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COERCIVE PATENT PACKAGE LICENSING— THE NEED FOR A RULE OF REASON

When examining the law of patents, one may be struck by the image of an independent artisan-inventor forging this country's technological progress. Indeed, patents historically have played a valuable role in stimulating technological development; moreover, when properly aligned with the various antitrust statutes, the patent law also can be a positive force in promoting competition.¹ However, like the image of the inventor, the compatibility between the antitrust and patent laws is more mythical than real.² Coercive package licensing of patents presents a classic example of this conflict.

A patent is a 17-year, constitutionally mandated³ grant of Congress which confers upon the grantee a monopoly in his invention.⁴ Underlying the invocation of the patent protection are several policy considerations. First, the guarantee of a monopoly provides the inventor with incentive to invest the time, money and energy essential to the discovery or creation of new technology. Second, patent protection encourages dissemination and exchange of technology which otherwise might remain sequestered as a trade secret. Finally, a patent possesses

1. See generally Frost, *Patents and Antitrust Laws—Thoughts on Competitive Principle and Application to Certain Topics*, 10 ANTITRUST BULL. 315 (1964); Turner, *Patents, Antitrust, and Innovation*, 12 ANTITRUST BULL. 277 (1967).

2. Justice Rutledge, dissenting in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 452 (1945) noted the potential conflict between the essential roles which the antitrust and the patent law play in the functioning of our capitalistic economy. He recognized . . . the fundamental problem of accommodating the provisions of the patent laws to those of the anti-trust statutes. Basically these are opposed in policy, the one granting rights of monopoly, the other forbidding monopolistic activities. The patent legislation presents a special case, the anti-trust legislation the nation's general policy. Whether the one or the other is wise is not for us to determine. But their accommodation is one we must make, within the limits allowed to the judicial function, when the issue is presented.

3. U. S. CONST. art. I, § 8: "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."

4. The present patent law is contained in Title 35 of the United States Code, and provides in part that:

Every patent shall contain . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . of the *right to exclude others* from making, using, or selling the invention throughout the United States
35 U.S.C. § 154 (1970) (emphasis supplied).

some attributes of personal property and therefore vests the owner with the rights of exclusion,⁵ suppression, or non-use;⁶ additionally, ownership affords the patentee the privilege of licensing others to use his invention.⁷

In contrast, the antitrust laws seek to prevent the growth of monopoly power and to inhibit business practices which unduly restrain trade.⁸ Rather than proscribing specific types of conduct, the statutes merely established broad general policies, leaving the courts to fashion appropriate rules for specific activities.⁹

In the context of an overall economic model, the broad purpose of the patent scheme—stimulating technological advances—is compatible with the basic aims of the antitrust law—promoting competition—but the specific methods of achieving these ends are potentially discordant. The antitrust statutes, while seeking to enhance competition, necessarily

5. This concept is reinforced by the patent law, which provides that "patents shall have the attributes of personal property." *Id.* § 261. Justice Holmes described it as "[p]roperty carried to the highest degree of abstraction—a right in rem to exclude a physical object or content." 1 HOLMES-POLLOCK LETTERS 53 (Howe 2d ed. 1961).

6. *See, e.g., Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908).

7. The patent law provides: "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. 35 U.S.C. § 261 (1970).

8. The pertinent antitrust laws are: (a) The Sherman Act, § 1, 15 U.S.C. § 1 (1970), declaring illegal "[e]very contract, combination . . . , or conspiracy, in restraint of trade or commerce . . ."; (b) The Sherman Act, § 2, 15 U.S.C. § 2 (1970), declaring illegal any act which constitutes a monopolization, attempt to monopolize, or combination or conspiracy to monopolize trade or commerce; (c) The Clayton Act, § 3, 15 U.S.C. § 14 (1970), proscribing any transaction in the form of a sale, lease or contract in goods (not services) which is conditioned upon the purchaser agreeing not to deal with the seller's (lessor's) competitor. Such conduct as concerted refusals to deal, exclusive dealings and tying arrangements fall within the province of this statute. As with the Sherman Act sections 1 and 2, there must be a showing of anticompetitive impact—a substantial lessening of competition or a tendency to create a monopoly in any line of commerce. 15 U.S.C. § 14 (1970); (d) The Federal Trade Commission Act, § 5, 15 U.S.C. § 45 (a) (1970), giving the FTC regulatory power to prevent use of "unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce."

9. In determining the specific types of conduct which are violative of the antitrust law the courts have drawn a distinction between reasonable and unreasonable restraints and thus have seized upon certain conduct which is deemed to be unreasonable per se. Per se violations, in turn, obviate any need to look beyond the conduct itself to determine whether the activity is justified or otherwise defensible. *See generally* C. HILLS, ANTITRUST ADVISER 7-25 (1971); C. KAYSER & D. TURNER, ANTITRUST POLICY 142-79 (1965); A. NEALE, THE ANTITRUST LAWS OF THE U.S.A. 1-20 (2d ed. 1970).

prevent the aggregation of market power which might restrain competition artificially. Conversely, the patent monopoly creates just such an artificial restraint. In an effort to resolve this conflict, judicially-created interfaces have evolved.¹⁰ Of particular concern is the exploitation involved in the sale or assignment of a particularly desirable patent when conditions are placed upon its assignment. This practice, which generally takes the form of package licensing, conditions the use of the desirable patent upon the licensing of another, usually, non-essential patent owned by the patentee.¹¹

PACKAGE LICENSING OF PATENTS—JUDICIAL DEVELOPMENT

Package licensing will escape judicial sanction where the licensee is able to obtain the patents individually or in a package, and questions of illegality arise only when the patents are coercively tied.¹² The requisite

10. Some of the areas treated by the courts are: price restricted licenses, *United States v. General Elec. Co.*, 272 U.S. 476 (1926); cross-licensing, *United States v. Line Material Co.*, 333 U.S. 287 (1948); use restricted licenses, *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175 (1938); patent settlements, *Standard Oil Co. v. United States*, 283 U.S. 163 (1931); and patent accumulations, *United States v. Hartford-Empire Co.*, 323 U.S. 386 (1945). See generally Comment, *The Patent Antitrust Balance: Proposals for Change*, 17 VILL. L. REV. 463 (1972). The reconciliation of patent and anti-trust laws is an ongoing process. Some writers have argued that there is a basic theoretical compatibility between these two bodies of law obviating a need for continuous and close judicial scrutiny, but the courts seem inclined to disagree. See generally Folk, *The Relation of Patents to the Antitrust Laws*, 13 LAW & CONTEMP. PROB. 278 (1948); Nicolson, *Misuse of the Misuse Doctrine in Infringement Suits*, 9 U.C.L.A.L. REV. 76 (1962).

11. See, e.g., *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 239 F. Supp. 51 (N.D. Ill. 1965); *Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963), *aff'd*, 327 F.2d 497 (1964). The package license agreement commonly is accompanied by percent-of-sales royalty terms, whereby the royalty is measured as a percentage of the total sales of the license. See, e.g., *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). Although frequently found together, package licensing and percent-of-sales royalty arrangements involve separate patent misuse questions. Percent of total sales royalty provisions were recently upheld as a valid counting device in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), as long as the agreement is reached as a matter of negotiation and convenience. Only where the royalty base is coerced is there a patent misuse. Even where there is no extension of the royalty base to products not using the patent's teaching, there may be the problem raised in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). In *Brulotte*, the license provided for the payment of royalties after, as well as before, the expiration date of the patent. Such an arrangement was condemned as an unlawful use of the patent's leverage to extend the monopoly power beyond the scope of the patent.

12. See generally Adams, *The Legality of Compulsory Package Licensing of Patents*, 12 ANTITRUST BULL. 773 (1967).

coercion may be evidenced by a refusal to deal¹³ or simply by the licensee's lack of available alternatives.¹⁴ Courts have subjected coerced tying, in connection with package licensing, to the same proscriptive rules which are applied to other tying arrangements.

The Supreme Court defined tying arrangements in *Times Picayune Publishing Co. v. United States*¹⁵ as (1) the coerced purchase of (2) a dominant tying product and (3) a distinct tied product with (4) resultant anticompetitive injury.¹⁶ Where these four conditions coalesce, such arrangements are deemed to be "unreasonable per se,"¹⁷ thus eliminating any need for an elaborate economic analysis or inquiry concerning reasonableness or possible justification.¹⁸ As recently as 1969, the Court reaffirmed its disinclination to look beyond the fact of a coerced tying arrangement,¹⁹ and Justice Frankfurter's conclusion in *Standard Oil of California v. United States*²⁰ that "[t]ying agreements serve hardly any purpose beyond the suppression of competition," remains typical of the Court's general approach.

The Dominant Tying Product

In *Northern Pacific Railway Co. v. United States*,²¹ the Court explained and broadened the meaning of the dominant tying product—the second element in the *Times-Picayune* formula. The formula was interpreted as requiring merely "sufficient economic power to impose an appreciable restraint on free competition in the tied prod-

13. See, e.g., *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678 (6th Cir. 1966); *American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir.), cert. denied, 361 U.S. 902 (1959).

14. *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 388 F.2d 25 (1967).

15. 345 U.S. 594 (1953).

16. *Id.* at 608-10.

17. In an earlier opinion, the Court in *International Salt Co. v. United States*, 332 U.S. 392, 396 (1947) authoritatively clothed tying arrangements in a per se rule by stating that ". . . it is unreasonable, per se, to foreclose competitors from any substantial market."

18. Cf. *United States v. Loew's Inc.*, 371 U.S. 38, 45 n.4 (1962): "[I]t should seldom be necessary in a tie-in sale case to embark upon a full scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share of that market." As to the effect of a per se rule of illegality vis à vis price-fixing agreements, see *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940).

19. *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969).

20. 337 U.S. 293, 305-06 (1949).

21. 356 U.S. 1 (1958).

uct”²² *United States v. Loew's Inc.*²³ further expanded the dominance test, holding that actual market power need not be shown, but could be presumed from the tying product's uniqueness or desirability to consumers.²⁴ Although *Loew's* involved the tying of copyrighted motion picture films, dicta indicates that the Court would consider patents sufficiently similar to merit identical treatment:

The requisite economic power is presumed when the tying product is patented or copyrighted. . . . Since one of the objectives of the patent laws is to reward uniqueness, . . . the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.²⁵

Thus, where patent tying is involved, a showing of dominance is unnecessary; the uniqueness of the patent will satisfy the requirement of dominance, and the resultant anticompetitive injury will be presumed.

Such a result was presaged by the Court of Appeals for the Third Circuit in *American Securit Co. v. Shatterproof Glass Corp.*,²⁶ which rendered a sweeping per se condemnation of coercive package licensing of patents.²⁷ The court failed, however, to examine the nature of the patents involved²⁸—a factor which apparently was not deemed material by the court in its application of the per se rule.

Four years after the opinion in *Loew's*, however, the Court of Appeals for the Ninth Circuit, in *International Manufacturing Co. v. Landon, Inc.*,²⁹ distinguished *American Securit* on the basis of the nature of the patents involved; *Landon* involved blocking patents (patents which are so interrelated that they could be marketed

22. *Id.* at 11.

23. 371 U.S. 38 (1962).

24. *Id.* at 45.

25. *Id.* at 45-46.

26. 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959).

27. "Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result." 268 F.2d at 777.

28. "We point out that not a single one of the patents . . . is in the record before us." *Id.* at 776.

29. 336 F.2d 723 (9th Cir. 1964), *cert. denied*, 379 U.S. 988, *rehearing denied*, 380 U.S. 938 (1965).

successfully only when used together), whereas *American Securit* was cited as involving competing patents (patents which compete with each other in the same relevant market).³⁰ Tying of competing patents in one package clearly violates the antitrust purpose of enhancing competition, but blocking patents were viewed by the *Landon* court as compatible with the competitive thrust of the antitrust laws since, practically, the fruits of neither patent could be marketed without the other. From an economic standpoint, tying the two patents was found to be justified. The *Landon* court's attempt to distinguish *American*

30. Patents may be categorized on the basis of their relationship with each other—blocking, competing, and complimentary. These relationships are often crucial in determining whether the patentee has exceeded the bounds of his monopoly grant and thereby misused his patent. A blocked patent is one whose production and use would infringe at least in part upon a prior, unexpired patent. The common situation arises when there is both a basic patent, and a subsequent refinement or variation which is sufficiently novel to be patentable. Since the privilege given under the patent law is only a negative "right to exclude others from making, using, or selling," 35 U.S.C. § 154 (1970), and not an affirmative right to make, use, or sell, the patentee cannot use the improvement to the extent that a prior patent would be infringed. Neither can the prior patentee or his assigns use the improvement or adaptation of the basic patent. Under such circumstances, the patents are said to be blocking. The rule for determining whether patents are blocking is a pragmatic standard of marketability—can one patent be successfully marketed without the other? In *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723 (1964), *cert. denied* 379 U.S. 988 (1965), the two patents in question—one covering devices for skimming and filtering swimming pool water and the other for vacuuming the pool—were found sufficiently blocking so that "[n]o commercially feasible device could be manufactured under one of the patents without infringing the other." *Id.* at 720. Presumably, no one would either manufacture, sell or use the basic swimming pool system without both devices—one to purify the water itself and remove debris from the water's surface and the other to clean the sides and bottom of the pool.

Competing patents, on the other hand, are ones whose grants cover the same or similar process or product, but which can be arrived at by different patentable methods. A competing patent situation exists where there is competition between the processes or products flowing from the patents, and should necessarily be measured in terms of relevant market power of each resultant process or product. An analysis of market power, however, is a complex and inexact endeavor at best. See P. AREEDA, *ANTITRUST ANALYSIS* 135 (1967). For this apparent reason, the courts have used the concept of competing patents thus far only as a means for distinguishing blocking patents, the latter being set aside for special consideration.

Complimentary patents technically exist only where one patent is commercially useless without the other. However, since a patent generally will not be granted if the invention has no utility, this situation is rare. Courts have instead used the term to indicate several patents, each of which is valid and non-blocking, but which can also be combined to form a distinct, salable product or process. See generally Goller, *Competing, Complimentary and Blocking Patents: Their Role in Determining Antitrust Violations in the Areas of Cross-Licensing, Patent Pooling and Package Licensing*, 50 J. PAT. OFF. Soc'y 723 (1968).

Securit, however, leaves an unresolved conflict among the circuits³¹—a conflict which has been further compounded in other recent decisions. The Sixth Circuit,³² for example, has recognized the blocking patent exception of *Landon*,³³ whereas the Seventh Circuit³⁴ has aligned itself with the Third Circuit's per se approach of *American Securit*.

Although the Supreme Court has yet to confront directly the question of coercive package licensing of patents, its dictum in *Loew's* is generally considered so persuasive, at least where non-blocking patents are involved, that most litigants do not vigorously contest the point. The protracted *Zenith Radio Corp. v. Hazeltine Research, Inc.*³⁵ litigation is illustrative. There, the district court found patent misuse from the patentee's coercive package licensing as well as from its percent-of-sales royalty base formula. The patent packaging was analyzed as a standard tying arrangement, and both practices were enjoined.³⁶ On

31. The distinction made by the *Landon* court indicates that it viewed *American Securit* as involving competing patents. *Landon* thus must have construed *American Securit* as leaving open the question of blocking patents; but a close reading of the case does not sustain such a conclusion. Rather, the *American Securit* decision appears to stand for a blanket condemnation of all patent tying arrangements. In one respect this faulty distinction may have created more an illusion of a controversy than a real one. The *Landon* court, citing the *Times-Picayune* requirement that there be two distinct products, argued persuasively that blocking patents may reasonably be considered to constitute only a single distinct product. The advantage of this approach is obvious—there is simply no tying to be proscribed.

32. *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678 (6th Cir. 1966).

33. In *Rocform*, however, the absence of a termination clause in the licensing agreement was considered a patent misuse under the theory that the patentee was extending the payments beyond the life of the patent. In addition to the general equitable remedies of compulsory patent licensing and injunction against future antitrust violations, the doctrine of patent misuse has been developed as an equitable remedy to deter extensions of the patent monopoly beyond the scope of that deemed necessary, as a matter of public policy to spur invention. See generally Nicoson, *Misuse of the Misuse Doctrine in Infringement Suits*, 9 U.C.L.A.L. REV. 76 (1962).

When a court finds that a patent has been misused, the patentee will be denied relief in a patent infringement suit. *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465 (1957); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942); *Lincoln Elec. Co. v. Linde Air Prods. Co.*, 171 F.2d 223 (6th Cir. 1948). Moreover, denial of relief also may result from a misuse which contravenes the antitrust law. *Mercoid Corp. v. Mid-Continental Inv. Co.*, 320 U.S. 661 (1944); *Sylvania Ind. Corp. v. Visking Corp.*, 132 F.2d 947 (4th Cir. 1943). Although a finding of a patent misuse does not result in permanent forfeiture of the patent, it does present an absolute defense to an infringement action by the patentee.

34. *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 388 F.2d 25 (7th Cir. 1967).

35. 395 U.S. 100 (1969).

36. It is noteworthy that here the coercion was not an "all or none" refusal to deal, but an offer of more favorable terms for the package than for any single patent or

appeal, the Seventh Circuit affirmed, holding that coerced patent packaging was a "misuse *per se*."³⁷ On appeal to the Supreme Court, the patentee did not challenge that aspect of the decision;³⁸ there was, from the record, little doubt in the minds of Court or counsel that coercive packaging of patents would, if challenged, be found an unjustifiable patent misuse.

Thus, it can be concluded that coercive patent packaging is deemed to be unreasonable *per se* as a form of tying arrangement. The courts will not look to the nature of the patents except in a few jurisdictions where a narrow exception is indulged for patents which are "blocking" and are commercially useless unless jointly exploited. As a consequence, no inquiry is made into the reasons or justifications for package licensing or the potential anticompetitive impact. Rather, the courts seem satisfied with Justice Frankfurter's rationalization that, since such tying "serve[s] hardly any purpose beyond the suppression of competition,"³⁹ it should necessarily fall. This formulation has merit in situations where a unique or commercially dominant item is tied to a distinct *product*,⁴⁰ because anticompetitive restraints almost invariably will ensue in the market of the tied product. But the same result does not necessarily follow where the tied item is a *patent*. In some instances, it is possible that countervailing interests will outweigh the anticompetitive impact; moreover, anticompetitive effects may be simply nonexistent.

PACKAGE LICENSING OF PATENTS—ECONOMIC ANALYSIS

There are many acceptable reasons for a patentee to elect to grant a license rather than to exploit the patent himself.⁴¹ The patentee also

smaller group of patents offered in the package. The court found such a practice to be economic coercion just as repugnant as the refusal to deal. *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 239 F. Supp. 51 (N.D. Ill. 1965).

37. *Hazeltine Research, Inc. v. Zenith Radio Corp.*, 388 F.2d 25, 34 (7th Cir. 1967).

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

39. *Standard Oil of Cal. v. United States*, 337 U.S. 293, 305 (1949).

40. *United States v. Loew's, Inc.*, 371 U.S. 38 (1962); *Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958); *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953); *International Salt Co. v. United States*, 332 U.S. 392 (1947).

41. A patentee may be willing to exchange patent royalties for a license grant because he lacks adequate production capacity to meet the potential market demand; or because he wishes to discourage others from "inventing around" his patent by granting them a license; or, because he is unwilling or unable to assume the risk of exploiting a new market by himself. He may also be motivated by doubt of the validity or coverage of the patent. See generally *Donnem, The Antitrust Attack on Restrictive Patent License Provisions*, 14 ANTITRUST BULL. 749 (1969); *Baxter, Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267 (1966).

may have reasonable justification for requiring a package licensing agreement. The most obvious reasons, however, are often the most blatantly anticompetitive and fall, rightfully, within the blanket condemnation of tying arrangements. It is submitted, however, that at least two general fact situations present common instances where package licensing is justifiable. Although it is recognized that most package licensing schemes are inherently harmful, the existence of sound economic bases for other uses of package licensing should militate against automatic proscription by mere reference to per se reasoning, and courts should examine varying fact situations individually.

Patents Competing with the Tied Patent

Suppose that *A*, an inventor, owns two patents: *Y*, a dominant highly desirable and commercially successful patent, and X_1 a distinct patent, also commercially useful. *B*, another inventor, owns patent X_2 , which competes with patent X_1 . Assume X_1 and X_2 , although different patents, are nevertheless competitive and equally interchangeable by a manufacturer, who desires a license under either patent, but not both. The manufacturer may undertake a licensing agreement with either *A* or *B*, whichever patentee will give him the better terms. The resulting competition will, predictably, lower the royalty price and inure to the public benefit in the form of lower ultimate costs. If, however, *A* uses his dominant patent, *Y*, as leverage to coerce the manufacturer into taking patent X_1 , to the exclusion of *B*'s patent X_2 , ultimate costs may be raised. This kind of tying arrangement exhibits precisely the type of anticompetitive effects which the courts condemn and it is beyond question that such attempts to extend the patent monopoly beyond its intended scope should be proscribed.⁴²

Forcing Licensee to Pay for Useless Patents

Forced licensing of useless patents is clearly abusive, but the resulting anticompetitive impact is probably de minimus. A licensee will probably pay no more for a commercially feasible patent which is tied to a useless patent than he would for the commercially feasible patent alone. But anticompetitive impact is presumed under the Supreme Court's dic-

42. For instance, the tying of copyrighted films in *United States v. Loew's, Inc.*, 371 U.S. 38, 44-45 (1962) was similarly proscribed because such arrangements may "force buyers into giving up the purchase of substitutes for the tied product . . . and . . . may destroy the free access of competing suppliers of the tied product to the consuming market. . . ." See *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 459 (1940).

tum in *Loew's*, and, therefore, such a tying arrangement would be per se illegal.⁴³

Forcing Licensee to Pay for Patents of Questionable Validity

Again, as above, it should be presumed that a licensee would pay no more for a valid patent plus one of questionable validity than he would for the valid patent alone. Arguably, there is no anticompetitive impact in terms of price or exclusion of competitors. Formerly, the doctrine of licensee estoppel,⁴⁴ which prevented the licensee from challenging the validity of his licensor's patent, could be viewed as an anticompetitive force in this situation. Thus, in tying a valid patent with one subject to challenge, the patentee could shift the strength of one patent to another, thereby eliminating a party presumably having expertise concerning the patent and who, therefore, would be exceptionally competent to challenge the patent's validity.⁴⁵ Since the concept of licensee estoppel, based on the equitable doctrine of unclean hands, has been overruled in principle,⁴⁶ there is little or no anticompetitive injury where the tied patent is of questionable validity.

From an economist's standpoint, the tying arrangements in the second and third situations posited above would not be anticompetitive,⁴⁷ but under the per se rule, both are illegal. This result can be defended on the basis that such conduct should be disallowed merely because of its abusive character, irrespective of economic injury. There are, however, other circumstances where the similarity with other coercive tying arrangements becomes attenuated and where a finding of illegality

43. Even absent a showing of anticompetitive injury or use of the per se rule, such conduct may be illegal as "unfair methods of competition . . ." under the Federal Trade Commission Act, § 5, 15 U.S.C. § 45 (a) (1970).

44. This concept originated in *Kinsman v. Parkhurst*, 59 U.S. (18 How.) 289 (1855).

45. See generally Adams, *The Legality of Compulsory Package Licensing of Patents*, 12 ANTITRUST BULL. 773, 800 (1967); Comment, *The Overruling of the Licensee Estoppel Doctrine*, 48 N.C.L. REV. 391 (1970); Note, *Estoppel to Deny Validity—A Slender Reed*, 23 N.Y.U. INTRA. L. REV. 237 (1968).

46. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

47. Even in *Example #1*, there may be no real anticompetitive impact where the tying and tied product resulting from the patents are complimentary and, because of market demand, can be sold only in fixed proportion compliments. Professor Bowman, in his analysis of tied products, invokes a "nuts and bolts" example. If the seller has dominance over one or the other, and if he uses this as leverage to tie the two products, the economic power of the tied product will not actually be extended (in terms of the aggregate price of a nut and bolt), since the profit could have been maximized by simple monopolistic pricing of the tying product alone. Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19 (1957).

is of dubious utility. In these situations, application of the *Times-Picayune/Loew's* standard may be improper.

Patent Packaging of Questionable Commercial Utility

As a matter of rational business conduct, a patentee may require a single license agreement covering several valid patents which are of unknown commercial viability. The patents may be interrelated, although not necessarily in a dominant-subservient or blocking relationship. There is conceivably no economic harm in permitting the tying of such related patents, none of which is dominant,⁴⁸ as a convenient commercial expedient. There is no real extension of the patents' monopoly power, for the patentee surely could charge for each individual patent whatever the market would bear. Such an arrangement could (absent the per se rule) be justified as a valid risk-allocation device where the risk factor is the future commercial failure of any or all of the patents. With the percent-of-sales terms, the agreement would take on many of the attributes of a joint venture.

Commercial Necessity

As previously stated, there are strong policy arguments in favor of allowing package licensing of blocking patents. The *Landon* case recognizes that where no commercially feasible device can be produced without tying, it is better to have a coercive tying arrangement than to deny the invention's benefits to the public.⁴⁹ Coercive tying of patents also may be supported as an expedient to diminish administrative burdens on the patentee by avoiding multiplicity of license negotiations, surveillance and enforcement of licensing agreements, and infringement litigation.⁵⁰

48. "Dominant", as used herein, means that no particular patent is more desired or sought after by a prospective licensee than the next.

49. The *Landon* court made two substantial arguments in support of its reasoning. First under prior decisions, the concept had developed that an express license under one patent carries an implied license for any other patent owned by the licensor which would be infringed by use of the licensed patent. See *National Rubber Mach. Co. v. McNeil Mach. & Eng'r Co.*, 132 F.2d 436 (6th Cir. 1942); *But see Duval Sulphur & Potash Co. v. Potash Co. of America*, 244 F.2d 698 (10th Cir. 1957). The other argument is that blocking patents are not separate, but are a single product. *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 730 (9th Cir. 1964), *cert. denied*, 379 U.S. 988 (1965). See note 31 *supra* & accompanying text.

50. These arguments, however, would seem at best mere collateral points to support an already valid package licensing agreement, as their strength derives in part from the moribund rationale of *United States v. General Electric*, 272 U.S. 476 (1926), which

Moreover, several of the exceptions which have been established for the tying arrangement's per se restrictions in product cases suggest that there are justifications which may be useful in patent tying cases. In *United States v. Jerrold Electronics Corp.*,⁵¹ for example, a tying arrangement was held temporarily justifiable for a new business with a highly uncertain future. Significantly, it was also acknowledged that there may be instances where the per se rule should bend to other reasonable and non-anticompetitive business practices involving tying arrangements.⁵² In *Federal Trade Commission v. Sinclair Refining Co.*,⁵³ the Court, apparently impressed by a lack of anticompetitive injury, found that the defendant's conduct was not coercive because the plaintiff remained free not to deal in the tying product, as would a prospective licensee under package licensing. Finally, there is support for the practice of patent packaging in the related areas of cross-licensing⁵⁴ and patent settlements.⁵⁵ These economic and legal justifications combine to suggest that patent licensing practices should fall within a rule of reason analysis rather than a per se condemnation.

CONCLUSION

An accommodation must be reached between the patent law policy of rewarding inventiveness by granting a monopoly, and the antitrust policy of prohibiting extensions of this monopoly beyond the patent's grant. The judicial response to this dilemma, as with most antitrust questions, can best be viewed as a formulation of an answer along one of four distinct lines. First, the particular practice could be deemed so inherently anticompetitive that it is *absolutely illegal per se*, as in the horizontal price fixing or territorial division cases.⁵⁶ Secondly, the prac-

held that a patentee may insist upon those "conditions of sale [which] are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." *Id.* at 490.

51. 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

52. See *Dehydrating Process Co. v. A. O. Smith Corp.*, 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961); Heyman, *Patent Licensing and the Antitrust Laws—A Reappraisal at the Close of the Decade*, 14 ANTITRUST BULL. 537, 541 (1969).

53. 261 U.S. 463 (1923).

54. *United States v. Line Material Co.*, 333 U.S. 287 (1948) (Cross licensing to promote efficient production is not unlawful so long as it is not accompanied by price fixing).

55. *Standard Oil Co. v. United States*, 283 U.S. 163 (1931) (Settlement of conflicting patent claims as an alternative to time consuming and expensive litigation is not in itself illegal).

56. *E.g.*, *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150 (1940).

tice could be regarded as generally anticompetitive, but warranted under limited circumstances and, therefore, *presumptively illegal per se*.⁵⁷ The third approach would apply a *rule of reason*,⁵⁸ recognizing that almost any transaction restrains trade and that only practices which restrain trade unreasonably are to be condemned. The last approach would state a rule of *presumptive legality*, holding the practice, absent any other antitrust violation, to be legal.⁵⁹

The coercive patent packaging cases have been classed as *presumptively illegal per se*, except for the narrow exception of blocking patents. This treatment has failed to recognize that there are variants in packaging schemes for patents that do not exist in other tying arrangements. The patent packaging question simply does not lend itself to such a mechanical approach. There are likely to be justifications and benefits to patent packaging which would outweigh any demonstrable economic injury. Nevertheless, adopting the *Loew's* dictum, patent packaging is presently under a more restrictive per se rule than product packaging. Yet most patent packaging schemes arguably exhibit potential for greater business justification and less net anticompetitive impact than product tying devices.

Such broad-brush application of the per se rule of illegality does not assist the general public because it may unduly inhibit otherwise valid and harmless licensing practices, thereby interfering unnecessarily with the functioning of the patent system. Further, there still remains the unresolved conflict between the *Securit* and *Landon* decisions regarding the blocking patents exception. The Supreme Court's silence further clouds the status of coercive patent packaging.

In order to establish a proper balance between the patent and antitrust laws (the function of both being the preservation and promotion of a competitive economic system), the logical response to coerced patent packaging should be the application of a rule of reason, where the focus would no longer be just upon the fact of coerced tying and resultant anticompetitive injury, as in *American Securit*, but also upon the countervailing benefits to the public and the business justifications which together may off-set the economic injury. The per se rule for tying *products* is not suitably superimposed upon the unique, and

57. *E.g.*, *United States v. Griffith*, 334 U.S. 100 (1948); *United States v. Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945).

58. *E.g.*, *Standard Oil Co. v. United States*, 221 U.S. 1 (1911).

59. *See, e.g.*, *United States v. Colgate & Co.*, 250 U.S. 300 (1919).

invariably more complex *patent* tying situation. It is submitted that utilization of the rule of reason as a keystone in any analysis of patent tying would best serve the need of balancing the interests sought to be protected by patent and antitrust laws.