# On The Convergence Of The Patent And Antitrust Statutes: Scm Corp.. V. Xerox Corp.

# COMMENTS

## ON THE CONVERGENCE OF THE PATENT AND ANTITRUST STATUTES: *SCM CORP. V. XEROX CORP.*

Case law concerning conflict between the patent and antitrust laws has increased dramatically in recent years.[1] The increase is in part the product of "the second patent crusade," a euphemism describing the ongoing willingness of the Justice Department and Federal Trade Commission to challenge court decisions that have drawn the line between the patent and antitrust statutes.[2] Private antitrust actions brought on principles of patent misuse, patent fraud, and patent related conspiracy have also added to the increase in case law.[3] The increase, however, is fundamentally the product of theoretical divergence between the patent

[1] *See* United States v. Westinghouse Elec. Corp., 648 F.2d 642, 645-46 (9th Cir. 1981) (United States challenge of validity, under antitrust laws, of territorially restricted licensing agreements); E.I. DuPont de Nemours & Co., [1976-79 Transfer Binder] TRADE REG. REP. (CCH) ¶ 21,407 (F.T.C. Complaints and Orders, No. 9108) (April 5, 1978) (F.T.C. challenge of patentee's monopoly position in market for patented chemical titanium dioxide); United States v. CIBA-GEIGY Corp., 1976-1 Trade Cas. ¶ 60,908, 68,961 (D.N.J. 1976) (United States challenge of patent licensing agreement containing provision forbidding bulk sales); notes 19-21, 23 & 48 *infra*.

[2] *See* Banner, *The Patent System and the Antitrust Laws: Stabilization of the Tensions?*, 49 ANTITRUST L.J. 41, 41-43 (1980) [hereinafter cited as Banner]; note 1 *supra*. Assistant Attorney-General Thurman Arnold launched the first patent crusade in 1938. *See* Banner, *supra*, at 41. The object of the first patent crusade was the elimination of the doctrine enunciated in United States v. General Elec. Co., 272 U.S. 476 (1926). W. BOWMAN, PATENT AND ANTITRUST LAW 184 (1973). In *General Electric*, the Supreme Court held that an owner of a patented article does not violate the antitrust laws by disposing of the article directly to consumers and fixing the price at which his agents transfer title. *See* 272 U.S. at 488. In subsequent decisions, however, the Court retreated from its position in *GE* and held resale price fixing schemes to violate the antitrust laws. *See* United States v. United States Gypsum Co., 333 U.S. 364, 389 (1948) (system of patent license agreements, entered into for purpose of fixing resale prices of product throughout industry, violate antitrust laws); United States v. Line Material Co., 333 U.S. 287, 314-15 (1948) (cross-licensing agreements between patentees of interdependent product patents, entered into for purpose of controlling prices at which finished product is sold, violate antitrust laws); United States v. Univis Lens Co., 316 U.S. 241, 252-53 (1942) (features of patent licensing system that operate to maintain resale prices on patented article violate antitrust laws); Ethyl Gas. Corp. v. United States, 309 U.S. 436, 455-57 (1939) (patent licensing system containing uniform conditions operating to maintain resale prices of patented fluid violate antitrust laws).

[3] *See, e.g.*, Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 104-05 (1969) (private antitrust action challenging policy of patent pool that permitted licensing of certain patents only in "package deal" that included numerous irrelevant patents); Walker Process Equip. Inc. v. Food Mach. and Chem. Corp., 382 U.S. 172, 173 (1965) (private antitrust action challenging validity of patent fraudulently obtained from patent office); Brulotte v. Thys Co., 379 U.S. 29, 30 (1964) (private antitrust claim challenging "system" licensing arrangement whereby patentees obtained royalties on activities occurring after expiration of applicable patents); Dunlop Co. Ltd. v. Kelsey-Hayes Co., 484 F.2d 407, 417 (6th Cir. 1973) (private antitrust claim challenging validity of territorially restricted licensing agreements).

and antitrust laws.[4] The antitrust laws, which prohibit the monopolization of any line of interstate or foreign commerce,[5] rest on the assumption that by maintaining a state of perfect competition, in which no single competitor has the ability to manipulate the market price of its goods, resources will be allocated to their most productive use.[6] The patent laws are based on an assumption expressed in the Constitution[7] that a policy which grants to authors and inventors a limited but exclusive right to their respective writings and discoveries will promote the progress of science and the useful arts.[8] The antitrust laws thus forbid possession of precisely that which the patent laws confer to encourage innovative activity, the power to monopolize by controlling prices or excluding competition.[9]

In *SCM Corp. v. Xerox Corp.*,[10] the Second Circuit Court of Appeals focused recently on the conflict between the antitrust laws and the patent laws.[11] In *SCM*, the Second Circuit considered whether a patent-holder's refusal to grant licenses under his patents constituted an antitrust violation.[12] The case involved a conflict that arose from a series of agreements between the Xerox Corporation (Xerox) and Battelle Memorial Research Institute (Battelle).[13] Through the agreements, Xerox became the owner of Battelle's patents covering the process of xerography approximately eight to ten years prior to the development

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[4] *See* notes 5-9 *infra*. Theoretical divergence between the patent and antitrust laws to some extent produces the legal conflicts involving the statutes. From a theoretical perspective, the willingness of public and private plaintiffs to bring patent-antitrust claims is a manifestation of this underlying theoretical divergence. *See* Ginsberg, *Antitrust, Uncertainty, and Technological Innovation*, 24 ANTITRUST BULL. 635, 678-80 (1979) [hereinafter cited as Ginsberg].

With respect to actions brought by the Federal Trade Commission and Justice Department, however, the increase is in part attributable to political and economic motivations. From a political perspective, the government's willingness to bring patent-antitrust claims is a manifestation of the tendency of public agencies to maximize their jurisdiction. *See* R. BARTLETT, ECONOMIC FOUNDATION OF POLITICAL POWER 21 (1973).

[5] *See* 15 U.S.C. §§ 1-31 (1976); *see* notes 19-21, 23 *infra*.

[6] *See* Ginsberg, *supra* note 4, at 640.

[7] *See* U.S. CONST. art. I, § 8, cl. 8. Section 8 confers upon Congress power to promote the progress of science and the useful arts by securing to authors and inventors limited but exclusive rights to their respective writings and discoveries. *Id.*

[8] *See* 35 U.S.C. § 154 (1976). Section 154 confers upon the patentee, for 17 years, the right to exclude others from making, using, or selling the invention. *See* note 48 *infra*.

[9] *Compare* 35 U.S.C. § 154 (1976) *with* 15 U.S.C. § 2 (1976). *See* notes 21 & 48 *infra*; United States v. DuPont & Co., 351 U.S. 377, 380 (1956) (in determining whether one has monopolized a given market, the ultimate question is whether one controls prices and competition therein).

[10] 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 50 U.S.L.W. 3765 (U.S., March 23, 1982).

[11] 645 F.2d at 1203.

[12] *Id.* at 1204-12.

[13] *Id.* at 1198; *see* note 14 *infra*.

of a relevant market for xerographic plain-paper copiers.[14] Xerography is a technique that permits quick and efficient duplication of printed pages upon sheets of ordinary, uncoated paper.[15] Once Xerox rendered xerography commercially practicable, the technique quickly displaced other methods of reproduction relying on conventional printing devices and photographic paper.[16] By reason of its patent ownership, Xerox enjoyed the position of being the world's only producer of xerographic, plain-paper copiers between 1960 and 1970.[17]

In 1973, SCM Corporation (SCM) brought an action in the Federal District Court of Connecticut charging that Xerox had willfully acquired and maintained monopoly power in a relevant market consisting of con-

[14] 645 F.2d at 1198. Xerox Corporation (Xerox) and the owner of the original xerographic patents, Battelle Memorial Reserach Institute (Battelle), entered into four agreements covering the xerography patents. *Id.* The parties entered into their first agreement in 1947. *Id.* Under the 1947 agreement, Battelle granted Xerox a non-exclusive and nonassignable license to use the xerographic patents in the manufacture of machines designed to produce less than twenty copies of a document. *Id.* Xerox agreed to pay Battelle an 8% royalty and to sponsor xerography research at Battelle in the amount of $25,000 per year. *Id.*

The second agreement, executed in 1948, eliminated the twenty copy limit and made Xerox's license exclusive throughout the United States. *Id.* In addition, the 1948 agreement imposed upon Xerox a duty to seek sublicensees under the patents, and provided that Xerox was to pay Battelle 62% of any royalties Xerox might obtain through such sublicensing. *See* SCM Corp. v. Xerox Corp. 463 F. Supp. 983, 992 (D. Conn. 1978), *aff'd* 645 F.2d 1195 (2d Cir. 1981).

The third agreement, signed in 1951, increased Battelle's minimum royalty payment and eliminated all territorial restrictions on Xerox's license. 463 F. Supp. at 992-93. Xerox's duty to seek sublicensees continued unchanged. 645 F.2d at 1198. Xerox and Battelle entered into their fourth agreement in 1956. *Id.* In exchange for 55,000 shares of Xerox stock, Battelle surrendered title to all of the original xerographic patents. *Id.* The conveyance extinguished Xerox'x duty to seek sublicensees under the second and third agreements. *Id.* at 1199. Xerox, in return for annually sponsoring $25,000 of xerography research at Battelle, obtained the right to receive all future xerographic patents and technology Battelle might develop. *Id.* In addition, the agreement transferred to Xerox in 1959 title to certain related patents that Battelle already had developed. *Id.*

[15] *See* 463 F. Supp. at 991-92; note 16 *infra.*

[16] 645 F.2d at 1197-98. Xerography's chief advantage over its predecessors, the mimeograph and the coated-paper copier, is its ability to reproduce images on ordinary paper without the use of chemicals or conventional printing devices. *Id.* In the xerographic process, complex patterns of light and darkness are transferred to a reusable photoconductive surface. *See* 463 F. Supp. at 991-92. The surface, storing the patterns in the form of electrical charges, is then brought into contact with particles of toner, a substance similar to ink. *Id.* The toner adheres to those portions of the surface that bear electrical charges until the surface is brought into contact with paper. *Id.* Transferred to the paper, the toner reproduces the original patterns of light and darkness without reliance on chemically-coated paper or ordinary modes of printing. *Id.*

[17] 645 F.2d at 1200. During the 1960s, Xerox produced both plain-paper copies and electrofax coated-paper copiers. *Id.* In 1964, following an infringement suit, Xerox granted SCM limited licenses to manufacture xerographic coated-paper copiers, but not plain-paper copiers. *Id.*

venience office copiers.[18] SCM alleged that Xerox's acquisition of the xerographic patents in 1956 violated section 1 of the Sherman Act[19] and section 7 of the Clayton Act.[20] In addition, SCM alleged that Xerox's continued holding of the patents and refusal to license anyone under them violated section 2 of the Sherman Act[21] and section 7 of the Clayton Act.[22] Finally, SCM alleged that Xerox's Machine Utilization Plan, a volume price discount arrangement, violated section 3 of the Clayton Act.[23] The complaint sought damages for the profits SCM would have made had Xerox not excluded SCM from the plain-paper copier market.[24]

The jury found that Xerox had violated sections 1 and 2 of the Sherman Act as well as section 7 of the Clayton Act by acquiring the xerographic patents in 1956 and thereafter refusing to license anyone under them.[25] Additionally, the jury found that Xerox's Machine Utilization Plan constituted a violation of section 3 of the Clayton Act.[26] The

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[18] 463 F. Supp. at 985. A relevant market is that part of commerce, consisting of trade in commodities that are reasonably interchangeable by consumers for the same purposes, monopolization of which may be illegal. See United States v. DuPont & Co., 351 U.S. 377, 395 (1957); J. VON KALINOWSKI, ANTITRUST LAWS AND TRADE REGULATION, § 8.02[2] (1981).

[19] 15 U.S.C. § 1 (1976). Section 1 of the Sherman Act declares illegal every contract, combination, or conspiracy in restraint of trade or commerce. *Id.*; notes 44-49 *infra*.

[20] 463 F. Supp. at 1004-06, 1000-02; *see* 645 F.2d at 1209-10, 1210-1211; 15 U.S.C. § 18 (1976 & Supp. IV 1980). Section 7 of the Clayton Act generally prohibits the acquisition of stock or assets when the acquisition's effect may be "substantially to lessen competition," or "to tend to create a monopoly" in any line of commerce. *Id.* The statute contains exceptions relating to common carriers, acquisitions made solely for the purpose of investment, and transactions consummated pursuant to the authority of certain federal agencies. *Id.* Violation of § 7 may occur either by acquiring, or continuing to hold, a given asset. *See* notes 50-56 *infra*.

[21] 15 U.S.C. § 2 (1976). Section 2 provides that anyone who shall monopolize, or attempt to monopolize, or combine or conspire with any person or persons to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be guilty of a felony. *Id.* Violation of § 2 may occur by either acquiring or continuing to hold a monopoly position in a given market. *See* notes 57-63 *infra*.

[22] 463 F. Supp. at 1006-15, 1002-04; *see* 645 F.2d at 1208-09, 1211-12; note 20 *supra*.

[23] 463 F. Supp. at 1015-20; *see* 645 F.2d at 1212-13; 15 U.S.C. § 14 (1976). Section 3 of the Clayton Act makes it illegal to lease, sell, or contract to sell patented or unpatented articles on the condition that the lessee or purchaser shall not use or deal in products of a competitor, where the effect may be substantially to lessen competition or tend to create a monopoly in any line of commerce. *Id.*; *see* note 26 *infra*.

[24] 463 F. Supp. at 986. In *SCM*, SCM sought damages for lost profits resulting from Xerox's refusal to license the plain-paper copier patents. *Id.* The alleged damages consisted specifically of the financial benefits SCM would have received if licensed under the patents, the losses SCM incurred in the placement of coated-paper copiers, and the losses SCM incurred in the placement of plain-paper copiers. *Id.*

SCM also sought far-reaching equitable relief. *Id.* at 985. Neither the district court nor the Second Circuit addressed SCM's equitable claims, however, because the district court severed the equitable claims at the outset of trial. *Id.* at 985. SCM did not desire to pursue the equitable claims until resolution of the damage issues. *See* SCM Corp. v. Xerox Corp., 474 F. Supp. 589, 591 (D. Conn. 1979).

[25] 463 F. Supp. at 1023-25; *see* 645 F.2d at 1201-02, 1208.

[26] 463 F. Supp. at 1026-27. Xerox's Machine Utilization Plan (MUP) offered three levels of billing discounts depending upon the number of copies made on the customer's leased Xerox machines. *Id.* at 1015. Because the customer could combine the number of copies

jury awarded SCM treble damages amounting to $111.3 million.[27] The district court ruled, however, that notwithstanding the jury's findings, Xerox's acquisition of and unilateral refusal to license under the patents in question could not be a basis for a monetary damage award.[28] Since the acquisition of patents for which there exists no relevant product market cannot constitute an agreement in restraint of trade, the court held that Xerox had not violated the antitrust laws by purchasing the patents in 1956.[29] As to Xerox's subsequent refusal to license the patents, the court held that while a refusal to license might be evidence of some other anticompetitive conduct, the need to accommodate the patent laws with the antitrust laws precludes the imposition of damage liability under section 2 of the Sherman Act for a unilateral refusal to license valid patents.[30] Since the prospect of paying treble damages to

made on any combination of Xerox machines in determining the MUP discount, SCM contended that the MUP had the effect of coercing Xerox customers into retaining Xerox's low-volume machines in order to enjoy the discount achieved on the high volume machines. *Id.* at 1016. In spite of the jury's finding that the MUP did have a coercive effect, the district court ruled that because undisputed evidence demonstrated that there was no causal relationship between MUP and the cancellation rate on low volume Xerox machines, the jury lacked a sufficient basis from which to conclude that MUP caused the lost profits claimed by SCM. *Id.* at 1018-20. The Second Circuit affirmed on the absence of a causal link between SCM's claim for lost profits and the MUP. 645 F.2d at 1213.

[27] 463 F. Supp. at 990; *see* 645 F.2d at 1197. The jury awarded treble damages pursuant to § 4 of the Clayton Act. 15 U.S.C. § 15 (1976). Section 4 provides that anyone who is injured in his business or property by reason of actions forbidden by the antitrust laws may sue in federal district court and recover threefold the damages he sustained plus the cost of suit. *Id.*

[28] 463 F. Supp. at 1020; *see* 645 F.2d at 1197. *See also* text accompanying notes 60-68 *infra.* Though entertaining serious doubts as to several of SCM's theories of liability, the district court sent the *SCM* case to the jury because of SCM's allegations that Xerox and several related entities had entered into an agreement to refuse to license the xerography patents. 463 F. Supp. at 994; *see* 645 F.2d at 1201. Because the alleged agreement, if proven, would constitute a classic violation of section 1 of the Sherman Act, the district court reasoned that the jury necessary to the resolution of the § 1 claim should also have the task of finding the facts necessary for a ruling on SCM's other theories of liability. 463 F. Supp. at 994; *see* 15 U.S.C. § 1 (1976); notes 44-49 *infra.* In spite of the jury's findings, which supplied the necessary factual elements to several of SCM's claims (other than the above-mentioned section 1 claim), the district court ruled that Xerox was not liable to SCM under the antitrust laws for any of its patent-related conduct. 463 F. Supp. at 1020; *see id.* at 1021-27 (jury answers to interrogatories). SCM did not pursue on appeal its claim that Xerox entered into an agreement with others to refuse to license the xerography patents. 645 F.2d at 1201-02.

[29] 643 F. Supp. at 1005, 1010; *see* 645 F.2d at 1209, 1211. The district court in *SCM* adjudged Xerox's acquisition of the Battelle patents lawful even though the agreement eliminated Xerox's duty under previous agreements to seek sublicensees. 463 F. Supp. at 1005. The court determined that it would be unwise to extend the antitrust laws to impose upon the acquirer of experimental patents the risk of assessing the likelihood that a relevant market might develop in the future. *Id.* at 1000. On appeal, the Second Circuit upheld the district court's finding that the policies underlying the patent system forbid the imposition of antitrust liability even though the development of the plain-paper copier market was forseeable at the time of the agreement. 645 F.2d at 1209-10; *see* text accompanying notes 37-49 *infra.*

[30] 463 F. Supp. at 1012-13.

potential competitors for the profits they might have earned had they received licenses would materially diminish the value of patents and thereby pose a grave threat to the objectives of the patent laws, the court concluded that the jury's findings were not a valid basis for an award of monetary damages.[31]

Finding on appeal that none of Xerox's patent-related conduct violated the antitrust laws,[32] the Second Circuit affirmed the district court's refusal to award monetary damages.[33] SCM advanced three lines of argument in attempting to overturn the district court decision. SCM argued that because Xerox's market dominance was reasonably foreseeable in 1956, Xerox's acquisition of the xerographic patents violated sections 1 and 2 of the Sherman Act as well as section 7 of the Clayton Act.[34] In addition, SCM alleged that Xerox's continued holding of the patents once the relevant product market came into existence violated section 7 of the Clayton Act.[35] Finally, SCM argued that the court should treat Xerox's unilateral refusal to license under the patents like any other refusal to deal by a monopolist and hold Xerox's conduct actionable under the antitrust laws.[36]

The Second Circuit rejected SCM's allegation that Xerox's acquisition of the patents violated section 2 of the Sherman Act.[37] Section 2 prohibits any monopolization, attempt to monopolize or conspiracy to monopolize interstate or foreign commerce.[38] SCM contended that an agreement to purchase patents that eliminates an existing potential for competition in a reasonably foreseeable economic market constitutes a violation of section 2 if the agreement results in the acquisition of monopoly power and imposes a restraint on trade that is greater than necessary to induce the purchaser to develop and market the product involved.[39] The court declined to adopt the proposed rule, recognizing that

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[31] *Id.* at 1013-14. In *SCM*, the district court noted that a refusal to license patents might constitute an antitrust violation sufficient to warrant equitable relief. *Id.* at 1013. Neither the district court nor the Second Circuit had need to consider the possibility of equitable relief, however, because at the time of suit Xerox already was offering nonexclusive licenses at no royalty under its plain-paper copier patents. 463 F. Supp. at 994; *see* 645 F.2d at 1201. Xerox agreed to license its plain-paper copier patents in a consent decree that terminated an action brought by the Federal Trade Commission in 1969. *See* [1970-73 Transfer Binder] TRADE REG. REP. (CCH) ¶ 20,164 (F.T.C. Complaints and Orders); 86 F.T.C. 364, 369 (1975) (consent decree).

[32] 645 F.2d at 1197.

[33] *Id.* The *SCM* court declined to comment on the district court's suggestion that equitable relief might be available to a plaintiff in SCM's position because at the time of suit Xerox had consented to license its patents. *Id.*; *see* note 31 *supra*.

[34] 645 F.2d at 1197, 1204-11; *see* text accompanying notes 37-56 *infra*.

[35] 645 F.2d at 1211-12; *see* text accompanying notes 64-68 *infra*.

[36] 645 F.2d at 1204; *see* text accompanying notes 57-63 *infra*.

[37] 645 F.2d at 1207-09.

[38] 15 U.S.C. § 2 (1976); note 21 *supra*.

[39] 645 F.2d at 1208. The Second Circuit in *SCM* suggested that SCM introduced the element of foreseeability in the patent acquisition analysis in order to escape an unfavorable

the rule would focus upon the potential for commercial success that a particular patent might hold.[40] Instead, the court analyzed the acquisition in terms of the then existing market power conferred by the patent in relation to the market position then occupied by the acquiring party in the relevant product market.[41] The relevant product market for xerographic, plain-paper copiers did not come into existence, however, until at least eight years after Xerox acquired the patents.[42] Reasoning that the imposition of antitrust liability under such circumstances would seriously undermine the incentives of the patent law system, the Second Circuit held that the acquisition of patents prior to the development of a relevant product market did not constitute a violation of section 2 of the Sherman Act.[43]

The Second Circuit also declined to accept SCM's argument that Xerox's patent acquisitions violated section 1 of the Sherman Act.[44] Section 1 makes unlawful any contract, combination, or conspiracy in restraint of trade or commerce.[45] SCM maintained that because Xerox's

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disposition of its antitrust claims because of the absence of a relevant product market at the time of acquisition. *Id.*

[40] *Id.*

[41] *Id.* In determining whether Xerox's acquisition of the xerographic patents violated the antitrust laws, the *SCM* court found persuasive the reasoning of commentators on antitrust law that courts should analyze patent acquisitions in terms of existing market power. *Id.*; *see* P. AREEDA & D. TURNER, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 819 (2d ed. 1978). According to two commentators, courts should determine whether the antitrust laws limit the patent rights of a party acquiring a patent on the basis of the power already possessed by that party in the relevant market. *Id.*

[42] 645 F.2d at 1209. In *SCM*, SCM did not challenge the jury's finding that the relevant product market did not come into existence until some time after 1964. *Id.* In view of the weight accorded by the Second Circuit to the nonexistence of a relevant product market in the patent acquisition analysis, it is plausible that had the market existed, and had Xerox possessed power in that market, the patent acquisitions would have violated the antitrust laws. *See* 645 F.2d at 1205, 1206, 1209, 1211.

[43] *Id.* at 1209. The imposition of antitrust liability upon the acquirer of patents for which, at the time of acquisition, there is no relevant market would seriously undermine the incentives of the patent law system by discouraging commercial developers from investing in research and development relating to experimental technology. *Id.* The *SCM* court noted that prior to the development of the relevant product market, Xerox contributed very substantially to the development of the plain-paper copier. *Id.* In finding no violation of section 2 of the Sherman Act, the court also noted that Battelle, the transferor of the xerography patents, was not Xerox's competitor. *Id.*

Apparently, SCM v. Xerox is the first instance in which a court has had to decide whether a unilateral refusal to license patents acquired prior to the development of a relevant product market constitutes an antitrust violation. See 463 F. Supp. at 994 (district court judge remarking as to absence of authoritative precedent).

[44] 645 F.2d at 1209-12.

[45] 15 U.S.C. § 1 (1976); *see* National Soc'y. of Professional Eng'rs. v. United States, 435 U.S. 679, 692-93 (1978) (canon of professional society prohibiting members from submitting competitive bids for engineering services violates § 1 of the Sherman Act as manifesting anticompetitive purpose and effect); Continental T.V. Inc. v. GTE Sylvania Inc., 433 U.S. 36, 49 (1977) (in a § 1 analysis, factfinder must weigh all circumstances in deciding whether given practice should be prohibited as imposing unreasonable restraint on competition); note 19 *supra*.

1956 patent acquisitions eliminated Xerox's duty under a previous agreement to seek sublicensees, the acquisition was, in effect, an agreement in restraint of trade.[46] The court responded, however, by referring again to the need to protect the policies of the patent laws.[47] Noting that while in an economic sense Xerox might have acted unreasonably in unilaterally refusing to license its plain-paper copier patents, the court held that the lawfulness of their acquisition in 1956 rendered that conduct, expressly permitted by the patent laws,[48] reasonable for purposes of section 1.[49]

SCM made its final attack on Xerox's 1956 patent acquisitions under section 7 of the Clayton Act.[50] Section 7 prohibits the acquisition of assets when the effect of the acquisition may lessen competition substantially or tend to create a monopoly in any line of commerce.[51] SCM argued that the probable effect of the 1956 patents acquisition was substantially to lessen competition or to tend to create a monopoly in the then foreseeable convenience office copier market.[52] The Second Circuit noted that in a section 7 analysis, one must examine the effects of an acquisition in each economically significant submarket to determine whether a reasonable probability exists that the acquisition substantially will tend to lessen competition.[53] The court observed, however, that such

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[46] 645 F.2d at 1209. In *SCM*, SCM argued that the 1956 acquisition agreement violated § 1 of the Sherman Act, 15 U.S.C. § 1 (1976), because absent the 1956 agreement, Battelle would have enforced Xerox's contractual obligation under previous agreements to seek sublicensees, thus creating competition in the relevant market. *Id.*; see note 14 *supra*. SCM urged that because Xerox foresaw commercial success and dominance over the convenience office copier market, the agreement giving Xerox power to eliminate all competition within that market was unreasonable and, therefore, illegal. 645 F.2d at 1209.

[47] *Id.*; *see* text accompanying note 43 *supra*.

[48] *See* 35 U.S.C. § 154 (1976). Section 154 provides in part:

> Every patent shall contain a short title of the invention and 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, referring to the specification for the particulars thereof. (emphasis added)

[49] 645 F.2d at 1210.

[50] *See id.*

[51] 15 U.S.C. § 18 (1976 & Supp. IV 1980); *see* United States v. Lever Bros. Co., 216 F. Supp. 887, 889 (S.D.N.Y. 1963) (patents and trademarks constitute assets, acquisition of which is subject to § 7 of Clayton Act); United States v. Columbia Pictures Corp., 189 F. Supp. 153, 181-82 (S.D.N.Y. 1960) (as used in § 7 of Clayton Act, "assets" is a generic, imprecise term encompassing broad spectrum of transactions whereby something of value is acquired by purchase, assignment, lease, license, or otherwise); note 20 *supra*.

[52] 645 F.2d at 1210. In *SCM*, SCM attacked Xerox's patent acquisitions under section 7 of the Clayton Act, 15 U.S.C. § 18 (1976 & Supp. IV 1980), with benefit of the jury's finding that the probable effect of the acquisition agreement was to lessen competition in the relevant convenience office copier market. *See* 463 F. Supp. at 1025. The jury's finding tracks the actual wording of the Clayton Act. *See* note 20 *supra*.

[53] *See* Brown Shoe Co. v. United States, 370 U.S. 294, 325 (1962). The SCM court relied on *Brown* for the proposition that the existing market provides the analytical framework in which to measure the probability and extent of an acquisition's anticompetitive impact. 645

an examination would not have been possible in 1956 when Xerox acquired the patents.[54] While section 7 involves the potential consequences of particular acquisitions, the court reasoned that in examining the effects of an acquisition upon competition in a line of commerce, a court should confine its analysis to the potential consequences in "existing" lines of commerce.[55] Since the relevant product market for xerographic plain-paper copiers did not come into existence until at least eight years after Xerox's patent acquisitions, the court held that the acquisitions did not violate section 7 at the time they were made.[56]

In addition to attacking Xerox's patent acquisitions, SCM argued alternatively that Xerox's subsequent use of the patents violated the antitrust laws.[57] Reasoning that a court should treat a unilateral refusal to license valid patents like any other refusal to deal by a monopolist, SCM alleged that Xerox's refusal to license its patents violated section 2 of the Sherman Act.[58] In so arguing, SCM attempted to invoke the aid of a line of cases holding that while a unilateral refusal to deal alone does not violate the antitrust laws, a violation does occur when the refusal is made in order to enhance or maintain a monopoly position in the relevant market.[59]

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F.2d at 1211; *see* 370 U.S. at 325. In *Brown*, the United States brought suit to enjoin a merger of two corporations engaged in the manufacture and sale of shoes on the ground that the merger's effect might be substantially to lessen competition or tend to create a monopoly in the production, distribution, and sale of shoes. *Id.* at 297. On the basis of the district court's finding that the merger might have anticompetitive effects in the existing submarkets of men's, women's, and children's shoes, the Supreme Court upheld the issuance of the requested injunction. *Id.* at 334-46.

[54] 645 F.2d at 1211.

[55] *Id.* The *SCM* court held that Congress infused § 7 with a speculative aspect in order to permit courts to appreciate immediately the potential consequences that an acquisition might have upon a line of commerce already susceptible of examination. *Id.* The court declined to speculate as to both the potential for a market's development and the potential consequences within the potential market. *See id.*

[56] *Id.*

[57] *See* 645 F.2d at 1204-07, 1211-12.

[58] *See id.* at 1204; note 21 *supra.*

[59] *See* 645 F.2d at 1204. Courts consistently have held that a unilateral refusal to deal, made in order to enhance or maintain a monopoly position constitutes a violation of the antitrust laws. *See* Otter Tail Power Co. v. United States, 410 U.S. 366, 377 (1973) (refusal to deal aimed at destroying threatening competition in electric power industry is illegal); Times Picayune Publishing Co. v. United States, 345 U.S. 594, 625 (1953) (one's right to refuse to sell may violate Sherman Act if accompanied by unlawful agreement or conduct, or if conceived in monopolistic purposes); Lorain Journal Co. v. United States, 342 U.S. 143, 154-55 (1951) (newspaper's refusal to accept local advertising from persons advertising through competing radio station is impermissible under Sherman Act).

In *United States v. Colgate*, 250 U.S. 300 (1919), the Supreme Court held that, absent any purpose or intent to create a monopoly, a person engaged in an entirely private business has the right to freely exercise his discretion as to the parties with whom he will deal. *Id.* at 307. *But see* Unibrand Tire and Product Co. v. Armstrong Rubber Co., 429 F. Supp. 470, 474 (W.D.N.Y. 1977) (observing that the *Colgate* holding, while never having been overruled, has been eroded almost to extinction).

The Second Circuit conceded that a concerted refusal to license valid patents constitutes a violation of the antitrust laws because in entering into the refusal to license agreement, a patentee attempts to enlarge his monopoly beyond the scope of the patent granted him.[60] The court observed, however, that when a patent-holder merely exercises his right to exclude others from making, using, and selling the invention, the patent laws expressly permit his conduct.[61] Noting that the power to exclude is the essence of the patentee's legal monopoly, and that no court has ever required a patentee to forfeit the power of exclusion merely because his patent monopoly has evolved into an economic monopoly,[62] the *SCM* court held that when a patent's acquisition is lawful, subsequent conduct permissible under the patent laws does not create liability under the antitrust statutes.[63]

SCM urged also that Xerox's failure to license under the patents after the development of a relevant product market constituted a violation of section 7 of the Clayton Act because section 7's prohibition on ac-

[60] 645 F.2d at 1204; *see* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 118-19, 133-40 (1969) (concerted refusal to license patents except on conditions requiring payment of royalties on products unrelated to patent's teaching constitutes antitrust violation); United States v. Singer Mfg. Co., 374 U.S. 174, 194 (1963) (cross-licensing agreement between competitors violated antitrust laws where parties entered into agreement for purpose of foreclosing availability of licensing to foreign competitors); United States v. Line Material Co., 333 U.S. 287, 314-15 (1948) (antitrust laws violated where cross-licensing agreement contained provisions operating to exclude competitors and control resale prices of patented products).

[61] 645 F.2d at 1204; *see* note 48 *supra*; text accompanying notes 66-68 *infra*.

[62] *See* 645 F.2d at 1204. As the *SCM* case demonstrates, the distinction between a patent monopoly and an economic monopoly can become extremely tenuous. The term "patent monopoly" refers to the right of the patentee to exclude everyone from making, using, or selling the patented invention. *See* Bloomer v. McQuewan, 55 U.S. (14 How.) 326, 328-29 (1852) (purchaser of patented device takes device beyond limits of patent monopoly and patentee cannot force purchaser to pay royalties by reason of patent's extension). Insofar as he possesses the right of exclusion, the patentee may be said to enjoy a monopoly over the invention patented.

An economic monopoly, for purposes of the antitrust statutes, connotes possession of the power to control prices or exclude competition within a given market. *See* United States v. E.I. DuPont de Nemours & Co., 351 U.S. 377, 380 (1956). In *DuPont*, the Supreme Court affirmed a district court decision absolving *DuPont* of antitrust liability for alleged monopolization of the market in cellophane. *Id.* at 404. The Supreme Court defined the relevant market for cellophane as the market for "flexible packaging materials" by looking to reasonable interchangeability of materials to consumers and adaptability of materials to the same purposes. *Id.* at 395-400.

Courts frequently have criticized the use of the term "monopoly" to describe the rights of a patentee. In United States v. Dublier Condensor Corp., 289 U.S. 178 (1933), the Supreme Court remarked that a patent is not, accurately speaking, a monopoly, since the patent is not created at the expense and to the prejudice of all the community save the grantee of the patent. *Id.* at 186; *see* United States v. Motion Picture Patents Co. 225 F. 800, 804-05 (1915) *appeal dismissed*, 247 U.S. 524 (1918) (no such thing as restraint in a trade which has no existence).

[63] 645 F.2d at 1206.

quisitions in restraint of competition comprehends both the initial acquisition and the subsequent retention of the asset in question.[64] Without commenting on the scope of section 7 in other situations, the Second Circuit held that the policies of the patent law system required circumscribing the scope of section 7 in this particular context.[65] The court ruled that when a corporation's acquisition of patents does not violate section 7, the subsequent holding of those patents does not later violate that section.[66] Since the seventeen year term provided by the patent laws limits the restraint placed upon competition,[67] the court reasoned that, in deference to the patent laws, a court must tolerate the restraint throughout the duration of the patent grant.[68]

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[64] *Id.* at 1211. In *SCM*, in urging that Xerox's continued holding of the xerographic patents violated § 7 of the Clayton Act, SCM relied on United States v. ITT Continental Baking Co., 420 U.S. 223 (1975), and United States v. E.I. DuPont de Nemours & Co., 353 U.S. 586 (1957).

In *ITT Continental*, the government brought an action seeking the imposition of civil penalties under section 11 of the Clayton Act, 15 U.S.C. § 21 (1976), for alleged violations of a consent decree forbidding ITT from acquiring bakeries during a designated period. 420 U.S. at 225. The Supreme court held that under § 7, acquisition is not a discreet transaction, but a status that continues until the acquiring party undoes the transaction. *Id.* at 242. Because acquisition is a continuing event, the Supreme Court ruled that each day of unlawful ownership constituted a separate violation of § 11 *Id.* at 243.

In *DuPont*, the United States challenged DuPont's acquisition of a 23% interest in the General Motors Corporation. 353 U.S. at 588. DuPont had consummated the acquisition some thirty years prior to the date of suit. *Id.* at 590. In finding that the acquisition violated § 7's prohibition on acquisitions entailing substantial anticompetitive effects, the Supreme Court held that the test of a § 7 violation is whether, at the time of suit, there exists a reasonable probability that the acquisition in question is likely to result in the condemned restraints. *Id.* at 607.

While there is a superficial similarity between SCM's argument that Xerox violated § 2 of the Sherman Act by refusing to license the xerography patents and its argument that Xerox violated § 7 of the Clayton Act by continuing to hold the xerography patents, the arguments are analytically distinct. Section 2 prohibits monopolization and attempted monopolization. *See* note 21 *supra*. Under § 2, SCM argued that Xerox's unilateral refusal to license the patents constituted an act of monopolization. *See* notes 58-63 *supra*. Since Xerox's market position was the product of the patent acquisitions, however, SCM was able to allege a § 7 violation as well. Section 7 prohibits the acquisition of assets, the effect of which may be substantially to lessen competition or to tend to create a monopoly. *See* note 20 *supra*. Since the *DuPont* and *ITT Continental* decisions define acquisition as comprehending both the initial acquiring as well as the subsequent retaining of the asset in question, SCM argued that Xerox's holding of the patents, quite apart from its use of them, violated § 7. *See* 645 F.2d at 1211.

[65] *Id.*

[66] *Id.* The *SCM* court did not address specifically the Supreme Court's reasoning in the *ITT Continental* and *DuPont* decisions. *Id*; *see* 420 U.S. at 242; 353 U.S. at 607; note 64 *supra*. Rather, the court noted that regardless of the meaning ascribed to § 7 in other contexts, the need to protect the policies underlying the patent laws mandated that the court hold that Xerox's retention of the plain-paper copier patents was not actionable under § 7 for purposes of monetary damages. 645 F.2d at 1211.

[67] *See* note 48 *supra*.

[68] 645 F.2d at 1212.

The *SCM* court properly rejected SCM's attempt to expand the antitrust laws to operate within the statutorily defined bounds of the patent monopoly.[69] Litigation in the patent-antitrust area traditionally has focused upon attempts by patent holders to extend their monopolies beyond the bounds of the patent statute.[70] Courts have held that tying arrangements, by which the patentee permits the use or sale of his invention only in conjunction with the purchase, from the patentee, of some other article, constitute a misuse of patents sufficient to invoke the antitrust laws.[71] In addition, conditional licensing agreements, whereby the patentee permits the manufacture of his invention only on the condition that certain fixed resale prices are observed, have resulted in the imposition of antitrust liability.[72] Courts have also found combinations of patentees, patent pooling, and cross-licensing arrangements, the design of which is to achieve or maintain monopolistic control over a given

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[69] *See* 645 F.2d at 1204. The statutorily defined bounds of the patent monopoly encompass only the patentee's right to exclude all others from making, using or selling the invention. *See* Crown Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 34 (1923) (government grants only power to exclude others from making, using, or vending invention for 17 years); Bloomer v. McQuewan, 55 U.S. (14 How.) 326, 328-29 (1852) (patent franchise consists only of right to exclude everyone from making, using, or vending the thing patented); note 48 *supra*. The *SCM* court's holding permits a patentee to *maintain*, but not extend, his patent monopoly through conduct acceptable under the patent laws. 645 F.2d at 1204 (emphasis in original).

[70] 463 F. Supp. at 997; *see* R. NORDHAUS & E. JUROW, PATENT & ANTITRUST LAW, 119 (1961); text accompanying notes 71-73 *infra*.

[71] *See, e.g.*, International Salt Co. v. United States, 332 U.S. 392, 394-96 (1947) (corporation owning patents on machines utilizing salt products violates Sherman Act by requiring lessees of machines to use only corporation's unpatented products in connection with the machines); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 665 (1944) (owners of system patent may not use patent to secure limited monopoly over unpatented device used in practicing invention); United Shoe Mach. Corp. v. United States, 258 U.S. 451, 456-57 (1922) (lease agreement containing convenants that permitted use of machines only on products upon which certain other operations had been performed violates § 3 of Clayton Act). Tying arrangements impermissably extend the scope of the patent monopoly by restraining competition in the market for the "tied" article, resulting in a limited monopoly that is not within the patent grant. *See* Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 491 (1942).

[72] *See e.g.*, United States v. United States Gypsum Co., 333 U.S. 364, 388-91 (1948) (conditional licensing agreements designed for purpose of controlling distribution and resale price of patented article violate Sherman Act); United States v. Bausch & Lomb Optical Co., 321 U.S. 707, 721 (1944) (distributor of trademarked article may not use conditional licensing agreement to control prices at which purchaser resells to third persons). Ethyl Gas. Corp. v. United States, 309 U.S. 458-459 (1940) (patent licensing system imposing resale price restrictions exploits business not within patent monopoly).

A patentee extends the scope of his patent monopoly by controlling the resale price of his invention because the initial sale of the invention exhausts the monopoly in it. *See* Bloomer v. McQuewan, 55 U.S. (14 How.) 326, 328-29 (1852); United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) (aspects of licensing system which in themselves are lawful, nonetheless violate Sherman Act when interwoven with scheme to enforce resale price restrictions).

market, to be impermissible under the antitrust statutes.[73] SCM did not allege, however, an antitrust violation by way of an illegal extension of Xerox's patent monopoly.[74] SCM merely argued that because the patent monopoly evolved into an economic monopoly, an antitrust violation occurred.[75] Since the patent laws expressly permit a patentee the right to develop and hold his patent to the exclusion of others for a seventeen year period, the *SCM* court correctly concluded that Xerox's mere possession of a lawfully acquired patent monopoly did not create damage liability under the antitrust statutes.[76]

When a patent monopoly evolves into an economic monopoly, the patentee's power to exclude is inherently similar to the power to monopolize that is forbidden by the antitrust statutes.[77] Imposition of antitrust liability upon the patentee because his patent so evolves, however, would be to punish not the patentee's conduct, but the potential for commercial success inherent in the patent.[78] SCM's antitrust arguments depart from the case law on the patent and antitrust statutes by seeking to impose liability on the basis of the power possessed by the patentee, not the extent to which the patentee has abused that power by exceeding his authority under the patent statute.[79] The Second Circuit's rejection of SCM's arguments establishes clearly that to the extent that a patentee's conduct is within the patent laws, such conduct is immune from the prohibitions of the antitrust laws.[80]

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[73] *See, e.g.,* Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 118 (1969) (patent pooling arrangement designed to exclude from given market persons not willing to manufacture products locally violates § 1 of Sherman Act); United States v. Singer Mfg. Co., 374 U.S. 174, 194 (1963) (cross-licensing agreement between competitors entered into for purpose of foreclosing license availability to third persons violates § 1 of Sherman Act); United States v. New Wrinkle, Inc., 342 U.S. 371, 378-80 (1952) (licensing agreements designed to restrain commerce and fix prices throughout relevant industry violate provisions of Sherman Act). Combinations of patentees, patent pooling and cross-licensing agreements may violate the antitrust laws by uniting individual patent monopolies in such a fashion that the patentees obtain control over not only their limited monopolies, but also over the market or industry in which the limited monopolies operate. *See* Standard Oil Co. v. United States, 283 U.S. 163, 174 (1931).

[74] *See* 645 F.2d at 1204.

[75] *Id.*

[76] *See id.* at 1197; note 48 *supra.* The *SCM* court noted carefully in the beginning of its opinion that the issue presented on appeal was not whether Xerox's conduct violated any antitrust laws, but whether any of Xerox's conduct caused Xerox to incur damage liability under the antitrust laws. *See id.* at 1202-03. The *SCM* court concluded, however, that on the basis of the evidence presented, "none of Xerox's patent-related conduct contributed to any antitrust violation." *Id.* at 1213. The *SCM* court's initial willingness to frame the issue in terms of a possible violation of the antitrust laws may reflect a desire not to foreclose the possibility of equitable relief to another plaintiff in SCM's position. *See id.* at 1197; 463 F. Supp. at 998-1000; notes 31 & 33 *supra.*

[77] *See* note 62 *supra.*

[78] *See* 645 F.2d at 1208.

[79] *See* notes 71-73 *supra.*

[80] 645 F.2d at 1204; *see* notes 60-63 *supra.*

Sound policy considerations also support the Second Circuit's refusal to premise antitrust liability for a patent acquisition upon the potential for commercial success that the particular patent may hold. Under present patent law, a commercial developer can acquire a patent which demands a substantial investment of time and money secure in the knowledge that if not misused, the patent will remain exclusively his for a limited period.[81] Should the patent prove commercially successful, the developer can be certain of recouping his investment.[82] Under a line of analysis that focuses upon potential for commercial success, the legality of the patent acquisition would turn upon the foreseeability of distant economic consequences in a hypothetical, but presently nonexistent market.[83] The commercial success analysis would thus deprive the developer not only of the certainty of an exclusive right with which to recoup his investment, but also of meaningful standards on which to base his acquisition decisions in the first instance.[84]

The decision in *SCM* does not mean, however, that plaintiffs genuinely harmed by patent monopolies that have become economic monopolies may not obtain some form of equitable relief. The Second Circuit specifically left open the question of whether equitable relief may be available to a plaintiff in SCM's position.[85] Policy considerations provide persuasive support for the proposition that equitable relief may not undermine the purposes of the patent laws to the extent that monetary

[81] *See* note 48 *supra*. Only two instances exist in which courts have found patent acquisitions to violate the antitrust laws. *See* Kobe, Inc. v. Dempsey Pump Co., 198 F.2d 416 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952); United States v. Besser Mfg. Co., 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952). In both cases, the conduct transcending the antitrust laws clearly was the acquisition of patents as part of a design to obtain monopolistic control over the relevant product market. *See* 198 F.2d at 423; 96 F. Supp. at 307.

In *Kobe*, the court found that a patent-holding company attempted to create a monopoly in the hydraulic pump market through its acquisition, over a period of twelve years, of all important patents relating to hydraulic pumps. 198 F.2d at 423. While noting that agreements creating patent pools are not in themselves illegal, the *Kobe* court held that such agreements when made for the purpose of restraining trade or creating a monopoly are violations of the antitrust laws. *Id.* at 422.

*Besser* involved an agreement between the two principal competitors in the concrete block market and the owners of patents that covered the essential components of blockbuilding machines. 96 F. Supp. at 306. The agreement provided that Besser Manufacturing Co. (Besser) and the other dominant competitor would receive rights under the patents, and the patentees would issue no further licenses without the consent of all parties to the agreement. *Id.* at 310. The court held that the agreement, which made it virtually impossible for anyone else to obtain licensing under the patents, gave Besser and its counterpart the power to restrict both present and future competition. *Id.* at 311. Focusing on the combination created by the agreement, the court ruled that the agreement violated the provisions of the Sherman Act. *Id.* at 313-14.

[82] *See generally* Ginsberg, *supra* note 4.

[83] *See* 645 F.2d at 1208.

[84] *See* 645 F.2d at 1211; 463 F. Supp. at 1000.

[85] 645 F.2d at 1197.

damages could impair these goals.[86] Unlike an award of monetary damages, an injunction prohibiting a patentee from continuing to refuse to license his patents would impose no financial penalty on the patentee.[87] An injunction would merely prevent the patentee from further exercising his exclusionary rights under the patent laws, leaving him free to profit by licensing arrangements flowing from the injunction.[88] Since equitable relief would operate to restrict a patentee's statutory rights only after his patent monopoly has developed into an economic monopoly and the patentee has received a considerable financial return on his investment, such relief may not unacceptably discourage the development of patented products.[89]

Despite policy considerations favoring equitable relief, an uninterrupted line of Supreme Court decisions indicates that there is no duty to license a validly obtained patent.[90] Although the Supreme Court has

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[86] *See* 463 F. Supp. at 998-1000. A major example of the imposition of equitable relief upon a defendant who violated the antitrust laws while, at the time of violation, he had no significant reason to suppose that his patent-related conduct was illegal is United States v. United Shoe Mach. Corp., 110 F. Supp. 295, 346-51 (D. Mass. 1953), *aff'd* 347 U.S. 521 (1954). In *United Shoe* the district court refused to order the dissolution of the defendant corporation into three separate manufacturing companies to remedy the effects of the defendant's monopolization of the shoe-making machinery industry. 110 F. Supp. at 348. The court also refused to prohibit the defendant from entering into lease agreements relating to its patented machinery. *Id.* at 349. The court felt that a flat prohibition on leasing would be undesirable until milder remedies were attempted and proven unsuccessful. *Id.* at 348-49. *But see* Hanover Shoe Inc. v. United Shoe Mach. Corp., 245 F. Supp. 258 (M.D. Pa. 1965) (subsequent suit for $4 million damages), *vacated in part on other grounds,* 392 U.S. 481 (1968).

Congress, however, apparently does not perceive a distinction between antitrust violations warranting equitable, as opposed to monetary, relief. *See* 15 U.S.C. § 16 (1976 & Supp. IV 1980). Section 5 of the Clayton Act provides that a final judgment or decree in an action brought by or on behalf of the United States to the effect that a defendant has violated the antitrust laws shall be prima facie evidence against such defendant in a subsequent proceeding brought by a third party as to all matters respecting which the first judgment would be an estoppel between the original parties. *Id.* Section 5 also provides that nothing therein shall be construed as imposing any limitation upon the doctrine of collateral estoppel, except with respect to certain findings of the Federal Trade Commission. *Id.* Section 5 makes clear that had the United States obtained a decree prohibiting Xerox from continuing to refuse to license its plain-paper copier patents, SCM could have commenced its action for monetary damages with benefit of certain findings made in the prior action. *See* Berkley Photo v. Eastman Kodak Co., 457 F. Supp. 404, 438-39 (S.D.N.Y. 1978) (observing that suggestion of differences between equity and damages under antitrust laws is premised upon inaccurate supposition of sharp dichotomy between equitable and monetary relief), *modified on other grounds* 603 F.2d 263 (2d Cir. 1979), *cert. denied,* 444 U.S. 1093 (1980).

[87] *See* 463 F. Supp. at 998-1000.

[88] *Id.*

[89] *See* 463 F. Supp. at 1012-13.

[90] *See* Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 (1980) (refusal to license patent does not constrict remedies available to redress patent's contributory infringement because essence of patent is right to exclude); Special Equip. Co. v. Coe, 324 U.S. 370, 376 (1945) (plainly legitimate to employ patent as means of preventing appropriation of related patent); Hartford Empire Co. v. United States, 323 U.S. 386, 432-33 (1945) (elimina-

ordered compulsory licensing of patents to remedy the effects of an already adjudicated antitrust violation,[91] the Court has held clearly that the very essence of the patent grant is the power to exclude others from profiting by the patented invention.[92] To allow the antitrust laws to operate within the defined bounds of the patent monopoly therefore would not be a proper accomodation of the two statutes. Allowing the antitrust laws to operate within the patent monopoly would strike at the very heart of the patent grant.[93]

In the two narrowly defined areas of nuclear engineering and air pollution control, Congress has taken the initiative of compelling patent licensing.[94] Thereby Congress has indicated the desirability of limiting a patentee's ability to exercise his power of exclusion in certain circumstances. Since both of the areas relate directly to technology that is crucial to the preservation of public safety and health, a plausible argument exists that compulsory patent licensing is not warranted where public safety and health considerations are absent. At the very least, to require patent licensing in areas where Congress has chosen to remain silent is to run the risk of treading on ground that is properly legislative, not judicial.[95]

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tion of district court decree enjoining defendant from filing applications for patents defendant did not intend to use because decree inconsistent with patentee's privilege of unilateral refusal); Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 429 (1908) (power of exclusion is central to patent grant and patentee may exercise or not exercise power without question of motive).

[91] *See* United States v. United Shoe Mach. Corp., 110 F. Supp. 295, 351-54 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954) (corporation enjoined from violating § 2 of Sherman Act by monopolizing trade in commercial shoemaking equipment).

[92] *See* Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 (1980); note 90 *supra*.

[93] *See* 645 F.2d at 1204.

[94] *See* 42 U.S.C. § 2188 (1976); 42 U.S.C. § 7608 (Supp. III 1979). Section 2188 provides that a court may require the owner of a patent relating to the production or utilization of nuclear energy to license the patent on reasonable terms if the patentee has employed his patent in a fashion that violates the antitrust laws. 42 U.S.C. § 2188 (1976).

Section 7608 provides that if the Attorney General finds that a patent right not reasonably available to applicants is necessary to enable any person to comply with the provisions of the Air Pollution Prevention and Control Act, 42 U.S.C. § 7401 *et seq.* (1976), that there are no reasonable alternatives to such compliance, and that the unavailability of such right may substantially lessen competition in any line of commerce, the Attorney General may request district court to issue an order requiring the owner of the patent to license on reasonable terms. 42 U.S.C. § 7608 (Supp. III 1979).

[95] The two instances in which courts have refused to enjoin the infringement of valid patents turn significantly upon compelling public health and safety considerations. *See* Wisconsin Alum. Research Fndtn v. Vitamin Technologists Inc., 146 F.2d 941, 944 (9th Cir. 1944), *cert. denied*, 325 U.S. 876 (1945); City of Milwaukee v. Activated Sludge Inc., 69 F.2d 577, 593 (7th Cir.), *cert. denied* 293 U.S. 576 (1934). *Wisconsin* involved a patent covering a process of irradiation that dramatically increases the vitamin D content of certain animal fats. 146 F.2d at 942. The patentee refused to license the patent in connection with the production of oleomargarine. *Id.* after noting that oleomargarine is a food used widely by the

In addition, the imposition of antitrust liability under the circumstances presented in the *SCM* case would severely frustrate the objectives of the patent law system. By punishing only those patent monopolies that ripen into economic monopolies, the Sherman Act and Clayton Act would be punishing precisely those innovations that society regards as most valuable.[96] A truly successful innovation, which is the very thing the patent law system attempts to promote, would confront its creator with the unhappy choice of either relinquishing his exclusive rights or risking severe liability.[97] While the prospect of equitable relief is not as extreme as treble damage liability, given the effect that the possible imposition of treble damage liability would have on willingness to invest in innovative activity, the question remains whether the benefit society would receive in shortening the monopoly outweighs its cost. The question is especially troublesome in view of a patent's limited seventeen year duration. Left untouched, a patent expires on its own.[98]

The Second Circuit reached the correct result in *SCM Corp. v. Xerox Corp.*[99] While the court's decision does not change existing patent-antitrust law, the opinion makes express what has long been implicit in previous cases involving the conflict between the patent and antitrust laws. A patentee cannot violate the antitrust laws by exercising rights that have been freely and purposely given him.[100] To that extent, the decision represents a simple and workable solution to the problem of drawing a line between statutes that might appear to be mutually exclusive. The patentee is subject to the antitrust laws only upon exercising rights which the patent laws do not confer upon him.[101]

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poor, and that sales of unirradidated oleomargarine are forbidden by law in many countries, the court refused to enjoin the infringement. *Id.*

In *Activated*, the owner of a patent covering a process for the treatment of raw sewage brought suit to enjoin the patent's infringement by the City of Milwaukee. 69 F.2d at 593. Observing that the injunction would result in the disposal of raw sewage into the waters of Lake Michigan, thereby imperilling the safety and health of the public, the court refused to grant the requested injunction. *Id.*

[96] *See generally* Ginsberg, *supra* note 4.

[97] *See* 645 F.2d at 1208. The antitrust laws permit a successful private plaintiff to recover treble damages incurred as a result of the forbidden conduct. *See* note 27 *supra*. On the *SCM* facts, the treble damage award would have totaled $111.3 million. 645 F.2d at 1197.

[98] *See* note 45 *supra*.

[99] 645 F.2d 1195.

[100] *See* notes 7 & 8 *supra*.

[101] 645 F.2d at 1204.