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# LICENSING UNDER UNITED STATES ANTITRUST LAW

Leo J. Raskind\*

## I. INTRODUCTION

A holder's exploitation of an intellectual property right by license and related arrangements has been a source of controversy among courts and commentators in the United States for more than a century.<sup>1</sup> Doctrines of limitation, such as misuse, originally developed around patents, have in recent years been extended to other intellectual property regimes such as copyrights, trademarks, and trade secrets.<sup>2</sup> The background and current application of these several doctrines are the subject matter of this paper.

## II. THE DOCTRINE OF MISUSE

The primary basis for the misuse doctrine is the direct clash of policies between two groups of federal statutes, patent and copyright statutes on the one side and antitrust laws on the other.<sup>3</sup> The patent and copyright laws, grounded in a constitutional foundation,<sup>4</sup> together grant the power to exclude

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1. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965); *United States v. General Elec. Co.*, 272 U.S. 476 (1926); *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70 (1902); Louis Kaplow, *The Patent-Antitrust Intersection: A Reappraisal*, 97 HARV. L. REV. 1815 (1984); George L. Priest, *Cartels and Patent License Arrangements*, 20 J.L. & ECON. 309 (1977); Douglas W. Wyatt et al., *An Overview of Developments in Antitrust Law Relating to Intellectual Property*, 55 ANTITRUST L.J. 373 (1986). See generally Spencer W. Waller, *Understanding and Appreciating EC Competition Law*, 61 ANTITRUST L.J. 55 (1992).

2. The misuse doctrine was applied to copyrights in *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990). A territorial licensing of a trademark was held to violate § 1 of the Sherman Act as a horizontal agreement in *United States v. Sealy, Inc.*, 388 U.S. 350 (1967). See also Section of Antitrust Law, A.B.A., *Antitrust Issues Involving Intellectual Property*, 2 ANTITRUST L. DEV. 799, 844 (3d ed. 1992); Jere M. Webb & Lawrence A. Locke, *Intellectual Property Misuse: Recent Developments in the Misuse Doctrine*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 339 (1991).

3. 17 U.S.C. §§ 101-1010 (1988 & Supp. IV 1992); 35 U.S.C. §§ 1-376 (1988 & Supp. IV 1992); 15 U.S.C. §§ 1-7, 12-27, 41-51 (1988).

4. See *infra* note 11.

and to restrain others from making, selling, using, reproducing, performing, or displaying the protected work. This power permits the holder to license others to perform these granted rights in exchange for payment of royalties. In this way, the policy of the patent and copyright laws is implemented to provide private economic rewards for the production of creative works beneficial to the general public. However, the terms of the license that function in the exercise of these powers may contain restrictive provisions that clash with the policy of the federal (and state) antitrust laws that express a preference for unrestricted competition as the norm of the marketplace.

In a legal regime characterized by freedom of contract and of alienation of property, the exploitation of intellectual property rights focuses the conflict between the intellectual property statutes and the antitrust laws on licensing practices, the principal means of exercising intellectual property rights. The source of the conflict between the exercise of intellectual property rights and the antitrust laws is the diverging, if not inconsistent, statutory objectives of the two groups of statutes.

For example, a trademark holder may license another to reproduce the protected work in a limited geographic region or to a selected class of consumers, e.g., to retailers excluding discounters or on condition that the product is sold at a stated minimum price. Such license conditions, however, may clash directly with the antitrust laws. Similarly, a patent holder may license another to practice a patented process in exchange for a reciprocal promise to purchase all associated materials from the patentee-licensor. In each instance there is a restraint of competition.

As the intellectual property right holder utilizes licensing agreements to derive revenue from the statutory intellectual property rights, the very licenses and related contractual arrangements that implement the incentive policy of these statutes may fall within clearly defined categories of practices subjected to strict antitrust scrutiny. Thus, an intellectual property license is a contract that may contain restrictive conditions, such as a tying arrangement subject to scrutiny under Section 1 of the Sherman Act or Section 3 of the Clayton Act.<sup>5</sup>

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5. *Eastman Kodak Co. v. Image Technical Services, Inc.*, 112 S. Ct. 2072 (1992); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680 (4th Cir. 1992).

Other licensing practices, such as restricting the use of a competing product with the patented good, may give rise to allegations of attempting to or actually monopolizing under Section 2 of the Sherman Act.<sup>6</sup> Since a patent or copyright is an asset for purposes of Section 7 of the Clayton Act, corporate mergers involving valuable intellectual property rights may raise anticompetitive prospects under the merger provision.<sup>7</sup> Similarly, trademark licensing may also have anticompetitive effects, as, for example, a licensed use of a trademark imposing territorial limitations may be reviewed as a horizontal agreement among competitors under Section 1 of the Sherman Act.<sup>8</sup>

As courts were presented with cases involving this conflict between the two statutory policies, two distinct lines of analysis emerged. In early patent cases, judges began narrowly construing the patent claims as a means of limiting perceived excesses in patent licensing.<sup>9</sup> The second approach was to develop an independent concept, patent misuse, as an extension of the equitable doctrine of "clean hands" to perform the function of limiting undesired exploitation of intellectual property rights.<sup>10</sup> However, the accommodation between the judicial doctrines that seek to buffer excessive exploitation of intellectual property rights in terms of equitable doctrines and the reliance on antitrust principles for this function, have a substantial, albeit not always predictable, area of overlap.

The reasons for the continued uncertainty in the contours of these overlapping approaches are inherent in the nature of the intellectual property regimes themselves. The task of devising a precise system of economic rewards for individual creative persons is complicated initially by the macro or aggregative nature of the constitutional authority to provide for

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6. *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963); *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952).

7. *Crucible, Inc. v. Stora Kopparbergs Bergslags AB*, 701 F. Supp. 1157 (W.D. Pa. 1988).

8. *United States v. Sealy, Inc.*, 388 U.S. 350 (1967). For an empirical study of the anticompetitive effects on the territorial restrictions in this case, see Willard F. Mueller, *The Sealy Restraints: Restrictions on Free Riding or Output?*, 1989 WIS. L. REV. 1525.

9. See *supra* note 1.

10. See H. Thomas Austern, *Umbras and Penumbra*, 33 GEO. WASH. L. REV. 1015 (1965); John C. Stedman, *Acquisition of Patents and Know-How by Grant, Fraud, Purchase, and Grant-Back*, 28 U. PITT. L. REV. 161 (1966); John Wigmore, *The Patent Monopoly*, 25 J. PAT. OFF. SOC'Y 687 (1943).

patents and copyrights. The Constitution gives a broad, though diffuse, mandate for federal legislation to provide an economic incentive for creative activity for the betterment of society.<sup>11</sup> The nature of this constitutional basis of intellectual property protection reflects the influence of Thomas Jefferson, himself an inventor, who viewed ideas as a powerful instrument for progress for the new nation. He feared that many useful ideas would remain undisclosed or, if disclosed, appropriated without compensation, unless an incentive and reward system was provided in individual terms.<sup>12</sup> The rationale of this incentive has been characterized as follows: "[T]he notion that monopoly privileges were required to provide adequate economic incentives for inventive activity motivated the Statute of Monopolies, passed by the English Parliament in 1623 . . . . Later, the problem was explicitly recognized by the framers of the Constitution."<sup>13</sup>

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11. U.S. CONST. art. I, § 8, cl. 8. It provides, "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

In *Sony Corp. of America v. Universal City Studios*, the Supreme Court characterized the tension between determining the limitation on the exploitative rights of an individual creative person and yet retaining the incentive for the benefit of society as follows:

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public . . . their work product. Because this task involves a difficult balance between the interest of authors and inventors in the . . . exploitation of their . . . [works] and society's competing interest in the free flow of ideas, information, and commerce . . . .

464 U.S. 417, 429 (1984).

12. 6 WRITINGS OF THOMAS JEFFERSON 180-81 (H.A. Washington ed., 1854).

13. Wesley M. Cohen & Richard C. Levin, *Empirical Studies of Innovation and Market Structure*, in 2 HANDBOOK OF INDUSTRIAL ORGANIZATION 1060, 1090-91 (Richard Schmalensee & Robert D. Willig eds., 1989).

There is substantial economic literature concerned with determining the value of a patent and the impact of new technology on market structure, competition, and welfare. See FREDERIC M. SCHERER, *INNOVATION AND GROWTH: SCHUMPETERIAN PERSPECTIVES* 8-31 (1984); FREDERIC M. SCHERER & DAVID ROSS, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE* 613-50 (3d ed. 1990); Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in *THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS* (Nat'l Bureau of Economic Research ed., 1962); P. Dasgupta & J. Stiglitz, *Industrial Structure and the Nature of Innovative Activity*, 90 *ECON. J.* 266 (1980); Gene M. Grossman & Carl Shapiro, *Dynamic R & D Competition*, 97 *ECON. J.* 372 (1987); Michael L. Katz and Carl Shapiro, *How to License Intangible*

The individual incentive system that Jefferson envisioned rejected the natural law conception of ideas as a form of intangible property derived from labor in favor of a statutory right which provided an economic incentive to create and to disclose.<sup>14</sup> However, by utilizing a constitutional provision authorizing Congress to provide for patent and copyright legislation, the economic incentive was expressed in aggregative, rather than in individual terms. Accordingly, Congress enacted intellectual property rights by patent and copyright in terms of society as a whole—all authors and inventors were eligible for these right by meeting the statutory conditions of invention or authorship.<sup>15</sup>

At this aggregate level, statistical techniques validate the contribution of inventive activity to society. A leading study of gain in output per worker for the economy as a whole between 1929 and 1982 credits sixty-eight percent of the gain in productivity to improvements in scientific and technological advances. Lesser importance is assigned to increased capital investment, increased skills of the labor force, and realization of scale economies.<sup>16</sup> Other empirical economic studies of the impact of innovation on productivity have also been aggregative, i.e., the study of groupings of firms and industries.<sup>17</sup>

As they function in practice, the patent and copyright statutes grant rights and remedies on an individual basis. Unfortunately, statistical techniques cannot serve to measure the amount of the economic reward needed to provide the minimum requisite incentive to create and to disclose. Nor is economic analysis able to offer guidance in assessing and metering the amount of the economic incentive according to a societal valuation of the creative contribution. Yet, given the

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*Property*, 101 Q.J. ECON. 567 (1986); Jennifer F. Reinganum, *Innovation and Industry Evolution*, 100 Q.J. ECON. 81 (1985).

14. Wendy J. Gordon, *A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property*, 102 YALE L.J. 1533, 1540 (1993); see also Zechariah Chafee, Jr., *Reflections On The Law Of Copyright: I*, 45 COLUM. L. REV. 503 (1945); Karl Fenning, *The Origin of the Patent and Copyright Clause of the Constitution*, 17 GEO. L.J. 109 (1929).

15. 35 U.S.C. § 101 (1988); 17 U.S.C. § 102(a) (1988).

16. EDWARD F. DENISON, *TRENDS IN AMERICAN ECONOMIC GROWTH, 1929-1982* 30 (1985); see also SCHERER, *supra* note 13; Robert M. Solow, *Technical Change and the Aggregate Production Function*, 39 REV. ECON. & STAT. 312 (1957).

17. See Cohen & Levin, *supra* note 13, at 1060-98.

exclusionary and restrictive nature of intellectual property rights granted to individuals, the need arises for mechanisms of limitation to prevent abusive exploitation.

Thus, the problem of limiting the modes and terms of licensing agreements exploiting intellectual property rights is left to the legal regime without much guidance. In a legal system that recognizes private property and freedom of contract, there is substantial latitude for exercise of those rights within the traditional bounds of tort and contract doctrines, as well as the substantial statutory framework of the antitrust laws. After a period of judicial experimentation, two themes of review and of limitation of intellectual property licenses emerged. Some courts invoked traditional equitable principles to shape the misuse doctrine.<sup>18</sup> Other courts applied the criteria of the antitrust laws as a guide to restricting certain modes of exploitation by right holders.<sup>19</sup>

There is another contributing factor to the present state of the law governing intellectual property licenses, the shifting focus of the antitrust laws. The antitrust laws applicable to intellectual property licensing practices underwent change in the 1980s to reflect a new conception of the underlying economic models relevant to vertical restraints analysis generally.<sup>20</sup> Originating in the 1920s, the Supreme Court and the enforcement agencies, such as the Department of Justice and the Federal Trade Commission, viewed intellectual property licenses as appropriate subjects of antitrust scrutiny.<sup>21</sup> The underly-

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18. WILLIAM C. HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW § 1.07 (1994); Jere M. Webb & Lawrence A. Locke, *Intellectual Property Misuse: Developments in the Misuse Doctrine*, 4 HARV. J.L. & TECH. 257 (1991).

19. *Windsurfing Int'l, Inc. v. AMF Inc.*, 828 F.2d 755 (Fed. Cir. 1987); *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505 (7th Cir. 1982), *cert. denied*, 462 U.S. 1107 (1983).

20. See *infra* note 50.

21. *Eastman Kodak Co. v. Image Technical Services, Inc.*, 112 S. Ct. 2072 (1992) (remanded for further discovery to determine the possibility of market power in spare parts); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969) (patent misuse to require licensee to compute royalty payment based on total sales, including products made without reliance on patent); *Northern Pacific Ry. v. United States*, 356 U.S. 1 (1958) (lease clause providing for preferential routing by lessee on lessor's railroad violates § 1 of Sherman Act); *International Salt Co. v. United States*, 332 U.S. 292 (1947) (requiring purchasers of a patented salt-using machine to purchase ordinary salt from patentee violates § 1 of Sherman Act); *IBM Corp. v. United States*, 298 U.S. 131 (1936) (requiring purchasers of patented machines to buy patentee's punch cards violates § 3 of Clayton

ing premise of that perspective was that patents and copyrights were statutory monopolies that, as such, contained the potential for restrictive, anticompetitive abuses.<sup>22</sup>

This perception of patents as conferring clear monopoly power became the basis for the judicial development of countervailing doctrines of limitation. For example, patentees sought to widen the ambit of their patent claims through licensing provisions that restricted the purchase of unpatented goods associated with the protected method or process. As patentees brought actions for contributory infringement to protect this extension of their patent claims,<sup>23</sup> alleged infringers resisted by urging a narrow definition of contributory infringement and by raising equitable defenses of wrongful conduct by the patentee.<sup>24</sup>

As courts sought to deny relief to patentees seeking to restrain the purchase of unpatented items in conjunction with licensed method, process, and combination patents, the doctrine of patent misuse evolved.<sup>25</sup> As the case law of misuse developed, it drew upon both traditional equitable doctrines and antitrust principles for criteria of limitation of the patentee's right to exploit the patent beyond the stated claims. In *Morton Salt v. G.S. Suppiger Co.*,<sup>26</sup> the Supreme Court rejected a patentee's claim of contributory infringement and invalidated a license provision requiring the use of the patentee's unpatented salt tablets with its patented salt dispenser by reference to Clayton Act standards as follows:

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Act); *Carbice Corp. of America v. American Patents Dev. Corp.*, 283 U.S. 27 (1931) (patent misuse successfully invoked by defendant against charge of contributory infringement by selling dry ice to a licensee required to buy plaintiff's dry ice and its cooler cabinet); *United Shoe Mach. Corp. v. United States*, 258 U.S. 451 (1922) (lease barring use of complementary machines with right to use patented machine of lessor violates § 3 of the Clayton Act).

In 1972, the Antitrust Division of the Justice Department issued a checklist of nine licensing practices that would invite antitrust scrutiny. See *infra* note 41.

22. *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) (requisite economic power is presumed where the tying product is patented or copyrighted).

23. *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

24. *Carbice Corp. of America v. Patents Dev. Corp.*, 283 U.S. 27 (1931).

25. The Court in *Carbice* described misuse of the patent without applying the phrase as follows: "Relief is denied because the . . . [patentee] is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material in applying the invention." *Id.* at 33-34.

26. 314 U.S. 488 (1941).



[T]he present suit is for infringement of a patent. The question we must decide is not necessarily whether respondent has violated the Clayton Act . . . [section 3], but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article.<sup>27</sup>

The doctrine of patent misuse did not develop smoothly. As the Supreme Court sought subsequently to refine the concept of patent misuse, it unsettled the doctrine of contributory infringement. In *Mercoïd Corp. v. Mid-Continent Inv. Co.*,<sup>28</sup> the Court invalidated a licensing provision that coupled the patentee's agreement to permit the licensee to practice the combination patent on condition that an unpatented component be purchased from a designated supplier.<sup>29</sup> Justice Douglas's opinion materially narrowed the scope of the contributory infringement doctrine by stating, "[T]he result of this decision . . . is to limit substantially the doctrine of contributory infringement. What residuum may be left, we need not stop to consider."<sup>30</sup> Some lower court judges then considered contributory infringement a tainted doctrine,<sup>31</sup> others read *Mercoïd* as a clear misuse case that left untouched the doctrine of contributory infringement.<sup>32</sup>

Sufficient uncertainty developed as to the scope of contributory infringement as to invite congressional review and reaffirmation of this doctrine in the 1952 revision of the Patent Act.<sup>33</sup> In amending section 271 of Title 35, Congress expressly asserted the existence of the doctrine of contributory infringement and undertook to accommodate it to the misuse doctrine.<sup>34</sup> The legislative history announces this objective as

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27. *Id.* at 490.

28. 320 U.S. 661 (1944).

29. *Id.* at 669.

30. *Id.*

31. Judge Learned Hand interpreted *Mercoïd* as placing the doctrine of contributory infringement as one "not wholly free from doubt." *Stokes & Smith Co. v. Transparent Wrap Mach. Corp.*, 156 F.2d 198, 201 (2d Cir. 1946); see also DONALD S. CHISUM, 5 PATENTS § 19.04 (1993).

32. *Florence-Mayo Numway Co. v. Hardy*, 168 F.2d 778 (4th Cir. 1948) (patent misuse distinguished from contributory infringement).

33. 35 U.S.C. § 271(d) as amended, H.R. REP. NO. 1923, 82nd Cong., 2d Sess. 5 (1952).

34. Section 271 provides:

follows: "The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time to eliminate . . . doubt and confusion."<sup>35</sup> The legislative history establishes that section 271(c), as amended, reinstates the doctrine of contributory infringement. Further, new section 271(d) was intended to overrule cases holding that the assertion of patent infringement against a contributing infringer would, without more, constitute patent misuse.<sup>36</sup> In *Dawson Chemical v. Rohm & Haas Co.*,<sup>37</sup> the Supreme Court, reviewing the new section 271 and its legislative history, held that section 271(d) gave a patentee "limited power to exclude others from competition in nonstaple goods."<sup>38</sup> Accordingly, the Court did not find patent misuse in the refusal of the patentee to deal further with licensees who insisted on purchasing unpatented chemicals for use in connection with the licensed patented process.

While the Supreme Court in *Dawson Chemical* recognized a congressional narrowing of the scope of patent misuse, some lower courts considered the role of the misuse doctrine to have been fully absorbed by the antitrust laws. The most articulate expression of such reliance on antitrust criteria is in a Seventh Circuit case upholding a differential royalty provision among various sub-licensees as follows:

One still finds . . . statements in judicial opinions that less evidence of anticompetitive effect is required in a misuse case

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(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: . . .

*Id.* Subsections b, c, and d of Section 271 have remained unchanged to date. *See* 35 U.S.C. § 271 (1988 & Supp. IV 1992).

35. H.R. REP. NO. 1923, 82d Cong., 2d Sess. 9, 2402 (1952).

36. *Id.*

37. 448 U.S. 176 (1980).

38. *Id.*

than in an antitrust case.

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If misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse . . . .<sup>39</sup>

However, the quest for clarification of the misuse doctrine via antitrust principles has turned out to be illusory,<sup>40</sup> for the antitrust analysis has itself been in flux. Beginning in the early 1970s, the case law involving patent licensing practices had developed to the point that the Antitrust Division undertook to provide a list of suspect patent license provisions. The list of nine licensing practices, publicized as the "Nine No-Nos" of patent licensing, was offered as a summary checklist of the Justice Department's enforcement policy.<sup>41</sup> These listed intellectual property licensing provisions were considered possible antitrust violations that might warrant further investigation. From the perspective of the Antitrust Division, these listed

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39. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992); *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 511-12 (7th Cir. 1982), *cert. denied*, 462 U.S. 1107 (1983).

40. Kaplow, *supra* note 1.

41. See A.B. Lipsky, *Current Antitrust Division Views on Patent Licensing Practices*, 50 ANTITRUST L.J. 515 (1985). The listed practices were:

- 1) Tying arrangements - unlawful for the licensor to require a licensee to purchase unpatented materials from the licensor;
- 2) Assignment or exclusive grant-back of improvements - unlawful for a patentee to require a licensee to assign to the patentee any patent which may be issued to the licensee after entering into the licensing agreement;
- 3) Restraints on resale of licensed product - unlawful to attach conditions on the resale of the patented product by the purchaser;
- 4) Limiting licensee freedom to deal in goods and services not covered by the licensed patent - patentee cannot restrict licensee freedom to deal in goods and services outside the scope of the patent;
- 5) Exclusive licensing - unlawful for a patentee to agree with licensee that patentee will not grant further licenses to others without consent of first licensee;
- 6) Compulsory package licensing - licensing only a group of patents is an unlawful extension of the patent grant;
- 7) Compulsory use of total sales, rather than sales of licensed item, as a royalty base;
- 8) Restrictions on sale of unpatented goods made by a licensed patented process;
- 9) Price-fixing - unlawful to dictate the resale price of the products made by a patented process under license.

practices would invite antitrust scrutiny under Section 1 of the Sherman Act and, if supported by credible evidence of a restraint of trade under the then existing case law, more probably than not, would be held to be illegal per se.<sup>42</sup>

The shift in the antitrust law of vertical restraints accomplished by the Court's decision in *Continental T.V. Inc. v. GTE Sylvania Inc.*<sup>43</sup> changed the perception of the Nine No-No's and of vertical restraints. From its original conception as a list of suspect practices that were likely to invite antitrust scrutiny, the No-No's were rejected, if not vilified, as exemplars of misguided antitrust policies. As the new perspective was stated,

[M]any of the practices condemned under the harsh, rigid misuse doctrine are forms of tying. Relying on simplistic, non-economically related notions of market power, courts have . . . unmercifully condemned tying requirements as a *per se* illegal attempt to extend the patent monopoly to a product outside of the patent. Of course, this simply ignores what we now understand to be the potential procompetitive benefits of tying arrangements.<sup>44</sup>

In this spirit, Congress contributed to further limitation of the misuse doctrine in the Patent Misuse Reform Act of 1988 which added section 271(d)(5) to Title 35.<sup>45</sup> This amendment expressly withdraws the presumption of market power for antitrust purposes from a patent. As a result of this amendment, a patent license may lawfully include the condition that the licensee of an apparatus, for example, purchases an unpatented item from the patentee. To prevail against the requirement, the licensee must meet the evidentiary burden imposed by new section 271(d)(5) of showing that "the patent owner has

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42. *Antitrust Guide for International Operations*, Antitrust & Trade Reg. Rep. (BNA) No. 77, at E-1 (Feb. 1, 1977).

43. 433 U.S. 36 (1977). The doctrinal shift is expressed by the title of Judge Posner's article, Richard A. Posner, *The Next Step in the Antitrust Treatment of Restricted Distribution: Per Se Legality*, 48 U. CHI. L. REV. 6 (1981).

44. Charles F. Rule, Deputy Assistant Attorney General, Antitrust Division, Technology Licensing and the Second American Revolution: Storming the Ramparts of Antitrust and Misuse, Address Before the John Marshall Law School (Feb. 22, 1985), in 4 ROGER MILGRIM, *TRADE SECRETS*, app. H3, H-3-1 (1991).

45. Pub. L. No. 100-703, 102 Stat. 4674 (1988).

market power in the relevant market for the patent or patented product.<sup>46</sup>

The direct effect of this legislation is twofold. First, it overrules the line of patent/antitrust tying cases based on *Morton Salt*.<sup>47</sup> Patent tie-in arrangements are no longer illegal per se. Second, it negates the dictum in *Jefferson Parish Hosp. Dist. v. Hyde*<sup>48</sup> that a patent may be presumed to confer market power in tie-in cases.<sup>49</sup>

### III. CURRENT ANALYSIS OF DOMESTIC AND INTERNATIONAL LICENSING AGREEMENTS

Analysis of the current antitrust consequences of licenses by United States patentees involving foreign parties is controlled by a clutch of other statutes and regulations in addition to the antitrust laws themselves. First, there are the 1988 Guidelines For International Operations.<sup>50</sup> Then there is the National Cooperative Research Act which, on timely notice to the Justice Department, permits rule of reason scrutiny of horizontal research and development joint venture agreements.<sup>51</sup> In addition, the Export Trading Company Act permits the Department of Commerce to issue certificates granting limited antitrust immunity for specified licensing activities.<sup>52</sup> Then, the Foreign Trade Antitrust Improvements Act limits the application of the Sherman Act to some foreign

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46. 35 U.S.C. § 271(d)(5) (1988).

47. *Morton Salt v. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

48. 466 U.S. 2 (1984).

49. Dictum in the majority opinion of *Jefferson Parish* expressed the characterization of a patent as granting monopoly power as follows: "Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market." *Id.* at 16.

However, four Justices rejected this view as a "common misconception" stating that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Id.* at 37 n.7.

50. Antitrust Division, U.S. Dep't of Justice, *Antitrust Enforcement Guidelines For International Operations* § 3.6, in 4 Trade Reg. Rep. (CCH) ¶ 13,109 § 3.6 (1988). The International Guidelines would also draw on the domestic Vertical Restraint Guidelines, but these were withdrawn on August 10, 1993. See Anne K. Bingaman, Assistant Attorney General, Antitrust Division, Address Before the Antitrust Section of the American Bar Association (Aug. 10, 1993), in 7 Trade Reg. Rep. (CCH) ¶ 50,110 (1993).

51. 15 U.S.C. §§ 4301-4305 (1988).

52. 15 U.S.C. §§ 4001-4053 (1988).

commerce.<sup>53</sup> In addition, arbitration proceedings for some international licensing disputes are provided by the Federal Arbitration Act.<sup>54</sup> These provisions, taken together have a relatively minor impact on the framework of antitrust legislation. Nevertheless, they must be consulted in specific cases.

More basic to determining the current state of the law of licensing is the approach of the Clinton administration to antitrust enforcement. There are some signs that there will be a return to a more active posture of enforcement. One indicator of change is the withdrawal by the Antitrust Division of the Vertical Restraint Guidelines on August 10, 1993.<sup>55</sup> This action follows the recommendation of *Report of the Special Task Force on Competition Policy*, of the ABA Section of Antitrust Law, which in addition to withdrawal of the old Guidelines recommended that "[f]uture vertical restraints cases should focus on conduct that appears to have consequences that could impair the competitive functioning of a relevant market."<sup>56</sup>

How enforcement policy will change remains to be seen, but it is clear that contemporary economic analysis of vertical restraints supports the case for a return to antitrust scrutiny of licensing practices. The contrast between the dominant economic approaches of the early 1980s and the mid-1990s analysis is marked. In 1985 a spokesman for the Reagan Antitrust Division stated, seemingly with some urgency, the need to reject the Nine No-No's when he said, "[t]he Second American Revolution is under way . . . . The job is not over, however. We must ensure that the revolution continues and grows. No other reform in the area of competition law is as important . . . . We must now storm the ramparts of unnecessary, unwise antitrust and misuse policy . . . ."<sup>57</sup>

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53. 15 U.S.C. § 6(a) (1988).

54. 9 U.S.C. § 1 (1988). The Convention on the Recognition and Enforcement of Foreign Arbitral Awards would also be applicable. See, e.g., *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985).

55. 4 Trade Reg. Rep., *supra* note 50, ¶ 13,105.

56. Caswell D. Hobbs III et al., *Report of the Special Task Force on Competition Policy*, 61 ANTITRUST L.J. 977, 990-91 (1993).

57. See Rule, *supra* note 44.

In a recent address, Richard H. Stern noted that this rhetoric overstated the role of the "Nine No-No's" as they were conceived and implemented by the prior administration. Stern, citing the above quotation, comments on it as follows:

That interpretation rests on the premise that the No-No's were a kind of *Restatement of the Law of Patent Licensing*, authored by the pre-Reagan

In 1985, the pervasive antitrust view of vertical restraints, as articulated by Judge Bork, deemed them as presumptively efficiency enhancing and, accordingly, not appropriate subjects of antitrust scrutiny.<sup>58</sup>

By the end of the Bush administration, there was apparently some change in perspective toward antitrust enforcement generally. In 1991, the head of the Antitrust Division expressed the view that some enforcement activity might be warranted against foreign cartels that had entered into agreements not to buy spare parts from United States manufacturers.<sup>59</sup> As of the end of 1992, the Clinton administration had not announced its antitrust policy.<sup>60</sup>

Despite the absence of an announced antitrust enforcement policy, it is clear that the foundation of legal and economic analysis, sometimes referred to as the Chicago School, that was the bedrock of enforcement policy in the Reagan-Bush presidencies, is no longer dominant.

As the underlying premises of the static economic model of a perfectly competitive market, upon which the pro-competitive characterization of vertical restraints was based, has come under analytical and empirical scrutiny of the current generation of industrial organization economists, refinements and adjustments are being made in the prior model.<sup>61</sup> Recent writers

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Antitrust Division. In this supposed *Restatement*, nine patent licensing practices were proscribed under the antitrust laws—indeed, declared per se illegal antitrust violations as a matter of substantive law. Nothing could be more removed from reality.

That is shown by what the Antitrust Division actually did during the 1970's . . . . Rather than relying on No-No status as a supposed badge of per se antitrust illegality, the Division brought a patent-antitrust suit only when it thought it could establish a substantial, actual lessening of competition in a relevant market. It then attempted to prove anticompetitive effects in the trial court (citing *United States v. Ciba-Geigy Corp.*, 508 F. Supp. 1118 (D. N.J. 1976)).

Richard H. Stern, *What Ever Happened to the Nine No-No's*, Address before the American Bar Association, Section of Patent, Trademark and Copyright Law 3-4 (Aug. 10, 1993). The point of the illustration is that in court the pre-Reagan Antitrust Division did not consider No-No status for a licensing practice to be outcome-determinative.

58. Robert H. Bork, *Vertical Restraints: Schwinn Overruled*, 1977 SUP. CT. REV. 171.

59. Paul M. Barrett, *Agency Wants Bush to Extend Antitrust Law*, WALL ST. J., Dec. 30, 1991, at A3.

60. See Hobbs, *supra* note 56, for a review of the question of the role of antitrust in the contemporary economic national and international setting.

61. DENNIS W. CARLTON & JEFFREY M. PERLOFF, *INDUSTRIAL ORGANIZATION*

have modified the earlier assumptions of the decisional processes of firm managers by taking transaction costs into account.<sup>62</sup> While the Chicago School should be credited both with contributing a critical perspective of the conventional economic wisdom of the 1950s and with bringing some necessary modification in analysis and policy, more recent economic scholarship is now modifying many of the Chicago School premises. Its sweeping conclusion that enhanced consumer welfare and allocative efficiency are always to be derived from vertical restraints are, in turn, being examined and refined by the scholarship of the 1980s and 1990s.<sup>63</sup>

While the dominant voices of the Chicago School were legal scholars, the analysis and refinement of their work has been accomplished by the economists specializing in the field of industrial organization. Beginning in the mid-1980s these economists began to refine the economic models underlying the antitrust analysis of vertical restraints. Thus, Comanor wrote,

When vertical restraints are used to promote the provision of distribution services, the critical issue for antitrust purposes remains whether consumers are better served by lower prices and fewer services or by higher prices and more services . . . . Because vertical restraints can either enhance or diminish consumer welfare . . . it is tempting to apply the rule of reason analysis on a case-by-case basis . . . . Yet it is no easy task to determine whether particular restraints increase or decrease efficiency: the answer in each case depends largely on the relative preferences of different groups of consumers.<sup>64</sup>

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ch. 20 (2d ed. 1994); SCHERER & ROSS, *supra* note 13.

62. See JEAN TIROLE, *THE THEORY OF INDUSTRIAL ORGANIZATION* 423-59 (1991); see also OLIVER E. WILLIAMSON, *MARKETS AND HIERARCHIES* 1-14 (1975).

63. For an example of the Chicago School's analysis of vertical restraints, see Posner, *supra* note 43.

64. William S. Comanor, *Vertical Price-Fixing, Vertical Market Restrictions, and the New Antitrust Policy*, 98 HARV. L. REV. 983, 1001 (1985); see also Richard E. Caves, *Vertical Restraints in Manufacturer-Distributor Relations*, in *ANTITRUST AND REGULATION* 29 (R. Grieson ed., 1986). Caves characterizes the manufacturer-dealer relationship as:

[A] subtle context in which the effects of alternative bargains between the manufacturer and retailer are determined . . . . [There are] consequences for both intrabrand and interbrand competition . . . that vary from product to product, depending on the cost structures of the retailers, the dimensions of nonprice rivalry available to them, and all structural conditions of the manufacturer's market . . . .



Similarly, Scherer and Ross, leading industrial organization economists, urge the need for a dynamic model in understanding the "free rider" justification for all vertical restraints. They state,

most of the presale service implied in . . . [the free rider assumption] is unnecessary when the customer already knows what she wants and why . . . . [M]ost of the goods sold in supermarkets, clothing stores, furniture outlets, and much else are ruled out . . . . [T]he free-riding argument applies mainly for purchases of reasonably high value.<sup>65</sup>

Other economists, reviewing the model of the 1980s that posited perfect competition at the producer level, conclude that vertical restraints analysis should assess, rather than assume, the character of competitive relationships at the producer level.<sup>66</sup> Other investigators have put this point affirmatively, stating that

producers' competition is in fact a crucial element for the analysis of vertical arrangements . . . . [When] several producers are imperfectly competing at the upper level, then vertical restraints may serve to facilitate collusion . . . . [C]ontractual arrangements may be efficient, in . . . that joint profits are higher, but the gains to the producers and the distributors are at the expense of consumers. Vertical restraints may thus not be socially desirable.<sup>67</sup>

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*Id.* at 46.

65. SCHERER & ROSS, *supra* note 13, at 551-52.

66. Patrick Rey & Jean Tirole, *The Logic of Vertical Restraints*, 76 AM. ECON. REV. 921 (1986); see also Benjamin Klein & Benjamin M. Murphy, *Vertical Restraints as Contract Enforcement Mechanisms*, 31 J.L. & ECON. 265 (1988). They criticize the Chicago School's view of vertical restraints as follows: "The standard economic analysis of vertical restraints is fundamentally flawed. Vertical restraints, by themselves, do not create a direct incentive for retailers to supply desired services." *Id.* at 266. Another critic notes: "It is a long-standing but deeply flawed assumption that in the absence of a cartel the markets downstream from the manufacturer are close enough to being . . . perfectly competitive . . . ." Robert L. Steiner, *Intrabrand Competition—Stepchild of Antitrust*, 36 ANTITRUST BULL. 155, 200 (1991). Steiner also criticizes the premise that restricting intrabrand competition has a salutary consequence as follows: "[T]here is no basis for a sweeping generalization that the net welfare effect of stifling intrabrand competition and stimulating interbrand competition will be favorable." Robert L. Steiner, *Sylvania Economics—A Critique*, 60 ANTITRUST L.J. 41, 44-45 (1991).

67. Patrick Rey & Joseph Stiglitz, *Vertical Restraints and Producers' Competition*, 32 EUR. ECON. REV. 561, 562 (1988).

Unlike the Chicago School writers, current economic scholarship applies empirical techniques to the basic premises about price and output decision by firm managers.<sup>68</sup> One such study concluded from an examination of the record in a litigated case that the stated reliance on the "free rider" problem was better characterized as an abuse of market power.<sup>69</sup> The trend toward empirical verification of antitrust issues will almost certainly continue, and as is the nature of intellectual activity, the broad generalizations of the earlier doctrines will yield and be reshaped by this critical commentary.

The antitrust scholarship of the 1990s abhors the absence of data. As one investigator of vertical restraint analysis writes: "The current dearth of empirical evidence on the use of vertical restraints and of RPM in particular seriously limits the development of economic understanding of these practices . . . . This empirical vacuum is especially pressing in the policy setting, where the relative importance of the efficiency and inefficiency theories is fundamental."<sup>70</sup>

A leading antitrust authority sees the enforcement consequences of these changes as follows:

Today . . . antitrust policy is coming increasingly under the influence of 'post-Chicago' economics that is both more complex and more ambiguous than the Chicago School model.

This new complexity makes it much more difficult for enforcement agencies and particularly for courts to make judgments about whether a particular practice . . . is competitive or anticompetitive.<sup>71</sup>

A recent speech by the incumbent head of the Antitrust Division suggests that these changes in economic analysis will be a factor in enforcement policy. Thus, she said,

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68. See *infra* notes 69-70 and accompanying text.

69. Willard F. Mueller & Fredrick E. Geithman, *An Empirical Test of the Free Rider and Market Power Hypotheses*, 73 REV. ECON. & STAT. 301 (1991) (reviewing the record of *United States v. Sealy, Inc.*, 388 U.S. 350 (1967)).

70. Pauline M. Ippolito, *Resale Price Maintenance: Empirical Evidence From Litigation*, 34 J.L. & ECON. 263, 293 (1991). For an empirical study of pricing practices of differentiated products, see Robert E. Hall, *The Relation Between Price and Marginal Cost in U.S. Industry*, 96 J. POL. ECON. 921 (1988).

71. Herbert Hovenkamp, *Antitrust Policy After Chicago*, 84 MICH. L. REV. 213, 225 (1985).

[i]t has long been common, if not necessarily accurate, to speak of the tension between patent [and copyright] law and the antitrust laws . . . . The courts, with the general acquiescence of Congress, attempt to accommodate both policies, and the Antitrust Division recognizes the need to balance these concerns . . . . Recognizing the importance to innovation of an appropriate antitrust/intellectual property accommodation, and the inadequacy of intuitive and ad hoc responses, I have asked . . . my Economics Deputy to chair a task force . . . to review and reformulate the Division's policies on intellectual property and antitrust.<sup>72</sup>

It is interesting to speculate as to the impact of these suggested changes on traditional categories of antitrust scrutiny of intellectual property licensing.

#### IV. THE MISUSE DOCTRINE

It is most likely that the misuse doctrine will continue to serve as an independent equitable doctrine, rather than be absorbed by antitrust principles.<sup>73</sup> Indeed, a recent patent case underscores the danger of supplanting the misuse doctrine by antitrust analysis. In *Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>74</sup> Mallinckrodt, the patentee, sold its device that served as a container of radioactive material for application in diagnostic chest x-ray procedures to hospitals with a single use restriction. Defendant, Medipart, offered hospitals a recycling service for these devices at less than half the cost of a new one. For its fee, Medipart would refit the device, sterilize it and return it for re-use. When Mallinckrodt sued the recycler for patent infringement, the district court dismissed the suit on grounds of misuse and "first sale" doctrine. On appeal, the Federal Circuit reversed and remanded. Applying the antitrust analysis of vertical restraints, the Federal Circuit remanded the case for a review under rule of reason analysis according to antitrust principles.

Ignoring the misuse doctrine misconceives its origins as well as its function. The misuse doctrine addresses conduct

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72. Speech by Assistant Attorney General Anne K. Bingaman, Jan. 10, 1994, in TRADE REG. REP. (CCH) ¶ 50,128, page 48,998.

73. See *supra* text accompanying note 39.

74. 976 F.2d 700 (Fed Cir. 1992), rev'g 15 U.S.P.Q. 1113 (N.D. Ill 1990).

that is not within the purview of antitrust analysis, as for example, collecting royalties after the expiration of a patent or compulsory package licensing. Misuse arose as and remains an expression of public policy in administering the patent system; although it may overlap antitrust concerns, it should not be absorbed by principles of competition. The Federal Circuit's decision ignores long-standing Supreme Court precedent that the first sale ends the patentee's control over use.<sup>75</sup>

The vitality of the misuse doctrine is illustrated in its recent extension to the copyright regime. In *Lasercomb America, Inc. v. Reynolds*,<sup>76</sup> the Fourth Circuit extended the rationale of patent misuse to a copyright case, noting that copyright protection and patent law serve the public interest in a parallel manner. Lasercomb had created and copyrighted a software program for die-making, including in the diskette containing the copyrighted program a system of copy protection. The defendant, a licensee, overcame that internal security system, made multiple copies of a modification of the protected program, and began to sell that program in competition with its licensor. The Fourth Circuit reversed the trial court's holding of infringement. The appellate court found misuse in the license terms that extended the prohibition against developing competing products beyond the duration of copyright protection, as well as the extension of the scope of the restriction on creative activity to include all officers, directors, and employees of the licensee. Rejecting antitrust analysis, the court stated: "The question is not whether the copyright is being used in a manner violative of antitrust law . . . , but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright."<sup>77</sup>

## V. PRICE-FIXING

The new economic analysis will make no change in this basic fixture of antitrust law. A license by a holder of intellectual property rights that required, for example, a manufacturer-licensee to adhere to the licensor's stated resale price,

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75. *Keeler v. Standard Folding Bed*, 157 U.S. 659 (1895); *Hobbie v. Jennison*, 149 U.S. 355 (1893); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873).

76. 911 F.2d 970 (4th Cir. 1990).

77. *Id.* at 978.

remains subject to antitrust scrutiny and to the rule that price-fixing is illegal per se.<sup>78</sup> Earlier Supreme Court cases that have struck down patent licenses containing provisions that fixed the resale price of the licensee, will not be disturbed by the current economic analysis.<sup>79</sup>

## VI. TIE-INS

The antitrust law treatment of this practice reflects the widest swing of the doctrinal pendulum. Since the IBM card sorting decision in 1936,<sup>80</sup> the legal treatment of patent tie-ins has moved from the strictly illegal per se category, based on a presumption of market power attributable to the existence of the patent, to a modified rule of reason approach. Gone is the presumption that the existence of the patent establishes market power in an antitrust tie-in case.<sup>81</sup>

The antitrust treatment of tie-ins involving patents, will be also affected procedurally by a recent Supreme Court decision alleging a tie-in of service to parts. In *Eastman Kodak Co. v. Image Technical Services*,<sup>82</sup> the majority remanded the case for further discovery to determine the existence of market power in the derivative aftermarket of the tying product (services), after it was conceded that no such power existed in the primary product (photocopier) market.<sup>83</sup> Such an analysis is already required to be made of the tying product market of patented items, as a result of the legislative changes in the

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78. *Albrecht v. Herald Co.*, 390 U.S. 145 (1968); *Simpson v. Union Oil Co.*, 377 U.S. 13 (1964); *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 393 (1911). *But see* *Business Elec. Corp. v. Sharp Elec. Corp.*, 485 U.S. 717 (1988); *see also* STEPHEN F. ROSS, *PRINCIPLES OF ANTITRUST LAW* 224-314 (1993).

79. *United States v. Univis Lens Co.*, 316 U.S. 241 (1942); *Ethyl Gasoline v. United States*, 309 U.S. 466 (1940).

80. *International Business Mach. Corp. v. United States*, 298 U.S. 131 (1936).

81. *See supra* notes 48-49.

82. 112 S. Ct. 2072 (1992).

83. *Id.* Parenthetically, it may be noted that the majority's decision may be a precursor of a shift by the Court away from the vertical restraint analysis of the Chicago School. The opinion effectively rejects the trial court's acceptance of the defendant's theory that absent a showing of market power for the tying product (which was conceded), it was to be conclusively presumed that there could not be market power and a negative impact on interstate commerce in the tied product. Similarly, the Court reinstated a § 2 claim of monopolizing the sale of service for its machines. *See also* Herbert Hovenkamp, *Market Power In Aftermarkets: Anti-trust Policy and the Kodak Case*, 40 UCLA L. REV. 1447 (1993).

Patent Act made in 1988.<sup>84</sup> Accordingly, a patentee may lawfully apply a tie-in condition if the tying patent did not have a substantial market share in the market in which the patent operates. And further, the effect of the tie-in is not foreclosure of a substantial amount of interstate commerce.<sup>85</sup> Moreover, despite a showing of market power, the traditional defense of protecting product quality may be asserted.<sup>86</sup> The likely effect of the *Kodak* decision is to increase the burden on defendants in summary judgment proceedings in patent tie-in cases. To the extent that the *Kodak* decision rejected an economic model as proof of the absence of market power, defendants will be required to come forward with credible evidence in order to forestall findings of triable issues.<sup>87</sup>

Courts have traditionally followed the treatment of patent tie-ins in dealing with copyright restrictions.<sup>88</sup> However, the doctrine of copyright misuse, although noted in some opinions, has not achieved independent status in antitrust cases.<sup>89</sup> As to restrictive copyright license terms, such as tie-ins and other conditions, except price-fixing, the Supreme Court has traditionally followed rule of reason analysis. Some circuit courts have recognized the doctrine of copyright misuse as a defense to claims of illegal tying and licensing arrangements, although balancing misuse with other factors.<sup>90</sup> Copyright misuse, however, has been more frequently invoked exclusively in the copyright context as a defense to an action for infringement.<sup>91</sup>

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84. See *supra* text accompanying notes 45-49.

85. Assuming also the existence of a tie between two distinct products. See PHILLIP E. AREEDA, ANTITRUST LAW § 1702 (1991).

86. *United States v. Jerrold Elec. Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd*, 365 U.S. 567 (1961).

87. Kathleen M. Sullivan, *The Supreme Court, 1991 Term*, 106 HARV. L. REV. 22, 334 (1992); Warren S. Grimes, *Antitrust Tie-In Analysis After Kodak: Understanding the Role of Market Imperfections*, 62 ANTITRUST J. 277 (1994).

88. *United States v. Paramount Pictures*, 334 U.S. 131 (1948) (barring price-fixing by copyright holders by analogy to patentee).

89. *Broadcast Music, Inc. v. Columbia Broadcasting Sys.*, 441 U.S. 1 (1979) (reversing Court of Appeals holding that blanket licenses constituted both antitrust violations and patent misuse, without discussing patent misuse).

90. *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago*, No. 81-1333, 1982 WL 19198 (7th Cir. March 25, 1982); *United Tel. Co. v. Johnson Publishing Co.*, 855 F.2d 604 (8th Cir. 1988).

91. *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832 (Fed. Cir. 1992). For a discussion of the recent software cases, see, Charles R. McManis, *Intellectual Property Protection and Reverse Engineering of Computer Programs in*

Trademarks have been recognized as a distinct tying product and the prior presumption of market power that existed for patents had been extended to trademarks.<sup>92</sup> Although the 1988 amendment to Section 271 of the Patent Act is not applicable to trademarks, it is likely that the argument will be made that there be judicial extension of it to trademarks, an argument that is likely to be found persuasive. The current economic approach to vertical restraints seems better suited to identify material anticompetitive practices in terms of products in relevant markets, rather than by trademarks and tying analysis. Moreover, some courts had earlier avoided the tie-in issue in trademark cases by finding the trademark to be inseparable from its underlying product.<sup>93</sup> These two factors suggest that it is most unlikely that a presumption of market power would be inferred from the existence of a trademark in tie-in cases.

## VII. PATENT ROYALTY COMPUTATION

Although the Supreme Court has referred to patent misuse in a license that required computation of royalties in terms of products other than the patented products itself, that opinion did permit the convenience of the parties to countervail the conclusion of illegality. Moreover, the Court held that a total sales formula in itself, was not illegal.<sup>94</sup> Similar flexibility regarding output limitations in a patent license is reflected in a recent case.<sup>95</sup>

The practice of discriminatory royalties, in which the patentee charged different royalties to different licensees, is generally not held to be patent misuse or an antitrust violation.<sup>96</sup> There is, however, a case decided under Section 5 of the Federal Trade Commission Act that held illegal a licensor's structure

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*the United States and the European Community*, 8 HIGH TECH. L.J. 26, 44-48 (1993).

92. *Siegal v. Chicken Delight, Inc.* 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

93. *Krehl v. Baskin-Robbins*, 664 F.2d 1348 (9th Cir. 1982); *Principe v. McDonald's Corp.*, 631 F.2d 303 (4th Cir. 1980), *cert. denied*, 451 U.S. 970 (1981).

94. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

95. *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572 (Fed. Cir. 1990).

96. *USM Corp. v. SPS Technologies, Inc.* 694 F.2d 505 (7th Cir. 1982), *cert. denied*, 462 U.S. 1107 (1983).

of discriminatory rates, where the patentee also had a monopoly in the patented machine.<sup>97</sup> Accordingly, charging different royalties to several licensees should not be illegal where the differences reflect material economic differences in the licensor's costs of dealing with various licensees.

### VIII. TERRITORIAL RESTRICTIONS

Patent licenses that restrict the practice of the patent in a part of the United States are not unlawful.<sup>98</sup> Moreover, the patentee may license manufacture on condition of sale to stated customers.<sup>99</sup> Territorial restrictions that were held illegal were found to be part of a larger scheme of horizontal territorial limitation, a practice illegal per se under Section 1 of the Sherman Act.<sup>100</sup> Similarly, in *United States v. Sealy, Inc.*,<sup>101</sup> the Court held as illegal horizontal territorial division, a licensing arrangement of a trademark imposed by the licensor and agreed to by the licensees.

Kindred restrictions—field-of-use restrictions—permit a patentee to license the practice of the patent and to particularize the use by the licensee. In the leading case, a patent holder on sound amplifiers licensed one manufacturer for the theater market and another for the home radio receiver market, a practice found lawful by the Supreme Court.<sup>102</sup> Lower courts have generally upheld such restrictions, and where these restrictions have been subjected to antitrust scrutiny, rule of reason analysis has been applied.<sup>103</sup>

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97. *LaPayre v. Federal Trade Comm'n*, 366 F.2d 117 (5th Cir. 1966) (affirming in part and setting aside in part the order of the Federal Trade Commission); *Grand Caillou Packing Co.*, 65 F.T.C. 799 (1964).

98. *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436 (1940); *Miller Insituform, Inc. v. Insituform of N. Am., Inc.*, 605 F. Supp. 1125 (M.D. Tenn. 1985).

99. *In re Yarn Processing Patent Validity Litig.*, 541 F.2d 1127 (5th Cir. 1976) *cert. denied* sub nom, *Lex Tex Ltd., Inc. v. Univ. Textured Yarns, Inc.*, 433 U.S. 910 (1977); *SCM Corp. v. Radio Corp. of America*, 318 F. Supp. 433 (S.D.N.Y. 1970).

100. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).

101. 388 U.S. 350 (1967).

102. *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175, *aff'd on reh'g*, 305 U.S. 124 (1938).

103. *See Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 176 F.2d 799



## IX. PACKAGE LICENSING

The practice by an intellectual right holder of licensing several or all of the patents or copyrights may pose an anti-trust problem. The practice has the potential of permitting the holder of one valuable right to condition the license for that patent or copyright on the taking of inferior or undesired rights, a practice held to be a violation of Section 1 of the Sherman Act in *Loew's*, the "block booking" case.<sup>104</sup> As to patents, the 1988 amendment to Section 271(d)(5) of the Patent Act, forecloses such a holding as to a patent, absent proof that the licensor actually has market power in the relevant market for the product of the "tying" patent.<sup>105</sup>

One further variable needs to be taken into account in undertaking to assess the likely nature of antitrust enforcement activity relating to intellectual property licensing. That variable is the function of the Court of Appeals for the Federal Circuit as a forum with exclusive jurisdiction over appeals in patent cases.<sup>106</sup> This new appellate forum, designed to facilitate uniformity in the application of patent principles, is required to look to the law of the various circuits in cases involving the antitrust aspects of patent cases. Thus, uniformity in this subset of patent law will be slow to evolve, notwithstanding changes in the economic analysis of vertical restraints. As one commentator has put the dilemma,

Cases on the antitrust/patent interface provide a good example of how difficult it will now be to incorporate doctrinal changes into the law. Competition policy has undergone substantial re-examination which should have important ramifications for both antitrust and patent law . . . . [Yet] the CAFC must view the changes in antitrust law filtered through the lens of the regional circuits.<sup>107</sup>

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(1st Cir. 1949), *aff'd*, 339 U.S. 827 (1950); *Turner Glass Corp. v. Hartford Empire Co.*, 173 F.2d 49 (7th Cir. 1948), *cert. denied*, 338 U.S. 830 (1949).

104. *Broadcast Music, Inc. v. Columbia Broadcasting Sys.*, 441 U.S. 1 (1979) (blanket license of multiple copyright remanded for rule of reason analysis); *United States v. Loew's, Inc.*, 371 U.S. 38 (1962).

105. See *supra* note 49 and accompanying text.

106. See generally Rochelle C. Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1 (1989).

107. *Id.* at 43.

## X. CONCLUSION

While antitrust enforcement policy of intellectual property licensing is a small part of the competition policy for the entire economy, it is likely to be the more visible segment. As the health care issue moves through the legislative process, it is foreseeable that the cost of pharmaceutical compounds, most of which are patented and distributed under licenses, will be a topic of discussion. If the cost of drugs becomes a hotly debated topic, antitrust of pricing and licensing practices are likely to result.

