1977


Theodore L. Bowes
Executive Director, Intellectual Property Owners, Inc., Washington, DC

Follow this and additional works at: http://lawcommons.luc.edu/luclj
Part of the Intellectual Property Law Commons

Recommended Citation
Available at: http://lawcommons.luc.edu/luclj/vol8/iss2/3

This Article is brought to you for free and open access by LAW eCommons. It has been accepted for inclusion in Loyola University Chicago Law Journal by an authorized administrator of LAW eCommons. For more information, please contact law-library@luc.edu.

THEODORE L. BOWES*

Patent law "reform" has been before Congress since the report of the President's Commission on the Patent System in 1966.¹ Proposals for revision can be loosely catalogued into two categories. The first involves the establishment of the patent right, ranging from the invention, the inventor, the patent application, the Patent and Trademark Office examination, and the issuance of a patent, to the enforcement of the patent right. The second category, with which this article is concerned, involved the use of the patent right and the concomitant privilege to license others.

The Report of the President's Commission included a proposal dealing specifically with the licensable nature of the patent right.² However, none of the pending legislation includes provisions for codifying or clarifying patent licensing.³ An analysis of the problems

---


² Recommendation XXII read as follows:

The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, or any interest therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable, and (2) a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a licensee, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant. This recommendation is intended to make clear that the "rule of reason" shall constitute the guide-line for determining patent misuse.

³ A bill For the general reform and modernization of the Patent Laws was drafted in the Executive Branch, with special attention from White House staff personnel and introduced by Senator Scott of Pennsylvania. S. 2504, 93d Cong. 2d Sess. (1973). This bill and several other so-called reform bills died in the 93d Congress. Another bill was introduced by the Nixon Administration in the 94th Congress. S. 2255, 94th Cong. 1st Sess. (1974). On January 31, 1975, the current version of this bill was introduced. None of the Administration proposals have included provisions for clarifying or codifying licensing law pertaining to patents. In a White House press release dated September 27, 1973, President Nixon stated:

In addition, the existing state of case law on antitrust standards for patent licensing
and viewpoints of the licensors and licensees who would be affected most directly, is needed.

**The Importance of Patents**

The support for patents in the United States is found in the Constitution. The Preamble states: "We the People of the United States, in Order to . . . establish Justice . . . promote the general Welfare . . . ." Article I, section 8 contains the grant of power to the Congress to promote the progress of the useful arts by securing for limited times to inventors the exclusive rights to their discoveries. Thus, the general welfare of the United States is to be promoted by the provision of exclusivity and this, in the judgment of the Congress as early as 1790, has been in the form of the issuance of patents, thereby establishing justice for inventors and their financiers, and promoting the public welfare by disclosure of inventions to the public through the issuance of patents.

Most corporations freely license patents and information here and abroad. Royalty income alone contributes materially to the profits of many enterprises. Also, there are tangible, more general, benefits to our economy because of widespread licensing and the resulting exchange of technical information. While it seems easier to understand how large companies benefit from the patent system, the maintenance of strong patents and the right to license freely should be even more important to small companies and individual inventors.

Ideas advanced by the Antitrust Division of the Department of Justice with respect to common licensing practices, such as a license to make a definite product, to practice an invention in a specified field or fields, for a specified term of years, if established, would destroy much royalty return, about half of which is paid out in income taxes, and make licensing relatively worthless. If it should become more practical to maintain inventions in secret, the public suffers.

**Limited Licensing Considerations**

Before beginning an analysis of specific legislative language it that have been determined by the courts would not be changed. Some have argued that this case-by-case approach to patent licensing has increasingly eroded the value and reliability of the patent grant. Earlier this year, I requested that various proposals addressed to this issue be carefully studied and reviewed by the Secretary of Commerce, the Attorney General, and my chief advisors on economic policy. After much study, they concluded that there is no clearly demonstrated need or justification for introduction of any patent licensing proposals at this time.
may be useful to consider licensing from the standpoint of a businessman, whether a licensor, or licensee, or both, and not as an exercise in legislative rationalization. Too frequently, the latter has been used to the exclusion of the practical aspects—the facts of business life.

There are those who argue that exclusivity pertains to a patent only so long as the owner holds it solely for his own activities; that once he grants a license, he must license all others on the same terms and conditions.\footnote{The White House Task Force Report on Antitrust Policy included a recommendation that “in general, a patent owner who has granted a license with respect to his patent must license all qualified applicants on equivalent terms.” The report was released on May 21, 1969 and reported in 411 Antitrust & Trade Reg. Rep. (BNA) 10 (1969). The position of the Antitrust Division is stated by former Assistant Attorney General Donald F. Turner: “In due course, I expect that we will bring a case directly challenging restrictions of this type.” 13 Idea 803, 805 (1969). See also Turner, The Patent System and Competition Policy, 44 N.Y.U.L. Rev. 450, 471 (1969).} A patent, however, is not a commodity offered in a department store or a supermarket. The underlying invention is unique and licensing its use involves consideration of many factors, some of primary concern to the licensor and others of primary interests to the licensee.\footnote{Among these are:

- Cost of the development to the patent owner and licensee;
- Anticipated volume of sales;
- Patent owner's product line and market position;
- Need for exclusivity;
- Territory;
- Availability of substitutes not under patent;
- Number of patents involved;
- Scope of invention versus scope of patent coverage;
- Ease of circumventing patent;
- Need for licenses under patents of others;
- Relative value of invention in different fields of use;
- Capability of licensee to serve all fields of use;
- Need for lead times;
- Need for further technical development;
- Need for market development;
- Need for investment in production facilities;
- Financial responsibility of licensee;
- Expected savings from use of invention;
- Need for technical assistance from patent owner;
- Need for use of trade secret;
- Availability to licensee of later improvements by patent owner;
- Fair royalty;
- Base for royalty determination;
- Protection against later licenses at lower royalties;
- Exchange of licenses in lieu of royalty;
- Non-exclusive rights to patent owner in improvements by licensee;
- Right to grant sublicenses;
- Detectability of infringement;}
Licensing arrangements must be palatable to both licensors and licensees. Opponents of limited licenses, who apparently believe that all limitations in licenses are strong-arm tactics of the patent owner, seem to have lost sight of this fact. Licensees normally want the license to cover only what they wish to do and to be licensed only where they know the license is necessary. Other applications of the invention may not justify as high a rate of royalty; indeed, other uses may not even be known so that an appropriate royalty for all uses cannot be determined. Thus, both parties wish to tailor the language to the known and now, leaving other products or fields to later negotiations as conditions develop. In other words, freedom to draft the license contract to fit the technological and business situations facing the parties is necessary to provide the maximum benefit for both the public and the parties involved.

A simple designation of a field or product licensed is not restrictive or prohibitory in any way. It is merely a permissive conveyance of less than all rights. The fact that parties to a license may, in some cases, act as though express prohibitions are present does not detract from this simple fact. There is another important justification for field-of-use licensing. Some uses may be beyond a patent owner's ability or capacity. It is in the public interest then for him to license others to make and sell in other technological fields or territories. Such licensing practices are therefore not inherently anti-competitive, or monopolistic.

In addition, there are very practical reasons for field-of-use licensing. Members of the Antitrust Division of the Department of Justice and especially the members of the Patent Section of that division are highly competent and intelligent attorneys, but not many of

---

Willingness of patent owner to enforce patent against unlicensed infringers;
Willingness of patent owner to defend licensee against infringement suits brought by others;
Conditions for terminating the license.

6. Department of Justice spokesmen have alleged that a simple license is the same, in effect, as a positive prohibition. This assumes that the parties mean something other than what they say and implies bad faith. For example, in United States v. Ciba Corp., Civil No. 791-69 (D.N.J., filed March 27, 1975), the Justice Department's brief states:

While the Abbott agreement does not expressly forbid Abbott from selling bulk form Hydrochlorothiazide, it does not include the right to sell the bulk form of that drug. The difference between an unlimited license with a negative covenant against the sale of bulk, on the one hand, and a limited license to sell only in dosage form, on the other hand, is one of semantics. . . . There is no meaningful distinction between the two verbal formulations of a bulk sales restriction, since the end result is the same: the licensee [here Abbott] is in practice prevented from selling bulk.

Brief for Plaintiff, at 74 n. 96, United States v. Ciba Corp., Civil No. 791-69 (D.N.J., filed March 27, 1975).
them have had practical experience in negotiating licenses as owners of, or attorneys for an ongoing concern and, therefore, they are unfamiliar with the needs and problems unique to business. This is an area where the practical, everyday experience with the problems of designing, manufacturing and selling in the marketplace is far superior to abstract academic rationalization. The Antitrust Division would better serve the public interest by giving more weight to the businessman’s problems and experience.

When a number of different applications for the patented item are apparent, the same terms and conditions are not necessarily equally appropriate for all licenses. Because of the differences between applications of a given invention, the royalty base, in order to be reasonably applicable, may have to be different. It is not possible to define accurately what the royalty base should be until the parties know what the product or process is going to be. If the royalty is to be a fixed sum for each device sold, rather than a percentage of the selling price, the fixed sum would logically vary among different devices.

If the license covers more than a single patent, the list of patents applicable for any particular device may not, and in most cases will not, be the same for a different device in a different application and may involve some patents which were inapplicable in the other field. For example, one product or field may involve patents A, B, C, and D whereas another application may require a license only under patent A. A license agreement should not force on the licensee patents B, C, and D which he neither wants nor needs.

A field-of-use license is especially useful in fields having extensive patent protection because licensees (and licensors under cross licenses) are able to make, use and sell in the licensed field with freedom from problems of infringement of the licensor’s patents (or both sets of patents, if cross-licensed).

An agreement in one field may include manufacturing and engineering information but the licensor may not have information to give in another field. These differing requirements may cause fluctuation in price. In one field, the royalty might be a percentage of the selling price where the patented device is sold, but so many cents or dollars per device or on some other basis in another field. Where the patented device is sold in combination with something

---

7. Statement of Karl E. Bakke, General Counsel, Department of Commerce, NATIONAL JOURNAL REPORTS, March 30, 1974, at 479. Mr. Bakke is reported to have said that “none of the parties in the White House discussion had ever actively practiced in the patents field. Thus, many issues were being resolved in the dark.”
else, the entire combination may not be covered by the patent and thus a royalty percentage of the selling price may be inappropriate. It is not always to a licensee’s advantage to take the broadest possible license. For example, one design may be a clear infringement and another may not; hence, the prospective licensee may be willing to take a license with respect to the first but is prepared to challenge the patent with respect to the other.

In a multi-division company, an all-inclusive license may be particularly difficult to work out because of the necessity for a large number of approvals and considerations peculiar to different divisions. The field-of-use approach enables the licensee to work out an arrangement with the licensor peculiarly suited to the needs of the division or even the product line directly involved.

It is to a licensee’s advantage to be free to negotiate each situation as it arises. He wants to commit himself only for the particular product or product line being planned or in production and either wants to eliminate any commitment on speculative areas or postpone negotiation until additional areas and the problems connected with them become clear.

Inasmuch as a licensor is frequently involved in the manufacture and sale of products covered by patents, the licensee, reasonably, may be able to get a license only in fields outside the area of activity of the licensor. Further, the licensor may be willing to grant a lower royalty rate in the field where he is not commercially active since there will be no risk of reducing the licensor’s business.

A licensee frequently seeks a paid-up license rather than a license spread over a long term. Because of the difficulty, if not impossibility, of anticipating all possible uses, a typical licensor may justifiably insist on a high lump sum if the license is to cover all fields but may be quite willing to agree to a lower lump sum for a license in a narrow or a simple field. Viewed from a different perspective, a licensee might not feel able to pay the larger sum justified for all fields, especially when he foresees no use on his part for the patent rights in fields other than the one of immediate interest to him. Similarly, a licensee may be able to negotiate licenses of narrow scope, a lower annual ceiling or a low ceiling on royalty to be paid over the life of the agreement but, as was the case with the lump sum payments, a licensor may want to be assured of a much higher return if he must license in all fields. A ceiling satisfactory to a licensor on an all-field basis may be so high that the licensee would never reach the ceiling and, therefore, never get any benefit from it if he operates only in one or a few fields.

In many situations, a licensee wants (and a licensor is willing to
provide for) a sliding scale with reduced rates as volume increases. As with some of the foregoing examples, the licensor would be justified in requiring a much larger bracket before dropping to a lower rate if all fields are involved, whereas a licensee might very well be granted a reduction in rate at much lower volume levels if the license is granted to a narrow field.

It is quite common to provide a variety of bases for permitting a licensee to terminate his license. Thus, with appropriate provisions, if a license is of narrow scope and the licensee thinks that he is able to design around a licensed patent, he can readily terminate the agreement. If, however, he is forced to accept a license under a large number of fields or all fields and he is active in fields in which he has not been able to develop a non-infringing alternative, he may not be able to terminate and, hence, will be discouraged from designing around the licensed invention. If there is a minimum royalty provided for in the agreement, he can save the minimum payments by cancelling in the fields where he stops selling.

In a period when businesses are freely transferred, a licensee may want separate licenses for each field so that he will have the maximum freedom to assign licenses with his business in each field. Of course, a single license would reasonably be indivisible.

Further, it is not always advantageous to a licensor to grant the broadest possible license. He, too, usually benefits if he has the freedom to negotiate each particular situation. A multi-division licensor has the same problem with respect to approvals in negotiation as does the multi-division licensee and so from either standpoint, the negotiation on a field-by-field basis is much simpler and a final agreement can be completed in much less time.

Under the present patent laws, a patent owner is not required to grant licenses. Some patent owners do not license patents which have only a single field of application. However, the right to license fields-of-use encourages the patent owner to make the patented invention available outside of his own field, thereby benefitting a much broader segment of the public. Licenses in defined fields often provide the public with a variety of products that would not otherwise be made available during the life of the patent. Different licensees while operating under independent licenses may, and often do, develop novel applications of the licensed invention.

The Antitrust Division has evidenced concern because licensees have not, in fact, acted outside the licensed field. As explained

---

8. The author has heard Department of Justice attorneys argue that failure to act outside the licensed field is evidence of an agreement not to make, use or sell in nonlicensed fields.
above, many licensees accept a license only to clear the legal scene for a particular product; simply, the licensee may have no other interest and may wish solely to avoid infringement. The Antitrust Division apparently assumes that failure to operate outside the licensed field effects a division of markets and if the licensee did not have a license, he would infringe in other fields. If so, the Division clearly fails to understand the reasons for limited licenses.

To illustrate the ambiguous position taken by the Antitrust Division regarding field-of-use licenses: NASA has announced its intent to grant exclusive licenses for limited fields of use,9 the Department of Justice uses field-of-use provisions in consent degrees,10 and the Department of Defense regularly uses this device.11 If the Government itself finds this form of licensing useful, why should it be unsuitable for use by nongovernment parties?12

The problem faced by inventors, research organizations, and universities is different. Since they are not involved in the areas of production and sale their inventions can reach the public only through assignment or licensing. Unless they can find a company large enough and diversified enough to take on all uses (and even in this case, such a licensee would no doubt develop only one use at

---

Cf. Address by Richard H. Stern, before the Antitrust Law Section of the New York State Bar Association, in New York City, January 27, 1971, in which he stated that “niceties in wording will not save what is otherwise an unlawful scheme.”

9. 14 C.F.R. 1245, § 203(d)(2) (1976). The GSA has withdrawn a similar regulation directed to exclusive licenses for all fields or less than all fields of use because of an attack on its legality in court. See 41 C.F.R. 101-04, §103.3(c)(1) (1976).


11. Part IX, Armed Services Procurement Regulation provides for licenses to the Government for governmental purposes.


There is a paradox in the Department’s position. While it urges that field of use patent licenses are just as illegal as efforts at market division where no patents are involved, it would sanction such licenses where the patent owner was reserving to himself a portion of the total field covered by the patent. It would seem that if the licensee is impliedly agreeing to stay out of the patent’s field in one case, he is doing so in the other.

Moreover, an agreement to divide markets between competitors constitutes a per se violation of Section 1 of the Sherman Act. If field of use licenses are equated to division of market agreements then they, too, must be per se antitrust violations. On what basis, then, can the Department of Justice find some field of use licenses justifiable and others not?

Id. at 3408.
a time), they risk attack for antitrust violations. The type of patent owner under consideration, small business firms, and even many larger firms, may feel unable to stand up to such attacks.

There should be no discrimination of patent licenses vis-a-vis copyright licenses; yet a novel may be cut up into serialization, hard cover book form, paperback form, stage rights, moving picture rights, and television rights, without attack. These licenses of less than the whole right, as suggested above with respect to field-of-use grants, afford the public several forms of presentation and opportunity to absorb the plot and treatment in different styles. The present patent statute\[^{13}\] provides that patents have the attributes of personal property. From this, it seems that a patent owner should have the rights possessed by owners of other types of property, such as the right to dispose of all or part at any time, in any territory and to as many or as few as he chooses.

**ANTITRUST IMPLICATIONS OF LIMITED LICENSING**

During the last decade of the nineteenth century and the first seventeen years of the twentieth, patent owners had almost unlimited scope in determining the nature of the grants in patent license agreements and even restrictions on such grants. In 1902, for example, a majority of the United States Supreme Court, upholding tie-ins in patent cases, said that the right of a patentee-owner to license "subject to any qualification in respect of time, place, manner, or purpose of use is so elementary we shall not stop to cite cases."\[^{14}\]

However, in *Bauer v. O'Donnell*\[^{15}\] and *Motion Picture Co. v. Universal Film Co.*\[^{16}\] the first breaches of the licensor's rights, the Supreme Court held that price restrictions and tying conditions, respectively, were outside the scope of patent law. Since these early decisions, there have been dozens of cases diminishing the freedom of licensors to license on terms of their own choosing.\[^{17}\] The 1955

---

15. 229 U.S. 1 (1913). There the Court held invalid an attempt to reserve the right to fix the price at which a patented article could be resold by the vendee. This, according to the Court, was an attempt to unduly extend the right to vend, as distinguished from a license for a qualified use.
16. 243 U.S. 502 (1917). The case overruled Henry v. Dick Co., 224 U.S. 1 (1912), and held that the exclusive right to use does not empower the patent owner, by notices attached to the patented articles, to extend the scope of the patent monopoly by restricting their use to materials necessary for their operation, but forming no part of the patented invention.
17. The following cases are illustrative of many which have affected the licensor's right: see University of Illinois v. Blonder-Tongue Lab., Inc., 175 U.S.P.Q. (BNA) 1 (1972) (in rem invalidity); Learney & Trecker v. Giddings & Lewis, 171 U.S.P.Q. (BNA) 650 (1971) (royalty on entire machine); Lear v. Adkins, 395 U.S. 653 (1969) (license estoppel doctrine); United
Report of the Attorney General's National Committee To Study the Antitrust Laws took account of this erosion and established guidelines to avoid patent misuse. However, the attack continued in succeeding years.

President Johnson appointed a commission to study the patent system and make recommendations. The Commission’s report stated that uncertainty had developed in the law with respect to patent licensing practices and recommended legislative clarification. The Commission recommendation specifically referred to the licensable nature of patents and patent applications (identifying specifically fields of use), and the necessity of making clear that a


19. Id. at 223-58.

20. The report stated:

[T]here is much uncertainty in the law of patent licensing and legislative clarification is needed. . . .

[U]ncertainty exists as to the precise nature of the patent right. . . . This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or other arrangements pertaining to patents or related licenses.

rule of reason should constitute the guideline for determining patent misuses.\textsuperscript{21} The American Bar Association endorsed this recommended principle in 1967.\textsuperscript{22}

Of great concern to patent owners with respect to the present state of the law and future expectancy, were the many strong and positive statements made by members of the Antitrust Division.\textsuperscript{23}

Mr. James W. Wetzel stated:

Accordingly, Mr. McLaren, Mr. Stern and another Assistant Attorney General, Mr. Bruce B. Wilson, have been jaunting around the country since at least June of last year saying essentially the same things each time. When they speak of legal decisions they always speak of them in terms of their own over-interpretation, presumably so because they seek to stimulate fright. They talk specifically about attacking field-of-use licensing, grant back clauses, royalty clauses, etc. . . \textsuperscript{24}

As pointed out by another commentator, the cases cited for support by these spokesmen often have nothing to do with patents or licensing.\textsuperscript{25} In opposing any legislative proposals, the Antitrust Division has not only argued that license law revision or clarification is not necessary, but has vigorously attacked many common licensing practices.\textsuperscript{26}

\begin{itemize}
  \item \textsuperscript{21} Id. at 36.
  \item \textsuperscript{22} In 1967, the American Bar Association House of Delegates adopted the following resolution:
  \begin{quote}
  The licensable nature of patent rights should be clarified by specifically stating in the patent statute that applications for patents, patents, or any interest therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable, and FURTHER, that a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a licensee, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant; and FURTHER, that the Section approves of legislation by which it is made clear that the "rule of reason" shall constitute the guideline for determining patent misuse.
  \end{quote}
  \item \textsuperscript{24} 5 LES NOUVELLES 289 (1970).
  \item \textsuperscript{26} In a pamphlet published by the Bureau of National Affairs, Inc. it is stated:
  More recently, the Antitrust Division's jaundiced eye for patent licensing restrictions has focused specifically on clauses limiting the licensed use of the patented invention.
The Antitrust Division has advanced a two-pronged test for use in determining whether to attack a particular licensing provision or practice. According to spokesmen for the division, they ask two questions: first, is the particular provision necessary for the patentee's exploitation of his lawful monopoly; and second, is a less restrictive alternative available. When the answer to the first question is "no" and to the second "yes," the Government considers challenging the restriction. After announcing this test, then Assistant Attorney General Richard W. McLaren stated: "That summary formulation however, was never intended to be used to determine the legality of patent licensing restrictions we would 'consider' prosecuting." However, the test was in no way limited to restrictions falling outside the valid patent grant. This test is not only a novel approach to the problem, but also an unworkable solution in the area of limited patent licensing. Any time there is a limitation of any form in a license the answer to the first question will almost necessarily be "no" because it is hardly ever "necessary." The answer to the second question will almost always be "yes" because there will almost always be a "less restrictive alternative." Nowhere in the patent statute or in any court decision is there any requirement that the licensor establish the necessity of a particular license provision or that he demonstrate the absence of any less restrictive alternative. The test attempts to extend the effect of the antitrust laws far beyond their reasonable scope into the patent area. The test has been sharply criticized because of its ambiguity as well as its overbroad effects.

Although the Antitrust Division recognizes there is no necessary or essential conflict between the patent system and the antitrust laws, the Government maintains that the legality of arrangements such as tying the sale of the patented products to the purchase of

\begin{footnotes}
\item[28] Id.
\item[31] APLA Memo, note 12 supra
\end{footnotes}
unpatented material, agreements not to deal with non-patented competing products, or other patent-related practices are to be measured by the antitrust laws and not the patent laws.\textsuperscript{32} Tying, for example, is considered by some members of the Antitrust Division as illegal per se,\textsuperscript{33} yet courts have permitted use of the practice in limited situations involving patent licensing.\textsuperscript{34} Other licensing practices thought to be reasonable uses of the patent are being challenged by the Antitrust Division. Mr. McLaren stated:

Other practices which are either presently being challenged or which I expect will be questioned in the future, include some types of field-of-use licenses, restrictions on the form or manner of resale of patented products, and contractual provisions which tend to inhibit the granting of future licenses.\textsuperscript{35}

The Department of Justice has maintained this opposition to license restrictions in public statements by the involved officials as well as its stance on patent reform legislation.\textsuperscript{36}

\begin{itemize}
\item \textsuperscript{32} Address by Assistant Attorney General Richard W. McLaren, before the Antitrust Section American Bar Association, London, July 15, 1971.

\item \textsuperscript{33} McLaren condemned tying as per se illegal in the patent licensing situation:

I am speaking of such practices as tying the sale of patented products to the purchase of unpatented material, agreements to refrain from challenging the validity of patents under which no license has been granted, agreements not to deal in goods which compete with products covered by the patent, and the like.


\item \textsuperscript{35} Address of Assistant Attorney General Richard W. McLaren, before the Antitrust Section, American Bar Association, London, July 15, 1971.

\item \textsuperscript{36} On many occasions, officials of the Department of Justice have made statements which have contributed materially to the confusion among those concerned about the present and future legality of many patent licensing practices. Among these is the address by Baddia J. Rashid, Deputy Director of Operations for the Antitrust Division, to the Peninsula Patent Association, Palo Alto, Cal., January 19, 1966:

The power to exclude is in itself an appropriate reward for the patentee's invention, and he can reap monopoly profits if he remains the sole manufacturer. And if he chooses to grant licenses, thereby dissipating his power to exclude, he receives a royalty in exchange which is commensurate with the value of the invention. Depending on the importance of the invention, this royalty can be fixed at such a level that it will afford the patentee some protection against under-pricing and competitive sales. But there is nothing in the patent laws which justified additional restrictions to insulate the patentee from competition, once he has extracted all that traffic will bear in the way of royalties.

Former Assistant Attorney General Richard W. McLaren, in an address to the PTC Research Institute of George Washington University, Washington, D.C., June 5, 1969, expressed his desire to challenge some types of field-of-use licenses and bulk sale restrictions, restrictions
This approach proffered by the Department of Justice has not gone unchallenged. Professor S. Chesterfield Oppenheim, co-chairman of the Attorney General's National Committee to Study the Antitrust Laws, said:

[M]y prime concern is that pronouncements of top officials of the Department of Justice Antitrust Division from 1965 to date reflect enforcement attitudes which tend to subordinate the Congressionally sanctioned exclusive rights of the patentee to antitrust policy considerations. If the courts should respond favorably to this re-oriented thinking of the Antitrust Division, the end result would be to drift from progress toward accommodation of patent and antitrust policies to increased conflict between them if not to antitrust erosion of lawful patent rights.\(^{37}\)

The two-pronged test seems to have been replaced by the doctrine of ancillary and necessary restraints from which it was originally derived. The "ancillary restraints" doctrine set forth in *United States v. General Electric Co.*,\(^{38}\) may have been severely limited by later cases,\(^{39}\) but it seems the Antitrust Division would deny the right of the licensor still protected under *General Electric* despite recent Supreme Court refusal to repudiate the protection.\(^{40}\) Assistant Attorney General Richard H. Stern, head of the Patent Section of the Antitrust Division, has maintained that even though a restriction is reasonably within the scope of the patent, the antitrust inquiry is not ended.\(^{41}\)

---

on the form and manner of resale of patented products and contractual provisions tending to inhibit further licensing. See note 33 supra. At the same meeting, he enunciated his "no-yes" test, see note 28 supra and accompanying text, since replaced by the "ancillary and reasonable restraint" test. He explained the latter approach in Williamsburg, Va., October 10, 1970:

The rule is derived from the doctrine of ancillary restraints and embraces three principal elements. First, the restriction must be ancillary to carrying out the lawful primary purpose of the agreement. Second, the scope and duration of the restraint must be no broader than is necessary to support that primary purpose. And third, the restriction must be otherwise reasonable under the circumstances. In effect, the rule on knowhow licensing is pretty much the same as the rule on patent licensing: Except as to certain well-known restraints which are per se unlawful, the standard is the rule of reason.

Roland W. Donnem, one-time Director of Policy Planning for the Antitrust Division, declared that certain field-of-use limitations and restrictions on the form or manner of selling violate the Sherman Act because of their adverse affect of competition. 1970 Mich. St. B. J. 35.

37. Oppenheim, note 23, supra at 86.
41. At a Meeting of the Association of Corporate Patent Counsel, White Sulphur Spring, W. Va., May 22, 1972, the following colloquy took place:

Bowes: One aspect of this, Dick, that I wish you would clarify for me. It seems to
Those opponents of codification of permissible patent licensing practices who argue encroachment on the antitrust laws, reinforce Professor Oppenheim's concern. Those who argue that the amendments to the patent laws will override the general antitrust law, suggest that the patent law is an island in the sea of antitrust. The patent law is based on the U.S. Constitution and the first patent statute was enacted in 1790—one hundred years before the Sherman Act. While there was some common law prior to Sherman, it still remains a fact that the patent system received constitutional and congressional sanction long before the antitrust problem was treated by the Congress. It should be apparent that some peaceful interface was recognized by Congress, yet this interface is being challenged today.  

Stern: . . . with the greatest respect to Professor Oppenheim and to Ted Bowes, I submit that that statement is just plain wrong.
The intentions of the Antitrust Division to attack customary and standard licensing practices may be illustrated by the original section 309 of the Clean Air Act of 1970. The section, believed to have been drafted by the Antitrust Division, was contrary to the Administration's position and required licensing of inventions useful in connection with clean air, which would have permitted only the imposition of a royalty, protection of trade secrets, and termination of the license for breach of either condition. If this belief is correct it would be a clear indication that the Department of Justice intends that licenses should not have any field or product identification or territorial designation.

The Antitrust Division has approved different royalty rates only when applied to different applications and then only if all uses are freely licensed. The present position of the Department of Justice regarding license restrictions has been defined in the following words:

The validity of licensing practices other than these nine [nine limitations considered illegal per se] is to be tested under the rule of reason. The evolution of this rule is also fairly complete. It has three principal elements. First, the restriction must be ancillary to carrying out the primary purpose of the agreement. Second, the scope and duration of the restraint must be no broader than is necessary to support that primary purpose. And third, the restriction must be otherwise reasonable under the circumstances.

This position is widely considered by the patent bar and some of the antitrust bar as being contrary to the law as presently developed.

COMPETITIVE NATURE OF PATENTS

The nature of competition has been well described as the search by entrepreneurs, self-centeredly, to obtain at the expense of com-

---

42 A.B.A. ANTITRUST L.J. 55, 85 (1973). The actual quote uses the word "licensees" in the last sentence. Prof. Baxter has written the author that "licensors" was intended.
petition, as large a share as possible of the available market.\(^4\) Competition may be based on product quality, price, features offered and service provided. Any or all of these characteristics or factors may be affected by inventions of patentable products and processes and their protection by issued patents.

To some, it appears paradoxical that in an economic system made meaningful by competition, there is provided a patent system which impedes competition "by creating monopolistic shoals in a sea of competition. . . . One must start with the proposition that patents do prevent the competitive system from working as well as it might."\(^5\)

This line of reasoning has been a leading factor in emphasizing the antitrust-patent law interface and resulted in most of the erosion of the patentee-owner's rights. Thus, many courts and lawyers have accepted the syllogism that patents are monopolies and since monopolies are bad, patents must be against the public interest and should be treated harshly. It is an easy step to disclaim any special status for patents insofar as antitrust considerations are concerned.

It is the thesis of this author that the price-delivery brand of competition is too simplistic, that there are other forms of competition, and that the net effect on competition is the proper test. It is not enough that A cannot market product X because B has a valid patent covering X. In the long run, the competitive system may work better with exclusivity rights under patents than without them.\(^5\)

It has been suggested that anticompetitive effects result when the


\(^{50}\) Id. at 893. Stedman continues:

This effect, an undesirable one in the eyes of the dedicated advocate of competition, is generally deemed acceptable on the grounds that the price of such monopoly is not too high when viewed in the light of the increased technological development which is induced by the patent grant.


George Frost said:

The patent system is frequently criticized as inconsistent with the competitive economy and the antitrust laws. Misconceptions respecting the economic power conferred by letters patent are responsible for much of this criticism. The fact is that the system is a stimulus to competitive effort, both in terms of the competitive activity of existing firms in product and process development and in terms of inducing the formation and activity of new business based on "new" products and new processes. The system is accordingly complementary to the antitrust laws in effectuating the overall public policy of competition on all fronts.
exclusivity to a patent is extended beyond its normal 17-year life.\textsuperscript{52} Such extension has been attributed to delays in issuance of patents and extensions resulting from improvements which enable patentees to keep ahead of their competitors. Both arguments are more theoretically than practically persuasive. Delay in patent issuance is due to Patent and Trademark Office procedures and is not fairly chargeable against inventors. Extension by patent is largely myth; it requires that any improvement be so important that sale without it is impossible. It also assumes that would-be competitors are incapable themselves of designing improvements, \textit{i.e.}, designing around the patented feature before the patentee can do so, and sitting back to allow the patentee to do all the improving. This does not accurately reflect the situation in the industrial world.

The economic desirability of the “design-around” approach has been challenged by economists.\textsuperscript{53} Disapproval is based on the alleged misallocation of scarce resources which would, otherwise, be directed to new technology.\textsuperscript{54} The worst by-product of the “design-around” approach is the development of a “second-rate” alternative. However, even this result makes a choice available to the buyer. This is conventional, classical competition: competition with a better or inferior product. At best, redesign may, and does, result in important technological advances. In between, there will be products which are better or cheaper, or both.\textsuperscript{55}

Technological competition has another aspect not related to “design-around.” This is the time-hallowed basis for the patent right, \textit{i.e.}, the disclosure made through the patent. Repeatedly, technological breakthroughs stimulate scientists and engineers of diverse disciplines and result in trials to apply the new disclosure to different problems. Not infrequently, the integration goes far beyond the disclosed invention.

Of singular importance is competition in the conception, development, and application of patented inventions as well as the

\textsuperscript{52} Stedman, \textit{supra} note 49, at 894.


\textsuperscript{54} At times the constitutional objectives of advancing the arts and sciences may be defeated by discouraging rather than stimulating I\&I [invention and innovation]. One may, for instance, have a good idea which is blocked by prior patents. The patent stimulus may provide an incentive to engage in activities of a less useful nature than would otherwise engage one’s attention. The result may be rather second-rate “inventing around activity. . . .”

Stedman, \textit{supra} note 49 at 894.

\textsuperscript{55} \textit{Study No. 2, supra} note 51, at 19 n.67 cites numerous examples. For example, he describes a successful research program to design around a petroleum cracking method.
use of patents as business assets. These activities are in addition to traditional competition and not substitutes for it because patented products compete not only with other patented products, but also with unpatented products.

[It is not the kind of competition [from the maker of an identical product] which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization [the largest scale unit of control for instance]—competition . . . which strikes not at the margins of profits and the outputs of the existing firms but at their foundations and their very lines. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door. . . . 56

The erosion of the right to license on a wide variety of bases and the continued pressure to further discourage licensing is, in itself, anti-competitive. Patents are useful tools in the marketplace. It is not at all uncommon for competitors to license each other. Such cross-licenses provide maximum engineering design freedom. Particularly, when a group of patents represents modest improvements or alternative designs, any hinderance to use is reduced to the cost of the license. This is removed if the exchange is royalty free. The only time a license is apt to decrease work in a given direction is when work in another direction is a better investment of facilities, funds, and manpower. It may be most economical and least wasteful of scarce resources to buy engineering (via license) and go on from there. Maximum freedom in licensing is likely to maximize technological progress, maximize productivity and profitability, and directly or indirectly maximize the public benefit.

LEGISLATIVE PROPOSALS

Because of the erosion of patent owners’ rights and attempts at


The antitrust laws have never since the beginning of time, do not now, nor can ever inject competition into our society, and certainly not technological feature product competition. There is only one legal mechanism for doing that, and that is the patent incentive system used to induce people to invent. Now if you think of a practical example in the form of a bathtub with a stopper in the bottom, and a faucet at the top, and the water in the tub being the competitive factors in our society, the antitrust laws are the stopper in the bottom designed to prevent the competition from leaking out, and as a passive inactive device, cannot inject water into it. The patent system, on the other hand, is that active mechanism that introduces into our society the technological competition which today means more than anything else.
further restrictions on permissible licensing provisions, there was an abundance of evidence to justify patent owners’ concerns. These concerns led Senator Hugh Scott to introduce patent law amendments directed at licensing.57 The attack on any licensing codification commenced immediately.

Thus, there developed an interesting situation where a presidential commission, the minority leader of the Senate, and the Department of Commerce were recommending clarification of licensing law which was widely supported by the patent bar, industry, and inventors, while the Department of Justice and others argued that such proposals to clarify were really intended to, and might, carve exemptions from antitrust law. Because there appears to be a wide gap between the contending positions, it is worthwhile to analyze this situation.

Licensing codification has been viewed by some as an attempt to overturn existing law.58 However, it was not the intent of the proponents of licensing reform to create any exemptions from the antitrust law.59 Any conduct that could be shown in a given case to have, in fact, created an unreasonable restraint of trade, a substantial lessening of competition, or formed a part of a conspiracy to monopolize would be beyond the patent right. Yet it was intended, by appropriate statutory provisions, to prevent certain patent utilization practices regularly found in arrangements of assignment, license, or waiver of patent rights from becoming per se misuse or illegal in the future. The purpose of these amendments was to allow responsible parties to follow these acceptable practices, which usually inure to the benefit of the public and promote competition.

Spokesmen for the Commerce Department testified in support of such licensing codification60 and proposed specific statutory language which became the subject of subcommittee consideration. With the Commerce Department’s support, as well as the endorsement of the Small Business Administration,61 patent reform legisla-

---


58. Hearings, supra note 23 at 271. In fact, Mr. McLaren stated that “it might not reverse particular cases, but it might substantially undercut them; it might expand the fog that some claim exists in this area of this field.”


60. Hearings, supra note 23 at 228-64.

61. Id. at 521-22.
tion was proposed in both houses of Congress.\textsuperscript{62}

Opposition to the licensing codification came from other branches of government,\textsuperscript{63} the academic community,\textsuperscript{64} and consumer interest spokesmen.\textsuperscript{65} Some emphasized the effect such sweeping changes would have on the court-evolved balance between the patent and antitrust laws.\textsuperscript{66} Others claimed these codifications would consolidate economic power in the hands of the patent owners who would be able to exert more control over the licensees.\textsuperscript{67} The controversy came down to a choice between legislative reform or continued reliance on the ad hoc case-by-case approach to the problem.

**Legislation v. Case-By-Case**

The argument that licensing codification is not necessary implies that the law is developing satisfactorily on a case-by-case basis and that aberrations will be taken care of within the court system. This

\begin{itemize}
  \item \textsuperscript{62} H.R. 11868, 93d Cong., 1st Sess. (1973); S. 2930, 93d Cong., 2d Sess. (1974).
  \item \textsuperscript{63} Mr. Allen Ward of the Bureau of Competition of the Federal Trade Commission, at a meeting of the Antitrust Section of the American Bar Association, Washington, D.C., April 2, 1971, stated that there is no evidence that the present law impedes licensing, nor is the law sufficiently vague to justify legislation; that the impact of the "Scott Amendments" is essentially negative and will engender litigation rather than reduce it. Mr. Ward, in his testimony before the Senate Subcommittee on May 12, 1971, followed a similar line of argument. *Hearings,* supra note 23 at 304-308. The Scott Amendments were also sharply criticized by Commissioner Mary Gardiner Jones of the Federal Trade Commission:

    I am convinced that these amendments would seriously affect the balance struck by the courts between the consumers' need for effective competition in order to provide a brake on the unbridled exploitation of monopoly and market power and the inventor's need for some assurance of an adequate return. . . . If enacted into law, these amendments could have a chaotic and seriously injurious impact on the ability of both the patent and antitrust laws to promote the type of technologically advanced society and viable and competitive economy which is of such major significance to the consumers' welfare.

    Speech by Commissioner Jones, Fourth New England Antitrust Conference, November 6, 1970, [hereinafter cited as Jones.]
  \item \textsuperscript{64} Professor James F. Rahl of Northwestern University, at a meeting of the Antitrust Section of the American Bar Association, in Washington, D.C., April 2, 1971, stated that he was speaking on behalf of 23 professors opposing the Scott Amendments. It was his position that none of the amendments had any evidentiary support.
  \item \textsuperscript{65} See Letter from Mr. Ralph Nader to Senator Hugh Scott, November 18, 1970, [hereinafter cited as Nader]. Mr. Nader charged that "these Amendments seem to be an overt attack by the Patent Bar and the industry it serves to consolidate economic power in the hands of patent owners at the expense of the American consumer. . . ." Nader further alleged that the amendments "would unjustifiably permit patent owners to exert more control over their licenses by legalizing certain practices that the courts have consistently condemned, such as compulsory package licensing and royalty payments extending after the life of the patent."
  \item \textsuperscript{66} Jones, note 63 supra.
  \item \textsuperscript{67} Nader, note 65 supra.
\end{itemize}
is unlikely given the position taken by the Department of Justice and to some extent, the antitrust bar.

In the present situation, the case-by-case approach is a very unsatisfactory way to legislate for a number of reasons. First, in keeping with the adversary system, the court does not have the opportunity to hear all points of view but, rather, is limited to arguments of plaintiff and defendant based upon the specific, and often narrow, fact situation of the particular suit. Indeed, it may not be to the advantage of either party to take a broad view of the situation and seek to represent the public interest. In contrast, a congressional committee can consider many points of view and determine what course of action will most benefit the largest possible percentage of interested parties.

Second, the case-by-case approach necessarily takes many years to establish a coherent body of law. In the meantime, there is uncertainty and industry is unsure of what it can, and cannot do. Businesses often require extensive future planning and should not be subjected to risks which may cost millions of dollars. Legislation has the advantage of presenting the public with a uniform body of law applicable to all situations. While judicial interpretation will be necessary to flesh out general terms, such test cases are infinitely more preferable than a case-by-case approach which does not admit of general application.

Third, judge-made law may be retroactive, thereby affecting actions taken long before the decision was rendered. Not only is the patent license agreement of the parties to the suit held illegal or unenforceable, but there may be hundreds or thousands of other agreements between persons, not parties to the suit, which are rendered illegal or unenforceable by the court’s decision. Since Congress is prohibited from passing ex post facto laws, licensing codification would apply only prospectively.

Fourth, allowing the law to evolve on a case-by-case basis, amounts to asking Congress to abdicate its primary responsibility under the Constitution. It is not the function of either the Department of Justice or the courts to legislate. As the legislative body, Congress is best qualified to determine the proper solution. It represents all interests in the nation and has the mechanism, through its

---

68. For an illustration of the delay caused by the case-by-case approach, note that the Antitrust Division of the Department of Justice has, on numerous occasions, attempted to obtain a reversal of United States v. General Electric Co., 272 U.S. 476 (1926), involving certain patent license restrictions, but has, as yet, been unsuccessful. Thus, for over 50 years, the public has been uncertain whether it can rely on this decision as valid precedent.

committees, to hear all points of view and decide what is best for the particular interests involved and, more importantly, for the general public.

LICENSE LAW CLARIFICATION

Although the late Senator Dirksen first proposed legislation for license codification or clarification, the first proposal seriously considered by the subcommittee was embodied in the Scott Amendments. A Department of Commerce revision of these reforms was defeated in the subcommittee on a three-to-two vote. In addition to the Scott Amendments, bills were introduced by Representative Smith and Senator Buckley which followed closely the Commerce Department's proposals. Both the Department of Commerce and the Antitrust Division testified extensively before the subcommittee and presented detailed memoranda. As expected, the Department of Justice opposed almost every proposal for license law clarification while the Department of Commerce supported them. It is enlightening to contrast their positions and analyze at least some of the arguments presented.

In general, it was proposed, through amendment of section 261, to make it clear that patent owners, like owners of other forms of property, are privileged to permit others to use their property—their patents—on terms generally of their own choosing. Proponents intended to codify the already recognized right of patent owners to decide whether and to whom to license their patents. Specifically, it was intended to establish a patent owner's right to assign or license patents (on an exclusive basis), applications for patents, or any other interests therein. This objective was made clear by Senator Scott.

There is, however, some controversy concerning the meaning of

---

73. H.R. 11868, 93d Cong., 1st Sess. (1973); S. 2930, 93d Cong., 2d Sess. (1974) These bills were based on a bill developed by a "coordinating committee" consisting of members of the American Patent Law Association and the Section of Patent, Trademark and Copyright Law of the American Bar Association. While the Patent Section approved substantially the same bill as was approved by the Board of Managers of the APLA, its approval by the ABA House of Delegates was not sought. Hence, the bill is not properly claimed to have ABA backing.
74. Department of Commerce, Hearings, note 23 supra, at 22-264; Department of Justice, Hearings, supra note 23, at 265-268 and 475-517.
the phrase in section 261, “for the whole or for any specified part of the United States.”

Many experienced patent practitioners feel that the present statute clearly authorizes territorial grants or licenses of a territory less than the entire United States. The judiciary has approved patent licenses granting rights to specified geographical and trade areas.

A mere non-exclusive license to make, use, and sell in a specified part of the United States, is, according to proponents, merely a waiver of an infringement suit in the territory specified. Neither the patent owner nor a licensee is precluded in any way from operating in that area in competition with others. Assignment or licensing enhances the free flow of intellectual property and is especially important to small businesses and individuals with less innovative capacity. An exclusive territorial grant has been consistently held to be within the patent grant and, therefore, valid.

This position, however, is not universally accepted. Professor William F. Baxter has made an extensive study of this language and believes that section 261 is inapplicable to patent licensing.

---

77. 35 U.S.C. § 261 (1970) states in pertinent part:

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.


80. Hearings, note 23 supra, at 238. See also Baxter, Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis, 76 YALE L.J. 267, 349 (1966), where he traces the history of section 261:

Only by amateurish literalism or cynical distortion can it be argued that §261 places a general imprimatur of legality on territorial restrictions. As the total content of the present section and its history shows, the purpose of the provision is totally irrelevant to the issues discussed in this paper; and the language of §261 can be given its full intended effect quite consistently with suggestions I have made. Section 261 has its genesis in §4 of the Patent Act of 1793 which merely authorized assignment by the patentee of his title and interest in his invention. Statutory authorization was necessary 'because since patent rights are creatures of statute and not of common law, the transfer of legal title thereto cannot be regulated by the rules of the latter system.'

The procedural and formal rigidities of the 19th century between law and equity, between legal and equitable title, and between contracts and conveyances lead to distinctions of substantial practical import between patent assignments and patent licenses. Made in compliance with the statute, and assignment vested in the as-
The Department of Justice strongly opposed codification, arguing that it could be construed to enunciate that the patent owner's right to exclude may be fragmented into a number of pieces—dividing it by customers and fields-of-use, for example—and marketed in any way, regardless of anticompetitive intent or effect.\textsuperscript{41}

signee a legal title which was an adequate basis for the commencement by the assignee of infringement actions, the execution of licenses or further assignments, and application for extensions of the patent term. A warranty of title was implied unless negated by the instrument. Legal title prevailed over prior equitable incumbrances if obtained for value and without notice, could be held by several persons as tenants in common and perhaps by joint tenancy, and was subject to voluntary, but not involuntary, partition.

But any transfer of interest that did not convey a sufficiently broad range of interest to the transferee was regarded not as an assignee, a licensee was merely a contracting party, not a property owner with a title. He received nothing more than the privilege of practicing the invention to the extent described in the license without being subject to liability for infringement. Licenses could be written or oral and did not have to be recorded. Unless the document expressly authorized transfer, a license was not transferable; and if made transferable, it was such only in its entirety unless expressly made transferable in parts and to a plurality of persons.

Because of the important differences between assignment and license, it was important that there be a sharp definition of that range of interest which was sufficiently broad to be the subject of assignment as opposed to license. No such definition was written into the 1793 provision. This deficiency was corrected in the 1836 act which assimilated to the assignment category "every grant . . . of the exclusive right . . . to make and use, and to grant to others to make and use the thing patented within and throughout any specified part . . . of the United States." Transfers of that breadth were required to be recorded and were regarded as the minimum quantum of interest to which the qualities of "property" and "title" attached; and with those qualities went a complex body of interpretive rules. Finally in 1870 an express statement of the sanction for failure to record, nullity as against a bona fide purchaser, was added. When reprinted in the Revised Statutes of 1875, the section was broken into two sentences; in 1897, the sentence making certificates of notaries prima facie evidence of execution of an assignment was added; in 1941 the section was expanded to include applications as well as patents; and in 1952 the several sentences were rearranged into their present order, placing the paragraph relating to certificates between the authorization to assign and the requirement of recordation.

As a consequence of these technical modifications the basic authorization to transfer by assignment rather than by license interests of a minimal quantum now stands alone in the first principal paragraph of §261 and is susceptible to being misread as a legalization for all purposes of assignments of exclusive right to a specified part of the United States. But that reading is wholly erroneous. The section remains today what it has been for over a century: a demarcation of the dividing line between interests sufficiently extensive to be transferred by assignment and those which are to be transferred by license. The modern reader, less sensitive than his predecessors to refined distinctions between contract and conveyance, legal and equitable title, and persons who are and are not proper parties in interest, is liable to err; but internal corroboration of the original purpose is present in the section: It deals with assignments, not licenses; and the sentence that is critical for present purposes still reads, "The . . . patentee . . . may, in like manner (i.e., by assignment), grant an exclusive right . . . to . . . any specified part."

According to the proponents of codification, anticompetitive effect or intent is immaterial so long as the licensing provision is reasonably related to the exclusive right. It is also believed that the Department of Justice's position unduly subordinates patent law to antitrust considerations.

The Department of Justice further contends that "this language suggests that the patent grant is a 'bundle' of several different rights, not the constitutionally based right to exclude others from making, using, and selling the invention." The answer to this charge is that while the constitutional grant, with brevity and clarity, establishes the right of exclusivity, it does not negate partial surrender of that exclusivity. As has been discussed, it is in the public interest that patent owners have maximum freedom and that prospective manufacturers and sellers have maximum access to patent licenses, according to their needs. This is best and most practically accomplished by adopting the theory which allows fragmentation of the exclusive right.

The Antitrust Division does "not object to field-of-use restrictions as a general rule where they have a legitimate primary purpose, are not unduly broad and do not have a substantial anticompetitive effect." The courts have upheld these license restrictions when they are reasonably within the reward which the patentee is entitled by his grant of patent. However, the Department of Justice maintains that "field-of-use licensing, used to divide customers or markets, or which in operation, injured the public may well be unlawful." The antitrust advocates fear that the patentee could "fragment his patent grant in such a manner as to impose price-fixing, tie-ins, and other such anti-competitive arrangements." But proponents of licensing reform contend the "rule of reason" for patent licenses would not bar regulation of such anticompetitive activities.

---

82. Id. The bundle of rights theory was recognized as early as Henry v. Dick Co., 224 U.S. 1 (1912).
83. Hearings, note 23 supra, at 272.
85. Hearings, note 23 supra, at 273. The Government has also taken the position that General Talking Pictures was limited by Hartford-Empire Co. v. United States, 323 U.S. 386 (1945), and Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940). See Hearings, note 23 supra, at 494.
86. Hearings, note 23 supra, at 273.
License Codification Provisions

Codification of the right to license would have beneficial effects in several situations which are presently the subject of controversy.

Exclusive Licenses

Legislative approval of the right to grant exclusive licenses is important to proponents because Antitrust Division lawyers, in particular, and some members of the antitrust bar seem to look askance at exclusive licenses. There is a tendency to apply the antitrust rule of reason to all patent license provisions. As pointed out by Professor Oppenheim, the antitrust rule of reason is inapplicable so long as the terms of the license agreement are reasonably within the scope of the patent grant. Since the Constitution and the patent statutes provide for an exclusive right under a patented invention, it is entirely reasonable that a patent owner should be able to pass on that exclusivity in its entirety or with respect to a particular field or other grant of less than the entire right.

Number of Licenses

The last clause of section 261(b) provides that the licensor may grant licenses to "parties of his selection." This means that he may grant one license or a plurality of licenses, but having granted one license, he is not required to grant licenses to all comers.

Length of Term

Proponents of licensing reform believe that a patent owner should be able to waive part of the term, i.e., license less than the full term of a patent. An express condition with respect to the duration of a license without regard to the length of patent life was upheld in Cole v. Hughes Tool. Hughes leased bits to drillers on the condition that the bits be returned to Hughes when they had served their useful life. The court upheld the Hughes practice noting that the lease agreement merely conditioned the termination of the right to use the patented product upon a future event. This amounted to a time limitation on the license.

Form of Use

With respect to a license specifying the nature of form of use permitted, it has been held appropriate to limit a license to styles

---

87. Oppenheim, note 23 supra.
89. 215 F.2d 924 (10th Cir. 1954).
or classes authorized on the ground that such narrow licenses affect only the use of the patented invention and are within the patent grant. This is logically the case so long as the licensee is not positively prohibited from making products or using processes which are not covered by the subject matter of the patent or from operating outside of the scope of the license.

Limited Right to Sell

The judiciary has sanctioned the use of a covenant in a license which permitted the sale of patented devices only in a specified combination. In *Vulcan v. Maytag*, the defendant accepted a license containing a positive prohibition against the sale of any patented parts separately or together with washing machines other than the type specified. The court observed that there was no obligation on the licensor to grant a license. Since there was no commercial demand for washing machines without the patented attachment, the licensor had a legitimate monopoly, even though the machines themselves were unpatented.

This is a situation brought about by the excellence of the patented article in a commercial sense, and not by any arrangement, contract or other act of the patentee other than the bare ownership of the patent and the monopoly of use of the subject-matter covered thereby.

The legality of a simple license should be just as obvious.

The proposed reform would appear to authorize the licensing of a stated quantity or not more than a specified quantity. Licenses of this narrow nature have apparently been considered in the past to be within the scope of the patent grant, at least to the extent that there has been a limit on the total number of patented items to be made by the licensee. It is a different question if the licensor attempts to restrict the licensee with regard to the number of unpatented items made by the licensee, the latter being outside the scope of the patent.

The most troublesome situations arise where unpatented devices or products are involved, as for example, the making of unpatented products on patented machines or by the use of patented processes. The patent grant conceivably includes the right to limit the use of

---

91. 73 F.2d 136 (8th Cir. 1934).
92. *Id.* at 139.
a patented process. It would seem proper, therefore, to indicate the number of times the process can be used without regard to the patentability of the product produced by the process. The degree of restraint is reasonable in light of the fact that, in the absence of any license, the public’s exposure to and benefit from the patented item would be considerably diminished. Any quota specification relates directly to and limits the extent of use of the patented machine or process. To the extent that the licensee is licensed only as to the use of the patented process or machine, but is free to make any number of unpatented items by processes or machines other than those licensed, a quota specification is within the scope of the patent.

There is, possibly, some conflict of authority. In *American Equipment Co. v. Tuthill*, the imposition of penalty royalties if more bricks than specified in the license were manufactured was held not to be a license provision but price-fixing and a quantity production limitation, the inevitable result of which was unreasonable restraint of commerce. This result is arguably correct inasmuch as the production limit applied to the total number of unpatented bricks produced by the licensee, and not merely the quantity manufactured by the patented machines. In this case, there was also evidence of a background of restrictive practices which indicated that the purpose of the contract was to control the price of unpatented bricks.

In the *Q-Tips, Inc. v. Johnson & Johnson*, there was one license authorizing the manufacture and use of patented apparatus only for producing unpatented swabs having cotton at one end and another regulating the number of unpatented swabs with cotton tips at both ends that could be manufactured by the licensee. The court framed the issue as follows:

> Whether the patentee of a machine for the manufacture of an unpatented product may, by grant of a license to manufacture and use the patented machine, restrict the number or type of unpatented products made with the patented machine.

The licensing arrangement was upheld after the court found that the licensor had not attempted to prevent the manufacture of the unpatented swabs, nor had it attempted to establish a price for which the unpatented product must be sold. The agreement merely conditioned use of the patented machine by limiting the number of units produced.

---

93. 69 F.2d 406 (7th Cir. 1934).
95. Id. at 660.
96. Id. But see United States v. General Electric Co., 82 F. Supp. 753 (D.N.J. 1949). There, a quantity provision was held improper because of price-fixing.
MINIMUM AND MAXIMUM QUANTITY PROVISIONS

Minimum quantity provisions are commonly used to ensure the patent owner a satisfactory return. Such an arrangement does not restrict production and seems to have no illegal connotations. On the other hand, a maximum quantity may restrict production and must be examined against the background of the patent grant. If the sole feature objected to is the licensing of a specified maximum number of units, the grant would appear reasonable under existing patent law. This is particularly true if the licensed subject matter is clearly covered by patents.\footnote{97} United States v. E.I. Du Pont De Nemours & Co.\footnote{98} is of interest in this connection. The license contained a provision that if Sylvania’s sales under the licensed patents exceeded a specified percentage of its total sale, increased payments would be made. Actually, Sylvania’s full production was covered by patented subject matter. However, it seemed to be clear from the arrangement that Sylvania was not required to pay any royalty on any types it made or sold which were not covered by the patent. In upholding the legality of this approach, the court found that the royalty provision did not limit Sylvania’s production and further, without a license, Sylvania would have been unable to compete.

**Customer Categories**

The proposed provision would codify the present law with respect to designation of customer categories. It is proper to classify customers according to the expected and usual use to which they will put the patented subject matter; licenses to sell to customers who will use solely for the prescribed purposes have been upheld. The 1960 case of Aluminum Co. of America v. Sperry Products, Inc.\footnote{99} involved a license under which Sperry was licensed to make converters and sell them for use only with the licensor’s reflectoscopes. In upholding the legality of this license, the court found that Sperry could have prevented sales or sued a user for infringement. Sperry was legally entitled to be free from competition in the use of the products falling within the scope of its patents. The court noted that no trade was unlawfully restrained and that as a result of the agreement, an article was introduced into commerce that might otherwise have

\footnote{97. In the situation in which the licensor grants a series of licenses on a quota basis as, for example, 20 percent to each of five licenses, there would seem to be a problem raised outside the patent laws. Thus, the legality of a maximum quota provision would seem to depend on whether the limitation places any ancillary limitation on activities of the parties.}

\footnote{98. 118 F. Supp. 41 (D. Del. 1953), aff’d, 351 U.S. 377 (1956).}

\footnote{99. 285 F.2d 911 (6th Cir. 1960).}
been withheld from the market.

Licenses authorizing sale to customers who normally will use or resell the patented subject matter in designated areas were upheld as early as 1874 in *Dorsey Revolving Harvester Rake Co. v. Bradley Manufacturing Co.*

Dorsey had a license authorizing him to manufacture apparatus for use in four specified states. The court found infringement with respect to a seller who knowingly sold to parties who bought for export to and use in foreign countries.

A patent owner may properly authorize a licensee to sell to one outlet or less than all outlets such as wholesalers, jobbers, retailers, agents, and users. However, a license authorizing a manufacturer to sell patented devices to customers individually approved or licensed by the owner of the patented subject matter is more restrictive of commerce than is a license to sell to designated classes of customers. In the former, the licensor and licensee must agree to the sale whereas in the latter any of the class qualify for purchase. So long as the granting of approval or issuance of a license to prospective customers by the patent owner is unaccompanied by any subsidiary return operating after sale, the licensing program is proper under the current state of the law. A narrow manufacturing license is within the scope of the patent because it goes no further than regulating a licensee's right to sell patented devices.

*License of Patent Application*

An amendment to section 261(b) would further serve to clarify a patent applicant's right to license others. Although the proposed amendments did not expressly state that remuneration can be received for a license under an application, this is nonetheless a reasonable consequence of the right to license.

In summary, the proposed amendment to section 261 was intended to make clear that the owner of a patent may, with respect to his patent:

1. sell all;
2. sell part;
3. license all;
4. license part;
5. choose buyer (assignee);
6. choose licensee or licensees;
7. license exclusively;
8. license non-exclusively;
9. license both exclusively and non-exclusively.

100. 7 F. Cas. 946 (No. 4015) (C.C. N.Y. 1874).
Opponents argue that a license of less than all rights could enable patent owners to divide markets or territories among possible competitors. It appears more correct to say that when a licensor licenses others on a partial basis, he increases the number of suppliers to the public and enhances the likelihood of competition. Without the owner's permission, in the form of a license, others could not use the patent at all. The proposal does not give licensees freedom to use partial licenses to escape all responsibility under the antitrust laws. It would, however, make it clear that partial licenses are not per se violations of the antitrust law.

The present section 271 defines patent infringement and specifies three situations which do not constitute defenses against charges of infringements. Generally speaking, the proposals for clarification would add to this list and also clarify the doctrine of licensee and assignor estoppel.

**Clarification of Licensee and Assignor Estoppel**

Not unexpectedly, there are times when a licensee is no longer satisfied with his license arrangement, either because conditions have changed or because he struck a poor bargain. Changed circumstances may lead to an attempt by the licensee to terminate the agreement. In *Lear v. Adkins,* the Supreme Court overruled a line of cases dating back to 1856, which held that, by virtue of the licensing agreement, the licensee was estopped from challenging the validity of the licensor's patent. Noting the inequity inherent in the theory, as well as the public interest in discouraging the longevity of worthless patents, the Court voided an express obligation not to contest validity. Similarly, a no-contest clause as a condition to a settlement of litigation has been held improper and a plurality of licenses containing irrevocable covenants never to contest validity may violate the Sherman Act.

A modification of the result was proposed by the Department of Commerce in 1971. According to that Department, the holding in...
Lear, designed to circumvent inequity, may, in fact, promote it in a situation where the licensee seeks to avoid infringement by taking out the license initially, but subsequently avoid the payment of royalties by challenging the validity of the underlying patent. Consequently, bad faith challenges by licensees may be encouraged, while licensors are seriously hampered in enforcing valid licensing agreements and ultimately discouraged from licensing at all. The end result is obviously deleterious to the public's interest in the accessibility of the patented article.

The Department of Commerce proposed retention of the right to contest validity, but urged that Lear be modified to allow termination by the licensor, thus enabling him to license a third party. This proposal would more equitably approach a balancing of the competing interests involved.

The Department also called attention to the potential chaos which would result from opening state courts to validity adjudications, as in suits to enforce contracts. Its solution is to provide "automatic removal of patent license suits to an appropriate district court" when validity is challenged. The Department of Justice approves, at least in principle, removal of patent licensing challenges to "an appropriate Federal forum" and relief to licensees in the form of termination of the license agreement.

The Department of Justice faulted the original Scott amendments for requiring licensees to terminate, with respect to all licensing claims and patents, as a precondition to a validity challenge only with respect to contested rights. The Department of Commerce proposal gives the licensor the selective right to terminate wholly or in part. In the latter event, a court may determine suitable royalty provisions. Perhaps total termination is more relief than necessary.

The Department of Commerce's proposal bars antitrust or misuse implications through the mere existence of a "no-contest" clause. The Department of Justice claims that to this extent the proposal would be "directly contrary to Bendix v. Balax." It is not clear that Bendix made such clauses per se illegal. In any case, the "no-contest" clause can be expected to disappear from the scene in light of these court decisions.

The assignor estoppel proposal requires restoration of consideration received as a precondition to challenge the assigned patent, or

---

108. Id.
109. Id. at 275.
110. Id. at 285.
payment of an amount determined by the court to equal the value of such payment.

The Department of Justice position is essentially in keeping with its views on licensee estoppel, although it has not made its precise position known on court-determined restorations. Proponents of this provision claim it appears reasonable and desirable to take care of the situation where consideration involves other than money payments.

**RULE OF REASON**

Considered by many the most important proposal, and strongly supported by the Department of Commerce, is a proposed codification of a patent rule of reason.111 As drafted, this addition to section 271 provides that neither misuse nor illegal extension of patent rights would result when a patent owner grants a license which

excludes or restricts conduct in a manner that is reasonable under the circumstances at the time the license agreement is made or offered to be made, to secure to the patent owner the full benefits of his patent grant. . . .112

The burden of establishing misuse or illegal extension is placed upon the party asserting such defense. Under the proposal, five licensing practices would be excepted from the rule of reason. Consequently, these practices would fall under the antitrust rule of reason, thus possibly rendering them per se antitrust violations. These are:

1. price fixing;
2. tie-ins;
3. resale requirements;
4. refrain from dealing;
5. joint licensee-licensor control over additional license.

The Department of Justice at one time accepted this proposal as a compromise solution to the Scott Amendment language, but subsequently changed its position. Despite the formidable support for this proposal, the Department of Justice presently opposes its enactment as an "inadequate and unworkable" solution to the problem.113

To free "parties from the risk that unpredictable economic circumstances or judicial holdings might turn a lawful contract into an unlawful one," the Department of Commerce's proposal sets the

---

111. See Bement v. National Harrow Co. 186 U.S. 70 (1902).
time for judging reasonableness of a license "as of the time it was
made." The Department of Justice strongly opposes this section on
the ground that it "would enact a special antitrust 'rule of reason'
standard in the area of patent licensing heavily biased toward up-
holding anticompetitive patent licensing restriction." To the ex-
tent this is true, it is merely a proper codification of the case law.

Contrary to assertions by the Department of Justice, a codifica-
tion of existing law is necessary, especially in light of the opposition
to most patent licensing emanating from that Department. Spokes-
men for the Department have also contended that the lan-
guage used in the proposed amendments is unclear, thus necessitat-
ing judicial interpretation on a case-by-case basis. However, there
is no reason to believe that a codification of existing law will spur a
flood of litigation. Certainly the volume of cases would be no greater
than at present. More importantly, judicial interpretation of the
amendments as applied to specific practices would proceed from a
presumption of prima facie propriety, a presumption not presently
accorded challenged practices.

A major focus of the Justice Department's memorandum was a
lengthy discussion of per se antitrust rules. The Department's posi-
tion is that

this proposal to overrule per se antitrust rules involving patents
not only would reverse many years of established law but is totally
unwarranted. Per se rules voice only in situations where it is quite
apparent that the conduct under scrutiny has no possible justifica-
tion. In this context, reference was made to Northern Pacific Ry. v.
United States which in turn cited Chicago Board of Trade v. United States and Standard Oil Co. v. United States. Although
this per se illegality argument is sound in non-patent cases, it is
inapplicable to cases involving patents. Moreover, the proposed
codification is no attempt to overrule per se rules; the undeniable
fact is there are no per se patent antitrust rules. The per se rules
evolved in non-patent contexts and have been applied to patent

---

114. Id. at 275-85.
118. 246 U.S. 231 (1918).
119. 221 U.S. 1 (1911).
situations only when the practice is an unreasonable use of the patent grant.  

**SPECIFIC ROYALTY OR PAYMENT PRACTICES**

The drafters of the clarification amendments were not content merely to obtain codification of the rule of reason but further outlined special situations which should not, in themselves, render applicants or owners guilty of misuse or illegal extension. The following payment requirements, standing alone, would not constitute an illegal agreement:

1. the amount of payment;
2. the time of payment, except that payments after expiration must be based solely on activities prior to expiration;
3. the base on which payment is determined;
4. the extent of use of the Patent right;
5. a payment not segregated on particular patents or claims (package licensing);
6. the existence of differing payment arrangements.

The Commerce Department maintains that this section identifies commonly used royalty or pricing practices which, standing alone, parties should be able to include in patent licensing agreements, and that if other factors or circumstances are present, the proposed rule of reason would be applied.

**Amount of Royalties**

The Department of Commerce provision approves freely negotiated royalties of any amount and would, to a certain extent, overrule *American Photocopy Equipment Co. v. Rovico, Inc.* which found improper "exorbitant, oppressive" royalties. Since absent a patent a seller could charge his customers any price, proponents of this provision maintain that the patent owner should be able to do the same. However, the Department of Justice contends that permitting

---

120. For example, the Department of Justice memorandum refers to United States v. Trenton Potteries, 273 U.S. 392, 397-98 (1927), which established price-fixing as a per se violation because there could be no justification for the action other than restraint of competition. The Department then argues that "there is simply no reason why an exception should be made in the case of patents." Hearing, note 23 supra. Proponents of patent licensing reform would argue that the per se non-patent rule of *Trenton Potteries*, as well as other per se rules, are not necessarily applicable to patent cases. United States v. General Electric Co., 272 U.S. 476 (1925). The reason patents should not be placed under the general antitrust rule lies in their constitutional underpinnings.

121. 359 F.2d 745 (7th Cir. 1966), *on remand*, 257 F. Supp. 192 (N.D. Ill. 1966), aff'd, 384 F.2d 813 (7th Cir. 1967).

a price "in any amount" would lead to abuses of the royalty practice to either exclude new entrants from the market,\textsuperscript{123} force the purchase of unpatented products,\textsuperscript{124} or compel the acceptance of package licensing agreements.\textsuperscript{125} To legalize such royalty provisions would be to overrule a series of cases condemning such discriminatory or arbitrary practices, according to the Department of Justice.\textsuperscript{126}

\textit{Time of Payment}

Another feature of this section is the express approval of royalty payments after the expiration of the patent, provided the making, using, or selling took place during the patent term. While proponents see this as entirely proper, the Justice Department takes the position that the proposed language could have the effect of modifying the doctrine that post-expiration royalties are illegal because the language goes beyond mere postponement of royalties due for pre-expiration use of the patent. Since the proposal justifies payment based solely upon activities prior to such expiration, the exclusive right might be achieved by stating in the contract that later payments were based upon pre-expiration activities. An illegal extension of the patent monopoly would result where the clause merely disguised the collection of royalties for post-expiration use. Conceding the validity of this proposition, it nevertheless addresses a deceptive practice which is infrequently attempted and easily discovered, thus posing a de minimus threat of abuse of this particular provision.

\textit{Royalty Base}

The Justice Department maintains that a "blanket authorization to exact royalties not measured by the patent grant or extent of use, which these amendments might do, would change the basic principle that one should not exact royalties" for something not patented.\textsuperscript{127} Proponents argue that the concern is unlikely and that non-patented products are only nominally serving as a royalty base. Since it is for the convenience of the parties and is voluntary, benefits accrue to all.

The Department of Commerce recognizes that "complex royalty..."
determinations may be avoided by basing royalties on factors other than the actual use of the patented invention."\textsuperscript{128} Automatic Radio v. Hazeltine\textsuperscript{129} illustrates this point. In that case the license agreement provided for a low royalty on all radio production without regard to use of Hazeltine patents rather than a higher rate on infringing receivers only. This minimized the expense and inconvenience of determining which claims of which patents were applicable, the selling prices and quantities of each receiver sold, and simplified accounting. The Commerce proposal recognizes that royalties computed with no regard for actual use of inventions might be used illegally, but believes they would not be protected under this section.

\textit{Package Licensing}

The proposal also approves package licensing where charges for individual patents are not segregated. While the Department of Commerce recognizes that package licenses can entail compulsion, the “section is not intended to sanction forcing of entire packages on reluctant licensees,” but asserts that the “line of cases condemning such package licensing practices [including American Security Co. v. Shatterproof Glass Corp.,\textsuperscript{130}] would be unaffected.”\textsuperscript{131}

This proposal codifies \textit{Well Surveys v. Perfo-Log}\textsuperscript{132} and \textit{McCullough Tool v. Wells Surveys}\textsuperscript{133} permitting royalties in package licenses which do not diminish as individual patents expire. The Department of Commerce claims this is a “completely acceptable consequence of arms-length bargaining,” and sees “no reason for forbidding such royalty arrangements.”\textsuperscript{134} Moreover, package licenses are often extremely convenient to both parties. Justice Department spokesmen voiced opposition to these provisions on the ground that they sanction compulsory licensing and exaction of royalties not based on any patented subject matter. The first point may be justified since the proposal does not limit package licensing to voluntary situations. However, no valid objection is raised with reference to the exaction of royalties. There is no basis for charging royalties when no patents are infringed, and no real problem is seen in choosing a royalty rate or rates which average the value of varying

\begin{itemize}
  \item \textsuperscript{128} \textit{Id.} at 265-68.
  \item \textsuperscript{129} 339 U.S. 827 (1956).
  \item \textsuperscript{130} 268 F.2d 769 (3d Cir.), \textit{cert. denied}, 361 U.S. 902 (1959).
  \item \textsuperscript{131} \textit{Hearings, note 23 supra}, at 228-65.
  \item \textsuperscript{132} 396 F.2d 15 (10th Cir. 1968).
  \item \textsuperscript{133} 343 F.2d 381 (10th Cir. 1965).
  \item \textsuperscript{134} \textit{Hearings, note 23 supra}, at 228-33.
\end{itemize}
patent rights over the package life. The result is a simplified and effective arrangement. Conversely, where varying rates are assigned to each patent of a package, arrangements involving several patents become unmanageable.

Different Payment Arrangements

Another provision would authorize licenses providing for royalty rates which differ among licensees. This proposal was prompted by the difficulty encountered by patent owners in negotiating licenses where royalties are limited to a predetermined rate. The circumstances of each licensor-licensee agreement are unique and a license may simply be worth more to some licensees than to others. This provision in no way impairs the right of a licensee to bargain for the best possible terms. Furthermore, the allowance of varying royalty rates would diminish the tendency of potential infringers to risk suit rather than pay what is considered an inappropriate rate.

The Justice Department opposes this proposal on the ground that it may sanction discriminatory royalties in all circumstances, regardless of anticompetitive intent or effect. While recognizing that differing royalty rates are not always discriminatory, that Department relies upon case law which holds predatorily motivated discrimination and monopolistic restraint illegal. However, the Commerce Department maintains that these cases warrant the application of the patent, rather than the antitrust, rule of reason and that such application could alter the result in this type of case.

Licensing of Less Than Total Right

The last of the proposed license codifications would eliminate, as a defense, the licensing of less than all rights, including rights to less than all of the territory, patent term, uses, forms, quantities, or number of operations. This recommendation should be coupled with section 261 proposals previously discussed. It is intended, according to the Commerce Department’s memorandum, to codify General Talking Pictures and its progeny. However, this provision would not immunize from the antitrust laws or the doctrine of patent misuse any license for less than the entire patent rights where the license also imposes improper conditions or where there are factors which require evaluation under a rule of reason. The application of the patent rule of reason would operate to prohibit improper fragmentation of the patent into submonopolies.

Conclusion

An exceedingly thorough case has been made for license law legislation, largely clarification and codification. Moreover, with minor
exceptions, no change in the existing state of case law on antitrust standards, no proposal for antitrust exemptions has been offered, and no intention to seek relaxation of the application of the antitrust laws is in evidence. No opponent of license law legislation has shown any such intent or any substantial likelihood that anything other than codification or clarification would result from the enactment of the so-called Scott Amendments, or the Commerce Department or the Smith-Buckley versions of clarifications.

However, because of the widespread controversy, it may be wisest to consider no more than codification or passage of a patent rule of reason, patterned after General Electric and Bement.\textsuperscript{135}

\textsuperscript{135} Bement v. National Harrow Co., 186 U.S. 70 (1902).