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William C. Holmes
Staff attorney, Federal Trade Commission

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Compulsory Patent and Trademark Licensing: A Framework for Analysis

WILLIAM C. HOLMES*

Considerable controversy has surrounded proposals to use compulsory licensing of patents and trademarks as structural relief in government antitrust cases.¹ The controversy springs from the harshness of such relief, as well as a fear that the granting of such relief might not, in fact, enhance competition. Proponents of such remedial provisions believe that these forms of relief must be available, notwithstanding their severity, to facilitate effective enforcement of the antitrust laws. Opponents argue just as strenuously that government-mandated licensing of a company’s patents or trademarks may adversely and unreasonably affect a number of countervailing policy concerns, such as research incentives and consumer expectations.

Recently, the federal government has taken an increasingly active role in seeking such relief in antitrust cases. The controversy surrounding these extreme forms of relief has, as a result, become particularly heated. The Federal Trade Commission’s recent attempt to order compulsory licensing of Borden, Inc.’s “ReaLemon” trademark,² and its even more recent consent order entered against

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* Staff attorney, Federal Trade Commission; B.A., Stanford University, 1969; J.D. Harvard University, 1973; member, Illinois and California Bars.

The views expressed in this article are the author’s own opinions, and should not be taken as representing those of the Federal Trade Commission or any individual Commissioner.


2. Borden, Inc., 92 F.T.C. 669 (1978). Though the Commission declined to order compuls-
Eli Lilly and Company requiring drastic compulsory patent licensing,\textsuperscript{3} exemplify the government's more active role.

Very few cases have been litigated in the area of compulsory patent or trademark licensing. Therefore, proponents and opponents of this kind of relief have little in the way of judicial guidance to aid them in their arguments. The purpose of this article is to offer some guidance on the subject by setting forth a proposed framework within which these controversial forms of antitrust relief can be analyzed. The framework will outline the key factors to be considered in assessing the propriety of seeking and ordering either compulsory patent licensing or compulsory trademark licensing.\textsuperscript{4} It is intended that this framework for analysis will provide a logical means to determine when, and under what circumstances, compulsory licensing of a patent or trademark is necessary and appropriate antitrust relief.

\section*{Overview of the Government's Remedial Powers}

The United States Supreme Court has stated that the remedial goal in an antitrust case is to "pry open to competition a market that has been closed."\textsuperscript{5} The relief, therefore, "must be 'effective to redress the violations' and 'to restore competition.'"\textsuperscript{6} In view of

\textsuperscript{3} Eli Lilly and Company, C-3021, 3 CCH Trade Reg. Rep. 21,612 (April 29, 1980).

\textsuperscript{4} This article is not intended to provide a sophisticated economic review of the proposed analytical framework, although some of the relevant economic literature will be cited and discussed.

\textsuperscript{5} International Salt Co., Inc. v. United States, 332 U.S. 392, 401 (1947).

this goal, it has long been recognized that the Justice Department and the Federal Trade Commission are not limited to seeking remedial orders that simply prohibit the continued use of specific unlawful practices. These agencies also are empowered to seek broader structural relief where necessary to restore competition.\footnote{7}

In shaping the relief needed to "redress the violations" and "pry open to competition a market that has been closed," the government is, of course, not given carte blanche powers. Its powers are limited to the extent that the relief chosen must be "necessary" for the effective termination of the proven law violations and the restoration of effective competition.\footnote{8} In addition, the relief sought

\footnote{7. In analyzing the existence of this power, the Supreme Court stated, in Schine Chain Theatres, Inc. v. United States:

[W]e start from the premise that an injunction against future violations is not adequate to protect the public interest. If all that was done was to forbid a repetition of the illegal conduct, those who had unlawfully built their empires could preserve them intact. They could retain the full dividends of their monopolistic practices and profit from the unlawful restraints of trade which they had had on competitors. 334 U.S. 110, 128 (1948).


8. See, e.g., United States v. Glaxo Group Ltd., 410 U.S. 52, 64 (1973); United States v. United Shoe Machinery Corp., 391 U.S. 244, 251-52 (1968); United States v. National Lead Co., 332 U.S. 319, 335, 349 (1947); Standard Oil Co. v. United States, 221 U.S. 1, 77-78 (1911); Borden, Inc., 92 F.T.C. 669, 806 (1978); The Firestone Tire & Rubber Company, 81 F.T.C. 398, 473 (1972), aff'd, 481 F.2d 246 (6th Cir.), cert. denied, 414 U.S. 1112 (1973). Due to the Federal Trade Commission's status as an administrative agency, the courts will defer to the FTC's expertise and discretion in shaping relief, provided that the remedy selected bears a "reasonable relationship" to the proven law violations and is confined to the "least drastic" alternative. Therefore, a somewhat different standard applies on judicial review of a FTC order. See, e.g., FTC v. Colgate-Palmolive Co., 380 U.S. 374, 394-95 (1965); FTC v.
should be confined to the “least drastic” alternative remedy, as judged by the specific facts of each case. Finally, the relief imposed must not be prescribed as a form of “punishment,” but must instead be for the remedial purpose of offsetting the proven law violations.\(^9\)

**Compulsory Patent Licensing**

**Available Remedial Alternatives**

A compulsory patent licensing order may take many forms. Generally, however, a defendant or respondent will be ordered either to license its patents for a reasonable royalty, license its patents on a royalty-free basis, or dedicate its patents to the public.\(^10\) Each of these forms of patent relief has been dealt with by the courts, albeit in a limited number of cases. A brief discussion of the legal rationale underlying each of these types of patent relief is, therefore, useful as a basis for the discussion of the proposed analytical framework.

*Reasonable-Royalty Licensing of Patents*

Reasonable-royalty licensing is the least controversial form of compulsory patent licensing, and has long been established as an appropriate form of antitrust relief. Where reasonable-royalty licensing of patents is ordered, licensees are required to compensate the defendant-patent owner for the right to use the defendant's
patents. The precise amount to be paid is generally left open by the orders for negotiation between the defendant and the licensees, with licensees given a right to seek arbitration or judicial determination of a "reasonable" royalty, in the event that they cannot reach agreement with the defendant.\(^\text{12}\)

The seminal case in this area is the 1947 decision in *United States v. National Lead Co.*\(^\text{13}\) In *National Lead*, the Supreme Court upheld a district court order requiring the defendants to license, on a reasonable-royalty basis, existing and future patents acquired by the defendants within a five year period. In addition, the Court upheld a further requirement that the defendants supplement the patent licenses with written descriptions of the know-how used in the commercial exploitation of the patents. The Court concluded that the imposition of such relief was "an exercise of sound judicial discretion."\(^\text{14}\) The Court further stated that this type of patent relief is to be ordered on a case-by-case basis with a view towards achieving that remedy which is "effective and fair as possible in preventing continued or future violations" of the antitrust laws.\(^\text{15}\)

\(^{12}\) See, e.g., *United States v. National Lead Co.*, 332 U.S. 319 (1947) (upholding a district court order requiring the defendants to license patents for a "reasonable" royalty, with the court reserving jurisdiction to set a reasonable royalty if the defendants and licensees could not reach agreement); *Eli Lilly and Company*, C-3021, 3 CCH Trade Reg. Rep. ¶ 26,612 (April 29, 1980) (imposing "reasonable-royalty" licensing of future patents, with licensees given the right to seek arbitration before the American Arbitration Association if they could not reach agreement with respondent Lilly). See also *American Cyanamid Co.*, 72 F.T.C. 623 (1967), aff'd, 401 F.2d 574 (7th Cir. 1968), cert. denied, 394 U.S. 920 (1969) (imposing 2½% royalty licensing, where this was the royalty rate that the defendants had charged one another. Essentially, the FTC imposed reasonable-royalty licensing, and used the respondents' own behavior as a convenient yardstick of what was "reasonable.").

\(^{13}\) 332 U.S. 319 (1947). In *National Lead*, the United States brought suit against National Lead Company, its wholly-owned subsidiary, Titan Company, Inc., and E.I. duPont de Nemours and Company. The findings disclosed that these three companies had violated Section 1 of the Sherman Act by combining with the leading foreign producers of titanium pigments to pool patents and allocate world markets, giving National Lead and duPont control over an estimated 90% of the domestic titanium pigments market. The balance of the domestic production was in the hands of two smaller but competitively vigorous firms not privy to the conspiracy. The Supreme Court's opinion primarily concerned assignments of error as to the terms of the district court's decree.

More recently, the Supreme Court not only validated reasonable-royalty patent licensing in antitrust cases, but also affirmatively ordered such relief where the district court had refused it, on the ground that such relief was necessary "to pry open to competition the market that had been closed by defendants' illegal restraints." *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 62 (1973), quoting *International Salt Co., Inc. v. United States*, 332 U.S. 392, 401 (1947).


\(^{15}\) *Id. at* 335.
More recently, the Supreme Court described reasonable-royalty patent licensing as being one of the "well-established forms of relief when necessary to an effective remedy, particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated."16 In light of the Court's approval of this type of relief, it is not surprising to find that the lower federal courts17 and the Federal Trade Commission18 have ordered reasonable-royalty licensing of patents as structural antitrust relief.19

Royalty-Free Patent Licensing

Where royalty-free licensing of patents is ordered, licensees have the right to use defendant's patents without any obligation to compensate the defendant for such use. The Supreme Court has neither definitively approved nor rejected the use of this relief in antitrust cases. As a result, this form of compulsory licensing is subject to considerably more debate than reasonable-royalty relief.20

The Supreme Court appeared to disapprove royalty-free relief in the Court's 1945 opinion in Hartford-Empire Co. v. United States.21 In this Sherman Act § 1 and § 2 conspiracy case, the

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17. See, e.g., United States v. Singer Mfg. Co., 231 F. Supp. 240 (S.D.N.Y. 1964); United States v. United Shoe Machinery Corp., 110 F. Supp. 295 (D. Mass. 1953); United States v. Imperial Chemical Indus., 105 F. Supp. 215 (S.D.N.Y. 1952). In United Shoe Machinery, Judge Wyzanski ordered reasonable-royalty licensing of the defendant monopolist's patents, even though he concluded that the defendant had engaged in no "abusive practices" respecting the patents. Judge Wyzanski stated that the "[d]efendant is not being punished for abusive practices respecting patents, for it engaged in none . . . . It is being required to reduce the monopoly power it has, not as a result of patents, but as a result of business practices." 110 F. Supp. at 351.


19. For other government antitrust cases that have ordered reasonable-royalty patent licensing, see ABA ANTITRUST LAW DEVELOPMENTS 350-51 n.157 (1975).

20. See notes 12 through 19 supra and accompanying text.

21. 323 U.S. 386 (1945). The original complaint in Hartford-Empire named as defendants 12 corporations and 101 individuals associated with the firms. Subsequently, the case was dismissed as to 3 corporations and 40 individuals. Through a complex series of transactions beginning as early as 1904, defendants were able to guarantee continuance of trade restraints and monopolies in the glass-products industry. The transactions involved numerous licensing agreements, joint efforts in the preparation of patent applications, joint ventures in connection with the purchasing of applications and patents of others, and membership in a trade association. By 1938, 94% of the glass containers manufactured in the
Court struck down that portion of the lower court's order which required the defendants to license their patents on a royalty-free basis. The Court held that this relief went "beyond what [was] required to dissolve the combination and prevent future combinations of like character," and that an order requiring reasonable-royalty licensing would adequately achieve this remedial objective. In so holding, the Court seemingly cast a cloud over the propriety of royalty-free licensing in general, when it further observed that "if . . . a defendant owns valid patents, it is difficult to say that, however much in the past such defendant has abused the rights thereby conferred, it must now dedicate them to the public." The obvious inference was that royalty-free licensing would be improper, at least insofar as legally valid patents are concerned.

Two years later, however, the Supreme Court retreated from the strict position suggested in *Hartford-Empire*. In *United States v. National Lead Co.*, the Court implied that royalty-free licensing might be appropriate if "shown to be necessary in order to enforce effectively" the antitrust laws. The Court did not actually reach the issue of whether such relief was appropriate in this case, since the Court concluded that, while the government had shown the necessity of reasonable-royalty patent licensing, it had failed to show the need for the harsher remedy of royalty-free licensing. The Court accordingly left open the question of whether "royalty-free" licensing would be "permissible as a matter of law." The Court has not had occasion to further comment on the permissibility or applicability of such relief.

One lower federal court has responded to the uncertainty created by these Supreme Court decisions by refusing to order royalty-free licensing. The district court based its decision upon the

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United States were made on machinery licensed under the pooled patents of the defendants. The defendants were charged with conspiring to monopolize and restrain trade by (1) acquiring patents covering the manufacture of glassmaking machinery, (2) excluding others from a fair opportunity to use such machinery, and (3) excluding others from a fair opportunity to manufacture and distribute glass products. *Id.*

22. *Id.* at 414.
23. *Id.* at 417.
24. *Id.* at 415.
26. *Id.* at 349.
27. See notes 14 and 15 supra and accompanying text.
29. *Id.* at 338.
lack of clear statutory authority for decreeing royalty-free licensing, as well as the failure of the Supreme Court to indicate the appropriateness of such relief in antitrust cases.81 The court did, however, impose reasonable-royalty patent licensing.82

In contrast, other lower federal courts have ordered royalty-free patent licensing and even the still harsher remedy of outright patent dedication, notwithstanding the absence of clear Supreme Court guidance.83 Additionally, several consent orders obtained by the Justice Department and the Federal Trade Commission have imposed royalty-free licensing relief.84 Given this difference of opinion, it is undoubtedly merely a matter of time before the Supreme Court will be compelled to resolve the uncertainties left in the wake of its Hartford-Empire and National Lead decisions.

Public Dedication of Patents

Outright dedication of patents to the public is, by far, the most controversial form of patent relief in antitrust cases. The added controversy surrounding this form of relief stems from the fact that public dedication of a patent has potential ramifications that extend well beyond those of even royalty-free licensing. Royalty-free licensing of a patent can be limited to the particular industry affected by the defendant's misconduct. Public dedication of a patent, in contrast, can spill over into all industries that might benefit

31. Id. at 223. Additionally, the Court took cognizance of the fact that the validity of the patents was not questioned by the Government. Id. See also United States v. Singer Mfg. Co., 231 F. Supp. 240 (S.D.N.Y. 1964) (ordered reasonable-royalty licensing, but refused to order licensing on a royalty-free basis, due to the Supreme Court's refusal to expressly approve such relief); United States v. Vehicular Parking, Ltd., 61 F. Supp. 656 (D. Del. 1945) (refused to order royalty-free patent licensing, while ordering reasonable-royalty licensing; the decision pre-dated the Supreme Court's National Lead decision and, therefore, is of questionable significance).


This reflects the viewpoint of these agencies that royalty-free licensing was impliedly upheld in National Lead. See, e.g., American Cyanamid Co., 60 F.T.C. 1092, 1890-91 (1963).
from the patent, including industries not involved in the defendant's proven law violations. Arguably, therefore, public dedication of a patent can go beyond that which is "[as] fair as possible in preventing continued or future [antitrust] violations." The legal propriety of this relief may, thus, be particularly difficult to establish in any case in which a patent has possible applications in industries other than those affected by the particular law violations at issue.

The Supreme Court has not issued a definitive opinion on the use of patent dedication in antitrust cases. Once again, the Hartford-Empire and National Lead cases present conflicting views on this issue. In Hartford-Empire, the Court cast doubt upon the propriety of requiring defendants to dedicate valid patents to the public. In National Lead, however, the Court expressly left open the question of whether enforcement of a patent might be "permanently enjoined" where this relief is "shown to be necessary to enforce effectively" the antitrust laws. The Court concluded that, just as the government had failed to show that royalty-free licensing was necessary in the case, it had failed to establish the necessity of permanently enjoining enforcement of the patents, a remedy that would have been tantamount to public dedication of the patents.

One federal district court has concluded that the issue of patent dedication is "an area left open" by the Supreme Court's National Lead decision. The court, accordingly, imposed public dedication of patents as structural relief in a case in which patents had been

37. For purposes of this article, a permanent injunction against enforcement of a patent is viewed as being synonymous with patent dedication, since the two forms of relief have a similar operative effect, i.e., making the invention described in the patent available to anyone who wishes to use it. Note, however, that the two types of relief can operate differently with respect to the supplemental treatment of "know-how" licensing. Enjoining the enforcement of a patent need not carry with it the supplemental licensing of know-how. When compulsory licensing or patent dedication is ordered, however, it is customary to also order licensing of know-how to augment the disclosures made in the patent itself. See, e.g., United States v. National Lead Co., 332 U.S. 319, 353-59 (1947); United States v. General Electric Co., 115 F. Supp. 835, 853-55 (D.N.J. 1953).
39. See note 28 supra and accompanying text.
misused to allocate world markets. Such relief has also been incorporated in at least one Justice Department consent decree. The use of public dedication of patents as antitrust relief is, thus, a further issue that inevitably will require Supreme Court resolution.

The Competitive Effect of Past Patent Licensing Orders

The extent to which past patent licensing orders have achieved the goal of "prying open . . . competition" has been the focus of three empirical studies. The findings of these studies are disturbing, for they indicate that past compulsory licensing orders have had little, if any, impact upon the competitive structures of many of the industries involved.

A 1957 report by Frost and Oppenheim focused on the effect of licensing decrees in three industries: glass-forming machinery, parking meters, and concrete blockmaking machinery. Frost and Oppenheim concluded that the decrees had brought about little, if any, change in the first two industries. The impact of a decree upon the third industry had been clouded by a separate patent decision finding the principal patents invalid or not infringed. Thus, in none of the three industries examined were the authors able to conclude that the patent licensing decrees had any appreciable competitive impact. Similarly disturbing are the findings of a 1960 study by Hollabaugh and Wright in which the authors ana-
analyzed the apparent effects of compulsory licensing orders issued in 81 government antitrust cases. The authors concluded that, while new entry had apparently been facilitated by some of the orders, the orders failed to generate any new licenses in at least 37 cases, i.e., approximately 46% of the cases examined.

The most recent study, a 1977 report by Scherer, analyzed the apparent competitive impact of compulsory patent licensing decrees upon 19 industries. Scherer found that concentration within these industries had fallen by an average of 4.53% since the effective dates of the decrees. However, when compared to the degree of deconcentration that would normally have been expected, assuming no compulsory licensing, he found that the normal predicted change (4.96%) actually exceeded the observed change (4.53%).

The findings of these three reports suggest that many government compulsory patent licensing orders have not had their intended effect of promoting greater competition within industries affected by antitrust violations. Obviously, many elements may have contributed to this deficiency, with the compulsory licensing orders constituting only one of the problems. Nevertheless, these studies indicate that, even when other confounding factors are removed, the competitive impact of many compulsory licensing decrees obtained by the government to date have been seriously

48. Hollabaugh & Wright, supra note 44.
49. Id. at 6-20. The authors attributed the apparent failure of many of these orders to insufficient consideration of factors similar to those which will be discussed in this article, such as the relative importance of particular patents to the industry, competitive conditions within the industry making effective patent relief particularly important, and the possible status of a reasonable-royalty requirement as in itself being a disincentive to new entry. Id. at 15-18, 41-48.
50. Scherer, supra note 44.
51. Id. at 76.
52. The normal expected change includes empirically quantifying such factors as initial industry concentration, ultimate industry size, enhanced industry sales, and the extent of product differentiation. Id. at 76-77.
53. Id. Professor Scherer concluded:
   We are led to the negative conclusion that . . . compulsory licensing under antitrust decrees had no significant observed impact in reducing concentration relative to the changes that might have been expected in any event, given the initial market structure, subsequent market growth, and the panoply of public policies (including antitrust actions) affecting manufacturing industry structures. Id. at 77.
54. For example, distributional restraints and consumer brand preferences within the industry may have frustrated new competitive entry, even with the competitive barrier of patent monopolies removed.
undermined by defects in the decrees themselves.55

This pessimistic conclusion suggests that patent licensing orders have often suffered from a lack of thorough analysis at the formative stage of their development. What is needed from the outset is thoughtful consideration of relevant factors bearing upon the propriety and workability of the various forms of compulsory patent licensing relief. This type of analysis has so far largely been bypassed by advocates of patent licensing. The absence of comprehensive judicial guidelines, moreover, has contributed to the lack of any standard methodology. The following section of this article will suggest a practical framework for analyzing the applicability of patent licensing relief.

Compulsory Patent Licensing: A Framework for Analysis

Several considerations relevant to a well reasoned determination regarding the propriety of compulsory patent licensing can be gleaned from the few existing judicial holdings that have dealt with the subject. The decisions do not, however, clearly present these considerations. Rather, the decisions tend to conceal relevant factors in a thicket of evidentiary observations and legal argument. The practitioner who wishes to make use of the existing case law is, thus, left with the difficult task of trying to identify individual "trees" in a confusing "forest" of lengthy judicial verbiage. The result is undesirable uncertainty, inadequate analysis66 and ineffectual licensing decrees.57

The following framework is proposed to clarify relevant factors and serve as a comprehensive matrix to analyze the propriety of patent licensing relief. The framework consists of six basic considerations:

1. Determine the "objective" of the relief sought in light of the proven antitrust law violations;58
2. Determine whether the proposed relief is "necessary" to

55. See generally Frost, supra note 1; Hollabaugh & Wright, supra note 44; Scherer, supra note 44.
56. See, e.g., the discussion of United States v. General Electric Co., at notes 68-75 infra, in which the court correctly identified the objectives of the relief that it was ordering, but then failed to confine itself to the least drastic remedial alternative appropriate to achieve those objectives.
57. See notes 44 through 55 supra and accompanying text.
58. In determining the "objective" of the relief, it is helpful to examine the available case law and, from existing holdings, to project apparent trends in the case law. See, e.g., notes 64 through 69 infra and accompanying text.
achieve this objective;咽喉
3. Determine whether the proposed relief is the "least drastic remedial alternative";
4. Determine the status of the "validity" of the particular patents involved;
5. Determine the impact that the proposed relief will have upon future "research and development"; and
6. Determine whether the patents have been "misused" in carrying out the antitrust violations.咽喉

The first three components of this framework are derived from the general limitations imposed upon the government when seeking relief in an antitrust case.咽喉 The Supreme Court's National Lead咽喉 opinion is illustrative of the application of these three factors. In that case, National Lead and duPont had combined with the world's other dominant producers of titanium pigments and compounds to pool patents and allocate world titanium markets under the guise of patent licenses. The Justice Department brought suit against National Lead and duPont for alleged antitrust violations resulting from the combination.

The Supreme Court implied咽喉 that the "objective" of the relief in the case was to achieve "assurance against continued illegal restraints upon interstate and foreign commerce through misuse of [the defendants'] patent rights."咽喉 The Court then impliedly dealt with the issue of "necessity" through an analysis of competitive conditions within the industry. This analysis revealed the presence

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59. In assessing the "necessity" of the particular relief sought, a number of collateral considerations may be relevant, such as competitive conditions within the industry affected by the defendants' misconduct, the nature and scope of the patent or patents in question, and the relative importance of the patents to the industry. See, e.g., notes 64 through 66 and 70 through 72 infra and accompanying text.
60. This framework sets forth those factors that are of principal importance and, thus, that should be part of any meaningful analytical framework. The above list, however, is by no means intended to be all-inclusive. Other more unique considerations might also be relevant in particular cases, depending on the facts. For example, the possible anti-competitive effect of cross-licensing may be a relevant concern where a defendant argues that reciprocal licenses should be a prerequisite for licenses that it is required to grant. See, e.g., United States v. United States Gypsum Co., 340 U.S. 76, 94 (1950); United States v. National Lead Co., 332 U.S. 319, 359-60 (1947); United States v. General Electric Co., 115 F. Supp. 835, 847-48 (D.N.J. 1953).
61. See notes 5 through 10 supra and accompanying text.
63. The Court did not expressly identify the "objective" of the relief ordered; rather, this was implicit in the Court's holding.
of two "vigorous" domestic competitors not privy to the conspiracy. Further analysis showed that effective competition by these firms could be expected if they were granted access to the patents controlled by National Lead and duPont. Without such access, it appeared that competition within the industry would likely not improve, since "added together, the control of the patents covered by [the] agreement gave to National Lead and duPont domination and control over the titanium business in the U.S." 65

The Court, thus, essentially reasoned that some form of patent relief was "necessary" to achieve the "objective" of effective antitrust relief. The Justice Department had requested that this relief take the form of either royalty-free patent licensing or an injunction against enforcement of the patents. The Court refused to approve such relief, however, noting that the competitors not privy to the conspiracy could afford the cost of royalty payments. The Court concluded that the government had, thus, not shown royalty-free licensing or enjoining the enforcement of patents to be "necessary" to "enforce effectively the Antitrust Act." 66 Rather, the Court determined that adequate "assurance against continued illegal restraints upon interstate and foreign commerce" would be provided by the less drastic alternative of reasonable-royalty patent licenses. 67 The Court's decision thereby additionally reflects the third component of the proposed analytical framework: determining whether the proposed relief is the least drastic remedial alternative.

The National Lead opinion provided lower courts with some guidance on the factors to be considered when assessing compulsory patent licensing relief. Because the relevant considerations were not clearly delineated in the Court's decision, however, but instead were buried in extensive judicial verbiage, the guidance provided was regrettably ambiguous and confusing. A district court case decided five years after National Lead, United States v. General Electric Co., 68 illustrates the problems that can arise when the precise framework to be applied when considering compulsory patent licensing is not clearly articulated.

General Electric involved a conspiracy between GE and other domestic and foreign firms to monopolize the United States in-

65. Id. at 327.
66. Id. at 349.
67. Id. at 348.
candescent lamp industry, largely through a network of patent and trademark licenses that restricted and controlled domestic and foreign competition. The objective of patent relief in this case was identified by the district court as that relief needed to "check the intrusion of advantages . . . gained" by the patent arrangement "into the mechanics of competition in the lamp industry." 69 Analysis of the relative positions of competitors within the industry showed that the defendants could "easily overwhelm and defeat competition by small firms desiring to stay in or gain a foothold in the industry," 70 due to the number of patents held by the defendants. 71 Moreover, the court found that competitive conditions within the industry were such that imposition of a royalty-bearing order, as opposed to some form of non-royalty-bearing relief, could be enough to keep these small competitors "out of the competitive circle of the market." 72 The court’s response to these considerations was to order public dedication of the defendants’ lamp and lamp part patents. 73 In ordering such relief the court seemingly failed, however, to confine itself to the "least drastic" relief alternative. General Electric objected to public dedication of its patents, as opposed to some form of licensing relief, on the ground that its patents had potential uses in the production of products other than lamps. Public dedication of the patents, GE argued, would benefit manufacturers of unrelated products, while royalty-free licensing could have been limited to the particular industry affected by the antitrust violations. The court summarily countered this argument with the following reasoning:

[T]he abuse of patents relating to lamps and lamp parts was the basis for judgment against the defendants. These actions justified invalidation of the patents themselves and if their use in other fields now becomes practical it follows from the fact that all monopoly originally granted in the patent has been dissolved. 74

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69. Id. at 844.
70. Id.
71. Id.
72. Id.
73. Id. at 843. The court also ordered reasonable-royalty licensing of other patents that were not directly involved in the law violations. Such relief was granted on the theory that these other patents constituted barriers to renewed competition and, therefore, were appropriate targets for some form of patent licensing. Id. at 846, 849.
74. Id. at 845. Presumably, the court was referring to the "patent misuse" doctrine applicable to patent infringement cases. See note 92 infra and accompanying text.
The court’s rationale is persuasive on the separate issue of whether the defendants should have been allowed some kind of royalty return on their patents, i.e., if they had indeed so misused their patents as to render them essentially invalid, then logic suggests that compulsory royalty-free licensing was well within the court’s discretion. The same rationale, however, does not adequately deal with the general requirement that relief in an antitrust case should be confined to the least drastic alternative available. Since royalty-free licensing would have effectively eliminated the patents as competitive barriers to competing lamp producers, while limiting the relief to the specific industry affected by the defendants’ law violations, relief in the case arguably should have consisted of compulsory licenses on a royalty-free basis, rather than patent dedication. The court thereby could have met its remedial objective by ordering an alternative form of patent relief that would have been less drastic in effect. This case, thus, illustrates the potential result of failure to consider an integral factor in determining the scope of licensing relief.

In the past, courts have considered the fourth component of the proposed framework, assessing the “validity” of the patent, by manifesting a far greater willingness to order licensing or dedication of invalid, as opposed to valid, patents. In Hartford-Empire, for example, the Supreme Court struck down a provision in an antitrust decree requiring royalty-free licensing of patents, but took care to first qualify its holding by noting that the government had not “attacked the validity of any patent” involved in the case. In a more recent decision, the Supreme Court made it quite clear that the patent validity issue can be highly relevant to a decision involving the possible licensing of patents.

75. See note 9 supra and accompanying text.
77. Id. at 414.
79. In the Glaxo case, the Government did challenge the validity of the defendants’ patents as part of its affirmative antitrust case. In upholding the Government’s power to assert such a challenge in an antitrust case even though the patent holder does not rely on the patent as a defense, the Supreme Court stressed the relevance of the patent’s validity in determining the type of relief to be ordered: The question remains whether the Government’s case for additional relief was sufficient to provide the appropriate predicate for a consideration of its challenge to the validity of these patents. For this purpose, as we have said, its case need not be conclusive, but only substantial enough to warrant the court’s undertaking what could be a large inquiry, one which could easily obviate other questions of remedy if the patent is found invalid and which, if the patent is not invalidated,
The potential impact that a compulsory licensing order may have upon future product research and development is still a further consideration that should be analyzed by those seeking or ordering compulsory patent licensing relief. The National Lead case illustrates an application of this factor. In National Lead, the district court ordered National Lead and duPont to supplement the patent licenses ordered in the case with written descriptions of the know-how actually used by the companies in the commercial exploitation of the licensed patents. On appeal to the Supreme Court, the Justice Department argued that this compulsory sharing of know-how should be expanded to include all technical information "desired" by a licensee and "relating" to any of the defendants' used, or unused, methods and processes for manufacturing titanium pigments. DuPont countered that it should not be required to share any know-how whatsoever.

The Court rejected duPont's argument against any know-how licensing, on the ground that "the justification for the compulsory imparting of methods and processes rests upon the necessity for it in providing an effective decree." However, the Court also rejected the expansive know-how relief urged by the Justice Department. The Court emphasized the broad "discretion" of the district court in determining the precise "conditions under which technological information shall be required to be shared with the

would lend substance to a defendant's claim that a valid patent should not be limited, absent the necessity to provide effective relief for an antitrust violation to which the patent has contributed.

Id. at 60 (emphasis added). See also United States v. Imperial Chemical Indus., 105 F. Supp. 215, 223 (S.D.N.Y. 1952).

Note that while the "validity" of a patent may be a highly relevant factor in many patent-antitrust relief cases, this is not to say that the issue will be raised in all such cases. The issue of patent validity can be extremely complex, requiring analysis and expert opinion on such difficult subjects as "novelty" and "non-obviousness." This inherent complexity will probably have the practical effect of limiting inquiry into patent validity to only those cases in which the patent appears clearly to be of questionable validity.


81. Id. at 353-59.

82. Id. at 357. Additionally, the Court stated that "the need for technical information to accompany patent licenses in this field, at least where desired by a newcomer, is testified to repeatedly. If there be such a need, the reasonableness of this limited availability of it as stated in the decree is hard to deny." Id. at 355. Note that while the Court in National Lead also upheld an order provision that required licensing of future patents acquired by the defendants within a five year period, id. at 348, it failed to clearly explore the necessity of this future-oriented relief or its possible impact upon future product research and development.
world." But rather than simply stopping there, and resting its decision upon a mere affirmation of the lower court's "discretion," the Court went on to reject the expansive relief urged by the Justice Department on the ground that such relief would unjustifiably discourage competitive research and development within the industry, as well as reduce the value of independent research.

The General Electric case similarly illustrates the importance of considering the possible impact of compulsory licensing upon future product research and development. The court ordered GE, in addition to imposing public dedication of GE's lamp and lamp part patents, to supply all companies that utilized the dedicated patents with written descriptions of its commercially-used know-how for a period of three years. The court considered this additional relief appropriate "notwithstanding the lack of evidence pinpointed to specific individual necessity for the use of General Electric's know-how." Given the prospective three year-coverage of the know-how licensing, and its resulting potential impact upon future research and development, the court should have required clearer evidence of the need for such drastic relief. By failing to require such a showing, the court left itself open to considerable criticism.

83. Id. at 359.
84. Id. In the Court's words:

The attempt of the government to throw the field of technical knowledge in the titanium pigment industry wide-open would reduce the competitive value of the independent research of the parties. It would discourage rather than encourage competitive research. It would be contrary to, rather than in conformity with, the policy of the patent laws now in force.

85. Id.
87. Id. at 855.
88. For example, drastic patent-antitrust relief such as that ordered in General Electric has been criticized on the ground that such relief "will discourage research, invention, and developmental activity and thus defeat the purposes underlying the patent system." SHEPARD'S ANTITRUST ADVISER 488-89 (2d ed. 1978). See also United States v. Imperial Chemical Indus., 105 F. Supp. 215 (S.D.N.Y. 1952) (stressing the possible adverse impact upon research and development as a reason for not ordering licensing of future technology). In United States v. Aluminum Co. of America, 91 F. Supp. 333 (S.D.N.Y. 1950), the same court refused to order divestiture relief, in relevant part because divestiture might adversely affect Alcoa's R&D activities, thereby undermining the general public interest in new research innovations. Note, however, that in United States v. National Lead Co., 332 U.S. 319 (1947), the Supreme Court upheld reasonable-royalty licensing of not only existing patents but, in addition, future patents acquired by the defendants within a five year period, together with implementing future know-how commercially used by the defendants within a three year period. Similarly, in United States v. United States Gypsum Co., 340 U.S. 76 (1950), the Supreme Court authorized a district court, in its discretion, to order licensing of not only
A sixth relevant consideration suggested by prior compulsory licensing cases has been "misuse" of the patents to perpetrate antitrust violations. For example, misuse of patents was a major factor emphasized by the court when ordering outright public dedication of patents in the General Electric decision. According to the court, such misuse justified the more drastic relief ordered. Similarly, the "misuse" of patents was a consideration taken into account by the Supreme Court in two decisions upholding reasonable-royalty licensing orders.

The "patent misuse" rationale suggested by these cases seems logically sound, provided that it simply means that where patents have been used to carry out violations of the antitrust laws, then compulsory licensing of the patents may be essential to effectively terminate the antitrust violations. So viewed, the patent misuse line of reasoning simply reflects the government's general powers to order "necessary" antitrust relief, i.e., if the patents themselves have been the vehicles for perpetrating antitrust violations, then a relationship of "necessity" certainly exists between compulsory licensing of the misused patents and effective termination of the proven law violations. Semantics are critical, however, in describing this factor, for a distinct "patent misuse" doctrine has evolved

90. Id.
91. In National Lead, the Court stated:

Assuming, as is justified, that violation of the Sherman Act in this case has consisted primarily of the misuse of patent rights placing restraints upon interstate and foreign commerce, that conduct is not before this Court for punishment. It is brought before this Court in order to secure an order for its immediate discontinuance and for its future prevention . . . . Further assurance against continued illegal restraints upon interstate and foreign commerce through misuse of these patent rights is provided through the compulsory granting to any applicant therefor of licenses at uniform, reasonable royalties under any or all patents defined in the decree.


In the Glaxo decision, the Court concluded that "there can be little question that the patents involved here were intimately associated with and contributed to effectuating the conduct that the District Court held to be a per se restraint of trade." 410 U.S. 52, 62 (1973). See also United States v. Imperial Chemical Indus., 105 F. Supp. 215, 222 (S.D.N.Y. 1952) ("We decree compulsory licensing because the patent rights which were granted the defendants were misused.").
in the area of patent infringement suits. According to this doctrine, a court may, as a matter of equitable discretion, refuse to enjoin infringement of a patent as long as the patent is being "misused" to violate the antitrust laws or otherwise act contrary to the public interest. Implicit in this equitable doctrine is an element of punishment directed at the patent owner's "unclean hands" in misusing the patent.

If the references to "patent misuse" in compulsory licensing cases mean that a similar doctrine of "unclean hands" has somehow been carried over into the area of government-mandated patent licensing, then it would seem that the courts have injected an element of "punishment" that falls outside the permissible bounds of antitrust relief. Surely, however, this was not what the courts intended, for they have expressly disclaimed any intention of "punishing" the defendants for misusing their patents. Instead, it would appear that the patent misuse rationale, as applied to antitrust-patent relief cases, is simply another way of expressing the existence of a necessary relationship between the patent relief selected and the proven law violations. Therefore, this sixth component of the proposed analytical framework would revolve around a determination concerning the degree to which the patent itself is intertwined in the commission of the antitrust violations. The greater the involvement, the more likely it will be that compulsory licensing will be needed to counteract the effects of the violations.

In summary, it is important to underscore the necessity of looking at all of the factors which constitute the analytical framework in order to reach a reasoned decision on whether compulsory patent licensing is appropriate antitrust relief in a given case. First, licensing must be "necessary" to achieve the "objective" of antitrust relief in the case, in light of the proven law violations and such pragmatic concerns as competitive conditions within the industry and the relative importance of the patent or patents to the


93. See note 10 supra and accompanying text.

industry. Next, licensing must be the "least drastic alternative" remedy that will achieve the remedial objective. The validity of the patent, when challenged, should be taken into account. If the patent was the source of the antitrust violation, then consideration should be given to the extent to which patent relief is needed to counteract the consequences of such "misuse." Finally, the impact of compulsory licensing on future research and development should be assessed.

This basic framework substantially carries over to an analysis of whether compulsory licensing of a trademark is appropriate antitrust relief. Some modification is necessary, however, and additional considerations must be included in the framework. The following section discusses these differences and presents the basic analytical framework as applied to trademark licensing relief.

**Compulsory Trademark Licensing**

Trademark licensing relief presents parallel issues to those encountered with compulsory patent licensing, but the use of this type of relief is complicated by two factors. First, the functional and legal differences between a patent and a trademark affect the suitability of licensing in the trademark area. Second, an extreme scarcity of case law on trademark licensing provides even less judicial guidance than even the ambiguous precedent available in the patent licensing area.

Government-ordered trademark licensing, like the remedy of compulsory patent licensing, affects highly valuable business assets. It is not at all surprising, therefore, that proposals for compulsory trademark licensing have generated heated debate. One particularly controversial case which illustrates these considerations is the FTC decision involving Borden, Inc. The administrative law judge in that case found that Borden had monopolized the processed lemon juice market by means of various discriminatory pricing and promotional practices. The judge ordered Borden not only to discontinue these practices, but also to grant a license for the use of its "ReaLemon" brand name and label design to anyone engaged in, or wishing to enter, the business of producing lemon juice, for a period of ten years.

The initial Borden decision immediately sparked heated contro-
This controversy was largely abated when the Commission itself subsequently overturned the law judge's decision on compulsory licensing, holding that the specific prohibitions on pricing and promotional practices would "be sufficient to prevent Borden from unreasonably excluding competition in the processed lemon juice market," and that compulsory licensing of Borden's brand name and label design was, therefore, unnecessary. The Commission planted the seeds of future controversy, however, when it took the position that compulsory trademark licensing or suspension of a trademark could "be ordered as a means of dissipating illegally used or acquired monopoly power."

Unique Considerations of Compulsory Trademark Licensing

The Borden case illustrates some of the unique considerations concerning trademark licensing that distinguish this relief from patent licensing. One consideration is based upon the different legal bases of trademarks and patents. A patent is a limited seventeen year monopoly created by government fiat to stimulate inventions and the public disclosure of inventions. A trademark, in contrast, is a perpetual common law property right acquired by adoption and actual use of the mark, and serves to identify and distinguish a manufacturer's or seller's goods from those of its competitors. The government does not itself create this property right, but simply registers it, thereby creating statutory presumptions as to ownership of the mark and the right to protect it from infringement. When the government orders licensing of a patent,

97. See, e.g., Ball, supra note 1; McCarthy, supra note 1; Palladino, supra note 1; Note, Compulsory Trademark Licensure as a Remedy for Monopolization, 26 CATH. U.L. REV. 589 (1977).
99. Id. at 807. Further seeds of controversy can no doubt be found in the Commission's on-going "shared monopoly" case against the dominant producers of breakfast cereals, given that compulsory licensing of trademarks is one of the remedies sought by Commission staff in that case. Kellogg Co., F.T.C. Dkt. 8883, complaint issued April 26, 1972.
As expressed by the Court of Customs and Patent Appeals: "Every right a patentee has is
therefore, it reduces the life or the scope of a limited, government-created property right. When the government orders compulsory trademark licensing, however, it affects an otherwise perpetual property right which is government-recognized but not government-created.

A further distinguishing aspect of compulsory trademark licensing is the potential impact of this relief upon consumer expectations. A trademark, unlike a patent, "functions not merely to serve the interest of the seller, but to protect consumers from being deceived as to the source of a product." The Lanham Act, as well as judicial decisions, emphasizes the function of a trademark in identifying a product as coming from a particular source and in preventing consumer confusion and deception as to the sources of different products.


104. The Lanham Act defines a trademark as "... any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." 15 U.S.C. § 1127 (1974) (emphasis added). Similarly, the Lanham Act gives a trademark registrant a federal statutory cause of action against any infringer whose own mark is so similar as to be "... likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114 (1963) (emphasis added).

Similar expressions of concern regarding the function of a trademark in identifying the sources of products and in avoiding consumer confusion and deception can be found in numerous decisions of the Supreme Court and lower federal courts. In Hanover Star Milling Co. v. Metcalf, for example, the Supreme Court emphasized the function of a trademark in identifying the source of a product by stating that "[t]he primary and proper function of a trade-mark is to identify the origin or ownership of the article to which it is affixed." 240 U.S. 403, 412 (1916). Similarly, in FTC v. Algoma Lumber Co., the Supreme Court highlighted the role of trademarks in preventing consumer deception and confusion when it said, "[t]he consumer is prejudiced if upon giving an order for one thing, he is supplied with something else." 219 U.S. 67, 78 (1914). See also FTC v. Royal Milling Co., 288 U.S. 212, 216 (1933); Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942). Perhaps the best judicial expression of a trademark's function in identifying goods and preventing consumer confusion is found in the Ninth Circuit decision of Smith v. Chanel, Inc.:

Preservation of the trademark as a means of identifying the trademark owner's products, implemented both by the Lanham Act and the common law, serves an important public purpose. It makes effective competition possible in a complex, impersonal marketplace by providing a means through which the consumer can identify products which please him and reward the producer with continued patronage. Without some such method of product identification, informed consumer
Consumer reliance upon trademarks can, however, be a two-edged sword. On the one hand, this reliance indicates that trademarks are performing their intended function of enabling consumers to purchase those products which, through experience, they have grown to prefer. On the other hand, consumer reliance upon trademarks can reach a level where, in and of themselves, and irrespective of the merits of the products that they cover, the trademarks become substantial barriers to competition for existing and prospective competitors. Where it can be proven that a trademark has become such a competitive barrier, some form of trademark relief may be required if antitrust relief is to achieve its stated objective of “pry[ing] open to competition a market that has been closed.” Otherwise, the government is likely to find itself in the anomalous position of “winning the battle but losing the war”: antitrust violations are proven, but trademark barriers frustrate relief directed at improving competitive conditions.

Clear legal precedent for compulsory trademark relief designed to counteract the effects of such trademark barriers is sparse. Public dedication of trademarks has been ordered in two Justice Department consent decrees, while compulsory trademark licensing has been ordered in a Federal Trade Commission consent order. None of these cases, however, involved litigated orders. Support

choice, and hence meaningful competition in quality, could not exist.

402 F.2d 562, 566 (9th Cir. 1968).

105. For example, a 1977 study of two prescription drug markets prepared by the FTC’s Bureau of Economics found that, for comparable prescription drug products, “strong preferences are revealed for brands that are the first of their kind to appear on the market. These preferences wane only slowly over time and also spill over to follow-on brands marketed by the first firm in the market.” Bond & Lean, Staff Report on Sales, Promotion, and Product Differentiation in Two Prescription Drug Markets, Staff Report to the Federal Trade Commission 76 (Washington, D.C., 1977). Similarly, in case studies of several different manufacturing industries, brand allegiances were found to be factors that could significantly impede prospective competitors. Bain, Barriers To New Competition 128-29 (1956). Double-blind studies have likewise shown that for products like beer, consumers can detect taste differences between the products but are influenced more by brand names than by product quality. Scherer, supra note 1, at 997. Still other studies have similarly found strong consumer brand preferences affecting certain types of products, so that consumers will consistently select higher-priced preferred brands over other products identical in content and quality. McConnell, The Development of Brand Loyalty: An Experimental Study, 5 J. Marketing Res. 13-19 (1968); Tucker, The Development of Brand Loyalty, 1 J. Marketing Res. 32-35 (1964). See generally Brown, supra note 101, at 1171-75, 1183; Note, Compulsory Trademark Licensure as a Remedy for Monopolization, 26 Cath. U.L. Rev. 589, 593-94 (1977).


for compulsory trademark licensing must, therefore, be found in cases recognizing the government’s broad general powers to order relief which is “effective” and “appropriate” to “redress proven law violations” and “restore competition.”\textsuperscript{108} In contrast, precedent for a less drastic form of compulsory trademark relief, temporarily enjoining the use of a trademark, does exist. In \textit{United States v. General Electric Co.},\textsuperscript{109} a temporary injunction against use of a trademark was imposed as structural antitrust relief in a joint monopolization case,\textsuperscript{110} while in \textit{Ford Motor Co. v. United States},\textsuperscript{111} the Supreme Court upheld similar relief in a Clayton Act, Section 7 merger case.\textsuperscript{112}

Thus, at least some forms of compulsory trademark relief have been expressly upheld by the courts. The question remains, however, as to whether, and under what circumstances, the more drastic form of trademark relief, compulsory licensing, would be appropriate. To answer this question, a number of considerations must be analyzed. The discussion that follows sets forth these principal considerations in a format similar to that utilized in the preceding discussion of compulsory patent licensing. Specific considerations will be examined with reference to case examples, or by use of hypotheticals where pertinent cases are not available. Taken together, these considerations provide an analytical framework that can be used in shaping compulsory trademark relief and in assessing its legal propriety.

Compulsory Trademark Licensing: A Framework for Analysis

The proposed analytical framework includes seven considerations, consisting of the basic structure outlined in the patent discussion and some additional factors peculiar to trademark relief:

1. Determine the “objective” of the relief sought in light of the proven antitrust law violations;
2. Determine whether the proposed relief is “necessary” to achieve this objective;
3. Determine whether the proposed relief is the “least drastic remedial alternative”;
4. Determine the status of the “validity” of the particular

\textsuperscript{108} See notes 5 through 10 supra and accompanying text.
\textsuperscript{110} \textit{Id.} at 858-59.
\textsuperscript{111} 405 U.S. 562 (1972).
\textsuperscript{112} \textit{Id.} at 578-76.
5. Determine whether the trademark has been “misused” in carrying out the antitrust violations;
6. Determine whether consumers are apt to be “misled” by the proposed trademark relief;
7. Determine the extent to which the proposed trademark relief raises problems of maintaining adequate “quality control” in the production of the product covered by the particular trademark.

The initial Borden decision provides an excellent illustration of several of these analytical considerations.\textsuperscript{113} The administrative law judge in Borden found that Borden had monopolized the processed lemon juice market through a variety of price and promotional practices. The law judge identified the “objective” of the relief sought as “[to] put an end to the monopoly position, and break up or render impotent the monopoly power found to have been preserved and maintained in violation of law.”\textsuperscript{114} As to the second component of the proposed framework, regarding “necessity,” the law judge concluded that the remedial objective could not be achieved by simply prohibiting Borden’s continued use of the challenged price and promotional practices, due to the “barrier to entry” that inhered in Borden’s ReaLemon trademark. Without trademark relief, the judge reasoned, new competition would not be able to enter the processed lemon juice industry, even with the termination of Borden’s prior pricing and promotional practices.\textsuperscript{115} Accordingly, compulsory licensing of the Borden mark to existing and prospective competitors was ordered as a means of eliminating this competitive barrier.

Assuming the validity of the law judge’s conclusion that the Borden trademark would, in and of itself, preclude effective new competition,\textsuperscript{116} then some form of trademark relief seemed both necessary and appropriate to effectively terminate the proven violation of monopolization. It did not necessarily follow, however, that compulsory trademark licensing was the “least drastic” means of re-

\textsuperscript{113} Borden, Inc., 92 F.T.C. 669, 774 (initial decision of law judge).
\textsuperscript{114} Id. at 774-75.
\textsuperscript{115} Id.
\textsuperscript{116} On appeal to the Commission, the Commission concluded that Borden’s pricing and promotional practices, and not its trademark, constituted significant barriers to new competition, so that an order prohibiting these practices would be sufficient relief, rendering compulsory trademark licensing unnecessary. See note 98 supra and accompanying text.
moving this trademark barrier and facilitating competition. A seemingly less drastic alternative form of trademark relief would have been a temporary injunction on use of the Borden mark. As noted earlier, litigated precedent for this alternative form of trademark relief is available.\textsuperscript{117} If the Borden mark was, indeed, a competitive barrier so substantial as to "hinder" effective competition and "perpetuate" Borden's monopoly power, then this barrier could have been removed by temporarily enjoining use of the mark.\textsuperscript{118}

Still other alternatives to compulsory trademark licensing could have been considered by the law judge—less drastic alternatives that still might have effectively countered the market dominance allegedly inhering in the Borden mark. For example, a temporary ceiling might have been placed on Borden's advertising expenditures to promote its ReaLemon mark, thereby enabling competitors to more effectively promote their own marks. Alternatively, if the distinctive Borden label design was a confounding factor (as suggested by the fact that the law judge ordered not only licensing of the ReaLemon mark but of the label design as well), then Borden might have been allowed to continue use of its ReaLemon trademark but with a different label design, thereby placing it on more equal footing with its competitors. Finally, Borden might have been ordered to reduce the size and conspicuousness of its trademark on the product labels, enabling competitors to more effectively promote their products as lower-priced substitutes for the ReaLemon brand. The point of this discussion is not, however, to present an encyclopedia of alternative relief provisions but, rather, to emphasize the fact that less drastic alternatives to trademark licensing are available, depending upon the facts of each case. The feasibility of these alternatives should be assessed before ordering the more drastic remedy of compulsory trademark

\textsuperscript{117} See notes 109 through 112 \textit{supra} and accompanying text.
\textsuperscript{118} As Chairman Pertschuk observed on appeal of the \textit{Borden} initial decision to the full Commission:

The range of trademark remedies is not limited to compulsory licensing. The Commission might also enjoin the use of a trademark for a fixed period. Such an order in this case would strip Borden of the power over price and entry it has been shown to possess, and would permit other firms to compete with Borden on a reasonably equal footing. At the same time, it would not be confiscatory, contribute to consumer confusion, nor enmesh the Commission in questions of quality control and reasonableness of royalties.

\textit{Borden, Inc.}, 92 F.T.C. 669, 812 (1978) (separate opinion of Chairman Pertschuk on issue of relief).
licensing.

A fourth consideration that might be pertinent in certain compulsory trademark licensing cases is the possible invalidity of the trademark. The Lanham Act contains several grounds for cancellation of a trademark registration, including abandonment of the trademark, fraudulent procurement of the registration, or a showing that the trademark has lost its distinctive quality and has become generic.\(^\text{119}\) Where it can be shown that the trademark is invalid, a strong argument can be made for the appropriateness of particularly stringent trademark relief. The reasoning employed by the Supreme Court in a patent licensing case, where the Court held that a showing of actual invalidity "could easily obviate other questions of remedy,"\(^\text{120}\) would seem to apply with equal force to antitrust cases in which compulsory trademark licensing is sought. If the trademark is, indeed, invalid, then strong trademark relief would be both appropriate and necessary to remove any competitive advantage inhering in the invalid mark.

In many cases involving compulsory trademark licensing, an analysis of a fifth consideration, misuse of the trademark to perpetrate antitrust violations, can take on special significance. Misuse of a trademark is a recognized defense in a trademark infringement action.\(^\text{121}\) Under the Lanham Act, a trademark that has been used to commit antitrust violations loses the incontestable status that it might otherwise have in a trademark infringement proceeding.\(^\text{122}\) Moreover, a court may, as a matter of equitable discretion, wholly deny enforcement of a trademark that has been used as a vehicle to violate the antitrust laws.\(^\text{123}\) Logic might suggest that, since antitrust misuse of a trademark can render the mark unenforceable against infringers, a trademark that has been misused to perpetrate antitrust violations may be a particularly likely candidate for compulsory trademark licensing. This logic is, however, subject to


the same criticism noted earlier in this article in connection with the equitable doctrine of patent misuse.\textsuperscript{124} If the equitable doctrine of "trademark misuse" is carried over \textit{ipso facto} from the realm of trademark infringement actions to that of government-mandated trademark licensing, then the courts will seemingly thereby have injected an element of "punishment" falling outside the permissible bounds of antitrust relief. To avoid such a result, the "trademark misuse" doctrine, as applied to compulsory licensing cases, should accordingly be limited to those situations in which antitrust misuse of the trademark has so intertwined the trademark in antitrust violations that trademark relief becomes essential for effective termination of the antitrust violations.

The sixth relevant component of the proposed framework for analyzing the propriety of trademark relief relates to the issue of consumer expectations, and the risk that consumers may be misled by the particular trademark relief proposed. This problem can become especially acute where the relief takes the form of compulsory trademark licensing, which allows other producers to market their products under the defendant's mark.\textsuperscript{125} In particular, where a product is purchased largely on impulse or without careful examination of the label, consumers may simply grab the branded product with which they are familiar, knowing from prior experience that the product will be of a certain quality. Compulsory trademark licensing can, then, "trick" the consumer into buying a product from an unexpected source. Even assuming that the quality of the licensed product is equally as good as the original branded product, the Supreme Court has made it clear that situations of this type are undesirable.\textsuperscript{126} Similarly, the Federal Trade Commission has recognized the need to protect consumers from trademark usage that might have a tendency or capacity to deceive.\textsuperscript{127}

\begin{itemize}
  \item \textsuperscript{124} See notes 92 through 94 \textit{supra} and accompanying text.
  \item \textsuperscript{125} As observed by Justice Frankfurter in the case of Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., "[t]he protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them." 316 U.S. 203, 205 (1942).
  \item \textsuperscript{126} The Court has taken the following position:
    If consumers or dealers prefer to purchase a given article because it was made by a particular manufacturer or class of manufacturers, they have a right to do so, and this right cannot be satisfied by imposing upon them an exactly similar article, or one equally good, but having different origin.
  \item \textsuperscript{127} See Bakers Franchise Corp., 59 F.T.C. 70 (Dkt. 7472, 1961), aff'd, 302 F.2d 258 (3d Cir. 1962); Arrow Metal Products Corp., 53 F.T.C. 721 (Dkt. 6471, 1957), aff'd, 249 F.2d 83
\end{itemize}
The concerns regarding possible consumer deception expressed by the Supreme Court and the FTC would seem to apply with equal force to antitrust cases in which compulsory trademark licensing is sought as structural antitrust relief. If mandatory licensing of a trademark would tend to mislead consumers as to the source of a product, then such licensing should not be ordered. Moreover, if qualifying language identifying the true source of the product cannot effectively offset this consumer confusion, then compulsory licensing of the mark would remain equally (3d Cir. 1959). In Bakers Franchise Corp., the FTC prohibited use of the trademark “Lite Diet” for a bread that was actually no lower in calories than regular breads. The Commission reasoned that the trademark (with its clear inference that the product was a diet food) was inherently misleading, and, therefore, a “deceptive act or practice” prohibited by Section 5 of the FTC Act. Most importantly, the Commission rejected the argument that the deception could be adequately dealt with by allowing continued use of the trademark, with appropriate qualifying language:

The desired result ["complete eradication of deception and confusion"] can only be obtained in this matter by complete excision of the trade name. The record indicates that the words, “Lite Diet”, create in the public mind an impression that the product is a lower calorie bread. This false impression can be contradicted by qualifying words but such contradiction would be productive of more rather than less confusion. There is substantial evidence that to the average consumer a light diet is a reducing diet, low in calories. Thus the representation, “Lite Diet—Not A Low Calorie Bread” or “Lite Diet—Not Low in Calories” contain flat contradictions of terms. . . . Contradictory qualifying language completely at loggerheads with the words to be qualified compound rather than allay confusion. In this matter we feel that qualifying language will, at best, completely confuse the consumer and that the public interest requires the complete excision of the trade name, “Lite Diet”. An order accomplishing this end will issue.

Bakers Franchise Corp., 59 F.T.C. 70, 77 (Dkt. 7472, 1961).

Similarly, in Arrow Metal Products Corp., the Commission prohibited use of the trademark “Porcenamel” for products that did not actually contain porcelain or enamel (as suggested by the trademark). The Commission held that this trademark was inherently deceptive, and that its use, therefore, violated Section 5 of the FTC Act. Just as it rejected the argument in Bakers Franchise that qualifying language would offset the deception, while still allowing for continued use of the mark, the Commission rejected the same argument in Arrow Metal Products:

“Porcenamel” is not porcelain enamel and, being a generically different product, has different characteristics as a finish. Hence, a requirement that qualifying or disclaimer language, in one or more such respects, be set forth in advertising and on labels where that term appears, obviously would be attended by sales representations of contradictory and confusing import. In our view, therefore, the hearing examiner correctly concluded that an absolute prohibition of the expression “Porcenamel” was required in the public interest.


See also Carter Products, Inc. v. FTC, 268 F.2d 461 (9th Cir.), cert. denied, 361 U.S. 884 (1959) (affirming an FTC order prohibiting the use of “liver” in the trademark “Carter’s Little Liver Pills,” where consumers might otherwise be deceived into thinking that the product would treat liver ailments, which it would not).

128. See note 127 supra.
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objectionable.

This is not to say that compulsory trademark licensing should never be ordered as structural antitrust relief. In many situations, qualifying language can eliminate the consumer confusion that might otherwise result from shared use of a mark. Assume, for example, that the product is not purchased on impulse, but is one that is purchased only after deliberation. In these purchase situations, a conspicuous and properly prepared source qualification, in close proximity with the mark, can be effective in notifying the purchaser of the true source of the product, thereby avoiding consumer confusion. Nevertheless, the potential impact of relief upon consumer expectations is an extremely important factor to be considered before ordering compulsory trademark licensing.

The final component of the proposed framework for analyzing the propriety of compulsory trademark licensing involves the problem of product quality control. Essentially, this concern addresses the question of whether there can be assurance that products produced under a compulsory trademark will be comparable in quality to the original branded product. This concern for quality control is reflected in the Lanham Act itself. Various provisions of the Act have been construed to mean that a trademark owner can license others to use its mark, provided that it polices the “quality” of the products that they produce under the mark. Failure to meet this “quality control” obligation will render the trademark “abandoned” and unenforceable against infringers.

Some of the cases, however, that have addressed the question of

129. Many “large ticket” items are purchases of this type, as are specialty products purchased for use in producing other products or in supplying a service.

130. Specifically, the Lanham Act provides that “[w]here a registered mark . . . is . . . used legitimately by related companies, . . . such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public.” 15 U.S.C. § 1055 (1963). A “related company” is defined by the Act as one “controlled” by the registrant “in respect to the nature and quality of the goods or services in connection with which the mark is used.” 15 U.S.C. § 1127 (1974). Finally, the Act provides for “abandonment” of the mark “when any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin.” 15 U.S.C. § 1127 (1974). These statutory provisions have been interpreted to mean that, while a trademark owner can license others to use its mark, its failure to adequately police the quality of the products that they produce under the mark will work an “abandonment” of the mark, rendering it unenforceable against infringers. See, e.g., Sheila’s Shine Products, Inc. v. Sheila Shine, Inc., 486 F.2d 114, 123-24 (5th Cir. 1973); Dawn Donut Co., Inc. v. Hart’s Food Stores, Inc., 267 F.2d 358, 366-67 (2d Cir. 1959). For articles discussing the importance of quality control, see McCarthy, supra note 1, at 226-30; Note, Trademark Licensing: The Problem of Adequate Control, 68 DUKE L. J. 875 (1968); Note, Quality Control and the Antitrust Laws in Trademark Licensing, 72 YALE L.J. 1171 (1963).
what constitutes “quality control” in the context of voluntary licensing arrangements have required only minimal licensor control over licensee product quality.\textsuperscript{131} It is difficult to see how the marginal quality control arrangements that have been upheld in at least some litigated cases\textsuperscript{132} can effectively provide any real assurance that the product that a consumer purchases will meet even a minimal standard of quality. Nevertheless, it would seem that these cases have simply been wrongly decided, and that their existence should not be taken as suggesting that quality control is somehow a “sham” issue. Quality control can be a meaningful issue in many trademark licensing cases, whether the licensing takes the form of voluntary licensing or government-ordered compulsory licensing. The potential importance of this issue is perhaps best illustrated by returning once again to the \textit{Borden} case.

The product at issue in \textit{Borden} was processed lemon juice. If the quality of such a product is not properly policed, then the potential harm to consumers is not simply consumer disappointment in the performance of the product, but actual physical injury. If there was, as alleged by some critics of the initial \textit{Borden} decision,\textsuperscript{133} a danger that product quality would not be adequately maintained, then by placing \textit{Borden} under a compulsory licensing order, the government might well have been subjecting consumers to possible physical injury, thus making other forms of trademark relief (e.g., enjoining use of the \textit{Borden} mark) all the more appropriate.

Other fact settings can be hypothesized where quality control is less of a problem. Assume, for example, that the product in question is manufactured from raw materials that are uniform and readily available, that the production processes are simple and easily applied, and that no risks of personal injury or property

\textsuperscript{131} In Forstmann Woolen Co. v. J. W. Mays, Inc., 89 F. Supp. 964 (E.D.N.Y. 1950), for example, the court upheld a licensing arrangement under which licensees were simply required to be “high quality” producers and to use the trademark owner’s raw materials, even though the licensing agreement provided for no product testing or inspection by the licensor.

\textsuperscript{132} For a discussion of several such “quality control” cases, see Note, \textit{Trademark Licensing: The Problem of Adequate Control}, 68 DUKE L.J. 875, 895-99 (1968).

\textsuperscript{133} See, e.g., the brief filed by the United States Trademark Association, as \textit{amicus curiae}, in response to the initial \textit{Borden} decision: “short of inspection procedures so rigorous as to be impossible of realistic achievement . . . there can be no confident assurance that competitors, turned licensees, will strive to maintain the licensor’s standards of quality. Should they fail to do so the consuming public stands to be victimized.” \textit{Borden}, Inc., FTC Dkt. 8978, Brief on behalf of the United States Trademark Association as \textit{Amicus Curiae}, at 10.
damage are present. In such a situation, adequate quality control may consist simply of published production standards coupled with infrequent testing or inspection, with these minimal standards being readily achieved even in the context of involuntary licensing. Quality control as an issue in trademark licensing cases can, thus, be viewed as a spectrum of fact situations, in which the relative importance of the quality control issue varies according to the degree of difficulty in achieving adequate quality control and the possible ramifications of failing to maintain this control. *Borden* rested at the extreme end of this spectrum, due to the considerations of consumer safety associated with the product. At the other end of the spectrum are products for which quality control is only a minimal impediment to even drastic trademark relief such as compulsory licensing, provided that the other prerequisites for this antitrust remedy are also satisfied.

**CONCLUSION**

This article has discussed two of the most controversial forms of antitrust relief: compulsory patent licensing and compulsory trademark licensing. While both of these remedies entail the involuntary sharing of potentially valuable assets, the two remedies are by no means synonymous. Significant differences distinguish the compulsory licensing of a trademark from the compulsory licensing of a patent, of which the most important distinction is the potential impact of trademark relief upon consumer expectations. Consumers rely upon trademarks when identifying the sources of goods and selecting those products that they have come to prefer through prior purchasing experiences. Hence, compulsory trademark licensing can raise issues of consumer reliance and consumer expectations unique to this type of relief—issues that are not present when compulsory patent licensing is the relief being sought.

Notwithstanding these differences, we have seen that both forms of relief share several common considerations. This article has not attempted to exhaust all possible considerations but has, instead, identified the more significant factors to be considered when seeking patent or trademark relief as an antitrust remedy and when assessing the legal propriety of the particular relief selected. To summarize, the framework includes consideration of the following factors:

1. The objective of the antitrust relief appropriate in light of the proven law violations should be clearly defined. The extent to which the patent or trademark relief selected is necessary to
achieve this objective should then be assessed, with a view to such
pragmatic concerns as competitive conditions within the industry,
the nature and scope of the patent or trademark in question, and
the relative importance of the patent or trademark to the industry.

(2) The availability of less drastic remedial alternatives should
be considered. If, for example, reasonable-royalty patent licensing
will effectively achieve the antitrust objective of eliminating a pat-
ent as a competitive barrier, then this alternative should be used in
place of the more drastic remedies of royalty-free licensing or pat-
ent dedication. Similarly, compulsory trademark licensing should
not be used if the same antitrust objective can be achieved by tem-
porarily enjoining use of the mark or by placing a temporary ceil-
ing upon advertising expenditures to promote the mark.

(3) The validity of the particular patent or trademark may be a
relevant consideration, obviating other questions of remedy if the
patent or trademark is found to be actually invalid.

(4) Misuse of the patent or trademark to perpetrate antitrust
violations may likewise be a relevant concern, at least to the extent
that patent or trademark relief is shown to be essential to effect-
vively terminate the antitrust violations. Patent or trademark mis-
use should not, however, be taken to mean that antitrust misuse of
a patent or trademark *ipso facto* subjects the patent or trademark
to compulsory licensing, for such a result would inject an unwar-
ranted element of punishment into the realm of antitrust relief.

(5) Where a patent is involved, it is important to analyze the
possible impact compulsory licensing relief may have upon future
product research and development.

(6) Where trademark relief is sought, serious consideration
should be given to the extent to which consumers may be misled or
deceived by the relief proposed, including collateral considerations
of what steps, if any, can be taken to avoid consumer confusion.
The relative importance and difficulty of controlling the produc-
ction quality of the product also should be assessed. As these qual-
ity control and confusion problems increase, the wisdom of compul-
sory trademark licensing diminishes, making alternative forms of
trademark relief more desirable.

The considerations that have been discussed in this article, and
the analytical frameworks that they suggest, are certainly not sur-
prising, for they are based upon simple common sense. Neverthe-
less, the few litigated decisions that have dealt with compulsory
patent or trademark licensing have shown an unsettling lack of
analysis, while studies that have examined the competitive impact
of compulsory licensing provisions have concluded that many of the orders have totally failed to achieve their antitrust objectives. There appears, in short, to be considerable room for improvement in the drafting and formulation of antitrust relief mandating the compulsory licensing of patents or trademarks. Considerations such as those discussed in this article can play an important role in bringing needed clarity to an area of the law which, while of obvious importance, has previously been characterized by a surprising degree of uncertainty and imprecision.