



Fall 9-1-1965

Mandatory Package Licensing As Patent Misuse

Follow this and additional works at: <https://scholarlycommons.law.wlu.edu/wlulr>



Part of the [Intellectual Property Law Commons](#)

Recommended Citation

Mandatory Package Licensing As Patent Misuse, 22 Wash. & Lee L. Rev. 300 (1965).

Available at: <https://scholarlycommons.law.wlu.edu/wlulr/vol22/iss2/16>

This Comment is brought to you for free and open access by the Washington and Lee Law Review at Washington and Lee University School of Law Scholarly Commons. It has been accepted for inclusion in Washington and Lee Law Review by an authorized editor of Washington and Lee University School of Law Scholarly Commons. For more information, please contact christensena@wlu.edu.

tend so far as to be an all-risk coverage. The suggestion has been made that emphasis in deciding a mysterious disappearance claim should be placed on the "mysteriousness" of the loss.⁴⁰ This approach seems reasonable if, as in *Hammontree*, it is applied so that the insured has the initial burden of showing a "mysterious disappearance," whereupon the burden shifts to the insurer, who, in order to deny the claim must show a rational explanation for the disappearance.

RONALD W. SOMMER

MANDATORY PACKAGE LICENSING AS PATENT MISUSE

A patent is a seventeen year monopoly, granted under authority of Congress on new inventions and processes.¹ This monopoly² gives the patentee the "exclusive right to manufacture, use and sell the invention [or process] which is disclosed."³ In the exercise of this "exclusive right," a patentee is privileged to impose any conditions which "are normally and reasonably adapted to secure pecuniary re-

⁴⁰Kelly, *supra* note 16, at 82. Note, 24 La. L. Rev. 930, 934 (1964).

¹35 U.S.C. § 154 (1958). Title 35 contains the basic law concerning patents, while the constitutional basis for patents is found in article I, § 8 of the Constitution of the United States: "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." Various statutes contain provisions relating to patents. E.g., Arms Control and Disarmament Act, 75 Stat. 634 (1961), 22 U.S.C. § 2572 (1958); Atomic Energy Act, 73 Stat. § 73 (1954), 42 U.S.C. § 2188 (Supp. V, 1958).

²Precisely speaking, a patent is not a monopoly. The term "monopoly" connotes the gaining of control over an existing market or product. A patent does not give such control, for there is not an existing market or product over which the patentee may gain control. The patentee may create a market for his invention by developing it commercially, but he is not bound to do so. A monopoly takes something from the public; a patent recognizes an addition to the sum of human knowledge. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933). "The Monopoly of a patent is distinguishable from a monopoly, as that term is used generally, and in the antitrust laws." *Sperry Prod., Inc. v. Aluminum Co. of America*, 171 F. Supp. 901, 927 (N.D. Ohio 1959). Patent monopoly has been defined as a "privilege," *Merciod Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 665 (1944); as a "public welfare monopoly," *Wood & Johnson, Patents and the Antitrust Laws*, 1950 U. Ill. L.F. 544, 546; as "property," *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945). The doctrine of *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942), however, by permitting infringement if a patentee misuses his patents, amounts to a judicially sanctioned expropriation because one has violated the law.

³*American Securit Co. v. Shatterproof Glass Corp.*, 268 F.2d 769, 777 (3d Cir. 1959).

ward for the patentee's monopoly."⁴ The basic restriction on the patentee is that he is not authorized to extend his monopoly beyond the scope of the patent.⁵ Such an extension constitutes patent misuse and is an absolute defense against the patentee's suit for infringement, even though the defendant did in fact infringe upon the patents.⁶ Patent misuse results either when the patentee has violated the anti-trust laws,⁷ or when he has acted in contravention of patent law.⁸

⁴In *United States v. General Elec. Co.*, 272 U.S. 490 (1926), Chief Justice Taft writes, "It would seem entirely reasonable that he [patentee] should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making and selling them myself.'" *Id.* at 490. *Accord*, *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175 (1938) and *Vulcan Mfg. Co. v. Maytag Co.*, 73 F.2d 136 (8th Cir. 1934).

⁵*Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 664, 665-66 (1944).

⁶*Id.* at 668-69. The Supreme Court held that patent misuse barred recovery against a contributory infringer, i.e., one who aids a direct infringer, usually by selling needed items to him, as well as against a direct infringer. Misuse of patents not sued upon, however, will not bar recovery. *Apex Elec. Mfg. Co. v. Altorfer Bros.*, 238 F.2d 867, 872-73 (7th Cir. 1956). The misuse of one patent sued upon, however, may bar recovery as to other patents sued upon, even though they were not misused. *Sylvania Ind. Corp. v. Visking Corp.*, 132 F.2d 947, 956-57 (4th Cir. 1943). The patent misuse doctrine originated in 1917 with the case of *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), which held that a patent did not confer any power upon a patentee to condition the granting of a license upon an agreement by the licensee to use certain unpatented materials in conjunction with the patented product. Prior to this time, patent holders lived in the "golden days" of patent protection." *Wood, Patents, Antitrust and Prima Facie Attitudes*, 50 Va. L. Rev. 571, 574 n.7 (1964). Before 1917 the prevailing judicial attitude towards patents was set forth by *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912), which upheld a patentee's requirement that a licensee use unpatented supplies made by the patentee in conjunction with the patented product. After the *Motion Pictures* case, a series of cases held that similar licensing policies constituted patent misuse. *Carbice Corp. v. American Patents Dev. Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co. v. Barber*, 302 U.S. 458 (1938); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 448 (1942); *B. B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942); *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944); *International Salt Co. v. United States*, 332 U.S. 293 (1947). Patent misuse has also been found when a patentee pursues a policy of patent licensing with the added control of a price fixing or minimum price maintenance clause. See, *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952); *United States v. Line Material Co.*, 333 U.S. 287 (1948); *United States v. United States Gypsum Co.*, 333 U.S. 364 (1948); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945); *Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283 (3d Cir. 1956). It has also been declared an unlawful extension of the patent monopoly to forbid licensees to manufacture competing articles. *National Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255 (3d Cir. 1943).

⁷*Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, *supra* note 6; *Mercoid Corp. v. Mid-Continent Inv. Co.*, *supra* note 6; *Sylvania Ind. Corp. v. Visking Corp.*, *supra* note 6.

⁸*Morton Salt Co. v. G. S. Suppiger Co.*, *supra* note 6; *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, *supra* note 6.

Since patent misuse can be predicated solely upon patent law, a finding of patent misuse does not necessarily establish an antitrust violation; but a finding of an antitrust violation when patents are involved necessarily establishes patent misuse.

The question of whether or not the conditions imposed upon a licensee were so unreasonable as to exceed the scope of the patent monopoly was presented in the recent case of *International Mfg. Co. v. Landon, Inc.*⁹ wherein, Landon sued International for infringement of two patents.¹⁰ International defended on the ground that Landon's policy of only licensing the patents together, a policy commonly known as mandatory package licensing,¹¹ constituted patent misuse. To obtain a license under one patent, International was also required to take a license under the other patent.¹²

The Court of Appeals for the Ninth Circuit rejected International's defense of patent misuse. It found that the nature of the patents prevented one from being developed commercially without infringing upon the other, and ruled the two packaged patents did not have any commercial value unless used conjunctively. Since commercially dependent patents, commonly referred to as blocking patents,¹³ were involved, the court held they constituted only a single article.

In determining if mandatory package licensing constitutes patent misuse, the court emphasized the importance of determining whether blocking or competing patents are involved. If competing patents, or patents that can be developed independently of one another, are involved, mandatory package licensing constitutes patent misuse since it requires the licensee to accept unnecessary or undesired patents.¹⁴

⁹The district court decision on this case was not reported. This comment will deal exclusively with the opinion of the Court of Appeals for the Ninth Circuit, 336 F.2d 723 (1964).

¹⁰The two patents were granted originally to Robert M. Pace and to David K. Cavenah and Paul J. Steffan. Both were subsequently assigned to Landon. The Pace patent "is for a fluid recirculation system especially adapted for use in swimming pools, having a filter which can be cleaned without backwashing and with provision for recirculation of overflow and surface skimming of the pool. "The Cavenah patent . . . embodies the basic combination of the Pace patent but . . . adds additional structure and function which makes it possible to vacuum the pool." *Id.* at 725.

¹¹*American Securit Co. v. Shatterproof Glass Corp.*, supra note 3.

¹²*International Mfg. Co. v. Landon, Inc.*, supra note 9, at 729.

¹³*Id.* at 730.

¹⁴"In our opinion this distinction is an important one. . . . The evil of mandatory package licensing in that case [involving competing patents] was that the prospective licensee . . . would be compelled to accept licenses under patents that were not necessarily needed. The same evil does not arise in mandatory package licensing of blocking patents." *Id.* at 729.

Since this evil does not exist when blocking patents are involved, mandatory package licensing of blocking patents does not constitute patent misuse.

In upholding Landon's licensing policy, the Court of Appeals noted the public benefit to be gained from the package licensing of blocking patents. The court said that when such patents are involved, "licensing them in a package deal appears to be the most practical way of making them available for public use."¹⁵ The court also pointed out that Landon offered these licenses freely and on "uniform terms and conditions."¹⁶ This nonrestrictive offer of license would enable a large number of manufacturers to use the patents, thereby assuring wide distribution of the patented product.

The major obstacle faced by the circuit court in holding that mandatory package licensing did not constitute patent misuse was the sweeping denunciation of that practice as announced in *American Securit Co. v. Shatterproof Glass Corp.*,¹⁷ which involved thirty-five patents covering apparatus and process in the flat glassmaking field. Shatterproof applied to the Securit Co. for a license under some of these patents, but was told that a license would be granted only if Shatterproof accepted a license under all thirty-five patents. Shatterproof refused to take such a license and began commercial production without being licensed. The Securit Co. sued for infringement but was barred from recovery by a finding of patent misuse.¹⁸ The Court of Appeals for the Third Circuit held that mandatory package licensing constituted patent misuse since it was an unlawful extension of the patent monopoly.

The Ninth Circuit avoided the force of the *Securit* decision by pointing out that *Landon* involved blocking patents while *Securit* involved competing patents.¹⁹ The *Securit* decision, however, does not

¹⁵Id. at 730.

¹⁶Id. at 729.

¹⁷Supra note 3.

¹⁸The Third Circuit Court could also have based its finding of patent misuse on *Securit's* attempt to enforce payment of royalties for all patents in the package up until the expiration date of the most recently issued patent. Since such an arrangement forces the licensee to pay royalties under patents which have expired, the court ruled this was an unlawful extension of the patent monopoly of those patents which would still be in effect. Id. at 777-78.

¹⁹*International Mfg. Co. v. Landon, Inc.*, supra note 9, at 729. But "[T]he only authority appellee [Landon] advances for limiting the *Securit* case to licenses of competing patents is a student article. . . . No reported case has followed the author's suggestion for limiting the *Securit* case, and many secondary authorities discuss the *Securit* case without advocating this limitation." Appellant's Reply Brief for Appellant, p. 15.

indicate whether it involves blocking patents, competing patents, or both; and it contains such a broad denunciation of mandatory package licensing that it seems to apply to any patents:

"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. We conclude that the court below committed no error in finding that the defense of misuse asserted by Shatterproof is a valid one."²⁰

Although the court in *Landon* relied upon the blocking-competing patent distinction, other grounds have been used to support a finding of patent misuse. In *Automatic Radio Mfg. Co. v. Hazeltine Research Corp.*,²¹ the United States Supreme Court held that patent misuse exists when the prospective licensee only desires a license under some of the patents in the package, but is required by the licensor to be licensed under all the patents in the package. The Court, as in the *Securit* case, did not consider whether the patents were competing or blocking, but elected to base its finding of patent misuse on the element of coercion. If a patentee uses package licensing to force a licensee to take a license under undesired patents, coercion exists and there is patent misuse.

Irrespective of whether the patents in the mandatory package are "blocking" or "competing," it can be argued that the presence of coercive elements in mandatory package licensing may cause two undesirable results. Firstly, the prospective licensee may believe that he can produce a commercially feasible product under only part of the package license. Due to mandatory package licensing, however, the licensee will be required to take a license under patents which are unnecessary. If prospective licensees are required to take unnecessary patents, the incentive to produce new products, which could be used

²⁰American *Securit Co. v. Shatterproof Glass Corp.*, supra note 3, at 777. (Emphasis added.) The *Securit* decision also stated: "Each patent gives to its owner a monopoly in respect to its disclosures, so much and no more. . . . That invention is what the patent grant protects by the monopoly, not that invention plus some embellishment, improvement, or alternate product or process, which also happens to be patented." *Id.* at 777. The court also commented specifically on mandatory package licensing: "Mandatory package licensing is no more than the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent *but that* is too much. The protection, or monopoly, which is given to the first patent stops where the monopoly of the second begins." *Id.* (Emphasis added.)

²¹339 U.S. 827 (1950). Although the court used the test of coercion, patent misuse was not found.

with only part of the package license without infringing the other part, will be destroyed, or at least reduced.²² This result would conflict with the basic purpose of patents, which is to promote the development of new products.²³ Secondly, the patentee may use mandatory package licensing to protect a patent which might be declared invalid if attacked in court.²⁴ By tying a known valid patent to a legally questionable one, the licensor protects the questionable patent since one who takes a license under a patent is estopped to attack the validity of the patent.²⁵

Coercion, and the blocking-competing patent distinction, however, are not the only grounds which courts have used to determine if patent misuse is present. In *International Salt Co. v. United States*,²⁶ the Supreme Court examined the elements of market dominance and the effect upon competition in determining the existence of patent misuse. The Court held that the fact patented products are involved in a tying arrangement is not significant in determining the legality of that arrangement.²⁷ The International Salt Co. only granted licenses to use its patented salt dispensing machines if the licensee agreed to purchase the salt to be used in these machines from the International Salt Co. The Supreme Court, in holding this to be an unlawful arrangement because it substantially lessened competition, stated that "International has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws."²⁸

Although the Supreme Court has never passed directly²⁹ on

²²This argument was rejected by the Court of Appeals for the Ninth Circuit on the basis that it posed a hypothetical set of facts not involved in the Landon case. *International Mfg. Co. v. Landon, Inc.*, supra note 9, at 731. It is submitted that the problem of mandatory package licensing is of such significance that the court should have been willing to examine this "hypothetical" situation since the impact of its decision will be widespread.

²³Supra note 1.

²⁴This argument was also made in the Landon case by the International Mfg. Co., and was rejected on the grounds that it, too, involved a "hypothetical" situation. *International Mfg. Co. v. Landon, Inc.*, supra 9, at 731.

²⁵The granting of a patent by the Patent Office establishes the validity of that patent, but the validity may still be contested in court. A court decision that the patent is valid, therefore, greatly enhances the value of the patent.

²⁶332 U.S. 392 (1947).

²⁷*Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958), cites the International Salt decision with approval, commenting that the Supreme Court in that case held the attacked tying arrangement illegal despite, not because, of the fact that patented products were involved. *Id.* at 9.

²⁸*International Salt Co. v. United States*, supra note 26, at 396.

²⁹The Supreme Court has, however, recognized the defense of patent misuse in dictum when mandatory package licensing is involved. *Automatic Radio Mfg. Co. v. Hazeltine Research Corp.*, supra note 21.

whether mandatory package licensing of blocking patents constitutes patent misuse, the Court has passed on the legality of a patent pool involving blocking patents. This arrangement is somewhat similar to mandatory package licensing.³⁰ In *United States v. Line Material Co.*,³¹ the Court in dictum stated that absent a price-fixing agreement,³² a patent pool is desirable when blocking patents are involved. The Court reasoned that a pool of blocking patents benefit the consuming public and the patentee by promoting the commercial development and distribution of the patented product.³³ Similar reasoning is used in the *Landon* decision to uphold the licensing procedures.³⁴

The commercial and public benefits to be gained from pools of blocking patents is also emphasized in *Standard Oil Co. v. United States*,³⁵ wherein patents covering processes for obtaining gasoline from crude oil³⁶ were held by several different oil companies. To utilize these patents effectively, these companies agreed to an exchange of patent rights. The Supreme Court upheld the legality of this agreement and commented:

"An interchange of patent rights . . . is frequently necessary if technical advancement is not to be blocked by threatened litigation. If the available advantages are open on reasonable terms to all manufacturers desiring to participate, *such interchange may promote rather than restrain competition.*"³⁷

The Court in *Landon* relied heavily upon this argument, apparently because of *Landon's* showing that licenses were granted freely and on uniform conditions.³⁸

In passing upon the legality of block-booking,³⁹ which is the copyright⁴⁰ equivalent of mandatory package licensing, the Supreme

³⁰A patent pool is an arrangement whereby each member of a group of patent holders grants to all other members of that group the right to use his patent in return for a similar grant. *United States v. Line Material Co.*, 333 U.S. 287 (1948).

³¹*Id.* at 287.

³²Since there was a price-fixing agreement attached to this patent pool, the Court did find patent misuse. *Id.* at 311.

³³*Id.* at 297.

³⁴*International Mfg. Co. v. Landon, Inc.*, supra note 9, at 729-30.

³⁵283 U.S. 163 (1931).

³⁶The process involved "cracking" the crude oil molecule. *Id.* at 167.

³⁷*Id.* at 171. (Emphasis added.)

³⁸*International Mfg. Co. v. Landon, Inc.*, supra note 9, at 729.

³⁹In block-booking of films, the holder of a copyrighted film merely refuses to grant a license to use that film unless the prospective licensee agrees also to accept other films owned by the licensor.

⁴⁰The closely related nature of patents and copyrights is the reason that the Supreme Court refers to both patent and copyright cases when dealing with a block-booking arrangement. Not only are patents and copyrights related in that

Court has commented in dictum upon patent misuse. In *United States v. Loew's, Inc.*,⁴¹ the Court compared this copyright case to earlier cases involving patent misuse, and ruled that Loew's block-booking policy constituted an antitrust violation. After noting that one of the objectives of the Patent Code is to reward uniqueness, the Court stated that the existence of a patent or copyright "establishes a distinctiveness"⁴² sufficient to conclude that any tying arrangement involving the patent product would have anticompetitive consequences."⁴³

Block-booking is also condemned in *United States v. Paramount Pictures, Inc.*,⁴⁴ wherein the Supreme Court held that block-booking is an illegal attempt to use one copyright monopoly to acquire still another monopoly.⁴⁵ In condemning this block-booking arrangement, the Court compares such an arrangement to a patentee's attempt to tie one patent to another patent, as in mandatory package licensing:⁴⁶

"Each [copyrighted film] stands not on its own footing but in whole or in part on the appeal which another film may have. . . . [T]he result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses."⁴⁷

Thus, the Supreme Court in dictum seems to be ruling that manda-

one covers innovations in the scientific field while the other covers innovations in the literary field, but they both have the same constitutional basis. See note 1.

⁴¹371 U.S. 38 (1962).

⁴²This view that a patent establishes "distinctiveness" is in direct contrast with the theory expounded by the Landon case that blocking patents may be said to constitute a single article. See *International Mfg. Co. v. Landon*, supra note 9, at 730.

⁴³*United States v. Loew's, Inc.*, supra note 41, at 46.

⁴⁴334 U.S. 131 (1948).

⁴⁵But cf. *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947). In that case, the Supreme Court upheld the requirement that the licensee assign back to the licensor improvement patents applicable to the patented machinery. The Court acknowledged that such is the use of "one legalized monopoly to acquire another legalized monopoly." *Id.* at 644. The court condones this, however, because its effect does not militate "against the public interest." *Id.* at 645. But the Court recognizes the "possibilities of abuse in the practice of licensing a patent on condition that the licensee assign all improvement patents to the licensor. Conceivably the device could be employed with the purpose or effect of violating the anti-trust laws." *Id.* at 646. Due to the possibilities of abuse, the Court specifically limits the scope of its decision by concluding: "We only hold that the inclusion in the license of the condition requiring the licensee to assign improvement patents is not per se illegal and unenforceable." *Id.* at 648.

⁴⁶Mandatory package licensing is, of course, only a specialized form of a tying arrangement which involves licenses rather than the usual commodities.

⁴⁷*United States v. Paramount Pictures*, supra note 44, at 158. (Emphasis added.)