising its right to refuse to permit the sale of patented gasoline to price-cutters within
The holding of the *Ethyl* case refusing to permit the use of the *General Electric* case as a vehicle for resale price control is further fortified by the criticism expressed by the Court of the argument of the Ethyl Corporation that the restrictions which it imposed upon the sale of the patented gasoline by its refiner licensees tended to enhance the pecuniary reward which it received from the sale of the patented fluid. The Court pointed out that "the licensing conditions are thus not used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for . . . the exploitation of a second patent monopoly not embraced in the first." This, the Court stated, was not permissible, for "the patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article . . . or for the exploitation or promotion of a business not embraced within the patent."  

The decision in *Standard Oil Co. v. United States* is important, not so much for its holding as for the caveats which it implies. In that case the Supreme Court held that an arrangement whereby owners of patents covering processes for the cracking of gasoline cross-licensed each other under agreements which the holding of United States v. Colgate & Co. (1919) 250 U. S. 300, 63 L. Ed. 992, 39 S. Ct. 465. See also Frey & Son v. Cudahy Packing Co. (1921) 256 U. S. 208, 65 L. Ed. 892, 41 S. Ct. 451. The Supreme Court declared (at p. 457) in response to these contentions that "the picture here revealed is not that of a patentee exercising its right to refuse to sell or to permit his licensee to sell the patented products to price-cutters." Three district courts have since construed this as a negative pronouncement with the affirmative that under the Colgate case it is lawful for a patent licensor and his licensees concertedly to refuse to sell to price-cutters. United States v. Univis Lens Co., *supra*; United States v. United States Gypsum Co. (D. C. D. C., unreported opinion upon order directing verdicts for defendants); United States v. Wayne Pump Co. (N. D. Ill., unreported opinion upon order sustaining demurrers to indictments). This, it is believed, represents an unwarranted extension of the "single trader" doctrine of United States v. Colgate & Co., *supra*.

*Ethyl Gasoline Corporation v. United States, supra*, p. 459. After the decision, Ethyl abandoned a restriction in the refiner licenses requiring premium gasoline to be sold at a differential above regular grade gasoline containing the patented fluid, because of the criticism by the Court quoted in the text. In United States v. Univis Lens Co., *supra*, Univis holds patents upon bifocal lenses. It sells the unpatented blanks (which can only be used for the lenses) to manufacturing wholesalers who are licensed by Univis to convert the blanks into lenses and are required to sell the lenses at prices set by Univis. It is possible that the Court may hold that Univis, in attempting to protect the price at which it sells unpatented blanks by its patent upon the product of the blanks, is using the patent "for the exploitation of an unpatented article . . . or for the exploitation or promotion of a business not embraced within the patent."

*Supra.*
PRICE-FIXING UNDER PATENT LICENSE

contained no restrictions upon the sale of gasoline and which did not effect a monopoly of any kind or produce any restraint upon interstate commerce, was lawful under the Sherman Act. In the lower courts, the use of cross-license agreements (commonly known as patent pools) to fix prices even upon patented products has usually been condemned, although one court has held that this was lawful. The citation in the Standard Oil case of some of the lower court cases condemning price-fixing under patent pools and the statement of the Court that "the lawful individual monopolies granted by the patent statutes cannot be unitedly exercised to restrain competition" show that the Court would not permit the General Electric case to stand in the way of a holding that a patent pool, at least of competitive patents, may not be used to eliminate price competition.

Whether or not the owner of a patent upon a process or machine may fix the price at which the unpatented product of the machine or process is sold has never been directly passed upon by the Supreme Court. Two early cases decided by that Court offer some support for the view that a patentee has no right to control the unpatented product. Two lower courts have taken the view that a patent upon a machine confers no

---

\[\text{\textsuperscript{10}}\text{National Harrow Co. v. Hench, supra;} \text{ National Harrow Co. v. Quick, supra (arrangement by which harrow manufacturers dominating the industry assigned their patents to a patent holding company and took out licenses under which each company bound itself to sell at agreed-upon prices); Blount Mfg. Co. v. Yale & Towne Mfg. Co. (C. C. Mass. 1909) 166 F. 555 (cross-licenses between two manufacturers of doorchecks owning competing patents, under which each bound himself to sell at the same price as the other); United States v. New Departure Mfg. Co. (W. D. N. Y. 1913) 204 F. 107 (use of patent licenses to give color of legality to a scheme in which manufacturers of 85% of the coaster brakes sold in the United States agreed to sell at uniform prices); United States v. Motion Picture Patents Co. (E. D. Pa. 1915) 225 F. 800 (pooling of patents upon film, cameras, projectors, and parts of other equipment as part of a plan to dominate the motion picture industry); Remington Rand, Inc. v. International Business Machines Corp. (1937) 107 Misc. 108, 3 N. Y. S. (2d) 515 (cross-license agreements between two companies owning patents covering sorting and tabulating machines by which each company licensed the other to use its patents and each agreed to lease machines only upon terms specified in the agreement); Lynch v. Magnavox Co. (C. C. A. 9th, 1938) 94 F. (2d) 883 (attempt to monopolize by the pooling of patents covering radio loudspeakers).\]


\[\text{\textsuperscript{12}}\text{Supra, p. 174.}\]

such power;" the court has held to the contrary. The declaration of the Court in the Standard Oil case that "competing processes for manufacturing an unpatented product" are likely to engender the evils at which the Sherman Act was directed" and that, therefore, the effect and operation of the agreements must be ascertained to determine whether they have resulted in a monopoly or restriction of competition in the unpatented product, carries the implication that an attempt by a patentee to control an unpatented product of his patented machine or process would be condemned by the Court.

Furthermore, the question whether price control of an unpatented product is an incident of the right conferred by a patent upon a process or machine by which the product is made may well be disposed of by the "improper use" cases. In the first two of those cases, Carbice Corporation v. American Patents Corp. and Leitch Mfg. Co. v. Barber Co., the Court held that a patentee might not exact, as a condition of a license to use a patented article or process, that unpatented materials used in connection with the article or process be purchased only from the licensor, even though the products were dynamic elements of the inventions. According to those cases, "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited," "whether the patent be for a machine, a product, or a process." This is broad language and the fact that the Court has recently reaffirmed the principle and expanded upon its application seems to indicate that the Court

---

116Supra, p. 26, footnote 105.
117Supra.
119The Carbice and Barber Asphalt cases involved suits for contributory infringement brought against companies supplying the unpatented material for use with the patented article and process. In two cases decided since the first of this year, the Court has held that the doctrine applies also in suits for direct infringement, and that the patentee loses all right to sue under his patent until "it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated." B. B. Chemical Co. v. Ellis, ...... U. S. ......, and Morton Salt Co. v. Suppiger Co., ...... U. S. ......, decided Jan. 5, 1942. For lower court cases applying the principle of these cases see American Lecithin Co. v. Warfield (N. D. Ill. 1938) 23 F. Supp. 326, (C. C. A. 7th, 1939) 105 F. (2d) 207; Ferguson v. American Lecithin (D. C. R. I. 1937) 19 F. Supp. 294, (C. C. A. 1st, 1938)
when presented with the question will hold that a patent upon
a machine or process no more sanctions an attempt to monopolize
the unpatented product thereof than it does an attempt to mo-
nopolize the unpatented material used with the patented process
or machine. 167

The line of cases just discussed also has significance upon
the question of the right to use a patent upon an improvement of
an unpatented article of commerce to control the price of the
article. In the General Electric case, no issue was made of the
fact that the patents involved were only upon an improved fila-
ment and that General Electric by its license was enabled to
control the price of substantially all electric light bulbs, the
basic patents upon which had expired long before the license.
The doctrine of the "improper use" cases represents a reaffirm-
ation of the principle stated in the Motion Picture Patents case
that the scope of a patentee's rights "must be limited to the in-
vention described in the claims of its patent." 168 In those cases
the Court appraises the patentee's rights, not on the basis of
legalistic doctrines of infringement, but on the realistic basis of
what he has contributed to the art. If the thing which the pat-
entee is seeking to protect by the patent is not, realistically con-
sidered, the invention which the patentee has made, then the
Court declines to act, even though, under different circumstan-
ces, the conduct against which the patentee complains might
give rise to an action for infringement. 169

Where a patentee uses his patent upon an improvement to
fix the price upon an unpatented article, he is plainly expanding
upon the monopoly granted by his patent. His only contribu-
tion to the art is in the improvement; when he fixes the price
upon the entire article, he fixes a price not only for that which

94 F. (2d) 729; Philadelphia Co. v. Lechler Laboratory, Inc. (C. C. A. 2d 1939) 107 F. (2d) 747; Barber Asphalt Corp. v. LaFera Grecco Con-
(C. C. A. 4th, 1941) 117 F. (2d) 848.
167 While the Court was not required in the "improper use" cases to de-
cide whether the arrangements, which it held were not protected
by the patent laws, violated the antitrust laws, it has held that where
there is a substantial lessening of competition from an arrangement
similar to those involved in the Carbine and related cases, the arrange-
ment violates Section 3 of the Clayton Act. International Business
Machines Co. v. United States (1936) 298 U. S. 131, 80 L. Ed. 1085,
56 S. Ct. 701.
168 Motion Picture Patents Co. v. Universal Film Co., supra, p. 511.
325, 53 L. Ed. 816, 29 S. Ct. 503. See also Cotton-Tie Co. v. Simmons,
Envelope Co. v. Albany Paper Co., supra.
he has invented, but for that which is unpatented and in the public domain.  

Regardless of the final outcome of the cases which the Department of Justice has instituted within the last two years, they should provide much-needed clarification of the law, which will be of inestimable value to the business world and to those charged with enforcement of the antitrust laws. The cases since the General Electric case give some indication that the Court will at least be reluctant to extend the rule there announced. It is quite possible that the Court may conclude that the holding of the General Electric case has resulted in conflict with the philosophy of the antitrust laws too profound to permit the decision to stand if the antitrust laws are to have any vitality whatever in an important field of commerce. If the Court concludes that "competition, not combination, should be the law of trade" in patented as well as unpatented articles, then the Sherman Act may be felt where it has as yet had little influence as a standard of industrial conduct.

In Interstate Circuit v. United States (1939) 306 U. S. 208, 83 L. Ed. 610, 59 S. Ct. 467, the defendants urged, by analogy to the rights of a patentee, that a copyright upon motion picture films gave to the holder of the copyright the right to fix the admission price of theaters exhibiting the copyrighted films. The Court found it unnecessary to decide this question, but stated (p. 228):

Because a patentee has power to control the price at which his licensee may sell the patented article, it does not follow that the owner of a copyright can dictate . . . the admission price which shall be paid for an entertainment which includes features other than the particular picture licensed. (Italics supplied.)