PATENT LAW REVISION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

NINETY-SECOND CONGRESS

FIRST SESSION

Pursuant to S. Res. 32

ON

S. 643, S. 1253 and S. 1255

FILE WITH

PART 1

MAY 11 AND 12, 1971

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PATENT LAW REVISION

TUESDAY, MAY 11, 1971

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan (chairman of the subcommittee) presiding.

Present: Senators McClellan (presiding), Fong, and Scott.

Also present: Thomas C. Brennan, chief counsel and Edd N. Williams, Jr., assistant counsel.

Senator MCCLELLAN. The committee will come to order.

The Chair will make a brief opening statement.

The subcommittee is today resuming the hearings on patent law revision. The purpose now is to hear testimony on those patent issues which have developed since the conclusion of the extensive hearings on the Report of the President's Commission on the Patent System, and the bills that were introduced as a result of that report. Because of the change in administration, the subcommittee has delayed reporting legislation for a general revision of the patent laws awaiting the views of this administration.

The amendments introduced to S. 643, the pending patent revision bill by the minority leader clearly raise the most important issue before the subcommittee to be considered in these hearings. These amendments present complex public policy and legal issues touching upon the viability of our patent system, the investment of capital, the competitive free enterprise system, and international trade.

I currently have no position concerning the specific provisions of Senator Scott's amendments. However, I reject the contention that it is not appropriate or desirable for the Congress to enumerate the rights of patent owners, but that any necessary clarification should be provided by judicial decisions and the public statements of officials of the executive branch. I think Congress has a role to play and a duty to perform in connection with this problem. When significant differences of opinion exist as to what patent practices are in the public interest, the Congress should resolve the issue. The minority leader has indicated that he is not committed to any particular text. It is quite likely that constructive suggestions for clarification of the Scott amendments will be made.

The subcommittee has sought to have all viewpoints represented in these hearings. I have been advised by the staff that any person who requested an opportunity to be heard in opposition to the Scott amendments has been allocated time for his testimony.

A second major issue to be explored during these hearings is whether it is necessary to make any modification in the traditional functioning of the patent system in order to advance the national commitment of improving the quality of the environment. It may be that conditions do exist, or will develop in the future, that will warrant some adjustment of the patent laws. However, such alterations should only occur after careful study and adequate hearings. Unfortunately, this did not occur during the consideration of the Clean Air Amendments Act of 1970. Sweeping and unprecedented provisions relating to the compulsory licensing of patents and trade secrets were added to that legislation without any notice or hearings and without consultation with this subcommittee. I did not seek to have that bill referred to the Judiciary Committee because of the overriding public interest in early enactment of the clean air legislation. I appreciate the position taken by those members of the Public Works Committee who subsequently indicated that it was a mistake to have included such provisions without a review by this subcommittee. I am advised by the staff that no one has expressed a desire to testify in support of the retention of section 308 of the Clean Air Act, but that many statements have been received urging its repeal on the grounds that it is unsound and unnecessary.

The third major issue to be considered in these hearings is the adjustment of patent fees. After protracted study the Congress determined in 1965 that the Patent Office should recover about two-thirds of its operating costs through the payment of fees. The recovery in fees has now dropped to approximately 50 percent. In order to provide a basis for these hearings, I introduced S. 1255 which retains the structure of the existing fee schedule but increases most fees to produce the rate of recovery previously desired by the Congress and the executive branch. I am not committed to any particular formula, but it is my view that the taxpayers should not be required to support more than one-third of the costs of the Patent Office.

Senator Fong, any statement?

Senator FONG. I have no statement, Mr. Chairman. I am very happy that you have called this meeting on these bills. Thank you.

Senator MCCLELLAN. I note Senator Scott has arrived.

Senator, we opened the hearings and I have made an opening statement.

Senator SCOTT. Mr. Chairman, I appreciate this and I do want to say to those who are here as witnesses that I would appreciate their indulgence as I am caught between the opening of the Senate and the meeting of another committee. I will be very brief because we have made great strides in the fields of technology and science in recent years. I may say that I will simply read my statement and ask the Chairman's approval to submit a number of attachments and enclosures after I have finished.

Senator MCCLELLAN. All of the documents and materials submitted will be made part of the record at the end of the Senator's statement.

Senator SCOTT. I thank the chairman.

The United States has made great strides in the fields of technology and science in recent years. Much of the credit for these advances must be given to the American patent system which has stimulated and encouraged innovation and invention. To insure that the patent system continues to play this vital role, it is necessary to periodically revise and update the patent laws.

It is my privilege to serve on this subcommittee and to work with the Chairman and other members of the subcommittee to bring about needed revision in our patent laws.

During the last Congress, I introduced two amendments to the then-pending patent revision bill. I reintroduced these amendments, the so-called Scott amendments, on March 19 of this year.

I noted during the last Congress that I was introducing these amendments so that they might appropriately be the subject of wide discussion and debate by all interested parties. I was not wed then, nor am I wed now, to the specific language set out in my amendments. I am, however, in full accord with the general thrust and purpose of these amendments. I, therefore, reintroduced these two amendments with the hope that a chance for full congressional consideration and action will be enhanced by the early date of their reintroduction. I am, therefore, very pleased that Senator McClellan is holding these hearings.

Although I will submit substantial explanatory and supporting data at the conclusion of my remarks for the hearing record, I am taking this opportunity to briefly explain the purpose of my amendments.

The amendment (No. 23) proposed to section 301 is intended to make it clear that the patent laws shall not be construed to preempt the right of the courts under State or Federal law to decide issues with respect to enforcement of contracts involving rights to intellectual property such as trade secrets, technical know-how, and unfair competition.

The amendment (No. 24) proposed to sections 261 and 271 deals with patent license provisions and is intended primarily to implement recommendation XXII of the report of the President's Commission on the Patent System.

I believe these amendments address themselves to extremely important questions in the patent law field. There is merit to their underlying principles. It is for this reason that I proposed them to S. 643. However, I harbor no pride of authorship in the specific language and stand ready to examine alternative approaches to meet the needs to which my amendments are addressed. It is my hope, however, that these amendments will serve to further stimulate thought and discussion on the action needed in these important areas.

For purposes of background and clarification, it should be noted that the General Patent Revision bill introduced in the 91st Congress was S. 2756 and is identical to the current bill, S. 643, in all areas affected by the Scott amendments. My amendment No. 23 to S. 643 is identical to my amendment No. 579 to S. 2756. My amendment No. 24 to S. 643 is identical to my amendment No. 578 to S. 2756.

In order to further illuminate the need for these amendments, I ask unanimous consent that the following materials, which I inserted

in the Congressional Record when I introduced these amendments in the 91st Congress, be printed at the conclusion of my remarks: Detailed explanations of the amendments to sections 261 and 271; a detailed explanation of the amendment to section 301; that section of the Report of the President's Commission on the Patent System dealing with recommendation XXII; a letter from the Honorable Merl Sceales, chairman of the section of Patent, Trademark, and Copyright Law of the American Bar Association, discussing recommendation XXII; a letter from the Honorable Philip G. Cooper, president of the Philadelphia Patent Law Association, discussing recommendation XXII; a lengthy memorandum prepared by the American Patent Law Association "on the need for legislative clarification of the law relating to patent license provisions"—summary and full memorandum.

In addition, I request that the following articles dealing with amendment No. 23 be made part of the hearing record: "A Philosophy on the Protections Afforded by Patent, Trademark, Copyright, and Unfair Competition Law: The Sources and Nature of Product Simulation Law," by Tom Arnold, reprinted from The Trademark Reporter: "*Painton* v. *Bourns*, *The Progeny of Lear* v. *Adkins:* A Commentary on Know-how Law and Practice," by Tom Arnold and Jack Goldstein in Trade Secrets Today, Practising Law Institute; "Life Under Lear," by Tom Arnold and Jack Goldstein, Texas Law Review, November 1970, vol. 48, No. 7.

I thank you very much, Mr. Chairman.

(Material referred to follows:)

[From the Congressional Record]

RE SECTIONS 261 AND 271 (RECOMMENDATION XXII)

The amendments proposed to Sections 261 and 271 of S. 2756 are intended primarily to implement Recommendation XXII of the Report of the President's Commission on the Patent System. The net effect of those amendments, with regard to patents or applications for patent, would be to:

A. Re-arrange Section 261(b) to make clear, in the first paragraph, a patent (or a patent application) owner's right to assign or license his patent (or application) exclusively, and in the second paragraph to limit the license to: (1) specified fields of use covered by the patent (or application), (2) specified geographical territories, (3) exclusive or non-exclusive practice of the invention, and/or (4) any desired number of licenses as he may please.

B. Add new subparagraph 261(e) so as to specify that an assignor cannot challenge the validity of the patent he has assigned unless he first returns the price paid and bases his attack on grounds not available at the time of the assignment.

C. Add a new subparagraph 261(f) to stipulate that no party to a license can contest validity of a licensed patent unless he (1) first surrenders all future benefits and (2) then or thereafter settles all past obligations due under the license.

D. Add new Section 271(f) and 271(g) to provide a statutory basis for the following licensing practices, as follows:

(f) (1) the granting or prohibiting of certain fields of use of the (patented) invention, and permitting or prohibiting one or more of the primary functions of the patent, namely the right to exclude others from making, using or selling the (patented) invention.

(2) the granting of a license which contains a provision excluding or restricting any conduct reasonable under the circumstances.

(g) (1) the granting of non-exclusive cross licenses and the granting of a license containing a provision requiring the grant back of a non-exclusive license under improvements on the licensed invention.

(2) the granting of a license which requires a royalty fee or price:
(i) of any amount, however paid, on any desired royalty base;
(ii) computed on any basis convenient to the parties;
(iii) covers a single patent or a single package consisting of a multiple number of patents; or
(iv) which differs from that agreed to with other parties.

Section 271(f) (1) would make it just as legal to license less than all of the right to exclude others from making, using and selling the subject matter patented (35 USC 154) as it is to license the entirety of the right. It would assure continued freedom of the patent owner to license for a term less than the remaining term of the patent, license to make and use without licensing sale, license to make use and sell in specified sizes or for specified purposes or fields, etc.

The Supreme Court sustained a limited field license in *General Talking Pictures* v. *Western Electric Co., Inc.*, 305 U.S. 124 (1938). Other decisions on the subject are collected in Oppenheim, Federal Antitrust Laws (1968), pp. 706–8. In *Atlas Imperial Diesel Engine Co.* v. *Lanova Corporation*, 79 Fed. Supp. 1002 (D. Del., 1948), the court sustained a license to a patent to engines which was limited to a specified maximum size.

Limited licenses have, at least until recently, been considered legal in the same respect as unlimited licenses. They are useful in many situations. For example, the Government takes at least a license to make, have made, and use for Government purposes in connection with inventions made during the course of Government financed research. Many antitrust decrees provide for compulsory licenses under all the patents of the defendant for certain limited purposes such as "to make use and vend lamps, lamp parts or lamp machinery". *U.S.* v. *General Electric Co.*, 115 F.Supp. 835, 848 (D.N.J., 1953).

Under the proposed statute there would be no inquiry as to the "reasonableness" of the particular portion of the total patent right to exclude that is offered for license or is licensed—any more than there is inquiry as to the "reasonableness" of the price a patent owner proposes to charge or charges for a license or whether a refusal to license at all is "reasonable".

The proposed language would not make legal those contracts or combinations that go beyond the grant of a limited license and restrain trade. Conduct such as occurred in *Hartford-Empire Co.* v. *U.S.*, 323 U.S. 386 (1945), where limited licenses were part of an overall combination to restrain trade, would continue to be illegal.

Section 271(f)(2) would continue the right of the patentee to include in licenses such reasonable terms as are necessary to secure the full benefit of the invention and patent grant. For example, 35 USC 287 provides for a limitation on recoverable damages for patent infringement unless certain notice is on the patented articles. Under the proposed language a license requirement to this end would be legal. Similarly, a common form of license royalty is a percentage of the sales price. To secure the full benefit of the invention and patent grant with such license arrangement, the patentee should be entitled to receive necessary data as to what is sold by the licensee so as to determine that the royalties are correctly paid. The proposed language would assure that such provisions are free from challenge under the antitrust or any other laws.

The proposed language would not legalize agreement provisions that are not reasonable to secure the patent owner the full benefit of the invention and patent grant. For example, it would still be improper for a license to require that the licensee abstain from making or selling products that compete with the patented product. See *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F(2d) 255 (3d Cir., 1943). Also, limitations on the patentee, such as occurred in *United States* v. *Besser*, 96 Fed. Supp. 304 (E.D. Mich., 1951) (Aff'd. 343 U.S. 444 (1952)) and *United States* v. *Krasnov*, 143 Fed. Supp. 184 (E. D. Pa., 1956) (aff'd. 355 U.S. 5 (1957)), do not secure to the patent owner the full benefit of his invention and patent right in a reasonable manner and would continue to be invalid.

Section 271(g) deals with a number of common arrangements that up to now have been considered generally legal but have been recently questioned to at least some degree.

Paragraph (g)(2)(i) continues the present law that the amount of royalties a nonexclusive license back. If the patentee is to grant a license it is only equitable that the licensee be prepared to reciprocate. This consideration had

led the courts to approve nonexclusive grantbacks even in antitrust decrees rendered after proven violations of the Sherman Act. See, e.g., *United States* v. *National Lead*, 332 U.S. 319, 359 (1947).

Paragraph (g)(2)(i) continues the present law that the amount of royalties is purely a matter of private bargaining. In *American Photocopy* v. *Rovico, Inc.*, 359 F(2d) 745 (7th Cir., 19), the court held, in overruling a preliminary injunction, that excessive royalties were a patent misuse and antitrust violation. After trial on the merits it was concluded that there was no misuse. 257 Fed. Supp. 192 (N.D. Ill., 1966) and 384 F(2d) 812 (7th Cir., 1967.) While the effects of this decision are now largely dissipated, it is believed appropriate to have a statutory provision that will avoid future such holdings.

Paragraph (g)(2)(ii) continues the present law that consideration need not be measured by the extent of use of the patented invention. Minimum royalties, for example, are a proper nad very useful way to handle license fees. Although such royalties were specifically held valid in *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827 (1950), questions have been raised and the matter is believed best clarified by statute.

Paragraph (g)(2)(iii) makes it clear that the principle of paragraph (g)(2)(ii) applies to the analogous case where an arrangement involves a plurality of patents or patent claims and the royalty charge is not segregated as to any particular patent or patent claim.

Paragraph (g)(2)(iv) deals with differing royalty fees or purchase price figures. In *LaPeyre* v. *FTC*, 366 F(2d) 117 (5th Cir., 1966), and a number of other cases involving the same facts, dissimilar royalty rates were found to offend Section 5 of the Federal Trade Commission Act or the Sherman Act. These cases rest on an exceptional fact situation not likely to be repeated. Paragraph (g)(2)(iv) would make certain that the *LaPeyre* and companion cases are limited to their particular facts. A patent owner is not and should not be in the position of a public utility. The Congress has consistently and properly refused to enact compulsory licensing statutes. An endless number of considerations affect the royalty rate or purchase price to be arrived at as a matter of private bargaining, including the particular field of use by the licensee, the licensee's sales volume, the extent the licensee grants a license back, and many others. Paragraph (g)(2)(iv) assures that this bargaining can continue.

Re Section 301

There is at present in S. 2756 a Section 301 which sets forth the traditional provisions that the Federal patent laws do not preempt contractual or other rights or obligations not in the nature of patent rights, imposed by State or Federal law on particular parties in connection with inventions or discoveries, whether or not subject to the Federal patent statutes. In view of recent judicial decisions which cast a shadow of doubt on the propriety of entering into contracts for the protection of trade secrets, technical know-how, and the like, and which suggest that such private contracts are preempted by the patent laws, it is recommended that this point be legislatively clarified by rewording Section 301 along the following lines:

This title shall not be construed to preempt, or otherwise affect in any manner, rights or obligations not expressly arising by operation of this title whether arising by operation of state or federal law of contracts, of confidential or proprietary information, or trade secrets, of unfair competition or of other nature.

In the absence of such a provision in the statutes it may be presumed that any body of technical knowledge, which by its very nature normally would constitute patentable subject matter, would be subject to application of the federal patent laws. But this would be unfair and unreasonable if the subject matter consisted of information that is available in the prior art or which, no matter how valuable it may be commercially, lacks the element of unobviousness required for it to be eligible for patent protection (e.g. a literature study to determine from the prior art the best process route to a certain item of manufacture, and a plant design based thereon: a computer program based upon preexisting know-how; exact product simulation of form, color, size, etc.). In the absence of protection for such subject matter in the patent laws there is, nonetheless, a critical need for protection that should be avail-

able through the private law of contracts or the law of torts. Section 301 will fulfill that need and assure that the patent laws are not improperly applied so as to exclude such protection in situations where contract or tort law is indicated.

The need for Section 301 is important to the independent or relatively small researcher or developer of technical know-how and to large companies as well. At any level of operations the property rights which may be affected by that provision are of tremendous importance in the development and use of American technology. For example, a common occurrence are agreements entered into between domestic and foreign entities which involve, among other things, the transfer of technological information—important details of a process or product for which the recipient is willing to pay substantial sums of money. In 1968 the United States' technological balance of payments for agreements to exchange such technical information credited our country with 1½ billion dollars. In the absence of a law such as Section 301 provides such technical agreements might be outlawed as being preempted by the patent statutes. But the patent laws would afford insufficient protection for the subjects of those agreements as they may consist almost exclusively of non-patentable technical know-how. Thus, the net effect would be to put an end to the exchange of information and payments therefor now represented by those agreements, for in the absence of adequate protection few persons or companies would want to chance disclosing their know-how and few would want to pay for acquiring know-how that anyone may duplicate with impunity.

REPORT OF THE PRESIDENT'S COMMISSION ON THE PATENT SYSTEM

XXII

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

There is no doubt, in the opinion of the Commission, of importance to the U.S. economy of both the U.S. patent system and the antitrust laws. Each is essential and each serves its own purpose within the framework of our economic structure. However, conflicts between the two have arisen. But this does not mean that the two systems are mutually exclusive, that a strong patent system is a threat to the antitrust laws, or that the latter cannot be effectively enforced so long as a patent system grants limited monopolies.

On the contrary, the two systems are fully compatible, one checking and preventing undesirable monopolistic power and the other encouraging and promoting certain limited beneficial monopolies. In this way, each may easily achieve its objectives in a strong economy.

The Commission, therefore, does not favor any proposal which would weaken the enforcement of the antitrust laws or which would curtail in any way the power of the courts to deny relief to a patent owner misusing the patent he seeks to enforce. However, uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule. This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses.

No useful purpose would be served by codifying the many decisions dealing with patent misuse into a set of rules or definitions permitting or denying enforceability of patents in given circumstances. The risk of unenforceability is too great and such a codification is wholly unnecessary. All that the Commission believes to be required is explicit statutory language defining, for the

purpose of assignments and licenses, the nature of the patent grant heretofore recognized under the patent statute or by decisional law. This is, the right to exclude others from making, using and selling the patented invention.

The mere exercise, conveyance or license of these conferred rights should not in itself constitute misuse of a patent. A patent owner should not be denied relief against infringers because he either refused to grant a license or because he has exercised, transferred or licensed any of the conferred patent rights himself. This should not include immunity of even these conferred patent rights from the antitrust laws when the patent owner becomes involved in a conspiracy to restrain or monopolize commerce, or when the patent is itself used as an instrument for unreasonably restraining trade.

There are also a number of conditions and provisions long associated with the transfer or license of rights under patents which must be distinguished from the exclusive right to make, use and sell conferred by the patent grant. Among these are improvement grant-backs, cross licenses, package licenses, patent pools, no contest clauses, and many others which are simply matters of private contract, ancillary to the conveyance or license of a patent right. As such, these conditions and provisions must be judged, along with other purely commercial practices, under the antitrust laws and the patent misuse doctrine. The Commission does not recommend immunization of any of these other provisions or conditions from either the antitrust laws or the application of the misuse rule.

This recommendation also makes it clear that a patent may not be used to control commerce in subject matter beyond the scope of the patent. For example, it could not be considered "reasonably necessary" to secure full benefit to the owner of a machine patent that he attempt to control any of the commerce in an unpatented raw material to be used in the machine. Neither could it be held that such an attempt had a direct relation to the machine claims in his patent. By the same standards, the patent owner could not control commerce in one of the unpatented elements of his combination invention where his claims are to the whole combination.

AMERICAN BAR ASSOCIATION,
Chicago, Ill., November 5, 1970.

Re: S. 2756 For the general revision of the patent laws.

Hon. JOHN L. MCCLELLAN,
Chairman, Subcommittee on Patents, Trademarks, and Copyrights, Judiciary Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR MCCLELLAN: As Chairman of the Patent, Trademark & Copyright Section of the American Bar Association, I am enclosing a brief prepared by members of our Section which illustrates why it is of the utmost importance to include Recommendation XXII of the President's Commission on the Patents System as a Section of the above bill or in any revision thereof. The brief sets forth legislative language which paraphrases Recommendation XXII, and this language has been approved by our Section and the House of Delegates of the American Bar Association.

The executive branch of the government, as represented by the Department of Justice and the Judicial branch in decisions by the Courts involving both private litigation and litigation in which the Department of Justice has been involved, have created great uncertainty in the law with respect to patent licensing. We submit that the legislative branch should now take the lead, fortified as it is, by Recommendation XXII of the Presidential Commission to provide a statutory expression of a standard to aid business men, private inventors and the general public in the patent licensing area.

We have, of course, noted the position of the Department of Justice, as indicated in a letter to you from assistant Attorney General McLaren, which appeared in the Congressional Record. It should not be left to the Justice Department to establish the law of patent licensing case by case, as proposed by Mr. McLaren. This would be an abdication in this area of the rights and duties of the legislative branch.

The difficulty with the reasoning of the Justice Department is that it always has its sights set on the big company. It completely overlooks "the little man from Little Rock." There are many individuals and small companies who have patents, and often the best and only way for them to benefit from the patent

system is to license their patents. Very few companies, for example, would take a non-exclusive license from an individual, since in practically all cases, the licensee company must spend several hundred thousand dollars to redesign and test the product to meet the commercial demands of the market. This a company is not willing to do if competitors are also licensed, particularly upon the same terms and in the same field of use.

A statutory provision defining the metes and bounds of patent licensing such as is proposed in the attached brief, would protect these little men by providing guidelines under which they can operate. The big company can survive under the approach proposed by the Justice Department. The little man cannot, and he needs a statutory mandate under which he can be advised that he is proceeding legally.

We could have included numerous other examples of cases in the attached brief where the decisions of the Courts have left the law of patent licensing in a confused state. However, we appreciate that your time and that of your committee is limited and believe our short brief clearly illustrates the problem and points up the necessity for legislation in the patent licensing field.

I trust the enclosed will be of help to you.

MERL SCEALES,
Chairman.

A NEED EXISTS FOR ADDITIONAL STATUTORY PROVISIONS IN PROPOSED PATENT REFORM LEGISLATION

I. INTRODUCTION

There is much uncertainty in the law of patent licensing and legislative clarification is needed. The confusion in this area of the law was noted by the President's Commission on the Patent System which reported:

* * * uncertainty exists as to the precise nature of the patent right. * * *

This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses.[1]

As a suggestion for reducing the confusion and bringing some certainty to the law of patent licensing, the President's Commission offered Recommendation XXII which stated:

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

Recommendation XXII was translated into proposed legislation as Section 263 of the Dirksen bill S. 2597 (90th Congress). Section 263 of the Dirksen bill, which Section has been approved by the American Bar Association,[3] states:

263. Transferable nature of patent rights

(a) Applications for patent, patents, or any interests therein may be licensed in any specified territory, in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable, and

(b) A patent owner shall not be deemed guilty of patent misuse because he agreed to contractual provisions or imposed conditions on a licensee or an assignee which have:

(1) A direct relation to the disclosure and claims of the patent, and

(2) The performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant.

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[1] Report of the President's Commission on the Patent System, U.S. Government Printing Office (1966), p. 37.
[2] Id at p. 36.
[3] Congressional Record—Senate, 90th Congress, p. S15474 (1967).

(c) In determining the reasonableness of such provisions or conditions under this section, the courts shall, in each case, consider all factors involved in the exploitation of the patented invention and the economic effect of such provisions or conditions.

The most recent patent reform legislation, McClellan S. 2756 (91st Congress) does not, however, include a provision like Section 263.

Either Section 263 of Dirksen S. 2597 (90th Congress) or a similar section is needed in patent reform legislation to encourage the licensing of patents by rendering more certain the law governing such transactions.

II. REPRESENTATIVE PROBLEM AREAS

Some of the principal areas where the law relating to patent licensing is uncertain are: "field-of-use" licensing, royalty collection following patent expiration, package licensing, nonexclusive licenses containing differing royalty rates, grant-back covenants, and setting of royalty rates.

A. "Field-of-use" licenses

There is present confusion in the law as to whether or not a patent owner may limit the licensed use of his invention to a designated apparatus, process or field of business activity. More particularly, while it has been believed since the 1938 decision of the Supreme Court in *General Talking Pictures Corp.* v. *Western Electric Co.*[4] that a patent owner can limit his license under the invention to a particular field (such limitation commonly being referred to as a "field-of-use" limitation) it now appears that the Department of Justice plans to challenge the legality of "field-of-use" licenses in certain instances where they are issued to a plurality of licensees.[5] Patent owners are thus placed on the horns of a dilemma in as much as they cannot with any certainty grant "field-of-use" licenses. To grant such licenses would be to invite an action from the Justice Department.

B. Collections of patent royalties following patent expiration

A further area of concern to patent owners involves the legality of charging a royalty the payment of which is to be spread over a term of years which exceeds the life of the licensed patent.

In 1964 the Supreme Court in *Brulotte* v. *Thys Co.*[6] held that a license of a single patent which required payment of royalties for a period beyond the expiration date of the patent was an unlawful extension of the patent monopoly and therefore a misuse of the patent.

In 1969 the Supreme Court in discussing the *Brulotte* case has stated:

Recognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that the payment of this royalty could be postponed beyond that time, we noted that the post-expiration royalties were not for prior use but for current use, and were nothing less than an effort by the patentee to extend the monopoly beyond that granted by law.[7]

This is confusing and statutory clarificaton is needed.

C. Package licensing

The problem of post-expiration royalties discussed in Section II B is also of concern in the licensing of several patents to a single licensee (such licenses being commonly referred to as "package" licenses). Patent owners are presented, in view of the Supreme Court decisions, with the problem of determining whether a package license is unenforceable if the royalty provision does not provide for a decrease in the royalty rate should any of the licensed patents expire during the life of the license agreement. The practice of charging a royalty rate which does not diminish during the life of the agreement, even though some of the licensed patents may expire, was early approved in *Automatic Radio Co.* v. *Hazeltine Research Co.*[8] Apparently this practice is

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[4] 305 U.S. 124, 59 S.Ct. 116 (1938).

[5] Address by Richard W. McLaren, PTC Research Institute of George Washington University (June 5, 1969), 161 U.S.P.Q. No. 11, p. II; and address by Roland W. Donnem, Michigan State Bar Convention, Trade Regulation Report (October 7, 1969) pp. A–4 and A–5.

[6] 379 U.S. 29, 85 S.Ct. 176 (1964).

[7] *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, —— U.S. ——, 89 S.Ct. 1562 at 1583 (1969).

[8] 339 U.S. 827, 70 S.Ct. 894 (1950).

still permitted in the tenth circuit, as evidenced by *Well Surveys, Inc.* v. *Perfo-Log, Inc.*[9] while it is in trouble in the third circuit. More particularly, the third circuit in *American Security Co.* v. *Shatterproof Glass Corp.*[10] 268 F.2d 769 (3d Cir. 1959) found patent misuse in a license clause which continued the full royalty rate "to the expiration of the last to expire of any"[11] of the patents licensed under the agreement. The confusion is further amplified by a statement in majority opinion of the *Brulotte* case, supra, which distinguished the *Hazeltine* case, supra, by pointing out that not all of the patents involved in the *Hazeltine* case were to expire during the period of royalties. Further, as was pointed out in a footnote to the majority opinion in the *Brulotte* decision, the review petition filed in the *Hazeltine* case: did not * * * raise the question of the effect of the expiration of any of the patents on the royalty agreements.[12]

Statutory clarification is needed.

D. Nonexclusive licenses containing differing royalty rates

Recent decisions have held that the owner of a patent could not charge different royalty rates to licensees under the same patent.[13] Because of these decisions there is doubt as to the legality not only of a patent owner charging different royalty rates in situations where licensees are involved in the same "field-of-use" but also in those situations where the licensees are involved in different "field-of-use."

Clarification on the law with regard to the setting of differing royalty rates for licensees of the same patent is needed.

E. Grant-back covenants

While it has been believed that a "grant-back" provision in a patent license (such a provision being one which requires that the licensee assign or license back to the licensor any patent or improvement in the products or the processes of the licensed patent) is a legal and valid provision under the doctrine announced in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*,[14] at least as long as such grant-back provisions were not linked with any other anti-competitive activity,[15] it now appears that the Justice Department contemplates challenging license agreements containing particular types of grant-back clauses.[16] In order to have any certainty as to whether or not such provisions may be lawfully included in license agreements, statutory clarification of the legality of such provisions is needed.

F. Royalties

The law is also unclear as to the extent to which the patent owner and his licensee are free to set a mutually agreeable royalty rate. Particularly, while the Supreme Court in the *Brulotte* case[17] noted that a patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that patent, the recent case of *American Photocopy Equipment Co.* v. *Rovico*[18] held that a patent owner should be denied a preliminary injunction against infringement of his patent because in the court's opinion the patent had been misused as the royalty rate was exorbitant and oppressive. How can an attorney advise his client as to whether or not a royalty rate is exorbitant and oppressive?

Statutory clarification is needed.

III. STATUTORY TREATMENT OF THE ABOVE PROBLEMS

Only Section 263 of the Dirksen bill S. 2597 (90th Congress) and the 91st Congress' version thereof, S. 1569, has treated any of the problems discussed

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[9] 396 F. 2d 15 (10th Cir. 1968), *cert. denied* 393 U.S. 951. See *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F. 2d 381 (10th Cir. 1965), *cert. denied* 383 U.S. 933.

[10] 268 F. 2d 769 (3d Cir. 1959).

[11] Id at 777.

[12] 379 U.S. at 32.

[13] *Laitram Corp.* v. *King Crab, Inc.*, 244 F. Supp. 9 (D.C. Alaska 1965), motion for new trial denied, 245 F. Supp. 119 (1965); *U.S.* v. *United Shoe Machinery Corp.*, 110 F. Supp. 295 (D.C. Mass. 1953); *Peelers Company* v. *Wendt*, 260 F. Supp. 193 (D.C. Wash. 1966); and *Barber Asphalt Corp.* v. *La Fera Grecco Contracting Co.*, 116 F. 2d 211, (3d Cir. 1940).

[14] 329 U.S. 637, 67 S.Ct. 610 (1947).

[15] *U.S.* v. *General Electric*, 80 F. Supp. 989 (D.C. N.Y. 1948). *U.S.* v. *General Electric*, 82 F. Supp. 753 (D.C. 1940); *U.S.* v. *Alcoa*, 91 F. Supp. 333 (S.D. N.Y. 1950); and *Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F. 2d 416 (10th Cir. 1952).

[16] Address cited note 4 supra.

[17] 379 U.S. 827, 70 S.Ct. 804 (1950).

[18] 350 F. 2d 745 (7th Cir. 1966), *cert. denied* 385 U.S. 846.

above, with which the public is concerned on a day-to-day basis.

To enact patent reform legislation without a provision such as Section 263 of the Dirksen bill so that the law can develop on a "case by case" basis will simply prolong the uncertainty for an undeterminable period.

Prolongation of the uncertainty will most certainly be a disservice to the Patent System, and ". . . produce confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses" [19] as was observed by the President's Commission to study the Patent System.

Therefore, it is requested that Section 263 of the Dirksen bill S. 2597 (90th Congress) be incorporated into McClellan bill S. 2756 (91st Congress) and any subsequent patent reform legislation.

THE PHILADELPHIA PATENT
LAW ASSOCIATION,
Philadelphia, Pa., January 28, 1970.

Hon. JOHN L. MCCLELLAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCCLELLAN: In the belief that you are in full accord with the statement in the recent Presidential Executive Order 11,215 establishing the President's Commission on the Patent System that:

"* * * the patent system * * * has contributed materially to the development of this country by furthering increased productivity, economic growth, and an enhanced standard of living and has strengthened the competitiveness of our products in world markets; * * *"

The Board of Governors of the Philadelphia Patent Law Association is writing to you concerning a matter deeply affecting this patent system.

The consttutional mandate granting to authors and inventors, for limited times, "the exclusive right to their respective writings and discoveries" was made with the knowledge that this right would enhance the public good by encouraging inventors to invent. Without the protection afforded by the patent system an invention could be copied and the market stolen by an unscrupulous manufacturer with ready facilities. With the patent system an inventor is encouraged to improve existing products to the public benefit. The limited rights is not monopolistic at all. In the words of the late Mr. Justice Roberts:

"* * * A patent is not, accurately speaking, a monopoly. * * * An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge * * *"

An inventor can use the patent right in several ways. He may use it to protect himself in the manufacture and sale of the invention or he can license another to do this for him in return for a suitable royalty. Thus the right to grant licenses frequently becomes the real thing of value which the inventor receives. To the extent that his right is unnecessarily limited, the incentive to compete is likewise reduced.

The basic right of a patentee to license his invention has been guaranteed from the earliest times. Nevertheless, the Courts have, over the years, successively limited the scope of his right to grant licenses, some of these decisions finding their basis in the Antitrust laws. But each decision, the good and the bad, has been purchased at the considerable expense of Court litigation. The law has been written by the Courts rather than by the legislature. As you stated in your speech introducing your Patent Bill S. 2756, the Department of Justice is urging a continuation of this technique in the belief that "any necessary development or clarification of the law in this area could be obtained as a part of the Department's antitrust enforcement program."

Further, according to an article which appeared in the Wall Street Journal for Wednesday, Januay 7, 1970, the Justice Department has formed a new staff unit in its Antitrust Division to concentrate on cases "involving restrictive practices in the licensing of patents and technology." The article continues to point out that "In recent months, the department has filed antitrust suits

[19] The Report of note 1 supra at p. 36.

challenging agreements not to contest the validity of patents; agreements dividing sales or use of territories for patented products, and restrictions on the sale of cetain drugs in generic, or bulk, form."

The continuing attempt to write patent law in the Courts can not only result in burdening industry with the cost of defending itself but also the resulting uncertainty will discourage others from participating in what has been for many years their inherent right. Today no one in industry knows what customary licensing procedure will next be subject to attack or what penalties will be invoked against him for doing what has been, for years, common practice. The United States Supreme Court itself has participated in this situation. In a dissenting opinion, the late Mr. Justice Frankfurter protested that the Court was repudiating a legal principle that "was woven into the fabric of our law and has been part of it for now more than seventy years." (Mercold v. Mid-Continent.) There is thus an urgent need for Congress to express in clear and unmistakable terms the fair bounds and limits within which industry may be free to operate.

This conflict between the patent system and the antitrust laws was recognized by the President's Commission on the Patent System. Their report recognized that "the two systems are fully compatible", but that "* * * uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule." Recommendation 22 of the Report then stated that the licensable nature of patent rights should be clarified in the patent Statute.

In view of the urgent need presented by this situation, a special Committee on Antitrust and Misuse was formed within the Philadelphia Patent Law Association, instructed to study the entire situation and to submit appropriate recommendations to the Board of Governors. Many meetings have been held by the Committee. It has studied the action taken and statements submitted by other Patent Law Associations. It subsequently submitted strong recommendations to the Board of Governors urging the Board to take appropriate action to approve its recommendations and to submit corresponding views to those most concerned with the hope that Congress will, in the revised patent Statute now under consideration, clarify the rights of licensors and licensees in a manner which will, for once and for all, establish their proper metes and bounds and minimize the harassment that will necessarily result from legislation by Court decisions. Accordingly, the Board of Governors, at a meeting held on January 15, 1970 unanimously adopted the following Resolution:

Resolved, that the Board of Governors of the Philadelphia Patent Law Association adopts the findings of its Committee on Antitrust and Misuse which approves in principle the recommendations submitted to the Senate Committee by the American Patent Law Association (APLA) in regard to Recommendation No. 22 of the President's Commission.

A copy of the proposed statutory language which has been submitted by the APLA is enclosed for your convenience. We and our Committee on Antitrust and Misuse enthusiastically endorse the recommendation of the APLA that a provision of this type be included in the revised Patent Act for the reasons outlined in this letter. Because of the importance of this matter, our Committee is continuing to study the specific wording of the APLA proposal. Should we have recommendations to make or any changes in the specific wording to propose we will submit these to you promptly.

Very truly yours,

PHILIP G. COOPER,
President.

Enclosure.

PROPOSED STATUTORY LANGUAGE

With respect to Recommendation No. 22 of the President's Commission, we previously have placed the Association on record with the Senate Committee as favoring the following proposal:

1. Change the heading of Section 261 of S. 2756 to read—Transferable and Licensable Nature of Patent Rights.

2. Amend the first and second sentences of Section 261(b) in S. 2756 to read as follows:

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing, and in like manner exclusive rights under

applications for patent and patents may be conveyed for the whole or any specified part of the United States.

An applicant, patentee, or his legal representative may also at his election, license or otherwise waive any of his rights under Section 154 or Section 281 of this title in whole or in any part thereof, by exclusive or nonexclusive arrangement with a party of his selection.

3. Add subparagraphs (f) and (g) to section 271 of S. 2756 as follows:

(f) No patent owner shall be guilty of misuse or illegal extension of the patent rights because he has entered into, or will only enter into,

1. An arrangement granting some rights under the patent but excluding specified conduct, if the conduct excluded would be actionable under Section 271 and Section 281 of this title; or,

2. An arrangement granting rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant.

(g) No patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into or will only enter into an arrangement of assignment, license or waiver of some or all of his rights under Section 154 or 281, for a consideration which includes:

(1) A non-exclusive exchange of patent rights;

(2) A royalty, fee or purchase price;

(i) In any amount, however paid or measured, provided that any amount paid after the expiration of a patent is based solely upon activities prior to such expiration;

(ii) Not measured by the subject matter of the patent or by extent of use by the other party of the rights assigned, licensed or waived;

(iii) Not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents;

(iv) Differing from that provided in some other arrangement.

Memorandum on the Need for Legislative Clarification of the Law Relating to Patent License Provisions

SUMMARY

Encouraging innovation is the principal objective of the patent system. Patents do this, first, by encouraging invention, or the investment in inventive efforts thus, patents provide a lead time for the paent owner against competitors who would copy the invention and enjoy a free ride on the research and development investment. Second, patents facilitate the marketing of inventions. Often the useful dimensions of an invention exceed the interests or capabilities of the patent owner to develop, produce or market it. The patent owner must then be able to use his patent to secure what he lacks in the means to market.

The patent is a form of monopoly, albeit a temporary and specially-created one and therefore is an automatic anathema to some antitrust theorists. Nevertheles, the patent "monopoly" brings a form of innovative competition that no antitrust law can provide. This is, in effect, competition in value, as distinguished from price (although the patented product must still compete in price with its available alternatives).

The patent owner is entitled to keep all others from practicing his invention. Or he can sell the patent or license others to use it. A licensing arrangement must hold prospects of profit for both parties and, accordingly, must be adapted to an existing business situation. Howeve, the patent owner is entitled to attach only those terms to his license that are reasonably related to the scope of his patent grant. Otherwise, his patent can be held unenforceable as a patent misuse: or the patent owner can be held in violation of the antitrust laws, subjecting him to severe penalties—including a prison sentence, heavy fines, and treble damages to those his acts have injured. *The need is therefore apparent for reasonable certainty in the laws relating to patent licensing if patents are to be used effectively in bringing new products and processes into maximum use and fostering innovative competition.*

In several important respects, the applicable law is so unsettled as to hamper legitimate licensing activities. This arises from diversities in holdings of our courts. Equally disturbing for the future is the unrealistic attitude of the Department of Justice, due in part to a lack of appreciation of the practical prob-

lems of licensing and operating under licenses. Representatives of the Antitrust Division with increasing frequency are threatening actions against patent owners who engage in licensing practices well within the scope of their patent grant and for a proper purpose but which the Division considers opposed in theory to a concept of antitrust.

Patents, by statute, have the "attributes of personal property." The owner of personal property other than patents enjoy, among the attributes of ownership, the right to dispose of all or part of his property whenever, wherever and to whomever he chooses. And in disposing of it he is not called on to prove that what he is doing is legal or even reasonable. The patent owner, in disposing of his patent property, should enjoy the same presumption of legality and reasonableness concerning his transactions.

There is need for legislative clarification in several specific areas of patent licensing. These include:

1. Field-of-use licensing

A patent owner is entitled to all uses of his invention. Some uses, such as those beyond his ability or interest to develop and market, he may choose to license to others. Such a license is not restrictive but merely conveys less than the total right belonging to the patent owner. However, the Department of Justice insists that such a license is restrictive, and there is increasing danger that our courts, which heretofore have upheld such practices, will fall victim to this pressure. The President's Commission on the Patent System, appointed by President Johnson, concluded that the field-of-use license, like the license for a particular territory (which is specifically sanctioned by present statute), should receive statutory approval.

2. The right to license (or not to license)

Strange as it seems, the right of a patent owner to license parties of his choice has been challenged. A White House Task Force on Antitrust Policy has urged that if a patent owner licenses his patent at all he must license all comers who are financially responsible and of good reputation. At least one court decision has spoken similarly. While the use of patents beyond their proper scope is clearly wrong, and the interdiction of antitrust or the defense of patent misuse becomes appropriate, the insistence that the patent owners must license all qualified parties if he licenses anyone is clearly an unwarranted extension of antitrust philosophy. The lack of appreciation for the facts of business life is endangering the important prerogative of the patent owner to select his licensees.

3. The freely negotiated royalty

A federal court has held that a royalty, acceptable to some sixteen other licensees, was excessive and *per se* violation of the antitrust laws. While the Supreme Court has repeatedly held that a patent owner is entitled to whatever royalties the parties negotiate, there is now judicial support for questioning the royalty terms of any license. This intervention by a court to determine *ex post facto* that a royalty does not suit the court's idea of reasonableness and amounts to price fixing is more than unwarranted. Moreover, in most instances an arrangement that later proves an undue burden on the licensee will be adjusted for the good business reason that it impairs the sale of the product and the generation of royalties for the patent owner.

4. Royalty differential between nonexclusive licensees

A series of court decisions in related cases have held different charges to different licensees to be a *per se* antitrust violation. These decisions may or may not portend a judicial trend against the freedom of the patent owner to charge different royalties to different licensees. This judicial uncertainty is compounded by the report of the aforementioned White House Task Force on Antitrust Policy, on which the Department of Justice has commented with apparent favor. The Task Force would have each license under a patent to be on terms "neither more restrictive nor less favoable" than every other license—even though the licensee be for different products or purposes, and even though the benefits of the license may vary widely among several licensees.

5. The royalty base

The complexities in the practice of some product and process patents sometimes make it difficult or impossible to measure the use of the patent for de-

termining royalties. On such occasions the parties agree on some conveniently determinable parameter as a measure of use. It would seem inappropriate for the courts to interefere with such arrangements, and in fact decisions have been generally reasonable. Nevertheless, there is uncertainty which a clear legislative provision would alleviate.

6. Royalty for the package license

Where a prospective licensee wants to do something that in its totality is covered by a group of patents, some of which may not be used all the time or which may be alternatives to others, the entire group of patents may be licensed. If the patent owner does not coerce his licensee into accepting and paying for unwanted patents, antitrust problems are usually avoided. But in establishing a royalty he may encounter problems. Usually, no breakdown of royalty is made for individual patents because the extent of their use cannot be predicted when the license is negotiated. But when the patents begin expiring the right of the patent owner to continue to receive the full royalty is sometimes questioned. The reduction in value of the remaining patents as each patent expires would in most instances be impossible to determine fairly. If the original agreement contemplating the continuance of royalties until the last significant patent has expired was reached in arms-length bargaining without coercion, it should remain in force as the parties intended.

7. Royalty payment after expiration of patent

A single Supreme Court decision has raised doubts in the minds of some as to the validity of a license calling for payment of royalties after expiration of the patent but for activities carried out while the patent was alive. Installment payment of royalty is usually a concession to the licensee and should not be a source of loss or litigation to the patent owner.

The President's Commission on the Patent System observed the patent owner's plight in the matter of permissible patent license provisions:

However, uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule. This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses.

This, indeed, is true.

The Department of Justice is becoming increasingly active in critical surveillance of patent licensing. While the Department favors a case-by-case development of the law (with the Department initiating or participating in litigation to its own end), such development would inevitably be expensive—both for the patent owner and the public. Moreover, the resulting law could well be misdirected, because it would have its origins in aggravated and unrepresentative fact situations.

The interests of patent owners and the public call for legislative clarification of some of the major problems now in such an uncertain state. Especially, these interests need safeguards against case law making *per se* antitrust violations of some of the practices so important to innovation through patents.

Memorandum on the Need for Legislative Clarification of the Law Relating to Patent License Provisions

Introduction

When the patent system is viewed in terms of its constitutional objective of encouraging useful innovation, patent and antitrust concepts may touch but they shouldn't tangle. However, there is mounting evidence of inconsistency and confusion in the courts and a disturbing trend in the Department of Justice concerning the terms that may be incorporated in patent licenses without invoking the sanctions of antitrust.

The importance of this development lies in the fact that the licensing of patents, and the freedom to adapt the license to the business situation facing the patent owner and his prospective licensee, are often indispensable to the full utilizaiton of the patent for the benefit of both the public and the patent owner.

It is the purpose of this Memorandum on behalf of the American Patent Law Association to outline some of the problems of patent license provisions and to suggest areas in need of legislative clarification.

THE ROLE OF PATENTS IN INNOVATION

There are two distinct but important roles of patents in the innovative process one widely recognized and the other too often ignored. Both are embraced within the constitutional requirement that the patent system "promote the useful arts."[1]

The first is the incentive to invent, or—more commonly—to support inventive efforts. Of course, a few gifted individuals invent as a reflexive response to a problem or challenge. They may have little regard for the economics or marketability of their inventions but simply invent for the satisfaction of exercising their creative talents. For them the patent system may provide little personal incentive to invent (although patents may afford the only means for bringing their inventions into use for the benefit of the public, as will be developed below).

But the oftimes risky investment in research, development, design, manufacturing and marketing activities in the context of the innovating unit, be it an individual or corporate group, could hardly be justified if the results could always be freely copied by those having no such investments to recover. The innovator of a marketable product needs a *lead time* during which he can deny competitors a free and profitable ride on his investment in the innovation. This is what the patent system gives him in return for disclosing details of the invention in a patent—provided his invention can qualify as sufficiently different from what has been done before to merit a patent.

From this limited lead time of seventeen years, sometimes called the patent "monopoly," the patent owner has an opportunity to recover his expenses, earn a profit and possibly invest in other innovative adventures—so long as the public is satisfied his product is worth buying at the price he charges. It is the *prospect of patent coverage* that justifies much investment in research and development leading to new products, new plants, new employment opportunities and genuine progress in the useful arts.

The second role of patents in innovation concerns the ability to market. At the patent's expiration, anyone can use the invention free of the patent. In the meantime, public disclosure of the invention in the patent often stimulates others to invent improvements or make quite different inventions, building on the ideas in the patent.

While public disclosure of the invention in the patent is therefore a contribution in itself, the full range of benefits contemplated by the patent system are not realized until the patented invention is embodied in a product or service available to the public. The right to exclude others from practicing an invention is hollow, indeed, both from the standpoint of the patent owner and the public, if the patent owner lacks the money, talent, organization or facilities to bring the invention to market. It is therefore essential that if the patent owner decides to market the invenion *he be able to use his patent* to secure what he lacks in the means to market.

This is particularly important where the invention is capable of application outside his regular field of interest or competence. In such event he needs to use his patent in a business arrangement that will give incentive to those of his choosing who are expert in other fields and can handle the special problems of development, manufacturing and marketing.

These two elements, *the incentive to invent* (or support inventive efforts) and *the ability to market*, are the heart of a patent's contribution to "innovation." They are sequential but inseparable, and recognition of this duality will be seen as important in resolving patent antitrust conflicts in the area of patent licensing.

THE CONTRIBUTION OF PATENTS TO THE ANTITRUST OBJECTIVE

To the extent the patent owner has the exclusive right to prevent others from making, using and selling the invention claimed in the patent, he does, indeed, enjoy a monopoly—albeit a temporary one. But the temporary monopoly of the patent takes nothing from the public, for the patent *by law* covers only that created for the first time by the inventor.

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[1] Article I, Section 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.

Because a monopoly of any kind is anathema to the antitrust theorist, the monopoly of the patent has given rise to the erroneous idea that patent and antitrust concepts are endlessly opposed. The patent monopoly is regarded as an intrusion on the principle of free and unfettered competition.

In truth, however, the utilization of the temporary patent monopoly brings an entirely new dimension to the free competition sought by the antitrus laws. This new dimension arises from the necessity for competitors to find their own routes to successful products, a process that in its stepwise implementation brings new and better or cheaper products to the market. Indeed, there is no stronger incentive to invent, or to invest in effort to invent, than a successful, patented product in the hands of a competitor. This can properly be called *innovative* competition—or competition in *value*, as distinguished from price—a form of competition not secured through application of any of the antitrust laws.

PATENTS, PROFITS AND PROPHETS

If the support of inventive efforts leads to grant of a patent, or if a patent is otherwise acquired, the problem of the patent owner is how to use the patent for profit. The patent may cover a manufactured article, a device or machine, a chemical compound or combination of compounds, a process for making something, or a method for doing something. If practicable, the patent owner usually chooses to make and sell the patented product himself or use the process in his own plant.

However, if in his business judgment he decides the best opportunity for profit lies in granting licenses to others, he must proceed with the utmost care. First, he must choose as his licensees only those who, by their good reputations or capabilities, will bring credit to his invention. In licensing his patent for practice by others he is parting with a portion of the exclusive privilege his patent gives him, and licensed activities that would demean the invention would inevitably lessen the value of his remaining rights under the patent.

Second, he must fashion the patent license to the business situation he faces. Obviously, the arrangement must hold prospects or profit for both parties. But in taking into account the business interests involved, the patent owner can properly include in the license only those provisions reasonably related to securing for him the legitimate benefits of the patent grant—which confers the right to exclude others from making, using or selling the patented invention. If the license goes farther, the validity of the arrangement can be called into question because the patent has been employed beyond its lawful scope. The patent owner has, in other words, "misused" his patent.[2]

Patent misuse is a defense against a charge of infringement and may relieve the infringer of liability. Although the patent may be valid, the patent owner loses his right to enforce it so long as the misuse continues and the consequences have not been corrected. If the misuse can be shown to have adversely affected competition, or to have been part of a plan to restrain or monopolize trade, the acts of misuse may rise to a violation of the antitrust laws. The phrase "antitrust laws" includes Sections 1 and 2 of the Sherman Act and Sections 3 and 7 of the Clayton Act, with the Federal Trade Commission Act sometimes included.[3]

While patent misuse is actionable only as a defense to a suit for infringement or a related suit for breach of a license, activities believed to constitute antitrust violations can be enjoined by a court on the basis of action by the Department of Justice, acting in the name of the United States Government, or on the basis of action by injured private parties. The penalties for antitrust violations

[2] *Motion Pictures Patent Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917). See also elaboration of theory in *Morton Salt Co.* v. *Suppiger*, 314 U.S. 488 (1942).

[3] *Sherman Act, Section 1* (15 U.S.C. 1) : Contracts, combinations or conspiracies in restraint of interstate or foreign trade or commerce are illegal. *Sherman Act, Section 2* (15 U.S.C. 2) : Persons who monopolize, or attempt to monopolize, or conspire to monopolize any part of interstate or foreign trade or commerce are guilty of a misdemeanor, (subjecting them to criminal sanctions). *Clayton Act, Section 3* (15 U.S.C. 14) : It is unlawful to sell or lease commodities, whether patented or unpatented, on condition that the purchaser or lessee will not deal in the products of the seller's or lessee's competitors where the effect may be to substantially lessen competition or tend to create a monopoly. *Clayton Act, Section 7* (15 U.S.C. 18) : No corporation can acquire the stock or assets (generally interpreted as including patents and interests in patents) of another corporation where the effect may be to substantially lessen competition or tend to create a monopoly. *Federal Trade Commission Act* (15 U.S.C. 41 et seq.) : Federal Trade Commission can issue cease and desist orders against unfair methods of competition and against violations of Sections 3 and 7 of Clayton Act but so far has taken little action in matters involving patents.

can range from heavy fines to prison sentences (where a criminal violation is made out), and private parties who have been injured by the illegal acts can sue for treble damages.

Increasingly, the patent owner who licenses his patent needs the gift of prophecy. In tailoring his license to the business situation existing *at the time of licensing*, he and his prospective licensee must foresee not only how the courts and Department of Justice might interpret the license provisions, but also how changing business circumstances might affect such intepretations.

As will be demonstrated below, the state of the decisional law is unsettled in the extreme. But of equal importance is the threatening posture of the Department of Justice. The recently-announced establishment of a Patent Unit within the Antitrust Division of the Department of Justice underscores concern over some of the policies that seems to be emerging in the patent-antitrust area.[4]

Speaking in Washington on June 5, 1969, Assistant Attorney General McLaren, in charge of the Antitrust Division of the Department of Justice, outlined the guiding philosophy of antitrust enforcement in this area as follows:[5]

In considering whether to attack a particular licensing provision or practice, we ask ourselves two fundamental questions. First, is the particular provision justifiable as *necessary* to the patentee's exploitation of his lawful monopoloy? Second, are less restrictive alternatives *available* to the patentee? Where the answer to the first question is no, and to the second yes, *we will consider bringing a case challenging the restriction involved.* (Emphasis added.)

The Department of Justice is therefore not only concerned with whether a given practice in a given situation in fact constitutes an antitrust violation, but whether the particular licensing arrangement was "necessary," or whether there might have been other ways of putting the patent to use that would have imposed less "restriction" on the licensee.

More will be said below about use of the word "restriction" in the patent license context. It is important to understand, however, that the Department of Justice is using the term to describe that portion of the patent grant which the patent owner has chosen *not* to license.

If the patent owner can deny access of all others to his invention, it would seem appropriate that he be entitled to control the degree to which he relinquishes his exclusive rights, *so long as the license provisions are within or reasonably ancillary to the patent grant.* No gift of prophecy could possibly anticipate the outcome of a test of a licensing arrangement, made in a given business context at a specific point in time, against the subjective criteria of "necessity" and "availability of alternatives" applied at some future time. One is led to conclude that only the failure of the arrangement would prove its legality.

THE DISPOSITION OF PATENTS AS PERSONAL PROPERTY

It should not be taken as the position of the American Patent Law Association that all the patent license provisions discussed herein should always be permitted to stand in all circumstances. Even the most innocuous terms can be applied in a predatory manner to achieve, through conspiracy or individual action, results that are anticompetitive, clearly beyond the scope of the patent grant and inimical to progress in the useful arts. But to adopt the test proposed by the Department of Justice, or to permit the declaration of *per se* illegality of license provisions which, in their proper application, can bring innovative advances more rapidly into public use and actually create competition in the process, is to defeat the principal objectives of both the patent and antitrust laws.

Considerations of the public interest involved in patent licensing permeates this entire discussion. Another important factor to examine, however, is the nature of the rights of the patent owner. The present statute declares that "patents shall have the attributes of personal property."[5a] As will be shown, much of the agitation from antitrust theorists today would lead to a clear derogation of this concept.

There is no dispute that a principal attribute of personal property is the owner's right to the benefits of ownership, use and disposition. Of course, the

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[4] *The Wall Street Journal* (Midwest Edition), January 7, 1970, page 16.

[5] Assistant Attorney General Richard W. McLaren, *Patent Licenses and Antitrust Considerations*. Address before The Patent, Trademark and Copyright Research Institute of The George Washington University (June 5, 1969). 161 U.S.P.Q. No. 11, p. II.

[5a] 35 U.S.C. 261.

law will impose limitations on the right or apply sanctions against the owner where the public is injured by the exercise of the right. But acts of ownership, use and disposition which are themselves legal will not be interdicted merely because they *may* lead to illegal or undesirable consequences. *The owner of private property enjoys, in effect, a presumption that his acts in exercising his rights of ownership, use and disposition are legal.* He does not have to demonstrate their legality or test them by a rule of reason. The burden of establishing that his conduct was illegal or against the public interest is on the party asserting it. Indeed, our society could function in no other way.

Patents are a species of personal property. An important attribute of patent property should therefore be the patent owner's right to the benefits of ownership, use and disposition. Of special concern here is the right of disposition. Certainly, a normal incident of patent ownership should be the right of the patent owner (1) to retain the entire patent property for his own use, or (2) to dispose of all or part of it whenever, wherever and to whomever he chooses. It should not be presumed at the outset that, in exercising his patent right of disposition, the patent owner is going to misuse it. Or, simply because he *might* misuse it, he should not be automatically foreclosed from disposing of his patent on terms that are in themselves perfectly legal. Even one charged with a crime enjoys a legal presumption of innocence; the act of disposing of all or part of a patent right should carry no less favorable a presumption.

Nevertheless, the Department of Justice and some judicial decisions would deny the owner of patent property the same benefits and presumptions accorded owners of other forms of personal property. To implement its bias, the Department avails itself of a ready access to the courts (through bringing suits or filing amicus briefs) in cases it selects as most potentially destructive on their facts to the licensing practices it wishes to outlaw. In addition, the Department is utilizing other forms of attack, such as direct pressure, public announcements by Department representatives on the banquet circuit, threats of suits, and consent decrees, to force its views on patent owners who do not wish to serve as test cases for new antitrust theories.

What is the practical effect of this unfortunate situation on the patent owner trying to put his patent to work?

THE PATENT OWNER'S DILEMMA

A patent is not like a commodity that can be priced and placed on the shelf for sale, like a loaf of bread. In "merchandising" or licensing a patent, many factors must be considered, some arising from the interests of the patent owner and some from interests of the potential licensee. By a process of negotiation, each party represents its interests and strengths in arriving at an arrangement satisfactory to both which is within legal bounds today and, hopefully, will remain so for the life of the agreement.

Among the factors considered, many of which give rise to some form of expression in the license, are the following:

Cost of the development to the patent owner and licensee.
Anticipated volume of sales.
Patent owner's product line and market position.
Need for exclusivity.
Territory.
Availability of substitutes not under patent.
Number of patents involved.
Scope of invention v. scope of patent coverage.
Ease of circumventing patent.
Need for licenses under patents of others.
Relative value of invention in different fields of use.
Capability of licenses to serve all fields of use.
Need for lead time.
Need for further technical development.
Need for market development.
Need for investment in production facilities.
Financial responsibility of licensee.
Expected savings from use of invention.
Need for technical assistance from patent owner.
Need for use of trade secrets.
Availability to licensee of later improvements by patent owner.

Fair royalty.
Base for royalty determination.
Protection against later licenses at lower royalties.
Exchange of licenses in lieu of royalty.
Non-exclusive rights to patent owner on improvements by licensee.
Right to grant sublicenses.
Detectability of infringement.
Willingness of patent owner to enforce patent against unlicensed infringers.
Willingness of patent owner to defend licensee against infrigement suits brought by others.
Conditions for terminating the license.

Before examining individually certain specific licensing problems, it will serve the better understanding of the impact of antitrust to consider how easily, in the exercise of sound business judgment, a patent owner can fall victim to a whole conglomerate of antitrust problems in licensing his patent. Here is the plight, fictitious but representative, of the A Company:

Company A is small manufacturer of electrical switches based in Los Angeles. Its sales are confined to switches for use in buildings in the Los Angeles area. The company owns a patent on a switch which was developed at a cost of $70,000 and three years' effort. It believes the switch can be adapted for other uses but considers expansion undesirable because of lack of capital, development personnel and manufacturing capacity, as well as the increased costs of marketing in remote areas. It does, however, want to retain the exclusive right to the switch in the building field in the Los Angeles area.

In order to reach other markets, Company A decides to license the patent at a royalty of 5%, giving each licensee the exclusive territory he demands in which to sell and service switches, and limiting each to the sale of switches for use in buildings.

The manufacturer in the Detroit area would like to develop the patented switch concept for use in automobiles. However, in order to recover the estimated $100,000 required for the development, he asks for an exclusive license in the automotive field. A royalty of 2% is established as reasonable in view of the development costs and the low profit margin from large volume sales to automobile manufacturers.

Back in Los Angeles, a competitor of Company A, who manufactures switches for use in aircraft as well as buildings, asks for a non-exclusive license for selling to the building trade and an exclusive license for the aircraft industry. The license for the building trade is refused, because the company wants to retain the exclusive right in its home territory. But the exclusive license for the aircraft field is granted at a 10% royalty rate. This figure conemplates the high profit margin but low sales volume of switches for the aircraft industry.

At this point the company consults its attorney to prepare the various agreements. The attorney is convinced that the business judgment is sound, all terms are reasonable, and the arrangements will move the invention to markets throughout the United States at the earliest possible time, with responsible financial backing and business skill in each of the markets served. But the attorney nevertheless advises that (1) it has jeopardized the enforceability of the patent in all markets, including its own market in Los Angeles, by refusing to license its Los Angeles competitor in the building field after licensing others elsewhere in the same field,[6] (2) it has invited an antitrust suit, because the Justice Department has declared it is looking for a situation where a patent license divides fields of use among companies that would otherwise compete,[5] (3) it has opened itself to private antitrust and treble damage claims from its competitors as well as those of its licensees,[7] and (4) it has provided ingredients of a defense of patent misuse by charging different royalty rates under the same patent.[8 9]

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[6] *Allied Research Products, Inc.* v. *Heatbath Corp.*, 161 U.S.P.Q. 527, 530 (N.D. Ill. 1969).
[7] *Clayton Act, Section 4*, 15 U.S.C. 15.
[8] *Peelers Co. v. Wendt*, 260 F.Supp. 193 (W.D. Wash. 1966); *La Peure v. Federal Trade Commission*, 366 F. 2d 117 (5th Cir. 1966); *Laitram Corp. v. King Crab, Inc.*, 245 F. Supp. 1019 (D. Ct. Alaska 1965).
[9] Antitrust and Trade Regulation Report, No. 411, Special Supplement, Part II, May 27, 1969; *White House Task Force Report on Antitrust Policy*, page 22.

This example illustrates a gamut of licensing problems facing today's patent owners. Company A is small and incapable of extending its market outside its home area. But the magnitude of the invention's contribution is no less because of the patent owner's size. Therefore, if Company A is denied the right to license individually the various fields of use of the invention, and on terms that will encourage the licensee to proceed with manufacturing and marketing of a quality product, a significant portion of the patent grant will not be used, and the public will not benefit from the invention in the unlicensed fields not served by Company A.

Moreover, the right to charge different royalty rates for different uses of the invention is important because of the different relative values and sales volumes of the products involved. And if, having licensed the manufacture and sale of building switches in areas not served by Company A, it must then license its backyard competitor, a more prudent course would be to refuse to license anyone in the building field—a decision certainly not in the interests of Company A or the users of switches outside Los Angeles.

THE NEED FOR LEGISLATIVE CLARIFICATION

It is appropriate now to examine certain of the specific license provisions that under actual or threatened attack. These are:

Field-of-use licenses.
The right to license (or not to license).
The freely negotiated royalty.
Royalty differential between non-exclusive licensees.
The royalty base.
Royalty for the package license.
Royalty payment after expiration of patent.

In order to appreciate the justifications that demand at least the application of a test of reasonableness before these licensing provisions are categorically rejected as patent misuses or *per se* antitrust violatons, brief fact situations will introduce each provision.

1. Field-of-use license

Company B is a large manufacturer of hardgoods of many types but has limited facilities for chemical research and development, except with specific reference to adjunctive supplies for its hardgoods. The company achieves a breakthrough in a chemical process which leads to the development of a new line of materials for use with its hardgoods. It also recognizes vast possibilities for the invention in other fields foreign to its corporate interests and capabilities.

The problem facing Company B is how to make the broadest use of the process without itself departing significantly from its primary business. It recognizes that several areas of application are sufficiently distinct in themselves (paper, pharmaceuticals, novelties, cosmetics) that no single company could exploit the technology to its fullest. It therefore chooses to grant exclusive licenses in a number of fields of use. Several licensees invest considerable money in adapting the basic technology to their particular fields and bring the public new products that differ significantly from the old ones.

In an atmosphere that would discourage or hold illegal the field-of-use license, this program of patent utilization simply would not be possible.

Among the ways a patent owner can divide his patent-given rights, two are most important: by geographical territory and field of use. Although in disfavor with the Department of Justice, the territorial division is specifically sanctioned by statute and enables the patent owner to license his patent in the whole or any part of the United States.[10] It is common to refer to this form of division of the patent right as a territorial "restriction." Since semantics are sometimes important, it should be noted that the territorial division is not a restriction at all but only the grant of rights under the patent for a portion of its territorial scope. The word "restriction" implies an agreement with respect to the rest of the territorial scope, and *no such agreement can properly (or even logically) be implied from the territorial license.*

The license for use or for sale or resale in a specified field of use rests on precisely the same principle as the territorial license. It involves the grant of

[10] 35 U.S.C. 261.

less than the patent owner's total right to exclude others from any and all uses of his patented invention. As will be noted further below, semantics have become important here.

There is no assurance that an invention will be neatly proportioned in its applicable scope to the technical or marketing capabilities or interests of the patent owner, whether the owner be an individual, a small company or a large company. Company B illustrates a situation where exclusive field-of-use licenses can be the single, most effective way of exploiting an invention to the fullest for the benefit of the public as well as the patent owner. In fact, the situation is a classic example of the operation of the patent incentive to encourage investment in innovation, for here the parties making the investment (the licensees) are assured of basic patent protection before they start. They can therefore commit funds more generously and undertake a more comprehensive program of development then might otherwise be the case.

Those who oppose licenses to specific fields of use within the patent grant ignore the fact that such licenses, when translated into marketed products, often provide the public with alternatives that would not otherwise be available—at least until the patent has expired. If a patent owner distributes field-of-use licenses to various producers of different kinds of products, each licensee, in adapting the invention to his particular product line, introduces a new use of the original invention. On the other hand, if the patent owner limits utilization of the patent only to his line of merchandise, the public may not have the opportunity to enjoy the maximum potential of the patented invention. While the patent owner must retain the option to license or not to license, if he chooses to license he should not be absolutely foreclosed from licensing less than his full patent right.

The same principle works in the area of copyrights. A novel is usually published first in hard-cover book form. But prior to publication as a book, it may be serialized in a magazine. The magazine publisher receives an exclusive right only for that limited purpose. Thereafter, the book may be licensed separately for adaptation as a play for the living stage, or for motion pictures, television or other limited uses, including publication of a paperback edition. These licenses of less than the copyright owner's total right, like the field-of-use license, afford the public a variety of options and opportunities to enjoy the work in different formats.

It was pointed out earlier that the benefit to the patent owner from a licensing arrangement must be within or ancillary to the scope of the patent grant. Accordingly, license terms *solely* for the benefit of the licensee, such as giving him the right to restrict the patent owner in this practice of the invention [11] or to veto additional licensees,[12] may understandably encounter difficulties as outside the grant. But, obviously, a license is a two-party negotiated agreement and must offer prospective advantages for the licensee. Legitimate concerns of a licensee which the patent owner may properly consider in negotiating terms of the license include such as the following, all of which can best be served by a field-of-use license: [13]

A prospective license may want to commit himself under the license only for a particular product or technological area in which he has a problem, but prefer to avoid commitments in speculative areas where he is unable to make a satisfactory evaluation or has no interest.

The licensee may be able to obtain a lower royalty rate in a field where the patent owner is not using the patent, because in such fields the licensee would not be competing with the patent owner.

A licensee may prefer a sliding scale of royalty payments to ease the expense of his early period of marketing or to reduce the royalty burden as his volume increases. Where the licensee is practcing under more than one but not all the fields of the patent's use, the field-of-use license provides the necessary flexibility in the arrangement.

The licensee may be able to obtain a lower total royalty or lum-sum requirement for a paid-up license if the license is limited as to field.

If the license calls for periodic payment of a minimum royalty to keep the license in force, the licensee may prefer separate licenses for each field so he

[11] *McCullough v. Kammerer Corp.*, 166 F. 2d 759 (9th Cir. 1948).
[12] *United States v. Krasnov*, 143 F.Supp. 184 (E.D. Pa. 1956), affirmed 355 U.S. 5 (1957).
[13] T. L. Bowes: *Forum Contribution*. Idea 12:1129 (1968–69).

can cancel individual licenses where he is unable to meet the minimum without disturbing the licenses in his more successful fields.

The licensee may prefer separate field licenses so he may later assign the licenses with the business of each field, whereas a single license would be indivisible.

It would seem undeniably within the scope of the patent grant for a patent owner who could rightfully exclude *all* others from practicing his invention for *any* purpose whatsoever to part with a portion of that exclusivity corresponding to a given field of use. It should be readily apparent that *the field-of-use provision, like the permissible territorial limitation, is really not restrictive.* While grant of a license for a particular field could be coupled with a restriction, the typical field license standing alone is nothing more than permission to make, use or sell in a defined segment of technology. It neither expressly nor impliedly authorizes or denies any right of the licensee with respect to any *other* technological area within the patent's scope. The licensee can operate in other fields of the invention on precisely the same basis and subject to the same consequences for infringement as anyone else, without regard for whether or not he is a licensee under some other field covered by the patent.

Here, semantics have become important. The Department of Justice sees no difference between a license containing a positive prohibition against sales in a particular field and a patent license limited to a particular field; it would condemn both as illegal divisions of markets.[14] It regards the fact that in most instances the licensee in fact does not stray into the unlicensed area as evidence of a tacit agreement to divide the market. Here the Department of Justice is reading the facts to prove what it wants to prove, in total disregard of business reality: the licensee usually stays within the licensed field because that is where his interests lie or because he simply doesn't wish to be sued for infringement. Indeed, the patent owner doesn't need his licensee's *agreement* not to infringe. The patent itself is sufficient.

Implicit in the position of the Department of Justice is the necessary presumption that the licensee, absent his license to the limited field, would promptly infringe outside that field. By renting a farmer's oxen, the Department is saying, one by implication agrees not to covet the farmer's wife! Maybe so. But by licensing a field of use, *the licensee makes no promises with respect to other fields within the patent's scope.*

There is a paradox in the Department's position. While it urges that field-of-use patent licenses are just as illegal as efforts at market division where no patents are involved, it would sanction such licenses where the patent owner was *reserving to himself* a portion of the total field covered by the patent.[6] It would seem that if the licensee is *impliedly* agreeing to stay out part of the patent's field in one case, he is doing so in the other. So if business justification exists in one case, the justifying facts should at least be considered in the other.

Moreover, an agreement to divide markets between competitors constitutes a *per se* violation of Section 1 of the Sherman Act.[15] If field-of-use licenses are equated to division of market agreements then they, too, must be *per se* antitrust violations. On what basis, then, can the Department of Justice find some field-of-use licenses justifiable and others not?

Before this broader attack on field-of-use licensing, the primary objection of the Department of Justice in this area seemed to be the field-of-use license in which the field was divided among licensees who would otherwise compete.[5] Such an objection implies the mechanical application of valid antitrust principles but without considering the rationale and justification for the practice in the patent context. A field-of-use licensing program can be well within the scope of the patent grant and should yield to antitrust only if coupled with anticompetitive acts that remove it beyond that scope and into the province of antitrust.

So, too, is a licensing program limiting resale of patented products purchased from the licensor to specified fields or to specified classes of customers. The argument has been made that such practices are analogous to controlling resale *prices* of patented products. On the theory that the first sale of patented product removes it from the scope of the patent grant, the control of resale prices is considered a misuse of the patent.[16]

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[14] Bruce B. Wilson, Special Assistant to the Assistant Attorney General, *Patents and Antitrust: The Legitimate Bounds of the Lawful Monopoly.* Address before The Patent Law Association of Pittsburgh, November 19, 1969.

[15] *White Motor Co. v. United States,* 372 U.S. 253 (1963).

[16] Raymond C. Nordhaus and Edward F. Jurow: *Patent-Antitrust Law,* at 265. Jural Publishing Co. (1961, Supp. 1968); *The Ansul Co. et al. v. Uniroyal, Inc.,* 163 U.S.P.Q. 517 (N.D. N.Y. 1969).

The critical distinction, however, is that *the patent extends to all uses of the patented product,* and hence the analogy to price control is inapposite. Indeed, the patent owner's control over use of his patented product, to the extent he chooses to exercise it, is part of the essence of his right. And no valid reason appears why this right should not follow the product in its first sale by his licensee, assuming notice to the purchaser. The patent right has not yet been exhausted.

The Department of Justice is clearly committed to the destructive extension of antitrust principles in this aspect of patent licensing. On the other hand, President Johnson's White House Task Force on Antitrust Policy, in a report released and commented on favorably by Assistant Attorney General McLaren,[5] recommended that patent owners be denied the right to grant exclusive licenses *except as to specific fields of use.*[9] The patent owner would be required to apply to the Federal Trade Commission for certification that such a license was necessary to the commercial utilization of the invention.

The courts have been more solicitous. In 1938 the Supreme Court expressly sanctioned the field-of-use concept in the *General Talking Pictures* case.[17] Since then, license to *use* in a specified field or to *sell* to customers for use only in specified fields has been widely upheld.[18] Adverse decisions have, of course, resulted where the geld-of-use provision was coupled with means which in total import violated antitrust principles.[18 19]

The example of Company B shows the type of problem facing the corporate patent owner. But the situation of the private inventor, research company or university can readily be envisioned as even more difficult, for they must often rely exclusively on licensing to bring their inventions into public use. They must literally sell out to a large company capable of exploiting all the major fields of use of the invention, or in shaping a licensing program run the considerable risk of exposing their patents to the vagaries of court decisions or the pressures of the Department of Justice.

The President's Commission on the Patent System, appointed by President Johnson, singled out such licenses as a particular object of concern. Recommendation XXII of the Commission states:[20]

The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, or any interest therein may be licensed *in the whole or in any specified part, of the field of use* to which the subject matter of the claims of the patent are directly applicable . . . (Emphasis added.)

This Recommendation has not been included in patent bills submitted by the Administration or by Senator McClellan, apparently because of opposition from the Justice Department.[21]

The patent statute now permits the licensing of a patent or patent application in "the whole or any specified part of the United States." It is submitted that the statute should provide also for the licensing of the patent or patent application for the whole or any specified *use* to which the invention can be applied. It seems clear, as the President's Commission recognized, that the detriment to the public from categorically forbidding either the territorially-limited or field-of-use far outweighs any risks in sanctioning these established practices.

2. The right to license (or not to license)

Company C owns a patent and manufactures and sells products covered by its patent. The company is of modest size and through its relatively small sales organization is unable to reach all the geographical areas in which its product would find a market. From among its dozen competitors it selects four whose marketing ability and reach will supplement its own and give adequate coverage of the neglected areas. These companies are anxious to add the product to their lines because they see opportunities, through sales and advertising efforts, for profitable expansion. Similarly, Company C, by licensing these four companies,

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[17] *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938).

[18] H. Thomas Anstern: *Fish Traps, Indians, and Patents: The Antitrust Validity of Patent License Restrictions on Sales Price, Field of Use, Quantity, and Territory.* U. of Pittsburgh Law Rev. 28:181, 188 (1966).

[19] J. G. Jackson and E. L. Jackson: *Use Limitations in Patent Licenses.* Idea 12:657 (1968–9).

[20] *Report of the President's Commission on the Patent System,* U.S. Government Printing Office (1966).

[21] Senator McClellan's statement accompanying introduction of S. 2756. Congressional Record, August 1, 1969, page S. 8952.

seeks a return by way of royalties from sales it could not make itself. Although competitors not favored with a license have requested one, Company C has declined because further licensing would so dilute the market as to make it unprofitable for any of the licensees as well as for Company C. The Department of Justice hears from a rejected competitor and presses Company C to license it. The company complies but wishes now it had refused to license anyone.

It would seem unnecessary at this stage of our nation's commercial development to raise the question of the patent owner's right to license or not to license. However, the Department of Justice has in fact exerted pressure on patent owners to grant additional licenses. Moreover, a recommendation of the White House Task Force on Antitrust Policy would require a patent owner granting one license under his patent to grant *all* financially qualified and reputable applicants a license under terms "neither more restrictive nor less favorable" than the first license.[9]

The Task Force engages in an inconsistent dichotomy. It acknowledges that a patent confers on the patentee "the right to exclude others from the field covered by the patent" and declares allegiance to the antitrust "goal" of preventing use of a patent beyond its scope. But then it concludes :[22]

That goal will be served by denying the patentee the right to confine use of the patent to a preferred group and requiring that *if the patent is licensed it shall be open to competition in its application.* (Emphasis added.)

If the patent statute gives the right to exclude, it is clearly within the scope of the grant to deny licenses altogether or, equally, to deny additional licenses after the first. But the Task Force would automatically cancel the remaining right of the patent owner not to license solely for the reason that he did license once before. *The Task Force at once acknowledges the proper limitation of antitrust sanctions to matters beyond the patent's grant and the determination to penetrate the grant in the name of antitrust.*

It is revealing that one dissenting member from the Task Force's Report was of the opinion that they had "given too little attention to the patent field" to embark on such recommendations.[23] These, indeed, appear to be accurate observations.[24]

Further evidence of the uncertainty facing the licensing patent owner is a recent court decision. The patent owner had already licensed his patent and put his invention into public use, but the court had this to say in *dictum* about his refusal to grant the defendant a license :[6]

An owner of a patent cannot assert his rights under the law and Constitution if such owner refuses to make use of a patent, or to license a patent so that it may be of use to the public, *or refuses to license an applicant when it has already granted a license to the applicant's competitor.* (Emphasis added.)

It is of interest to compare the language with that of a decision of the *same court* (different judge) rendered four months earlier :[25]

Plaintiff has no duty to grant a license to defendant under the patent in suit, merely because defendant has requested such a license. *A patent owner has the right to grant a license to some, as he chooses, without granting a license to others.* (Emphasis added.)

The selection of licensees is an important undertaking. As indicated earlier, activities reflecting discredit on the invention, such as a poorly conceived sales approach or inadequate servicing of the product after sale, can in fact harm the rights remaining with the patent owner. The Task Force would meet the problem by requiring compulsory licensing only of parties who are financially responsible and of good reputation. Obviously, this is not enough. It must remain the right of the patent owner to select his partners by criteria in addition to solvency and reputation.

When the patent owner negotiates a license, he is committing himself for the life of the license, which typically is for the life of the patent. With the shifting and unpredictable positions of the courts and the continuing threats from the Department of Justice, it is becoming increasingly difficult to plot a reasonable and yet "legal" course in licensing (or not licensing) patents. Legislative intervention to clarify the right to license or not to license is surely in order.

3. The freely negotiated royalty

Patent owner D licensed sixteen companies who were eager to practice the technology of the patent. Royalty and other terms were essentially the same for

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[22] *Supra* Note 9 at 4.
[23] *Supra* Note 9 at 26.
[24] *Supra* Note 9 at 27.
[25] *Bela Seating Co., Inc. v. Poloron Products, Inc.,* 160 U.S.P.Q. 646 (N.D. Ill. 1968).

each licensee, following hard negotiations for the first license. One company declined to accept a license because it regarded the royalty as too high. Several years later it began producing and selling the patented product, and D promptly sued for infringement. The infringer's defense was that D should not be permitted to enforce his patent because the royalty it charged licensees was so exorbitant and oppressive as to violate the antitrust laws. The court agreed, and an extensive and successful licensing program was placed in jeopardy.

That a court would intervene in the business judgments of parties who freely negotiated a given royalty in a licensing arrangement would seem to stretch the imagination. But the above situation is taken from real life. The Court of Appeals for the Seventh Circuit did in fact hold in 1966 that a royalty found to be "exorbitant and oppressive" could be a *per se* violation of the antitrust laws on the theory that prices could effectively be fixed by requiring such a royalty.[26] On remand for determination of whether the royalty here was in fact "exorbitant and oppressive," the District Court concluded it was not.[27] But the proposition stands as precedent, at least in the Seventh Circuit.

Prior to the foregoing decisions the Supreme Court had spoken unequivocally on the right of the patent owner to negotiate any royalty acceptable to a licensee. In 1926 the Court said:[28]

> Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty . . .

Again, in 1964 the Supreme Court reaffirmed this position:[29]

> A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of the patent monopoly.

A thoroughly reasoned decision in the Ninth Circuit in 1957 reached the same conclusion, stoutly defending the right of a patent owner to set his royalty (while holding against him for patent misuse on other grounds):[30]

> To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement made subject to court approval.

Where royalty is excessive the problem is usually self-adjusting. It means simply that the parties did not comprehend the nature of the market or underestimated the competition. Once the agreement is signed, both parties want the product sold. If excessive royalty forces the selling price to uncompetitive levels, it would be a rare and shortsighted patent owner who would not be willing to reduce the royalty in exchange for larger sales volume and, ultimately, greater royalty income.

A royalty freely agreed to by the parties in what they initially conceive to be their mutual interests should be left to the parties for further negotiation if their mutual interests are no longer being served. The threat of judicial reformation of royalty provisions or, worse, of judicial determination that a royalty established by mutual agreement is *ex post facto* an antitrust violation should be laid to rest by statute.

4. Royalty differential between nonexclusive licensees

Company E produces a patented chemical and sells in bulk to industrial users for reprocessing into other products and in finished form to individual customers for their use. Royalty is set in each market to account for the high volume purchases of the industrial user and low volume purchases of the individual customers, both in keeping with competition in each field.

As in the above situation and the earlier examples of Company A and Company B, business realities often demand different royalty rates among licensees under the same patent.

Despite many court decisions clearly holding the patent owner entitled to any royalty or financial arrangement he can negotiate (on the theory that he does not have to license anyone), where two or more licensees paying different royalties under the same patent enter the picture the patent owner's position is less certain. A judicial trend may or may not be indicated in the most recent decisions close to the point, but varying leasing rates for the same patented ma-

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[26] *American Photocopy Equipment Co. v. Rovico, Inc.*, 148 U.S.P.Q. 631 (7th Cir. 1966).
[27] *American Photocopy Equipment Co. v. Rovico, Inc.*, 257 F. Supp. 192 (N.D. Ill. 1966); affirmed, 384 F. 2d 813 (7th Cir. 1967).
[28] *United States v. General Electric Co.*, 272 U.S. 476, 489 (1926).
[29] *Brulotte v. Thys Co.*, 370 U.S. 29 (1964); 143 U.S.P.Q. 264, 266 (1964).
[30] *Stearns et al. v. Tinker and Rasor et al.*, 116 U.S.P.Q. 222, 235 (9th Cir. 1957).

chines have been held to violate Section 2 of the Sherman Act, Section 5 of the Federal Trade Commission Act, and to be a patent misuse.[8] In those cases different rentals (royalties) were held to be anticompetitive in effect, even though allegedly based on the proportion of labor saved by use of the patented machines.

Moreover, a principal recommendation of President Johnson's White House Task Force on Antitrust Policy would require all subsequent licenses to be on terms "neither more restrictive nor less favorable" than the first license.[9] Mr. McLaren has alluded to this recommendation in public addresses but says he is "not at this time" taking a position of approval or disapproval.[5] A more recent statement by a Department of Justice representative, however, approves different royalty rates for different uses if the patent owner freely licenses all uses.[14]

Despite the compelling business justifications for such arrangements, patent owners are understandably concerned over the uncertaintly of differential royalties. This, too, needs legislative clarification.

5. The royalty base

Oil well drilling Company F licenses a patent on a method for treating the formation to increase oil production. The method involvs use of chemicals already employed in the drilling process for other purposes. It is not feasible for the company to install special equipment to monitor use of the old chemicals for the new purpose. The parties agree that royalty will be determined on the basis of average improvement in oil production each month over a predetermined level.

Ideally, royalty under a patent is based on the number of patented products produced or sold. But frequently the patent covers a process or a part of a machine or composition instead of the final product. In such event the royalty to which the patent owner is entitled may be based on some unpatented, measurable parameter.

In complex situations, however, such as that facing the Company F, a less responsive or even non-responsive basis is appropriate. For example, in the manufacture of television and radio sets involving many patents, royalty based on total sales has been upheld.[31] The rationale advanced by the Supreme Court is the convenience of the parties and the absence of coercion by the patent owner. Other decisions where royalty is paid regardless of whether all of a large number of patents are used rest on the premise that the licensee is paying for the privilege to use them.[32] [33]

While decisions raising the issue are usually reasonable on the facts, litigation on the point has in every case put the party defending the practice to great pains and expenses. A simple legislative affirmance of the right to base royalty, fee or purchase price for a patented invention on any mutually agreeable parameter, absent coercion by the patent owner, would alleviate one troublesome aspect of patent litigation.

6. Royalty for the package license

Municipality G. operates a sewage treatment plant. Different conditions of temperature, solids content and other properties of the sewage require different treatments to achieve separation of the solids. The muncipality takes a license under a group of patents which together offer advantages in treating the municipality's sewage under most of the conditions encountered. Some conditions require practice of one combination of patents, other conditions require another combination. Since all the patents relate to a single ultimate purpose, namely, the treatment of sewage, and since it was not possible to separate the patents as to importance, the license agreement calls for payment of royalties until the last-to-expire of the licensed patents.

There are two central aspects to the licensing of a group or "package" of patents of special interest here. The first is the legality of the package license: the second is the validity of an agreement that states a single royalty for use of any one or more of the licensed patents, such royalty to continue so long as any of the licensed patents are alive.

The owner of a valuable patent is theoretically in a position to coerce a potential licensee into accepting a license under other patents of lesser or no value. It

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[31] *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 89 S. Ct. 1562 (1969); 161 U.S.P.Q. 577.

[32] *Supra* Note 16 at 183.

[33] *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

has been held that a party who *seeks or voluntarily* accepts a package license does not thereby impose antitrust or patent misuse liability on the patent owner.[81] [83] But where the *patent owner* insists that the license include more patents than the licensee wants, and the patents cover more than a single product, the courts have held the package to constitute an illegal tying arrangement.[84] Where a single product is involved, a mandatory package may be permissible,[85] although ultimately this question will depend on whether tying arrangements are held to be *per se* violations of the antitrust laws or subject to a rule of reason.[86] Fairly clear and objective criteria have been spelled out for determining the legality of a package license.

But the second aspect of package licensing is more troublesome. Given the judicial approval for *voluntary* package licensing and the business realities leading to the practice, it would follow that a royalty established during negotiations contemplates the value of the *total package* and carries no implication of the value of the individual patents. In fact, particularly in a situation like that of Municipality G exemplified above, it is manifestly impossible to assign such values. Moreover, in many cases, the patents cover alternate ways of doing the same thing, or features that are mutually exclusive and cannot be used together in a single product.

The problem of royalties does not become acute until some of the patents in the package begin to expire. At that time, assuming the licensee is still practicing under one or more of the patents in the original package, should the royalty be reduced as each patent expires? If so, by how much? If not, is the licensor guilty of extending the monopoly of the expired patents?

The division of the inventions between the various licensed patents, where all relate to the same product or product line or process, is often for the administrative convenience of the Patent Office. And the initial royalty and license are based on the totality of the subject matter to which the licensee desired access. It would therefore seem reasonable in such instances to permit royalty payments to continue so long as any patent in the original package that is being used remains unexpired.

The courts are in conflict. In the Tenth Circuit the practice of permitting royalties to continue has been approved,[87] as it was earlier by the Supreme Court.[88] But in the Third and Sixth Circuits the same practice has been held a patent misuse.[84] [88]

The pragmatic effect of the diversity of opinions in the courts leaves the patent owner defenseless against the prospective licensee who negotiates a royalty for a group of patents when he really wants access to only one. After negotiating for the package, he then asks for a license under a single patent and insists on a *pro rata* reduction in royalty under pain of a charge of misuse or illegal tying.

If the parties are unable or disinclined to agree to a royalty breakdown at the inception of the license, absent a package based on coercion, and if at least one significant patent is still alive and being practiced, the full royalty should continue as agreed upon. Needless and expensive litigation could be avoided by statutory acknowledgment of this practical resolution of the problem.

7. Royalty payment after expiration of patent

Patent owner H licenses a small, capable company under an important patent. It was anticipated at the negotiations that fairly substantial sums would have to be invested by the licensee to develop the product for market. Accordingly, no initial payment was required by H, but royalties were set at a compensating level. The product was duly developed and marketed, with success. However, unforeseen events caused a financial crisis in the company, and it was unable to maintain its royalty commitments. H agreed to accept payment of *back* royalties over a period of years, which extended beyond expiration of the patent. All royalties were based solely on activities under the patent before it expired.

A 1964 Supreme Court decision in *Brulotte* v. *Thys Co.* held that a license requiring payment of royalties after expiration of the last-to-expire of a group

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[84] *American Security Co. v. Shatterproof Glass Corp.*, 268 F. 2d 769 (3rd Cir. 1959), *cert. denied*, 361 U.S. 902.
[85] *International Mfg. Co. v. Landon, Inc.*, 336 F. 723 (9th Cir. 1964).
[86] *Northern Pacific Railroad Co., v. United States*, 356 U.S. 1 (1958).
[87] *Well Surveys, Inc. v. Perfo-Log, Inc.*, 396 F. 2d 15 (10th Cir. 1968), *cert. denied*, 393 U.S. 951; *McCullough Tool Co. v. Well Surveys, Inc.*, 343 F. 2d 381 (10th Cir. 1965), *cert. denied* 383 U.S. 933.
[88] *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*, 367 F. 2d 678 (6th Cir. 1966).

of licensed patents was an attempt at projecting the patent monopoly and hence a misuse.[29] Uneasiness with the arrangement exemplified above stems from the allegation in Brulotte that payments were simply being spread over an extended period. The Court, however, found "intrinsic evidence" that post-expiration payments were for post-expiration activities. There can be little dispute that the court reached the proper conclusion on its interpretation of the facts.

A patent owner should be free to negotiate the best royalty terms he can get, so long as the royalties are tied to activities taking place *during the life of the patent.* If the licensee under the patent is unable to carry the royalty burden, payments based on use of the patent during its life should be permitted to extend over whatever period the parties agree is tolerable, even though the payments continue after the patent expires.

While the Supreme Court did not expressly rule out installment payment of royalty, the Brulotte case has been interpreted by some to mean that any payment of royalties beyond the patent's expiration would be a misuse. Whether through inadvertence or by design, the Court has left doubt in the minds of many as to the legality of post-expiration installment payments. This question could be settled by legislative approval of post-expiration payment of royalties accrued during the life of the licensed patents.

RESOLUTION OF THE PATENT-ANTITRUST "CONFLICT"

Reference was earlier made to the dual nature of the innovation the patent system is intended to provide. The elements of innovation were seen to be (1) the incentive to invent (or invest in invention), and (2) the ability to market. This duality rests on the premise that a patent has done less than its job if it is not put to work—either by the patent owner or his licensee.

Too often the apparent conflict between the patent and antitrust concepts is resolved by examining whether striking down the patent owner's licensing arrangements would impair the operation of the incentive to *invent.* Professor Donald F. Turner, former Assistant Attorney General, has made precisely this point when he contends that "antitrust does not retard technological progress."[30] As a result, the impact of antitrust on the patent system is only measured by its impact on *one* of the two essential ingredients of innovation.

Certainly there could be an extreme reached in antitrust enforcement where the incentive to *invent* would be clearly affected. But before that point, the innovation fostered by the patent system could be severely impaired through unduly limiting the right of the patent owner to secure the ability to market his invention by licensing his patent.

The need for legislative rapprochement between patents and antitrust was advanced in 1966 by President Johnson's Commission on the Patent System. In its report, an integrated analysis of the entire patent statute was presented and recommendations made for change.[30] Despite its primary mission to examine the state of the patent laws, the Commission saw the problems facing the patent owner in a menacing antitrust climate and presented the following as its Recommendation XXII:

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

It must be noted, however, that this well-reasoned approach by the President's Commission, while conceptually sound, is not without difficulty. It was earlier pointed out that patents, by statute, have the "attributes of personal property." As such, the terms of disposition of patent property, where the terms are in and

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[29] Donald F. Turner: *Patents. Antitrust and Innovation.* Univ. of Pittsburgh Law Rev. 28:151 (1966). See also Gerald Kadish: *Patents and Antitrust: Guides and Caveats.* Idea 13:83 (1969).

of themselves legal, should at least carry a *presumption* of reasonableness. But a "rule of reason" would place the patent owner at the procedural disadvantage of first having to *prove* the reasonableness of his license provisions if they were ever challenged. The concept of reasonableness would more fairly be embodied in a "*rule of presumptive reasonableness*," under which the burden of proving unreasonableness would fall where it belongs on the party asserting it.

Nevertheless, the Commission demonstrated an underlying appreciation of the patent owner's plight. This is further evident from another observation in the Commission's report. After noting that it did not favor weakening enforcement of the antitrust laws, it noted:

However, uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule. *This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses.* (Emphasis added.)

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Whether patents will remain a healthy force for progress or become a vestigal appendage depends in large measure on what patent owners are entitled to do with them. This Memorandum does not contend for the legitimation by statute of practices heretofore generally condemned under antitrust. It does, however, urge resistance to the insistent efforts of the Department of Justice and a tendency in some courts to extend the interdiction of antitrust to practices clearly within the patent grant.

Patents, and matters involving patents, have no constant advocate as does antitrust. The Antitrust Division of the Department of Justice is heard in the courts, where it initiates litigation or submits briefs, and in business, to which it announces areas of patent licensing that will be the subject of future challenge.

In the absence of a counter-force on behalf of the patent system, the recourse of those determined to preserve the patent incentive in its total concept, so inextricably bound to the right to license, is to seek legislation upholding the practices that need support against the unbridled club and clout of antitrust.

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A PHILOSOPHY ON THE PROTECTIONS AFFORDED BY PATENT, TRADEMARK, COPYRIGHT AND UNFAIR COMPETITION LAW: THE SOURCES AND NATURE OF PRODUCT SIMULATION LAW†*

*By Tom Arnold***

A commentary upon the product simulation law of *Sears, Roebuck & Co. v. Stiffel Company*, 376 US 225, 53 TMR 217, 140 USPQ 524 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 US 234, 53 TMR 223, 140 USPQ 528 (1964); and *In re Mogen David Wine Corp.*, 140 USPQ 575 (CCPA 1964)

Stiffel Company secured design and mechanical patents, which were invalid for want of invention, upon a "pole lamp"—a vertical tube having lamp fixtures along the outside, the tube being made to stand upright between floor and ceiling. Stiffel sold many such lamps and there was evidence that could be argued to support a finding of secondary meaning having attached to the Stiffel lamp. Sears copied the Stiffel lamp, marketed a substantially identical lamp found "likely to cause confusion" with the Stiffel lamp; and Sears was found by the District Court and Court of Appeals for the Seventh Circuit to be guilty of unfair competition under applicable Illinois law.

Day-Brite secured an invalid design patent on, and marketed many specimens of, a fluorescent light fixture reflector having cross-ribs claimed to give both strength and attractiveness to the fixture. There was no realistically persuasive proof of secondary meaning having attached to the Day-Brite structure. Compco marketed a duplicate structure which was found by the trial court to "cause likelihood of confusion."

Held: In both *Sears* and *Compco*, "When an article is unprotected by a patent or a copyright, state law may not forbid others

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† 500.47—COURTS—BASIS OF RELIEF—UNFAIR COMPETITION.
800.5—OTHER STATUTES—PATENTS.
800.2—OTHER STATUTES—COPYRIGHTS.

* A paper delivered April 17, 1964 at the Philadelphia convention of the American Patent Law Association, © 1964, Tom Arnold, Houston, Texas.

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to copy that article" because of "federal policy found in [the patent law] allowing free access to copy whatever the federal patent and copyright laws leave in the public domain." 53 TMR at 222 and 225, 140 USPQ at 528 and 530 (1964).

Mogen David Wine Corporation owns an existing design patent on a decanter in which it has for many years sold wine, and sought registration of the design of that bottle as its trademark for wine, which registration was denied by the Trademark Trial and Appeal Board of the Patent Office on the reasoning that such a registration would in effect extend the patent contrary to the intent and purpose of the patent law. *Held*: Simultaneous patent and trademark rights are not inconsistent with each other, and the existence of a patent has no proper bearing upon whether a trademark registration should issue.

These three decisions in the same week, plus the Supreme Court's unacknowledged conflict with its own landmark opinion by Mr. Justice Marshall in *Gibbons* v. *Ogden*[1] make timely a philosophical review of the origins and philosophies of intellectual property law. By the direction of such a review, perhaps the strands of law can better be woven to provide a better total fabric of law.

Pre-Constitution History of the Property-in-a-Creation Concept

In the beginning the nearest thing to property law was nothing but personal power of an individual. To the extent a man had physical strength so to do, he could preclude others from using his cave (real property), his ax (personal property), his wife (very personal property) or a design of his own creation (intellectual property).

Eventually society matured concepts by which society put its own power behind certain rights. When society, as represented by the state, put its power behind property concepts, property law as we know it was born.

The philosophy of this property law concept, that a man should have the right to preclude others from the use and enjoyment of the ax which he created with his own hand, somehow fit well also to the contrivance or poetry he created with his own brain.

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1. 22 US 1, 9 Wheaton 1, 6 L ed 23 (1824).

On March 19, 1474, the society of the city-state of Venice, enacted what is believed to be the world's first patent law.[2]

The patent lawyer cannot read that statute without being struck by its similarity to our own Constitutional and statutory patent law.

The Venice statute recognized a prior existing and general right of the competitor to copy and use the "contrivances" of the creator. The statute however gave to the creator, a property in his contrivance, gave him the right to preclude others from its use and enjoyment and from the manufacture thereof for ten years.

And the statute provided that this being done, "men of most clever minds capable of devising and inventing all manner of ingenious contrivances . . . would exert their minds, invent and make things which would be of no small utility and benefit to our State."

The statute does *not* seem to be concerned with commerce or market competition among merchants as a competitive matter, but rather only with (1) a natural property right in the inventor and (2) the creation of "contrivances" of benefit to the state.

It is here quite noteworthy that the statute does not concern itself with the right of a competitor to copy—for that was already

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2. See Patent Study No. 15, 85th Congress 2nd Session (1958). There follows what is believed to be an accurate translation of the Italian text:

"1474, the 19th day of March.

"There are in this city, and also there come temporarily by reason of its greatness and goodness men from different places and most clever minds, capable of devising and inventing all manner of ingenious contrivances.

"And should it be provided that the works and contrivances invented by them, others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our State.

"Therefore, decision will be passed that, by the authority of this Council, each person who will make in this city any new and ingenious contrivance, not made heretofore in our dominion, as soon as it is reduced to perfection, so that it can be used and exercised, shall give notice of the same to the office of our Provisioners of Common.

"It being forbidden to any other in any territory and place of ours to make any other contrivance in the form and resemblance thereof, without the consent and license of the author up to ten years.

"And, however, should anybody make it, the aforesaid author and inventor will have the liberty to cite him before any office of this city, by which office the aforesaid who shall infringe be forced to pay him the sum of one hundred ducats and the contrivance be immediately destroyed.

"Being then in liberty of our Government at his will to take and use in his need any of said contrivances and instruments, with this condition, however, that no others than the authors shall exercise them.

favorable 116
contrary 10
uncertain 3"

existing common law against the abuse of which this patent-law-limitation-on-the-right-to-copy, was a reaction.

In England too we find that the right to copy the goods and wares of a competitor was a firmly established right long prior to the 1400's. However, the Crown, starting perhaps with a noble motive that became perverted, soon learned how much tribute could be extracted for the personal benefit of the Crown itself, by the granting of "letters patent," i.e., open letters to the people pronouncing the monopoly therein defined. By the 17th century it had become common for the Crown to grant letters patent to all manner of favored tradesman without regard to inventorship or other public purpose.

While some of these patents were awarded to importers of desirable wares or inventions or to inventors, as a reward for serving the realm through the offering of the subject wares to the public, the bulk of these patents by the early 1600's were a crassly commercial grant of a monopoly in commerce with little if any overtones of just property right to preclude others from the use of one's own creation.

The abuses of these patents resulted in the Statute of Monopolies of 1623[3] which declared all monopolies "contrary to the Laws of this Realm" and "utterly void and of none Effect." Section VI of the Statute of Monopolies, however, seemed to buy the just-property-right concept with respect to "the true and first Inventor and Inventors" of "new Manufactures" and gave to them a fourteen year right to preclude others from duplicating their inventions.

The right of one competitor to copy the product of another competitor was restored to the condition of the ancient common law—but subject to a limited property right in the creator with respect to his creation.

The copyright concept dates surely from as early as the Venetian patent of 1474, both in England and elsewhere, though I've not documented that allegation. One commentator upon our Constitution says: The copyright of authors has been solemnly adjudged in Great Britain, to be a right at common law. The right to useful inventions seems, with equal reason, to belong to the inventor."[4]

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3. 21 Jac. 1, c. 3.
4. THE FEDERALIST, No. 43.

The law, through its various organs, begat first the ancient right to copy. Thereafter in the name of "property" did the law give birth to a creator's rights in his own creations as one exception to the right to copy.

The United States Constitution
Article I, Section 8, Clause 8

On May 2, 1783, four years prior to the Constitutional Convention, the Congress established under the Articles of Confederation, acting on a Committee report offered by James Madison, adopted a resolution:

> "Resolved that it be recommended to the several States to secure to the authors or publishers of any new books not hitherto printed, being citizens of the United States, and to their executors, administrators, and assigns, the copyright of such books for a certain time not less than fourteen years from the first publication * * * such copy or exclusive right of printing, publishing, and vending the same, to be secured to the original authors, or publishers, their executors, administrators and assigns, by such laws under such restrictions as to the several States may seem proper." [5]

As a result of this resolution and the efficient urging of Noah Webster, all of the original states passed copyright laws except Connecticut which had done so several months before the resolution, and Delaware. South Carolina went even further in its Act of March 26, 1784, and after providing for the protection of books, provided:

> "The inventors of useful machines shall have a like exclusive privilege of making or vending their machines for the like term of fourteen years, under the same privileges and restrictions hereby granted to and imposed on the authors of books."

And many states were from time to time granting patents by special action of their own legislatures. Notable among these patents is one on the steamboat to one John Fitch by the State of New York, of which more later.

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5. The Origin of the Patent and Copyright Clause of the Constitution, Karl Fenning, 17 GEO. L.J. 109 at 114 (1929).

The laws of five states had definite requirements for publication of copyrighted books in sufficient numbers and at a cheap enough price to satisfy public demands.[6] Patents of that day also often required working of the invention for the benefit of the public. E.g., the first of the patents to Messrs. Livingston and Fulton on their steamboat, that was given by the State of New York very soon after the adoption of the Constitution, was conditioned that the patentees had to successfully operate a boat of twenty tons capacity between New York and Albany within twelve months of the grant, or their exclusive right would be forfeited.

Thus it seems not unlikely that the term "patent" and the term "copyright" had engrafted thereon at that time, specific connotations of service to the public by offering the book, the product or the steamboat service to the public, and that the omission of those two terms from the Constitutional clause, was a deliberate effort to avoid an engrafting by such connotations, of working-requirements or compulsory license, upon the Constitutional provision.[7]

Against that background of law and practice, the Constitutional Convention convened May 14, 1787. A committee reported a draft Constitution on August 6th without a patent or copyright clause.

The evidence suggests that twelve days later, Saturday August 18, 1787, General Pinckney of that same South Carolina state that already had a general patent law, proposed to the committee that Congress have the power:

> "to grant patents for useful inventions; to secure to authors exclusive rights for certain time";

And on that same day James Madison, the author of the 1783 recommendation of the then Congress that states enact copyright laws, appears to have proposed to the committee that Congress have the power

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6. Norton, The Constitution of the United States 65 (1922).

7. It is here interesting to note in passing that while recent antitrust attitudes have lent support to compulsory licensing concepts, and the compulsory-licensing-of-mechanical-reproduction provision of our copyright statute 17 USC §1 (e) enacted in 1909 has not to this writer's knowledge been seriously attacked on constitutional grounds, the Supreme Court with some Constitutional language support, in *Continental Paper Bag Company* v. *Eastern Paper Bag Company*, 210 US 405, 52 L ed 1122, 28 Sup. Ct. 748 (1908), said: "It has been the judgment of Congress from the beginning that the sciences and the useful arts could be best advanced by giving an exclusive right to an inventor * * * The language of complete monopoly has been employed" [—by the Constitution].

"6. To secure to literary authors their copyrights for a limited time. 7. To secure to inventors of useful machines and implements, the benefits therefor, for a limited time." [8]

These concepts seem to have stirred up no controversy or debate, and on Wednesday September 5, 1787 Mr. Brearley of the Committee of Eleven made a further report essentially of our present constitutional Article I, Section 8, Clause 8:

> "To promote the progress of Science and useful arts by securing for limited times to authors & inventors the exclusive right to their respective writings and discoveries."

On that day this clause was "agreed to nem:con:" It was finally adopted by the Delegates on September 17, 1787.

In that day the balanced sentence was a rigid grammatical form with a rigid meaning, justifying an operational relationship between "science," "authors" and "writings" that was separate and apart from the operational relationship between "useful arts," "inventors" and "discoveries."

Thus, the first patent statute made no reference to "science" but only to "useful arts" and "discoveries." In that day the "useful arts" certainly included all manner of gadget not in any real sense consistent with Mr. Justice Douglas's personal views, that the Constitution requires a patented item "to push back the frontiers of chemistry, physics, and the like, to make a distinctive contribution to scientific knowledge." [9]

Further, "science" in Constitutional days enjoyed the general meaning of "general knowledge" or "learning" without the present day attachment to physics and chemistry that Mr. Douglas appends thereto.

In this same connection it should be noted that the Constitution does not use the word "invention" when promoting *"useful arts"* by securing to "inventors" the rights in their *"discoveries."*

And Mr. Justice John Marshall, a contemporary of the Constitution's drafting, had a point:

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8. Fenning, *supra* note 5, citing *Documentary History of the Constitution of the United States of America* Vol. 1, p. 130, a five volume 1894-1900 publication of the State Department.

9. *Great A & P Tea Co.* v. *Supermarket Equipment Corp.*, 340 US 147, 95 L ed 162, 71 S. Ct. 127, 87 USPQ 303 (1950).

> "It appears then, that the power is founded on the basis of a pre-existing *right of property* from the nature and origin of the right, as before stated, and from the terms in which the power itself is granted. The word 'secure,' implies the existence of something to be secured. It does not purport to create or give any new right, but only to secure and provide remedies to enforce a pre-existing right throughout the Union." [10]

Since the one purpose, the promotion of progress of science and the useful arts, was spelled out at length, it seems somewhat illogical for a second purpose, the promotion of competition in the commercial market place, to have been omitted if it was in fact one purpose.

It is of parenthetical interest to note that the commerce clause of the Constitution is found in the very same sentence as the patent-and-copyright clause. It reads that Congress shall have the power "—To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes"; but it makes no special mention of the right to copy another's product. So we have two natural places to have raised the subject of the right to copy or of competition *per se,* and the Constitution failed in both places to do so.

Then we find Article 1, Section 10 of the United States Constitution.[11] Here the Constitution recites all the prohibitions against state action. While States are prohibited from granting Letters of Marque and Reprisal no mention is made of Letters Patent. The prohibition against State activity in the fields of commerce and of patents and copyrights, is noteworthy by its absence.

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10. *Gibbons* v. *Ogden,* 22 US 1, 9 Wheaton 1, 6 L ed 23.

11. "Section 10, No State shall enter in to any Treaty, Alliance or Confederation; grant Letters of Marque and Reprisal [note the omission of Letters Patent]; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.

"No State shall, without the Consent of Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing its inspection Laws; and the net Produce of all Duties and Imposts, laid by any State on Imports or Exports, shall be for the Use of the Treasury of the United States; and all such Laws shall be subject to the Revision and Control of the Congress.

"No State shall without the Consent of Congress, lay any Duty of Tonnage, keep Troops, or Ships of War in time of Peace, enter into any Agreement or Compact with another State, or with a foreign Power, or engage in War, unless actually invaded, or in such imminent Danger as will not admit of delay."

Then we find the Tenth Amendment "reserving to the States respectively, or to the people" all "the powers not delegated to the United States by the Constitution nor prohibited by it to the States."

If that delegated to Congress, and exercised by Congress in Title 35 USC, was both the right to preclude copying AND the affirmative right to copy every patented and unpatentable item as Mr. Justice Black suggests in *Sears* and *Compco,* and we apply that same logic to the copyright law, then we have by the patent and copyright law:

(1) Prevented states from making and enforcing laws precluding convicted felons committed to the penitentiary, from copying and selling a formerly patented item, for the right to copy is suggested to be absolute under the overriding federal patent law.

(2) Prevented states from making and enforcing laws against libelous publications—for the right to copy is suggested to be absolute and hence is without regard to libel.

(3) Prevented states and municipalities from making and enforcing laws concerning the sale of firecrackers in crowded areas—for the right to copy and sell a formerly patented firecracker is suggested to be absolute under the patent law.

A unanimous Supreme Court speaking through Mr. Justice Marshall in *Gibbons* v. *Ogden*[12] has held that the federal patent law does *not* preclude states from these areas of activity and surely not even Mr. Justice Black would do so in spite of the breadth of his sweeping language in *Sears* and *Compco.*

Gibbons v. *Ogden* is a scene in the drama of a budding nation, the drama of the birth of federalism, the drama of the birth of the steamboat which was both an invention of truly rare import and an economic problem to those who would take the concept and undertake in that day to engineer the concept into an operating steam vessel. It merits a brief recapitulation here because it was the Supreme Court of the United States ruling on the conflict between Federal law and supremacy and state-granted patents, near the time and in the environment of the Constitution's draftsmanship.

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12. 22 US 1, 9 Wheaton 1, 6 L ed 23.

In 1787, shortly before the adoption of the Constitution, the state of New York acting through its legislature granted to one John Fitch "the sole right and advantage of making and employing for a limited time, the steam-boat by him lately invented," but whatever effort he expended did not materialize into any commercial success.

The Constitution became effective in 1789.

Thence in 1798 came one Robert R. Livingston, an amateur scientist, dabbler in steam engines and backer of Robert Fulton, who was a gunsmith of precision and practicality and genius. To the New York legislature Livingston pointed out the personal hazards and economic risks and extreme expense of any attempt to reduce the concept of a steam powered vessel to practice, and the impediment of the grant to Fitch. Livingston being a man of influence, induced the New York legislature in 1798 to act as follows:

> "that whereas it was further suggested that John Fitch was either dead or had withdrawn himself from this state, without having made any attempt, in the space of more than ten years, of executing the plan for which he so obtained the exclusive privilege, whereby the same was justly forfeited";

it was therefor enacted that Fitch's right be repealed and

> "to the end that Robert R. Livingston might be induced to proceed in an experiment which, if successful, promised important advantages to the state,"

it was further enacted that Livingston should acquire privileges similar to those granted to Fitch for twenty years.

> "—Provided, nevertheless that Robert R. Livingston should within twelve months from the passing of the act, give such proof as should satisfy the governor, the lieutenant-governor and the surveyor-general of this state, or a majority of them, of his having built a boat of at least twenty tons capacity, which should be propelled by steam, and the mean of whose progress through the water, with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour, and should, at no time, omit,

> for the space of one year, to have a boat of such construction, plying between the cities of New York and Albany." [13]

Subsequent acts of the New York legislature in 1803 and 1807 added Robert Fulton as a joint owner of the rights and made other modifications thereof.

While in one sense this was not a patent to the original and first "inventor," it was demonstrably a grant in the spirit of progressing the useful arts by giving Livingston and Fulton an incentive to invest their necks as most then thought, and their money, in a hazardous venture. This was a patent in the finest sense of the English tradition before the Crown got greedy, a promotion of the public benefit by Letters Patent.

Livingston and Fulton succeeded in getting their boat built and operating and eventually sued an infringer. Chief Justice James Kent, perhaps the first true jurist produced by the young nation, wrote the opinion for the Court of Errors of New York, sustaining the Livingston-Fulton position against the infringers.[14]

Kent's very learned and lengthy opinion may be reduced to this simple proposition: Either the New York steamboat patents violated the Constitution or they did not. A stern supporter of states rights, Kent and a unanimous court ruled that they did not, for this was an intrastate power exercised exclusively within the state against twenty-one intrastate infringers, and was not in conflict with any federal power.

Massachusetts, Georgia, New Hampshire, Vermont and Pennsylvania bestowed exclusive rights upon their own favored monopolists as Livingston died in 1813 and Fulton in 1815, leaving a legacy of an unpopular monopoly over both the Mississippi and the Hudson.

Among their most unwilling licensees was Aaron Ogden, a former governor of New Jersey, of craggy and truculent countenance and character to match, who in the course of time acquired in Thomas Gibbons, a wealthy ex-Georgian, a partner even more contentious than himself. Gibbons could not resist the temptation

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13. Taken from the Court opinion in *Robert R. Liveingston* and *Robert Fulton,* Appellants v. *James Van Ingen et al.,* Respondents, 9 Johnson 506 (New York Court of Errors 1812).

14. *Robert R. Livingston* and *Robert Fulton, Appellants* v. *James Van Ingen et al.,* Respondents, 9 Johnson 506 (New York Court of Errors 1812).

to cheat his partner and they fell out with each other and into a web of patent and commerce litigation unequaled in the history of the world, one thread of which web we trace further.

Ogden, claiming under the Livingston and Fulton New York state patent complained of Gibbons' New Jersey to New York steamship operation. The reigning chancellor of New York was now James Kent, an unlikely man to reverse in the Court of Chancery a decision he had delivered in the Court of Errors even though interstate commerce and a federal coasting license was now involved. This set the stage for Gibbons' appeal, and with no less lawyer than Daniel Webster, to the United States Supreme Court.

The argument lasted four and a half days and resulted in clearly the most popular of John Marshall's Supreme Court opinions, an opinion studied by substantially every law student to get a law degree in the United States in the last 125 years.

For the better part of forty of his original pages Justice Marshall discussed the relationship between the federal patent law and the state grants. While he eventually ruled that the state patents must yield to the *commerce* clause of the Constitution insofar as the parties were in interstate commerce, he also recited, without denying, these arguments about the federal patent law:

(1) The federal authority to promote the useful arts falls in the area of *concurrent* jurisdiction between states and federal government—for many compelling reasons he discusses better than could I here.

(2) The federal patent power is limited to "inventions" and hence the Congress can*not* lawfully within the authority of the patent clause, concern itself with promoting the useful arts by rewarding developers like Livingston and Fulton who were not inventors—for that area was expressly reserved to the states and is not repugnant to the federal delegation of authority re inventors.

(3) The federal patent grant of an "exclusive right" is a right to exclude others for limited times, and is in no way in conflict with state police power, libel law, or other regulation precluding manufacture, use or selling of inventions.

(4) "It is perfectly settled that an affirmative grant of power to the United States does not, of itself, divest the States of like power . . . it is no longer open for discussion in this Court."

(5) A patent "creates no new right."

(6) "The act of Congress cannot destroy the perpetuity of a right held under the law of New York, and which the act of Congress has only secured for a certain time . . . The right, then remains at the expiration of the patent in the same condition as at its commencement . . . Even if this were not so and it should be considered that the right becomes common at the expiration of the patent, then it is like all other common rights, subject to the control of the municipal laws of the state."

(7) *"A state law may continue or extend a patent right at pleasure."*

(8) *"The [patent] law does not purport in its terms, to give a right to use the thing patented, against the provisions of any state law."*

(9) "If a state can thus control a right to use a thing patented directly, it may do it indirectly. If by a positive law, then through the agency of the courts, by injunctions or otherwise. Or, the right to prohibit the use of it may be delegated to individuals, either acting as public agents, or in their own behalf to protect some other right vested in them; and may forbid the use of the thing patented, or the publication of the book, the copyright of which has been secured without their license."

(10) "The extraordinary boldness of this position [that the federal patent law totally occupies the field to the exclusion of all other law] must surprise and astonish."

(11) "This law [several states granting patents immediately after the adoption of the Constitution] is a co-temporaneous exposition of the constitution and shows that the state considered itself as still retaining a concurrent right of legislation on the subject of inventions in science and the useful arts, notwithstanding the new constitution, and the recent transfer of similar powers to Congress."

(12) "I have not touched upon the right of the states to grant patents [to the original inventor] for inventions or improvements generally, because it does not necessarily arise in this cause."

(13) The state grant to Fulton and Livingston must yield to the *commerce* clause of the Constitution.

That the owners of the patent did not regard their New York patent as destroyed by this decision, is evidenced by the fact that still further litigation developed in *The North River Steam Boat Company* v. *John R. Livingston* (son of Fulton's friend Robert Livingston),[15] involving Hudson River-intra-New York traffic—and again the decision for defendants was on grounds of supremacy of the U.S. *commerce* clause and related law.

The Present United States Statutes on Property Rights in New Creations

From our Constitutional law in *Gibbons,* inconsistent with that now propounded in *Sears* and *Compco,* we progress to our statutory law of today.

35 USC provides for the grant of a patent on inventions (§101) and provides for two remedies, injunction and damages.

While §112 requires the application for patent to "contain a written description of the invention," no word in the statute either directly or indirectly states a right to copy the patented product, either upon issuance of the patent or upon its declaration of invalidity or upon its expiration or later.

The patent owner's rights and the copyright owner's rights are in many respects different:

(1) 3½, 7, 14 or 17 years for the patentee vs. 56 years for the copyright owner.

(2) Right in the patentee to preclude duplication by non-copyists; right in the copyright owner only to preclude copying.

(3) Right in patentee to preclude *use* of his creation; no right in copyright owner to preclude use.

The Congress has made no effort to reconcile the patent and the copyright law, it seems certainly for the reason that the Congress saw no conflict between them.

The issue when a design is subject to both a copyright and a design patent, is not whether the plaintiff owns both, but whether the one he sues on is valid and infringed. —And the existence or nonexistence of another right has no bearing on the subject.

As George Frost has said, since the advent of alternative pleading in the Federal Rules there has been no justification for

15. 3 Cowen 713 (NY 1825).

saying a claim under one theory is inconsistent with a claim under another. If a man may plead alternatively a contract and a tort theory in a trade secret case and prevail under each theory he can prove up, then why should he not also be privileged to sue on a copyright and a patent theory and prevail upon each theory he can prove up.

That view does not constitute a comment of either approval or disapproval of 56 years terms for design protection, or a comment as to the merit of the nonsequitur of requiring "invention" in an ornamental design under the design patent law.

If the statutes are bad, let them be corrected. But let us not create an original mischief of our own by "reconciling" two already reconciled laws, the copyright and the design patent law.

In further support of the point that the patent law does not grant an affirmative right to copy, recall to mind the typical situation of two patents, one as we phrase it "dominated" by the other. Sometimes it occurs that the dominated patent expires first or is held invalid while the dominating patent still has much life left.

It is uncontroverted law that the expiration or invalidity of the dominated patent does *not* grant either to its owner or to the public any right to copy it, while the subject matter remains covered by the dominating patent.

By what logic then, without any words of grant of a right to copy, should the Courts engraft a right to copy into the patent law which the patent law itself admittedly denies.

Finally, consider this question: By what phrase or inherent logic does the 1952 enacted patent law's alleged grant-of-right-to-copy operate with supremacy over the state unfair competition law (as stated in *Sears* and *Compco*) and not also supersede the six-year earlier federal unfair competition law concerned with the same acts of unfair competition, the 1946 Lanham Trademark Act?[16] The Lanham Act's constitutional stature stands toe to toe with the patent law of Title 35 USC, and the Lanham Act concerns, inter alia, the same acts of unfair competition as the Illinois state law involved in *Sears* and *Compco*. The reality seems clearly to be that the Lanham Act gives Congressional construction of the patent statute as *not* operative to preclude injunctions against copying, on theories other than the patent law.

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16. 15 USC 1051-1072, 1091-1096, 1111-1121, 1123-1127.

The "Progress" Under Article I, Section 8, Clause 8

Some of course ask, "If there is no affirmative right-to-copy in the patent law or copyright law, then how does that law promote the progress of the sciences and the useful arts?" The answer is to be found in Constitutionally contemporaneous history, already related.

The 56 year copyright to preclude copying was granted when man's life expectancy was less than 56 years. Thus, any remaining promotion of science by copying was in that context a de minimis incidental to the lives then in being and making the law.

Progress by competitor's copying one another was *not* what was in mind.

But both patents and copyrights require publication of the creator's knowledge, thereby to destroy motive for secrecy and encourage interchange of knowledge. Here recall that in this day it was common for the tradesman to keep secret all he could of his trade, and pass it on from father to son. There were no technical professional associations exchanging information on recent developments and there was a strong bias toward secrecy that needed to be attacked.

Further, both copyrights and patents give a property right that will enable the inventor to make money out of his invention—thereby to promote progress by encouraging the creator to invest his energy and money in creative effort, as was recited in so many words in the 1474 Venice statute.

Recall also the situation in the John Fitch and Livingston-Fulton patents. There Fitch was apparently an inventor, Livingston-Fulton not; but the patent was given to Livingston-Fulton on express condition that they produce a working ship of 20 tons capacity and expressly for the purpose of inducing them to invest their money and risk their necks in the effort thereby to serve the public.

Thus the "progress" was not contemplated to be in one person's piracy of the inventions or developments of another by copying.

Surely by now it is overabundantly apparent that the idea of the patent law or the copyright law having something to do with an affirmative right to copy, is erroneously fabricated out of the whole cloth by the Courts[17] in conflict with the philosophy

17. *Scott Paper Co.* v. *Marcalus Manufacturing Co. Inc. et al.*, 326 US 249, 66 S. Ct. 101 (1945); *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111, 120-122, 28 TMR

of the Constitutionally-contemporary thinking on the subject in both the New York Courts and the United States Supreme Court. To read such a right-to-copy proposition into the patent or copyright law, is to distort both its heritage and its proper place in the fabric of all our intellectual property and state police law, libel law, unfair competition law, food and drug law, and even the state's concurrent right to promote the progress of science and the useful arts.

Trade Secret Law

If the law through its various organs can carve out of the pre-historic right-to-copy, a right in a creator to prevent duplication of his creation, then can not the law also carve out still other rights to preclude copying, founded on other philosophic foundations and as to which other remedies are appropriate?

The trade secret law is one such body of law.

It is unlike both the patent and copyright law in that it is not *based* upon the natural right of a creator in his own creations.

Creativity in the trade secrets in issue is usually present and is often influential in the cases, but it is not necessary. It is not the foundation cornerstone of the right.

As Mr. Justice Holmes said in one of the leading trade secret cases, "the property may be denied, but the confidence cannot be." [18]

The trade secret cause sounds in tort in some cases. It sounds in contract in some cases. Sometimes it sounds in both. Even when you accept the property approach in a secret, when the secrecy is lost the property evaporates as morning fog before the rising sun.

But the "property" overtones are normally only secondary to the relationship between the parties, whether that relationship be contractual or tortious. Thus the patent law does not properly belong in the trade secret case.

The patent happens to be a publication of knowledge, a publication which reaches particularly the technical community, which is advertised in the Patent Office Official Gazette, etc. Thus, while it is still possible for a secret needle to be lost in the morass of the world's largest haystack—the data retrieval problem that is

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569, 39 USPQ 296, 300-301 (1938); *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 US 169, 185 (1896)—and now *Sears* and *Compco*.

18. *Dupont* v. *Masland*, 244 US 1016 (1917).

the Patent Office, it is in most circumstances reasonably expected that the patent publication will come to the attention of the subject industry and be read and understood by it.

Against this background it seems that Able ought not tell Baker a secret, then go publish the secret to all the world that has interest in it, and thereafter complain of Baker's use of the secret. For Able to publish the secret is for Able himself to destroy the confidence and hence the duty of Baker to honor the confidence. This is true whether the publication be by way of patent or by way of a marketed product or advertisement in the newspaper.

It is the patent as a specially good-in-some-respects type of publication, and not the patent law as a body of law, that has proper philosophical bearing upon the trade secret law.

And there is also antitrust law that in my judgment is properly applicable to preclude unlimited obligations of confidence when the confidence has been destroyed by the issue of a patent or other publication. An obligation not to compete, no matter how arrived at, is an unreasonable restraint of trade if not limited in time and/or area—and the reasonable time limitation runs out within a design-and-manufacturing-lead-time following publication of the secret in a form reasonably expected to come to the attention of and be understood by the trade.

Trademark and Related Unfair Competition Law

Let's review briefly the origins of the trademark and related unfair competition rights.

First, they belong to the merchant, not to the creator.

Second, these are not rights to preclude copying of a mark. The legal right is tied to the mark in association with its product or service line. A man who prints 10,000 labels saying NBC and sells them in neat packages has not infringed the mark of a certain broadcasting service, by that naked act of copying and selling paper bearing the copied mark.

The trademark owner's right is founded not upon creativity, not upon promotion of the useful arts, not upon property concepts which gave birth to the patent and copyright 500 years ago.

The trademark owner's right has roots only in the soil of commerce, that feed only from customers, for the right is vicariously acquired from the subjective reaction of the public. His right is to prevent the public from being deceived or confused on a certain restricted question—source of the goods or services.

The trademark owner's right grows from a different seed in a different soil and produces a different flower from the patent or copyright.

The trademark concept stands in one light and casts its shadow over many nuggets potentially of commercial gold.

Similarly the patent and the copyright concepts stand in lights all their own and cast their shadows over many nuggets, potentially of commercial gold.

The shadows from these different lights, sometimes overlap, but they do not fight one another.

The removal of one light removes one shadow, but does *not extend* or modify the shadow of the other light or change the nuggets of gold that lie within it.

The trademark right arises not out of one single sale—only the right to register arises so superficially and that for reasons of simplicity of administration. The classic common law trademark arises only upon sufficient public recognition of a mark's connection with a product's origin, that the public is confused by another's use of that same mark. And this requires more than a single use by the proprietor. It requires the public's own whimsical and uncontrollable visitation of secondary meaning upon the mark.

If a Lanham Act[19] trademark cancellation upon abandonment of a trademark, does not operate to void the copyright or the patent on the same design, then why should the expiration or voiding of a patent operate to terminate the trademark right as stated in *Sears* and *Compco*?

Neither type of right has any just call to destroy the other. Each is a right to preclude a different thing:

Re patents, duplication and use

Re copyrights, copying

Re trade secrets, breach of confidence

Re trademarks, deception of the public as to source.

And each operates for a different term.

Does all this mean that the philosophy of the trademark law, being freed as I have suggested of any influence by the patent or copyright law, justifies what the trial and appellate courts did in the *Sears* and *Compco* cases?

19. 15 USC 1051-1072, 1091-1096, 1111-1121, 1123-1127.

Most positively not!

On philosophy those two courts like the Supreme Court, got hold of the right threads of law but couldn't find a way under Illinois precedents to weave them into the entire fabric of intellectual property.

Here we must recall that our play has our actors.

1. The creator is not involved in this scene.
2. The merchant asserts a right to preclude others from copying.
3. The competitor asserts a right to copy others.
4. And the public asserts a right to both:
   (a) freedom from confusion as to source, and
   (b) competition among manufacturers and merchants—with competition's infinite benefits in low prices, good quality, alternative sources of supply, etc.

The trademark user through use of his mark induces the public reaction, secondary meaning, out of which he vicariously draws his right to prevent the public from being deceived or confused.

Here note that de facto secondary meaning may attach alike to functional and nonfunctional, to patented and unpatented, to copyrighted and uncopyrighted, features. The public visits this secondary meaning indiscriminately upon all kinds of features, and in this visitation could not care less whether a feature is patented or not.

If we let the public's visitation of de facto secondary meaning, be the *sole* guide to the right of the merchant to preclude duplication or copying or deceptive uses of his design, then we have said in practical reality that a merchant may get a property-type perpetual right in his design without the creativity required of authors and inventors who get only limited-term rights.

While the law of patents and copyrights in historical context does not condemn the perpetual term-right of a merchant in the design he markets, the philosophy of the patent and copyright law's evolution is that property-type rights should affix in intellectual concepts only for limited times.

Nor is it justice or injustice to the merchant who sells a design, that limits the right of that merchant to preclude others from use of a given design.

It is the philosophy of the antitrust and common law favoring the *public's* right to freely competing manufacturers and merchants that commands that such a perpetual property right *not* attach quite so indiscriminately.

Thus, insofar as a design which does not qualify for protection as a new creation, attaches to a product itself, thus rendering the product itself popular in the market, either by virtue of its nice appearance or by virtue of its unique function, justice to the merchant and confusion of the public should both give way to the philosophy of the prehistoric right-to-copy common law and the antitrust law, both to the effect that the public should enjoy the benefits of free-competition in all products that it wants.

But insofar as the design attaches not to the product, but to the source-identifying *dress* in which the product is sold, the trademark philosophy has no conflict with the antitrust or common law right-to-copy philosophy. Insofar as the secondary meaning attaches to the design of a wine bottle and a right is given in that bottle as dress for wine, as in *In re Mogen David,* that trademark concept of right-to-preclude-others-from-copying that design *does not inhibit free competition in the product*—wine.

The public policy favoring the public's right to freely competing merchants is restricted to the products, *not* to the dress in which the product is sold.

Summary

Thus, when the design is a secret, let the law of trade secrets and confidential relationships protect it in perpetuity.

But when it is revealed to the public by patent or otherwise, let that destruction of the confidence destroy the duty to respect it.

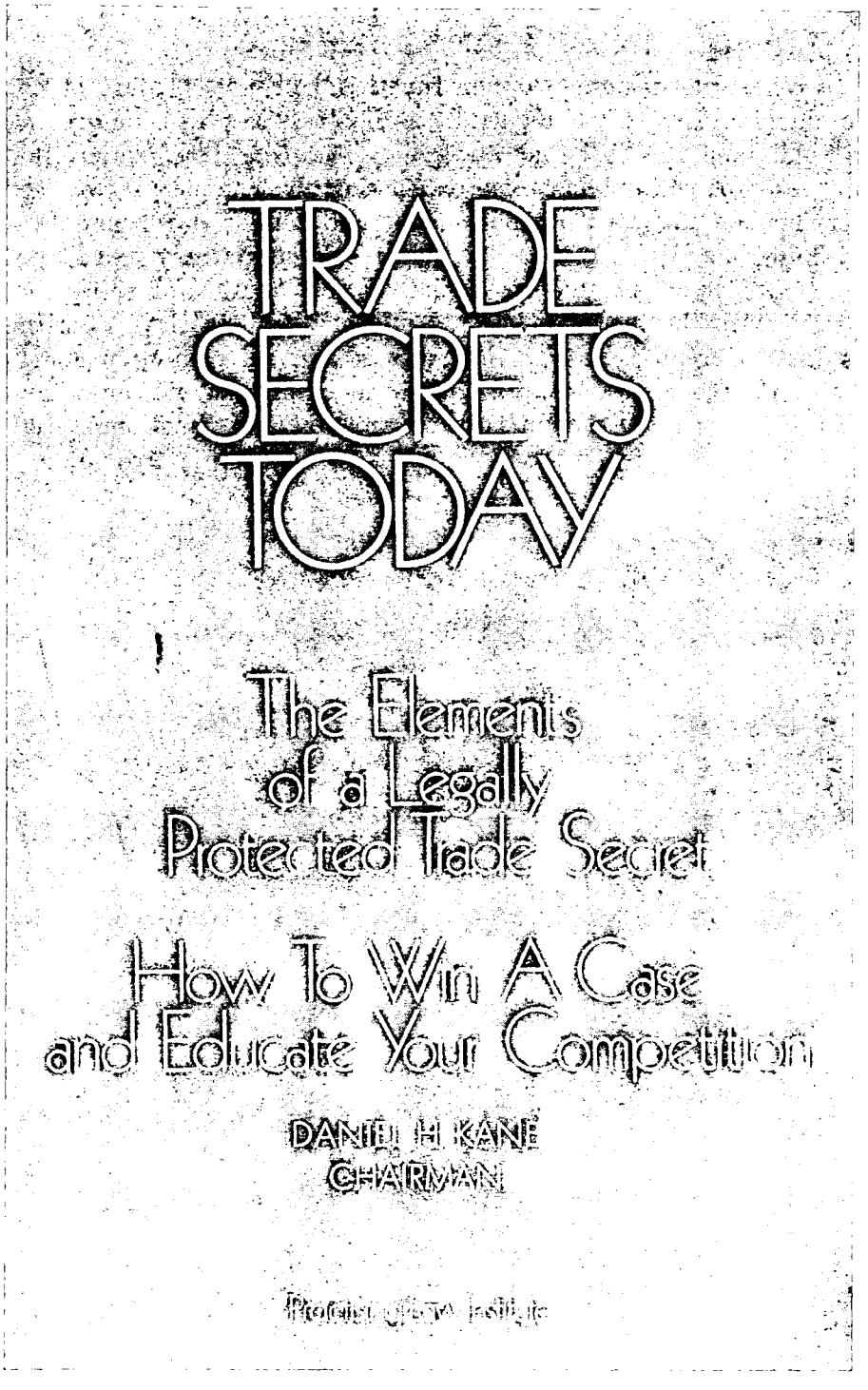
When a design qualifies as a creation, then let those statutes concerned with property right in creations be applied to give the creator either a patent, or a copyright, or both—and without regard to whether a trademark right may also attach under one of the following principles.

When the design appears on the label or the carton or the bottle or other container, or otherwise on the dress of the product, and secondary meaning attaches to that design, then let the trademark law protect that design perpetually no matter how many patents or copyrights may or may not have existed on it. The public thereby has both competition in the product (subject to any property rights of creators for limited times) and also has freedom

from deception and confusion as to source, which is a full basket of blessings.

When the design, whether functional or not, is part of the product itself, as distinguished from the dress in which the product is sold, then the antitrust law policy favoring free competition on behalf of the public at the expense of the competitors if need be, must defeat the trademark right and render it for naught—without regard to whether patents or copyrights may exist.

A fabric of law thus woven has the advantages of being consistent with the historic concepts of Constitutional law, of being as just to creators as our Congress can be in defining property rights in creators, of being as fair to merchants as we can be and still assure competition in both ornamental and functional products (as distinguished from the dress in which they are sold).


TRADE
SECRETS
TODAY
The Elements
of a Legally
Protected Trade Secret
How To Win A Case
and Educate Your Competition
DANIEL H KANE
CHAIRMAN

6

PAINTON v. BOURNS, THE PROGENY OF LEAR v. ADKINS: A COMMENTARY ON KNOW-HOW LAW AND PRACTICE*

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Jack C. Goldstein
Arnold, White & Durkee
Houston, Texas

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COMMENTARY UPON KNOW-HOW LAW AND PRACTICE AND PAINTON V. BOURNS*

> "We must be especially wary against the dangers of premature synthesis, of sterile generalization, unnourished by the realities of law in action."
>
> Mr. Justice Frankfurter

The trial court in Painton v. Bourns*, sua sponte and thereby "unnourished by the realities of law in action", engaged in a philosophical discussion of what the Court considered to be federal patent policy, and erroneously concluded:

* Painton & Co. Ltd. v. Bourns, Inc., 164 USPQ 595 (DC SDNY 1970), the appeal having been scheduled for argument in the Court of Appeals for the Second Circuit on February 8, 1971, after the preparation of this commentary.

> "For these reasons this court holds that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration [as by contract] for the use of his idea." Painton & Co. Ltd. v. Bourns, Inc., 164 USPQ 595 at 597 (DC SDNY 1970).

This ruling was applied in a know-how license case, indiscriminately to unpatented and unpatentable know-how as well as to potentially patentable concepts and patented inventions.

Excepting for concepts which are the subject of actively pending applications for patent, the court denied the existence of any law of trade secrets, breach of confidence, or know-how protection, purporting to rely on the federal patent law preemption doctrine of Lear v. Adkins, 395 U.S. 653 (1969).

Query: Do the necessary consequences include termination of payment under all existing know-how licenses? Do the necessary consequences foreclose the negotiation of all new know-how licenses?

I think not.

But let me speak first to the errors of reasoning leading to that conclusion, and the error of that conclusion.

I. HISTORY OF PATENT LAW

What is believed to be the world's first patent law,[1] enacted by the city-state of Venice in 1474, was built upon two basic concepts:

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[1] See Patent Study No. 15, 85th Congress 2nd Session (1958). There follows what is believed to be an accurate translation of the Italian text:

"1474, the 19th day of March.

"There are in this city, and also there come temporarily by reason of its greatness and goodness men from different places and most clever minds, capable of devising and inventing all manner of ingenious contrivances.

"And should it be provided that the works and contrivances invented by them, others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our State.

"Therefore, decision will be passed that, by the authority of this Council each person who will make in this city any new and ingenious contrivance, not made heretofore in our dominion, as soon as it is reduced to perfection, so that it can be used and exercised, shall give notice of the same to the office of our Provisioners of Common.

"It being forbidden to any other in any territory and place of ours to make any other contrivance in the form and resemblance thereof, without the consent and license of the author up to ten years.

"And, however, should any body make it, the aforesaid author and inventor will have the liberty to cite him before any office of this city, by which office the aforesaid who shall infringe be forced to pay him the sum of one hundred ducats and the contrivance be immediately destroyed.

"Being then in liberty of our Government at his will to take and use in his need any of said contrivances and instruments, with this condition, however, that no others than the authors shall exercise them.

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(1) property right of the inventor in the product of his mind; and

(2) "benefit to our State" resulting from inducement of men of "most clever minds" to "exert their minds" and "make things which would be of no small utility and benefit to our State."

The patent clause of our Constitution, seems to have stirred up no controversy or debate in the Constitutional Convention, and it carries the same two connotations, the inventor's property right and the benefit to the state. Article I, Section 8, Clause 8 reads:

"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."

It is noteworthy that the Constitutional language which relates to both process inventions that can be used in secrecy and to product inventions that inherently must be disclosed by sale and use thereof, is in terms of grant, of "securing . . . to . . . Inventors". There is no intimation found either in the Constitutional clause or its legislative history, of taking anything from inventors--like their freedom to contract for disclosure of their inventions or for disclosure of unpatentable know-how.

Similarly, from the first patent act of April 10, 1790, c.7, 1 Stat. 109, through the present patent act of 1952, present Title 35 U.S. Code, the statutory language was always language of grant of rights to inventors. Neither in the various patent acts nor in the legislative history of any of those acts, is there to be found any suggestion of taking anything from inventors.

No concept of the statutory patent right's preemption of the common law rights to protect confidential information can be found in any of this history.

The patent law is expressly restricted in its scope, does not purport to treat at all of many classes of innovation such as new improved hybrid seeds, new accounting methods, most classes of computer programs, and new applications engineering work within the skill of those in the art. See 35 U.S.C. and 103. In such areas it grants no patent but it has no phrase of interference with other applicable law.

When the present patent law was passed, it was the intent of the drafters to leave the common law as it was in such areas as trade secrets and confidential information.[2]

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What then was the common law of trade secrets, confidential information, and know-how licenses, at the time of the enactment of the 1952 Patent Act?

To that theme, we must give further development.

2. P. J. Federico, then Examiner-in-Chief of the United States Patent Office, was the chief technical advisor in 1949-1952 to both the House and Senate subcommittees having jurisdiction over the patent law. He personally wrote the first draft of what became the Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into the 1952 Act. His personal files today are likely the most complete legislative history of the 1952 Patent Act in existence.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, he wrote a comprehensive "Commentary on the New Patent Act" which was published by West Publishing as a foreward to its original publication of the new Title 35, U.S. Code Annotated.

It is noteworthy that this commentary, written immediately after three years of vigorous work on the act in both bar and Congressional circles, does not suggest any change in the 1952 existing law of trade secrets, confidential information, know-how licenses, or other possible unfair competition. The Commentary does state, that after the first draft

Committee Print of a proposed bill, the focus of attention was upon codification with only relatively noncontroversial changes in the law. That is clearly inconsistent with any change so fundamental and far reaching as that promulgated by the court below.
[End of footnote]

II. PREMISE FACTS: INDUSTRIAL LIFE IN ACTION

So frequently is there gross misconception of the pragmatics of trade secrets, confidential information, know-how and the relationship of patents to them, that we must first be sure the premise facts are clearly stated.

Industry finds that various bodies of information used in business, both exist and must be treated as proprietary.

We need not here focus upon confidential financial information, upon secret future advertising programs, upon secret plans to enter the X market or secret methods of doing business. But, we must focus upon:

Patented concepts vs. know-how

One body of information that is used by industry, is that represented by patents on new concepts.

A much larger body is that represented by detailed engineering drawings and specifications for a particular application of a concept; by the experience of having tried a dozen publicly available alternative solutions to a given problem and having selected the one which is most economic in context of other parameters of a system; by having spent $50,000 on a literature search and pilot plant tests to evaluate the most likely choices found in the literature in view of anticipated changes in labor costs vs. machinery costs; etc. --All of which are generally characterized as "know-how".

While some bits of a know-how package may be patented or be patentable, know-how is in major part available in bits and pieces of a puzzle, from published sources. Often the know-how package includes numerous trade secrets. But since the know-how package is normally the distillation of knowledge--the assemblage of the pieces of the puzzle--from hundreds of trials and failures, distillation of a multitude of compatible details for an integrated operating system, it is expensive to come by even when no element of the know-how package is itself truly unknowable from public sources of information.

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Speaking simplistically, patents relate to technology at the conceptual level.

But, the engineering detail is rarely a part of patents--it is often not even generated until after the patents issue.

Thus, an invention in turbines, a novel concept, might be applicable to hydroelectric turbines and also to aircraft jet engine turbines. The concept patented could be used in each, upon the expenditure of thousands to perhaps hundreds of thousands of dollars in developing know-how to adapt the patented concept to each application of the concept, and produce detailed manufacturing specifications and production procedures.

Turbine blades of different materials and hence, of different strength would have to be used because of the different erosion and corrosion environment of cool water in one application, and superhot gases in the other. Blade dimensions and configurations would inherently change in the two applications, in order to obtain operational efficiency at low hydroelectric speeds and again at high jet engine turbine speeds. Stresses on the blades would be markedly different in the two applications. The different blade materials and blade dimensions, would necessitate different tools for forming them; different jigs for mounting them, and different welding and annealing techniques.

Thus the manufacturing specifications for each application of the patented concept may represent thousands to hundreds of thousands of dollars' worth of engineering time--distilled and developed know-how that others could develop from the patent disclosures but only at a similar cost in market lead time and money.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed and even after the patent issues or expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent is filed, and a steam turbine applications engineering developed while the patent application is pending, and the jet engine

applications engineering might be done not by the patentee but by a patent-licensed competitor five years after the patent issues.

Inherently, a patent cannot disclose the engineering detail for all applications of the inventive concept. Consistently with that pragmatic fact of life the patent statute, Title 35 U.S.C., requires only a disclosure sufficient to permit others in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of one mode, i.e.,

> "the best mode contemplated by the inventor of carrying out his invention." 35 U.S.C. 112.

Other modes, including the engineering details of such other modes, by statute need not be disclosed in the patent--many of them simply cannot be. The patent law does not purport to protect the engineering detail, the specifications producible by every engineer in the art once the concept is in hand. The patent law does not treat the know-how at all, one way or another.

Assume as is common, that John Doe Inc. spends half a million dollars and a year of potential market lead time in such an effort. As against those who would derive from Doe, who should own the property rights purchased by Doe with this money and market lead time? Competitor Richard Roe Inc.? Hardly. That know-how which John Doe's money paid for, inherently must belong to Doe as against those who would derive from him. (Contrast the patent right which is good also against independent inventors.)

Once Doe has spent that time and money, what social purpose is served by precluding him from selling the resulting know-how to one who finds it cheaper to buy it now, than to spend market lead time and money redeveloping the same information for himself? Competition is clearly more promptly increased and the public more quickly served with enjoyment of the invention, if Doe can sell his know-how for the dollars the market in this context will pay.

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The dollar value of know-how

The result of these circumstances, is that know-how of unpatentable stature is a commodity bought and sold in the market place and used and protected by its possessors, in dollar volume likely very far exceeding the dollar significance of patents alone.

The most sophisticated companies sometimes pay millions of dollars for developed and proven know-how in arts in which they are already generally sophisticated generally in petrochemicals. Yet, the majority of them have bought the know-how that set them up in this business, thereby increasing and speeding up competition where otherwise it would have been slowed or restricted.

The going price for high pressure polyethylene know-how licenses in the decade of the sixties, was well into seven digit figures per license--one common formula being a contract for royalties expected to amount to millions over a moderate number of years. For example, see I.C.I. v. National Distillers, 342 F2d 737 at 744 (CA 2nd 1965), where this Court pointed out that Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor. (This Court found no illegality in the trade secret agreement at issue there, and it was found to be legal after attack by the Department of Justice in United States v. I.C.I., 254 F.Supp. 685 (S.D.N.Y. 1966)).

Many companies do not charge dollars or royalties for their know-how. They ask for common stock or some other form of equity option in exchange for delivery of their know-how.

Often the know-how is part and parcel of either trademark or patent licenses, with the amount of consideration for each not carved out for statistical analysis.

As a result of the common fact that payments for know-how are intermixed with payments for other values ranging from patents to instruction schools for personnel, and of the common fact that know-how is often sold for speculative values in equity participation rather than for royalties or dollar payments, it is impossible to gather any precise figures on the dollar volume of know-how conveyances by United States industry. But orders of magnitude are

available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, etc.

And, the order of magnitude of United States industry know-how conveyances, domestic and foreign, must be placed in the billion-dollar order of magnitude annually.[3]

3. For example, the Survey of Current Business, U.S. Department of Commerce, March 1970, puts the 1969 fees and royalties from direct investments--and this is foreign alone and not domestic--at $2,052,000,000. The National Industrial Conference Board, Inc. in its 1969 research report "Appraising Foreign Licensing Performance", citing published and unpublished data from the U.S. Department of Commerce, states that "receipts of royalties and license fees from abroad have more than doubled over the course of the last ten years, rising from around $378 million in 1957 to an estimated $786 million in 1967".

Even with subtractions for direct patent and trademark licenses which may be included in those figures, when domestic know-how licenses and equity-type transactions are added in, the billion-dollar-plus order of magnitude for know-how licenses is again a plausible estimate.

See also, "Compensation Patterns in U.S. Foreign Licensing", 14 IDEA 1, for further statistical data consistent with the billion-plus order of magnitude for all United States industry licensing of know-how.

Finally, the 1961 figures from Technological Innovation: Its Environment and Management, A Report of the Panel on Invention and Innovation, U.S. Department of Commerce, 1967, is of interest though the figures are 9 years old. There we find: "An important element of our international balance of payments is what is called the "technological" balance of payments. This international account reflects payments for technical know-how, patent royalties and the like. In a recent study of the technological balance of payments of various countries, the "Organizational for Economic Cooperation and Development" (OECD) published data for the United States which are depicted in Chart 5. The OECD compilation shows the U.S. receiving roughly ten times the technological payments from abroad as goes out in payments to other nations. This is a very significant secondary effect of innovation in the American economy. [The Chart 5 shows 1961 payments to other countries, $63,000,000; receipts by U.S.

from others $577,000,000; net balance to U.S. in 1961 of $514,000,000.]"

[End of footnote]

If to the uncertain figures available as an annual rate of license income in fees and royalties, there is added the annual income from equity transactions, and these annual income figures are capitalized and added to the masses of know-how which is not licensed the total dollar value of U.S. industrial know-how must be estimated in the many-billion order of magnitude.

Thus, the value of John Q. Public's property in issue that sua sponte was taken from him by the trial Court in Painton, is as great as almost any single legal issue that has ever been litigated.

The "Show-how" contract

How is a know-how license, calling for disclosure of unpatentable know-how in exchange for money, different from an ordinary teacher's employment contract? Or a continuing research and development service contract? Or a technical services contract?

In all of these contract types, money is agreed to be paid in exchange for the teacher (know-how grantor) teaching by books and specifications and usually by some person-to-person instruction as well.

The essence of the contract, is a "show-how" service contract.

The difference is that when the information includes trade secrets and confidential know-how, the teaching is done in confidence and the student agrees to keep the confidence--so that the teacher (know-how grantor) can sell the same information again to others who do not wish to incur the loss of market lead time and the cost of doing their own engineering as the alternative.

The same confidential know-how is often sold twice, three times, a dozen times, to different purchasers, and this can be done only if the confidence is maintained.

By this comparison with the teacher's show-how contract we get a better picture of the essence of the relationship. A know-how license is a contract that A teach B what A knows or soon will know as a result of A's continuing research and development effort. If B gets the know-how it sought, B must be

required to pay what B promised to pay, whether or not the know-how was patentable or put into a patent application--because B got the value he agreed to pay for.

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Employer-employee relationship

It is important to note that most of this know-how is not patentable, but business has a tremendous investment in it.

It is important to note that if this know-how is not legally protectable, if the proprietor cannot compel compensation for disclosure of it (as the Painton opinion suggested with the possible exception of information covered by a pending patent application), then the law would urge every company to indulge employee raiding of its competitors with vigor, in a dog-eat-dog effort to get information that heretofore has been sold often at very substantial prices. Why pay $1,000,000 for know-how when you can get most of the same information by hiring the competitor's plant manager for $25,000? If as was stated in Painton, the proprietor cannot compel compensation from those who agree to pay money for disclosure or use of his information, assuredly there is no liability for a plant manager using the know-how in a new employer's plant.

Failure of the law to continue to protect confidential technical know-how against those who would wrongfully derive its possession or would wrongfully use, would force every business to strict internal secrecy lest departing employees take competitively valuable information with them. Such a secrecy program inherently begets large loss of business efficiency because of deterioration of internal communications and loss of cross-fertilization of technological intellect among the employee group.

The contract for applications engineering services

What of a hypothetical four-scientist partnership with a contract to do applications engineering for company X? Painton says that the partners cannot compel consideration for the disclosure or use of their ideas unless they be patentable. Such a rule must inherently put the four partners out of the applications engineering business.

Business R & D budgets

Can business long justify large budgets for the development of new know-how, if when once developed it is to be available to competitors at no charge? In some areas where one year's market lead time will pay for the development of the new know-how, the answer would be at least partly, yes.

But in areas which command really large developmental expenses at high risk that when the money is spent the new know-how may nevertheless prove to be uncommercial, the answer must in major part be, no.

Industrial life in action

Thus it is seen:

(a) If the know-how obtained at great research and development expense is not protectable, then investment of private capital in that kind of research and development, must inevitably diminish--to the detriment of the advance of the useful arts. And when this occurs gradually over the years, budget-committee-decision by budget-committee-decision, who will know who slew the goose that has been laying the golden eggs of rapid technological progress?

(b) If know-how cannot be licensed for compensation and protected so far as the law of implied contracts and actual contracts would reach, then the ethical businessman's contractual dissemination of know-how, which results in advancement of competition and early public enjoyment of inventions, must terminate, forcing potential competitors either,

(1) to stay out of a new line of business;

(2) to pervert their ethics and misappropriate the requisite know-how in reliance on the law's inducement toward this immorality; or

(3) spend the extended time and money necessary to redevelop the know-how that could previously have been purchased--time and money that otherwise might have been devoted to new developments instead of to repeating development work already done by others.

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From the above it is obvious that industry has been relying upon proprietary confidential information, including technical know-how, as an important part of its capital investment and of its salable stock in trade.

Industry relies upon protection of its investment in unpatented know-how as against those who would derive from others without authority.

III. TRADE SECRET AND KNOW-HOW LAW 1790 to 1970

Having noted the lines of distinction between patentable concepts, and unpatentable know-how, and how the two fit into industrial operations and economics, let us consider the history of the non-patent law under which the multi-billion dollar know-how investments and licensing practices were developed.

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A cause of action for wrongful disclosure of trade secrets has been recognized by some law at least since Roman times. Schiller, Trade Secrets and the Roman Law; The Actio Servi Corrupit, 30 Columbia Law Review 837 (1930).

While there are several nonlegal reasons for there being fewer trade secret cases in this country before 1900 than since, it is fair to say that that law of this country has always protected confidential and trade secret information against unauthorized appropriation and use by those deriving from the possessor thereof.

For example:

Early Supreme Court Law

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. Fowle v. Park, 131 U.S. 88 (1889).

In Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236, 250-51 (1905), Mr. Justice Holmes said:

> "In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's [citation]. The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." (Emphasis added.)

The Supreme Court in 1911 stated:

> A "secret process may be the subject of confidential communication and of sale or license to use * * *". Dictum in Dr. Miles Medical Co. v. Park & Sons Co., 220 U.S. 373, 402 (1911).

The Supreme Court again sustained trade secret protection in DuPont Powder Co. v. Masland, 244 U.S. 100 (1917).

In 1929, the Supreme Court held:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. [citations] Oppenheimer's [trade secret] right was independent of * * * the patent law, * * *"
>
> Becher v. Contoure Laboratories, Inc., et al, 279 U.S. 388, 391, 49 S.Ct. 356, 357 (Emphasis added).

Then in 1933 we find the Supreme Court again agreeing in U.S. v. Dubilier, 289 U.S. 178, 53 S.Ct. 554 at 557 (1933), that:

> "He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:

> "In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

In the famous and oft-followed INS v. AP case, 248 U.S. 215 (1918) the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, the Court applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a "misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

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So we find a consistent line of Supreme Court expressions to the effect that inventors have the right to hold onto their secrets and have them protected, and to convey or license them, so long as they could hold onto the secrets or maintain them under confidential relationships.

Hundreds of cases
have led to whole text books

Literally hundreds of cases, ranging over the various Circuit Courts of Appeal and State Supreme Courts, have sustained know-how licenses and breach of confidence causes with respect to trade secrets up to the present time.

This mass of cases has resulted in whole text books on this law, such as Milgrim, Trade Secrets (1968), and Ellis Trade Secrets (1953). But what have the treatises on patent law said on the topic?

In 1890 the treatise authority of the day wrote on patents and their relation to trade secrets:

> "As the right of an inventor to his secret invention and to a remedy for the wrongs by which his property therein is injured, are not dependent upon the provisions of Patent Law, they exist equally whether the invention is or is not in its nature patentable. * * *
>
> "Numerous products of inventive skill lie outside the field of those six classes of inventions which the Patent Law has undertaken to protect, and these are often as meritorious and valuable as those for which a patent can be legally granted.
>
> "If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, as also to communicate it confidentially under such restrictions as he deems expedient, and for an invasion of his rights he has the same redress as if the subject-matter of his invention were entitled to the protection of a patent." Robinson on Patents, Vol. III. Sec. 873 (1890) (Emphasis added).

The 1965 revision of Deller's Walker on Patents, being the second revision by Deller, recites in Vol. 4 at pages 4-5:

> "An inventor has a natural right, separate and independent of any potential patent rights to make, use and vend his invention, and to deprive the public of the benefits thereof by keeping it secret. [citation]. But that right disappears when the public uncovers the secret by fair means: That is, means other than breach of a contractual or confidential relationship. [citation]."

So spoke one of the earliest (Robinson 1890) and the latest (Deller, 1965, revising Walker), of patent treatise writers, on the patent-trade-secret relationship.

Consistent with Lear v. Adkins, 395 US 653 (1969), Dellar in 1965 went on to write:

> "After the issuance of a patent for an invention which had been a trade secret, no right to further secrecy exists" [I submit--as to the subject matter disclosed in the patent, but no other subject matter, as is developed at p. 32 hereof].

The Restatements

The Restatement of Torts in 1939 developed its expression, §757, protective of trade secrets and confidential information, an expression which has been cited with approval in surely hundreds of court opinions. In Comment a to §757, the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

Similarly the Restatement of Restitution (1937) provides in its §136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

The Restatement of Trusts, 2nd (1959), provides in §82(e), simply: "A trade secret can be held in trust."

Congress gives federal statutory treatment to trade secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, * * * and other property or rights by purchase, license, lease * * * ." This statute is without regard to pendency of patent applications. 42 U.S.C. 1857b-1(b)(4); 16 U.S.C. 778e(e); 30 U.S.C. 322(b).

That Congress did not intend to preempt know-how licenses with the patent law, is also evident from Internal Revenue Code, 26 U.S.C. 861(a)(4) and

862(a)(4) dealing with taxation of royalties for the licensed use of "secret processes and formulas."

Congress has recognized the existence of rights in trade secrets in a multitude of other enactments as well.[4]

4. See for example, the Freedom of Information Act, 5 U.S.C. 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. 331(j) prohibiting any person from using or disclosing information concerning methods or processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. 466g(f)(2) excluding trade secrets from being disclosed at public hearings under Federal Water Pollution Control Act; 42 U.S.C. 263i(e) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. 1857f-6c(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

State Statutes

Some 20-odd states have criminal statutes covering wrongful appropriation of trade secrets,[5] many of these statutes using the phrase "trade secrets" as such, and essentially all of the fifty states have civil case law protective of trade secrets and know-how.

Federal Rules of Civil Procedure

The Federal Rules of Civil Procedure, Rule 26(c), expressly provide for judicial protection against unwarranted disclosure of trade secrets in litigation, providing for protective orders for "(7) * * * a trade secret or other confidential research, development or commercial information."

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5. Arkansas Statutes, §41-3949; California Code Anno. Penal Code, §499c; Colorado Rev. Statutes (1963), Chap. 40-5-33; Georgia Criminal Code, §26-1809; Smith-Hurd Illinois Anno. Statutes, Chap. 38, §15 et seq; Burns Indiana Statutes, Title 10, §3048; Maine Revised Statutes Anno., Title 17, §2113; Massachusetts Laws Anno., Chap. 266, §30; Michigan Compiled Laws Anno., Title 39, §752.771 et seq; Minnesota Statutes Anno., Title 40, §609.52; Nebraska Rev. Statutes, 1965 Suppl., §28-548.01 et seq; New Hampshire Rev. Statutes Anno., Chap. 580:32; New Jersey Statutes Anno., 2A:119-5.3 et seq; New Mexico Statutes, Chap. 40A16-23; McKinney's New York Laws Anno., Penal Law, §§155.00, 155.30, 165.07; Ohio Rev. Code Anno., Title 13, §1333.51 et seq; Oklahoma Statutes Anno., Title 21, §1732; Purdon Pennsylvania Statutes, Title 18, §4899.2; Tennessee Code Anno., Title 21, §1732; Wisconsin Statutes Anno., Criminal Code, §943.205.

The law that has been in action

There would seem to be no point in further citations to prove that:

Both before and after the enactment of the present patent act, Title 35 U.S.C., there was law, firmly recognized in Congressional as well as State law, and in U.S. Supreme Court decisions and FRCP 26(c), which protected trade secrets and confidential information, taxed them as property, and authorized U.S. government purchase, license or lease of them for royalties or other compensation.[5 1/2]

All this law is untainted by any suggestion that any alleged "policies found in the patent law" preclude either the protection of or licensing of trade secrets and other confidential information.

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5 1/2. The author wrote a basic paper on one intellectual property law's preemption of another, immediately following Sears and Compco. For further development of the philosophy of the pertinent law, see "A Philosophy on the Protections Afforded by Patent, Trademark, Copyright and Unfair Competition Law", 54 Trademark Reporter 413, a copy of which is annexed as an Appendix hereto.

IV. THE LEGISLATIVE PROCESS VS. THE JUDICIAL PROCESS FOR CHANGING THE LAW

It is significant to note that

(a) neither in Sears v. Stiffel, 376 U.S. 225 (1964) nor Compco v. Day-Brite, 376 U.S. 234 (1946) upon which Mr. Justice Black relies in his partial dissent in Lear,

(b) nor in Lear v. Adkins, 395 U.S. 653 (1969) upon which Judge Motley relied in her opinion in Painton,

(c) nor in the district court proceedings in Painton v. Bourns,

did any party present a brief to the court (a) as to the law of Chapter III of this commentary, or (b) as to the facts of industry practice in action recited in Chapter II of this commentary.

All that industry practice is germane to public policy on the point in question.

The multi-billion dollar balance of payments credits which this country enjoys from know-how licenses is germane to public policy on the point in question.

All that law is germane to the public policy on the point in question.

Further, no party in any of those cases, Sears, Compco, Lear or Painton, presented to the court what the effect of the Painton change of the law (also found in the dissent in Lear), would be upon the perhaps 5000 industrial businesses in the United States, or their employees. These persons comprise John Q. Public, and Mr. Public has had neither day in court nor hearing in Congress, in which to present his views as to what the law, or public policy, should be.

Neither applicable existing law on know-how and trade secrets, nor the effect of the change in the law upon industry, was before the Painton Court, or before the Supreme Court in Lear, Sears or Compco.

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It is thus clear that the judicial process, is not and cannot be the proper process for the kind of change in the law which was expressed by the District Court in Painton.

In a case wherein the government was urging a change in the policy of title to inventions made by employees, the Supreme Court stated:

> "The courts ought not to declare any such policy; its formulation belongs solely to the Congress. * * * These are not legal questions, which courts are competent to answer. They are practical questions, and the decision as to what will accomplish the greatest good for the inventor, the government, and the public rests with the Congress. We should not read into the patent law limitations and conditions which the Legislature has not expressed." U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 198, 53 S.Ct. 554, 561 (1933).

Only by considering all the practical issues herein recited, and many more not here developed but as to which there can be no record before the Court, can the proper determination of the balance of public policy be made.

Only legislative bodies have mechanism for considering the views of industry, the reality of proposed law in action.

V. LEAR v. ADKINS DID NOT CHANGE THIS BASIC LAW

The United States Supreme Court in Lear v. Adkins, 395 U.S. 653 (1969), did not make any change in the law so far reaching as did the Painton Court, and specifically did not change the basic law above developed. Two points from Lear make this clear:

Point 1. What was before the Court in Lear?

In Lear the royalty obligation in issue was tied by the contract-in-suit to "patented or patentable" subject matter--inherently to the concept level of subject matter that is disclosed in patents and not to detailed engineering specifications or know-how level of information that is not disclosed in patents. The concept level is all that was before the Court.[6]

Inherently Lear could not have established new law on know-how levels of subject matter that were not before the Court and not briefed or argued to the Court.

It is important that this distinction be clear:

> While a secret concept disclosed in a patent issued to the owner of the secret, is after the patent's issue no longer a secret subject to injunctive protection of secrecy, engineering detail and know-how not disclosed in such a patent remains under Lear viable subject matter for a know-how license or a technology disclosure contract calling for compensation at the discretion of the contracting parties.

Point 2. The Majority's Refusal of the Dissent's Invitation

A three-Justice dissent-in-part in Lear expressed as the minority view a rule that the patent law had preempted all protection of technological know-how--essentially the same view as that expressed by the District Court in Painton.

The drafters of Title 35 did not so intend. This is clear from the previously cited (footnote 2)

6. Further the Adkins' patent had issued, in that instance disclosing all the royalty bearing (former) secrets, so no continuing secrets or other information kept confidential, were involved in the period of time as to which the Court denied compensation to Adkins.

Federico, "Commentary on the New Patent Act" by the primary drafter of that act. Further, prior Supreme Courts could find no such rule in the patent law. Nor could the majority of the present Court in Lear. See also, Arnold, A Philosophy on the Protections Afforded by Patent, Trademark, Copyright and Unfair Competition Law", 54 Trademark Reporter 413, an Appendix hereto.

There is no phrase in Title 35 which can be pointed to as providing that failure to file an application for patent renders the item of information unprotected against misappropriation or use by employees, licensees, or others in confidential relationship.

The majority's action in Lear is what is important. That majority, having considered the three-Justice minority view, said:

> "* * * we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas." 395 U.S. at 675.

By expressly refusing the minority's invitation to the further step, the majority in Lear clearly left the law of technological trade secrets prior to any publication in a patent, just as it was pre-Lear (even though the majority also invited "fully focused inquiry" upon the issue).

Federal courts are bound by Erie v. Tompkins, 304 U.S. 64, to follow the state law, which clearly was left by Lear's majority in the same substance found prior to Lear, Sears and Compco, with respect to trade secret and know-how licensing of subject matter not disclosed in or protected by patent.

Hence, as to any subject matter not disclosed in an issued patent, the prior common law must prevail--I submit unless and until the appropriate legislative body has acted to the contrary.

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Last year the authors wrote a fairly complete paper on "Life Under Lear", which has been published in the November 1970 issue of the Texas Law Review. Perhaps reference to that paper justifies our avoidance of further expansion here, of the Lear Inc. v. Adkins topic.

VI. THE PARTICULAR ERRORS OF THE PAINTON OPINION

Error One

The Painton opinion recites:

> ". . . once a patent issues, regardless of what was the intention of the contracting parties, the patentee-licensor may not enforce its trade secret claims." 164 U.S.P.Q. at 596.

The expression was applied to know-how not disclosed in patents, whereas it should at least have been expressly limited to subject matter disclosed in the subject patents.

Patents relate to technology at the conceptual level. Engineering detail is never a part of patents.

The patent law does not purport to deal in any way with applications engineering detail, the specifications producible by every engineer in the art once the concept is in hand.

This much is consistent with Lear v. Adkins, 395 U.S. 653 (1969).

But I see no reason why a party who contracts for early, pre-patent disclosure of trade secrets should not be bound by his contract's provision to pay royalty, irrespective of the event-subsequent that a patent issues which discloses the secret--for if he wants to stop payment of money then he should contract for that right. On this last thought I am out of step with Lear.

Error Two

Said the Painton opinion:

> "Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas without being required to submit those ideas to the Patent Office, and thereby, eventually have the ideas disclosed to the public." 164 U.S.P.Q. at 596.

And in footnote 12 of the opinion:

> "Federal patent policy, the court has held, will not allow state trade secret claims against a party who has expressly contracted for them where there has been no patent application. Therefore, federal patent policy will not allow Bourns to have a trade secret claim in tort for Painton's use of trade secrets that were obtained pursuant to that contract." 164 U.S.P.Q. at 598.

Neither the Congress nor any court has ever made that requirement before.

The patent-policy-would-be-undercut statement is rendered clearly in error, by the circumstance that the patent policy has always heretofore lived compatibly with protection of technological know-how by contract and confidential relations, without any move by anybody at any level of the bar, industry or the Congress, to change it.

The Court stated that the patent policy "would be undercut if inventors could enforce agreements * * *"; but inventors always have enforced such agreements without undercutting any policy envisioned by drafters of the patent act or previously found by the Court to be patent policy.

Further, the quoted statement is built upon a false premise, a presumed equivalence between (1) patentable concepts, unobvious (by 35 U.S.C. 103) to those of skill in the art, and (2) accumulation

of distilled essence of effective and economic know-how, which often does not come into being until after the patent application is filed or the patent issues.

The concept of many inventions must be disclosed to the public after the first marketing of the invention, and hence be available for essentially all to use in free and open competition free of any obligation of confidence. Hence inventors of such inventions would not be encouraged to avoid filing applications for patent, by the enforcement of know-how contracts, since, unless patented, the inventive concepts would no longer be protectable once publicly disclosed. The proof is in the pudding--they have not been so discouraged though the law has always been as Painton now condemns.

As to process inventions that can be preserved in confidence, the essentially uniform practice of all industry, in context of enforceable know-how licenses has always been to seek patent protection when the process seemed to be of patentable stature. Why? To recite only one reason: Because the patent affords protection against independent inventors as well as against those deriving the disclosures from the possessor in confidence, whereas know-how license law affords protection only against the party who contracted to pay for the disclosure or who wrongfully appropriated it. Again, the proof is in the pudding; industry has essentially uniformly sought patent protection when it was obtainable, in spite of the availability of lawful know-how licenses.

Error Three

> ". . . patent policy which allows compensation only for ideas which rise to the level of invention [a false premise as above developed] would be further undermined by the enforcement of such a contract [know-how license], since compensation would be awarded for non-inventions. And if this court were to hold that before a state could enforce a trade secrets contract, the ideas must be found to be an invention as prescribed by the rigid requirements of federal patent law [an "if" which nobody has ever proposed for any legislation], inventors would be able to

> circumvent 'the manner in which (inventions) may be protected'. [citation] Inventors would be encouraged to avoid filing applications altogether and contract for long licensing arrangements. * * *" 164 U.S.P.Q. 596.

Again we find the Court, without benefit of the investigation and industry-wide study of the legislative processes, finding a premise fact without supporting evidence that is grossly in error. The leading current treatise on the subject, Deller's Walker on Patents (2nd edition), explains at Vol. 4, p. 4 why inventors choose patents over taking the risks of loss of secrecy.

Finally, is there no public policy against fraudulent procurement of a technological teacher's services and of his know-how, on false promises to pay a fair value for the teaching services and the know-how taught?

A study of the legislative history of every patent law of American history will reveal not one reference anywhere to loss of rights in know-how if no application for patent is filed on it.

Accordingly, the correct rule is that:

> In exchange for the grant, the patent law requires a publication of certain secrets, but the patent law does not concern itself with contracted consideration for pre-patent disclosures of secrets.

Error Four

Fundamental to the errors discussed above, is the error quoted at the beginning of this commentary:

> "* * * federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea." 164 U.S.P.Q. at 597.

From the foregoing, this recitation is seen to be:

(1) uniformed legislation at the district court level;

(2) new to jurisprudence;

(3) contrary to all legislative intent that can be discerned from a study of the legislative history of our Constitutional clause and of all the various patent acts;

(4) a restriction on the development of and dissemination of technology and on competition that normally results from know-how licenses--"Show-how contracts";

(5) not responsive to the distinctions between patentable classes of conceptual subject matter and billion-dollar values in know-how levels of subject matter not protectable by the patent law;

(6) inconsistent with public policy which normally favors freedom to contract and condemns one party's fraudulent, free appropriation of the value possessed by another, while purporting to be buying it; and

(7) irreconcilable with research and development service and consulting engineering contracts wherein one agrees to disclose his ideas to another for a consideration.

Basic underlying error

All of the Painton court's errors, are not-unnatural outgrowth of a growing body of prior philosophic writings by the Supreme Court and minorities thereof, on various facts, to the effect that one intellectual property law ought to preempt at least something in another area of intellectual property law. This growth is apparent by tracing the philosophy from Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896), though Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938), Scott Paper Co. v. Marcalus Mfg. Co. Inc. et al, 326 U.S. 249 (1945), Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting,

Inc., 376 U.S. 234 (1964), and finally Lear Inc. v. Adkins, 395 U.S. 653 (1969). Thus Painton cannot be dismissed lightly as a freak error not likely of repetition.

But the fact is that none of the areas of intellectual property law were drafted to preempt others.[7]

The common law gives the right to free and open use of that which (1) is publicly available, and (2) is derived from the public availability. Against that common law affirmative right to use, society has created a number of negative-type rights to preclude others from use, each built upon its own socio-legal foundation, standing in its own right, casting its own shadow of varying scope and term determined by its own socio-legal premises and purposes.

The shadows of the patent right to preclude others, of the copyright right to preclude others, of the trade secret right to preclude others, of the know-how contract right to preclude others, etc., overlap in part but they do not fight one another.

Take away the trade secret right by its owner's publication, and the shadow of the patent right to preclude others may properly remain for its statutory term.

Permit a design patent on, shall we say, the Coke bottle shape, to expire. The trademark right to preclude others from use of that bottle in connection with the sale of soft drinks, may properly remain.

Wrap up the patented concept in a package of applications engineering costing 3 years and $1,000,000 to develop, and the right to royalties acquired by contract for purchase of the know-how and the right of termination of use of that know-how if not paid for, can properly remain irrespective of whether the patent be valid or expired.

7. Again here see Arnold, "A Philosophy on the Protections Afforded by Patent, Trademark and Copyright and Unfair Competition Law", 54 Trademark Reporter 413, attached as an appendix hereto.

For the patent grants no affirmative right to use; its grant is solely a right to preclude use.

The shadows cast by the various independent rights to preclude others, do not fight one another in social or public policy. Rather, the various rights complement each other.

The only proper fight, if any, is between each exception to the common law affirmative right to use, and the anti-trust law right to compete. That is a subject for another paper that ought to be entitled, "Is Antitrust the One True God? --The sole god before which all other public policy must lie down to die?"

VII. C O N C L U S I O N

It is apparent that the trial Court in Painton indulged a "premature synthesis of sterile generalization, unnourished by the realities of law in action", and unnourished by the legislative processes which on the point of law in issue, are highly preferred to judicial processes as original lawmakers.

The language of the trial court discussed above is now present in our law books and is inherently on a day-by-day basis today frustrating the normal conduct of know-how licensing negotiations.

But I continue to negotiate them, having faith in the ultimate persuasion of what I have developed for you, before both legislative and judicial bodies. I have negotiated two such contracts, each involving seven-digit values, within the last month.

Because the tax law affords capital gains treatment for conveyance of know-how as a capital asset, I have a bias to structure the contract in the form of such a conveyance when feasible.

But I believe that the effects of Painton are more safely avoided if the contract is phrased and structured as a technical services or show-how contract, and/or a continuing R & D contract. Note, however, this approach subjects the income to ordinary income tax.

The appeal of Painton v. Bourns was scheduled for argument February 8, 1971 before the Second Circuit. Hopefully, the fiasco committed by the District Court will be straightened out.

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Life under *Lear*

TOM ARNOLD AND JACK GOLDSTEIN

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LIFE UNDER *LEAR*

TOM ARNOLD* AND JACK GOLDSTEIN**

The authors, practicing patents attorneys, are appalled by the implications of the holding in Lear v. Adkins *that a licensee may challenge in court the validity of his licensor's patent. They are particularly concerned that* Lear *foreshadows pre-emption of all know-how licensing by federal patent law. Since the courts uphold only a modest percentage of the patents attacked, the authors believe small and medium-sized companies will simply keep their inventions to themselves or will cease their R & D efforts rather than endure the expense of extended patent litigation.*

I. PREFACE

A man's word must *not* be his bond. Public policy commands that honesty in patent and know-how licenses must be muzzled. Them's fight'n words to men brought up on the Spartan concepts of law west of the Pecos, but without exaggeration *that* is the law we live under. That is *Lear*,[1] which creates the problem for the patent attorney of living without contracts worthy of the name.

A paper on *Lear* could be many diverse papers. It could be a commentary on the evil of unnecessary judicial legislation and on the need for legislative processes when public policy is being conceived out of the ether. A paper on *Lear* could focus on the malfunction of our judicial system under which a cause of action cannot be finally decided for substantially over a million dollars in litigation expense and cannot be litigated to conclusion in a decade. This paper focuses on Life under *Lear*.

II. THE FACTS AND THE STATE COURT DECISION

Lear's gyroscopes were expensive to make and suffered drift, which was excessive for the high performance requirements of new instrumentation. Adkins was a pretty savvy guy; Lear knew it and employed him. His 1951 employment contract provided:

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** Member of the Houston Bar. B.S., 1964, Purdue University; J.D., 1968, George Washington University.

[1] Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

> This agreement pertains to vertical gyros which are to be fabricated at Lear, Inc. under the supervision of John S. Adkins. All physical instruments fabricated shall become the property of Lear, Inc. All new ideas, discoveries, inventions, etc., related to said vertical gyros, become the property of Mr. John S. Adkins. Mr. John S. Adkins agrees to license Lear, Inc. to manufacturer said vertical gyros on a mutually satisfactory royalty basis.

Adkins was paid a moderate salary, but is seems fair to say that his primary inducement to give of his knowledge at the modest salary was the contract under which he would enjoy royalty participation in the results of his work for Lear. In short, he got a piece of the action.

Gyroscopes require pairs of bearings more accurately aligned than those in any other mechanical device. Since these bearings wear out before any other part of the expensive instrument, they must be replaceable with precise alignment. How to get such precise alignment in the factory, and how to get such precise alignment in the field when the unit is being reassembled after service, all at reasonable cost in time and money, had not been obvious to Lear or Adkins prior to their employment relationship. But Adkins went to work and solved the problem.

Lear used the Adkins design in its Model 2156 gyros produced at its California plant. A variant on the theme was developed at Lear's Michigan plant and used on the gyros made there, which were known as the "steel" gyros or the "Michigan" gyros. Although Adkins himself did not participate in the development of the steel gyro variation in Michigan, and although the California Supreme Court carefully analyzed the evidence before stating that "the conclusion that Lear utilized Adkins' invention in its [Michigan] steel gyros is compelled by the record,"[2] the degree of the Michigan development's piggy-backing upon Adkins' California concept and effort remains subject to argument.

When Adkins made his clearly valuable development, the obvious inadequacy of the 1951 employment contract recitation of a "mutually satisfactory royalty" was placed in bold relief. About three years of tortuous negotiations followed, Adkins representing himself in the negotiations but Lear having knowledgeable counsel. The result in 1955 was four long, complex, and often ambiguous contracts, which among other things: (1) granted Lear a license under the "patented or

2 Adkins v. Lear, Inc., 67 Cal. 2d 882, 902, 435 P.2d 321, 341, 64 Cal. Rptr. 545, 565 (1967).

patentable claim," "disclosed or intended to be disclosed" in the then pending patent application, which subsequently matured into the patent involved in the suit (the license was exclusive at the time of the agreement, but at Lear's option it became nonexclusive upon the event of Adkins' leaving Lear's employment); (2) set the royalty rate of one and one-quarter percent of the sales price of the gyro itself plus a defined portion of those associated components that affected the accuracy of the gyro signal system; (3) gave Lear the option to terminate the license and the royalty obligation upon the event that (i) Adkins did not get substantial patent claims, or (ii) the Adkins patent, once issued, was declared invalid; and (4) superseded the 1951 contract, relieving Lear of its broad-scope and indefinite-term provisions.

Two years later, in 1957, Lear advised Adkins that Lear believed the Michigan gyros did not use any Adkins invention, that the Michigan gyros were not within the patent application then standing under a rejection, that Lear had now made a search and believed Adkins had invented nothing patentable, and that Lear would pay no more royalties on the Michigan gyros but would continue to pay on the California gyros. Adkins protested and quit his job at Lear. Nineteen months later, after another Patent Office rejection, Lear purported to terminate the license altogether under a somewhat ambiguous contract provision and stopped paying any royalties. In truth the prior art was close (as it was extremely close with Edison's electric light and Bell's telephone).[3]

Even though the Patent Office had rendered an interim rejection on close references, Adkins persevered and his patent[4] issued. On the same day, in 1960, Adkins sued in the California state courts under the contract for his royalties on both California and Michigan gyros. In 1963 Lear's successor, Lear Siegler, Inc., filed a declaratory judgment action against Adkins in a United States district court, which was stayed pending outcome of the state court contract case.[5]

After tortuous inconsistent litigation, the California Supreme Court held: (1) Lear had not validly terminated the license; (2) although under the 1955 contract Lear could terminate at will on ninety days' notice if it quit making Adkins' gyros, Lear could not terminate while continuing to make them unless either (i) no patent with "substantial claims" issued to Adkins, or (ii) the patent was held invalid;

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[3] Dodds & Crotty, *The New Doctrinal Trend*, 30 J. PAT. OFF. SOC'Y 83 (1948).

[4] No. 2,919,586.

[5] This stay order was appealed but was affirmed. Lear Siegler, Inc. v. Adkins, 330 F.2d 595 (9th Cir. 1964).

(3) Lear's royalty obligation under the 1955 contract was limited to gyros within "patented or patentable" claims; (4) there was no substantial evidence to indicate Lear did not use Adkins' invention in both the California and Michigan gyros; and (5) both the California and Michigan gyros were literally within the Adkins patent claims and, even if not, they were nevertheless covered by the claims under the doctrine of equivalents. After lengthy analysis of the prior art individually and collectively, the California Supreme Court said:

> We cannot say, as urged by Lear, that the prior art disclosed a means by which it could accomplish substantially the same result, in substantially the same way by substantially the same means, as does the Adkins patent. Nor can we say that by the application of ordinary mechanical skills to the prior art, the same result may be accomplished. The prior art fails to anticipate the Adkins patent, or the utilization made thereof by Lear. . . .
>
> We conclude that the record demonstrates, without substantial conflict, that Lear utilized the apparatus patented to Adkins . . . .[6]

Adkins' jury verdict was reinstated, and the trial court judgment n.o.v. for Lear and alternative order for a new trial were both reversed.

Adkins' theory had been that this was a straightforward contract action for royalties promised by Lear, and that Lear, as long as it remained a licensee under the patent (as the California Supreme Court held it was), was estopped to contest validity of the patent.

III. The United States Supreme Court Decision

A. Licensee Estoppel

For one hundred years prior to *Lear*, licensees had been estopped from contesting the validity of patents under which they were licensed.[7] In 1947, when Mr. Justice Black wrote of exceptions to licensee estoppel in the context of antitrust violations,[8] Mr. Justice Frankfurter sarcastically opined in dissent: "If a doctrine that was vital law for more than ninety years will be found to have now been deprived of life, we ought at least to give it a decent public burial."[9] Three years later the

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[6] 67 Cal. 2d at 902, 435 P.2d at 341, 64 Cal. Rptr. at 565.

[7] *E.g.*, Automatic Radio Mfg. Co. v. Hazeltine, 339 U.S. 827 (1950).

[8] Edward Katzinger v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947); MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U.S. 402 (1947).

[9] MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U.S. 402, 416 (1947).

Court affirmed licensee estoppel as the general rule, Justices Douglas and Black dissenting.[10]

In *Lear*, however, the eight justices sitting, one of whom—Chief Justice Warren—is now departed, unanimously held: License estoppel is dead! It is dead whether implied in law, or expressed in contract. In a contract action for royalties due, a licensee may contest validity of the patent under which he is licensed.[11] Clearly, the Court gave licensee estoppel the public burial of which Frankfurter spoke, but I question whether it was a decent burial.

B. Royalties

(1) Justice White's View

Mr. Justice White would have stopped by merely overruling the doctrine of licensee estoppel and would not have ruled on whether royalties were collectible under the contract notwithstanding patent invalidity. Wholly aside from the jurisdictional barriers to any decision on royalties, he would have declined to rule on the royalties because of inadequate development below of the legal distinction, if any, between pre- and postissuance royalties and the extent to which *post*issuance royalties are attributable to the "headstart" the licensee obtained over the rest of the industry as a result of *pre*issuance disclosure. Justice White's opinion dramatizes the Court's cognizance that relief from royalty obligation is an issue above and beyond licensee estoppel per se.

(2) Postissuance Royalties Due the Licensor and the "Muzzle" Concept

Seven justices concurred in ruling to the effect that: (1) a licensor is proscribed from judicially recovering any royalties accruing after issuance of a patent if the licensee can prove patent invalidity; and (2) a contract clause calling for royalties until the licensed patent has been adjudicated invalid is unenforceable. The Court stated:

> Surely the equities of the licensor do not weigh heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain.[12] Licensees

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10 Automatic Radio Mfg. Co. v. Hazeltine, 339 U.S. 827 (1950).

11 Nothing suggests that different results might be reached as between exclusive and nonexclusive licenses, or that the Supreme Court was even aware that Lear's license, although once exclusive, was nonexclusive at the time Adkins filed his action.

12 Mere patent invalidity does not inherently mean that the invention was already

> may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery.[13] If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after patent has issued[14] (*authors' footnotes*).

Thus seven justices agreed that if the patent is ultimately held invalid the licensor may not by judicial process recover contracted-for royalties accruing after patent issuance. Query: Is it fair to say that the Court held that for contract purposes, a patent is not presumed valid? Contrast the Patent Act that reads: "A patent shall be presumed valid."[15]

(3) Preissue Royalties Due the Licensor

In dissenting in part, Justice Black, with whom Chief Justice Warren and Justice Douglas joined, stated:

> I still entertain the belief I expressed for the Court in *Stiffel* and *Compco* that no State has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws. One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting mo-

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in the public enjoyment, for most commonly the patent later held invalid covers something a court by hindsight finds to have been obvious from what was in the public enjoyment, even though not actually found in prior publications or marketplace items. The inherent premise of the Court's statement thus seems to be in substantial error.

[13] This is another premise incorrectly assumed without evidentiary support. It can hardly be denied that in the vast majority of cases in which the invention enjoys a market big enough to be of public importance, competitors with interest enough to challenge the patent will be found in number.

[14] 395 U.S. at 670-71. Is the Patent Office examination that poor, competitive design efforts at better alternatives that weak, and judicial attack by noncontracting parties that unlikely, that contracting businessmen should not be able to negotiate a binding contract in reliance on the legislatively enacted policy that "A patent shall be presumed valid"? 35 U.S.C. § 282 (1964).

[15] 35 U.S.C. § 282 (1964).

> nopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.[16]

Indeed, these three justices may believe that the patent right has preempted all other rights, including trade secrets, with respect to "invention" as that term is used in the broad context of patentable *and* unpatentable creations. The four-justice majority refused, however, to go so far. Mr. Justice Harlan wrote instead:

> [W]e have concluded, after much consideration, that even though an important question of federal law[17] underlies this

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16 395 U.S. at 677. It is noteworthy that Justice Black draws no distinction between patent law preemption of "monopoly" rights and patent law preemption of contracts to pay money for the making and/or disclosing of inventions. The extent of the majority's cognizance of the distinction remains unclear.

17 Respectfully, we deny that there is any federal question involved in this cause of action. The Constitution spoke not of trade secrets, know-how, antitrust, or competition. The Constitution granted a very limited power to Congress: "The Congress shall have power . . . to promote the progress of science and the useful arts [the means by which Congress was empowered to implement this mandate was also very limited] by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." U.S. CONST. art. I, § 8.

No right to promote the useful arts by other means was granted. No competitive purpose was stated or could conceivably be implied from such a limited grant of power. Not only are other means of promoting progress not constitutionally precluded from state jurisdiction, but other means of promoting the useful arts, including R & D service contracts, and know-how licensing, were apparently reserved to the states by the tenth amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Nowhere does the Constitution prohibit the states from promoting the useful arts by means other than securing exclusive rights to inventors for limited times. Accordingly, patent law cannot have preempted know-how licensing. Furthermore, Congress has shown no interest in going beyond its constitutional grant of power. A study of the legislative history of Anglo-American patent law will reveal not one reference to trade secret law, to R & D service contracts, or to know-how licensing, much less to whether money consideration tied to the use of trade secrets, R & D contract results, or know-how must be terminated by the issue of a patent.

Patent law is limited to *granting* a property right against others to *preclude* their use of the product of the inventor's mind. Although Congress extracts from inventors a publication of information on patentable inventions as consideration for the right to preclude, there is no statutory language nor legislative history that suggests an affirmative right to use either patentable or unpatentable know-how free of payments promised in exchange for access to the know-how.

Dozens of congressional acts recognize the lawful existence of trade secrets for a variety of purposes including income taxes; food, drug, securities, and commerce regulation; armed forces procurement; and the Patent Act's provision in § 122 preserving secrecy in applications for patents. R. MILGRIM, TRADE SECRETS § 6.02 (1967). No congressional action suggests preemption by the patent law of trade secret contracts or trade secret protection.

If there is no "federal question" in trade secret contracts, R & D service contracts, or know-how license contracts derived from the patent law, it must come, if at all, from the Sherman or Clayton Acts. Their language and legislative history are, however, devoid of reference to these topics. And since such contracts, in disseminating information for competitive use, sponsor rather than restrain competition, at least the monetary consideration tied by contract to the amount of use of either patented or unpatentable know-how, either before or after patent issue, is not anticompetitive and not within the proscriptions of those acts. It seems, therefore, that the Supreme Court pronouncements to the contrary in Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v.

> phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas. Given the difficulty and importance of this task, it should be undertaken only after the state courts [why not legislative bodies?] have after fully focused inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future (*authors' footnote*).[18]

The majority opinion shows clearly that *Sears*[19] and *Compco*[20] did not successfully repeal all trade secret law and that, at least for the present, there is some remnant left in the contract law relating to R & D services and trade secret disclosures.[21] While the size and shape of that remnant[22] is known only to the clairvoyant, we shall, in the upcoming pages, attempt clairvoyance.

(4) Recovery by the Licensee of Royalties Previously Paid

In *Lear* the licensor was seeking payment of royalties owed to him under the license. Quite properly, no justice so much as intimated whether a licensee may recoup royalties already paid to the licensor if the patent is subsequently proved invalid. Of course, if the licensee may recoup, then the question arises as to how far back should he be able to recover, *i.e.*, when invalidity is finally adjudicated, first judicially challenged, or first asserted; when the patent issued or the application was filed; when the first royalty payment was made; etc. Again, as expressed by Mr. Justice White, the issue of the monetary value of the headstart afforded by preissuance disclosure may be relevant.

Day-Brite Lighting, Inc., 376 U.S. 234 (1964), and *Lear* are simply judicial legislation, "enacted" without investigation into the adverse economic and competitive effects, resulting in a decision contrary to public policy.

18 395 U.S. at 675.

19 Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

20 Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

21 Based on past history, it is not surprising that Justices Black, Warren, and Douglas would permit no recovery of royalties absent a valid patent. These three justices have voted against the patentee in all but one of the patent infringement issues they have reviewed in tenures spanning from one to more than three decades on the bench.

22 You will note that we have generally drawn no distinction between developments of noninventive nature and of inventive nature. This is because the *Lear* opinion does not clearly show a consciousness of any such distinction; assuredly, Justice Black's dissent-in-part does not. Still it is noteworthy that the opinion of the majority almost uniformly refers to "inventors," thus justifying a possible argument that the *Lear* opinion would not apply to contracts of a noninventive character (such as a contract to develop a computer program or to search the literature for ideas), in which compensation is tied to use of the ideas so developed even after patents, which disclose the invention, issue to others.

Note, however, that the "muzzle" philosophy[23] would appear to be consistent with recovery of those previously paid royalties that were paid after the patent issued. If invalid patents are such a heinous public menace that we must induce attacks upon them by invalidating contracts to pay, by what logic can the rule be applied to accrued payments that are due and not to past payments already made?

IV. Where the Case Now Stands

The Supreme Court remanded the case to California. On October 29, 1969, the California Supreme Court set aside its prior decision, and ordered: "The appeals [of the state court action] will be held in abeyance until final determination of [the declaratory judgment action]."[24] The Ninth Circuit has now ordered the federal district court to stay proceedings pending determination of its jurisdiction.[25]

So temporarily at least, we find neither state nor federal courts want to attempt to apply *Lear* to its own facts.

It is interesting here to note the post-*Lear* cases of *Product Engineering and Manufacturing, Inc. v. Barnes*[26] and *Thiokol Chemical Corp. v. Burlington Industries, Inc.*[27] on the state versus federal court jurisdiction issue. In *Product Engineering* the patent licensor sued in the state court on a license for payment of royalties due, and the licensee filed a federal court declaratory judgment action against the licensor seeking declaration of patent invalidity and noninfringement and hence no royalty obligation. The Tenth Circuit, following the Supreme Court's *Public Service Commission v. Wycoff Co.*,[28] concluded that the declaratory judgment action was nothing more than a pleading of a defense to the state court contract proceeding and dismissed the suit in favor of the state court action. The circuit court's holding was similar to the early stay of Lear Siegler's declaratory judgment action against Adkins.[29] It seems that the above-noted California Supreme Court stay order was intended to induce the federal courts to vacate their own prior order of Lear Siegler's declaratory judgment action. In *Thiokol*, the court pointed out that there was no case or controversy of a federal (patent) cause so long as the license existed. There could be no charge of infringement by the licensee since his license immunized him from the tort of infringement. The only proper suit is in the state

23 *See* text accompanying note 14 *supra*.
24 An unpublished sua sponte order.
25 *Id.*
26 — F.2d —, 165 U.S.P.Q. 229 (10th Cir. 1970).
27 — F. Supp. —, 165 U.S.P.Q. 741 (D.C. Del. 1970).
28 344 U.S. 237 (1952).
29 *See* text accompanying note 5 *supra*.

court by the patentee on his contract for royalties, at least during the license existence.

V. The Effects of *Lear* on Business and Legal Practices

A. Licenses Versus Assignments

Adkins' license to Lear was held unenforceable if the patent prove to be invalid. Hence, *Lear* biases against licenses in favor of assignments whenever feasible. Consider, however, the possibility that royalties to be paid as consideration for an assignment may also be uncollectible—perish the unrealistic thought.

B. Patent Applications

When results of R & D service contracts, for which compensation is tied to use of the results, produce inventions of only arguable patentability, *Lear* biases against filing a patent application. It therefore biases against publication of the R & D effort in patents. In *Painton & Co. v. Bourns, Inc.*,[30] a federal district court considered *Lear* and construed it to preclude recovery of royalties for use of know-how unless and until it was made the subject of a patent application. Thus the *Painton* court went one step further than *Lear* when it said, "This court holds that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration for use of his idea."[31] Thus *Painton* encourages patent application. The dilemma is patent.

C. Lear *Begets Litigation*

Assume a licensee having a minimum royalty clause in its license. The licensee refuses to pay the minimum and sues for declaratory judgment of patent invalidity and hence of no liability for royalties. To terminate the license as a result of either the nonpayment or the court attack is to take away the licensee's freedom from injunction; to take away the licensee's freedom from injunction surely "muzzles" his potential attacks on the patent. To terminate the license for nonpayment of royalties based on use also discourages the licensee's attack.

The Court did not have these clauses before it. It did, however, use a rationale that would appear to compel a holding that they are extra-legal, were it not that this holding would produce serious side

30 — F. Supp. —, 164 U.S.P.Q. 595 (S.D.N.Y. 1970). *But see* Epstein v. Dennison Mfg. Co., — F. Supp. —, 164 U.S.P.Q. 291 (S.D.N.Y. 1969).

31 Painton & Co. v. Bourns, Inc., — F. Supp. —, 164 U.S.P.Q. 595 (S.D.N.Y. 1970).

effects of which the Court was clearly not conscious. One would be a marked increase in patent litigation over situations that prior to *Lear* would have been resolved by simple contracts.

Consider a couple of examples. Client is in the process of building a 40,000,000-dollar plant, which when completed will infringe a newly-issued process patent. Notice of infringement and proffer of license is received from the patent owner. *Lear* teaches the infringer: Negotiate the license and simultaneously draft the complaint for declaratory judgment of invalidity and noninfringement. The parties meet and execute the license. As soon as the signatures are affixed to the license so that Client is insulated from fear of an injunction against use of its 40,000,000-dollar plant, pull from the pocket the complaint. Be courteous and always a gentleman of honor. When you serve the complaint upon the licensor whose signature is not yet dry and tell him that you are on the way to the courthouse (the jurisdiction of the state courthouse seems more likely) to file the complaint, tell him also that you will be happy to stipulate a thirty-day extension of time for him to answer, if he needs it. Can *Lear*'s implied suggestion of this tactic really be the law?

Now consider the converse of the first example. Jones Corporation hit the market with a new major structure and nine competitors copied it within two years (before the patent issued), each investing millions of dollars in what turned out to be infringements of the patent. Jones would be happy to grant licenses to use the expensive structures in return for five percent of the revenues therefrom. After all, litigation costs on the order of 100,000 dollars up per patent case tried biases toward settlement. Perhaps Jones would accept even a three-percent or a one-percent royalty.

Before *Lear*, Jones would have written letters offering licenses with high likelihood of industry acceptance. But if Jones once grants the licenses, *Lear* suggests: If contract royalties are paid during the litigation so as to avoid breach of contract, the licensee may enjoy immunity from injunction while contesting the duty to pay the royalties. It seems possible *Lear* says more; that is, that the licensee need not pay while he litigates in order to hold onto his license and thus be free from injunction.[82]

Only the threat of injunction will bring the infringers to the contract-settlement table. The threat of injunction taken away by the

82 At present, however, we advise our clients to pay while litigating lest the licensor be held entitled to terminate the license owing to our client's failure to pay.

license, the patent owner has no bargaining power left. So Jones Corporation is, by this extrapolation from *Lear*, precluded from a moral businessman's approach. Jones Corporation must sue without first offering licenses and must get injunctions nine times in court.

One may wonder whether we are conjuring up fictitious worries from across the River Styx in suggesting that a declaratory judgment action lies while the license exists. In *Lear*, however, the California Supreme Court has construed the license contract to be still in effect, yet the case is now in federal court on the declaratory judgment action to avoid paying royalties.

The better law, pragmatically, is clearly that of *Thiokol*[33] in which a post-*Lear* declaratory judgment action brought while the license still existed was dismissed because there could be no controversy until the license was terminated. This rule at least subjects the licensee to injunction if he loses the license litigation and prohibits his having *all* his cake (immunity from injunction) while he eats it too (seeks adjudication that he does not owe the money he promised to pay).

* * *

We must wonder now whether a patent-owning corporation that sues an infringer can settle by a consent decree and license and thereby be sure the licensee stays hitched to the license. For now this approach seems all right, at least when there is no skullduggerous motive and the honest settlement is what is sought. However, when the public interest is involved, a court may want some evidence to support the decree it is asked to sign. Furthermore, lawyers in the Department of Justice's newly organized patent group of the Antitrust Division opine that they will look behind consent decrees for conspiracy. Therefore, since hindsight review of patent suit settlements is by its very nature highly uncertain, even consent decree settlement is not assuredly safe, particularly if the consent decree conceals a probable defense of high public policy content, such as fraud in the solicitation of the patent in suit or an antitrust violation.

We must under *Lear* litigate many patent suits to conclusion that would, before *Lear*, have been simple negotiated contracts without any suit being filed. The return of capital on R & D investment and market development for new products is already questionable for almost everyone but major corporations. The expense of such litigation

[33] Thiokol Chemical Corp. v. Burlington Industries, Inc., — F. Supp. —, 165 U.S.P.Q. 741 (D.C. Del. 1970).

will inevitably drive many a moderate-sized business out of the competition in new products and relegate them to copyist roles.

So much for litigation begot by *Lear* in the context of future licenses. What of the company that already has several hundred licenses outstanding? Consider the following. (1) There are some courts that will not relitigate a patent that has once been held invalid.[84] This recently developed concept is sometimes referred to as "in rem invalidity." There is no corresponding "in rem validity." Every infringer gets a chance to prove invalidity, but the patent owner in some courts does not get a chance to prove validity against every infringer. (2) Some courts of appeals are noticeably unsympathetic to patents and sustain the validity of less than fifteen percent of those before them. A fact of life is that less than one or two percent of all patents represent such dramatic breakthroughs as to withstand attack in any three circuits selected at random. (3) We are told of one company with fifteen licensees now attacking the licensed patents. Under *Lear* that company is asked to carry a litigation burden the patent system should not visit upon any one entity. Why? Because the very great majority of patents cannot stand multiple litigation in multiple courts without virtually certain adjudication of invalidity in some jurisdiction, and the inventions covered by many many patents are not of sufficient commercial value to justify the extreme expense of multiple litigation. This fact will force many patent owners to attempt to use the class action against multiple infringers, but that approach too has its severe problems.

D. Shall We Try a Contract Clause Establishing an Estoppel of Facts?

We might briefly consider a recitation by the licensee, perchance in a letter or other instrument aside from the license contract, or perhaps in the license contract, wherein the licensee acknowledges as facts that the invention was not obvious to it or its engineers from the prior art then collected and identified. If the licensee so recites, this admission ought to give the patentee a leg-up in a subsequent infringement action and thus restore a small degree of de facto estoppel.

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[84] *See* Rains v. Jil-Mic, Inc., 301 F. Supp. 545 (S.D.N.Y. 1969); Uniroyal, Inc. v. Daly-Herring Co., 294 F. Supp. 754 (E.D.N.C. 1968); Technograph Printed Circuits, Ltd. v. Packard Bell Electronics Corp., 290 F. Supp. 308 (C.D. Cal. 1968); Nickerson v. Pep Boys—Manny, Moe & Jack, 247 F. Supp. 221 (D. Del. 1965). *But see* Nickerson v. Kutschera, 419 F.2d 983 (3rd Cir. 1969); Technograph Printed Circuits, Ltd. v. Methode Electronics, Inc., 356 F.2d 442 (7th Cir. 1966); Agrashell, Inc. v. Bernard Sirotta Co., 281 F. Supp. 704 (E.D.N.Y. 1968); Technograph Printed Circuits, Ltd. v. United States, 372 F.2d 969 (Ct. Cl. 1967).

On the other hand, if such recitation is shown to have been extorted from the licensee, what likely effect could a reasonable judge give to it? Furthermore, if the licensee has prior writings in its files asserting obviousness, what effect would such a recitation have upon hindsight judicial review?

Thus I suggest that situations will arise in which the licensee's recitation of his belief of nonobviousness over identified art may be of value. Quite commonly, however, to seek such a recitation in a clause of the license contract would be pursuit of fool's gold.

E. Competition in New Product Development and Marketing

The courts, under the sponsorship of the Department of Justice, are forever speaking in terms of the public policy favoring "competition" (always connoting price competition in essentially duplicitous products). Almost never do the courts or Justice show a viable and realistic consciousness of the equal or perchance superior public policy of preserving competition in new product development and marketing.

Example: A patent, whether valid or not, in the hands of a competitor is the biggest single inducement toward inventive effort to get around the patent. Almost always the effort to invent around the prior patent results in a better product or process, because the poorer product or process will not sell in the market in competition with a previously established one, and hence the new R & D effort must continue until it succeeds in producing not only an alternative but a better alternative.

Another example: Client for seventeen years has been in a market of perhaps 100,000,000 dollars per year with a share of that market amounting to about 50,000 dollars per year in a local market area. The product enjoying the 100,000,000-dollar market has a storage or shelf life of less than five days. The problem of very short shelf life has faced the 100,000,000-dollar industry for decades. Its solution, therefore, appeared nonobvious.[35] Client selected after years of testing, from hundreds of ingredients suggested for the purpose, one which changes the shelf life to twenty days at room temperature and years if frozen. But the role of the ingredient as a potential inhibitor of fermentation and coagulation was suggested in prior publications about its qualities. Over the prior art now known, the patent is clearly sustainable in perhaps

[35] 35 U.S.C. § 103 (1964) provides that an invention is patentable if it is nonobvious to those of ordinary skill in the subject art in light of all the prior art.

twenty-five percent of our courts, is invalid for obviousness (often hindsight obviousness) in at least fifty percent of our courts, and who knows about the other twenty-five percent.

To reach the 100,000,000-dollar level of the market or even half or a quarter of it, Client must invest several million in a new plant, a national marketing structure, national advertising, trademark development, etc. Client's net worth is only a million. Should it gamble all its net worth on the national venture? Certainly not. The patent law is so uncertain that after the business is mortgaged to the limit, it will have to finance litigation in multiple circuits and assuredly have the patent held invalid somewhere; under in rem invalidity concepts of some courts that means invalid everywhere.[86] Client would also suffer acute competition from those already established in the market, already having national images for their trademark, already having existing plant facility paid for, already having national advertising programs in process, and already having established customer contact. So Client rejects the idea of itself going national by mortgage up to the eyebrows.

Client next considers licensing under a confidential relationship while he prepares the patent application and prosecutes it. The license would provide for a royalty for five years in all events and thereafter for all operations within the scope of any then-existing patent claims. Unfortunately, the licensee cannot be trusted, because *Lear* says he cannot be muzzled, that is, prevented from attacking the patent. Moreover, the *Painton* case[87] has construed *Lear* to preclude compelling any compensation or consideration for disclosure of the trade secret before the patent application is filed or after the patent issues. It follows that any license that discloses the secret is incapable of repaying the inventive businessman for the value of his disclosure.

A big business with established plants, a trademark, and a national marketing structure sometimes may not suffer critical need for the common law protection of intellectual property (trade secrets and know-how contracts) or of the patent law, since it can reach the national market almost instantly with minimum capital outlay. But the small business *does* critically need this protection—both the trade secret and the patent parts of it—if the small business is to continue developing and marketing new products.

As a result of the present state of the law, instead of the invention being offered nationally so that the public can enjoy it, Client has now

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[86] *See* text accompanying note 34 *supra*.

[87] Painton & Co. v. Bourns, Inc., — F. Supp. —, 164 U.S.P.Q. 595 (S.D.N.Y. 1970).

tentatively decided to practice his secret in his present local market without either patenting his invention or seeking to offer it nationally through licensing to those who have the plant and marketing facility to reach the entire national market in a year's time. Query: Would you advise him to continue his R & D budget?

To have a viable system of promoting the useful arts and keep the one-million-dollar business at the job of new-development competition with big business, we must recognize these pragmatic facts of life, and maintain the viability of the patent system and of know-how and trade secret contracts.

Lear is against public policy in that it begets more mischief than it cures, begets unwarranted litigation, and stifles competition in new product development and marketing of new products already developed.

F. Existing Contracts Containing Licensee-Estoppel Clauses

One major licensor has sent a letter to all its licensees unilaterally deleting the licensee-estoppel clauses from its outstanding licenses. To purge or not to purge our existing contracts of licensee-estoppel clauses seems to be a good question.

In the *Bendix* case,[38] there were license agreements and sales agreements proscribing attacks on the validity of the patents throughout the life of the patent, even after termination of the license or sales agreement. The Seventh Circuit stated:

> While it is true that a valid patent does afford some "limited protection," including "the right to license others to manufacture the tap," this is no answer to the thrust of defendants' contention that the licensor may not thereby forever preclude the licensee from challenging the validity of the patent. By requiring such a condition in the license or sales agreement, plaintiff may have placed itself in the position of unlawfully exceeding the protected area.[39]

The court of appeals, citing *Lear*, remanded for district court consideration of the antitrust counterclaim based in part on this clause.

In the recent *Kearney & Trecker Corp.* case,[40] we find one court's indication that in spite of the *Lear* rule, pre-*Lear* licenses containing covenants that prevented licensees from challenging validity do not give rise to antitrust violations. But the complaint filed in *United States*

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38 Bendix Corp. v. Balax, Inc., 421 F.2d 809 (7th Cir. 1970).

39 *Id.* at 820.

40 Kearney & Trecker Corp. v. Giddings & Lewis, Inc., 306 F. Supp. 189 (E.D. Wis. 1969).

v. CIBA Corp.,[41] just about a month after *Lear,* recited the facts of field-of-use licensing and of agreement not to contest validity and then prayed *inter alia*:

> 1. That the Court adjudge and decree that the defendants have entered into contracts and agreements which unlawfully restrain trade and commerce in deserpidine, in violation of Section 1 of the Sherman Act . . . .
>
> . . . .
>
> 4. That the Court permanently enjoin defendants from entering into or maintaining in effect any agreement which provides that one of the parties thereto will not challenge or contest the validity of any United States patent or will not assert the lack of novelty, utility, or patentability of the subject matter thereof.

Then in *Battelle Development Corp. v. Angevine-Funke, Inc.*[42] in which in settlement of a law suit a contract was entered into containing a covenant not to infringe the plaintiff's patents, the court sustained that clause as lawful and enforceable "until such time as there is an adjudication determining the patents to be invalid." This was not a case of a licensee estopped from contesting patent validity, but was a very close cousin, an agreement by a nonlicensee not to infringe the patent. It was held lawful.

To purge or not to purge? It would seem prudent to purge existing license contracts of licensee-estoppel clauses.

G. Inventive Employee Compensation

Most clients who finance R & D effort by employees they hire require the employee to license or assign every happy thought relating to the employer's business. Nevertheless, some R & D employers give, in one manner or another, special employees like Adkins an interest in their mental product such as a royalty on the employer's use of employee's development. This practice is sometimes (as was likely the case with Adkins) the fundamental inducement a business has to attract the best technical brains. It would seem that *Lear* has (unwittingly) destroyed the employer's capacity to use this form of employee compensation to attract especially good inventors, because the inventor can no longer depend upon the employer's contract to pay the royalties. *Lear* says: Never trust your employer's word.

The employer must, of course, be free to seek patents on its em-

[41] Civil No. 792-69 (D.N.J., filed July 10, 1969).
[42] — Ohio 2d —, 165 U.S.P.Q. 776 (C.P. 1970).

ployee's inventions, but if it gets one—however narrow and uncertain —it can renege on the royalty by attacking its own patent, which may be invalid only because of the employer's own negligence.

One hope on this point lies in the difference between Adkins' license to Lear and an assignment to the corporation. The distinction is not logically valid, but since the Court in *Lear* clearly knew not what it was doing to such employment relationships, and because its rationale produces such socially horrifying results in some applications, courts should tend to find excuses to limit and distinguish at least parts of *Lear*. So, with fingers crossed, we shall continue to recommend use of invention-*assignment* clauses, coupled with royalty obligations to inventors.

H. R & D Service Contracts, Know-How Contracts, and Trade Secret Disclosure Contracts[43]

The *Lear* majority did not decide the issue of possible patent law preemption of trade secret and know-how contracts during the period prior to patent issuance but held postissuance royalties uncollectible. *Painton*[44] held pre-patent-application royalties uncollectible on the alleged authority of *Lear*. An Illinois appellate court[45] in an essentially former-employee-type trade secret case, recently quoted and applied *Lear's* statement: "[F]ederal law requires, that all ideas in general circulation be dedicated to the common good unless they are protected by patent."[46] To build know-how licenses on such judicial quicksand is at least as difficult as to climb Mount Everest. Nevertheless, we should try.

The Bureau of International Commerce of the Department of Commerce reports that technology licenses bring this Nation over a billion dollars a year in foreign exchange. Almost all of this billion is generated directly or indirectly by know-how license contracts. Somehow we must succeed in know-how licenses in spite of the obstacles, or billions in foreign exchange will be lost, not to mention large dollar values in domestic technology dissemination under domestic know-how licenses, dissemination which contributes to competition rather than inhibits it.

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[43] For a more detailed treatment of this subject see Arnold, *A Philosophy on the Protections Afforded by Patent, Trademark, Copyright, and Unfair Competition Law: The Sources and Nature of Product Simulation Law*, 54 TRADEMARK REP. 413 (1964) and Handler, *Antitrust: 1969*, 55 CORNELL L. REV. 188 (1970).

[44] Painton & Co. v. Bourns, Inc., — F. Supp. —, 164 U.S.P.Q. 595 (S.D.N.Y. 1970).

[45] Bimba Mfg. Co. v. Starz Cylinder Co., 119 Ill. App. 2d 251, 256 N.E.2d 357 (1969).

[46] 395 U.S. at 668.

Painton notwithstanding, we feel that a majority of courts, when they have learned of the mischief of *Lear*, will seek at least certain retreats from its harshness on contracts relating to payment for know-how outside the narrow confines of patent law. One avenue of retreat is suggested by *Warner Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*,[47] in which the court enforced payment for contracted-for royalties even after the secret formula of Listerine was made public. Even if the remedy of an injunction can be argued to be inappropriate after publication of the confidence by issuance of the trade secret owner's patent disclosing that secret, the enforcement of a prior contract for royalties would appear to be sound.

The importance of the proper limitation of *Lear* to subject matter disclosed in the patent is too great to pass over lightly. Let us consider it further.

The contract sued on in *Lear* (in contrast with the original Lear-Adkins contract) tied royalties to "patented or patentable" subject matter. Patents relate to novel concepts, not to engineering detail. For example, a conceptual invention in turbines may be applicable to low-speed hydroelectric power turbines and also to the turbines of jet engines for aircraft. The choice of turbine blade materials must be different because of the extreme difference in temperatures of operation, the difference in stresses resulting from different speeds of operation, and the different erosion and corrosion resulting from different environments of operation. The configuration of the blades must be different for efficiency of operation at the widely variant speeds. The hydroelectric turbine operates at constant speed and the aircraft engine turbine at widely variant speeds, again calling for much engineering.

It is clear that perhaps 100,000 dollars' worth of engineering, engineering that could be accomplished by any engineer skilled in the art, is necessary to apply the patented concept to each of the two applications. This engineering detail is not included in the patent disclosure of its novel concept, which is capable of implementation in a variety of shapes, sizes, speeds, and other forms by skilled engineers. All this engineering detail may be referred to as "know-how." Often the 100,000-dollar application engineering job is done after the patent issues and constitutes secret know-how that came into being after the patent. As used in industry, "know-how" may include patentable concepts, but the bulk of "know-how" is usually of this engineering character.

[47] 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960).

The essence of know-how is the distillation of an economic and efficient set of parameters from the hundreds of parameter combinations that are publicly known as useable in implementing a patentable concept. *Know-how in this sense was not before the court in* Lear. The public policies affecting property rights in this know-how and the licensing of those rights were not presented to the court in *Lear*.

Accordingly, despite *Painton*, *Lear* must properly be construed as limited to patentable concepts as distinguished from know-how in the nature of a distilled economic and efficient set of parameters.[48]

Thus we will continue to draw know-how licenses, seeking always to structure them as differently from *Lear* as we can. When feasible we will cast the license as a teaching-service contract, a "show-how" contract, rather than a know-how property conveyance contract. This change may result in ordinary income instead of (in some cases) capital gains tax treatment, but the two taxes seem to be coming closer together and the extra tax may be the cost we have to pay to avoid *Lear* and *Painton*. When feasible, we will separate the know-how license and primary consideration clause into a separate instrument from an immunity-from-patent-suit clause. We will self-sell in the instrument, as in a law brief, the reasonableness, the social propriety, and the desirability of the know-how license and its independent consideration—this because judges often will respond to contract salesmanship of reasonableness more than to the same arguments in a brief or oral argument.

This approach will unreasonably constrict the value put on the patents and falsify on the low side the precedent value of the contract as to what is a reasonable patent royalty in a patent infringement suit against a third party. Also, if no significant value in the know-how or no realistic degree of nonavailability of the know-how from public sources can be demonstrated, this approach will not stand up. But know-how licenses are inherently so important to public enjoyment of technology—the useful gold nuggets of which are commonly hidden by a mountain of dirt information in masses of publications—that we must and do have hope of judicial correction of *Lear* if we give the next court a substantial excuse to distinguish *Lear*. Too many tens of millions dollars' worth of new licenses for know-how dissemination—for the

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[48] Senator Hugh Scott has already introduced amendments 578 and 579 to the pending patent law revision bill, S. 2756, 91st Cong., 1st Sess. (1970), which loosely translate *inter alia*: The right to preclude others granted by this title shall be in addition to and not in lieu of the right to preclude others that may arise out of contract, unfair competition, or other law of the states or the United States. In view of *Lear* and *Painton*, bar and industry support of the Scott amendments is essential.

public benefit and in aid of competition—are entered into yearly for them to be swept away by ill-considered dicta of justices not having these facts of life before them.

* * *

Does *Lear* mean that installments of a sum certain not tied to future postpatent use of the purchased information but payable in installments extending beyond the patent's issue are uncollectible after the patent issues? To paraphrase the court's reasoning: To contractually bind the licensee to pay any consideration after the patent issues is to muzzle the attack on the patent that, as a matter of public policy, is desirable by the party having the economic interest to do so.

Does *Lear* mean that only lump-sum payments, either at contract time or on the date of a notice of allowance but in advance of the issue of the patent, should be requested in contracts for R & D and trade secret disclosure contracts? Although such a requirement is impractical and unrealistic, that is the apparent teaching of *Lear*. But *beware*: We find the Court's "muzzle" reasoning would suggest possible licensee recovery, if the patent is invalid, of prepatent payments for R & D services and trade secret disclosures. Thus if the consideration clause in the contract is unenforceable as to accrued payments due but not paid, by what logic can a line be drawn to preclude payments already made under the unenforceable clause?

In short, *Lear* seems to say, by extension of its logic to these other facts of possible contracts, that the purchaser of R & D services or of disclosures of trade secrets is not obligated to pay at all and may recover prior payments if no valid patent issues.

The part of the decision that saves us (hopefully) from that construction is the three-judge partial dissent expressly to the effect that Adkins should not recover for use of his ideas even prior to the patent's issue, because the patent law had preempted the entire field of contracts with respect to use of and payments for technology—*a proposition the majority rejected.*

Furthermore, the clarity by which we can see that the Supreme Court did not consider the effect of the *Lear* rule upon the public policy of encouraging settlements, discouraging litigation, permitting employment contracts by which employees retain a piece of the action, avoiding concentration of economic power in the major business entities, and encouraging know-how licenses, etc. makes it clear that the *Lear* rule must not be expanded. It must be contracted until it too is given Mr. Justice Frankfurter's "decent public burial."

I. The Realities of Law in Action

It is clear that courts are reaching irrational results because of an absence of functional knowledge of the premises they build upon. Lacking the investigative facilities and investigative interest of legislative bodies, they unwittingly violate Justice Frankfurter's admonition: "We must be especially wary against the dangers of premature synthesis, of sterile generalization, unnourished by the realities of law in action." Let me then attempt a little nourishment of the realities of law in action.

The number of innovations that are truly breakthroughs of such stature as to negate all arguments of obviousness that some court is likely to buy is de minimis. For example, the inventions often thought of as the most important of the last century are the electric light, the telephone, the electromagnetic motor, the air brake, and barbed wire. All five were such minor modifications of prior art and were so suggested by the prior art that a majority of today's courts would clearly find they lacked the requisite unobviousness to be patentable.[49]

How nice it was, however, that after Edison had literally thousands of results that would not work, the patent system kept him plugging—as he phrased it, "ninety-nine percent perspiration and one percent inspiration"—until he learned which of the suggestions of the prior art to follow. Bell was a school teacher who worked in his attic consuming his funds until his family was poverty-striken. How nice it was that the patent system induced his friends to buy a piece of the action, to invest their capital in the school teacher's dream. But under the law today, their patents assuredly could not stand litigation in at least half of our circuits. There would be no action to buy.

Patent law presumes, unrealistically, practical working familiarity with the sum total of mankind's prior knowledge. In court presentations, the prior art used is selected and distilled—by hindsight use of the teaching of the invention itself—from mountains of publications and patents more often misleading (for a particular application) than not. The intellectual screen, which is used to sift the wheat information away from the chaff, is the knowledge of the invention and its value. In this context, defense arguments of obviousness are inherently more salable than the patent owner's argument that the invention was not obvious at the time he developed it.

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49 Dodds & Crotty, *supra* note 3.

We render the patent system a cruel hoax, a fraud upon the investor in R & D and in market development, by our recent cultivation of antipatent and antipatent-contract ideas as though antitrust was the sole social goal of society.[50] We hold out the carrot of patents to encourage the inventor and his financial backers to give of their sweat and capital to bring new things to market, but then deny them an adequate reward for their efforts.

The big business with mighty sales power can sometimes sell the proverbial refrigerator to the Eskimo and not infrequently does not need the patent to gain a return on its R & D and market development investment. Often the big business need not license a number of moderate-sized businesses, each with different know-how background, different market posture, and different license contract needs, in order to profit itself by giving the public the in-house enjoyment of its innovations. Generally, however, the moderate-sized business, and sometimes even big business as well, cannot profit itself and give the public in-house enjoyment without varied forms of trade secret disclosure contracts, employment contracts in which special employees get a piece of the action, and multiple licenses on varied terms. The law on these contract topics must be nourished by these realities.

* * *

The patent law proscribes patents and the enforcement of patents whenever the invention was previously in use in the United States or disclosed in a printed publication anywhere in the world, *i.e.*, whenever the public was actually enjoying the inventon prior to the patent. If a patent is erroneously issued but is sued upon in the face of flat anticipation by something already within the public enjoyment, the patent is not only held invalid but the plaintiff is ordered to pay the defendant's not inconsiderable attorneys' fees. The result is that patents on what is already in the public enjoyment are never a public menace or economic burden because the economy purges them naturally. The legitimate public policy issue, if any, must therefore reside in patents on innovations that are not already in the public enjoyment but are, arguably, obvious from what is already in the public enjoyment.

Invalid patents are erroneously called a public menace, so much

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50 The antipatent bias of the Supreme Court that included Justices Jackson, Black, and Douglas brought Justice Jackson to recite in bitter dissent that the only patents that were valid were those the Supreme Court had been unable to get its hands on. Jungersen v. Ostby & Barton Co., 335 U.S. 560, 572 (1949).

so that the law must induce the moral delinquency of us all in order to expurgate them from the economy. But if the patent is on something not actually in the public enjoyment but only arguably derivable therefrom by those of skill in the art, can that patent really be that evil? Even when invalid for obviousness, a patent's protection induces a small manufacturer to bring out a product in competition with those of greater marketing might so that the public does enjoy that which defendants argue it obviously *could have* enjoyed without a patentable-stature invention. Is that evil? Even when invalid for obviousness the examiner did not see, the invalid patent will publish its innovation for all to read. Is that evil? Even when the patent is invalid for obviousness, the license income will be reinvested in new R & D to progress the useful arts—provided, however, the patent owner continues to have faith in the system of protection of his sweat and capital. Is that evil?

Inducement of capital and effort into R & D and market development is not so much a function of the size of the advance in the art as it is in the faith that what is done new, however small, will be protected. As Mr. Chief Justice Burger said: "The [patent] system is not concerned with the individual inventor's progress, but only with what is happening to technology."[51] To pay lip service to progress in the useful arts while worshiping antitrust as the one true god is at best hypocritical worship. Why not give, in the contract area, a meaning to the statutory presumption of patent validity[52] at least until proven invalid?

It is surely questionable whether the forces of competition are really undermined, save in rare instances, if everyone but the assignor of a patent or the licensee of a patent is free to contest validity. When a license is negotiated, the consideration is arrived at in the context of the possibility of later-found references or other bases for later-found invalidity—not surprisingly since courts strike down more than half the patents before them. To let the licensee repudiate his deal unilaterally when evidence of arguable invalidity later develops is to let him extort a lower royalty because the later-found reference *may* develop, and then renege on even *that* royalty when the event used to bargain with does occur. *Lear* encourages such a course of events even though the licensee got what he bargained for, namely freedom from the trouble, expense, and risk of suit at a time when he knew not of the critical

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51 Commissioner of Patents v. Deutsche Gold-und-Silber-Scheideanstalt Vormals Roessler, 397 F.2d 656, 667 (D.C. Cir. 1968), quoting Rich, *Principles of Patentability*, 28 GEO. WASH. L. REV. 390, 402 (1960).

52 35 U.S.C. § 282 (1964).

reference and wanted to get leadtime in the market by taking the license.

Why not give the parties freedom to contract for license termination and to set the royalty in the context of such a clause, but hold the party to the contract he makes if he does not negotiate for a right to terminate? No significant anticompetitive result obtains, because the licensee remains in the market—he just has to pay what he promised to pay.

The minority in *Lear* and Judge Motley in *Painton* find clear beyond peradventure that to permit the licensing of unpatented and unpatentable know-how would sanction a "monopoly" that the Constitution neither contemplates nor permits. I submit, however, that no antitrust philosophy burdened the Constitution's drafters. As Milton Handler states:

> Will the progress of the arts and sciences in fact be promoted by such a rule [proscribing or burdening know-how licenses]? Why is it that compulsory licensing of patents by government edict is deemed pro-competitive while the dissemination of technical knowledge by voluntary licensing is anathema? May not the proposed rule lead to even greater concentration of power in our economy since there will be every incentive for firms to keep to themselves their technological insights and procedures?[53]

J. Lear *Applies the Philosophy of Abolishing "in pari delicto" Defenses to Facts on Which It Frustrates Rather than Sponsors the Balance of Public Policy*

In recent years it has often been held that public policy commands the abolition of the "in pari delicto" defense in antitrust conspiracy cases in order to induce the conspirators to break their conspiratorial word and thereby afford self-policing of antitrust conspiracies. We must not muzzle the private, the vigilante, the policeman. The purpose of abolishing the defense in the antitrust context was the prevention of illegal conspiratorial contracts, a malevolent context totally foreign to Adkins' deal with Lear. That philosophy was borrowed from that context and applied in *Lear*, a case in which the facts and public policies involved are totally different.

The antitrust conspiracy cases do not involve public policy favor-

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[53] Handler, *supra* note 43, at n.186.

ing (1) progress of the useful arts, (2) securing to inventors a property right in the results of their mental endeavor, (3) securing to those who invest in R & D a return on their investment, (4) inducing small business to undertake market development in competition with large businesses having marketing might sufficient to drown the smaller business's entry into a competitive market, (5) licensing of know-how (the result of distillation, filtration, and assembly of structured selections of information from the masses of published information), (6) R & D service and employment contracts by which the consideration the researcher receives may be tied to the use of the results of the R & D effort, (7) contracts for the disclosure of trade secrets whereby competitive use thereof may occur, and (8) the integrity of the grant of a patent under seal of the United States Government. Also, there is Congress' policy stated in the patent law that, "A patent shall be presumed valid."[54]

What is the meaning of the congressionally expressed public policy that a patent is presumed valid if it is not to give support to contracts, tax payments, and capital investments at least until the patent is held invalid? In contrast with this open-ended list of public policies supporting patents and know-how and trade secret contracts, the antitrust conspiracy cases—which fathered *Lear* without benefit of wedlock—*do* involve a violation of public policy that is not essentially self-purging.

Since essentially *all* patents are potentially invalid due to the inherent nature of hindsight review of obviousness, to decide cases on the assumption that all potentially invalid patents are public menaces is to destroy the entire patent system and its common law corollary, trade secret law.

VI. Conclusion

Our competitive society will in fact be stronger if once again a man's word is his bond. *Lear* begets much more mischief than it cures. Courts must whittle at it until they give it a decent burial.

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[54] 35 U.S.C. § 282 (1964).

Senator McCLELLAN. All right, Mr. Brennan?

Mr. BRENNAN. Mr. Chairman, I request that there be printed at this point in the record the notice of this hearing, the text of S. 643, S. 1253, S. 1255, Senate amendment 23, Senate amendment 24.

Senator McCLELLAN. Without objection, these will all be inserted in the record at this point.

(The material referred to follows:)

[From the Congressional Record—Senate, S. 1255, Mar. 24, 1971]

NOTICE OF HEARING ON PATENT LAW REVISION

Mr. McCLELLAN. Mr. President, as chairman of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, I wish to announce that the subcommittee, on May 11 and 12, will continue the public hearings on legislation for the general revision of the patent law. These hearings will commence each day at 10 a.m. in room 3302, New Senate Office Building.

The subcommittee has previously held several days of hearings on patent law revision and the hearings on May 11 and 12 will be limited to issues which have developed since the earlier hearings. The hearings will cover the following topics:

First. The possible inclusion in S. 643, the patent revision bill, of provisions clarifying the rights of patent owners with respect to the licensing of patent rights, such as are contained in Senate amendment 24, proposed by the minority leader.

Second. The clarification of the relationship between the Federal patent law and contractural and other rights or obligations not in the nature of patent rights created by Federal or State statutes, as provided in section 301 of S. 643, and in Senate Amendment 23, introduced by the minority leader.

Third. Consideration of the necessity for modification of the patent law in order to facilitate the public policy of improving the quality of the environment. The subcommittee will consider section 308 of the Clean Air Amendments Act of 1970, and section 6 of the transitional and supplementary provisions of S. 643.

Fourth. Adjustment of patent and trademark fees, such as is provided by S. 1255.

Fifth. The amendment of title 35 to provide for the granting of a right of priority with respect to inventors certificates, such as is provided in S. 1252.

Anyone who wishes to testify on these subjects, or file a statement for the record, should contact the office of the subcommittee, room 349–A, Old Senate Office Building, Washington, D.C. Telephone: Area code 202 225-2268. Although oral testimony will be limited to the subjects enumerated, the subcommittee will also receive written statements covering other provisions of S. 643. These statements will be incorporated in the record of the subcommittee's hearings on patent law revision.

The subcommittee consists of the Senator from Michigan (Mr. HART), the Senator from North Dakota (Mr. BURDICK), the Senator from Pennsylvania (Mr. SCOTT), the Senator from Hawaii (Mr. FONG), and myself.

92D CONGRESS
1ST SESSION

S. 643

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8 (legislative day, JANUARY 26), 1971

Mr. MCCLELLAN introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

For the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title 35 of the United States Code, entitled "Patents", is hereby amended in its entirety to read as follows:

"TITLE 35—PATENTS

"PART	Sec.
"I. PATENT OFFICE	1
"II. PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS	100
"III. PATENTS AND PROTECTION OF PATENT RIGHTS	251

"PART I—PATENT OFFICE

"CHAPTER	Sec.
"1. ESTABLISHMENT, OFFICERS, FUNCTIONS	1
"2. PROCEEDINGS IN THE PATENT OFFICE	21
"3. PRACTICE BEFORE THE PATENT OFFICE	31
"4. PATENT FEES	41

"Chapter 1.—ESTABLISHMENT, OFFICERS, FUNCTIONS

"Sec.
"1. Establishment.
"2. Seal.
"3. Officers and employees.
"4. Restrictions on officers and employees as to interest in patents.
"5. Bond of Commissioner and other officers.
"6. Duties of Commissioner.
"7. Board of Appeals.
"8. Library.
"9. Classification of patents.
"10. Certified copies of records.
"11. Publications.
"12. Research and studies.
"13. Copies of patents for public libraries.

"§ 1. Establishment

"The Patent Office shall be an Office in the Department of Commerce, where records, books, drawings, specifications, and other papers and things pertaining to patents and to trademark registrations shall be kept and preserved, except as otherwise provided by law.

"§ 2. Seal

"The Patent Office shall have a seal with which letters patent, certificates of trademark registrations, and papers issued from the Office shall be authenticated.

"§ 3. Officers and employees

"(a) There shall be in the Patent Office a Commissioner of Patents, one first assistant commissioner, two other assistant commissioners, and not more than twenty-four examiners-in-chief. The assistant commissioners shall perform the duties pertaining to the office of Commissioner assigned to them by the Commissioner. The first assistant commissioner, or, in the event of a vacancy in that office, the assistant commissioner senior in date of appointment, shall fill the office of Commissioner during a vacancy in that office until a Commissioner is appointed and takes office. The Commissioner of Patents and the assistant commissioners shall be appointed by the President, by and with the advice and consent of the Senate. The Secretary of Commerce, upon the nomination of the Commissioner in accordance with law, shall appoint all other officers and employees.

"(b) The Secretary of Commerce may vest in himself the functions of the Patent Office and its officers and employees specified in this title and may from time to time authorize their performance by any other officer or employee.

"(c) The Secretary of Commerce is authorized to fix the per annum rate of basic compensation of each examiner-in-chief in the Patent Office at not in excess of the maximum scheduled rate provided for

positions in grade 17 of the General Schedule of positions referred to in section 5104 of title 5, United States Code, and of the assistant commissioners at not in excess of the rate provided for positions in grade 18.

"§ 4. Restrictions on officers and employees as to interest in patents

"Officers and employees of the Patent Office shall be incapable, during the period of their appointments and for one year thereafter, of applying for a patent or, during such period and for one year thereafter, being named as an inventor in an application for patent for an invention made during such period or for one year thereafter and of acquiring, directly or indirectly, except by inheritance or bequest, any patent or any right or interest in any patent, issued or to be issued by the Office. Such applications for patent thereafter shall not be entitled to any priority date earlier than one year after the termination of their appointment.

"§ 5. Bond of Commissioner and other officers

"The Commissioner and such other officers as he designates, before entering upon their duties, shall severally give bond, with sureties, the former in the sum of $10,000, and the latter in sums prescribed by the Commissioner, conditioned for the faithful discharge of their respective duties and that they shall render to the proper officers of the Treasury a true account of all money received by virtue of their offices.

"§ 6. Duties of Commissioner

"The Commissioner, under the direction of the Secretary of Commerce, shall superintend or perform all duties required by law respecting the granting and issuing of patents and the registration of trademarks; and he shall have charge of property belonging to the Patent Office. He may establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent Office. Such regulations and all other regulations issued pursuant to this title shall be subject to the approval of the Secretary of Commerce.

"§ 7. Board of Appeals

"(a) The Commissioner, the assistant commissioners, and the examiners-in-chief shall constitute a Board of Appeals in the Patent Office. The examiners-in-chief shall be persons of competent legal knowledge and scientific ability, who shall be appointed under the classified Civil Service.

"(b) The Board of Appeals shall:

"(1) Review adverse decisions of the primary examiners upon

applications for patents as provided in section 134 of this title.

"(2) Review or consider actions arising under chapter 18 of this title.

"(3) Perform the functions specified as being performed by a Board of Patent Interferences in Public Law 593, Eighty-second Congress (ch. 950, 66 Stat. 792, section 1), and in other Acts of Congress and when performing said function shall constitute a Board of Patent Interferences.

"(c) Each appeal or other action shall be decided by at least three members of the Board of Appeals. The Board of Appeals has sole power to reconsider its decision.

"(d) Whenever the Commissioner considers it necessary to maintain the work of the Board of Appeals current, he may designate any patent examiner of the primary examiner grade or higher having the requisite ability, to serve as examiner-in-chief for periods not exceeding six months each. An examiner so designated shall be qualified to act as a member of the Board of Appeals. Not more than one such designated examiner-in-chief shall be a member of the Board of Appeals hearing an appeal or considering a case. The Secretary of Commerce is authorized to fix the per annum rate of basic compensation of each designated examiner-in-chief in the Patent Office at not in excess of the maximum scheduled rate provided for positions in grade 16 of the General Schedule of positions referred to in section 5104 of title 5, United States Code. The per annum rate of basic compensation of each designated examiner-in-chief shall be adjusted, at the close of the period for which he was designated to act as examiner-in-chief, to the per annum rate of basic compensation which he would have been receiving at the close of such period if such designation had not been made.

"§ 8. Library

"The Commissioner shall maintain a library of scientific and other works and periodicals, both foreign and domestic, in the Patent Office to aid the officers in the discharge of their duties.

"§ 9. Classification of patents

"The Commissioner shall maintain with appropriate revisions the classification by subject matter of published specifications of United States patents and of such other patents and applications and other scientific and technical information as may be necessary or practicable, for the purpose of determining with readiness and accuracy the patentability of inventions for which applications for patent are filed.

"§ 10. Certified copies of records

"The Commissioner may, upon payment of the prescribed fee, furnish certified copies of records of the Patent Office to persons entitled thereto.

"§ 11. Publications

"(a) The Commissioner shall cause to be published in such format as he determines to be suitable, the following:

"(1) The specifications and drawings of patents, and patent applications; subject to the provisions of this title.

"(2) Certificates of trademark registrations, including statements and drawings.

"(b) The Commissioner may cause to be published, in such format as he determines to be suitable, the following:

"(1) Patent abstracts.

"(2) The Official Gazette of the United States Patent Office.

"(3) Annual indices of patents, published applications and of trademarks and information concerning the same.

"(4) Annual volumes of decisions in patent and trademark cases.

"(5) Classification manuals and indices of the classifications of patents.

"(6) Pamphlet copies of the patent laws and rules of practice, laws and rules relating to trademarks and circulars or other publications relating to the business of the Office.

"(c) The Patent Office may print the headings of the drawings for patents for the purpose of photolithography.

"(d) The Commissioner (1) shall maintain public facilities for the searching of patent materials, (2) may establish a public information service for the dissemination to the public of information concerning patents, and (3) may from time to time disseminate or provide for the dissemination to the public of those portions of the public technological and other information available to or within the Patent Office, the publication of which in his judgment would encourage innovation and promote the progress of the useful arts. Such dissemination may be made through the issuance of periodical or other publications, the preparation and display of exhibits, or such other means as he may consider appropriate.

"(d) The Commissioner may exchange any of the publications specified in subsections (a) and (b) for publications desirable for the use of the Patent Office, and furnish copies of any of these publications

to international intergovernmental organizations of which the United States is a member.

"§ 12. Research and studies

"The Commissioner shall conduct a program of research and development to improve and expedite the handling, classification, storage, and retrieval of patents and other scientific and technical information.

"§ 13. Copies of patents for public libraries

"The Commissioner may supply copies of specifications and drawings of patents to public libraries in the United States which shall maintain such copies for the use of the public, at the rate for each year's issue established for this purpose in section 41 (a) (9) of this title.

"Chapter 2.—PROCEEDINGS IN THE PATENT OFFICE

"Sec.
"21. Day for taking action falling on Saturday, Sunday, or holiday.
"22. Form of papers filed.
"23. Testimony in Patent Office cases.
"24. Subpenas, witnesses.
"25. Oath and declaration in lieu of oath.
"26. Effect of defective execution.

"§ 21. Day for taking action falling on Saturday, Sunday, or holiday

"When the day, or the last day, for taking any action or paying any fee in the United States Patent Office falls on Saturday, Sunday, a holiday within the District of Columbia, or on any other day the Patent Office is closed for the receipt of papers, the action may be taken, or the fee paid, on the next succeeding secular or business day.

"§ 22. Form of papers filed

"The Commissioner may by regulation prescribe the form of papers filed in the Patent Office.

"§ 23. Testimony in Patent Office cases

"The Commissioner may establish regulations for taking testimony, affidavits, depositions, and other evidence required in cases in the Patent Office. Any officer authorized by law to take depositions to be used in the courts of the United States, or of the State where he resides, may take such affidavits and depositions.

"§ 24. Subpenas, witnesses

"(a) The clerk of any United States court for the district wherein testimony is to be taken in accordance with regulations established by the Commissioner for use in any case in the Patent Office shall, upon the application of any party thereto, issue a subpena for any witness residing or being within such district, commanding him to appear and testify before an officer in such district authorized to take testimony, depositions, and affidavits, at the time and place stated in the subpena.

The provisions of the Federal Rules of Civil Procedure relating to the attendance of witnesses, discovery and the production of documents and things shall apply to contested cases in the Patent Office insofar as consistent with such regulations.

"(b) Every witness subpenaed and in attendance shall be allowed the fees and traveling expenses allowed to witnesses attending the United States district courts.

"(c) A judge of a court whose clerk issued a subpena may enforce obedience to the process or punish disobedience as in other like cases, on proof that a witness, served with such subpena, neglected or refused to appear or to testify. No witness shall be deemed guilty of contempt for disobeying such subpena unless his fees and traveling expenses in going to, and returning from, and one day's attendance at the place of examination, are paid or tendered him at the time of the service of the subpena; nor for refusing to disclose any secret matter except upon appropriate order of the court which issued the subpena.

"§ 25. Oath and declaration in lieu of oath

"(a) An oath to be filed in the Patent Office may be made before any person within the United States authorized to administer oaths, or before any officer authorized to administer oaths in the foreign country in which the affiant may be, whose authority shall be proved by certificate of a diplomatic or consular officer of the United States, and such oath shall be valid if it complies with the laws of the state or country where made.

"(b) The Commissioner may by regulation prescribe that any document to be filed in the Patent Office and which is required by any law or regulation to be under oath may be subscribed to by a written declaration in such form as the Commissioner may prescribe, such declaration to be in lieu of the oath otherwise required.

"(c) Whenever such written declaration is used, the document must warn the declarant that willful false statements and the like are subject to punishment including fine or imprisonment, or both (18 U.S.C. 1001).

"§ 26. Effect of defective execution

"Any document to be filed in the Patent Office and which is required by any law or regulation to be executed in a specified manner may be provisionally accepted by the Commissioner despite a defective execution, provided a properly executed document is submitted within such time as may be prescribed.

"Chapter 3.—PRACTICE BEFORE THE PATENT OFFICE

"Sec.
"31. Regulations for agents and attorneys.
"32. Suspension or exclusion from practice.
"33. Unauthorized practice.

"§ 31. Regulations for agents and attorneys

"The Commissioner may prescribe regulations governing the recognition and conduct of agents, attorneys, or other persons representing applicants or other parties before the Patent Office, and may require them, before being recognized as representatives of applicants or other persons, to show that they are of good moral character and reputation and are possessed of the necessary qualifications to render to applicants or other persons valuable service, advice, and assistance in the presentation or prosecution of their applications or other business before the Office.

"§ 32. Suspension or exclusion from practice

"The Commissioner may, after notice and opportunity, for a hearing, suspend or exclude, either generally or in any particular case, from further practice before the Patent Office, any person, agent, or attorney shown to be incompetent or disreputable, or guilty of gross misconduct, or who does not comply with the regulations established under section 31 of this chapter, or who shall, by word, circular, letter, or advertising, with intent to defraud in any manner, deceive, mislead, or threaten any applicant or prospective applicant, or other person having immediate or prospective business before the Office. The reasons for any such suspension or exclusion shall be duly recorded. The United States District Court for the District of Columbia, under such conditions and upon such proceedings as it by its rules determines, may review the action of the Commissioner upon the petition of the person so suspended or excluded.

"§ 33. Unauthorized practice

"(a) Whoever, not being recognized to practice before the Patent Office—

"(1) holds himself out or knowingly permits himself to be held out as so recognized, or

"(2) holds himself out or knowingly permits himself to be held out as available either to perform the service of preparing or prosecuting an application for patent or to provide such service to be performed by a person not so recognized or by an unidentified person, or

"(3) for compensation, either performs the service of prepar-

ing or prosecuting an application for patent for another not so recognized or provides such service to be performed by a person not so recognized or by an unidentified person,

shall be punished by imprisonment not exceeding one year, or a fine not exceeding $1,000 for each offense, or both.

"(b) Where an agent, attorney, or firm recognized to practice before the Patent Office, assumes responsibility for the service of preparing or prosecuting a patent application at the time such service is rendered, the service shall be considered as performed by such agent, attorney, or firm within the meaning of this section.

"Chapter 4.—PATENT FEES

"Sec.
"41. Patent fees.
"42. Payment of patent fees; return of excess amounts.

"§ 41. Patent fees

"(a) The Commissioner shall charge the following fees:

"(1) On filing each application for an original patent, except in design cases, $65; in addition, on filing or on presentation at any other time, $10 for each claim in independent form which is in excess of one, and $2 for each claim whether independent or dependent which is in excess of ten. No fee shall be charged for the filing of claims in a patent during reexamination under section 191 of this title. Errors in payment of the additional fee may be rectified in accordance with regulations prescribed by the Commissioner.

"(2) Except in design cases, for issuing each original or reissue patent, $100; in addition, $10 for each page (or portion thereof) of specification as printed, and $2 for each sheet of drawing.

"(3) In design cases:

"a. On filing each design application, $20.

"b. On issuing each design patent: For three years and six months, $10; for seven years, $20; and for fourteen years, $30.

"(4) On filing each application for the reissue of a patent, $65; in addition, on filing or on presentation at any other time, $10 for each claim in independent form which is in excess of the number of independent claims of the original patent, and $2 for each claim (whether independent or dependent) which is in excess of ten and also in excess of the number of claims of the original patent. Errors in payment of the additional fees may be rectified in accordance with regulations of the Commissioner.

"(5) On filing each disclaimer, $15.

"(6) On appeal under section 134 of this title, for the first time from the examiner to the Board of Appeals, $50; in addition, on filing a brief in support of such appeal, $50.

"(7) On filing each petition for the revival of an abandoned application for a patent or for the delayed payment of the fee for issuing each patent, $15.

"(8) For certificate under section 255 or under section 256 of this title, $15.

"(9) As available: For uncertified copies of specifications and drawings of patents (except design patents), 50 cents per copy; for design patents, 20 cents per copy; the Commissioner may establish a charge not to exceed $1 per copy for patents in excess of twenty-five pages of drawings and specifications and for plant patents in color; special rates for libraries specified in section 13 of this title, $50 for patents issued in one year. The Commissioner may, without charge, provide applicants with copies of specifications and drawings of patents when referred to in a notice under section 132.

"(10) For recording every assignment, agreement, or other paper relating to the property in a patent or application, $20; where the document relates to more than one patent or application, $3 for each additional item.

"(11) For each certificate, $1.

"(12) For publishing a pending application under, section 123 of this title, $100; in addition, $10 for each page (or portion thereof) of specification as printed, and $2 for each sheet of drawing.

"(b) The Commissioner may reduce the fees under subsection (a) (2) of this section up to 50 per centum upon the condition that an additional copy of the specification is submitted in machine readable form in accordance with regulations established by the Commissioner.

"(c) The Commissioner may establish charges for copies of records, publications, or services furnished by the Patent Office, not specified above.

"(d) The fees prescribed by or under this section shall apply to any other Government department or agency, or officer thereof, except that the Commissioner may waive the payment of any fee for services or materials in cases of occasional or incidental requests by a Government department or agency, or officer thereof.

"(e) The Patent Office shall recover by fees not less than 65 per

centum of the costs of operation of the Patent Office. When such recovery consistently falls below this percentage, the Commissioner shall transmit to the Congress his recommendations for an adjustment of the fee schedule.

"§ 42. Payment of patent fees; return of excess amount

"All fees shall be paid to the Commissioner, who shall deposit the same in the Treasury of the United States in such manner as the Secretary of the Treasury directs, and the Commissioner may refund any sum paid by mistake or in excess of the fee required.

"PART II—PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS

"Chapter		Sec.
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"Chapter 10.—PATENTABILITY OF INVENTIONS

"Sec.
"100. Definitions.
"101. Right to patent: inventions patentable.
"102. Conditions for patentability; novelty and loss of right to patent.
"103. Conditions for patentability; nonobvious subject matter.
"104. Inventions made abroad.

"§ 100. Definitions

"When used in this title unless the context otherwise indicates—

"(a) The term 'invention' means invention or discovery.

"(b) The term 'process' means process, art or method and includes a new use of a known process, machine, manufacture, composition of matter, or material.

"(c) The terms 'United States' and 'this country' mean the United States of America, its territories, and possessions, and the Commonwealth of Puerto Rico.

"(d) The term 'applicant' means any person who owns an application for a patent, as provided in this title.

"(e) The term 'patentee' includes not only the person to whom the patent was issued but also the successors in title to such person.

"(f) The term 'actual filing date in the United States' includes the filing date to which an application or patent, or the subject matter of any claim thereof, may be entitled under the provisions of section 120 of this title (and excludes any date under section 119 of this title).

An application or the resulting patent may contain separate claims for subject matter having different actual filing dates in the United States by virtue of the provisions of section 120 of this title or may contain claims entitled to the benefit of a prior date under the provisions of section 119 of this title, in addition to claims not so entitled.

"(g) The term 'useful' shall include, but shall not be limited to, utility in agriculture, commerce, industry, or research.

"§ 101. Right to patent; inventions patentable

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, or his successor in title, may obtain a patent therefor, subject to the conditions and requirements of this title.

"§ 102. Conditions for patentability; novelty and loss of right to patent

"An applicant shall be entitled to a patent on the invention defined in each claim of his application upon establishing by a preponderance of proof that the invention meets the conditions for patentability. A patent may not be obtained if:

(a) The applicant or any of his predecessors in title has abandoned the invention; or

(b) The invention was first patented or caused to be patented by the inventor or his legal representative or assign, or his predecessors in title, in a foreign country before the actual filing date in the United States of his application, on an application in such foreign country filed more than twelve months before such actual filing date in the United States, or described prior to such actual filing date in the official publication of such foreign application in the country where filed; or

(c) The inventor did not himself invent the subject matter sought to be patented, but derived it from another; or

(d) The invention is identically disclosed or described in any of the following prior art:

(1) A patent or publication in this or a foreign country reasonably available to the public of the United States in printed or other tangible form before the invention was made by the inventor, or more than one year before the actual filing date in the United States of the application; or

(2) A published United States patent application or United States patent of another which has an actual filing date in

the United States before the invention was made by the inventor named in the application; or

(3) Subject matter made known to persons in the art to which it pertains, or used by others, in this country before the invention was made by the inventor named in the application; or

(4) Subject matter on sale or in public use in this country more than one year before the actual filing date in the United States of the application; or

(5) An invention made in this country by another before the invention was made by the inventor, provided the other had not abandoned his invention. In determining priority, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time before conception by the other until his own reduction to practice. One year of inactivity with respect to the invention shall prima facie constitute abandonment.

"§ 103. Conditions for patentability; nonobvious subject matter

"A patent may not be obtained though the invention is not identically disclosed or described in the prior art as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and such prior art are such that the subject matter as a whole was obvious from such prior art to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made, nor because the invention has simplicity or is the last step in an evolutionary development, nor because it is not revolutionary, basic, scientific or technical in character. Claims for a new combination or assemblage of known mechanical or other elements shall be subjected to the same standard of patentability as is applied to claims for other types of subject matter.

"§ 104. Inventions made abroad

"In proceedings in the Patent Office and in the courts, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country, except as provided in section 119 of

this title. Where an invention was made by a person, civil or military, while domiciled in the United States and serving in a foreign country in connection with operations by or on behalf of the United States, he shall be entitled to the same rights of priority with respect to such invention as if the same had been made in the United States.

"Chapter 11.—APPLICATION FOR PATENT

"Sec.
"111. Application for patent.
"112. Specification.
"113. Drawings.
"114. Models, specimens.
"115. Oath of applicant.
"116. Joint inventors.
"117. Death or incapacity of inventor.
"119. Benefit of earlier filing date in foreign country; right of priority.
"120. Benefit of earlier filing date in the United States.
"121. Divisional applications.
"122. Confidential status of applications.
"123. Publication.

"§ 111. Application for patent

"(a) An application for patent may be filed by either the inventor or the owner of the invention sought to be patented. The application shall be made in writing to the Commissioner, shall be signed by the applicant and include the name of each person believed to have made an inventive contribution, and shall be accompanied by the prescribed fee. An application filed by a person not the inventor shall include, at the time of filing, a statement of the facts supporting the allegation of ownership of the invention.

"(b) An application for patent shall include—

"(1) a specification as prescribed by section 112 of this chapter; and

"(2) a drawing as prescribed by section 113 of this chapter.

"(c) For purposes of filing a patent application and securing a filing date, an application may be signed by an agent of the applicant provided that the agent is authorized or provided that the application is ratified by the signature of the applicant within six months after filing. Failure of the applicant to ratify such application within six months after the filing of the application shall result in abandonment of the application.

"(d) When the application is signed by the owner or his agent, the owner, within thirty days after filing an application for patent, shall serve a copy of the application on the inventor along with a statement calling the inventor's attention to the provisions of subsection (e) of this section. Service may be effected by mailing a copy of the application and statement, by first-class mail, to the last known ad-

dress of the inventor. Failure to serve a copy of the application and statement on the inventor within thirty days shall result in abandonment of the application. The Commissioner may by regulation require proof of such service, and may extend the thirty-day period or waive the requirement for service upon a showing of sufficient cause.

"(e) An inventor, within a time prescribed by the Commissioner, may furnish a verified written notice to the Commissioner alleging that the applicant is not the owner of the invention as required by subsection (a) of this section. The Commissioner, in accordance with such regulations as he establishes and on compliance with the requirements of this title, shall issue a patent to the inventor filing such written notice, without prejudice to later judicial proceedings, unless the notice is withdrawn by the inventor or the applicant records in the Patent Office an assignment by the inventor, or in lieu thereof, files a written statement by the inventor consenting to the filing of the application by and the issuance of the patent to the applicant.

"(f) Notice to the Commissioner, in a manner prescribed by regulations, of a final decision in a judicial proceeding in a court having jurisdiction thereof, from which no appeal has or can be taken, that an applicant is the owner of an invention shall constitute an assignment to such applicant of his application for such invention.

"(g) An error in the naming of an inventor, in either a sole or joint application for patent, without deceptive intent, may be corrected at any time, in accordance with regulations established by the Commissioner.

"§ 112. Specification

"(a) The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the applicant of carrying out his invention.

"(b) The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter regarded as the invention. A claim may be written in independent or dependent form, and if in dependent form, it shall be construed to include all the limitations of the claim incorporated by reference into the dependent claim.

"(c) An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital

of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

"(d) When the invention relates to a process involving the action of a microorganism not already known and available to the public or to a product of such a process, the written description required by subsection (a) of this section shall be sufficient as to said microorganism, if—

"(1) not later than the date that the United States application is filed, an approved deposit of a culture of the microorganism is made by or on behalf of the applicant or his predecessor in title, and

"(2) the written description includes the name of the depository and its designation of the approved deposit and, taken as a whole, is in such terms as to enable any person skilled in the art to which the invention pertains to make and use the same.

"An approved deposit shall be a deposit which—

"(1) is made in any public depository in the United States which shall have been designated for such deposits by the Commissioner of Patents by publication, and

"(2) is available, except as otherwise prohibited by law, in accordance with such regulations as may be prescribed,

"(a) to the public upon issuance of a United States patent to the applicant or his predecessor or successor in title which refers to such deposit, and

"(b) prior to issuance of said patent, under the conditions specified in section 122.

"(e) For the dissemination of information and other purposes, the Commissioner, in accordance with such regulations as he establishes, may require a brief abstract of all or part of the application. The abstract shall not be used for interpreting the scope of any claims of a patent, nor shall it affect in any way the validity of the patent.

"§ 113. Drawings

"When the nature of the case admits, the applicant shall furnish a drawing.

"§ 114. Models, specimens

"(a) The Commissioner may require the applicant to furnish a model of convenient size to exhibit advantageously the several parts of his invention.

"(b) When the invention relates to a composition of matter, the

Commissioner may require the applicant to furnish specimens or ingredients for the purpose of inspection or experiment.

"§ 115. Oath of applicant

"(a) The applicant, if he is the inventor, shall make oath that he believes himself to be the original and first inventor of the subject matter sought to be patented and shall state of what country he is a citizen.

"(b) The applicant, if he is not the inventor, shall make an oath that he believes the named inventor to be the original and first inventor of the subject matter sought to be patented and shall state of what country the named inventor is a citizen; such oath shall verify the statement of facts supporting the allegation of ownership of the invention.

"(c) The applicant of an application filed pursuant to section 117 of this title may make the oath required by subsection (b) of this section, so varied in form that it can be made by him.

"(d) The oath shall be submitted not later than the time of payment of the fee required under the provisions of section 151(a) of this title.

"§ 116. Joint inventors

"(a) When two or more persons have made inventive contributions to subject matter claimed in an application, they shall apply for a patent jointly and each sign the application and make the required oath, or, if the application is filed by some other person having the right to do so, they shall be named as the inventors.

"(b) In an application for patent for an invention naming two or more inventors, it shall not be necessary for each person named as an inventor to be a joint inventor of the invention asserted in any claim.

"(c) If a joint inventor refuses to join another inventor in an application for patent, or cannot be found or reached after diligent effort, the application may, subject to the requirements of section 111 of this title, be made by the other inventor on behalf of himself and the omitted inventor. The Commissioner, on proof of the pertinent facts and after such notice to the omitted inventor as he prescribes, may grant a patent to the inventor making the application, subject to the same rights which the omitted inventor would have had if he had been joined. The omitted inventor may subsequently join in the application.

"§ 117. Death or incapacity of inventor

"Legal representatives of deceased inventors and of those under legal

incapacity may make application for patent upon compliance with the requirements and on the same terms and conditions applicable to the inventor, and may proceed on behalf of the inventor under the provisions of section 111(e) of this title.

"§ 119. Benefit of earlier filing date in foreign country; right of priority

"(a) An application for patent for an invention filed in this country by any person who has, or whose predecessor or successor in title has, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, shall have the same effect as the same application would have if filed in the United States on the date on which the application for patent for the same invention was first filed in any such foreign country, if the application in this country is filed within twelve months from the earliest date on which such foreign application was filed.

"(b) No application shall be entitled to a right of priority under this section unless a claim therefor is made within three months of the time of filing of his application, and a certified copy of the original foreign application, specification and drawings, upon which it is based is filed in accordance with regulations established by the Commissioner, not later than the time of payment of the fee specified in section 151 of this title. Such certification shall be made by the Patent Office of the foreign country in which filed and show the date of the application and of the filing of the specification and other papers. The Commissioner may require translation of the papers filed if not in the English language and such other information as he deems necessary. Such claim or amendment thereof may be made during examination or reexamination of application as provided in chapter 12 of this title, upon an adequate showing as to why the claim was not made earlier.

"(c) In like manner and subject to the same conditions and requirements, the right provided in this section may be based upon a subsequent regularly filed application in the same foreign country instead of the first filed foreign application, provided that any foreign application filed prior to such subsequent application has been withdrawn, abandoned, or otherwise disposed of without having been laid open to public inspection and without leaving any rights outstanding, and has

not served, nor thereafter shall serve, as a basis for claiming a right of priority.

"(d) When the application claiming priority under this section, discloses an invention relating to a process involving the action of a microorganism not already known and available to the public or to a product of such a process and an approved deposit is made under section 112, subsection (d), the approved deposit shall be considered to have been made on the earliest date that an application in a foreign country, the priority of which is being claimed, contains a reference identifying a deposit of the same microorganism made in a public depository.

"§ 120. Benefit of earlier filing date in the United States

"(a) An application for patent for an invention disclosed in the manner provided in section 112(a) of this chapter in an application previously filed in the United States shall have the same effect, as to such invention, as though filed on the date of the prior application if—

"(1) it is filed during the pendency of the prior application, that is before the patenting or abandonment of, or the termination of proceedings in, the prior application,

"(2) the two applications have the same applicant or inventor as to such invention, and

"(3) the applicant specifically claims the benefit of the date of filing of the prior application for subject matter claimed in the second application.

"(b) In a series of applications with respect to an invention, each of which is entitled to the benefit of the filing date of the immediately preceding application in the series in accordance with the provisions of subsection (a) of this section, the last application in the series shall be entitled to the benefit of the filing date of the earliest application in the series for which a claim is made, even though any application in the series may be copending only with the immediately preceding application.

"(c) An applicant must claim the benefit of the filing date of the earliest application on which he intends to rely in a later filed application within three months of the time of filing such later application, or during examination or reexamination of such application as provided in chapter 12 of this title upon an adequate showing why the claim was not made earlier. In a series, each application must claim the

benefit of the immediately preceding application in accordance with the provisions herein.

"(d) The Commissioner may by regulation dispense with signing and execution in the case of an application directed solely to subject matter described and claimed in the prior application.

"§ 121. Divisional applications

"(a) If two or more inventions are claimed in one application, the Commissioner may require the application to be restricted to one of them. The Commissioner shall not require the further restriction of any application previously restricted under the provisions of this section, or of any application filed as a result of a requirement for restriction under this section, unless such subsequent requirement arises as a result of changes in the claimed subject matter.

"(b) The validity of a patent may not be questioned for failure of the Commissioner to require the application to be restricted under subsection (a) of this section, nor may the validity of either of two or more patents resulting from and in accordance with a requirement under said subsection (a) be questioned solely because of the existence of several patents, if the subsequent application is filed in accordance with the provisions of section 120 of this chapter.

"§ 122. Confidential status of applications

"Applications for patents shall be kept in confidence by the Patent Office and no information concerning the same given without authority of the applicant unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner.

"§ 123. Publication

"The Commissioner may establish regulations for the publication of pending applications at the request of applicants and shall publish applications in accordance therewith.

"Chapter 12.—EXAMINATION OF APPLICATION

"Sec.
"131. Examination of application.
"132. Notice of rejection; reexamination.
"133. Time for prosecuting application.
"134 Appeal to the Board of Appeals.

"§ 131. Examination of application

"(a) The Commissioner shall cause an examination to be made of the application and the alleged new invention; and if on such examination it is determined that the applicant is entitled to a patent under the law, the Commissioner shall issue a patent therefor as hereinafter provided.

"(b) The Commissioner shall issue such regulations, consistent with the provisions of this title, as are necessary for the efficient and expeditious examination of applications so as to normally dispose of applications within 18 months of their filing date.

"(c) The Commissioner may require applicants, within such time as he may prescribe by regulation, to submit copies of or cite, any relevant patents, publications and other prior art which the applicant has specifically considered in preparing his application for patent, together with an explanation as to why the claims in such application are patentable over such prior art, or, if no specific relevant prior art was considered, a statement to that effect and an explanation as to why the claims in such application are believed to be patentable. An inadvertent failure to comply with the provisions of this section shall not constitute a ground for holding a patent invalid or unenforceable, or subject the patentee to a charge of misuse.

"(d) The granting of a patent shall not be refused solely on the ground that if it occurred there would then exist more than one patent for the same invention where the patents will expire on the same date as a result of filing on the same date or as the result of a terminal disclaimer pursuant to section 253 of this title so long as the right to sue for infringement of said patents is in the same legal entity.

"§ 132. Notice of rejection; reexamination

"Whenever, on examination, any claim of an application is rejected, or any objection or requirement made, the Commissioner shall notify the applicant thereof, stating the reasons therefor, together with such information and references as may be useful in judging the propriety of continuing the prosecution of the application; and if after receiving such notice, the applicant requests reexamination, with or without amendment, the application shall be reexamined. No amendment shall introduce new matter into the disclosure of the invention.

"§ 133. Time for prosecuting application

"Upon failure of the applicant to prosecute the application within six months after any action therein, of which notice has been given or mailed to the applicant, or within such shorter time, not less than one month, as fixed by the Commissioner in such action, the application shall be regarded as abandoned by the parties thereto, unless it be shown to the satisfaction of the Commissioner that such delay was unavoidable.

"§ 134. Appeal to the Board of Appeals

"An applicant for a patent, any of whose claims has been finally or

twice rejected, may appeal from the decision of the primary examiner to the Board of Appeals, having once paid the fee for such appeal.

"Chapter 13.—REVIEW OF PATENT OFFICE DECISIONS

"Sec.
"141. Appeal to Court of Customs and Patent Appeals.
"142. Notice of appeal.
"143. Proceedings on appeal.
"144. Decision on appeal.
"145. Civil action.
"148. Presumption of correctness.

"§ 141. Appeal to Court of Customs and Patent Appeals

"(a) An applicant, or his successor in title, or a patentee, dissatisfied with the decision of the Board of Appeals under section 134 of 191 of this title may appeal to the United States Court of Customs and Patent Appeals thereby waiving his right to proceed under section 145 of this chapter.

"(b) A party to a proceeding under section 192 or 193 of this title dissatisfied with the decision of the Board of Appeals may appeal to the United States Court of Customs and Patent Appeals.

"§ 142. Notice of appeal

"When an appeal is taken to the United States Court of Customs and Patent Appeals, the appellant shall file in the Patent Office a written notice of appeal directed to the Commissioner, within such time after the date of the decision appealed from, not less than sixty days, as the Commissioner appoints.

"§ 143. Proceedings on appeal

"The Commissioner shall transmit to the United States Court of Customs and Patent Appeals certified copies of all the necessary papers and evidence in the case designated by the appellant and any additional such papers and evidence designated by the Commissioner or another party. The Commissioner in an ex parte case may appear in court by his representative and present the position of the Patent Office. The court shall, before hearing an appeal, give notice of the time and place of the hearing to the Commissioner and the parties thereto.

"§ 144. Decision on appeal

"The United States Court of Customs and Patent Appeals shall review the decision appealed from on the evidence produced before the Patent Office and transmitted to the court under the provisions of section 143 of this chapter. Upon its determination the court shall return to the Commissioner a certificate of its proceedings and decision,

which shall be entered of record in the Patent Office and govern the further proceedings in the case.

"§ 145. Civil action

"An applicant, or a patentee, if dissatisfied with the decision of the Board of Appeals under section 134 or 191 of this title may, unless appeal has been taken to the United States Court of Customs and Patent Appeals, have remedy by civil action against the Commissioner in the United States District Court for the District of Columbia. Such action shall be commenced within such time after such decision, not less than sixty days, as the Commissioner appoints. The court may, in the case of review of a decision refusing a patent or any claim, adjudge that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Board of Appeals, as the facts in the case may appear and such adjudication shall authorize the Commissioner to issue such patent on compliance with the requirements of law. All the expenses of the proceeding under this section shall be paid by the applicant.

"§ 148. Presumption of correctness

"In any appeal or proceeding under this chapter, the Patent Office decision shall be given a presumption of correctness.

"Chapter 14.—ISSUE OF PATENT

"Sec.
"151. Issue of patent.
"153. How issued.
"154. Contents and term of patent.
"155. Patents granted on review.

"§ 151. Issue of patent

"(a) If it is determined that an applicant is entitled to a patent under the law, a written notice of allowance of the application shall be given or mailed to the applicant. The notice shall specify a sum, constituting the issue fee or a portion thereof, which shall be paid within three months thereafter.

"(b) Upon payment of this sum the patent shall issue, but if payment is not timely made, the application shall be regarded as abandoned.

"(c) Any remaining balance of the issue fee shall be paid within three months from the sending of a notice thereof and, if not paid, the patent shall lapse at the termination of the three-month period. In calculating the amount of a remaining balance, charges for a page or less may be disregarded.

"(d) If any payment required by this section is not timely made,

but is submitted with the fee for delayed payment and the late payment is shown to have been unavoidable, it may be accepted by the Commissioner as though no abandonment or lapse had ever occurred.

"§ 153. How issued

"Patents shall be issued in the name of the United States of America, under the seal of the Patent Office, and shall be signed by the Commissioner or have his signature placed thereon, and shall be recorded in the Patent Office.

"§ 154. Contents and term of patent

"(a) Every patent shall contain a grant to the applicant, his heirs or assigns, or, as provided in section 111(e) of this title, to the inventor, his heirs or assigns of the right, during the term of the patent to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

"(b) The term of a patent shall expire twenty years from the date of filing the application in the United States or, if the benefit of the filing date in the United States of a prior application is claimed, from the earliest such prior date claimed. In determining the term of the patent, the date of filing any application in a foreign country which may be claimed by the applicant shall not be taken into consideration.

"(c) The term of a patent whose issuance has been delayed by reason of the application having been ordered kept secret under section 181 of this title shall be extended for a period equal to the delay in issuance of the patent after the notice of allowability referred to in section 183 of this title.

"§ 155. Patents granted on review

"An applicant for patent may, after seeking review under section 141 or 145 of this title, request the issuance of a patent for claims standing allowed in the application. Upon payment of the prescribed fee, issuance of such patent shall occur in accordance with this chapter. As to claims which stand allowed, the patent shall have the force and effect specified in section 154 of this chapter. Each claim in the application not standing allowed shall be identified as such, and shall not have any force and effect, except as provided in section 257 of this title.

"Chapter 15.—PLANT PATENTS

"Sec.
"161. Patents for plants.
"162. Description, claim.
"163. Grant.
"164. Assistance of Department of Agriculture.

"§ 161. Patents for plants

"(a) Whoever invents or discovers and asexually reproduces any distinct and new variety of plant including cultivated sports, mutants, hybrids, and newly found seedlings, other than a tuber propagated plant or a plant found in an uncultivated state, may obtain a patent therefor, subject to the conditions and requirements of this title.

"(b) The provisions of this title relating to patents for inventions shall apply to patents for plants, except as otherwise provided.

"§ 162. Description, claim

"No plant patent shall be declared invalid for noncompliance with section 112 of this title if the description is as complete as is reasonably possible.

"The claim in the specification shall be in formal terms to the plant shown and described.

"§ 163. Grant

"In the case of a plant patent the grant shall be of the right to exclude others from asexually reproducing the plant or selling or using the plant so reproduced.

"§ 164. Assistance of Department of Agriculture

"The President may by Executive order direct the Secretary of Agriculture, in accordance with the request of the Commissioner, for the purpose of carrying into effect the provisions of this title with respect to plants (1) to furnish available information of the Department of Agriculture, (2) to conduct through the appropriate bureau or division of the Department research upon special problems, or (3) to detail to the Commissioner officers and employees of the Department.

"Chapter 16.—DESIGNS

"Sec.
"171. Patents for designs.
"172. Right of priority.
"173. Term of design patent.

"§ 171. Patents for designs

"(a) Whoever invents any new, original, and ornamental design for an article of manufacture may obtain a patent therefor, subject to the conditions and requirements of this title.

"(b) The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided.

"§ 172. Right of priority

"The right of priority provided for by section 119 of this title and the time specified in section 102(d) of this title shall be six months in the case of designs. Applications for design registrations and such reg-

istrations in foreign countries shall have the same effect as applications for design patents and design patents for the purpose of section 102(d) and 119 of this title.

"§ 173. Term of design patent

"Patents for designs may be granted for the term of three years and six months, or for seven years, or for fourteen years, from the date of issue, as the applicant, in his application, elects.

"Chapter 17.—SECRECY OF CERTAIN INVENTIONS AND FILING APPLICATIONS IN FOREIGN COUNTRIES

"Sec.
"181. Secrecy of certain inventions and withholding of patent.
"182. Abandonment of invention for unauthorized disclosure.
"183. Right of compensation.
"184. Filing of application in foreign country.
"185. Patent barred for filing without license.
"186. Penalty.
"187. Nonapplicability to certain persons.
"188. Rules and regulations, delegation of power.

"§ 181. Secrecy of certain inventions and withholding of patent

"(a) Whenever publication or disclosure of an invention in which the Government has a property interest might, in the opinion of the head of an interested Government agency, be detrimental to the national security, the Commissioner upon being so notified shall order that the invention be kept secret and shall withhold publication thereof and the grant of a patent under the conditions set forth hereinafter.

"(b) Whenever the publication or disclosure of an invention described in an application in which the Government does not have a property interest, might, in the opinion of the Commissioner, be detrimental to the national security, the Commissioner shall make the application for patent in which such invention is disclosed available for inspection to the Atomic Energy Commission, the Secretary of Defense, and the chief officer of any other department or agency of the Government designated by the President as a defense agency of the United States.

"(c) Each individual to whom the application is disclosed shall sign a dated acknowledgment thereof, which acknowledgment shall be entered in the file of the application. If, in the opinion of the Atomic Energy Commission, the Secretary of Defense, or the chief officer of another department or agency so designated, the publication or disclosure of the invention would be detrimental to the national security, the Atomic Energy Commission, the Secretary of Defense, or such other chief officer shall notify the Commissioner and the Commissioner shall order that the invention be kept secret and shall with-

hold publication and the grant of a patent for such period as the national interest requires, and notify the applicant thereof. Upon proper showing by the head of the department or agency which caused the secrecy order to be issued that the examination of the application might jeopardize the national interest, the Commissioner shall thereupon maintain the application in a sealed condition and notify the applicant thereof. The applicant whose application has been placed under a secrecy order shall have a right to appeal from the order to the Secretary of Commerce under rules prescribed by him.

"(d) An invention shall not be ordered kept secret and publication withheld for a period of more than one year. The Commissioner shall renew the order at the end thereof, or at the end of any renewal period, for additional periods of one year upon notification by the head of the department or agency which caused the order to be issued that an affirmative determination has been made that the national interest continues so to require. An order in effect, or issued, during a time when the United States is at war, shall remain in effect for the duration of hostilities and one year following cessation of hostilities. An order in effect, or issued, during a national emergency declared by the President shall remain in effect for the duration of the national emergency and six months thereafter. The Commissioner may rescind any order upon notification by the head of the department or agency which caused the order to be issued that the publication or disclosure of the invention is no longer deemed detrimental to the national security.

"§ 182. Abandonment of invention for unauthorized disclosure

"The invention disclosed in an application for patent subject to an order made pursuant to section 181 of this chapter may be held abandoned upon its being established by the Commissioner that in violation of said order the invention has been published or disclosed or that an application for a patent therefor has been filed in a foreign country by the inventor, his successors, assigns, or legal representatives, or anyone in privity with him or them, without the consent of the Commissioner. The abandonment shall be held to have occurred as of the time of violation. The consent of the Commissioner shall not be given without the concurrence of the heads of the departments and agencies which caused the order to be issued. A holding of abandonment shall constitute forfeiture by the applicant, his successors, assigns, or legal representatives, or anyone in privity with him or them, of all claims against the United States based upon such invention.

"§ 183. Right to compensation

"An applicant, or patentee, or his legal representatives, whose patent is withheld as herein provided, shall have the right, beginning at the date the applicant is notified that, except for such order, his application is otherwise in condition for allowance, or February 1, 1952, whichever is later, and ending six years after a patent is issued thereon, to apply to the head of any department or agency who caused the order to be issued for compensation for the damage caused by the order of secrecy and/or for the use of the invention by the Government resulting from his disclosure. The right to compensation for use by the Government shall begin on the date of the first use of the invention by the Government and shall terminate not later than twenty years from the actual filing date in the United States. The head of the department or agency is authorized, upon the presentation of the claim, to enter into an agreement with the applicant, or patentee, or his legal representatives, in full settlement for the damage and/or use. This settlement agreement shall be conclusive for all purposes notwithstanding any other provision of law to the contrary. If full settlement of the claim cannot be effected, the head of the department or agency may award and pay to such applicant, or patentee, or his legal representatives, a sum not exceeding 75 per centum of the such which the head of the department or agency considers just compensation for the damage and/or use. A claimant may bring suit against the United States in the Court of Claims or in the District Court of the United States for the district in which such claimant is a resident for an amount which when added to the award shall constitute just compensation for the damage and/or use of the invention by the Government. The owner of any patent issued upon an application that was subject to a secrecy order issued pursuant to section 181 of this chapter, who did not apply for compensation as above provided, shall have the right, after the date of issuance of such patent, to bring suit in the Court of Claims for just compensation for the damage caused by reason of the order of secrecy and/or use by the Government of the invention resulting from his disclosure. A patentee awarded compensation for damage caused by an order of secrecy shall be required to disclaim the terminal portion of the patent term equal in duration to any extention granted under the provisions of section 154(c) of this title. The right to compensation for use by the Government shall begin on the date of the first use of the invention by the Government and shall terminate not later than twenty years from the actual filing date in the

United States of the patent. In a suit under the provisions of this section the United States may avail itself of all defenses it may plead in an action under section 1498 of title 28. This section shall not confer a right of action on anyone or his successors, assigns, or legal representatives who, while in the full-time employment or service of the United States, discovered, invented, or developed the invention on which the claim is based.

"§ 184. Filing of application in foreign country

"(a) Except when authorized by a license obtained from the Commissioner, a person shall not file or cause or authorize to be filed in any foreign country an application for patent or for the registration of a utility model, industrial design or model in respect of an invention made in this country prior to six months after filing an application in the United States, or prior to four months after filing an application for patent on the same ornamental design under section 171 of this title. A license shall not be granted with respect to an invention subject to an order issued by the Commissioner pursuant to section 181 of this chapter without the concurrence of the heads of the departments and agencies which caused the order to be issued. The license may be granted retroactively where an application has been inadvertently filed abroad and the application does not disclose an invention within the scope of section 181 of this chapter.

"(b) The term 'application' when used in this chapter includes applications and any modifications, amendments, or supplements thereto, or divisions thereof.

"(c) No license shall be required subsequent to the filing of a foreign application for any modifications, amendments, or supplements to that foreign application, or divisions thereof, which do not alter the nature of the invention originally disclosed, which are within the scope of the subject matter originally disclosed, and where the filing of the foreign application originally complied with the provisions of this section, unless the applicant has been notified by the Commissioner that a specific license is required for filing such papers in connection with any application.

"§ 185. Patent barred for filing without license

"Notwithstanding any other provisions of law any person, and his successors, assigns, or legal representatives, shall not receive a United States patent for an invention if that person, or his successors, assigns, or legal representatives shall, without procuring the license prescribed in section 184 of this chapter, have made, or consented to or assisted

another's making, application in a foreign country for a patent or for the registration of a utility model, industrial design, or model in respect of the invention. A United States patent if issued for such invention to such person, his successors, assigns, or legal representatives shall be invalid.

"§ 186. Penalty

"Whoever, during the period or periods of time an invention has been ordered to be kept secret and the grant of a patent thereon withheld pursuant to section 181 of this chapter, shall, with knowledge of such order and without due authorization, willfully publish or disclose or authorize or cause to be published or disclosed the invention, or material information with respect thereto, or whoever, in violation of the provisions of section 184 of this chapter, shall file or cause or authorize to be filed in any foreign country an application for patent or for the registration of a utility model, industrial design, or model in respect of an invention made in the United States, shall, upon conviction, be fined not more than $10,000 or imprisoned for not more than two years, or both.

"§ 187. Nonapplicability to certain persons

"The provisions and penalties of this chapter shall not apply to any officer or agent of the United States acting within the scope of his authority, nor to any person acting upon his written instructions or permission.

"§ 188. Rules and regulations, delegation of power

"The Atomic Energy Commission, the Secretary of Defense, the chief officer of any other department or agency of the Government designated by the President as a defense agency of the United States, and the Secretary of Commerce, may separately issue rules and regulations to enable the respective department or agency to carry out the provisions of this chapter, and may delegate any power conferred by this chapter.

"Chapter 18.—REEXAMINATION AFTER ISSUE: CONTESTED PROCEEDINGS

"Sec.
"191. Reexamination after issue on the basis of publications and patents.
"192. Public use and prior inventorship.
"193. Priority of invention contest.
"194. Effect of proceeding.
"195. Settlement agreements.
"196. Reissue application.

"§ 191. Reexamination after issue on the basis of publication and patents

"(a) Any person may, within six months after the issuance of a patent, notify the Commissioner of publications or patents which

may have a bearing on the patentability of any claim of the patent, and the Commissioner may cause the claims of the patent to be reexamined in the light thereof, under chapter 12 of this title. The patentee may present amended or new claims for such reexamination. No fee shall be charged for such reexamination or any appeal thereon in the Patent Office.

"(b) Not later than two months after the expiration of the six months period, the Commissioner shall inform the patentee whether any notice has been filed under this section which may result in reexamination. The identity of the person making the notification under subsection (a) of this section shall be kept in confidence by the Patent Office, and no information concerning the same shall be given without the authority of such person, unless necessary to carry out the provisions of an Act of Congress or in such special circumstances as may be determined by the Commissioner, nor shall any information concerning the same be the subject of discovery or interrogation in a civil action.

"(c) Rejection of a claim, on becoming the final judgment in the case, shall constitute cancellation of such claim from the patent, and notice thereof shall be endorsed on copies of the specification of the patent thereafter distributed by the Patent Office. Failure of the patentee to prosecute in accordance with section 133 of this title shall result in the cancellation of any rejected claims of the patent. If the final judgment holds patentable a claim not expressed in the patent, the Commissioner shall issue a certificate stating the fact, under seal, without charge, to be recorded in the records of patents and shall publish a notice thereof in the Official Gazette. A copy of the certificate shall be attached to each copy of the patent thereafter distributed. Upon the issuance of such certificate, such claim shall constitute a claim of the patent which shall have the force and effect specified in section 252 of this title with respect to actions for causes thereafter arising.

"§ 192. Public use and prior inventorship

"(a) Within one year after the issuance of a patent any person may notify the Commissioner that—

"(1) the invention claimed in such patent was in public use or on sale in this country by him or on his behalf, or by the patentee or predecessor in title or their agents or representatives; in either case, more than one year before the actual filing date in the United States of the patent;

"(2) the subject matter of a claim of the patent is not patentable

in such patent under the provisions of section 102(d)(5) of this title because of prior invention by or on behalf of the party providing the notification; or

"(3) the inventor named in such patent was not the original inventor of the subject matter claimed in the patent but derived it from the party providing the notification.

"(b) If such person within the time specified above makes a prima facie showing, the matter shall be determined by the Board of Appeals, in such proceedings as the Commissioner shall establish.

"§ 193. Priority of invention contest

"(a) Whenever there are two applications naming different inventors claiming the same or substantially the same subject matter, a patent shall be issued on the application having the earliest actual filing date in the United States, if otherwise allowable. The application having the later filing date in the United States with respect to such subject matter shall be rejected on the basis of such patent. Whenever the applicant for such application, found otherwise allowable, makes a prima facie showing of priority of invention with respect to the actual filing date in the United States of such patent in accordance with section 102(d)(5) of this title, and offers to present evidence in support of such showing, within one year after the issuance of the patent or within three months after a rejection of claims in his application on the basis of the invention claimed in the patent, the matter of priority of invention shall be determined by the Board of Appeals in such proceedings as the Commissioner shall establish. The Commission upon the institution of proceedings under this section, shall issue a patent at the request of such applicant if his application is otherwise allowable. Failure of that applicant to proceed hereunder within the time specified shall preclude such applicant from asserting priority of his invention with respect to the invention claimed in the patent for the purpose of obtaining a patent.

"(b) Whenever an otherwise allowable claim of an application is for the same or substantially the same subject matter as a claim of a patent having a later actual filing date in the United States, or for subject matter over which a claim of such patent is unpatentable, the Commissioner may, on his own motion or at the request of the applicant, initiate proceedings under this section on notice to the parties, requiring such patentee to present his prima facie case within a designated time not less than three months. The Commissioner upon the institution of proceedings under this section, shall issue a patent at the request of such applicant if his application is otherwise allowable.

"(c) If two applications for the same or substantially the same subject matter have the same actual filing date in the United States, the Commissioner may initiate a priority contest under this section on his own motion whether or not one of the applications may have been issued as a patent. The Commissioner shall, upon the institution of proceedings under this subsection and at the request of either applicant, issue a patent on his otherwise allowable application.

"(d) A claim for the same or substantially the same subject matter as a claim of an issued patent may not be made in any application unless such claim is made prior to one year after the date on which the patent was granted.

"(e) In any proceeding under this section, the Patent Office or a party may raise the question of the patentability of any claim of the application or patent of one party over the subject matter claimed in the patent or application of the other party and such question may be considered in the proceeding.

"§ 194. Effect of proceeding

"(a) The decision of the Board of Appeals in proceedings under section 192 or 193 of this chapter adverse to a claim of an application shall constitute the final refusal by the Patent Office of such claim. A final judgment adverse to a claim of a patent from which no appeal or other review has been or can be taken or had shall constitute cancellation of such claim from the patent, and notice thereof shall be endorsed on copies of the specification of the patent thereafter distributed by the Patent Office.

"(b) Any person who has not proceeded in accordance with the provisions of this chapter shall not be foreclosed or in any way prejudiced with respect to the defense of an infringement suit or affirmative relief under declaratory judgment proceedings.

"(c) A person subject to a final adverse decision in a contested proceeding instituted under this chapter shall be foreclosed with respect to asserting comparable grounds in defense of an infringement suit or as a basis for affirmative relief under declaratory judgment proceedings, involving the patent of the successful party.

"§ 195. Settlement agreements

"Any agreement or understanding between parties to a proceeding under section 192 or 193 of this chapter, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the proceeding shall be in writing and a true copy thereof filed in the Patent Office before the termination of the proceeding as between the said parties to the agreement or under-

standing. If any party filing the same so requests, the copy shall be kept separate from the file of the proceeding, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the proceeding or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the proceeding as between the parties to the agreement or understanding.

"The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice.

"Any discretionary action of the Commissioner under this subsection shall be reviewable under chapter 7 of title 5, United States Code.

"§ 196. Reissue application

"Judgment adverse to a claim of a patent shall not preclude the filing of an application for reissue in accordance with section 251 of this title but matters already decided in a proceeding under this chapter may not be again considered.

"PART III—PATENTS AND PROTECTION OF PATENT RIGHTS

"CHAPTER — Sec.
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"Chapter 25.—AMENDMENT AND CORRECTION OF PATENTS

"Sec.
"251. Reissue of defective patents.
"252. Effect of reissue.
"253. Disclaimer.
"254. Certificate of correction of Patent Office mistake.
"255. Certificate of correction of applicant's mistake.
"256. Correction of named inventor.
"257. Certificate for change in status of claims.

"§ 251. Reissue of defective patents

"(a) Whenever any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim as the invention in the patent, the Commissioner shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent, and in accordance with a new and amended application, for the unexpired part of the term of the original patent. No new matter shall be introduced into the application for reissue.

"(b) The provisions of chapters 11, 12, 13, and 14 of this title relating to applications for patent shall be applicable where appropriate to applications for reissue of a patent, except that the oath of the applicant prescribed by section 115 of this title shall not be required if the application does not seek to enlarge the scope of the claims of the original patent.

"(c) No reissued patent shall be granted enlarging the scope of the claims of the original patent unless applied for within one year from the issue of the original patent, and such patents shall be subject to the provisions of chapter 18 of this title.

"§ 252. Effect of reissue

"(a) The surrender of the original patent shall take effect upon the issue of the reissued patent, and every reissued patent shall have the same effect and operation in law, on the trial of actions for causes thereafter arising, as if the same had been originally granted in such amended form, but in so far as the claims of the original and reissued patents are identical, such surrender shall not affect any action then pending nor abate any cause of action then existing, and the reissued patent, to the extent that its claims are identical with the original patent, shall constitute a continuation thereof and have effect continuously from the date of the original patent.

"(b) No reissued patent shall abridge or affect the right of any person or his successors in business who made, purchased or used prior to the grant of a reissue anything patented by the reissued patent, to continue the use of, or to sell to others to be used or sold, the specific thing so made, purchased or used, unless the making, using, or selling of such thing infringes a valid claim of the reissued patent which was in the original patent. The court before which such matter is in question may provide for the continued manufacture, use,

or sale of the thing made, purchased or used as specified or for the manufacture, use, or sale of which substantial preparation was made before the grant of the reissue, and it may also provide for the continued practice of any process patented by the reissue, practiced or for the practice of which substantial preparation was made, prior to the grant of the reissue, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the grant of the reissue.

"§ 253. Disclaimer

"(a) Whenever, without any deceptive intention, a claim of a patent is invalid the remaining claims shall not thereby be rendered invalid. A patentee, whether of the whole or any sectional interest therein, may, on payment of the fee required by law, make disclaimer of any complete claim, stating therein the extent of his interest in such patent. Such disclaimer shall be in writing and recorded in the Patent Office; and it shall thereafter be considered as part of the original patent to the extent of the interest possessed by the disclaimant and by those claiming under him.

"(b) In like manner any patentee or applicant may disclaim or dedicate to the public the entire term, or any terminal part of the term, of the patent granted or to be granted.

"§ 254. Certificate of correction of Patent Office mistake

"Whenever a mistake in a patent, incurred through the fault of the Patent Office, is clearly disclosed by the records of the Office, the Commissioner may issue a certificate of correction stating the fact and nature of such mistake, under seal, without charge, to be recorded in the records of patents. A copy thereof shall be attached to each copy of the patent, and such certificate shall be considered as part of the original patent. Every such patent, together with such certificate, shall have the same effect and operation in law on the trial of actions for causes thereafter arising as if the same had been originally issued in such corrected form. The Commissioner may issue a corrected patent without charge in lieu of and with like effect as a certificate of correction.

"§ 255. Certificate of correction of applicant's mistake

"Whenever a mistake of a clerical or typographical nature, or of minor character, which was not the fault of the Patent Office, appears in a patent and a showing has been made that such mistake occurred in good faith, the Commissioner may, upon payment of the required fee, issue a certificate of correction, if the correction does not involve such

changes in the patent as would constitute new matter or would require reexamination. A copy thereof shall be attached to each copy of the patent, and such certificate shall be considered as part of the original patent. Every such patent, together with the certificate, shall have the same effect and operation in law on the trial of actions for causes thereafter arising as if the same had been originally issued in such corrected form.

"§ 256. Correction of named inventor

"An error in the naming of an inventor, in either a sole or joint application for patent, without deceptive intent, shall not affect validity of a patent, and may be corrected at any time by the Commissioner in accordance with regulations established by him or upon order of a Federal court before which the matter is called in question. Upon such correction the Commissioner shall issue a certificate accordingly.

"§ 257. Certificate for change in status of claims

"(a) When any claim in a patent is allowed subsequent to the issuance of the patent under section 155 of this title, the Commissioner shall issue a certificate stating the fact, under seal, without charge, to be recorded in the records of patents and shall publish a notice thereof in the Official Gazette. Such certificate shall be considered as part of the original patent, and a copy of the certificate shall be attached to each copy of the patent thereafter distributed. Upon the issuance of such certificate, such claim shall constitute a claim of the patent which shall have the force and effect specified in section 154 of this title with respect to actions for causes thereafter arising.

"(b) Upon the termination of proceedings on any patent issued pursuant to section 155 of this title, the Commissioner shall attach a certificate to subsequently distributed copies of the patent and publish in the Official Gazette a notice of the final disposition of all claims in the patent which were not allowed at the time such patent was granted.

"Chapter 26.—OWNERSHIP AND ASSIGNMENT

"Sec.
"261. Ownership; assignment.
"262. Joint owners.

"§ 261. Ownership; assignment

"(a) Subject to the provisions of this title, patents shall have the attributes of personal property.

"(b) 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 patent, to the whole or any specified part of the United States.

"(c) A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

"(d) An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

"§ 262. Joint owners

"In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, or sell the patented invention without the consent of and without accounting to the other owners.

"Chapter 27.—GOVERNMENT INTERESTS IN PATENTS

"Sec.
"267. Time for taking action in Government applications.

"§ 267. Time for taking action in Government applications

"Notwithstanding the provisions of sections 133 and 151 of this title, the Commissioner may extend the time for taking any action to three years, when an application has become the property of the United States and the head of the appropriate department or agency of the Government has certified to the Commissioner that the invention disclosed therein is important to the armament or defense of the United States.

"Chapter 28.—INFRINGEMENT OF PATENTS

"Sec.
"271. Infringement of patent.
"272. Temporary presence in the United States.

"§ 271. Infringement of patent

"(a) Except as otherwise provided in this title, whoever without authority makes, uses, or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever, without authority, imports into the United States a

product made in another country by a process patented in the United States shall be liable as an infringer.

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

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

"(e) No patent owner otherwise entitled to relief for infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute infringement of the patent; (3) sought to enforce his patent rights against infringement.

"§ 272. Temporary presence in the United States

"The use of any invention in any vessel, aircraft, or vehicle of any country which affords similar privileges to vessels, aircraft, or vehicles of the United States, entering the United States temporarily or accidentally, shall not constitute infringement of any patent, if the invention is used exclusively for the needs of the vessel, aircraft, or vehicle and is not sold in or used for the manufacture of anything to be sold in or exported from the United States.

"Chapter 29.—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS

"Sec.
"281. Remedy for infringement of patent.
"282. Presumption of validity; defenses.
"283. Injunction.
"284. Damages.
"285. Attorney fees.
"286. Time limitation on damages.
"287. Limitation on damages; marking and notice.
"288. Action for infringement of a patent containing an invalid claim.
"289. Additional remedy for infringement of a design patent.
"290. Notice of patent suits.
"291. Priority of invention between patentees.
"292. False marking.
"293. Nonresident patentee; service and notice.

"§ 281. **Remedy for infringement of patent**

"A patentee shall have remedy by civil action for infringement of his patent.

"§ 282. **Presumption of validity; defenses**

"(a) A patent shall be presumed valid. Each claim of a patent (whether in independent or dependent form) shall be presumed valid independently of the validity of other claims; dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity. A party challenging the validity of a patent under section 103 of this title has the burden of establishing obviousness of the claimed invention by clear and convincing evidence.

"(b) The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

"(1) Noninfringement, absence of liability for infringement, or unenforceability,

"(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability: *Provided, however*, That the validity of a patent may not be questioned solely because of the existence of two or more patents where said patents will expire on the same date as a result of filing on the same date or as a result of a terminal disclaimer pursuant to section 253 of this title so long as the right to sue for infringement of said patents is maintained in the same legal entity,

"(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

"(4) Any other fact or act made a defense by this title.

"(c) In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.

"§ 283. **Injunction**

"The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

"§ 284. **Damages**

"(a) Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

"(b) When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

"(c) The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

"§ 285. **Attorney fees**

"The court in exceptional cases may award reasonable attorney fees to the prevailing party. Reasonable expenses including attorney fees shall be awarded to the prevailing party where a claim of a patent is held invalid in an action filed after such claim has previously been held invalid on the same ground by a court of competent jurisdiction from which no appeal has been or can be taken, if the court finds there was no reasonable grounds for bringing such action.

"§ 286. **Time limitation on damages**

"(a) Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.

"(b) In the case of claims against the United States Government for use of a patented invention, the period before bringing suit, up to six years, between the date of receipt of a written claim for compensation by the department or agency of the Government having authority to settle such claim, and the date of mailing by the Government of a notice to the claimant that his claim has been denied shall not be counted as part of the period referred to in subsection (a) of this section.

"§ 287. **Limitation on damages; marking and notice**

"Patentees, and persons making or selling any patented article for or under them, may give notice to the public that the same is patented,

either by fixing thereon the word 'patent' or the abbreviation 'pat.', together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

"§ 288. Action for infringement of a patent containing an invalid claim

"Whenever, without deceptive intention, a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid. The patentee shall recover no cost unless a disclaimer of the invalid claim has been entered at the Patent Office before the commencement of the suit.

"§ 289. Additional remedy for infringement of a design patent

"(a) Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.

"(b) Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provision of this title, but he shall not twice recover the profit made from the infringement.

"§ 290. Notice of patent suits

"The clerks of the courts of the United States, within one month after the filing of an action under this title shall give notice thereof in writing to the Commissioner, setting forth so far as known the names and addresses of the parties, name of the inventor, and the designating number of the patent upon which the action has been brought. If any other patent is subsequently included in the action he shall give like notice thereof. Within one month after the decision is rendered or a judgment issued the clerk of the court shall give notice thereof to the

Commissioner. The Commissioner shall, on receipt of such notices, enter the same in the file of such patent.

"§ 291. Priority of invention between patentees

"(a) Whenever there are two patents naming different inventors and claiming the same or substantially the same subject matter, the owner of one of the patents may have relief against the owner of the other by civil action and the court may adjudge the question of the validity of any of such patents, in whole or in part.

"(b) Such suit may be instituted against the party in interest as shown by the records of the Patent Office, but any party in interest may become a party to the action. If there be adverse parties residing in a plurality of districts not embraced within the same state, or an adverse party residing in a foreign country, the United States District Court for the District of Columbia shall have jurisdiction and may issue summons against the adverse parties directed to the marshal of any district in which any adverse party resides. Summons against adverse parties residing in foreign countries may be served by publication or otherwise as the court directs. The Commissioner shall not be made a party but he shall be notified of the filing of the suit by the clerk of the court in which it is filed and shall have the right to intervene.

"§ 292. False marking

"(a) Whoever, without the consent of the patentee, marks upon, or affixes to, or uses in advertising in connection with anything made, used, or sold by him, the name or any imitation of the name of the patentee, the patent number, or the words 'patent', 'patentee', or the like, with the intent of counterfeiting or imitating the mark of the patentee, or of deceiving the public and inducing them to believe that the thing was made or sold by or with the consent of the patentee; or

"Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word 'patent' or any word or number importing that the same is patented, for the purpose of deceiving the public; or

"Whoever marks upon, or affixes to, or uses in advertising in connection with any article, the words 'patent applied for,' 'patent pending,' or any word importing that an application for patent has been made, when no application for patent has been made, or if made, is not pending, for the purpose of deceiving the public—

"Shall be fined not more than $500 for every such offense.

"(b) Any person may sue for the penalty, in which event one-half

shall go to the person suing and the other to the use of the United States.

"§ 293. Nonresident patentee; service and notice

"Every patentee not residing in the United States may file in the Patent Office a written designation stating the name and address of a person residing within the United States on whom may be served process or notice of proceedings affecting the patent or rights thereunder. If the person designated cannot be found at the address given in the last designation, or if no person has been designated, the United States District Court for the District of Columbia shall have jurisdiction and summons shall be served by publication or otherwise as the court directs. The court shall have the same jurisdiction to take any action respecting the patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the court.

"Chapter 30.—PRESERVATION OF OTHER RIGHTS

"Sec.
"301. Preservation of other rights.

"§ 301. Preservation of other rights

"This title shall not be construed to pre-empt, or otherwise affect in any way, contractual or other rights or obligations, not in the nature of patent rights, imposed by State or Federal law on particular parties with regard to inventions or discoveries, whether or not subject to this title.

TRANSITIONAL AND SUPPLEMENTARY PROVISIONS

SEC. 2. Section 1542 of title 28, United States Code, Judicial Code and Judiciary, is amended to read as follows:

"§ 1542. Patent Office decisions

"The Court of Customs and Patent Appeals shall have jurisdiction of appeals from decisions of:

"(1) The Board of Appeals of the Patent Office as to patent applications and patents as provided in chapter 13 of title 35, Patents, United States Code.

"(2) The Commissioner of Patents or the Trademark Trial and Appeals Board as to trademark applications and proceedings as provided in section 1071 of title 15."

SEC. 3. If any provision of title 35, Patents, United States Code, as amended by this Act, or any other provision of this Act, is declared unconstitutional or is held invalid, the validity of the remaining provisions shall not be affected.

SEC. 4. (a) This Act shall take effect on the day one year after enactment. It shall apply to all applications for patent actually filed in the United States on and after this effective date, even though entitled to the benefit of an earlier filing date, and to patents issued on such applications.

(b) Applications for patent actually filed in the United States before and still pending on the effective date of this Act, and patents issued on such applications, shall be governed by the provisions of title 35, United States Code, in effect immediately prior to the effective date except that chapter 18 of part II and part III of title 35, as amended by this Act, shall apply to patents issued on or after the effective date and except as otherwise provided.

(c) Part III of this Act shall apply to unexpired patents granted or applied for prior to the effective date of the Act except as otherwise provided.

(d) Section 251 of title 35 as amended by this Act shall apply to applications for reissue filed after the effective date but the conditions for patentability shall be determined under the law applicable to the original patent.

(e) Assistant commissioners of patents and examiners-in-chief in office on the effective date of this Act shall continue in office under and in accordance with their then existing appointments.

(f) Notwithstanding any other provision of this Act, subsection (d) of section 112 of title 35 as amended by this Act shall not apply to patents issued, and applications filed, prior to the effective date of this Act. No such application shall be held incomplete, and no such patent shall be held invalid, because availability to the public of a deposit of a microorganism recited therein was conditioned upon issuance of a United States patent reciting a deposit of said microorganism.

(g) The amendment of title 35, United States Code, by this Act, shall not affect any rights or liabilities existing under title 35 in effect immediately prior to the effective date of this Act.

SEC. 5. Nothing in title 35 as amended by this Act shall affect any provision of the Atomic Energy Act of 1954 (Aug. 30, 1954, ch. 1073; 68 Stat. 922) as amended or of the National Aeronautics and Space Act (Pub. L. 85–568, July 29, 1958, 72 Stat. 437) except that the functions of a Board of Patent Interferences specified in said Acts may be performed by the Board of Appeals as specified in section 7 of title 35 as amended by this Act.

SEC. 6. The Clean Air Amendments Act of 1970 is amended by striking out section 308 and inserting in lieu thereof the following:

If the Administrator determines that the implementation of the purposes and intent of this Act is being significantly retarded by any section of title 35 of the United States Code he shall, after consultation with the Department of Commerce, recommend to the Congress such modification of title 35, as may be necessary.

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92D CONGRESS
1ST SESSION

S. 643

IN THE SENATE OF THE UNITED STATES

MARCH 19, 1971
Referred to the Committee on the Judiciary and ordered to be printed

AMENDMENT

Intended to be proposed by Mr. SCOTT to S. 643, a bill for the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes, viz: Beginning with line 17, page 44, strike out all to and including line 22, page 44, and insert in lieu thereof the following:

"§ 301. Preservation of other rights

"This title shall not be construed to preempt, or otherwise affect in any manner, rights or obligations not expressly arising by operation of this title whether arising by operation of State or Federal law of contracts, of confidential or proprietary information, of trade secrets, of unfair competition, or of other nature.".

Amdt. No. 23

92D CONGRESS
1ST SESSION

S. 643

IN THE SENATE OF THE UNITED STATES

MARCH 19, 1971

Referred to the Committee on the Judiciary and ordered to be printed

AMENDMENTS

Intended to be proposed by Mr. SCOTT to S. 643, a bill for the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes, viz:

On page 37, strike out line 32 and insert in lieu thereof the following:

"§ 261. Transferable and licensable nature of patent rights"

On page 37, beginning with line 35, strike out all to and including line 2, page 38, and insert in lieu thereof the following:

"(b) (1) Applications for patent, patents, or any interest therein shall be assignable in law by an instrument in writing, and in like manner exclusive rights under applica-

tions for patent and patents may be conveyed for the whole or any part of the United States.

"(2) An applicant, patentee, or his legal representative may also, at his election, waive or grant, by license or otherwise, the whole or any part of his rights under a patent or patent application and for the whole or any part of the United States, by exclusive or nonexclusive arrangement with a party or parties of his selection.".

On page 38, between lines 15 and 16, insert the following new subsections:

"(e) No assignor of a patent shall contest, directly or indirectly, the validity of the patent, when asserted against him by his assignee or any owner of the patent deriving title through the assignee, unless (1) the consideration involved has been restored to, or for the benefit of, the first assignee, and (2) such assignor asserts a ground for invalidity not reasonably available to him when the assignment was made.

"(f) No party to a license, immunity, or other express waiver under a patent shall, unless consented to by all other parties thereto, contest the validity of the patent, provided that any party who gives written notice that he unconditionally renounces all future benefit from the license, immunity, or other waiver may then and thereafter contest the validity regardless of any contract to the contrary, but

such renunciation shall not operate to relieve the renouncing party from any performance due prior to the renunciation.".

On page 39, between lines 19 and 20, insert the following new subsections:

"(f) No patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter only into—

"(1) an arrangement granting some rights under the patent but excluding specified conduct, if the conduct excluded would be actionable under this title, or

"(2) an arrangement granting rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant.

"(g) No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter only into, an arrangement of assignment, license, or waiver of some or all of his rights under this title for a consideration which includes—

"(1) a nonexclusive license or waiver of patent rights; or

"(2) a royalty, fee, or purchase price:

"(A) in any amount, however paid or meas-

ured, provided that any amount paid after the expiration of a patent is based solely upon activities prior to such expiration;

"(B) not measured by the subject matter of the patent or by extent of use by the other party of the rights assigned, licensed, or waived;

"(C) not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents; or

"(D) differing from that provided in some other arrangement.".

92D CONGRESS
1ST SESSION

S. 1253

IN THE SENATE OF THE UNITED STATES

MARCH 16, 1971

Mr. MCCLELLAN (by request) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To amend section 6 of title 35, United States Code, "Patents", to authorize domestic and international studies and programs relating to patents and trademarks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of title 35, United States Code, is amended to read as follows:

"§ 6. Duties of Commissioner

"(a) The Commissioner, under the direction of the Secretary of Commerce, shall superintend or perform all duties required by law respecting the granting and issuing of patents and the registration of trademarks; shall have the authority to carry on studies and programs regarding do-

mestic and international patent and trademark law; and shall have charge of property belonging to the Patent Office. He may, subject to the approval of the Secretary of Commerce, establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent Office.

"(b) The Commissioner, under the direction of the Secretary of Commerce, may, in coordination with the Department of State, carry on programs and studies cooperatively with foreign patent offices and international intergovernmental organizations, or may authorize such programs and studies to be carried on, in connection with the performance of duties stated in subsection (a) of this section.

"(c) The Commissioner, under the direction of the Secretary of Commerce, may, with the concurrence of the Secretary of State, transfer funds appropriated to the Patent Office, not to exceed $100,000 in any year, to the Department of State for the purpose of making special payments to international intergovernmental organizations for studies and programs for advancing international cooperation concerning patents, trademarks, and related matters. These special payments may be in addition to any other payments or contributions to the international organization and shall not be subject to any limitations imposed by law on the amounts of such other payments or contributions by the Government of the United States."

92D CONGRESS
1ST SESSION

S. 1255

IN THE SENATE OF THE UNITED STATES

MARCH 16, 1971

Mr. MCCLELLAN introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To fix the fees payable to the Patent Office, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the items numbered 1, 2, 3, and 4, respectively, in subsection (a) of section 41, title 35, United States Code, are amended to read as follows:

"1. On filing each application for an original patent, except in design cases, $90; in addition, on filing or on presentation at any other time, $15 for each claim in independent form which is in excess of one, and $3 for each claim (whether independent or dependent) which is in excess of ten. Errors in payment of the additional fees may

be rectified in accordance with regulations of the Commissioner.

"2. Except in design cases, for issuing each original or reissue patent, $200.

"3. In design cases:

"a. On filing each design application, $30.

"b. On issuing each design patent, $50.

"4. On filing each application for the reissue of a patent, $90; in addition, on filing or on presentation at any other time, $15 for each claim in independent form which is in excess of the number of independent claims of the original patent, and $3 for each claim (whether independent or dependent) which is in excess of ten and also in excess of the number of claims of the original patent. Errors in payment of the additional fees may be rectified in accordance with regulations of the Commissioner."

SEC. 2. Section 41 of title 35, United States Code, is further amended by striking out existing subsections (b) and (c) and adding the following subsections:

"(b) The Commissioner may reduce the fees under subsection (a) (2) of this section up to 50 per centum upon the condition that an additional copy of the specification is submitted in machine readable form in accordance with regulations established by the Commissioner.

"(c) The Commissioner may establish charges for copies

of records, publications, or services furnished by the Patent Office, not specified above.

"(d) The fees prescribed by or under this section shall apply to any other Government department or agency, or officer thereof, except that the Commissioner may waive the payment of any fee for services or materials in cases of occasional or incidental requests by a Government department or agency, or officer thereof.

"(e) The Patent Office shall recover by fees not less than 65 per centum of the costs of operation of the Patent Office. When such recovery consistently falls below this percentage, the Commissioner shall transmit to the Congress his recommendations for an adjustment of the fee schedule."

SEC. 3. Section 173 of title 35, United States Code, is amended to read as follows:

"§ 173. Term of design patent

"Patents for designs shall be granted for a term of fourteen years from the date of issue."

SEC. 4. The items numbered 1 and 3, respectively, in subsection (a) of section 31 of the Act approved July 5, 1946 (ch. 540, 60 Stat. 427; 15 U.S.C. 1113), as amended, are amended to read as follows:

"1. On filing each original application for registration of a mark in each class, $50."

"3. On filing an affidavit under section 8 (a) or section 8 (b) for each class, $25."

SEC. 5. (a) This Act shall take effect three months after its enactment.

(b) Items 1, 3, and 4 of section 41 (a) of title 35, United States Code, as amended by section 1 of this Act, and section 173 of title 35 as amended by section 3 of this Act, do not apply in further proceedings in applications filed prior to the effective date of this Act.

(c) Item 2 of section 41 (a) of title 35, United States Code, as amended by section 1 of this Act, does not apply in cases in which the notice of allowance of the application was sent, or in which a patent was issued, prior to the effective date; and, in such cases, the fee due is the fee specified in this title prior to the effective date of this Act.

(d) Item 3 of section 31 of the Trademark Act, as amended by section 4 of this Act, applies only in the case of registrations issued and registrations published under the provisions of section 12 (c) of the Trademark Act on or after the effective date of this Act.

Mr. BRENNAN. Mr. Chairman, the morning session of the subcommittee will be devoted to a panel session describing the need for the amendments introduced by the minority leader. Mr. Raymond E. Johnson will introduce the panel.

Senator MCCLELLAN. All right. Let the panel be introduced by Mr. Johnson.

STATEMENT OF RAYMOND E. JOHNSON, GENERAL COUNSEL, ELECTRONIC INDUSTRIES ASSOCIATION

Mr. JOHNSON. Senator, we very much appreciate this opportunity to appear before the subcommittee. The introduction of the subject matter is of course——

Senator MCCLELLAN. Would you identify yourself, please.

Mr. JOHNSON. I am Raymond E. Johnson, general counsel of the Electronic Industries Association. I will define the pertinent licensing terms and the state of the law. Following me will be John McKinney, vice president of Johns-Manville, speaking on behalf of the National Association of Manufacturers who will discuss what the Scott amendments are intended to do; S. W. Herwald, vice president of engineering and development of Westinghouse, who speaks for Westinghouse about the importance of patents and licensing.

Next will be Marvin R. Jones, Manager of Research and Development for Cameron Iron Works, Houston, Tex. Mr. Jones will also be concerned with the placement of licensing.

The fifth speaker will be Robert W. Beart, first vice president of Illinois Tool Works, speaking for the Illinois Manufacturers Association. He will speak to examples of licensing profits.

The last speaker will speak for the U.S. Chamber of Commerce. He is Jackson Browning, vice president, Union Carbide.

Mr. Chairman, members of the committee, my name is Raymond E. Johnson. I am the General Counsel of the Electronic Industries Association and appear today on its behalf. With me are two members of EIA's Patents Panel, Mr. Harold Levine of Texas Instruments, chairman of the Panel, and Mr. William L. Keefauver of Bell Telephone Laboratories, a former Chairman of the Panel.

The Electronics Industries Association is made up of representatives of over 300 companies, both large and small, engaged in the development and manufacture of electronic equipment. Our member companies invest a total of over $4 billion each year in research and development. The protection and effective commercialization of the results of this investment are of serious concern to our members. The prepared statement provided today to the subcommittee sets forth EIA's strong support from the business viewpoint for the principles preserved in the Scott amendments 23 and 24 and reflected in section 6 of S. 643. We would like to very briefly highlight the EIA position.

Very briefly again, our support for the principles of Scott amendment 24 on the transferable and licensable nature of patent rights is influenced by two major propositions:

1. A strong patent system, so necessary to provide adequate inducement and protection for the investment of risk capital in research and development, requires a reasonable opportunity both to acquire rights in the patents of others and to grant various rights

in one's own patents consistent with business needs but all within the scope of the patent grant; and

2. A greater degree of certainty is needed as to where the bounds of proper licensing now are and, within the term of the typical license agreement, will be, noting that many license agreements extend for periods of 5 years or more. We believe that these bounds should be established by Congress with application of the Rule of Reason as a cornerstone for these bounds.

Our support for Scott amendment 23 relating to preemption is influenced by the need to maintain the opportunity to protect and license those assets generally known as trade secrets. This in no way detracts from our support of a strong patent system since we look upon the patent laws and the law of trade secrets as complementary, each working in its own area but with similar goals and results. The opinion of April 27, 1971, by the Court of Appeals for the 2d Circuit in the case of *Painton* v. *Bourns*, reversing the lower court, has, to some extent, reduced our concern regarding the law of trade secrets. However, because of the attention given the dicta in one of the dissenting opinions in the *Lear* case, particularly by Justice Department spokesmen, considerable concern remains. Therefore, we think it important that Congress, at an early date, enact legislation embodying the principals of Scott amendment 23.

One brief word on section 6, S. 643. We support section 6 of S. 643 on the basis that so complex and involved a proposition as mandatory licensing should not be enacted nor permitted to remain law until both a greater and more definite need for such legislation has been demonstrated and until adequate hearings by the Congress have been held.

This completes my summary of EIA's position which today is a consideration of, and support for, Scott amendments 23 and 24 and section 6 of S. 643. If the committee desires, we will be pleased to amplify any portions of this statement.

In the remainder of the time this morning, we will provide the subcommittee with a framework of terminology relative primarily to Scott amendment 24.

EXCLUSIVE RIGHTS OF PATENT OWNERS

First, in discussing the "exclusive" rights of a patent owner, the term exclusive means the right to exclude others from practicing the patented invention. This term is in the constitutional provision (article I, section 8) which authorizes Congress to enact patent laws. Also, the Patent Act (35 U.S.C. 154) states that the grant of every patent shall contain a grant of the "right to exclude others from making, using or selling the invention."

LICENSE AGREEMENTS

Second, a license agreement is a legal mechanism in the nature of a contract or lease whereby a patent owner authorizes another to do that which he could otherwise prevent. In a sense, it is a waiver of the right to sue. If the entire patent grant is transferred to another, it becomes an assignment rather than a license. An exclusive license

is normally one in which the patent owner divests himself of all rights except bare legal title and in such situations is, for many purposes, tantamount to an assignment.

MISUSE AND VIOLATION OF ANTITRUST LAWS

At the outset, it might be observed that there is some overlap in the terms "misuse" and "violation of the antitrust laws." Misuse is a defense raised in a suit for patent infringement and is usually based on a charge that the patent owner has somehow used his patent in an improper fashion. Again, speaking generally, a finding of misuse renders the patent unenforceable, but only until the misuse is purged. A misuse, however, does not necessarily constitute a violation of the Sherman Act.

Most of the controversy surrounding the Scott amendment 24 concerns the restrictions which should be permitted in a patent license agreement. In my remaining time, I shall define what some of these restrictions are.

GRANT BACK

This term refers to the legal consideration which a licensor receives for his grant in the form of patent rights. Perhaps the most common "grant back" is one of a nonexclusive license under the other party's patent. The term is often used, however, to mean a grant back of title to improvement patents based on inventions made by the licensee. Such a provision might be found in a situation where the licensor is effectively putting the licensee into business usually with both patents and know-how. Although this latter type of grant back has been found by the Supreme Court not to constitute a misuse (*Transparent Wrap* v. *Stokes*, 329 U.S. 637, 1947), Justice Department spokesmen have stated that they will challenge this type of grant back under section I of the Sherman Act. To our knowledge, they have to date expressed no objection to nonexclusive license-type grant backs.

PACKAGE LICENSING

A package license is a license under more than one patent. Although there is little controversy over package licensing, as such, the Supreme Court has held coerced package licensing to be a misuse (*Zenith* v. *Hazeltine*, 395 U.S. 100, 1969). In determining coercion, the courts normally apply the rule of reason and inquire into what the licensee needs, or wants, the commercial necessity for a package and the options made available to him by the licensor. A much discussed aspect of package licensing is one of royalty determination or calculation. In certain situations, royalties will be payable only if one or more of the patents in the package are used and are assessed only against those products employing patented inventions although the rate may vary depending upon the number of patents used. However, to avoid costly and time-consuming patent studies and complex accounting, the licensor and licensee may agree, as a business convenience, either to a lump sum or a fixed price percent of sales of an identified product line—without regard to whether or not each product in the line infringes a licensed patent. This is of

particular convenience to the parties where a large number of patents is involved. Although a refusal to license, unless the licensee agrees to pay royalties on products which do not use patents has been held a misuse (*Zenith*), this convenience type of royalty provision in package licensing, arrived at by arms-length, non-coercive negotiation, has been held proper (*Automatic Radio* v. *Hazeltine*, 339 U.S. 827, 1950).

LICENSEE ESTOPPEL

Until recently, it was hornbook law that a licensee could not dispute the validity of the patent in a suit for royalties so long as he did not relinquish his license (Deller's Walker on Patents, Section 403). Although some exceptions have been made to this rule, as where the license agreement contained a price fixing provision (*McGregor* v. *Westinghouse*, 329 U.S. 402, 1947; *Sola* v. *Jefferson*, 317 U.S. 173, 1942), this generally was the law until 1969 when the Supreme Court in *Lear* v. *Adkins* (395 U.S. 653) declared the doctrine to be against the public interest and overruled previous cases upholding the doctrine.

This decision created a quandary for licensors, including those who typically provide in their license agreements that a licensee at any time could surrender his license. After *Lear*, a potential infringer could, in bad faith, enter into a license agreement, breach the agreement by refusing to pay royalties and effectively eliminate the threat of injunctive relief in the event the patent is upheld. Further, he has induced his licensor to accept an upper limit for his recovery which may be substantially lower than he could otherwise recover in a suit for patent infringement. The Scott amendment 24 would remove this inequity by permitting a licensee to challenge validity but only if he renounces further benefit from the license.

FIELD OF USE LICENSES

This type of license, also called a defined field license, states the scope of the license in terms of the fields in which it may be exercised. The field may be defined in either commercial or technological terms. Many patents are useful in more than one field and the licensee may acquire a lower royalty rate by accepting a license only within the field in which he is commercially interested. Alternatively, the licensor may wish to reserve certain fields for himself. Although such limitations have been approved by the Supreme Court (*General Talking Pictures* v. *Western Electric*, 305 U.S. 124, 1938), they have also been held illegal when part of a broader scheme to implement division of markets (*Hartford Empire* v. *U.S.*, 322 U.S. 386, 1945). Further, a Justice Department spokesman in a speech in 1969 questioned the legality of field of use restrictions among licensees "who would otherwise compete."

RULE OF REASON—PER SE VIOLATIONS

A Rule of Reason was imputed into the Sherman Act by the Supreme Court in 1911 which stated "that the standard of reason which had been applied at the common law and in this country in

dealing with subjects of the character embraced by the statute was intended to be the measure used for the purpose of determining whether, in a given case, the particular act had or had not brought about the wrong against which the statute provided." (*Standard Oil Co. of New Jersey* v. *U.S.*, 221 U.S. 1, 60, 1911). This rule has been reaffirmed on several occasions. For example, the Supreme Court has stated that in a Section I Sherman Act proceeding, the mere finding of a restraint is insufficient to find a violation; instead, the true test is whether the restraint imposed is such as to promote or destroy competition and requires investigation into the facts peculiar to the business, the nature of the restraint and its effect—actual or probable (*Chicago Board of Trade* v. *U.S.*, 246 U.S. 231, 238, 1918; see also, *White Motor* v. *U.S.*, 372 U.S. 253, 1963; *U.S.* v. *Schwinn*, 388 U.S. 365, 1967).

In applying the rule of reason in patent cases, the Supreme Court has stated that the patentee may grant a license "upon any conditions the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." (*U.S.* v. *General Electric*, 272 U.S. 476, 1926.)

On the other hand, certain restrictive business practices have been held violative of the Sherman Act without further inquiry. Those violations, commonly called per se violations, have been considered by the Supreme Court to be—

> That category of antitrust violations made up of agreements or practices which, because of their pernicious effect on competition and lack of any redeeming virtue, are conclusively presumed to be unreasonable without elaborate inquiry as to the precise harm they have caused or the business excuse for their use. (*Northern Pacific Railway Co.* v. *U.S.*, 356 U.S. 1, 5, 1958).

Some per se illegal restraints are agreements by competitors to fix prices, to divide markets or to boycott other parties.

Scott amendment 24 incorporates the rule of reason in evaluating patent licensing agreements.

From the relatively large number of speeches over the past several years by Justice Department spokesmen attacking many types of restrictions in patent license agreements, there is growing concern that the list of per se violations may increase. This would be unfortunate, certainly for business but also for the public interest if patent owners did not have reasonable opportunity to convey rights within the patent grant. It is EIA's view that the rule of reason should be preserved and applied in the evaluation of patent license restrictions so that in all cases a proper balance can be reached consistent with the needs for both a strong patent system and a freely competitive economy.

Senator, I thank you for the opportunity to present these remarks and I shall be happy to answer any questions.

Senator McCLELLAN. Thank you very much.

(The statement referred to follows:)

STATEMENT OF THE ELECTRONIC INDUSTRIES ASSOCIATION

Mr. Chairman and members of the Committee, my name is Raymond Johnson. I am General Counsel of the Electronic Industries Association and appear today on its behalf. EIA appreciates the opportunity to testify in support of the principles enunciated in the Scott Amendments, Nos. 23 and 24, to the bill

for the general revision of the patent laws, S.643, and in support of Section 6 of the Supplementary Provisions of S.643. At this time, we would like to explain in more detail, why, from a business point of view, legislation, like the Scott Amendments, is needed.

First, I would like to mention that the Electronic Industries Association is made up of representatives from over 300 electronic oriented companies. These companies are engaged in the development and manufacture of electronic equipment. Further, these companies are both large and small, and a function of the Electronic Industries Association is to satisfy both of their needs. Our statement today reflects their combined view.

Substantially all of the companies, if not all, participate in a total investment in excess of $4.0 billion dollars[1] annually in research and development in the hope of creating new products for marketing. In developing new products, these companies contribute heavily to the advancement of the arts and our standard of living. Thus, the public is a benefactor of the incentive to invest in research and development, which investment is made so as to provide new and profitable business for the healthy existence and growth of the respective companies. It is this incentive to invest private capital in R & D that must be encouraged.

Without a strong patent system, copies could undercut the investor of risk capital and the investor would be less able to recoup his investment through sales. Such copying would not be in the public interest because it would discourage the investment of risk capital. Thus, it is important that this Committee support a strong patent system as one means for encouraging risk capital.

In order to encourage the investment of risk capital, it is necessary to offer adequate inducement. This inducement is in part satisfied by the patent system which gives the patent owner a right to exclude others for a limited period of time. It is this limited right to exclude that provides an opportunity to protect and recoup the investment. There is still substantial risk even with such protection since not all R & D projects end up as successful money makers for the investor.

But, even with this right to exclude, it may be necessary for the developer to obtain licenses from others in order to have the freedom to market his product. Thus, if he can utilize his patents to obtain a license under the patents of others, more competition results at the marketplace, thereby benefiting the public. The Scott Amendment 24 provides for the continuing appropriateness of reasonable cross-licensing of patents.

It is not uncommon for a patent owner to recognize that greater utilization of his patented invention can be made if it can be produced more extensively and thus made more available to the general public. In other words, it is not uncommon for a developer of a new product to find that he is unable to meet the market demand. Of course, one way to overcome this inability is by licensing others. And, on occasion, the licensor, in order to protect the competitive edge achieved by his innovation, may have to include in his license agreement reasonable restrictions within the rights granted by the patent laws. The Scott Amendment 24 preserves the rule of reason approach to obtain an equitable result.

There is another side benefit resulting from encouraging the investment of risk capital, and that is, the opportunities it provides to the unemployed. Like other industries, the normally stable electronics industry has had to make layoffs during the past year. Thus, encouragement rather than discouragement is needed both for investment of risk capital and for licensing. The principles of Amendment 24 support a strong patent system and encourage the investment of risk capital and indirectly assist in the alleviation of unemployment.

Once a decision has been made by the patent owner to license, an element of uncertainty creeps into the picture because a businessman in the present climate cannot determine with any reasonable degree of certainty what limitations that are proper today will become improper tomorrow. This uncertainty stems primarily from current Justice Department attitudes as reflected by their special attention to patents and from pronouncements by their representatives that various licensing practices which are not improper under the law today should be condemned and that anti-trust suits will be filed to bring about

[1] Per National Science Foundation, 1968 data.

these changes in the law. The result of this is an ex post facto type situation which places an unreasonable burden and risk on the businessman and his company since both criminal and civil penalties can result from a wrong guess as to which currently lawful practices will become unlawful. Businessmen are not interested in testing fine legal principles through expensive litigation. If they decide not to license because they do not want to expose themselves and the corporation to possible antitrust litigation, the public suffers.

It is thus important that the businessman be provided with a reasonable basis with which to evaluate the antitrust consequences of his licensing decisions. He should not be placed in a position of doing something clearly within the law today and then be subjected not only to civil antitrust liability but also to potential criminal liability. A businessman is not anxious to indulge in this sort of brinkmanship or licensing roulette.

We are told that there are some who feel that the present wording of Amendment 24 would make patent licensing even more uncertain than it is today. It seems to us, however, that with the legislative expertise of this Subcommittee, appropriate legislation can be drafted which would remove much of the present uncertainty. We believe that Amendment 24 offers a vehicle to achieve the certainty the patent system needs.

The Electronic Industries Association also strongly supports the principles of Scott Amendment 23. Within most companies in the electronics industry is a substantial body of technology developed at considerable private expense which I will here refer to as trade secrets. This body of technology—or information—contributes significantly to the development and maintenance of a competitive edge and encompasses what is variously known as trade secrets, proprietary information, know how and methods of doing business. While some of this technology is legally patentable, much, if not most of it, is not. It is, nonetheless, valuable and requires the same large investment for development as that which is clearly patentable.

To us as businessmen, it seems clear that some legal mechanism is needed to protect the proprietary rights of the investor and innovator. Otherwise, the free loaders would quickly dampen the enthusiasm of those who must contribute investment capital.

Under the Guild System of the mid-19th Century, the owner of a novel technique would keep it to himself in order to maintain a competitive edge. In this country, there has developed at the state level a body of trade secret law which permits trade secret owners to license others without destroying their proprietary value. This fosters dissemination of technology and avoids wasting resources for duplicative creation of the same technology. This licensing also provides an important inducement to the businessman to make the necessary investment to develop his technology. For now, he may recoup not only from his own use but also from licensing others in such a way as to maintain his competitive edge. As in the case of patents, the public benefits from the competition which arises from increased sources of supply and from increased use of new technology. The United States as a nation also benefits particularly from the licensing abroad of technical information. According to recent studies made by The Patent, Trademark, and Copyright Research Institute of the George Washington University, aerospace and electronic industries receive approximately 47% of their foreign licensing-related income[2] from know-how as compared with 39% from patents (the remainder coming from trademarks and designs: see IDEA—The Patent, Trademark and Copyright Journal of Research and Education, Vol. 14, No. 3, Fall 1970, "Comparative Income Roles of U. S. Industrial Property Rights Licensed Abroad," by Joseph M. Lightman, page 352). This income represents millions of dollars annually thus contributing favorably to our balance of payments.

We believe it highly desirable that this body of trade secret law remain viable.[3] This in no way detracts from our support of a strong patent system. Indeed, we look upon these two systems as complementary, each working in its own area but with similar goals and results. Thus, we support legislation which would make it clear that Congress does not intend the patent laws to preempt or replace the laws permitting the protection and licensing of trade secrets. Even now we are being advised that perhaps by licensing our trade secrets, we may be placing them in jeopardy because of recent pronouncements

[2] 1968 total--$1,279 million per U.S. Department of Commerce.
[3] See Painton v. Bourns, — F2d - - 2 Cir., April 27, 1971.

by the Supreme Court and other Federal Courts. Thus, we not only support this legislation, as represented by Scott Amendment 23, but urge its early enactment.

Finally, we agree with and support Section 6 of the Supplementary Provisions of S.643. Mandatory licensing raises numerous and complex questions, and it is unfortunate that Section 308 of The Clean Air Act should have been enacted into law without the benefit of public hearings. One of the problems raised by mandatory licensing relates to the interplay between the inducement to invest in research and development provided by the patent laws and the potential loss of exclusivity resulting from mandatory licensing. Until some need for compulsory licensing is clearly demonstrated, Section 308 should be stricken.

We do not think a need will arise. The company which through its own investment has realized a better mousetrap is going to exploit its invention through production, licensing or both, and the normal workings of a free enterprise market will control reasonableness of price, quality and quantity. The myth of the suppressed invention is just that—a myth. Also, the existence of exclusivity will stimulate the competition to achieve an even better mousetrap.

If a valid purpose or intent of The Clean Air Act or any other act were being frustrated by the patent laws, we are confident that the Congress, with the awareness of a specific problem, could, with appropriate hearings, design any legislation which might be necessary. Until that time, Section 308 should be removed lest, for reasons not yet exploited, it do more harm than good.

Senator McCLELLAN. Counsel, do you have any questions of the witness, Mr. Johnson?

Mr. BRENNAN. I have a question which Senator Hart has asked me to put to the panel and I might address to Mr. Johnson.

Which specific cases brought by the Antitrust Division in the patent field do you find objectionable and why?

Mr. JOHNSON. Two comments. No. 1, I am not certain this may not be covered by a further speaker.

Second, with me at this time, I do not have a specific case or cases, but I shall be more than happy to supply them for the record.

Mr. BRENNAN. Thank you very much.

Senator McCLELLAN. Do you want to supply the answer?

Mr. JOHNSON. We will attempt to supply that for the record, sir.

Senator McCLELLAN. Very well. You may do so.

(The information referred to follows:)

SUPPLEMENTAL STATEMENT BY RAYMOND E. JOHNSON ON BEHALF OF THE ELECTRONIC INDUSTRIES ASSOCIATION

It is the position of the Electronic Industries Association, as set forth in its formal and oral testimony, that the Congress, with the Rule of Reason as a cornerstone, should establish the proper bounds for the licensing of patents. Further, the Congress by legislation should make certain the opportunity to protect and license those assets generally known as trade secrets.

Although concern has been expressed within the Electronics Industries Association with respect to certain consequences of the decision to Lear v. Adkins (395 US 653), the position of the Association is not directed either to any particular case brought by the Department of Justice or to any particular court decision. Instead, the uncertainties on which the support for the principles of the Scott Amendments 23 and 24 are premised arise in large part from the many public pronouncements of Government officials and particularly persons associated with the Department of Justice. The following is a partial list of such pronouncements reprinted by permission of the author from a footnote to a talk recently given by Mr. Chester A. Williams, Jr., entitled "Antitrust Considerations and Know-How Licensing Agreements."

Many of these talks, while professing to be statements of current law, can readily be interpreted as suggestions for changes in the law which will be sought

by the Department of Justice when a "proper" case can be found. Such pronouncements not only create uncertainties in the minds of those who would grant or take patent licenses, but also lead to a substantial increase in the cost of patent litigation by encouraging indiscriminate use of the misuse defense in patent infringement suits. It is therefore believed important that Congress enact as law a rule of reason for interpreting the reasonableness of restrictions in patents licensing agreements so that those charged with making the business decisions regarding licensing will have clear guidelines concerning the bounds of proper licensing.

From the address of Mr. Chester A. Williams, Jr.:

NOTE.—Often, persons who hold positions in the American government when delivering addresses state that the views expressed are those of the speaker and do not necessarily represent those of any governmental agency. This qualification should be borne in mind wherever references are made in the text of this paper to viewpoints of the Department of Justice.

The following is a partial listing of such speeches:

(*a*) Lionel Kestenbaum, Director of Policy Planning, Antitrust Division, Department of Justice, "Field-of-Use Restrictions in Patent and Know-How Licensing," Address before the Lawyers Institute of the John Marshall Law School on February 21, 1969:

(*b*) Assistant Attorney General Richard W. McLaren, Head, Antitrust Division, Department of Justice, "Patent Licenses and Antitrust Considerations," Address before the Patent, Trademark and Copyright Research Institute of George Washington University on June 5, 1969, (161 U.S.P.Q. No. 11, dated June 16, 1969, pp. II–VI);

(*c*) Roland W. Donnem, Director of Policy Planning, Antitrust Division, Department of Justice, "The Antitrust Attack on Restrictive Patent License Provisions," Address before the Michigan State Bar Convention on September 25, 1969 (5 "Les Nouvelles" 32, 1/70);

(*d*) Richard H. Stern, now Chief, Patent Unit, Antitrust Division, Department of Justice, "A Future Look at Patent Fraud and Antitrust Laws," Address before the Federal Bar Association Symposium on September 25, 1969 (52 J.P.O.S. 3, Jan. 1970);

(*e*) Bruce B. Wilson, Special Assistant to the Assistant Attorney General, Antitrust Division, Department of Justice, "Patents and Antitrust—The Legitimate Bounds of the Lawful Monopoly," Address before the Patent Law Association of Pittsburgh on November 19, 1969 (5 "Les Nouvelles" 2, 1/70);

(*f*) Bruce B. Wilson, (See his title above in this footnote) "The Legitimate and Illegitimate in Patent and Know-How Licensing," Address before The Lawyers Institute of the John Marshall Law School on February 20, 1970;

(*g*) Richard W. McLaren, Assistant Attorney General (See title above in this footnote), Address before the National Industrial Conference Board in New York City on March 5, 1970, as reported in CCH Trade Regulation Report, No. 456, dated 3/9/70;

(*h*) Norman H. Seidler, Chief of New York Office of Antitrust Division, Address before the New York Patent Law Association on March 19, 1970, as reported in Vol. 9, No. 8, May 1970 NYPLA Bulletin;

(*i*) Richard H. Stern (See title above in this footnote), Address on territorial limitations in international technology agreements before American Patent Law Association Stated Spring Meeting on May 15, 1970, as reported in APLA Bulletin for July–August 1970 at pp. 306–324;

(*j*) Richard W. McLaren (See title above in this footnote), Address on antitrust and foreign commerce before the Symposium on Antitrust and Related Issues and Their Solutions in International Trade and Productive Investment on October 16, 1970, as reported in CCH Trade Regulation Report, No. 489, dated 10/26/70 and 6 "Les Nouvelles" 44, 3/71);

(*k*) Richard H. Stern (See title above in this footnote), "Territorial Limitations in International Technology Agreements." Address before the Federal Bar Association-Government Patent Lawyers Association—Bureau of National Affairs Briefing Conference on November 16, 1970;

(*l*) Richard H. Stern (See title above in this footnote), "The Antitrust Status of Territorial Limitations in International Patent Licensing." Address before Antitrust Law Section of New York State Bar Association on January 27, 1971; BNA Antitrust & Trade Regulation Report, No. 498, dated 2/2/71, at p. F–1;

(*m*) Richard H. Stern (See title above in this footnote). Address concerning antitrust implications of international technology agreements before Chicago Bar Association in February 1971 as reported in BNA's Patent, Trademark and Copyright Journal, No. 15, dated 2/18/71 at p. A-3; and

(*n*) Ronald W. Donnem (See title above in this footnote), Address before Board of Governors of the National Electrical Manufacturers Association in New York City on January 18, 1971, as reported in CCH Trade Regulation Report, No. 504, dated 2/8/71 at p. 10.

Mr. BRENNAN. Mr. McKinney.

STATEMENT OF JOHN A. McKINNEY, VICE PRESIDENT, JOHNS-MANVILLE CORP., ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS (NAM)

Mr. MCKINNEY. My name is John McKinney. I am vice president of Johns-Manville Corp., a company which is active in licensing, both as licensor and licensee. I am here this morning on behalf of the NAM.

The NAM will submit within the next 2 weeks a detailed written statement in support of the Scott amendments. This morning, I have only a few remarks on what in general we hope the Scott amendments will accomplish.

Now, the detailed purposes of these amendments are set forth very ably in the materials which Senator Scott has presented just now at this hearing. I do not intend to repeat those. My remarks will be from a somewhat different point of view.

The origins of these amendments go back a good many years. Beginning about 40 years ago, there was a concentrated, continuing tide of attacks on the validity of patents. Since that time, almost every conceivable ground for invalidating a patent was devised, and in most of these cases, I think it fair to say that the courts did not address themselves to the question of whether or not in fact an actual advance in the art had been made. They addressed themselves more to technical rules which are almost in the nature of what you might call per se rules of invalidity. This was very perplexing to the people who were involved in the business of innovating and in disseminating the technology relating to those innovations to other people in the manufacturing area and thus ultimately to the public. In general, the response other than anguish, to these attacks on the validity of patents was to become more liberal in licensing. But then, based on a few bad fact cases, a determined attack on the enforceability of patents and license agreements was undertaken. Even on those very, very few patents which were found to be valid, the enforceability of the patents was questioned and it was always questioned in retrospect. It was said years later that what somebody had done that was perfectly proper at the time was now to be looked upon as a misuse of the patents, justifying the patents not being enforced.

The result of all these things was to in effect punish the innovator and reward the infringer. It permitted the licensee to get the benefit of both the technology and the protection of the patent and then at a later time, to avoid payment for either. Because of the attacks on the validity of patents and the growing number of cases relating to the unenforcibility of presumably valid patents, we have come to a point where it is almost inconceivable that a competitively important patent

will be effectively enforced in the courts. I do not really know of one. And in all of this, there has been no rule of reason applied.

Let me give you one example of what I am talking about. And this, in part, will answer the question which Senator Hart has raised. I refer to the *Brulotte* case in the Supreme Court which related to an agreement having to do with hops-picking machines, in which what the licensee had really done was buy some machines. There happened to be patents on the machines. The method of payment for the machines was stated in terms of a patent royalty. It happened that the patent royalty payment period extended beyond the life of the patents. There is no evidence whatever that this had any effect on the hops picking industry or in any way resulted in higher selling prices of hops or beer to the public. It was a contract between two parties having almost no effect on anyone else. Yet this was a matter which was taken up as being of great national concern by the Supreme Court. And without going into, really, the reasonableness of whether this particular contract between these parties was justified, they made what amounted to a per se rule: you may not collect royalties beyond expiration of the patents involved.

Now, quite apparently, there could be circumstances in which it was reasonable to both parties to arrange their payments in that way. It was entirely possible that a licensee might say to the licensor, I will make no profits from this invention during the life of the patent but I expect to afterwards and I would like to postpone payment entirely until that time; I will pay you on the basis of what I do after the expiration of the patent for a fixed number of years. Yet for no apparent public purpose, the court has said this is not to be permitted.

So licensing, in response to decisions of this type, has been based more and more on technology rather than on patents. As a businessman, with many hundreds of thousands of dollars invested in the development of a particular business, it is very difficult to come to the decision to risk the whole thing on the validity of patents where the statistics show that particularly where you have developed something that is of real competitive value, your chances of effectively enforcing the patent are almost nil.

So we began selling what was the real asset, the technology. Then in what has been typical of the history for 40 years, along came the *Lear* case, which presumably related to the narrow issue of whether or not a licensee could challenge the validity of a patent under which he was licensed. But what the *Lear* case really said and said it several times is, you may not do anything to interfere with the full and free use of ideas in reality in the public domain. And it held specifically that collecting a royalty was such an interference. Dissent went even further and said you cannot have enforcible contracts relating to technology as distinguished from patents.

Following the *Lear* case, there has been speech after speech by Department of Justice representatives in which they interpret the *Lear* case to mean that you may not collect royalties for the sale of technology unless the technology is "truly secret and valuable."

We have come to the point where we are about to accomplish exactly what the antitrust professors desired, the virtual destruction of the patent system. If we reach the point where we have to license every-

body who asks for a license because we have decided to license one party, the patent system is no longer of any value. If we come to the point where someone cannot sell for a negotiated price a compilation of purely public information which the purchaser does not want to spend the money to compile, we will have virtually destroyed any opportunity for realistic spreading of innovations, knowledge about innovations, to the public.

What these speeches, these series of cases and speeches, have done is to make the businessman very uncertain about what it is he can and can't do in licensing. It makes business people very reluctant to invest risk capital in the development of products which can readily be copied by other people or where, if we cannot recover part of our money by way of selling the technology, it is not worthwhile to go into the development to begin with.

I would simply like to state at this point that the development and commercialization of a new product is not the simple matter which the antitrust professors, the Department of Justice, and many judges appear to think it is. And furthermore, the smallest cost in that process is the development in the laboratory. The biggest cost is in developing a market, distribution, and making a success out of the business. And you cannot expect the first licensee to put the money into doing the initial phase of a development program if he is immediately going to be subject where he builds a market to other people being licensed to come in and say, "me, too, I have the same product." But they do not spend the money to develop the market, the distribution, and they have not risked what the first licensee did.

The Scott amendments are intended to do two things: Make a start toward applying the rule of reason to patent and know-how licensing. It is, in effect, a start toward discouraging these per se rules of unenforcibility and invalidity, to stop stacking the cards always in favor of the licensee. And the other purpose is to set out a few of the basic things which a licensor can safely do, on which he can safely invest time and money and energy.

One thing about what the amendments are not intended to do. They are not intended as an attempt to turn back the clock. I do not know of a single case which would be directly overruled by these amendments.

And take the *Brulotte* case to which I referred as an example. As ridiculous as most of the people who wrote the basic things on which these amendments are based thought that *Brulotte* case was, they did not ask to directly overrule it. In a subsequent case, the Supreme Court had made some remarks indicating recognition of the fact that perhaps you could collect royalties after the expiration of a patent for activities which occurred before the expiration. This is the standard which has been written into the proposed Scott amendments. That is merely an example. That has been the treatment with respect to all of the portions of these amendments. It is an attempt to stop the Justice Department and the courts in their 40-year program of making bad law based on carefully selected bad fact cases. It is an attempt to say, this is still the law, let us stop it here.

Thank you, sir.

Senator McCLELLAN. Thank you very much, Mr. McKinney.

Counsel?

Mr. BRENNAN. Dr. Herwald?

Senator MCCLELLAN. I may say, not having had the opportunity to read your statements in advance, I am not prepared to interrogate you very much today. However, after I have had the opportunity to study your testimony, there may very well be a desire to submit to each of you or some one of you, questions for you to answer for the record. But for today, generally, we will move along and let you get your views in the record right in the beginning of these hearings.

STATEMENT OF S. W. HERWALD, VICE PRESIDENT, ENGINEERING AND DEVELOPMENT, WESTINGHOUSE ELECTRIC CORP.

Mr. HERWALD. Thank you, Mr. Chairman. I am S. W. Herwald, vice president, engineering and development of Westinghouse Electric Corp. Previously, I served as vice president of research and as vice president for the electronic components and specialty product group. I was president of the Institute of Electrical and Electronic Engineers.

Since our patent department reports to my office, I am familiar not only with licensing but also with many other aspects of inventing and patenting. I am an engineer by education and an inventor, with six patents issued in my name.

Today, I am here to support Amendments 23 and 24 offered by Senator Scott to S. 643, because Westinghouse believes they are necessary to protect the public interest in the development of American technology, as well as the interests of individual inventors and their supporters.

At the outset, permit me to express, on behalf of Westinghouse, our appreciation to you, Mr. Chairman, and other members of the subcommittee, for your long and painstaking work on this intricate subject. There is public confusion about the patent system. Your thorough approach—and indeed your enduring patience—are therefore most reassuring to us, especially when we realize that the public policy you are formulating will affect the very foundations of the American economic and social system.

It was largely because of the current public confusion and uncertainties about our patent system that I felt obliged to appear here today to offer the benefits of my experience to whatever extent it may be helpful to you.

Attempts, some of them successful in the courts, to undermine the patent system have been attempted.

It is the objective of the Scott amendments to halt by statute the further erosion of the ability of patentees, asignees, and exclusive licensees, to license patents upon a variety of terms and conditions and, in a few instances, to revive or return to the law as it existed only a few years ago.

As you know, the Scott amendments grew out of the report of the 1966 President's Commission on the Patent System which emphatically recognized the uncertainty that had developed in the law on patent licensing. The Commission, in recommendation XXII, specifically called for statutory clarification of the licensable nature of the rights granted by a patent or patent application, and concluded that

the "rule of reason" must be the guideline for determining patent misuse.

As you also know, the concept of the U.S. patent system stems from the Constitution itself. The benefits of that concept—granting a legal monopoly to an inventor for a limited period of time—have been enormous, not only to inventors as individuals, but also to the Nation's total economic development and its world preeminence in many technical fields.

There is a common misconception that patents are secretive devices that stifle competition because they apparently enable an inventor to withhold something. On the contrary, a patent enables an inventor to disclose his discovery, assured, for a limited time, that he can reap the benefits of his enterprise by using the invention or by licensing it to others. Almost all patent holders are willing to license patents. It is the policy of Westinghouse to license widely; for one thing, it helps spread the cost of prior research and development. As a result, the inventor benefits, his customers benefit, his licensed competitors benefit; and above all, the consumer and the country benefit.

The whole idea that through research—the expenditure of time, money, and brainpower—one can develop productive ideas for the public benefit—for better living, health, safety, defense, and education—and at the same time retain exclusive rights for a limited time is a fundamental American concept. The benefits paid the inventor are far exceeded by the benefits to society as a whole. The concept has proven sound; the evidence is overwhelming.

I would like to give you a few examples from my personal knowledge that might help further public understanding of the patent system.

The first is one dealing with the development of a special tube capable of amplifying very weak X-ray signals to levels that can be seen on a tube much like a TV picture tube. The invention permitted very substantial reductions in X-ray dose to the patient and in the exposure to the attending physician. It also permitted the detection of clinical symptoms heretofore invisible, and made practical X-ray movies and television.

The patent 25223132 on this image amplifier was issued in 1950 and practically all tube builders of these types of tubes in the world were licensed under it. The benefits to society are highlighted in the article on page 51 in Time Magazine of May 10, 1971, showing the type of heart operations that now are carried out more or less routinely that would not have been possible without this invention. It is my opinion that if the patent system did not offer the kind of incentives it does, Westinghouse would either not have spent money for this type of research or would have been forced to be highly secretive about it and not spread the knowledge to other manufacturers. I believe either course would have materially slowed the public benefits.

Another example is in the area of electrostatic air cleaning equipment which takes dust, pollen, and dirt out of the air. We call this a Precipitron which is used for general purpose air cleaning in homes, and commercial and industrial buildings. The teachings of this patent (2129783) created a new product for general use and all air

cleaning methods of this type put into practical use were covered by it. Consequently it too was widely licensed.

A third example is in the area of transformers. Two fundamental interacting challenges are associated with the design of transformers, cost and electrical losses. Costs for iron and copper can be reduced if transformers can be constructed to run at higher temperatures, but high temperature insulating materials are generally exorbitantly expensive. Therefore, inexpensive paper insulation had to be used at lower temperatures and this restricted overall transformer cost reduction. About 20 years ago a Westinghouse researcher discovered low cost additives which when used with paper insulation allowed operation at 45° higher temperatures. This resulted in considerable cost improvement for equivalent transformer performance.

Similarly starting in the late 1930's Westinghouse pioneered in the application of a new improved magnetic steel called Hipersil. This new material allowed reduction in size and consequently cost of a transformer of a given rating. Our transformer designs using this new material proved to be exceedingly useful in military applications in World War II because of weight reductions as great as 25 percent. Designs for better electric utility and industrial type transformers were rapidly developed. The extensive patents resulting from this effort covered many different products and patents were filed in many different countries. Consequently licensing generally was done by country on a basis tailored to the product line breadth of individual licensees.

The examples I have discussed are the successful ones. We must remember that there are many research efforts which fail. It's a gamble. And reasonable patent protection, tailored to the situation that develops, is the only assurance of a payoff when a researcher shouts "Eureka!"

Let's look at the process from a business point of view for a moment. Invention usually stems from research. But research is a most expensive undertaking from a business viewpoint. You can put money in a bank and surely double it in less than 20 years. Many research programs don't come up with useful results for 15 or 20 years, however, and many never come through at all. Incentives to put money into research are the hopes that the fraction that are successful will payoff better long term than putting money in the bank.

The knowledge that one's invention is protected has a further important beneficial effect. It encourages open discussion. The synergism of many people talking in the same area of interest stimulates a whole new overlay of innovation, leading to still more invention and a gathering momentum of technological progress. The work in the field of solid state electronics was like this. Much of the exchange that occurred in IEEE meetings of the type that I chaired. In my opinion, this would not occur without adequate patent protection.

Before I close, I would like to touch on some of the questions raised in connection with licensing provisions such as fields of use and geographical territories covered by the Scott amendments.

Patent rights which are a limited field, limited time, legal monopoly are the incentive for all the effort, money, and time spent

in the quest of new useful inventions. We therefore believe that the inventor or his assignee should have full rights to license as many licensees as he can on patents with whatever restrictions on field of use or geography that maximize his return for the limited time period of 17 years at most. When we apply for foreign patents within each country's unique patent system, the same rules should apply.

Licensing agreements must be palatable to both licensors and licensees. Opponents of limited licenses talk as though all limitations were strong-arm tactics of the patent owner. That is not true. Westinghouse, for instance, is also a licensee. In that position, we normally want the license to cover only what we wish it to, and be licensed only where we know the license is necessary. Indeed, other uses may not even be known to us.

Any licensor usually having made a considerable prior investment wants to maximize his return. To do so he generally has to find a sufficient number of licensees with the appropriate product manufacturing and geographic marketing capability to maximize the return for the full field of his patents and the countries in which he has obtained them. This is not restrictive, anticompetitive or monopolistic; it is adapting the patent system to the most efficient and beneficial use.

Thank you, Mr. Chairman. I will be glad to try to answer any questions that you now or later may put to us.

Senator McCLELLAN. Thank you.

Counsel?

Mr. BRENNAN. Mr. Jones?

STATEMENT OF MARVIN R. JONES, MANAGER OF RESEARCH AND DEVELOPMENT, CAMERON IRON WORKS, HOUSTON, TEX.

Mr. JONES. Mr. Chairman, I am Marvin Jones, Cameron Iron Works. I am the manager of research and development for Cameron

Senator McCLELLAN. Mr. Jones, do you have a prepared statement?

Mr. JONES. Yes, sir, I have an oral statement. I do not have a written statement.

Senator McCLELLAN. I did not have one before me. That is all right.

Mr. JONES. I am prepared to make a written statement within a few weeks.

Senator McCLELLAN. Very well. You may proceed.

Mr. JONES. Cameron Iron Works is a relatively small company. It manufactures steel, components for aircraft; it manufactures valves and it manufactures control equipment for drilling and producing oil. Since I first worked for Cameron in 1939, it has grown from approximately 80 employees to something just under 6,000. Its sales have grown from less than a million dollars per year to something in the order of $125 million per year. Some of its products are affecting the lives of almost any person in the room. For example, hardly any gallon of gas burned in your automobile has not had some contact with a Cameron product. You can hardly ride on an aircraft that does not have some parts made of Cameron steel.

Cameron is unique among the companies represented here this

morning because of its relatively small size. Its competitors include companies like Armco, FMC Corp., Rockwell Manufacturing Co., American Car & Foundry, to a limited extent U.S. Steel, and other companies of this sort. Cameron has managed to prosper over the years and make this growth primarily, I think, because of the protection afforded it by the patent system of the United States. It is unique that almost all of its earnings during this period of time have gone into new product development. During the past year, approximately 80 percent of the sales volume covered products not made or known 15 years ago, or even 10 years ago, perhaps.

The operation has benefited the public in a large number of ways; for example, Cameron has always led the world in manufacturing blowout preventors, which prevent oil wells from blowing out, losing tremendous amounts of our natural resources, contaminating our environment.

It has made chokes under patents, controlled by analog computing devices that kill a well automatically when it is attempting to blow out. It has made automatic safety valves which react to abnormal conditions by shutting wells in.

All of these developments, and there are lots of other ones—we have made developments in steel alloys and we have made a large number of developments in forging processes and machine processes—have been made because of the attractiveness of the climate for investment in development and research. For this reason, Cameron has a considerable interest in the maintenance and the improvement of that climate. We are in the business of recovering whatever amounts we can recover from developments, whether we sell our know-how or patent right, our trade secrets. All of these have formed the basis for agreements with other companies and we, like some of the others here, have taken a large number of licenses ourselves. To us, and my own personal outlook may be a little clouded—I am the man at Cameron who is responsible for selling management on investing funds in new projects or product development throughout the company, it is necessary for us to prepare a cash-flow analysis that will show the company how, if we invest a certain sum of money in developing a product line, we will recover that money. We have to include all of the ways, whether it is going to increase our share of the market; we have to state whether or not we expect to and how much we expect to recover in patent licenses, know-how licenses, and that sort of thing.

We have reviewed the Scott amendments and unlike some of the other gentlemen here, I am not a lawyer, I am strictly an engineer and not well versed in law; however, we think we understand the intent of the Scott amendments and we very much favor them. However, there are some other aspects of the thing that I would like to touch on from the standpoint of Cameron and from my own personal standpoint.

And that is, we are very much in favor of having the law exist as statutes. As legal laymen, we can find and understand to a much higher degree what the law is if we have relatively clearly state statutes to work with than we can from any type of summary that we can get from our attorneys as to what case law is. In fact, lately,

our attorneys seem to be almost as confused in situations involving case law as we are.

Senator McCLELLAN. You can never be quite sure what the Supreme Court is going to say the law is, can you?

Mr. JONES. We never know, and we cannot plan ahead. It is hard to put down anything convincing enough to induce the management to turn loose its hard-earned capital if you do not know where the reward is going to come from, how you are going to get it back, at least.

There is another disadvantage to us in case law. That stems from the fact that tremendous areas remain undefined while the lawyers are waiting for a test case to come to trial and to be litigated through the years until a final decision so that they can tell us what is going to be the situation. Take, for example, the extent of territorial jurisdiction of U.S. patent laws. Our attorneys tell us they do not know whether if you drill an oil well halfway between the United States and Cuba, whose patent laws will apply or how far out they go. We have had an instance of a competitor who for awhile infringed, in our estimation, a perfectly valid patent as far as we were concerned, but they did it at a location 90 miles off shore. They manufactured components, transported them to the site, and combined them to make the patented combination on the site. We did not know what to do about the thing. We talked to our attorneys. We did not know whether an ultimate infringement had been committed and we could not charge our competitors with inducement to infringe or charge them with contributing to an infringement unless we knew that an ultimate infringement occurred. So we did not do anything. We were stymied there and with a few exceptions as it affects the way that we plan our patent protection and draft our claims, this remains an area that is still undefined.

Again, we find that case law applies to a more or less limited, specific set of circumstances and we are forced to speculate beyond all reason in deciding how they would apply to a different set of circumstances. And as laymen, we never have a real feel, and we find our attorneys give us opinions that differ considerably. Maybe they are in conflict.

Lastly, we like statutory law because we have an innate feeling, perhaps justified, perhaps not, that there is a certain stability in statutory law that is not available to us in case law. Case law seems to us to change rapidly.

So for our first point, we are tremendously in favor of enacting into the statutes the basic law that governs a patent situation.

I mentioned before that Cameron and I personally like the intent of the Scott amendments. I do not think that any of our people other than our outside patent attorneys are qualified to discuss the wording or the technical aspects of this law. But anything that frees us to use this property—this is the only title that we have to some of our intellectual property—to use it in the way that benefits us and helps us recover most, as long as it does not, obviously, clearly go against public policy, makes an investment more attractive to the company and easier for me to sell.

A large number of licenses that we have, or that we have taken for granted, are restricted as to territory. A large number of these

licenses are restricted as to certain patents, a group of patents for the same invention, but gotten in different countries. Generally we have issued these without any intent to injure the public or to do anything other than form some sort of operating basis between two parties that was mutually beneficial and I think, in looking back, that they have turned out to be beneficial to the public.

According to our counsel, all of these agreements have been lawful at the time that we entered into them. Now, we have acquired an area of doubt as to what is legal and as to whether or not some other agreements that we might have made without this doubt as to whether we are safe in entering into them or not. If the Scott amendments can resolve this area there, it will help us and I think generally help the public of the United States as a whole.

If there is one way to measure the effectiveness of our patent system as far as the public is concerned, it lies in the amount of private capital that it draws into research. In my experience, which has covered perhaps 75 foreign patents and perhaps 40 to 50 U.S. patents in my own name, in addition to having worked with several hundred patents very directly for the company, I think the sole margin of our American superiority in development probably stems more from this climate than any other one thing. To that extent, it has been more beneficial to the public than the patent climate in any other country.

Thank you, sir.

Senator McCLELLAN. Thank you very much, Mr. Jones.

We will stand in recess for about 5 minutes.

(Recess.)

Senator McCLELLAN. The committee will come to order.

Mr. Beart, you may proceed.

Do you have a written statement?

STATEMENT OF ROBERT W. BEART, SENIOR VICE PRESIDENT, ILLINOIS TOOL WORKS, INC.; ON BEHALF OF THE ILLINOIS MANUFACTURERS ASSOCIATION

Mr. BEART. I do not have a prepared statement. We will submit that to you.

Gentlemen, my name is Robert W. Beart. I am senior vice president of Illinois Tool Works, Inc., an Illinois based company, that has experienced much of its growth through research and development and the subsequent use of patents covering products from those developments. Most of our patents are the result of the ideas of our own employees. We have been licensed in recent years to use the patents of between 30 or 40 inventors in the United States outside of our company. We have also licensed over the past 20 years more than 100 companies in the United States to produce various of our products. We have extended licenses to various companies throughout the world as well.

I am speaking today in behalf of and as chairman of the Patents and Trademarks Committee of the Illinois Manufacturers Association, an organization of 5,200 companies of all sizes, types, and geographical locations in the State of Illinois who are responsible for more than 90 percent of the industrial production of our State.

Eighty-five percent of our member firms employ less than 100 people.

The Patents and Trademarks Committee of the Illinois Manufacturers Association has spent much time in studying means of improving the patent system of the United States and the legislation that has been proposed in recent sessions of Congress. Our studied opinion is that S. 643 has synthesized most of the constructive suggestions that have developed in recent years. Amendments 23 and 24, more familiarly known as the Scott amendments, not only would strengthen the overall patent system by clarifying broadly the guidelines of licensing, but also would be in the best interest of the public and provide additional competitive consumer products to make a better life for the people of the United States which the system in the ultimate is designed to serve and benefit.

In the studied opinion of our Association, any legislation designed on a reasonable basis to maximize certainty to creators of new products, as well as the methods and apparatus for producing them, will be a stimulus to them to license their creations, which in turn will be in the public's best interest. Presently, there is necessity for clarifying several points contained in the Scott amendments to eliminate the uncertainties which we feel do inhibit licensing by many businessmen. It is further the position of IMA that the present suggested amendments do not change any of the existing case law. The more precise or codified law being contemplated by your committee could well lead to causing more R. & D. effort on the part of industry, with a view of licensing contemplated because of business' clearer understanding of the guidelines within which to operate and on which they may be assured they will be judged.

Perhaps the importance for clarification of the present law or what might be termed codification of the law in its present state to avoid the dilemma that a number of members of our organization have faced in recent years will best be illustrated by an example, which I feel brings out the importance of Congress setting forth clearly the public policy in the licensing area.

I should now like to give an actual example of a situation of one of our member companies which will perhaps help to clarify the dilemma which we feel is presently with us.

Company A spent many hundreds of thousands of dollars developing a new and patentable form of face-type worm gearing. Its advantages were many—more economical to produce than existing forms of competitive gearing; capable of manufacture on existing equipment; capable of manufacture for ratios from 8 to 1 to 300 to 1; operated with greater efficiency, operated more quietly than all competitive forms of devices, and could be made of sintered metals—brass, iron, steel, and even plastic. It depended upon the load to be transmitted as to the material to be used.

Company A was willing to license the product to industry. From its market studies, it determined that were it to supplant all competitive devices where it could be utilized, the patented product could enjoy a market of more than $300 million in sales. Licensing efforts revealed that no one company served more than a few percentage points of the market from a sales standpoint. Each desired to incorporate the gear product in their ultimate products of manu-

facture. It was also revealed after contacting them that companies in the following areas might consider taking licenses and adapting the product if field of use type of licenses were granted which gave benefits to each for an exclusive period. The various areas that became evident and showed interest were in the field of hedge trimmers, floor polishers, and floor sanders, gear drives for recording the body function of astronauts while in the air, gear drives for hoists for helicopters, electric door openers, both for garages and subway trains, electric starters for gasoline engines, the speed reduction unit for high-speed power motors, drives for radar pedestals on ships, units used in the atomic submarine program, power units for operating gates for dams, drive units on office elevators, since it had an ability to avoid elevators plummeting to the bottom when failure occurred, drive units for icemaking machines. These are but a few of the uses that were revealed. Most, if not all, of the persons contacted in the licensing effort were told that a minimum royalty and diligence were demanded by the patentee. They wanted a field of use license. No interest was revealed by them in using the gearing to develop unrelated business programs far beyond the scope of their present business. They also desired an exclusive period to adapt the program, tool up to make the gearing, and benefit from their sales program before competitors. In most of the cases, an outlay of up to $250,000 was to be expended to tool up to make the gearing.

The dilemma which the creator of the gearing faced was the following: One, what is the present law status regarding field of use licensing and what will it be 5 years from now?

Two, can a patent owner assume the posture of granting temporary or limited exclusive licenses to afford the benefits of the creation to a company in a particular area of business.

Three, can a patentee in such a situation give the licensee all of the technology, including computer programs for designing of the gearing and expect a grant back of improvements on a nonexclusive license basis for a royalty consideration to the licensee which would ultimately benefit the patentee and perhaps his other licensees.

Fourth, could various royalty rates be charged different licensees on a different basis under the same patent?

We submit, gentlemen, to induce this creator company to license in such a situation necessitates a clear understanding of ramifications of any action he might take. The present intent of the amendments to Senate bill No. 643 to which I am addressing my remarks, is to clarify "field of use" licensing, to clarify what constitutes reasonableness in the area of grantbacks, and to carry out the spirit of President Johnson's Patent Commission report as it relates generally to licensing.

In summary, the IMA definitely opposes the case by case development of the law as proposed by some in the area of licensing and is concerned that the creative activity in industry that results from R. & D. will not be made available by license to others in industry unless the existing state of the law relating to same is clarified.

Further, it believes that clarification of laws will lead to businessmen being able to make business judgments that will lead to their licensing of new products with the inevitable benefits to the public of more competitive products being available to them with more

jobs created to produce them. Perhaps also, a lessening of fear of litigation, based on a reasonable knowledge of factual results which can be expected if some certainty is built into the law of licensing will benefit the smaller manufacturer, where presently his inclination might well be to avoid any problems by doing the job totally by himself.

We cannot conclude our observations concerning S. 643 without referring to the matter of compulsory licensing as contained in section 308 of the Clean Air Amendments of 1970 and as treated in part III, section 6, of S. 643. The compulsory patent licensing section of the 1970 legislation was added without notice and did not have the benefit of formal hearing in the Public Works Committee.

S. 643 does provide for the Administrator of the Environmental Protection Agency (EPA) to recommend corrective legislation to Congress if he determines that the intent and purposes of the clean air amendments are being retarded by any provisions of the patent laws. This provision sets up proper legal means by which EPA and the public welfare can be protected while, at the same time, the patentholder also receives due consideration. It is our view that S. 643 will correct the legislative error which exists as the result of the incorporation of the compulsory licensing provision in the aforementioned 1970 law. Expertise in such matters, historically rests in the Judiciary Committee.

The Illinois Manufacturers Association truly appreciate having had the opportunity to address the committee and will present a formal paper on its position by the date which has been set forth by the chairman.

Thank you.

Senator McCLELLAN. Thank you very much, Mr. Beart. I believe you have a plant somewhere in Arkansas, do you not?

Mr. BEART. We sure do. We have one in Pine Bluff, Ark.

Senator McCLELLAN. A great town, a great State; I hope you are having great success.

Mr. BEART. We presently are, sir.

Senator McCLELLAN. If you need a U.S. Senator any time down that way, I represent you.

Mr. BEART. Thank you.

Mr. BRENNAN. Mr. Browning?

STATEMENT OF JACKSON B. BROWNING, VICE PRESIDENT (TECHNOLOGY), CARBON PRODUCTS DIVISION, UNION CARBIDE CORP.; ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. BROWNING. Thank you.

Mr. Chairman, my name is Jackson B. Browning. I am vice president for technology of the Carbon Products Division of Union Carbide Corp.

Senator McCLELLAN. You have a prepared statement, I believe?

Mr. BROWNING. That is correct. I am representing the U.S. Chamber of Commerce and the statement has been presented to your committee.

Senator McCLELLAN. Very well. I notice it is a bit lengthy. Would you like to insert it in the record in full at this point and then highlight it for us?

Mr. BROWNING. I had intended to ask to do that and not to refer further to the report unless you had questions that you would like to ask of me. I have three specific case histories that I would like to discuss with the committee this morning which do not appear in the prepared statement.

Senator McCLELLAN. Very well. Let your statement be printed in full in the record. You may proceed now to elaborate on it or to give us any additional comments which you choose.

Mr. BROWNING. I thank you, sir.

The three situations I would like to discuss with you today are, I think, illustrative of some of the problems that occur when patent owners attempt to gain the fruits of their creativity and endeavor. The first has to do with a situation in which Union Carbide was the licensee and took a patent license from an individual inventor some several years ago. I do not know what the situation would be today with the current uncertainty in the law if the same opportunity presented itself. The second one has to do with a small manufacturer who is not in any way associated with Union Carbide, but whom I serve on its board of directors. The third is an instance involving Union Carbide and I think it illustrates, in contrast to the first situation, that 12 years after the first one took place, we have a confused state that has inhibited a development that I think has great potential for consumers at this time.

In the first instance, the individual inventor was a German. He had developed a mixing device which was capable of mixing rather quickly and rather completely fluids of all kinds—gases with gases, gases with liquids, liquids with liquids. He was interested in developing this technology for application in the burner field and particularly with reference to waste disposal and incineration. He had the technical competence and the resources needed to do this when we first saw him and it was a field that was somewhat foreign to our usual activity.

There was reason to believe that the technology could be adapted for use in the chemical industry. We had in mind in particular the mixing of chemical reactants so that reactions would take place quickly with minimal side reactions so that we would maximize the yield of the desired products. We thought the device might be used in drying applications for plastics and the like, where prolonged exposure to high temperatures would degrade the primary material. There were other potential applications which we had in mind which are not relevant for the moment.

We accepted a field of use license from the inventor and excluded that area where he himself felt competent and adequate for its promotion. After extensive development work which involved an expenditure of many hundreds of thousands of dollars, we were able to establish that the process did in fact work. As often happens in these cases, we found alternate solutions to our problems and have not to this day commercialized this invention.

In the meantime, in the field of endeavor which he reserved for himself, the inventor has proceeded to establish a business, has

licensed others in this field who were interested in it, and has made a tidy sum for himself.

I think here is an instance where field of use licensing has worked to the benefit of the inventor. It certainly has given the public every opportunity through our efforts to maximize the contribution from this technology.

The second instance is not such a happy one. The patentee here is a small businessman, small even when compared to Cameron Iron Works, in eastern Pennsylvania. This particular company was founded by an individual who is interested in the application of ultrasonic energy to welding, to metal drawing, and to extrusion. He had developed techniques for generating and transmitting ultrasonic energy efficiently to a work piece. His expertise lay primarily in the field of metal working. This would be in metal drawing and extrusion, and also in the extrusion of other materials such as plastics. He was not particularly expert in the welding field in the beginning, but he thought that an application of this particular technology for welding might be developed if he had the backing that he needed. To this end, he formed a subsidiary and licensed to this subsidiary the exclusive rights to exploit the welding capability of this technology and as a result, was able to get the financing that he needed to go ahead with his development work.

In time, he was able to add to his basic patent structure a patent on a specific piece of equipment that was useful in welding. It was found that the welding done ultrasonically did not impart heat to the workpiece. There was no distortion as a result of the work or the heat on a workpiece. The technique found some acceptance in the electronics industry for the welding of transistors, diodes and similar parts and electronic components.

In time, an alleged infringer appeared who at first did not make the total device but only a part of it and there was a question of contributory infringement. Discussions were begun with the alleged infringer, during which period of time he made a full unit and sold that. At about this period of time, the Department of Justice wrote a letter to the patentee and questioned him on his activities. This created a considerable diversion of energy and effort on the part of the patentee, who was busily trying to sell licenses to his invention and who had done so. The Department of Justice apparently decided in time that there was nothing here that warranted their attention and the matter was quietly dropped.

In the meantime, the suit for infringement was filed and discovery taken on the question of infringement and validity of the patent. Then the patentee found himself confronted with a series of charges alleging misuse of his patents and antitrust violations. The antitrust violation grew in part from the allegation that there was a conspiracy between the owner—that is, the originator of the technology—and the wholly owned subsidiary and licensee, in its field of use.

It is not my purpose here today to comment on the merits of the defenses that were raised in this case. I was not on the board of directors at that time, and had no personal involvement in the conduct of the business. I point out only that when an inventor, a man who had made a contribution to technology, tried to enforce

his patent, he found that the confusion existing in the law with respect to the field of use, with respect to the manner in which a patentee may collect and measure his royalties, contributed to charges of antitrust violations which greatly prolonged the litigation.

It is a fact that the financial burden involved in successfully defeating this antitrust charge and in eventually prevailing in the patent matter to the extent that a license was granted to the infringer, drove the patentee virtually to the stage of bankruptcy. I believe earnestly that if the confusion that then existed, and which would be dispelled in large measure by the Scott amendments, had been absent at the time of the original charges, the temptation for the defendant's attorneys to exploit the antitrust part of the litigation first rather than try the patent issue, would have been removed. This matter then could have moved toward an earlier decision and greatly lessened its burden on both the defendant and the plaintiff. We could have had a straightforward decision on infringement and patent validity and moved forward with the business. Others have profited by the contribution of this patentee to a much greater extent than he has. As a matter of fact, one could argue that having gotten a patent, he almost found it a license for bankruptcy.

The other situation that I will discuss with you this morning is one that I found in my own company, Union Carbide. This came to my attention just last week as I talked with some of my colleagues about the possibility of my appearing before the committee this morning. The technology that I will describe has been developed in our consumer products division and is currently being exploited commercially by it. Briefly, the technology consists of devices and systems for conveying very finely divided powders. Now, these powders are dispensed in an aerosol spray and to put this into context for you, currently most aerosol sprays contain 20 percent, plus or minus a little bit, of the active ingredient in the can that you buy. This system that we have developed permits us to dispense up to 95 percent of active ingredient and only five percent of the carrier material. Our consumer products group has a marketing organization and a manufacturing organization which has made it possible and feasible for them to undertake the promotion of this system in the personal products care line—I am speaking now about deodorants, feminine hygiene products, foot powder, and the like. I have here an example of the kind of spray that is useful in that application. You can see that there is a metered dose that comes out, enough for one application, and you can repeat this spray as many times as you like. That is being commercialized.

We have reason to believe that virtually the same technology and techniques would be useful in other areas, and I will mention some of these—in the dispensing of agricultural chemicals, sprays for insecticides, fertilizers and the like—a controlled spray where the powder is not dispersed by a whole body of aerosol, would be desirable.

Here we have a continuous spray—that is not insecticide.

Senator McClellan. Is that perfume?

Mr. Browning. That is perfume. Nothing harmful in the powder. But you can see that that would have some application in the agri-

cultural industry. We do not have a business selling to consumers in this particular field and probably will not, at least in the immediately foreseeable future, exploit that particular part of the technology. I will show you a couple of other examples.

This one—this is one that we think might have some use in the pharmaceutical industry in that the spray pattern that is laid down here results in a very concentrated deposit of material, so that one might use it in treating a wound. You can see the pattern is very controlled and you get a very concentrated dosage on the affected area.

And we think that there might be some use for these systems—not these materials, but these systems—in the food industry. We think in particular of powdered cocoa, powdered tea, powdered coffee. Here the idea would be to lay down a quantity of powder that is readily dissolved. You can see that there is no spray, no muss. It will lie right there in the cup and you can put the water in. And we are not in the food industry, we are not in the pharmaceutical industry.

The thing that I found that I think is pertinent to your consideration here is that the business people in the consumer products group who are charged with the responsibility at Union Carbide of maximizing the profit from these developments had attempted to license in the fields of use where they were not themselves interested. They had been advised by our attorneys that to do so would subject them to grave risks—namely, this: While we are making money and intend to continue to promote one part of the patent, if we license in a field of use that covers any one of these others, we jeopardize the patent rights that we hold on the total system and might find that the part of the business that we are operating in and which is covered by the patent would itself be compromised.

Now, the law does not say that today, but the law is confused to the point that our attorneys have told our business people not to license, even though there are some 60 companies on record as asking for licenses in these areas where we think the consumer could benefit.

Let me make myself clear, Mr. Chairman. I am not telling you that the business people involved here will continue in this business philosophy. They might indeed take the risk. But I am telling you that up to this point, they have been inhibited from taking it and I think the adoption of the Scott amendments would eliminate that cloud from their thinking.

These are the three instances I wanted to bring to your attention and I thank you for your sharing them with me.

Senator McCLELLAN. Thank you very much, Mr. Browning. Does your company also have a plant in Arkansas?

Mr. BROWNING. We do and we are mindful of your representation.

Senator McCLELLAN. Let those present here be notified that there are many good opportunities in Arkansas.

Mr. BROWNING. We have found it to be so.

Senator McCLELLAN. Thank you very much.

Any questions, Mr. Counsel?

Mr. BRENNAN. No.

(The prepared statement follows:)

STATEMENT
on
S. 643, S. 1255 and S. 1252
before the
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS
SENATE COMMITTEE ON THE JUDICIARY
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
JACKSON B. BROWNING
May 11, 1971

My name is Jackson B. Browning. I am Vice President-Technology, Carbon Products Division of the Union Carbide Corporation. My company is a member of the Chamber of Commerce of the United States, and I am here today to give the Chamber Federation's views in support of five legislative proposals relating to patents or the licensing of patents. With me is Marcus B. Finnegan, an attorney practicing in Washington, D.C.

In my present position with Union Carbide, I am responsible for the research, development and engineering activities of the Carbon Products Divisions. In addition, I have some responsibilities for a group of products useful in aerospace and nuclear applications. All patent activities of the Carbon Products Division report to my office, and I am actively engaged in negotiating patent licenses, both in the United States and abroad.

My previous managerial positions with Union Carbide also brought me in close touch with the patent system. From 1964 until 1968, for example, I served as General Manager of the New Products Department, Linde Division. In that capacity, I managed a number of profit centers based on patents and proprietary processes which the company had developed. Prior to that, I was Vice President of the subsidiary, Union Carbide Development Company, where I participated in negotiating patent licenses.

For the first 12 years of my tenure with the company -- 1948 to 1960 -- I held various positions in the Patent Department, including that of Associate Patent Counsel.

GENERAL POSITION AND STATEMENT STRUCTURE

While the call for hearings invited comment on the general subject of patent law revision, it asked particularly for views on five issues which have not been discussed in detail at previous hearings. Our statement today will be confined to these five issues:

I. Proposal clarifying a patent owner's right to let others use his patent upon reasonable terms and conditions (Amendment 24 to S. 643, the General Patent Law Revision Bill).

II. Proposal clarifying the idea that the patent statutes do not preempt the general law governing unpatented trade secrets and technical know-how (Amendment 23 to S. 643).

III. Proposal to repeal the mandatory patent licensing requirements in the Clean Air Amendments of 1970 -- so as to avoid mandatory licensing unless a clear need is shown (Section 46 of S. 643).

IV. Bill to increase the fees for patents and trademarks -- so as to make the Patent Office more self-sustaining (S. 1255).

V. Bill to give applications for inventors' certificates in foreign countries the same priority status as applications for patents -- so as to comply with previously signed international agreements (S. 1252 to amend Section 119 of the Patent Code).

In principle, the National Chamber supports each of these proposals. However, to avoid confusion, our reasons are set out in five separate parts, each addressed specifically to one of the pending issues. The different parts may be treated as distinct presentations.

PART I, AMENDMENT 24 TO S. 643

This amendment deals principally with the subject of patent licensing. It raises two general issues which we will take up under descriptive subheadings: Rule of Reason and Fair Play.

Rule of Reason

Under this issue, the amendment intends to encourage technical and economic progress by making clear that a patent owner may let others use his

patent upon reasonable terms and conditions. It does not intend to make new law, but to clarify established law.

It is established law that a patent owner -- if he chooses -- may license others to use his patent property. Like dealings with other kinds of property, this is necessarily done by contract in which the parties set down their respective rights and obligations. That is, the terms and conditions of use by the licensee are spelled out, much like the terms and conditions of use by a renter are spelled out in a lease for land. These may include such things as the purpose of use by the licensee, the royalty to be paid, and the manner of paying or calculating royalties.

It is established law that contract terms covering these topics are proper, when reasonably related to the incentives implied in the patent system. However, the owner may not impose terms and conditions which would amount to an illegal extension of his patent. He may not control articles of commerce that are not covered by his patent, or try to control or receive royalties for the use of patent articles after the patent itself has expired. To do so amounts to a misuse of the patent, and the owner may lose his right to enforce his patent against infringers. In extreme cases, he may also be guilty of an antitrust violation, and thus liable to government action or a private suit for treble damages.

Amendment Number 24 intends to make clear that this is the established law -- that reasonable conditions in patent licenses shall not be automatically or per se illegal. Pertinently, it would provide in Section 271(f)(2) --

> "No patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter only into -- an arrangement granting rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant."

This intended statutory "rule of reason" paraphrases to a large extent the law as expressed by the Supreme Court in the 1926 case of United States v. General Electric, 272 U.S. 476. There, the Department of Justice claimed that a condition in a license agreement, which allowed the licensor to set its

licensee's first-sale price, violated the antitrust laws. In holding otherwise, the Court said that a patentee may license another to make or sell his creation "for any royalty, or upon any condition the performance of which is reasonably within the reward which the patentee is entitled to secure."

In antitrust, it had been long recognized that ordinary business contracts necessarily restrict the parties to some degree -- but that restrictions are lawful when reasonable under the circumstances. This is commonly known as the "rule of reason." The 1926 holding of the Supreme Court in the General Electric case recognized that patent contracts can have their own rule of reason -- geared to the goals of the patent system, and the built-in means for achieving those goals.

The primary goal of the patent system is to give the public full benefit of continuing technical and economic progress. It achieves that goal by providing incentives for the innovator. Under the system, the innovator receives the exclusive right to make, use and sell his creation for the limited period of 17 years. This exclusive right -- with its expectation of profit reward -- is his incentive. It is basic, and was contemplated by the Nation's founders when they provided for patents in the Constitution.

By the patent law "rule of reason", a license contract reasonably designed to give the patent owner his promised reward is proper -- even though the contract may put some restrictions on the licensee. Unless license restrictions clearly extend the patent beyond its legitimate scope, antitrust questions are premature. Amendment 24 intends to make clear that the Constitutional promise of reward is fundamental to the patent system -- and that license terms reasonably related to that promise are proper. As the Supreme Court did in 1926, the amendment intends to accommodate antitrust policy to patent policy.

Legislative clarification of the licensable nature of patent rights is needed, because there has been no clear definition of what dealings with patent property qualify as being reasonably related to the Constitutional incentive. In 1966, President Johnson's Commission on the Patent System thus spoke of "uncertainty...as to the precise nature of the patent right..." It said:

> "This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses."

To remove this uncertainty, the Commission recommended that the "rule of reason" be formally written into the law by Congress. Amendment 24 is designed to carry out this recommendation.

The effect of the lack of clarity is rendered especially acute by recent actions and expressed intentions of the Department of Justice in attacking certain licensing practices. According to S. Chesterfield Oppenheim, former professor of law at George Washington University and the University of Michigan, the Department fails to differentiate between patent policy and antitrust policy. Speaking on April 21, 1971, before the Licensing Executives Society in Washington, Professor Oppenheim said that this failure "tends to defeat rather than to achieve an accommodation of patent and antitrust policies applied to licensing practices."

Since 1926, the Department of Justice has tried to overturn the "rule of reason", and officials of the Department intend to keep trying. In hearings of 1967 before this Subcommittee, Donald F. Turner, then Assistant Attorney General for Antitrust, expressed a belief that the doctrine would be completely overruled in time. More recently, the incumbent head of the Antitrust Division, Richard W. McLaren, expressed a like opinion in a speech to the Patent, Trademark, and Copyright Research Institute of George Washington University in 1969.

In both instances, the Assistant Attorneys General related their remarks to a specific license provision -- a requirement that the licensee sell at prices prescribed by the patent owner. But putting the price element aside, what is really involved is a general principle permitting varied other arrangements that are reasonably related to the patent owner's exercise of his exclusive right under his patent.

Besides setting out a general "rule of reason" in Section 271(f)(2), the Amendment refers specifically to such other arrangements -- intending to make clear that they should not be treated as automatic or per se violations of the patent or antitrust laws. Generally, the specific provisions can be categorized as relating to (a) a patent owner's freedom to license, and (b) his freedom to contract for and receive royalties from licensees.

In simplified form, two attached charts illustrate these other varied licensing arrangements and the Amendment intent: Chart A- Freedom to License (Blue); Chart B- Royalties (Gold).

If the general principle of reasonable terms and conditions is overturned, as predicted by the Department of Justice, all license provisions would be in doubt -- except the bare grant of a right to use and the simple statement of a royalty figure. But it would be irresponsible to forecast such an extreme result. It is more likely that the Department of Justice does intend to tolerate what it considers to be reasonable conditions. In his speech to the Patent, Trademark, and Copyright Research Institute, Mr. McLaren indicated some limited areas where license restrictions or conditions might be justified.

The trouble with this approach is that the Department seeks to operate without objective guidelines. It intends to abrogate the "rule of reason." If that is done, there would be little outside guidance left. In each instance, the Department or the Federal Trade Commission could develop their own criteria of lawfulness ad hoc. In fact, a statement prepared for the April 21 meeting of the Licensing Executives Society by Alan S. Ward, Director of the Federal Trade Commission's Bureau of Competition, recommended that patent owners should have license agreements cleared with the Government in advance, when the law is not clear. In effect, this suggests that patents are subject to agency regulation much like the regulation of public utilities.

There are at least two major faults in such a situation. First, the Government agencies would arrogate to themselves policy and legislative powers which properly belong to the Congress. Second, there would be no assurance of continuity in policy; each change in the Administration would entail a new process of learning the philosophies of the new administrative officers.

To a large extent, these problems already exist. The avowed intent of the Department of Justice to remove the "rule of reason" cannot help but intimidate the wary patent owner. Inability to predict what the law will be from day to day can only inhibit freedom of action and weaken the Constitutional incentive to innovate.

This effect was emphasized in a 1968 survey by the National Industrial Conference Board on the "Domestic Licensing Practices" of 165 manufacturing firms. Two statements included in the survey report by corporate executives will illustrate:

> "In United States licensing, it is becoming more and more difficult to outguess the Department of Justice and the Courts as to what may be considered misuse of the patents or a violation of the antitrust regulations."
>
> "All licenses must conform to the antitrust laws. Since no one knows precisely what these laws mean, or will mean next year, this is an area of much concern."

Besides permitting Government agencies to regulate patent licensing, a weakened rule of reason invites antitrust issues in ordinary patent litigation between private parties. Consider the situation of defendant's counsel in a suit for patent infringement. It is almost a standard tactic to defend by asserting antitrust violations on the part of a suing patent owner. A well-financed patent owner may willingly face costly litigation of this kind in order to establish judicial principles. An owner without adequate financial resources, on the other hand, may be forced to capitulate.

This is not to criticize the Bar. Attorneys are under a professional duty to defend their clients with all of the imaginative resources permitted by integrity. However, a clarification that reasonable license terms and conditions are proper would reduce the number of antitrust litigation issues of doubtful merit.

To summarize, the National Chamber supports the principle of a Congressionally enacted rule to permit patent transactions on terms and conditions designed to reasonably permit a patent owner to realize his Constitutionally promised reward. We are not committed, however, to the precise language in Amendment 24, and we understand that the sponsor, Senator Scott, is also willing to accept language changes. We believe that the Subcommittee will be in a position to develop improved language after it has heard and read the various statements presented at this hearing.

Fair Play

The National Chamber supports this aspect of Amendment 24, as set out in Sections 261(e) and (f). It evolves principally from a 1969 holding of the Supreme Court in the case of Lear Inc. v. Adkins, 395 U.S. 653.

The Lear case held that a patent licensee may challenge the validity of his licensor's patent -- and escape payment of royalties, if the challenge is successful. Prior to this holding, the licensee impliedly admitted that the patent was valid -- and he was estopped at common law from later attacking the validity of the patent under which he was licensed.

By making the validity of a patent subject to challenge at any time, the opinion tends to preserve the patent system's integrity. To keep the system strong, the claimed novelty or unobvious creativity of inventions should always be open to scrutiny.

The 1969 holding, however, presents problems of fairness, and could promote unnecessary litigation by encouraging challenges to patent validity. Consider the case of a patent owner who sells or assigns his patent to another. In sales or assignments, the owner does not warrant the patent's validity. Thus, in spite of the sale and his acceptance of consideration for the sale, under a logical extension of Lear, the assignor could keep using the patent, and then attack the validity of the patent, if the assignee tried to assert it against him.

A like situation could come up in the case of a licensee. He could contest the patent and evade paying royalties by winning the contest. By losing the contest, he would suffer no particular ill consequences, since he could simply resume payment of royalties and continue to exercise the privileges of the license.

Amendment 24 intends to require that challenges to a patent's validity by assignors (sellers) or licensees should follow principles of fairness and equity. If an assignor or seller, for example, denies the validity of a patent which he has himself sold, he should not be allowed to retain the proceeds of his sale. The Amendment would provide that a patent owner may not sell his patent and later claim that it was invalid, if (a) he does not return the purchase price received, and (b) he knew, or reasonably should have known, about the patent's invalidity when he made the sale.

The same principle of fairness should be applied to a licensee. He should decide whether to accept or deny the validity of his licensor's patent. He should not be allowed to claim the benefits of two inconsistent positions at the same time. If he denies validity of the patent covered by a license, he

should give up all rights to that patent under the license. Here, the Amendment would permit him to claim that his licensor's patent is invalid, but he would have to (a) first renounce all future benefit from the license, and (b) remain liable for royalties accruing prior to his renunciation.

It may be argued that the licensee should be free of all royalties under an invalid patent -- and that he should be able to recover royalties paid prior to his renunciation. But this fails to take into account the true nature of a license agreement and the benefits derived by the licensee. In accepting a license, the licensee gains immunity from suit for infringement by the owner, and normally he also receives at least some technical assistance and information on how to put the patent to use. All these privileges are valuable to the licensee, even though the patent may later be judged invalid.

By holding the licensee liable for royalties accruing before his renunciation, the amendment recognizes the value of these ancillary and incidental benefits, as well as the value of having immunity from suit. If the amendment did not contain this requirement, a crafty licensee -- with a license running over the entire life of the patent -- could wait until the last year, claim invalidity, and threaten suit to recover royalties paid to the owner over the years. In many cases, the likely result could be a cash settlement by the owner to avoid costly litigation. In fact, he might take this course, even when strongly convinced that his patent is valid.

PART II, AMENDMENT 23 TO S. 643

As distinguished from Amendment 24 (Part I), which covers dealings with patent property, this amendment covers unpatented industrial property of an intellectual nature -- particularly trade secrets. It intends to make clear that the general law governing trade secrets is not affected by the Patent Code. This is to say, it would state clearly that Congress does not intend to preempt the entire field of intellectual property law by legislating in the patent area.

The amendment is offered as an alternative to Section 301 in S. 643, the General Patent Law Revision Bill. Both versions of this section have the same purpose, and the National Chamber supports the principle of each. We believe,

however, that Amendment 23 would better achieve the desired goal, because it is stated in more specific terms.

Trade secrets and the like are valuable properties which give a businessman a chance to gain an advantage over competitors who do not have them. They may consist of such things as formulas for chemical compounds; processes of manufacturing treating or preserving materials; or patterns of machines and other devices. It is not uncommon for a trade secret owner to let another use his formula or process under a confidential royalty-bearing contract. If enacted, the amendment would protect an owner by allowing him to enforce contracts of this kind under general state or federal law.

The amendment is needed because of a dissenting opinion by Mr. Justice Black in the 1969 case of Lear Inc. v. Adkins (supra). There, Justice Black, who was joined by two other Justices, argued that license contracts for such things as trade secrets and know-how are not enforceable. The opinion rests on the idea that Congress preempted the field of intellectual property protection in passing the patent laws -- and that the states do not have power to enforce contracts covering such subjects, by reason of the Supremacy Clause in the Constitution.

It is not clear whether the rationale of this dissent will prevail, but it has been applied in at least one lower court. And it is a cause of confusion and hesitation for businessmen who wish to share valuable secret information with others. Enactment of Amendment 23 would clarify the situation and promote industrial progress by reopening the chances for information exchanges.

PART III, SECTION SIX OF S. 643

In effect, this Section of the General Patent Law Revision Bill would (1) repeal the mandatory patent licensing provisions in the Clean Air Amendments of 1970, and (2) provide for a review period to determine whether mandatory patent licensing is actually necessary to prevent environmental pollution. It contemplates that if mandatory licensing does prove necessary, legislation on the subject would be more appropriate in the Patent Code than in the Clean Air Amendments.

The mandatory licensing provisions were first placed in the Clean Air Act during deliberations by the Conference Committee. Consequently, these provisions came into the law without hearings or public debate. There was no proof of necessity, and evidence of need is still undeveloped. The right of a patent owner to exclude all others from using his creation is so fundamental to the incentives implied in the patent system that it should not be abridged without a clear showing of necessity.

We, therefore, support Section Six and urge the Congress to provide for a review period to determine whether a patent owner should be compelled to share his invention. If mandatory licensing does prove necessary, we agree with the thought of Section Six that such a provision should be contained in the Patent Code itself.

PART IV, S. 1255

In general, this bill would amend the Patent Code to (1) increase the fees payable to the Patent Office in connection with patent and trademark applications, and (2) require that the Patent Commissioner recommend to the Congress adjustments in the fee schedule, when the fees collected by the Patent Office consistently fall below 65 percent of the Office's operating cost.

The bill's purpose is to make the Patent Office more nearly self-supporting -- and place a greater burden of operation on patent and trademark applicants.

This seems to imply that the creative segment of society (patent and trademark applicants) is the major beneficiary of the patent system. But, the general public is the ultimate and major economic beneficiary and should bear a greater part of the Patent Office operating cost than is contemplated by the bill.

Nevertheless, we agree that a reasonable allocation of operating costs between applicants and the general public is fair. While we believe that the allocation contemplated in the bill is weighted too heavily against the applicants, we are confident that Congress will make the decision which it feels proper -- and we are willing to accept that decision.

But, going further, we feel very strongly that the monies collected by the Patent Office should be put to their most efficient use. For example, a major portion of Patent Office expenditures relates to printing expenses. In this area, the Commissioner should have the opportunity and the obligation to secure printing in the most efficient way, commensurate with minimum cost.

Congress might aid this cause by relieving the Commissioner of his present duty to use the services of the Government Printing Office -- when printing can be done as well, and at lower cost, elsewhere.

PART V, S. 1252

We support the passage of this bill which would carry into effect a provision of the Convention of Paris for the Protection of Industrial Property, as revised at Stockholm, Sweden, July 14, 1967.

More specifically, the bill would (1) recognize an inventor's certificate as a form of protection for industrial property in a major industrial nation (the USSR), and (2) give applications for inventors' certificates in foreign countries the same right of priority as are now given to applications for patents under Section 119 of the Patent Code.

Essentially there are two reasons for our position. First, we feel that recognition of inventors' certificates as the basis for a claim of priority may accelerate the flow of new technology from the USSR by facilitating filings for patent protection in other countries of the world by the creators of such new technology. Second, passage of the pending bill is a desirable step in facilitating ratification of the 1967 Stockholm Revision and the Patent Cooperation Treaty signed at Washington, D.C. in June, 1970.

In considering a priority based on an application for an inventor's certificate, we recognize that the inventor's rights under the certificate differ from those granted by a United States patent or a patent granted by the USSR. We observe, however, that the requirement for disclosure of new technology in an application for a certificate is essentially the same as that involved in an application for a United States patent and that the safeguards as to the date and authenticity of disclosure are essentially the same in both cases.

CHART A - FREEDOM TO LICENSE, AMENDMENT 24 TO S. 643

Explanation	Problem	Amendment
General. A patent owner's rights to his invention for 17 years includes the right to use the patent himself, or let others use it if he chooses.	President Johnson's Commission on the Patent System recommended that the licensable nature of the rights granted by a patent should be clarified by amending the patent laws.	Makes clear that patent owner, like owner of other property, is free to let others use his patent as he chooses -- Sec. 261(b)(1), (2). Does not intend to change rule that compulsory patent licensing may be ordered by court to correct antitrust violation.
Partial Licenses. Like the owner of other property, a patent owner may sell his rights. Short of selling, he may let others use the patent under licenses. The sale may be likened to a deed for land; the license can be compared to a lease, where the owner keeps title. Going a step further, the owner may license another to use part of his patent. He may give some rights to one licensee and different rights to another. He may give one licensee the right to use his patent in the West, and another the right to use it in the East. This is like two separate leases out	Non-abusive partial licenses are lawful. To give the public full benefit of new developments, they may be necessary. If an owner has resources to operate only in the East, the public benefits if he lets another use his rights in the West. Likewise, a patent may be put to several uses, but can only be used for one purpose by the owner. The public benefits if he lets others use it for other purposes. Objectors argue that partial licenses could permit patent owners to set up protected	Makes clear that patent owner may: - Sell his patent - Sell part of patent - License all of patent - License part of patent - Choose buyers and licensees on exclusive or non-exclusive basis -- Secs. 261(b)(1), (2); 271(f)(1).

Explanation	Problem	Amendment
of a land tract. Or, he may let another use his patent for a particular purpose, like the making of radios. This can be compared to the renting of a single room to a boarder, while the owner keeps the rest of the house for himself.	territories for different licensees who might otherwise compete with each other. This overlooks logic. A patent owner may keep all of his rights to himself. When he gives partial licenses, he opens up the chances for competition. Without the owner's permission, others could not use the patent at all.	Does not intend to free abuse of partial license from antitrust -- but to make clear that non-abusive partial sales and licenses are not automatic or per se violations of patent or antitrust laws.
Cross License. Sometimes patent owners may want to use patents held by others. Owner X wants to use a patent owned by Z, and Z wants to use a patent owned by X. They agree to trade. On occasion owners exchange (or cross license) patents as the only reasonable way to settle infringement disputes.	Present court interpretations permit reasonable license exchanges. But opponents argue that express provision in law to permit exchanges could lead to control of an entire industry by a few patent owners -- especially where owners give each other exclusive rights.	Makes clear that it is not automatically unlawful for a patent owner to require a non-exclusive right to use patents owned by his licensee -- Sec. 271(g)(1).
Reasonable Licenses. The Supreme Court has held that a patent owner may license others to use his patent under reasonable terms and conditions -- which permit him to secure the full benefit of his patent.	The Supreme Court holding is an interpretive rule. There is no express language on the point in the Code. Therefore, President Johnson's Commission on the Patent System recommended that Congress enact such a rule into statutory form.	Makes clear that the patent owner, like the owner of other property, may freely contract with regard to his property in a reasonable manner to secure the full benefit of his patent -- Sec. 271(f)(2).

CHART B - ROYALTIES, AMENDMENT 24 TO S. 643

Explanation	Problem	Amendment
Price. In general, a patent user (licensee) pays the owner whatever he thinks the privilege is worth -- as he would with other kinds of property. The price is an item of private bargaining -- and not subject to government regulation as in the case of public utilities.	In at least one case, a court said that a royalty price may be unlawful -- if judged to be too high. Although this holding is of doubtful authority, it is a source of confusion.	Makes clear that it is not automatically unlawful for a patent owner to decide what royalty prices to charge -- Sec. 271(g)(2)(A)
Installments. For economic reasons, a licensee may want to spread his payment for the license over a period extending beyond the 17 year patent period.	Opponents argue that payments of this kind could permit the patent owner to stretch his patent beyond the legal limit and bind the licensee after the patent has expired.	Recognizes legality of installments paid after 17 year period, but only for past use occuring before end of 17 years -- Sec. 271(g)(2)(A).
Base, Unpatented Item. Ideally, royalties are based on the number of patented products made or sold. But sometimes royalties cannot be calculated on this basis. Example: The patent is not on a new product, but on a new process for making an old product. For convenience, the parties may agree to base the royalty on the number of unpatented products made with the patented process.	Royalties figured in this way are normally lawful, when devised for the convenience of the owner and licensee. However, there has been objection that this method could permit stretching of the patent to control the manufacture and price of unpatented products.	Makes clear that it is not automatically unlawful for a patent owner to decide that royalties should be based on something other than the patent itself -- Sec. 271(g)(2)(A)(B). Does not intend to permit patent stretching. Antitrust laws have been applied to royalty methods designed to control manufacture or price of unpatented products. Amendment does not intend to change rule.

Explanation	Problem	Amendment
Base, Unused Patents. In complex situations, a number of patents may be held by one owner. Some of the devices may be alternatives for doing the same job, like different devices used in making radios. Without knowing in advance which of the devices he will use, a licensee may want to take all of the patents in a single license. Since the licensee gets the privilege of using all of the devices, a fixed royalty may be set on the number of finished products -- even though all of the devices are not used in the product.	Royalties figured in this way have been held lawful on the basis of convenience -- or on the idea that the licensee is paying for the privilege of using all of the patents, although he might not do so. Objectors argue that this could permit an owner to force a licensee to take patents that he does not want.	Makes clear that it is not automatically unlawful for a patent owner to decide that a single royalty should be charged for a group of patents -- even though some of the patents may not be used -- Sec. 271(g)(2)(B). Intends to permit parties to devise reasonable and convenient methods for calculating royalties -- to fit individual situations. Does not intend to permit owner to force licensee to take something that he does not want.
Package Licenses. Another aspect of single royalty for several patents. A group of related patents may be designed to do the same job under different conditions. Some in the group may do different parts of the job. Taken together, the group is a unit, and a licensee may want all -- even though he does not know in advance the actual conditions of use. Since the group of patents is a unit, a single royalty may be set.	Problems can come when some of patents in the package start to expire, without any cut in royalties. Here, argument is made that by failing to cut royalties, the patent owner is stretching the life of his expired patents. Legally, the issue is in confusion. The Supreme Court has held that a failure to cut royalties is not unlawful,	Makes clear that it is not automatically unlawful for a patent owner to decide that a single royalty should be charged for a group of patents -- without stating a separate price for each patent in the group -- Sec. 271(g)(2)(C).

Explanation	Problem	Amendment
	but a later statement by the Court raises doubts. And different results have been reached in some of the lower Courts.	
Royalty Differentials. When a patent owner gives licenses to more than one person, the royalties may be different. In each instance, it is a question of private parties reaching a bargain. Because of different intended uses or different markets, the license may be worth more to one user than to another. Each pays what he thinks the privilege is worth.	Different royalties by different users have been regarded as proper in the past. This is based on the purpose of the patent system -- to encourage progress by giving incentives to innovators. Impliedly, the innovator (patent owner) may seek profitable bargains. However, some recent lower court decisions give patent owners the impression that uniform royalty rates may become a legal requirement. These decisions rest on more than price differentials. But patent owners are confused about their rights -- even though logic argues for the right to charge different rates. By giving licenses (even at different rates) an owner is putting competition in the field -- when he could exclude all other users.	Makes clear that it is not automatically unlawful for a patent owner to decide that different licensees should pay different royalties -- Sec. 271(g)(2)(D).

Senator McCLELLAN. We originally had the afternoon hearing scheduled for 2 o'clock. Due to some other pressing appointments I have, I am going to advance the afternoon session to 1:30. I hope we will be ready to move at that time so as to finish early.

I want to thank each one of you gentlemen. If you wish to submit additional statements or information to the committee, it will be received and placed in the record.

(Whereupon, at 11:45 a.m., the subcommittee was recessed until 1:30 p.m. of the same day.)

AFTERNOON SESSION

Senator McCLELLAN. Very well. We have scheduled for this afternoon Mr. James T. Lynn, Under Secretary of Commerce, and Mr. William Schuyler, Commissioner of Patents; Mr. Richard W. McLaren, Assistant Attorney General, Antitrust Division, Department of Justice.

I believe our first witness scheduled is Mr. Lynn.

Mr. Lynn, I note you have a quite lengthy statement. I would hope that you would be willing to insert it in the record and highlight it.

STATEMENT OF JAMES T. LYNN, UNDER SECRETARY OF COMMERCE; ACCOMPANIED BY WILLIAM E. SCHUYLER, JR., COMMISSIONER OF PATENTS, AND RENE D. TEGTMEYER, ASSISTANT COMMISSIONER OF PATENTS

Mr. LYNN. We certainly are willing to do that, Mr. Chairman. I would like to introduce in addition to Commissioner Schuyler, Assistant Commissioner Rene Tegtmeyer as well.

Senator McCLELLAN. Very well, we are glad to welcome you.

Mr. LYNN. As a starter, let me say, Mr. Chairman, that we have made an effort in our written statement to condense the material that is set forth in some detail, as you have noted, in our letter to the committee, which is attached to the statement. In an effort, however, to save further time of the committee, I would like if I could simply to point out that the discussion on inventors' certificates and Patent Office fees is set forth at the end of my prepared remarks and unless you would desire otherwise, I will not cover those subjects in my oral statement.

Senator McCLELLAN. I notice what you are now referring to is condensed to about 15½ pages. If you wish to read part of it or most of it, you may proceed to do so if you think that is a better way for you to make your presentation. Any part you do not read will be printed in the record. So you may proceed.

Mr. LYNN. All right. Thank you.

I am pleased to be here this afternoon to discuss the views of the Department of Commerce on amendments Nos. 23 and 24 of S. 643, introduced on March 19, 1971, by Senator Scott.

The views I express here this afternoon are those of the Department of Commerce. The Department of Justice has certain reservations about the positions we have taken and will express its own views on the subject.

Senator McCLELLAN. I think we can state unequivocally, then, that the Government as such or the administration as such does not have a policy with respect to this legislation; there is a divided opinion in the administration as to the merits of these amendments?

Mr. LYNN. That is right, Mr. Chairman. The administration has decided that the best contribution it can make to the resolution of these important legislative issues is to share with this committee its analysis of the problems and the points of views which express both the interests of patent holders and general antitrust objectives. The latter will be provided by the Justice Department witnesses.

I will also comment upon the proposed repeal of section 308 of the recently enacted Clean Air Act of 1970. Our written statement, as I have said, will cover S. 1255 relating to patent and trademark fees and S. 1252 covering the right to priority with respect to inventors' certificates.

The Department's views on S. 643 and amendments Nos. 23 and 24 thereto are contained in a letter of comment which is appended to my statement. The comments I shall make here this afternoon summarize the views we have put forth in that letter.

Amendments Nos. 23 and 24 clarify the licensable nature of the patent grant, establish equitable rules governing the right of licensees and assignors to contest patent validity and continue the traditional right, put in question by recent court decisions, of States to protect know-how and trade secrets and provide remedies against unfair competition.

Our patent system was established with the recognition that substantial rewards and protection must be provided to encourage exploration, research and development, to encourage the disclosure and publication of new technology, to encourage the development of new inventions and to encourage the often substantial investments needed to bring the fruits of these labors to the marketplace for the common good. It is these incentives that, in turn, encourage businesses to compete in efforts to develop and utilize new technology.

The maintenance of technological superiority is crucial to our status as the world's major trading power. And dilution in the incentives to invent and commercialize new inventions can be translated into a decline in our export trade and the substitution of foreign-origin products for those of American industry. Moreover, maintenance and encouragement of research and development is a vital factor in increased productivity. In turn, increased productivity is the vital factor in increased real income.

The Congress in recent years has conducted studies of the patent system, including some 30 studies between 1955 and 1962 under the auspices of the Subcommittee on Patents, Trademarks, and Copyrights of your committee. In 1966, the President's Commission on the Patent System recommended a number of far-reaching changes, many of which are reflected in S. 643 and the Scott amendments.

The Department considers that with certain modifications we will discuss, the Scott amendments provide a desirable revision of the patent laws and we strongly support their enactment with such modifications.

1. LICENSES AND OTHER TRANSFERS OF PATENT RIGHTS

The patent and antitrust laws are both critically important to the American economic system. It has always been understood that the strong but limited and temporary monopoly accorded inventors under the patent laws serves this system by encouraging the development and exploitation of inventions and the bringing of the benefits thereof to the public. The creation and utilization of new inventions almost always demands risk capital, which will not be available unless patent rights are guaranteed to inventors and investors alike with clarity and certainty.

The freedom and certainty that a patent owner will have in licensing or otherwise transferring his patent is critical to the functioning of the patent system. The greater this freedom and certainty, the greater the incentives to invent and to invest in the commercialization of new inventions and to license others to use the new technology.

Also at issue is whether the validity of particular, commonplace licensing practices ought to be subject to further uncertainties, or whether a statutory clarification of the rights of patent owners is appropriate. In recent years, the patentee's rights under the law have been made uncertain through a series of attacks on well-established licensing practices.

Since enactment of the Sherman and Clayton acts there has existed a natural tension between the patent monopoly which is grounded in the Constitution and the antitrust laws which are the product of congressional action regulating commerce. In 1955, a half-century of legal precedents in the patent/antitrust area was summarized in the Report of the Attorney General's National Committee to Study the Antitrust Laws. That report is an acknowledged landmark. It recognized as law and endorsed the correctness of positions, including the rule of reason, that are entirely consistent with the legislative proposals we make in our letter.

Since 1955, however, there have been continuing judicial inroads, through case-by-case "development," on the freedom of patent owners. This movement resulted in the 1966 Report of the President's Commission on the Patent System. This Commission consisted of a bipartisan group of researchers, inventors, academicians, businessmen, and attorneys, with only two of the 14 members coming from the patent bar.

The President's Commission on the Patent System, recommendation XXII, proposed the amendment of the patent laws to clarify certain aspects of the licensable nature of patents. Recommendation XXII recognized that uncertainty had been created as to the legality of common licensing practices and that patentees had become chary of licensing their patents at all. The Commission recommended that field of use licensing and the traditional rule of reason (as recommended hereinafter) should be given statutory recognition in the patent code.

The further erosion of patent rights in the courts since that time has made clarification imperative. There has been little discussion until recently as to the precise form that any clarification should take.

This Department, recognizing the urgency of a statutory clarification to afford some certainty for patent owners without impairing the effectiveness of either the patent or antitrust laws, recommends amendments to sections 261 and 271 of S. 643. With some exceptions, these recommendations correspond to amendments Nos. 23 and 24 to S. 643, introduced by Senator Scott. We are in general agreement with the Scott amendments, but prefer our recommendations for reasons I shall hereinafter discuss.

While we know of no studies that show, with mathematical certainty, the significance of the licensing practices at issue, or the adverse economic impact of the recently generated uncertainties in the law, we believe that what is known supports our view that these practices and developments are important to the value of the patent grant.

2. LICENSEE AND ASSIGNOR ESTOPPEL

A patent confers on the patent owner the right to exclude others from making, using, or selling his invention for a period presently established at 17 years. A person who infringes the patent by practicing the invention without the patentee's permission may be enjoined or sued for damages, or both. When a patentee licenses his patent, he is in effect agreeing not to exercise his right to exclude the licensee from practicing the invention, in exchange for legal consideration from the licensee, usually by the payment of royalties.

Occasionally, a licensee decides for one reason or another that his license is a bad bargain and attempts to void it by asserting in court that the licensed patent is invalid. Courts, in upholding rights and obligations under patent licenses, have historically, under the doctrine of licensee estoppel, prohibited attacks by a licensee on the validity of the licensed patent.

A related doctrine is that of assignor estoppel. Assignor estoppel comes into consideration when a patentee, after selling his patent to another, attempts to practice the invention and avoid infringement by asserting that the patent is invalid.

The recent Supreme Court decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), overruled a host of earlier cases and held that a licensee is not estopped from challenging the validity of a patent under which he is licensed. This decision is generally thought to have completely overruled the long-standing doctrines of licensee and assignor estoppel. In our view, legislative modification of the *Lear* decision is necessary in the interest of both fairness and encouragement of transfers of patent rights.

The unfairness results because a licensee may refuse to pay agreed-upon patent royalties while enjoying immunity from injunction as an infringer because of his status as a licensee.

Although the moderating influence of the estoppel doctrine discouraged such practices by licensees before *Lear*, it is already becoming common practice for would-be infringers to accept the shield of a patent license and then challenge the validity of a patent.

In order to eliminate the unfairness of the *Lear* case, we have drafted a new provision which is set forth, with supporting reasons, at pages 27 through 30 of our letter.

3. RULE OF REASON

Amendment No. 24 would codify a "rule of reason" for determining the legality of agreements transferring patent rights. A revised version of a similar rule that we endorse is set forth at pages 30–31 of our letter.

Our rule would not change existing decisional law, but it would settle uncertainties that have been created by the writings of numerous commentators.

There are a number of licensing practices in common use today; e.g., package licenses, various kinds of royalty arrangements, and patent pools, about which doubts exist as to their enforceability in light of the patent misuse doctrine. In our opinion, a rule of reason should be adopted in judging the propriety of these and other commercial practices. Each licensing situation should be judged on its merits in light of all the surrounding circumstances in determining whether or not the license in question goes beyond the reasonable reward a patentee may receive for his patent. Also, the legality of yet untested practices should be judged in accordance with a rule of reason.

This proposal is supported by the leading case of *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), and the later decided cases, and by both the 1955 Attorney General's Report and the 1966 Report of the President's Commission.

Our provision takes into account a number of exceptions to the rule of reason, thereby continuing the prevalent line of judicial reasoning as to these enumerated exceptions. The fact that these exceptions are excluded from consideration under the standard of our proposed subsection does not automatically make them per se illegal. Rather, they would be treated as if no patent exists. Therefore, they would retain their present legal status under court decisions. We point out that none of the five licensing practices enumerated as falling outside the rule of reason we propose are now judicially condemned as per se illegal.

4. ROYALTIES

Amendment No. 24 relates to the legality of various royalty and payment provisions. Somewhat different language that we support can be found at pages 33–34 of our letter.

Royalty and payment provisions are the subject of proposed section 271(i). Provisions of this kind have been closely examined by courts, and a considerable body of law has developed around their legality or illegality. Our proposed section identifies commonly used royalty or pricing practices which, standing alone, parties should be able to include in patent licensing agreements. If other factors or circumstances are present in a license, the rule of reason would be applied in considering the legality and enforcibility of the license.

The specific applications of the proposed provision, and the existing case law are discussed in detail at pages 34 through 38 of our letter.

5. THE LICENSE OF LESS THAN THE TOTAL PATENT RIGHT

Our recommended provisions with respect to "field of use" licenses may be found at page 39 of our letter. These provisions codify the well-settled rule of the *General Talking Pictures* case, and numerous later cases. They would specifically authorize a number of conventional licensing practices where a license is given for less than the totality of patent rights possessed by the patent owner.

Field-of-use licenses are commonplace and there are a rich variety of excellent reasons for such licenses. Specific applications of our suggested provisions, along with a description of existing case law and the reasons why these provisions are justified are set forth at pages 39 through 41 of our letter.

The proposed subsection, however, does not immunize from the antitrust laws or the doctrine of patent misuse any license for less than the entire patent rights where the license also imposes improper conditions on a licensee or where there are factors or circumstances surrounding the license which may require evaluation under a rule of reason.

We recognize that amendment No. 24 to S. 643 is intended to accomplish this same purpose. Our proposal, however, seems clearer and less likely to create confusion over its meaning.

6. THE PREEMPTION OF PROPRIETARY RIGHTS

A recent opinion of the U.S. Supreme Court has brought into question the extent of protection available outside of the patent system for trade secrets, technological know-how and similar kinds of proprietary knowledge. If the opinion in this case is not modified, it could not only lead to abrogation of domestic agreements concerning trade secrets, know-how and confidential disclosures, but could also lead to the setting aside of agreements made in this country with foreign nationals involving over $1 billion in favorable balance of payments.

The proposed section would prevent preemption by the patent laws of rights which are enforceable today only by private contract, or otherwise recognized under State or other Federal laws. Also, it would permit States to continue recognizing the common practice of licensing or selling inventions for which an application for patent is pending.

The section, as pointed out above, further assures against encroachment of the right of States to guard against certain unfair trade practices. It would permit States, for example, to provide redress by labeling and the like against certain kinds of unfair competition, such as the copying of an article so as to create confusion as to its origin or the palming off of goods.

The department endorses section 301 of S. 643, and would not object to enactment of amendment No. 23 of Senator Scott.

7. AMENDMENT OF THE CLEAN AIR ACT

Section 6 of the transitional and supplementary provisions of S. 643 would repeal section 308 of the recently enacted Clean Air

Act of 1970. That law requires the compulsory licensing of patented inventions relating to air pollution. We support repealing this compulsory licensing provision on the ground that the act as presently drafted will undermine the role of the patent system and remove the incentive for technological innovations, particularly with respect to independent inventors.

The constitutionally authorized protection the patent system accords to inventors is a key element in spurring the development of new technology. A system of compulsory licensing may significantly deter these incentives, especially in areas when the need for innovation is so urgent. Also, there is no evidence that the developers of new air pollution control technology would refuse to make it available either under licenses or by direct sales to users.

That, Mr. Chairman, would complete my formal remarks.

Thank you very much.

Senator McCLELLAN. Mr. Brennan, do you have any questions?

Mr. BRENNAN. I think it might be helpful, Mr. Chairman, just for the record, to have some brief comments on the patent fee question, because there will be later testimony on that point, and I think it will be well to have at least some remarks in the record concerning the department's viewpoint—either Mr. Lynn, or the Commissioner, as you wish, just to summarize the department's recommendations.

Mr. LYNN. I think I can do that best by referring to my formal remarks.

Senator McCLELLAN. I think so, yes.

Mr. LYNN. S. 1255 would adjust the Patent Office fee schedule. It would increase the level of certain fees and change the nature of some fees.

However, the specific amounts of most fees would continue to be fixed by statute.

The income from Patent Office fees has now fallen to about 50 percent of the costs of operating the Patent Office. S. 1255 would increase the income to the general area of 75 percent of costs.

The Department of Commerce supports Patent Office fees which would recover a fair share of Patent Office operating costs from the special beneficiaries of the patent and trademark systems.

Congress last adjusted Patent Office fees in 1965, after extensive hearings on the subject. Now it appears that further fee increases are called for.

To avoid the necessity for frequent consideration of the fee question, the Department of Commerce believes that instead of setting specific fee levels by legislation, it would be preferable for the Congress to enact general guidelines concerning Patent Office fees, and authorize the Commissioner of Patents to adjust fees within these guidelines.

Consistent with established Government policy on user charges, it is believed that Patent Office fees should recover 100 percent of the costs of providing services of the Patent Office which convey special benefits to recipients above and beyond those accruing to the public at large.

Senator McCLELLAN. May I interrupt?

Mr. LYNN. Yes, certainly.

Senator MCCLELLAN. Do I understand that it is the policy or the recommendation of the Department of Commerce that fees be fixed at a rate or at a level that will fully recover the cost of operating the patent department?

Mr. LYNN. No, sir.

Commissioner Schuyler, you can correct me on this if I am wrong.

Senator MCCLELLAN. I thought I heard you say it.

Mr. LYNN. No, Mr. Chairman, my comment was limited to recovering 100 percent of the cost of providing those services which do not accrue to the benefit of the public at large—the direct and immediate costs of examining patent and trademark applications and providing other services to special beneficiaries.

Senator MCCLELLAN. I see. I did not quite understand you. I heard that 100 percent.

Let me ask you what you believe is a fair proportion—I thought I heard you say it a while ago——

Mr. LYNN. I did, sir.

Senator MCCLELLAN. Percentagewise, what do you think is fair as between the patentees and the taxpayers?

Mr. LYNN. Commissioner Schuyler, do you want to take this?

Mr. SCHUYLER. I believe, Mr. Chairman, that the position of the administration is that the expenses of the Patent Office should be divided into several categories.

For these services which benefit users or applicants for patents or applicants for trademarks, the fee should be set to cover 100 percent of the expense, but any expenses of services of the Patent Office which accrue to the benefit of the public at large and do not inure directly to the benefit of one of the users of the Patent Office would be supported by appropriated funds.

Senator MCCLELLAN. In theory that is good, I suppose. If they are going to make a profit, they ought to pay the cost of whatever is involved in procuring the patent insofar as he is going to be the owner of it and have a license or exclusive right to market it, and so forth. But overall, I am sure you have some idea of what this will amount to, your recommendations percentagewise, taking the total cost of the operation of the Patent Office.

What percentage, now, will go each way here to the taxpayer and to the licensee?

Mr. SCHUYLER. As we would contemplate the application of this policy to Patent Office fees, although this matter has not yet been fully settled, it would cover about 80 percent of the total present costs.

Senator MCCLELLAN. The fees would cover about 80 percent?

Mr. SCHUYLER. Yes, sir.

Senator MCCLELLAN. I think Congress, the last time we acted on this, tried to arrive at a level of fees that would produce about two-thirds of the cost of operating the Office, is that right?

Mr. SCHUYLER. Yes, sir, I believe that is correct.

Senator MCCLELLAN. So your recommendation would be even a little higher than that?

Mr. SCHUYLER. That is correct, sir.

Senator McCLELLAN. About 12 or 15 percent higher.

Mr. SCHUYLER. Yes, sir.

Senator McCLELLAN. Very well.

Mr. BRENNAN. I think we have covered the patent fee question, Mr. Chairman, but Senator Hart would like for me to ask the same question I asked this morning, ask it now of Mr. Lynn.

What cases brought by the Department of Justice have caused the uncertainty in the law that you believe should be corrected by legislation?

Mr. LYNN. I believe that the letter that we submitted touches on a number of cases, but what I would like to do if I might, Mr. Chairman, is submit those for the record.

I would like to add, however, that it is not just a matter of the cases that have already been decided. I think it is very important to emphasize that the concern arises at least as much from the comments that appear in various trade journals—I should say law reviews—including speeches of people within and without Government over a period of time.

Senator McCLELLAN. Well, why does that become law? I do not understand that.

Mr. LYNN. These things have a way, I think, Mr. Chairman, of influencing the courts. They will look at a man who has written extensively on the subject and, after a while, start considering his work as a restatement, and that can become unfortunate, I believe.

Senator McCLELLAN. In other words, the courts sometimes instead of making their own interpretations, look to others outside that they regard as competent, for counsel in that field and follow, sometimes, their conclusions. Is that right?

Mr. LYNN. You put it much better than I, sir.

Senator McCLELLAN. Well, I thought that is what you meant.

Mr. LYNN. Right.

Senator McCLELLAN. Go ahead.

Mr. LYNN. May I add that one of the things that is so important is that when the man that has some patent rights sits down with his lawyer, they are able to frame, with some certainty, provisions that they know will hold up over a period of time.

It is this drift, or development of the law that makes it so hard for the practicing lawyer to advise his client as to what he may or may not put into the license.

One quotation from a recent speech given within the Government—I should not say within the Government but by a Government official—included the following:

> In considering whether to attack a particular licensing provision or practice, we ask ourselves two fundamental questions. First, is the particular provision justifiable as necessary to the patentee's exploitation of his lawful monopoly?
>
> "Second, are less restrictive alternatives which are more likely to foster competition available to the patentee?

As a fellow who practiced in the area, I find that an extremely difficult test to apply in the heat of a negotiation.

Senator McCLELLAN. Well, I have heard a great deal of testimony from experts in the past few years in the patent law and copyright law and so forth. Sometimes I conclude that copyright and patent

laws are just about as complex and as difficult to rely on—that is former decisions of the court—as other complications involved in the rights between society and the criminal.

It is just about as confusing, is it not?

Mr. LYNN. That is a very interesting observation.

Senator MCCLELLAN. Thank you very much.

Did you want to say anything further, Mr. Schuyler?

Mr. SCHUYLER. No, Mr. Chairman; thank you.

Senator MCCLELLAN. Thank you.

Did you have anything you wanted to say?

Mr. TEGTMEYER. No, thank you.

(The letter referred to above follows:)

THE UNDER SECRETARY OF COMMERCE,
Washington, D.C., June 2, 1971.

Hon. JOHN L. MCCLELLAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCCLELLAN: During the recent hearings on patetn law revision before the Subcommittee on Patents, Trademarks and Copyrights, the Chief Counsel asked on Senator Hart's behalf what cases brought by the Justice Department have caused uncertainty in the law that we believe should be corrected by legislation.

Government agencies charged with enforcement of the antitrust laws and the preservation of competition recognize the need for certainty of legal rights in patents and technology. In seeking to provide certainty, officials of the Department of Justice have identified patent licensing practices which they consider as improper and the possible subjects of law suits. However, in our opinion, these public statements and suits have contributed to the present confusion. The following excerpts are examples of statements which have contributed to this concern and confusion, perhaps even more than cases which have been decided to date.

Baddia J. Rashid, Deputy Director of Operations for the Antitrust Division, explained to the Peninsula Patent Association in Palo Alto, California, on January 19, 1966 that:

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

Richard W. McLaren, Assistant Attorney General for Antitrust, explained to the PTC Research Institute of George Washington University, on June 5, 1969:

"I anticipate that we will be bringing cases which seem to us to be logical next steps in the development of the law."

Mr. McLaren then stated his intention to question some types of field of use licenses and bulk sale restrictions, restrictions on the form or manner or resale of patented products, and contractual provisions which tend to inhibit the granting of future licenses.

At the same time, he stated a two-part test for determining whether or not the Justice Department would bring a patent antitrust suit:

"In considering whether to attack a particular licensing provision or practice, we ask ourselves two fundamental questions. First, is the particular provision justifiable as necessary to the patentee's exploritation of his lawful monopoly? Second, are less restrictive alternatives which are more likely to foster competition available to the patentee? Where the answer to the first question is no, and to the second yes, we will consider bringing a case challenging the restriction involved."

As I explained in my testimony, application of this "test" in the heat of negotiations is at best difficult and at worst impossible. Moreover, it represents a significant departure from controlling judicial doctrine in the field.

Mr. McLaren on another occasion (on October 16, 1970 in Williamsburg, Va.) explained his views on judging know-how licenses:

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

Bruce B. Wilson, formerly Mr. McLaren's Special Assistant in Boston on November 6, 1970, seemingly adopted Mr. McLaren's *three-part* test for know-how licenses as applicable to patent licensing practices not illegal per se, namely:

Most practices other than these, we believe, have a wider scope for justification under the rule of reason—that is to say, a practice which may be perfectly reasonable if employed in one context may clearly be unreasonable in another. I shall discuss some of these practices in a few moments. But first, let me outline the rule of reason as we see it. The rule of reason is derived from the ancient doctrine of ancillary restraints, and embraces three principal elements. First, the restriction must be ancillary to carrying out the lawful primary purpose of the agreement. Second, the scope and duration of the restraint must be no broader than is necessary to support that primary purpose. And third, the restriction must be otherwise reasonable under the circumstances."

Roland W. Donnem, formerly Director of Policy Planning for the Antitrust Division, stated on September 25, 1969:

"It is often assumed that territorial limitations within the United States are legalized by 35 U.S.C. § 261 . . . . But a recent and elaborate analysis by Professor Baxter concludes that this provision deals with the assignment of the right to sue for infringement, and does not authorize domestic territorial divisions. . . . We do not yet have a case presenting this issue."

Later, in the Michigan State Bar Journal of May 1970, he gave the Antitrust Division's view that:

"Such restrictions [certain field of use limitations and restrictions on the form or manner of selling patented products] are violative of the Sherman Act, Section 1, because of their inevitable adverse effect on competition and apparent lack of any justification."

Mr. Donnem also explained that:

"In *General Talking Pictures* the Supreme Court held that all license for manufacture and sale of patented sound equipment could be restricted by the patent owner to manufacture and sale for commercial sound reproduction. However, the continued authority of that 1928 decision is extremely doubtful both on precedent and in principle. . . . If *General Electric* is overturned on the price-fixing ground, any residual precedential value would be reduced, and *General Talking Pictures* would fall with it."

After acknowledging that a particular field of use license survived attack in *Benger Labs, Ltd.* v. *R. K. Laros Co.*, 209 F. Supp. 639 (E.D. Pa. 1962) affd. per curiam, 317 F. 2d 455 (3d Cir.), cert. denied, 375 U.S. 833 (1963), he stated that, "the very license agreements involved in the *Benger* case are now being challenged by the Justice Department in the *Fisons* case" (*United States* v. *Fisons, Ltd.*, N.D. 111. (Civil No. 69–C–1530, filed July 23, 1969).

Other licenses have encountered similar fates. A field of use license upheld in *Chemagro* v. *Universal Chemical Co.*, 244 F. Supp. 486 (N.D., Ill.), is now under attack in *United States* v. *Farbenfabriken Bayer A. G.*, Civil No. 586–68, D.D.C. filed March 7, 1968. Also, Dr. Robert W. Cairns, Vice President of Research of Hercules, Inc., explained to the Subcommittee on May 12, 1971 that a license held valid by a United States District Court is now under attack in *United States* v. *Karl Ziegler et al*, U.S.D.D.C. Civil No. 1255–70, filed May 24, 1970.

A number of licensing practices of long-standing acceptance have been questioned by the United States in defense of patent infringement suits. In *Carter-Wallace, Inc.* v. *United States*, 167 USPQ 667 (1970), the United States Court of Claims dismissed the Government's contention that exorbitant or discriminatory royalties are improper. The same Court earlier in *The Norwich pharmacal Company* v. *United States*, 164 USPQ 91 (1968), dismissed the Government's argument that exorbitant royalties are improper.

Also legal commentators have characterized various judicially upheld practices as destructive of competition, e.g., Gibbons, "Domestic Territorial Restriction in Patent Transactions and the Antitrust Laws", 34 George Washington L. R. 893, (June 1966) and Baxter, "Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis", 76 Yale L. J. 267 (1966).

In our view, if the foregoing statements were to prevail and the foregoing enforcement actions were to succeed, the patent law would be led along a new and uncharted course. And we believe that such a course would not be in the best interests of consumers of the economy as a whole.

Sincerely,

JAMES T. LYNN,
Under Secretary.

(The statement referred to follows):

TESTIMONY OF JAMES T. LYNN, UNDER SECRETARY

Thank you Mr. Chairman. I am pleased to be here this afternoon to discuss the views of the Department of Commerce on Amendments Nos. 23 and 24 of S. 643, introduced on March 19, 1971 by Senator Scott.

The views I express here this morning are those of the Department of Commerce. The Department of Justice has certain reservations about the positions we have taken and will express its own views on the subject.

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The Department considers that with certain modifications we will discuss, the Scott Amendments provide a desirable revision of the patent laws and we strongly support their enactment with such modifications.

1. LICENSES AND OTHER TRANSFERS OF PATENT RIGHTS

The patent and antitrust laws are both critically important to the American economic system. It has always been understood that the strong but limited and temporary monopoly accorded inventors under the patent laws serves this system by encouraging the development and exploitation of inventions and the bringing of the benefits thereof to the public. The creation and utilization of new inventions almost always demands risk capital, which will not be available

unless patent rights are guaranteed to inventors and investors alike with clarity and certainty.

The freedom and certainty that a patent owner will have in licensing or otherwise transferring his patent is critical to the functioning of the patent system. The greater this freedom and certainty, the greater the incentives to invent and to invest in the commercialization of new inventions and to license others to use the new technology.

Also at issue is whether the validity of particular, commonplace licensing practices ought to be subject to further uncertainties, or whether a statutory clarification of the rights of patent owners is appropriate. In recent years, the patentee's rights under the law have been made uncertain through a series of attacks on well-established licensing practices.

Since enactment of the Sherman and Clayton Acts there has existed a natural tension between the patent monopoly which is grounded in the Constitution and the antitrust laws which are the product of Congressional action regulating commerce. In 1955, a half-century of legal precedents in the patent/antitrust area was summarized in the Report of the Attorney General's National Committee to Study the Antitrust Laws. That Report is an acknowledged landmark. It recognized as law and endorsed the correctness of positions, including the rule of reason, that are entirely consistent with the legislative proposals we make in our letter.

Since 1955, however, there have been continuing judicial inroads, through case-by-case "development," on the freedom of patent owners. This movement resulted in the 1966 Report of the President's Commission on the Patent System. This Commission consisted of a bi-partisan group of researchers, inventors, academicians, businessmen, and attorneys, with only two of the fourteen members coming from the patent bar.

The President's Commission on the Patent System, Recommendation XXII, proposed the amendment of the patent laws to clarify certain aspects of the licensable nature of patents. Recommendation XXII recognized that uncertainty had been created as to the legality of common licensing practices and that patentees had become chary of licensing their patents at all. The Commission recommended that field of use licensing and the traditional rule of reason (as recommended hereinafter) should be given statutory recognition in the Patent Code.

The further erosion of patent rights in the courts since that time has made clarification imperative. There has been little discussion until recently as to the precise form that any clarification should take.

This Department, recognizing the urgency of a statutory clarification to afford some certainty for patent owners without impairing the effectiveness of either the patent or antitrust laws, recommends amendments to sections 261 and 271 of S. 643. With some exceptions, these recommendations correspond to Amendments Nos. 23 and 24 to S. 643, introduced by Senator Scott. We are in general agreement with the Scott Amendments, but prefer our recommendations for reasons set forth below.

While we know of no studies that show, with mathematical certainty, the significance of the licensing practices at issue, or the adverse economic impact of the recently generated uncertainties in the law, we believe that what is known supports our view that these practices and developments are important to the value of the patent grant.

2. LICENSEE AND ASSIGNOR ESTOPPEL

A patent confers on the patent owner the right to exclude others from making, using or selling his invention for a period presently established at 17 years. A person who infringes the patent by practicing the invention without the patentee's permission may be enjoined or sued for damages, or both. When a patentee licenses his patent, he is in effect agreeing not to exercise his right to exclude the licensee from practicing the invention, in exchange for legal consideration from the licensee, usually by the payment of royalties.

Occasionally, a licensee decides for one reason or another that his license is a bad bargain and attempts to avoid it by asserting in court that the licensed patent is invalid. Courts, in upholding rights and obligations under patent licenses, have historically, under the doctrine of licensee estoppel, prohibited attacks by a licensee on the validity of the licensed patent.

A related doctrine is that of assignor estoppel. Assignor estoppel comes into consideration when a patentee, after selling his patent to another, attempts to practice the invention and avoid infringement by asserting that the patent is invalid.

The recent Supreme Court decision in *Lear, Inc. v. Adkins*, 395 U. S. 653 (1969), overruled a host of earlier cases and held that a licensee is not estopped from challenging the validity of a patent under which he is licensed. This decision is generally thought to have completely overruled the long-standing doctrines of licensee and assignor estoppel. In our view, legislative modification of the Lear decision is necessary in the interest of both fairness and encouragement of transfers of patent rights.

The unfairness results because a licensee may refuse to pay agreed-upon patent royalties while enjoying immunity from injunction as an infringer because of his status as a licensee.

Although the moderating influence of the estoppel doctrine discouraged such practices by licensees before *Lear*, it is already becoming common practice for would-be infringers to accept the shield of a patent license and then challenge the validity of a patent.

In order to eliminate the unfairness of the *Lear* case, we have drafted a new provision which is set forth, with supporting reasons, at pages 27 through 30 of our letter.

3. RULE OF REASON

Amendment No. 24 would codify a "rule of reason" for determining the legality of agreements transferring patent rights. A revised version of a similar rule that we endorse is set forth at pages 30-31 of our letter.

Our rule would not change existing decisional law, but it would settle uncertainties that have been created by the writings of numerous commentators.

There are a number of licensing practices in common use today, e.g., package licenses, various kinds of royalty arrangements, and patent pools, about which doubts exist as to their enforceability in light of the patent misuse doctrine. In our opinion, a rule of reason should be adopted in judging the propriety of these and other commercial practices. Each licensing situation should be judged on its merits in light of all the surrounding circumstances in determining whether or not the license in question goes beyond the reasonable reward a patentee may receive for his patent. Also, the legality of yet untested practices should be judged in accordance with a "rule of reason".

This proposal is supported by the leading case of *United States v. General Electric Co.*, 272 U. S. 476 (1926), and the later decided cases, and by both the 1955 Attorney General's Report and the 1966 Report of the President's Commission.

Our provision takes into account a number of exceptions to the "rule of reason," thereby continuing the prevalent line of judicial reasoning as to these enumerated exceptions. The fact that these exceptions are excluded from consideration under the standard of our proposed subsection does not automatically make them per se illegal. Rather, they would be treated as if no patent exists. Therefore, they would retain their present legal status under court decisions. We point out that none of the five licensing practices enumerated as falling outside the rule of reason we propose are now judicially condemned as per se illegal.

4. ROYALTIES

Amendment No. 24 relates to the legality of various royalty and payment provisions. Somewhat different language that we support can be found at pages 33-34 of our letter.

Royalty and payment provisions are the subject of proposed section 271(i). Provisions of this kind have been closely examined by courts, and a considerable body of law has developed around their legality or illegality. Our proposed section identifies commonly used royalty or pricing practices which, standing alone, parties should be able to include in patent licensing agreements. If other factors or circumstances are present in a license, the rule of reason would be applied in considering the legality and enforceability of the license.

The specific applications of the proposed provision, and the existing case law are discussed in detail at pages 34 through 38 of our letter.

5. THE LICENSE OF LESS THAN THE TOTAL PATENT RIGHT

Our recommended provisions with respect to "field-of-use" licenses may be found at page 39 of our letter. These provisions codify the well-settled rule of the *General Talking Pictures* case, and numerous later cases. They would specifically authorize a number of conventional licensing practices where a license is given for less than the totality of patent rights possessed by the patent owner.

Field-of-use licenses are commonplace and there are a rich variety of excellent reasons for such licenses. Specific applications of our suggested provisions, along with a description of existing case law and the reasons why these provisions are justified, are set forth at pages 39 through 41 of our letter.

The proposed subsection, however, does not immunize from the antitrust laws or the doctrine of patent misuse any license for less than the entire patent rights where the license also imposes improper conditions on a licensee or where there are factors or circumstances surrounding the license which may require evaluation under a "rule of reason".

We recognize that Amendment No. 24 to S. 643 is intended to accomplish this same purpose. Our proposal, however, seems clearer and less likely to create confusion over its meaning.

6. THE PREEMPTION OF PROPRIETARY RIGHTS

A recent opinion of the United States Supreme Court has brought into question the extent of protection available outside of the patent system for trade secrets, technological know-how and similar kinds of proprietary knowledge. If the opinion in this case is not modified, it could not only lead to abrogation of domestic agreements concerning trade secrets, know-how and confidential disclosures, but could also lead to the setting aside of agreements made in this country with foreign nationals involving over one billion dollars in favorable balance of payments.

The proposed section would prevent preemption by the patent laws of rights which are enforceable today only by private contract, or otherwise recognized under state or other federal laws. Also, it would permit states to continue recognizing the common practice of licensing or selling inventions for which an application for patent is pending.

The section, as pointed out above, further assures against encroachment of the right of states to guard against certain unfair trade practices. It would permit states, for example, to provide redress by labeling and the like against certain kinds of unfair competition, such as the copying of an article so as to create confusion as to its origin or the "palming off" of goods.

The Department endorses Section 301 of S. 643, and would not object to enactment of Amendment No. 23 of Senator Scott.

7. AMENDMENT OF THE CLEAN AIR ACT

Section 6 of the transitional and supplementary provisions of S. 643 would repeal section 308 of the recently enacted Clean Air Act of 1970. That law requires the compulsory licensing of patented inventions relating to air pollution. We support repealing this compulsory licensing provision on the ground that the Act as presently drafted will undermine the role of the patent system and remove the incentive for technological innovations, particularly with respect to independent inventors.

The Constitutionally authorized protection the patent system accords to inventors is a key element in spurring the development of new technology. A system of compulsory licensing may significantly deter these incentives, especially in areas when the need for innovation is so urgent. Also, there is no evidence that the developers of new air pollution control technology would refuse to make it available either under licenses or by direct sales to users.

8. INVENTOR'S CERTIFICATES

S. 1252 was introduced at the request of the Department of Commerce, and we fully support the bill. It would accord to inventors in certain

Eastern European countries a right of priority for United States patent applications, on the basis of applications for inventors' certificates filed in their home countries.

The industrial property laws of these countries have a dual system of rights in inventions. As inventor, at his election, may receive either a patent or an inventor's certificate for a new invention. S. 1252 would amend our patent laws, section 119 of title 35 of the United States Code, to accord a right of priority for inventor's certificates in the same manner that priority is now recognized for earlier patent applications filed in foreign countries. In addition, the bill would amend section 102(d) of the patent laws so that an inventor's certificate would bar the granting of a United States patent under the same conditions that a foreign patent does under present law.

S. 1252 would enable the United States to ratify Articles 1-12 of the Stockholm Revision of the Paris Convention for the Protection of Industrial Property, an international convention adhered to by the United States and 77 other countries. A number of countries have already ratified these Articles of the Stockholm Revision. S. 1252 would be very helpful in furthering our international industrial property relations without impairing the rights of American inventors and businessmen.

Inventors' certificates of at least three countries would presently be accorded priority if the bill were enacted—the Soviet Union, Rumania, and Bulgaria. A few other countries also grant inventors' certificates, but most either do not provide the dual system as required by the bill, or are not currently members of the Paris Union.

9. PATENT OFFICE FEES

S. 1255 would adjust the Patent Office fee schedule. It would increase the level of certain fees and change the nature of some fees. However, the specific amounts of most fees would continue to be fixed by statute.

The income from Patent Office fees has now fallen to about 50 percent of the costs of operating the Patent Office. S. 1255 would increase the income to the general area of 75 percent of costs.

The Department of Commerce supports Patent Office fees which would recover a fair share of Patent Office operating costs from the special beneficiaries of the patent and trademark systems.

Congress last adjusted Patent Office fees in 1965, after extensive hearings on the subject. Now it appears that further fee increases are called for. To avoid the necessity for frequent reconsideration of the fee question, the Department of Commerce believes that instead of setting specific fee levels by legislation, it would be preferable for the Congress to enact general guidelines concerning Patent Office fees, and authorize the Commissioner of Patent to adjust fees within these guidelines.

Consistent with established Government policy on user charges, it is believed that Patent Office fees should recover 100 percent of the costs of providing services of the Patent Office which convey special benefits to recipients above and beyond those accuring to the public at large. Accordingly, we recommend that the specific fees in the patent and trademark statutes should be repealed. The Commissioner of Patents should be required by statute to maintain fees at levels sufficient to recover 100 percent of the direct and immediate costs of examining patent and trademark applications and providing other services to special beneficiaries.

Such legislation should recognize, however, that some functions of the Patent Office primarily benefit the public at large, and should not be supported by fee income.

The legislation should contain safeguards against fees being changed too often. We recommend that fees should be adjusted by the Commissioner as necessary, but not more than once every two years, based on the actual Patent Office costs for the previous fiscal year. The statute should also require ample notice to the public of all fee changes.

The Administration will forward specific draft legislation to the Congress to implement this recommendation. Accordingly, we recommend against enactment of S. 1255.

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., May 10, 1971.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for the views of the Department of Commerce with respect to S. 643, a bill:

"For the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes"

and to your request for our views on Senator Scott's Amendments Nos. 23 and 24 to S. 643.

The bill and the Scott Amendments would effect a number of significant changes in the Patent Code. For example, the legislation would: provide for the filing of patent applications by the owners (assignees) of inventions, rather than requiring filing by inventors; clarify the standards for judging the obviousness or unobviousness of inventions; permit reexamination of newly issued patents by the Patent Office at the request of interested members of the public; clarify the definition of prior art; provide for the patent term to expire twenty years from the date of filing an application for patent, as distinguished from the present seventeen year term measured from the date of granting of the patent; provide for the submission of "patentability briefs" by patent applicants to improve the examination of patent applications; establish more equitable and expeditious procedures in inter partes matters before the Patent Office; provide for the publication of patent applications at the request of applicants; specifically place on applicants the burden of establishing the patentability of their inventions; and clarify the burden required to overcome a presumption of patent validity. Amendments No. 23 and 24 clarify the licensable nature of the patent grant, establish equitable rules governing the right of licensees and assignors to contest patent validity and continue the traditional right, prior to recent court decisions, of states to protect know-how and trade secrets and provide remedies against unfair competition.

We appreciate the opportunity to express our views on these latest patent revision bills. Your efforts, and those of the Senate Subcommittee on Patents, Trademarks, and Copyrights, in proposing a far-reaching and progressive reform of the nation's patent laws have earned the respect and appreciation of all interested parties, both in the Government and the private sector.

Our patent system was established with the recognition that substantial rewards and protection must be provided to encourage exploration, research and development, to encourage the disclosure and publication of new technology, to encourage the development of new inventions and to encourage the often substantial investments needed to bring the fruits of these labors to the market place for the common good. It is these incentives that, in turn, encourage businesses to compete in efforts to develop and utilize new technology.

The patent system has played a uniquely important role in the development of American technology, and is a major factor in the nation's economic vitality. Agriculture has prospered from such inventions as insecticides and food processing machinery. Modern electronic technology owes its existence to patented inventions such as lasers, transistors and computers. Patented plastics, textiles and pharmaceuticals have created new markets and industries. Modern coal mining machinery, which has saved lives and kept coal competitive with other natural resources, is based on important patents. The patent system has stimulated much of the necessary investment in research, development, and marketing of products and processes which have brought about the development of industries such as these, and the high standard of living they provide.

The maintenance of technological superiority is crucial to our status as the world's major trading power. Any dilution in the incentives to invent and commercialize new inventions can be translated into a decline in our export trade and the substitution of foreign-origin products for those of American industry. Moreover, it is the maintenance and encouragement of research and development which is the vital factor in increased productivity. In turn, increased productivity is the vital factor in increased real income.

Since the enactment of the first patent laws in 1790, Congress has made appropriate changes to adapt the patent system to the times. As an example, our present examination system for patent appllcations was instituted in 1836. However, the fundamental principles of the patent system have endured the test of time.

The Congress in recent years has conducted studies of the patent system, including some 30 studies betwen 1955 and 1962 under the auspices of the Subcommittee on Patents, Trademarks and Copyrights of your Committee. In 1966, the President's Commission on the Patent System recommended a number of far-reaching changes, many of which are reflected in S. 643 and the Scott Amendments.

The Department considers that S. 643 and the Scott Amendments provide a desirable revision of the patent laws and strongly supports their enactment, with amendments as set forth below. Their provisions would satisfy the crucial objectives of the President's Commission on the Patent System. A modern, efficient patent system would provide the encouragement of research, development, publication, and marketing of inventions.

We believe that a number of our suggested amendments indicate the present need for more certainty in areas of the law which have been beclouded by recent court decisions or *obiter dictum*. Patent law is one area in which uncertainty can quickly lead to commercial paralysis. In our view, S. 643 and the Scott Amendments, as modified by our suggested amendments, would alleviate and prevent such paralysis.

References below to different sections of the bill, S. 643, refer to sections of title 35, amended, rather than the sections of the bill itself. Most of the amendments to title 35 are contained in section 1 of the bill.

A. THE DETERMINATION OF PRIORITY

In the past, courts have awarded patents to inventors whose inventive activities occurred long before an application for patent had been made. Inventors delaying the filing of patent applications have not found themselves deprived of any legal rights in their inventions, unless the delays occurred under circumstances which amounted to an abandonment of the invention. In *Miller v. House and Jen*, 353 F. 2d 252 (1965), for example, the United States Court of Customs and Patent Appeals determined that an invention made seven years before the recipient ever applied for a patent was still entitled to a patent. Note also *Conner v. Joris*, 241 F. 2d 944 (1957) and *Knowles v. Tibbetts*, 347 F. 2d 591 (1965).

S. 643 provides a new and effective incentive for the prompt filing of applications for patent, namely the guideline of section 102(d)(5) regarding the loss of patent rights because of the abandonment of an invention. We feel that the provision furthers and is in complete accord with the nolicy of encouraging the prompt filing of patent applications set out in the 1966 Report of the President's Commission on the Patent System, at pages 5 and 6.

However, the Department recommends amendments to S. 643 which would more clearly conform the language dealing with abandonment of an invention to accepted decisional law and practice, and would add certainty to the law. These amendments would include the addition of a definition of abandonment in new section 100(h), as follows:

"(h) An invention is 'abandoned' when activity with respect thereto has terminated under circumstances establishing an intent not to resume activity with respect thereto. Proof of inactivity with respect to an invention for a period of one year shall constitute prima facie proof of abandonment of the invention. Although an invention may have once been abandoned for a period of time, if activity with respect thereto is later resumed, then it is not abandoned during such subsequent period of activity."

We recommend that section 102(d)(5) be replaced by the following:

"(5) An invention made in this country by another before the invention was made by the inventor, provided the invention of such other does not stand abandoned at the time of the invention which is the subject of the application; and further provided that such other has not suppressed or concealed his invention. However, in establishing priority of invention, an invention which has once been abandoned for a period of time shall

not be accorded a date prior to the date of resumption of activity. In determining priority of invention, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time before conception by the other until his own reduction to practice."

Finally, we recommend that section 102(a) of S. 643 be cancelled and remaining subsections (b) to (d) of section 102 redesignated as subsections (a) to (c).

These amendments would assure that an inventor could obtain a patent for a once-abandoned invention, provided he revived the invention before any rival inventor made the same invention. Despite the absolute proscription in present law against abandonment of an invention, no body of decisional law has arisen to preclude the patenting of a timely revived, abandoned invention. By the wording of the suggested amendments, an inventor would not be permitted to rely on any inventive activities prior to revival of his invention. In this way, inventors seeking patents would not be denied any legal rights, unless the rights of more diligent, later inventors should intervene.

We further recommend cancellation of subsection 102(a) of S. 643 as it serves no practical or effective purpose. Very few cases have actually been decided under the analogous provision of existing law (35 U.S.C. 102(c)).

Some decisions considered the public use of an invention to constitute abandonment of the invention, as in *Meyer Piet et al.* v. *United States*, 176 F.Supp. 576, 579 (1959), at note 5. These could have been decided under the "use" provision of section 102. Other cases involved inventors being spurred into activity after abandonment of an invention because another inventor had entered the field of inventive activity, as in *Chicopee Mfg. Corp.* v. *Columbus Fiber Mills Co., Inc.*, 165 F.Supp. 307 (1958). These cases could have been decided under the "abandonment" provision of present section 102(g).

The addition of "suppression and concealment" in our proposed revision of section 102(d)(5) is to make clear that a patent will be barred only when there is deliberate suppression or concealment inconsistent with an intent ultimately to file a patent application within a reasonable time, and such suppression or concealment persists beyond the point in time when a rival inventor enters the field of inventive activity. Thus, present judicial interpretations of the law regarding suppression and concealment would be retained, as in *Gallagher and Weber* v. *Smith*, 206 F.2d 939 (1953) and *Schnick* v. *Fenn*, 277 F.2d 935 (1960).

B. PATENT EXAMINATION

Section 131(c) of S. 643 is a new provision complementing the burden placed on applicants by the introductory portion of section 102. The Commissioner, under section 131(c), may require applicants to inform the Patent Office of relevant patents, publications or other prior art bearing on the patentability of their inventions. The provision properly includes a "saving" clause, under which an inadvertent failure to comply with the procedures of the subsection would not constitute a ground for holding a patent invalid or unenforceable, or subject the patentee to a charge of misuse.

Such a procedure is one of many in the bill which would go far in insuring the high quality of patents. Patent Office prosecution would, of course, still involve an examiner's consideration of the most revelant prior art, and his specific consideration of the applicant's arguments for patentability. Extraneous issues concerning patentability, however, would be reduced or avoided in many cases. Patentees would find this procedure of significant benefit in any judicial review of patentability, since the record of patent prosecution would begin with an affirmative explanation of patentability, along with evidence to that effect in the form of prior art.

While we endorse the provision, we suggest as a clarification of its intent that it be amended to read:

"c. The Commissioner may require applicants, within such time as he may prescribe by regulation, to submit copies of or cite any relevant patents, publications and other prior art which the applicant has specifically con-

sidered in connection with his application for patent, and which are known with reasonable certainty to be prior art, together with an explanation as to why the claims in such application are patentable over such prior art; or, if no specific relevant prior art was considered, a statement to that effect and an explanation as to why the claims in such application are believed to be patentable. Neither matters of judgment in citing such patents, publications or other prior art, whether or not required by regulation under this subsection, nor inadvertent failure to comply with regulations issued under the provisions of this subsection, in whole or in part, shall constitute a ground for holding a patent invalid or unenforceable, or subject the patentee to a charge of fraud or misuse."

This amendment would assure that good faith errors of judgment in selecting references for citation could not affect the enforceability or validity of a patent. Applicants would not feel bound to submit an excessive number of prior art documents in the hope of avoiding a later allegation that a patent was fraudulently procured. Also, the submission of redundant prior art documents would impair the examination process and defeat the purpose of this provision.

C. UNOBVIOUSNESS

Section 103 sets forth a requirement for patentability that an invention, at the time it is made, must be unobviously different from the prior art, as judged by persons ordinarily skilled in the art. Considerable variations have arisen, however, in the application of present law to determinations of the obviousness or unobviousness of inventions. Our understanding of the recent decision of the United States Supreme Court in the *John Deere* case (*Graham* v. *John Deere Co.*, 383 U. S. 1 (1966)) interpreting the codification of the patent laws in 1952, is that it merely restated the requirement for unobviousness originally set forth in the *Hotchkiss* case (*Hotchkiss* v. *Greenwood*, 52 U.S. 248 (1850)). We further understand section 103 of S. 643 to do no more than continue the requirement of present law for unobviousness, and not as imposing additional or different requirements.

A phrase in present section 103, "would have been obvious at the time the invention was made," is understood as preventing a judgment of the obviousness or unobviousness of an invention on the basis of hindsight. These judgments must only be made in light of the knowledge and prior art available at the time the invention was made. Accordingly, we understand the change in phraseology, substituting "was obvious" for "would have been obvious," as clarifying and reemphasizing the present requirement, without modifying it in any way.

However, the phrase "at the time the invention was made" of present section 103 has been omitted from this section of S. 643. We recommend that this phrase be included in section 103 of S. 643 to make absolutely clear the intended concept that hindsight judgment cannot be used in determining obviousness or unobviousness. The phrase could be added after "pertains" at line 26 of page 13.

We note that section 103 has been expanded over present law, assumedly so that inventions of any nature would be judged by the same standards, whether simple or complex, whether or not basic or scientific in nature. This is apparently intended to avoid any possibility that certain kinds of inventions would be judged by higher or other standards or conditions for patentability than those applied to other kinds of inventions. We see no conflict between this addition and the prevalent existing law. We feel that this addition should help preclude the possibilty of wide variations in the requirement for unobviousness, as have occasionally occurred in the past.

The legislative history of present section 103 recognized the need for the later addition of specific criteria for determining unobviousness, which this addition in S. 643 will accomplish. See the Report of the Committee on the Judiciary of the House of Representatives on H.R. 7794 (present title 35, U.S.C.) May 12, 1952, page 18.

As we understand these amendments to section 103, we favor their inclusion in any patent revision legislation.

D. PRESUMPTION OF VALIDITY

Section 282 of S. 643 is integrally related to section 103. It accords patents a presumption of validity and establishes standards of proof for the judicial review of unobviousness and obviousness.

Section 282(a) in its last sentence modifies the existing test of 35 U.S.C. 282 by specifying that a party challenging the validity of a patent on the ground of obviousness must prove his case by "clear and convincing evidence." At present, many courts do apply a "clear and convincing" test, *Peterson Filters and Engineering Co.* v. *Eimco Corp.*, 155 USPQ (DC Utah 1967), affd. by the 10th Cir. 406 F.2d 431 (1968), *Henry J. Kaiser Co.* v. *McLouth Steel Corp.*, 257 F.Supp. 372 (DC EMich. 1966), and *Nelson Planning Ltd.* v. *Tex-O-Graph-Corp.*, 280 F.Supp. 226 (DC SNY 1968), or the even stricter "beyond a reasonable doubt" test, *Kardulas* v. *Florida Machine Products Company*, 168 USPQ 673 (CA 5 1971), *Fairchild* v. *Poe*, 259 F.2d 329 (CA 5 1958). Moreover, the various provisions in S. 643 designed to improve the quality of patents support the standard set forth in section 282, and will create more certainty.

E. ASSIGNEE FILING

The present patent laws require that applications be filed by inventors, even though the legal rights to an invention may be assigned prior to the filing of a patent application. This requirement originated at a time when independent inventors obtained most patents. Now the research and development practices of modern institutions and corporations make it desirable to provide for the filing of patent applications by the owners of inventions, as well as by inventors themselves. For example, the high mobility of technicians and scientists often makes it increasingly inconvenient for corporate employers to locate inventors and have them participate in the preparation of patent applications, or even to execute the required formal papers. An inventor employed by a corporation cannot always be conveniently called upon to participate in the process of filing a patent application. Even so, the time limitations of the patent laws require the timely execution and submission of papers. These difficulties are compounded when inventions are made by the cooperative efforts of a number of researchers, as quite frequently occurs.

This Department endorses the provisions of section 111 of S. 643 permitting the filing of patent applications by the owners of inventions. Under section 152 of the present law patents are granted to the owners of inventions, and this section would extend this concept to permit the filing of applications by such owners.

Section 111 of S. 643 also insures against the misappropriation of an invention by an assignee-applicant. An assignee-applicant would be required at the time of filing an application to allege the facts on which he predicates his ownership of the invention. This, in itself, would provide a safeguard against misappropriation. Under subsection (d), an inventor would be notified of the filing of an applicaton by service of a copy on him. Subsection (e) would permit an inventor to protest the granting of the patent to the applicant by filing a verified notice of protest in the Patent Office. In the event such a protest is filed, any patent on the application would be granted to the inventor. The resolution of questions over title to an invention is not treated further in S. 643, but left for later court adjudication as it is under present law.

The provisions in subsection 111(c) concerning authorization and ratification should expedite the preparation and filing of patent applications. Authorization, as we understand the bill, concerns the right of an owner of an invention to sanction in advance the preparation and filing of an application.

We cannot envision the impairment of any rights of inventors or assignees from these provisions and, accordingly, endorse them for the significant advantages they provide.

We would recommend an amplification of the meaning of the term, "authorized," however, by insertion of the phrase "in writing" after "authorized" at line 22 of page 14. This insertion would enable the Commissioner to require submission of any authorization as a verification of an agent's authority.

F. JUDICIAL REVIEW OF PATENT OFFICE DECISIONS

Existing law permits a party to a priority of invention contest, dissatisfied with a decision of the Patent Office, to seek judicial review of the decision. Review by way of appeal to the United States Court of Customs and Patent Appeals is provided for at 35 U.S.C. 141, which limits the

parties to the record established in the Patent Office. Alternatively, 35 U.S.C. 146 provides for de novo review of a Patent Office descision in an inter partes case by civil action in a District Court.

S. 643 would eliminate 35 U.S.C. 146. Accordingly, the judicial review of inter partes contests in the Patent Office would be only by appeal to the United States Court of Customs and Appeals, under section 141 of the bill. We consider that the parties are accorded an ample opportunity to establish priority of invention or prove other inter partes matters in the Patent Office, in accordance with the procedures and regulatons established for this purpose. A second opportunity for a party to adduce evidence which could have been advanced in the Patent Office is inequitable to the winning party, and is not necessary to guarantee fair treatment. Moreover, proceedings under 35 U.S.C. 146 are exceedingly complex, costly, and burdensome to both the parties and the courts.

The Department supports the elimination of 35 U.S.C. 146 of present law, as provided for by S. 643.

G. NOVELTY AND PRIOR ACT

The definition of knowledge of an invention as prior art in subsection 102(d)(3) of S. 643 seems to effect a minor but beneficial change from present law. It would require that such knowledge be made known to persons capable of understanding it. Today, the availability of such knowledge to the public is adequate for it to serve as prior art.

While we support this provision, its intent might be further clarified by specific reference to "the art or arts" to which the invention pertains, since a particular invention may be pertinent to several arts. We assume that the judicial interpretation of "known" in present law is not intended to be otherwise changed.

We note with approval that section 102(d) of S. 643 refers to "identity of invention" as a requirement for application of this section in judging patentability. This continues present law where 35 U.S.C. 102 is applied to ascertain the novelty of inventions and 35 U.S.C. 103 is applied in judging the unobviousness of an invention over prior art inventions. The phraseology of 35 U.S.C. 103 ("not identically disclosed . . . of this title") incorporates the word "identical" in 35 U.S.C. 102.

We believe that the requirement of section 102(d)(1) that a prior art publication be reasonably available to the public of the United States is a salutary modification of the patent laws. Today, a patent may be barred because the invention has been described in a generally unavailable or practically unknown publication, for example, a small town weekly newspaper or a document in a remote or almost inaccessible foreign library. We believe such holdings of patent invalidity defeat the public purpose of the patent system of disseminating new technology.

This provision, as we read it, does not require a prior art publication to be available to every member of the public. Such publications need only be reasonably available to at least a part of that segment of the technical community concerned with the disclosed technology. Many members of the public have no knowledge of the existence or contents of specialized library collections, and this provision would not necessarily preclude the documents found in these libraries from being considered as prior art.

As we read section 102(d)(2), the phrase "or other tangible form" takes into account as prior art those publications not in printed form, such as microfilmed documents, magnetic tapes, and the like. Of course, such publications must be available to the public of the United States. As we interpret this provision, it would require the availability of suitable means for the interested public to convert such material into a usable form, if necessary. For example, this provision may require the availability of a microfilm reader at the library where the microfilm is kept and the accessibility of both to the public.

H. EVIDENCE IN CONTESTED CASES

Recently, 35 U.S.C. 24 has caused some uncertainty regarding the extent to which the provisions of the Federal Rules of Civil Procedure apply to contested cases in the Patent Office. The last sentence of the first paragraph of section 24 has been judicially interpreted as permitting parties in contested

cases to obtain evidence through collateral discovery proceeding in the district courts, governed only by the Federal Rules. See *In re Natta*, 388 F.2d 215 (1968). These interpretations, however, are contrary to the long-standing practice in the Patent Office, by which inter partes contests were subject only to the Patent Office Rules of Practice.

The phrase, "insofar as consistent with such regulations," added to present law would permit the Commissioner to assume control over these collateral suits for discovery. Thus, the Federal Rules would be applied only to the extent they are subsumed by Patent Office regulations.

We would recommend, however, a more far-reaching revision of section 24, together with a complementary revision of section 23. These revisions would retain the authority of the Commissioner to establish Rules of Practice for the conduct of contested cases in the Patent Office. Of course, certain of the Federal Rules of Civil Procedure applicable to Patent Office cases could most likely be incorporated into the Patent Office Rules of Practice.

Under these revisions, the ordering of discovery in contested Patent Office cases would be within the authority of Patent Office officers. Thus, time-consuming discovery proceedings in the federal courts, now conducted collaterally with Patent Office cases, would be eliminated. Patent Office orders would be enforcable by the Patent Office through appropriate remedies against non-complying parties which in aggravated cases might call for dismissal of a party's case. The sanctions available to the Patent Office are the same as those of Rule 37(b)(2) of the Federal Rules of Civil Procedure.

The compliance of third parties to a Patent Office order of discovery could be obtained through private enforcement in a federal court having jurisdiction over the party subject to the order. This parallels the present authority of the federal courts to compel testimony in patent cases under their subpena power (35 U.S.C. 24). In no case, however, would Patent Office officers be vested with subpena power.

Our recommended revision is as follows:

"§ 23. Evidence in Patent Office cases

The Commissioner shall establish regulations for the presentation and production of evidence in Patent Office proceedings including affidavits, depositions, discovery, and other evidence, which regulations shall provide parties with a reasonable and expeditious means of obtaining and producing evidence.

"§ 24. Subpenas, witnesses

(a) The clerk of any United States court for the district wherein testimony is to be taken in accordance with regulations established by the Commissioner for use in any contested case in the Patent Office, shall upon the applicaton of any party thereto, issue a subpena for any witness residing or being within such district, commanding him to appear and testify before an officer in such district authorized to take testimony, depositions, and affidavits, at the time and place stated in the subpena. The provisions of the Federal Rules of Civil Procedure relating to the attendance of witnesses, witness fees and traveling expenses, discovery and the production of documents and things shall apply to contested cases in the Patent Office insofar as not inconsistent with regulations established under section 23 of this title.

(b) A judge of a court whose clerk issued a subpena may enforce obedience to the process or punish disobedience as in other like cases, on proof that a witness, served with such subpena, neglected or refused to appear or to testify. No witness shall be deemed guilty of contempt for disobeying such subpena unless his fees and traveling expenses in going to, and returning from, and one day's attendance at the place of examination, are paid or tendered him at the time of the service of the subpoena; nor for refusing to disclose any secret matter except upon appropriate order of the court which issued the subpena.

(c) The Patent Office tribunal hearing a contested case may compel compliance with an order for discovery by the sanctions specified in subdivision (b)(2) of Rule 37 Fed. R. Civ. P., except those specified in paragraphs (d) and (e) of that subdivision. Orders for discovery issued by such tribunal against any person not a party to a case in the Patent Office may be enforced by the district courts of the United States in the same manner as orders issued by such district courts."

I. SUFFICIENCY OF THE DISCLOSURE IN APPLICATIONS INVOLVING MICROORGANISMS

Section 112(d) of S. 643 would provide for the deposit of a culture of a microorganism when the microorganism cannot be adequately described in the patent application. This provision affords a simple and equitable method of dealing with disclosures relating to microorganisms in most cases, and is consistent with the recent holding in *In re Argoudelis et al.*, 168 USPQ 99 (CCPA 1970). As presently drafted, however, the section could be interpreted as permitting the deposit of a microorganism to substitute for a portion of the written description. We recommend that, in all cases, a microorganism should be described in the patent specification to the fullest extent possible. This can be effected by insertion of "descriptive" in subparagraph (2) before "terms" (line 15 of page 16).

J. FOREIGN PRIORITY

We would suggest certain minor amendments to section 119, which concerns the right of priority on the basis of an earlier filed application in a foreign country. The section, as it appears, does not take into account a provision of the Paris Convention for the Protection of Industrial Property of 1883, as revised, to which the United States adheres. The Paris Convention prohibits any requirement for the submission of a certified copy of a foreign application for priority purposes earlier than three months after a corresponding application is filed in this country. Since the Paris Convention is not self-executing, this limitation should be specifically included in the patent laws. This could be done by inserting after "title" in line 24 of page 18, the phrase "and not earlier than three months after the actual filing date in the United States." In line 30 of the page, the word "the" should be inserted before the word "application."

K. SECRECY PROVISIONS

Section 183, as amended by S. 643, would provide that a patentee awarded compensation by the Court of Claims for any damage caused by an order of secrecy shall be required to disclaim the terminal portion of the patent term equal in duration to any extension granted under the provisions of section 154(c). This amendment would preclude a patentee from receiving both compensation for any damage caused by an order of secrecy and having the patent term extended.

This Department agrees with this provision. We suggest, however, that the limitation against overcompensation should also apply where a patentee accepts from the head of a department or agency a settlement for damages caused by reason of the imposition of an order of secrecy. We, therefore, recommend that the sentence at lines 34 to 37 of page 28 of S. 643 be cancelled and the following sentence added after "based" at line 7 of page 29.

"A patentee receiving a settlement of his claim for damages caused by reason of an order of secrecy from a head of a department or agency or who is awarded compensation for damages caused by reason of an order of secrecy by the Court of Claims shall be required to disclaim the terminal portion of the patent term equal in duration to any extension granted under the provisions of section 154(c) of this title."

L. REEXAMINATION

The wording of section 191 offers the possibility that a number of reexamination proceedings might be conducted for a particular patent. We recommend an amendment making it completely clear that only one reexamination would be conducted for any patent. Accordingly, line 9 of page 31 should be revised to read, "any notice or notices have been filed under this section which may result in a . . . ."

M. PRIORITY CONTESTS

Section 193 of S. 643 provides for the issuance of a patent for the earlier filed of conflicting patent applications when rival inventors seek to patent the same invention. The later filing applicant would find it necessary to establish an earlier date of invention than his rival in order to institute priority proceedings and receive a patent. In most circumstances, no inequities would

result from the postponement of the priority proceeding until a patent is granted on the earlier filed application. There will be some occasions, however, when the earlier filed application cannot be promptly issued as a patent, for example, when some claims of the earlier filed application are on appeal. In these situations, it might be inequitable to later filing applicants for the Patent Office to adhere rigidly to the statutory requirement imposed by this section for first issuance of the earlier filed application. The Department suggests insertion of the word "ordinarily" after "shall" at line 13 of page 32 to effect some flexibility in this procedure.

Both sections 192 and 193 of the bill would authorize a Patent Office proceeding over the question of first inventorship. Section 193 is limited by its terms to contests where rival inventors each seek a patent. Section 192 would permit an earlier inventor to invalidate a patent issued to a later inventor of the same invention. We understand S. 643 as implicitly authorizing a party losing a section 193 proceeding on a ground other than that of prior inventorship to continue his claim of earlier inventorship under section 192, regardless of the one-year time limit for instituting proceedings under section 192. This presumes, of course, that such inventor timely instituted the section 193 proceeding. We anticipate a clarification of our understanding of this matter by adoption of appropriate Patent Office rules of practice.

We also recommend that section 192 be liberalized to permit invalidation of a patent because of the earlier inventorship of a person not a party to the proceeding. The public interest is best served by the invalidation of such patents regardless of whether or not the inventor is a party. The requirement of section 192 that any party alleging his or another's earlier inventorship establish a prima facie case will protect patentees from abuse under this recommendation.

In addition, we commend that Section 192 be modified to provide specifically for the institution of inter partes proceedings where a prima facie case is presented. This and the change mentioned above are reflected in the following substitute language:

§ 192. Public use, prior inventorship and originality.

"(a) Within one year after the issuance of a patent, any person may notify the Commissioner that:

"(1) the invention claimed in such patent was in public use or on sale in this country more than one year before the actual filing date in the United States of such patent;

"(2) the subject matter of a claim of the patent is not patentable in such patent under the provisions of section 102(d)(5) of this title because of prior invention; or

"(3) the inventor named in such patent was not the original inventor of the subject matter claimed in the patent.

"(b) If such person within the time specified above makes a prima facie showing, the matter shall be determined by the Board of Appeals, in such proceedings as the Commissioner shall establish and in which proceedings such person shall be entitled to participate as a party."

Section 123 of the bill permits the publishing of a pending application on request of the applicant. We agree that inventors not seeking patents, whether or not they are former applicants who have abandoned their applications, should not be permitted to institute section 193 proceedings. The right presently available to prior inventors, by virtue of 35 U.S.C. 102(g), to invalidate a patent on the basis of earlier inventorship in a declaratory judgment action or in defense of an infringement suit, is continued under 102(d)(5) of the bill. We believe that the continuation of this right is completely adequate for the protection of inventors unable for one reason or another to obtain a patent of their own.

N. RES JUDICATA

Section 194(c) forecloses a party instituting a proceeding under section 192 or 193 from later asserting the same or comparable grounds in an infringement suit or as the basis for instituting a declaratory judgment suit. We feel that the consideration of decisions under section 192 or 193 as res judicata might discourage reliance on these provisions. Accordingly, we recommend that section 194(c) be amended, so that matters determined under sections 192 and 193 would not be considered as res judicata. This could be done by amending lines 30 and 31 of page 33 to read, "No person subject to an adverse decision in a proceeding under this chapter . . .".

O. REISSUES

We note that section 251(b) of S. 643 does not require an oath in a reissue application if the application does not seek to enlarge the scope of the claims of the original patent. This differs from the requirement of present law that permits the assignee of the entire interest to apply for a reissued patent, including the making of the required oath, when the claims of the original patent are not sought to be enlarged.

We recommend that the requirement of present law be retained to assure an evaluation by the applicant of the pertinent facts concerning patentability and the right to a patent, whether or not the application is for an original or reissued patent. This could be accomplished by substituting the phrase, "except that . . . the original patent" of present section 151 for the phrase "except that . . ." of lines 14 to 17 of page 35.

P. LICENSES AND OTHER TRANSFERS OF PATENT RIGHTS

The patent and antitrust laws are both critically important to the American economic system. It has always been understood that the strong but limited and temporary monopoly accorded inventors under the patent laws serves this system by encouraging the development and exploitation of inventions and the bringing of the benefits thereof to the public. The creation and utilization of new inventions almost always demands risk capital, which will not be available unless patent rights are guaranteed to inventors and investors alike with clarity and certainty.

Because of the shifting and often uncertain relationship between patent rights and the antitrust laws, patent owners and others have become increasingly reluctant to enter into arrangements involving patents, which the patent laws were intended to encourage (see the 1966 Report of the President's Commission at page 37). The patent monopoly, of course, must be reconciled with the public interest in business competition in carrying out this policy, but the relationship between these two bodies of laws unfortunately has developed through judicial interpretation in recent years into a set of vague, inconsistent and confusing doctrines.

The freedom and certainty that a patent owner will have in licensing or otherwise transferring his patent is critical to the functioning of the patent system. The greater this freedom and certainty, the greater the incentives to invent and to invest in the commercialization of new inventions and to license others to use the new technology.

Also at issue is whether the validity of particular, common-place licensing practices ought to be subject to further uncertainties, or whether a statutory clarification of the rights of patent owners is appropriate. In recent years, the patentee's rights under the law have been made uncertain through a series of attacks on well-established licensing practices.

Since enactment of the Sherman and Clayton Acts there has existed a natural tension between the patent monopoly which is grounded in the Constitution and the antitrust laws which are the product of Congressional action regulating commerce. In 1955, a half-century of legal precedents in the patent/antitrust area was summarized in the Report of the Attorney General's National Committee to Study the Antitrust Laws. That Report is an acknowledged landmark. It recognized as law and endorsed the correctness of positions, including the rule of reason, that are entirely consistent with the legislative proposals we make in this letter. The Report of the Attorney General's Committee endorsed:

(a) the rule of reason as stated in the 1926 case of *United States* v. *General Electric Company*, 272 U.S. 476 (pp. 231-233);

(b) certain limited types of licenses involving price-fixing (pp. 233–235);

(c) field of use restrictions and the holding of *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938) (pp. 236–237);

(d) territorial limitations (p. 237);

(e) some forms of tying arrangements (pp. 237-238); and

(f) voluntary package licensing (pp. 239-240).

Since 1955, however, there have been continuing judicial inroads, through case-by-case "development," on the freedom of patentees. This movement resulted in the 1966 Report of the President's Commission on the Patent System. This Commission referred to throughout this letter consisted of a bi-partisan

group of researchers, inventors, academicians, businessmen, and attorneys, with only two of the fourteen members coming from the patent bar.

The President's Commission on the Patent System, Recommendation XXII, proposed the amendment of the patent laws to clarify certain aspects of the licensable nature of patents. Recommendation XXII recognized that uncertainty had been created as to the legality of common licensing practices and that patentees had become chary of licensing their patents at all. The Commission recommended that field of use licensing and the traditional rule of reason (as recommended hereinafter) should be given statutory recognition in the Patent Code.

The Commission's recommendation reflected the considerable and growing support in the business community for a provision of this general nature. The further erosion of patent rights in the courts since that time has made clarification imperative. There has been little discussion until recently as to the precise form that any clarification should take. Following the 1966 report, Senator Dirksen sponsored a patent revision bill, S. 2597, that included patent licensing provisions. The bill gained the support of business and the bar, including approval of the House of Delegates of the American Bar Association and the Patent, Trademark, and Copyright Law Section of the ABA.

This Department, recognizing the urgency of a statutory clarification to afford some certainty for patent owners without impairing the effectiveness of either the patent or antitrust laws, recommends the following amendments to sections 261 and 271 of S. 643. With some exceptions, these recommendations correspond to Amendments Nos. 23 and 24 to S. 643, introduced by Senator Scott on March 19, 1971. We are in general agreement with the Scott Amendments, but prefer our recommendations for reasons set forth below.

While we know of no studies that show, with mathematical certainty, the significance of the licensing practices at issue, or the adverse economic impact of the recently generated uncertainties in the law, we believe that what is known supports our view that these practices and developments are important to the value of the patent grant. A recent survey by Professor S. Chesterfield Oppenheim, an antitrust expert and Co-chairman of the Attorney General's National Committee to Study the Antitrust Laws, indicates that the licensing practices sanctioned in the provisions recommended below and in the Scott amendments are in wide-spread use. See "Empirical Study of Limitations in Domestic Patent and Know-How Licensing," *IDEA*, Vol. 14, No. 2 (Summer 1970) pp. 193-211, under the direction of Professor Oppenheim and the Patent, Trademark, and Copyright Research Institute of the George Washington University School of Law.

The proposals that follow do not propose any substantial modifications of present law, but mainly seek to add certainty to the patent antitrust relationship by stabilizing and codifying it. In the few instances where the proposals would overrule some recent lower court decisions, it is submitted that those cases are contrary to the weight of authority, unwise, economically counterproductive and deserving of repudiation.

(I) Transfer of Patent Rights

The title of section 261 should be changed from "Ownership; assignment" to "Transferable and licensable nature of patent rights" and the following substituted for the text of section 261(b) in S. 643:

"(b) Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing and in like manner exclusive rights under applications for patent and patents may be conveyed for the whole or for any specified part of the United States. An applicant or patentee, or his legal representative, may also, at his election, license or waive any of his rights in patents and applications for patent, in whole or in any part thereof, by exclusive or nonexclusive arrangement with parties of his selection."

The first sentence of proposed subsection 261(b) rephrases the first two sentences in subsection 261(b) of S. 643, without changing their meaning. The second sentence of the proposed subsection codifies the long-recognized right of a patent owner to grant a limited license; that is, to license less than his total patent right, either exclusively or nonexclusively. The pro-

vision does not and is not intended to make such a license legal when other provisions in the license or other circumstances would render it illegal.

Also, proposed section 261(b) codifies the already recognized right of patent owners to decide whether or not to license their patents, and to whom licenses will be offered. Again, the right to license includes these rights under present law, since the patent laws have never been construed to encompass compulsory licensing of any nature.

(II) Licensee and Assignor Estoppel

A patent confers on the patent owner the right to exclude others from making, using or selling his invention for a period presently established at 17 years. A person who infringes the patent by practicing the invention without the patentee's permission may be enjoined or sued for damages, or both. When a patentee licenses his patent, he is in effect agreeing not to exercise his right to exclude the licensee from practicing the invention, in exchange for legal consideration from the licensee, usually by the payment of royalties.

Occasionally, a licensee decides for one reason or another that his license is a bad bargain and attempts to void it by asserting in court that the licensed patent is invalid. Courts, in upholding rights and obligations under patent licenses, have historically prohibited attacks by a licensee on the validity of the licensed patent, under the doctrine of licensee estoppel. This doctrine was first definitively stated by the Supreme Court in *Kinsman et al* v. *Parkhurst*, 18 How. 289 (1855). It is founded on the premise that a licensee should not be permitted to enjoy the benefits afforded by the agreement, while simultaneously asserting that the patent which forms the basis of the agreement is invalid.

A related doctrine is that of assignor estoppel. Assignor estoppel comes into consideration when a patentee, after selling his patent to another, attempts to practice the invention and avoid infringement by asserting that the patent is invalid. Justice Frankfurter properly stated its rationale in the dissent in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 258 (1945):

"When by a fair and free bargain a man sells something to another, it hardly lies in his mouth to say, 'I have sold you nothing.' It certainly offends the rudimentary sense of justice for courts to support one who purports to sell something to another in saying, 'What I have sold you is worthless,' even though he did not expressly promise that what he sold had worth. The obvious implications of fair dealing in commercial transactions have been part of our law for at least a hundred years. And it would be surprising indeed if the law made a difference whether what was purported to be sold was a diamond, or a secret process for manufacturing a commodity, or a patented machine."

The recent Supreme Court decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), overruled a host of earlier cases and held that a licensee is not estopped from challenging the validity of a patent under which he is licensed. This decision is generally thought to have completely overruled the long-standing doctrines of licensee and assignor estoppel. In our view, legislative modification of the *Lear* decision is necessary in the interest of both fairness and encouragement of transfers of patent rights.

The *Lear* decision, particularly if it is extended to cases in which the licensee has expressly agreed not to challenge validity, will encourage would-be patent infringers to accept patent licenses on any terms with the view to subsequently challenging the validity of the patent. The unfairness results because a licensee may refuse to pay agreed-upon patent royalties while enjoying immunity from injunction as an infringer because of his status as a licensee.

Although the moderating influence of the estoppel doctrine discouraged such practices by licensees before *Lear*, it is already becoming common practice for would-be infringers to accept the shield of a patent license and then challenge the validity of a patent.

The *Lear* case, if applied to all licensing agreements, can only have the effect of promoting "bad faith" licensing, with an accompanying increase in litigation by licensees over validity. Licenses will be little more than unilateral obligations on licensors. The *Lear* case will also make business, particularly small businesses, wary of patent licenses.

In order to eliminate the unfairness of the *Lear* case, the following subsection is suggested for addition to section 271:

(f) Whenever a licensee under a patent licensing arrangement asserts in appropriate proceedings the invalidity of any patent or of any claim of any patent included in such arrangement: (i) the action in which such invalidity is asserted, if then pending in a state court, shall be removed to the district court of the United States for the district embracing the place where such action is pending; and (ii) the licensor shall, with respect to such patent or to such claim of such patent, have the option of terminating such arrangement; provided, however, that if any such arrangement is so terminated with respect to less than all of the patents or claims so licensed and the arrangement itself does not provide for, or the parties thereto are unable, within such time as the court may determine to be reasonable, to agree upon the consideration to be paid for the license under the remaining patents or claims, the court in which the invalidity is asserted shall determine a reasonable consideration to be paid for the patents or claims not terminated; provided further, that such termination shall not relieve the licensee of liabilities accrued for the period prior to such termination. Agreement in such a patent licensing arrangement not to contest the validity of any licensed claim or patent shall neither prevent a licensee from asserting invalidity under this subsection nor serve as the basis for the finding of a misuse or illegal extension of the patent right."

This provision retains the right of a licensee to challenge the validity of a patent under which he is licensed, and thus continues the salutary aspect of the *Lear* case, namely, the public interest in not having fields of technology foreclosed by invalid patents. At the same time, the ability of the licensor to terminate an agreement when validity is challenged moves toward restoration of a proper balance between the rights of licensors and licensees. If the public interest calls for retention of the right to challenge validity, the public interest in the rights of parties to contract and in maintaining basic fairness in business dealings requires a licensee to risk the loss of his license rights under the patent and assume the status of an infringer before challenging the validity of the patent. This would remove the power of a licensee to force a licensor to finance him through years of litigation. It would also permit a licensor to cancel the license granted to the licensee, and to relicense his patent without being in the position of having lost the opportunity to spread the technology involved during years of litigation.

Proposed subsection 271(f) does not require the payment of royalties owed prior to termination as a condition for asserting invalidity of a licensed patent, but neither does it relieve the licensee from liability for such royalties for the period prior to termination. In many cases, a licensee may not be financially able to pay all royalties owed or may not be able to determine the exact royalty due prior to bringing suit, even though he reasonably believes the licensed patent to be invalid. Thus, the freedom to challenge validity should not depend on payment of royalties already due. However, until the license is terminated the licensee enjoys the benefit of the license (i.e., the licensor's forbearance to bring suit for infringement and, perhaps, the absence of others able to practice the invention), and he should be held liable for royalties accruing during that period.

In addition, the *Lear* case has introduced a state of potential chaos into the patent law by opening up the state courts to the adjudication of patent validity on a broad scale. Therefore, the estoppel provision calls for the automatic removal of patent license suits to an appropriate district court when the validity of the licensed patent is brought into question. This provision would conform to the beneficial policy of vesting in the district courts original jurisdiction of civil actions relating to patents (28 U.S.C. 1338(a)).

If the licensee were to challenge all of the patents in a package of licensed patents, he would obviously be required to assume the status described in this provision for a person challenging the validity of a single patent under which he is licensed. A particularly complex situation comes about, however, when a licensee desires to challenge the validity of only some of the patents in a package under which he is licensed or of only some of the claims in a licensed patent.

Obviously, the license agreement should not be completely terminated, even in the case of successful challenge, so provision has been made for

continuing the royalty payments on the unchallenged patents. Our proposal would charge the district court with establishing royalties, taking into account all of the circumstances, in the event the parties have not separated the royalty payments in the license or cannot agree on a royalty.

Prior to *Lear*, not only did the law create an estoppel, but also, parties to a license would often reaffirm the estoppel rule by including in the license clauses precluding the licensee from contesting the validity of the patent. The status of "no-contest" clauses in patent licenses requires clarification, since many presently existing licenses include them. In *Bendix* v. *Balax*, (421 F.2d 809 (7th Cir. 1970)), the court, building on the logic of the *Lear* case, held that the inclusion of a "no-contest" clause in a license could constitute an antitrust violation.

The proposed provision overcomes the possibility raised by the *Bendix* decision that the mere existence of a "no-contest" clause, even though not enforced or determined unenforceable, can raise antitrust or misuse implications.

Existing licenses with "no-contest" provisions would be protected against retroactive invalidation by enactment of this provision, but the provision does make such clauses unenforceable.

To assure continuation of the equitable doctrine of assignor estoppel, section 271 should also be amended by the addition of the following subsection:

"(g) No assignor of a patent shall contest, directly or indirectly, the validity of the assigned patent, unless and until such assignor shall have first restored to the assignee the consideration received for the assigned patent."

The doctrines of licensee and assignor estoppel are both based on fundamental concepts of fair dealing between parties. Our proposal, therefore, imposes on assignors the equitable requirement of returning any consideration to the assignee in order to question the validity of the patent sold. Thus, an assignor on challenging validity would be in much the same status as an accused infringer or a plaintiff in a declaratory judgment suit.

(III) Rule of Reason

The following subsection should be added to section 271:

"(h) (1) No patent owner or applicant for patent shall be guilty of misuse or illegal extension of patent rights solely because he enters into or will only enter into a license agreement granting or waiving rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances, at the time the license agreement is made or offered to be made, to secure to the patent owner the full benefits of his patent grant under this title. The burden of establishing misuse or illegal extension of patent rights shall lie with the party asserting such misuse or illegal extension.

(2) Provided, however, the provisions of this section shall not apply to any license arrangement entered into after the effective date of this Act requiring the licensee as a condition of entering the license:

(a) to adhere to any price with respect to such licensee's sale of any product;

(b) to purchase unpatented or patented articles from the licensor or from any person designated by the licensor;

(c) to be restricted or limited, directly or indirectly, in the resale of articles which such licensee has purchased;

(d) to refrain from dealing in any product, service or chose in action not within the scope of the patent;

(e) to have joint power with the patent owner or applicant to determine whether additional licenses should be granted; provided further, however, that nothing herein shall be construed to prohibit the grant of a sole and exclusive license with the right to sub-license.

The legality of such arrangements under other laws shall be determined as if no patent exists."

Subsection (h) would provide for the application of a "rule of reason" in judging misuse of the patent right. It would not change existing decisional law, but it would settle uncertainties that have been created by the writings of numerous commentators.

There are a number of licensing practices in common use today, e.g., package licenses, various kinds of royalty arrangements, and patent pools,

about which doubts exist as to their enforceability in light of the patent misuse doctrine. In our opinion, a rule of reason should be adopted in judging the propriety of these and other commercial practices. Each licensing situation should be judged on its merits in light of all the surrounding circumstances in determining whether or not the license in question goes beyond the reasonable reward a patentee may receive for his patent. Also, the legality of yet untested practices should be judged in accordance with a "rule of reason".

The public interest in the dissemination and application of new technology is better served by considering the reasonableness of each individual situation, rather than by permitting or encouraging courts to develop doctrines which condemn particular practices as illegal without any investigation of the business circumstances from which they arose and their actual economic impact.

The "rule of reason" is a comprehensive rule for judicial evaluation of patent licensing practices. Under our proposal, a patent license cannot be held unenforceable solely because it excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to patent owners the benefits to which they are entitled. The inclusion of "solely" emphasizes our intention to assure that practices beyond this legitimate end will be condemned as unreasonable. We further intend our proposal as requiring the reasonableness of any license to be judged as of the time it was made. This requirement would free the parties from the risk that unpredictable economic circumstances or judicial holdings might turn a lawful contract into an unlawful one. The last sentence of the proposal places the burden of establishing unreasonableness on the party asserting it.

This proposal is supported by the leading case of *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), and the later decided cases, and by both the 1955 Attorney General's Report and the 1966 Report of the President's Commission. The 1955 Attorney General's Report stated:

"The classic yardstick for measuring the remuneration to which the patentee is entitled was announced in *United States* v. *General Electric*. The Court there formulated, as the test of determining whether or not the patentee's conduct is within the ambit of his grant, the standard that he may license 'for any royalty, or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.' This makes permissible all restrictons 'normally and reasonably adapted' to the patent policy of securing to the inventor rewards ancillary to his patent grant."

Our provision takes into account a number of exceptions to the "rule of reason," thereby continuing the prevalent line of judicial reasoning as to these enumerated exceptions. The fact that these exceptions are excluded from consideration under the standard of our proposed subsection (h) does not automatically make them per se illegal. Rather, they would be treated as if no patent exists. Therefore, they would retain their present legal status under court decisions. We point out that none of the five licensing practices enumerated as falling outside the rule of reason we propose are now judicially condemned as per se illegal.

Our proposal would have substantially the same effect as proposed subsection 271(f) of Amendment No. 24 to S. 643. We believe, however, that our proposal is somewhat clearer, and prefer it for this reason.

(IV) Royalties

We believe the following should be added to section 271 of the bill:

(i) No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights solely:

(1) because he enters into or offers to enter into an arrangement of assignment, license or waiver of some or all of his patent rights, which arrangement includes provisions for the payment of a royalty fee or purchase price:

(a) in any amount, however paid, provided that any amount paid after expiration of a patent is based solely upon activities prior to such expiration;

(b) not measured by the subject matter of the patent or by the extent of use of the right assigned, licensed or waived;

(c) not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents;

(d) differing from that provided in some other arrangement; or

(2) because he enters into or offers to enter into a nonexclusive exchange of patent rights, with or without the payment or purchase provisions specified in paragraph (1) above."

Royalty and payment provisions are the subject of proposed section 271(i). Provisions of this kind have been closely examined by courts, and a considerable body of law has developed around their legality or illegality. The proposed section identifies commonly used royalty or pricing practices which, standing alone, parties should be able to include in patent licensing agreements. If other factors or circumstances are present in a license including practices such as these, the rule of reason of proposed subsection (h) would be applied in considering the legality and enforceability of the license.

Subsection (i)(1)(a) approves freely negotiated royalties of any amount. This is generally regarded as a traditional right of patent licensors and other property owners. See *Brulotte* v. *Thys*, 379 U.S. 29 (1964). To this extent, the decision in *American Photocopy Co.* v. *Rovico, Inc.*, 359 F. 2d 745 (1966), outlawing "exorbitant and oppressive" royalties would be overturned. The market place provides whatever price controls are either needed or justified.

Subsection (i)(1)(a) also concerns royalties or other payments made after expiration of the patent for activities which occurred during the patent term. This subsection would not sanction provisions which were specifically condemned by the Supreme Court in *Brulotte* v. *Thys*, supra. However, it would permit the spreading of royalty payments beyond the patent term for activities during the term, which small businesses often find advantageous or necessary in entering a new field. This right to extend royalties beyond the patent term was recognized by the Supreme Court, by way of dicta, in the *Brulotte* case and in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969). Of course, royalty arrangements could not be used under this provision to extend the scope of the patent beyond the claimed invention.

Subsection (i)(1)(b) would recognize, as courts have done, that complex royalty determinations may be avoided by basing royalties on factors other than the actual use of the patented invention. The enforceability of such practices was specifically upheld in *Automatic Radio Mfg. Co., Inc.*, v. *Hazeltine Research, Inc.*, 339 U.S. 827 (1950), where royalties were based on the total sales of the licensee's radio receivers, even though some receivers did not incorporate the patented invention. Accordingly, the practical difficulties and inconveniences of determining how many of the radio receivers manufactured by the licensee incorporated the patented invention were avoided in computing royalties.

On the other hand, royalties that are computed without regard to the actual use of the invention may be used illegally as a means to extend the patent beyond the claimed invention.

Thus, where the patent owner conditions the granting of a license upon a royalty arrangement that, in effect, forces the licensee to purchase other unrelated patents or property, this provision would be of no avail. See *Zenith Radio Corp.* v. *Hazeltine Research*, 388 F.2d 25 (CA7 1967), affd., 395 U.S. 100 (1969).

Subsection (i)(1)(c) approves licenses for a group of patents as a package, where the royalty rate does not segregate the charge for any particular patent. We recognize that such a licensing practice affords patent owners an opportunity to compel prospective licensees into accepting an entire package, whatever their actual requirements or needs. This practice involves the extension of the monopoly beyond the claims of the licensed invention. Accordingly, the section is not intended to sanction the compelling of licensees to accept the entire package. The line of cases condemning such package licensing practices, including *American Security* v. *Shatterproof Glass Corp.*, 268 F.2d 769 (1959), would be unaffected.

The provision also deals with package licenses involving fixed royalties which do not diminish as individual patents in the package expire. Our proposal would codify this judicially upheld licensing practice, as in *Well Surveys* v. *Perfo-Log*, 396 F.2d 15 (1968) and *McCullough Tool* v. *Well Surveys*, 343 F.2d 381 (1965).

We regard nondiminishing royalties as a completely acceptable consequence of arms-length bargaining. Since the public interest is not affected, we see no reason for forbidding such royalty arrangements. Cases such as *Rocform*

Corporation v. *Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678 (1966), would similarly not be upset.

In the *Rocform* case, for example, factors were present which would take the case out of consideration under this provision and cause it to be considered under subsection 271(h), the "rule of reason" provision. The court found that the licensed package involved only one patent of interest to the licensee, while the licensee was required to accept the package to receive rights under that one patent. The license in that case also required the purchase of unpatented supplies for use in the patented system.

Package licenses are often extremely convenient to both parties. Indeed, where patents are closely related or actually dependent, licensing by the package with a single royalty rate may be essential. Not surprisingly, the Oppenheim study (mentioned above) has found that package licensing is commonplace.

Subsection (i)(1)(d) would authorize licenses providing for royalty rates which differ as among licensees. There are compelling reasons for providing statutory authority for differing royalties. The inability of patent owners to negotiate licenses at other than a predetermined rate would probably increase the number of infringement suits, and prospective licensees might prefer the risk of an infringement suit to a license at an unacceptable rate. Patent owners frequently offer the first licensee a lower royalty rate as an effective and equitable way of compensating him for his efforts and expenses in developing know-how or in establishing a market for a new invention. Later licensees capitalizing on an already established market must expect to pay higher royalties, or there would be no incentive for the first licensee to enter that market. Also, a license may simply be worth more to some licensees than to others, or worth more or less at different times. The right of a patent owner to charge differing royalty rates as among licensees has, of course, been judicially upheld, e.g. *Bela Seating Co.* v. *Poloron Products Inc.*, 297 F.Supp. 489 (1968).

The provision in no way impairs the present rights of a licensee to bargain for the best terms he can. A licensee may seek a guarantee of some sort from the licensor by way of royalty preferences over later licenses to assure the recoupment of his investment in establishing a market for a new product. Such licenses would be judged under the "rule of reason" as they are today. To the extent that there are adverse effects on competition from royalty differentials they are indisputably and significantly less than the adverse effects that could result from requiring uniform royalty rates.

We recognize that some recent cases have held to the contrary, namely *La Peyre* v. *FTC*, 366 F.2d 117 (1966), and *Peelers* v. *Wendt*, 260 F.Supp. 193 (1966). We believe that the rule of these decisions deserves repudiation except to the extent that a case may involve other factors. These cases concerned the licensing of shrimp-peeling machines both to West Coast and Gulf Coast canners. The royalty charged by the patentee was based on the number of revolutions of the roller in the patented machine, but the royalty rate was twice as high for the West Coast canners. Since West Coast shrimp are much smaller than Gulf Coast shrimp, the royalty rate was directly related to the labor costs saved by the canners.

The courts in these cases failed to acknowledge a patentee's right to license his patent at differing royalty rates based on its worth to respective licensees. A uniform royalty rate to both owners based on the actual number of shrimp peeled would most likely and properly have been judicially approved. However, the differing royalty rate should also have been approved.

Subsection (i)(2) concerns nonexclusive exchanges of patent rights. Ever since the *Cracking Patents* case, *Standard Oil* v. *United States*, 283 U.S. 163 (1931), it has been held that agreements to exchange licenses to patents, standing alone, are enforceable and do not constitute misuse. Cases before and since have held such agreements a misuse and unenforceable only when additional circumstances evidence a violation of the antitrust laws. For example, *Kobe Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), explains that patent pools are not illegal in themselves when created for legitimate purposes. If a factor beyond the mere existence of the pool is present, such as an intent to monopolize along with the power to do so, as was true in the *Kobe* case and in *Hartford-Empire Co.* v. *United States*, 323 U.S. 386 (1945), the pool would be examined under the "rule of reason" provision.

Similarly, agreements requiring a licensee to grant non-exclusive licenses on any patented improvements back to the licensor, by themselves, have not been held unenforceable. The doctrines developed by courts on these practices would be continued. We point out that even exclusive grantback licenses are today not per se illegal, but are examined in light of the surrounding circumstances, as in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.* 329 U.S. 637 (1947).

Our provision is very similar to the corresponding one in Amendment No. 24, which we also endorse for its substantive content. However, we prefer the language of our proposal.

(V) The License of Less Than the Total Patent Right

The following subsection should be added to section 271:

"(j) No patent owner or applicant for patent shall be guilty of misuse or illegal extension of patent rights solely because he licenses less than all the rights which might be licensed under his patent or applicaton for patent, including rights to less than all of the territory, patent term, uses, forms, quantities, or numbers of operations which might be licensed."

This provision codifies the well-settled rule of *General Talking Pictures, supra* and numerous latter cases. It would specifically authorize a number of conventional licensing practices where a license is given for less than the totality of patent rights possessed by the patent owner.

A license for less than all of the territory which might have been licensed simply means that the license has effect only in a geographic portion of the United States, rather than throughout the entire nation. Assignments and licenses of a patent effective in only a portion of the United States are specifically provided for under the present patent laws and in S. 643. Territorial limitations in licenses have consistently been upheld by courts, for example in *Brownell* v. *Ketcham Wire & Mfg. Co.*, 211 F.2d 121 (CA9 1954), and this codification does not change present law.

Similarly encompassed within the patent grant are the rights to select licensees or not to license at all. Accordingly, proposed section 271(j) complements our proposed section 261(b), where the licensable nature of the patent right is codified in a general way.

Field of use licenses are commonplace according to the Oppenheim study (mentioned above). That study reports a rich variety of excellent reasons for field of use licensing, including: testing the utility of the invention in one field while collecting information for a general licensing policy; inability to determine the value of patents in fields not embodied in the license; maintaining exclusivity by the licensee in his field; fitting the needs and capabilities of the licensee; and minimizing royalty rates for licensees in certain fields.

As a specific example of the need for use limitations, consider a plastic which may be commercially valuable in the manufacture of both dentures and automobile bodies. The licensor, in seeking to maximize his returns from the patent, licenses it to those best able to exploit the invention. The patent owner relies on "use" limitations to apportion patent rights among the licensees, so the public will have the benefit of all uses under all licenses. Otherwise, the automobile manufacturer may insist upon an exclusive license before incurring tooling and marketing expenses for his automobile. Unless that exclusive license is limited to use in the automobile field, the public and investors are denied use of the invention in dentures. Conversely, unless nonexclusive licenses to numerous denture manufacturers are limited to use of the invention in dentures, exclusive rights in the automobile field are unavailable and no automobile manufacturer will risk the investment necessary to bring the invention to the market place. Another example would be the situation where a small business desires to license others in certain fields but to maintain exclusivity in his own field.

"Use" limitations in licenses are generally accepted today to permit a patent owner to license his patent for less than all the fields for which the patent has use. These limitations have recently been held enforceable in *A & E Plastik Pak* v. *Monsanto*, 396 F.2d 710 (1968) and *Chemagro* v. *Universal Chem.*, 244 F. Supp. 486 (1965).

Limitations in licenses on the form of a licensed invention restrict the way a patented product may be made, or the appearance the product shall take. For example, a license could be granted under this provision for the manu-

facture of a pharmaceutical product only in bulk form. This would exclude its manufacture in dosage or pill form. Suits have been brought alleging the impropriety of form limitations, analogizing them to use limitations. There is no judicial doctrine, however, holding either form or use limitations unenforceable in themselves, nor should there be. To the contrary, form limitations were upheld in *Bela Seating Co.* v. *Poloron*, 297 F. Supp. 489 (1968). This does not imply that a form limitation is authorized if it is used in circumstances that illegally extend the patent monopoly.

The other permissible limitations are self-explanatory, and this provision would codify established interpretations holding them proper as falling within the scope of the patent right.

This subsection, however, does not immunize from the antitrust laws or the doctrine of patent misuse any license for less than the entire patent rights where the license also imposes improper conditions on a licensee or where there are factors or circumstances surrounding the license which may require evaluation under a "rule of reason".

We recognize that Amendment No. 24 to S. 643 is intended to accomplish this same purpose. Our proposal, however, seems clearer and less likely to create confusion over its meaning. We realize that any language on this subject will raise questions, but we feel, nevertheless, that registration is imperative.

Q. THE PREEMPTION OF PROPRIETARY RIGHTS

A recent opinion of the United States Supreme Court has brought into question the extent of protection available outside of the patent system for trade secrets, technological know-how and similar kinds of proprietary knowledge. In *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), the court considered the rights of an inventor to collect royalties under an agreement licensing an invention for which a patent application was pending. In a separate opinion, Justice Black, relying upon the decisions in the *Sears* and *Compco* cases, expressed his belief that no state can authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained (*Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)).

This view, if adopted by courts in the future, would mean that trade secrets, technological know-how, and other proprietary information could be protected or transferred only when the subject of a valid patent. In fact, a recent decision, *Painton & Co.* v. *Bourns Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970), held that virtually all rights in technology which traditionally have been recognized under state law, such as the right to sell a trade secret, are preempted by the patent laws. This case would not only abrogate domestic agreements concerning trade secrets, know-how and confidential disclosures, but would also set aside agreements made in this country with foreign nationals involving over one billion dollars in favorable balance of payments.

As we interpret section 301 of S. 643, the phrase "contractual or other rights or obligations, not in the nature of patent rights" does not refer to rights which are exclusive in nature, that is, rights to exclude *all* other parties. The powers to grant a monopoly for patentable rights would, of course, still be the exclusive domain of federal patent law. However, common law and statutory rights to exclude only certain parties by virtue of a contractual or similar obligation and rights to prevent palming off or confusion as to origin by proper labeling or the like, would not be preempted. In other words the traditionally recognized private rights an individual has in protecting trade secrets and know-how, and in preventing certain kinds of unfair competition would continue under state laws, as would rights to contract with respect to patentable rights which the owner or holder does not choose to patent and which do not, therefore, become patent rights in the nature of a monopoly.

The proposed section would prevent preemption by the patent laws of rights which are enforceable today only by private contract, or otherwise recognized under state or other federal laws. Also, it would permit states to continue recognizing the common practice of licensing or selling inventions for which an application for patent is pending, a common practice called into question in *Lear*.

The section, as pointed out above, further assures against encroachment of the right of states to guard against certain unfair trade practices. It would

permit states, for example, to provide redress by labeling and the like against certain kinds of unfair competition, such as the copying of an article so as to create confusion as to its origin or the "palming off" of goods. Thus, to the extent the *Sears* and *Compco* cases may preempt the rights of states to redress these and other types of unfair competition, they would be overturned.

The Department endorses Section 301 of S. 643, and would not object to enactment of Amendment No. 23 of Senator Scott.

R. INFRINGEMENT

Today, the only remedy available against the importation of products manufactured abroad by a process patented in the United States is by way of an exclusion order under section 337(a) of the Tariff Act of 1930, 46 Stat. 741, 19 U.S.C. 1. Experience has shown this to be a relatively ineffective and uncertain remedy, especially because of the numerous statutory requirements for the granting of exclusion orders. Section 271(b) would consider such acts of importation as infringements, and offer an effective, alternative remedy under the patent laws.

We note with approval that section 271(b) does not require the obtaining of patent rights in foreign countries in order to preclude importation into the United States of such products. A requirement to obtain foreign patent rights would be impractical and expensive, and create uncertainties as to the rights of domestic process patent owners. No person should be required to obtain patents in every country where the subject matter is patentable and where a process might conceivably be practiced, in order to enforce his rights in the United States. At times, it is not even clear whether a patent may be obtained in a particular country. Also, domestic patent owners and the courts would be required to interpret foreign laws and patent owners would be penalized for a misunderstanding of vague foreign laws. This provision, as it now reads, will conform the United States laws to those of most other industrialized nations.

Section 271(e) of the bill assures that a person carrying out any of its enumerated acts would not be liable for patent misuse, if he is otherwise entitled to relief for patent infringement. The same provision is found in present law, The language of the provision offers a possibility, however, that a patent owner might find himself liable for misuse in the event his patent is ultimately determined not to entitle him to relief for infringement. The Department suggests substitution of the phrase, "enforce or seek enforcement" for "relief for infringement" at line 12 of page 39, to preclude such an interpretation. Insertion of the phrase, "in good faith" after "done" at line 14 is also suggested, to prevent patent owners from suing for patent infringement on the basis of patents they know to be invalid.

S. AMENDMENT OF THE CLEAN AIR ACT

Section 6 of the transitional and supplementary provisions would repeal section 308 of the recently enacted Clean Air Act of 1970, which requires the compulsory licensing of patented inventions relating to air pollution. We support repealing this compulsory licensing provision on the ground that it will undermine the role of the patent system and remove the incentive for technological innovations, particularly with respect to independent inventors.

The Constitutionally authorized protection the patent system accords to inventors is a key element in spurring the development of new technology. A system of compulsory licensing may significantly deter these incentives, especially in areas when the need for innovation is so urgent. Also, there is no evidence that the developers of new air pollution control technology would refuse to make it available either under licenses or by direct sales to users.

T. PRIORITY OF INVENTION BETWEEN PATENTEES

Section 291 is taken in concept from the same section of present law. With changes in phraseology, it continues the jurisdiction of federal courts over priority of invention contests between patentees. Section 193 of S. 643, however, also provides the Patent Office with authority to conduct priority contests between patentees. This jurisdictional duplication can and should be

remedied by adding ", subject to the provisions of section 193 of this title," after "may" at line 6 of page 43. This would clarify the obvious intent of the bill, and avoid any possibility of subverting the jurisdiction of the Patent Office in priority contests.

U. OTHER SUGGESTED AMENDMENTS

The Department also recommends a number of less important or minor modifications and corrections for S. 643.

In line 35 of page 4, the word "shall" should be changed to "may". This added flexibility would provide the Commissioner with authority to adopt mechanized search and classification systems.

In line 30 of page 5, the phrase "and trademarks," should be added after "patents" and "public" should be added after "other" in line 32 of the same page. These insertions clarify the Commissioner's authority to disseminate information to the public.

"Person" should be defined in section 100 to assure that the United States is included in its various occurrences in the bill.

In addition to other modifications recommended for section 102, section 102(b) should be modified to make clear that foreign patent publications, described in its last three lines, will bar the granting of a patent only if publication occurred before the filing of an application in this country, where the foreign application was filed more than 12 months before the United States filing date of the application. This can be accomplished by the addition of the phrase "or described or caused to be described in the official publication of the application" after the word "title" in line 23 of page 12 and the deletion of the phrase "or described prior to such actual filing date in the official publication of such foreign application in the country where filed" in lines 26–28 of the page.

The reference to section 102 in line 23 of page 13 should be made more specific by insertion of "(c)" after "102". If our recommendation to cancel subsection (a) is not adopted, "(d)" should be inserted in line 23 of page 13.

Section 111(c) should be amended by the insertion after "filing" in line 24 of page 14, of the phrase "In the latter case," to begin the next sentence. This change would make it clear that the failure of an applicant to ratify an application would result in abandonment only in cases where there was no written authorization by the applicant for the filing of the application.

The chapter heading for section 146 at page 22, between lines 3 and 4, should be deleted, since that section does not appear in the bill.

The reference to abandonment of an invention in section 182 might be confused with the "abandonment" mentioned in section 102. The terms have different meanings in the two sections; and it is suggested that the phrase "abandonment of invention" be deleted and "forfeiture of a right to a patent" be substituted therefore. Section 182 should be accordingly amended elsewhere and the chapter heading on page 26 should be similarly amended.

Section 193 should be corrected in line 20 of page 32 to read "with sections 102(c)(5), 100(b), and 119 of this title, and offers to present evidence in." In lines 25 and 26 of page 32, "Commissioner" requires correction.

Reference to the Atomic Energy Act and the National Aeronautics and Space Act in lines 34–36 of page 45 should be corrected by the deletion of the number "922" in line 35 and the number "437" in line 36 and insertion in lieu thereof the numbers "919" and "426," respectively. The references, as they appear in S. 643 presently, are references to certain sections, rather than the acts themselves.

We recommend deletion of section 131(c). The Commissioner will certainly seek to reduce the pendency period of patent applications by appropriate regulation and practices, as he has in the past, consistent with the funds and other resources available. Accordingly, this provision seems to us an unneeded mandate.

We have been advised by the Office of Management and Budget that there would be no objection to the submission of this report to the Congress.

Sincerely,

WILLIAM N. LETON,
General Counsel.

Senator MCCLELLAN. Counsel will call the next witness.

Mr. BRENNAN. Mr. McLaren, Assistant Attorney General.

STATEMENT OF RICHARD W. McLAREN, ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, DEPARTMENT OF JUSTICE, ACCOMPANIED BY BRUCE B. WILSON, CHIEF, CONSUMER AFFAIRS SECTION; AND RICHARD H. STERN, CHIEF, PATENT UNIT

Mr. McLAREN. Good afternoon, Mr. Chairman.

Mr. BRENNAN. Mr. McLaren, do you wish to read this verbatim, or insert it and summarize it?

Mr. McLAREN. I have shortened it somewhat. I had thought perhaps the prepared statement might go in the record, and I could perhaps go through a somewhat shortened version.

Senator McCLELLAN. Very well, Mr. McLaren. You have a prepared statement which I understand you are willing to have inserted in the record in full, and then highlight.

Mr. McLAREN. Thank you, Mr. Chairman. I would like to highlight certain portions of it, but begging your patience, I would like to go through a good part of it.

Senator McCLELLAN. Surely.

Let it be printed in the record in full. You read such parts of it as you wish and any that you omit will be printed in the record.

Mr. McLAREN. Thank you very much.

Senator McCLELLAN. If you will, please, identify your associates.

Mr. McLAREN. Yes. I have with me from the Antitrust Division Mr. Bruce Wilson and Mr. Richard Stern; also Mr. Irving Jaffe of the Civil Division is with us today.

I appreciate very much the opportunity to appear before you today on the subject of the proposed revision of the patent laws—a matter to which I know this subcommittee has devoted a great deal of thoughtful attention.

The lively public debate on the bills introduced in Congress following the report to the President by the Commission on the Patent System has served to sharpen the issues concerning the proposed Patent Code revisions and to clarify their implications for the inventor, the consumer, and for competition.

The Department of Justice supports, or has no objection to, many of the changes which would be made by S. 643.

We oppose, however, certain changes which would lower the standards for the patent grant, and raise the requirements for establishing invalidity, causing, we believe, uncertainty and unnecessary burdens and restraints on the consumer, the business community, and our competitive environment.

Our particular concern is that a lowered standard of patentability will lead to the proliferation of unjustified monopolies—with consequent higher prices to the public.

We also oppose Amendments No. 23 and 24—commonly known as the "Scott Amendments". Amendment No. 23 would cast doubt upon the application of certain Supreme Court decisions and could be construed to empower the states to grant patent-like protection to subject matter which is unpatentable under the Federal law.

Amendment No. 24 would for the first time introduce into the Patent code specific provisions governing the conveyance or licensing of patents, overriding the general law and creating significant ex-

ceptions to the antitrust laws and long-established equitable doctrines of patent misuse.

I would like to discuss first the provisions of S. 643, the bill to revise the Patent code.

Much of the concern which has led to proposals to revise the patent laws stems from the fact that, on a national basis, 72 percent of the patents which are litigated in the courts are held invalid.

It is thus obvious, as the Supreme Court has observed in the *John Deere* [1] case, that there is "a notorious difference between the standards applied by the Patent Office and by the courts."

There are, of course, two ways to make the standards applied by the Patent Office and those applied by the courts coincide. Those applied by the Patent Office could be raised, or those applied by the courts could be lowered.

Senator McCLELLAN. Why is that?

Mr. McLAREN. I think in part, Mr. Chairman, it stems from the fact that you have more information coming to the courts in adversary proceedings; on the other hand, the proceeding in the Patent Office is an *ex parte* proceeding.

Senator McCLELLAN. Is the fact that the precedents of the court are not reliable and too often are not followed? Does that have some impact on this? In other words, the court is changing its mind, overruling its previous decisions, does that have some impact on this problem?

Mr. McLAREN. I think that is a rather minor factor. The courts have been fairly consistent in their approach, but I think they have had different records to decide upon than those which were available in the Patent Office. I do not think that there have been great changes in the decisions.

Senator McCLELLAN. As I understood some testimony here this morning—I do not recall which witness—it indicated that the courts were overruling precedents and thus, this was creating confusion; patent lawyers today do not know how to advise their clients.

Mr. McLAREN. Mr. Chairman, with all due respect to these gentlemen, I think that there is a considerable degree of certainty in the law as to what is and what is not permissible. I think that there is a rather narrow gray area. I think it is perhaps more that the client does not like the advice that he is getting as to what he may and may not do.

Senator McCLELLAN. Let me ask you this: Is it your observation, then, and would you conclude that the Patent Office is following precedents of the court in so far as it can do so, and it is inclined to do so, and is doing so?

Mr. McLAREN. I think undoubtedly there is a good intention there, Mr. Chairman. I wish they had a higher degree of success.

Senator McCLELLAN. That is what we all wish, and I am trying to find out what the fault is, whether we need legislation to correct that fault.

Mr. McLAREN. I think inevitably consideration of a patent application more or less has to be in a semi-ex parte proceeding. But the adversary proceeding, I think, in our form of government, has proved over and over again that it produces a superior result.

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[1] *Graham* v. *John Deere Co.*, 383 U.S. 1. 18 (1966).

Senator McCLELLAN. I think that is a strong point. I think that substantiates, to some degree, at least, maybe to a very full degree, what you have been saying. I am just trying to make this record.

Mr. McLAREN. Right, sir.

Returning to my prepared statement, I was about to say that there are two ways to make the standards applied by the Patent Office and those applied by the courts coincide. Those applied by the Patent Office could be raised, or those applied by the courts could be lowered.

Senator McCLELLAN. How about a little of each?

Mr. McLAREN. Well, I think that might be terribly hard to legislate, Mr. Chairman.

We believe the standards being applied by the courts to be the appropriate ones and we are therefore opposed to any measures which would dilute these standards. It follows that we support measures which would raise the standards applied by the Patent Office and, to the extent that S. 643 includes such measures, we wholeheartedly endorse it.

On the other hand, we believe that some provisions of S. 643 would, by lowering the standards of patentability, make patents easier to obtain from the Patent Office, but more difficult to challenge in the courts.

We oppose these provisions, and I will now discuss them in more detail.

CRITERIA FOR OBTAINING A PATENT

Under present law, an inventor can obtain a patent only if he has made an invention which sufficiently promotes the progress of science and the useful arts to satisfy the constitutional standard for patentability. To do so, the invention must be new, useful in that it provides a specific benefit to the public in currently available form, and not such a slight advance in the art that it will have been obvious to a person of ordinary skill at the time it was made. 35 U.S.C. §§ 101, 102, 103.

Standard of Invention.—Section 103. Amended section 103 would alter the language governing the standard of invention to provide that a patent may not be obtained if the subject matter sought to be patented was obvious to a person having ordinary skill in the art, rather than retaining the present language which would preclude patentability if the subject matter would have been obvious. We understand that this change is not intended to alter the present body of law as to what constitutes obvious subject matter. This being the case, we question the necessity and advisability of changing the present language.

It could be argued, based upon the change in the language, that the law required a showing that there was in fact another person to whom the invention claimed was obvious at the time of the invention.

The purpose of present section 103 is to establish an objective standard for invention. As a hypothetical "reasonable man" sets the objective standard in negligence cases, so the Patent Code and well settled judicial precedent establish an objective standard as to what would have been obvious to a person having ordinary skill and

knowledge of the prior art. We favor retaining this standard, and the balance of the language of section 103.

Standard of Usefulness.—Section 100(g). Proposed subparagraph 100(g) might weaken the definition of "useful" by including "utility in * * * research." The result would permit blocking further research in the area of the monopoly, to the disadvantage of the public and other consumer. We, therefore, oppose this change.

Standard of Novelty.—Section 102. Prior knowledge, sale, public use, or a prior published description will presently render subject matter unpatentable under 35 U.S.C. § 102. These so-called statutory bars lend specificity to section 101's requirement that a patentable invention must be new or novel.

A number of changes in section 102 are proposed that would require identical disclosure to bar patentability. Normally, however, if there is a prior disclosure or public use, it will be of substantially the same invention. As a result, to require a prior identical disclosure would reward, as a rule, insufficiently novel material.

The present body of law on substantial sameness, we submit, is sufficient to provide guidance for the degree or type of identity required under section 102. The use of the word "identical" would leave it open to argument that this established body of law had been changed.

Presumption of Validity.—Section 282. Proposed section 282 would require a person challenging the validity of a patent on grounds of obviousness to prove his case "by clear and convincing evidence". This is the standard often used where no evidence which was not before the Patent Office is adduced. The proposed change is unclear as to whether it is designed to codify this rule or whether it is designed to alter the present rule that, when such additional evidence is adduced—that is, evidence not before the Patent Office—presumption of validity is dissipated and the burden upon the person challenging the patent is then to show obviousness merely by a preponderance of the evidence.

We believe, therefore, that the proposed change is likely to confuse rather than clarify existing law relating to the presumption of validity.

I shall rest the discussion of section 271(b) on our written report, and also we will cover in detail in our written report suggestions with regard to sections 146, 148, 192, and 193.

Turning now to the subject of fraud in patent procurement, proceedings before the Patent Office are, in the main, *ex parte* in nature. Because no adversary is present to advocate the interest of the public in granting only valid patents, patentees are held to an "uncompromising duty" [1] to bring relevant material to the attention of the patent examiner. Despite this duty, however, the nature of Patent Office proceedings opens them to the possibilities of incomplete examinations and even of fraud.

The Department of Justice therefore opposes any dilution of the oath requirements of the present code.

Senator McClellan. Does this bill do that?

[1] *Precision Instrument Mfg. Co.* v. *Automotive Maintenance Co.*, 324 U.S. 806, 818 (1945).

Mr. McLAREN. I think it does, Mr. Chairman. It substantially eliminates the oath of the inventor. And we do, therefore, oppose that proposition. We think it is most desirable to continue to require an oath from the inventor, at least within a reasonable time after the filing of the application, and in any event, if the inventor is reasonably available, before the issuance of the patent.

Senator McCLELLAN. I think it very important that this statute or this provision of law be strictly enforced.

So many people may buy stock in companies that have patents that turn out to be frauds, and therefore, the value of the stock is depreciated. Sometimes it could result in a total loss to innocent investors.

I would certainly wholeheartedly approve of very strong enforcement and even closer inspection by the Patent Office, more rigid inspection, and examination where there is any probability or any indication that there may be some fraud being practiced.

Mr. McLAREN. Yes. It is our feeling that the oath is a contribution toward that end, and our suggestions, Mr. Chairman go to sections 111, 115, and 251. I think that that is a matter which is easily remedied.

Senator McCLELLAN. I am going to ask counsel to make special note of this and brief me on it. I think that this could, if you detect the fraud, whether intended or not, or that would operate as a fraud, at the time of the application, you save a lot of problems afterwards.

Mr. BRENNAN. Just to complete this discussion, Mr. Chairman, would you indicate for the benefit of the committee, Mr. McLaren, the view of the Department of Commerce on the question of the oath?

Are you acquainted with the views of the Department of Commerce on this point?

Mr. McLAREN. I believe that I am very generally acquainted with them, but I think that is covered in their written presentation and I would rather that they would phrase it themselves.

Senator McCLELLAN. All right.

Mr. McLAREN. With regard to patentability briefs—and incidentally, the requirements for prior art citation—we recommend that section 131(c) be modified to make it clear that the burden of showing that a failure to comply was inadvertent be by clear and convincing evidence and be upon the applicant. Failure of an applicant to meet that burden should result, we think, in application of a presumption that the failure to comply was not inadvertent, thus rendering any resulting patent invalid or unenforceable. As knowledge of inadvertence is peculiarly within the knowledge the applicant, it is reasonable to place the burden of showing inadvertence on him.

We further recommend that applicants be required to advise the Patent Office promptly of any relevant prior art which may be or become known to them prior to the issuance of the patent.

The Department of Justice also strongly opposes proposed section 24 which would make the Federal Rules of Civil Procedure applicable to "contested cases" in the Patent Office only to the extent that they are consistent with regulations adopted by the Commis-

sioner. Limitations on discovery might inhibit disclosure of all pertinent facts in an interference or public hearing under section 192, and thus facilitate fraud and deception.

I think, Mr. Chairman, that this is perhaps something that would contribute to lessening the possibility of incomplete examination of the applications.

Senator McClellan. You say it would lessen it?

Mr. McLaren. Lessen, I think, the possibility of incomplete examinations, because it would permit better discovery in an interference proceeding and fuller disclosure up and down the line.

Turning to the proposed amendments Nos. 23 and 24, the Scott amendments, amendment No. 24, and a number of other proposals which to some extent cover the same ground, would for the first time introduce into the Patent code rules of law governing the conveyance and licensing of patents.

The proponents of this legislation argue, first, that there exists widespread confusion as to the law in this area, and, second, that restrictive licensing provisions will promote increased profits to patent owners, thereby resulting in increased research and development.

However, detailed analysis of the cases on patents and antitrust indicates few areas of uncertainty, and with respect to those few areas —as I said earlier—we believe the uncertainty which does exist is simply the necessary price for maintenance of flexibility in dealing with important and complicated issues of public economic policy.

We do not wish through rigid rules to work injury to legitimate enterprise, nor do we wish through such rigid rules to provide loopholes permitting abuse of the public. It appears to us that living with the narrow area of uncertainty which exists is far preferable to doing away with certain long established rules designed to protect the public and our competitive system, as we fear this measure would do.

As for the alleged need for increased profits to patent owners, we know of no economic or other persuasive evidence that permitting patent owners to engage more freely in restrictive licensing would increase invention or the productivity of the economy. Indeed, when decisions are made to invest in research and development, so far as we can learn, the outer limits of permissible licensing arrangements receive minimal, if any, consideration.

The practices which some parts of this legislation seek to protect are, in fact, relatively infrequent. For example, a recent industrial survey by Professor Oppenheim and Mr. John Scott indicates that "first-sale price control" restrictions seem to have been almost totally discontinued. Compulsory package licensing is rare, and quantity and even territorial licensing, is relatively uncommon, as is the use of provisions requiring licensees to grant back to the licensor exclusive licenses under, or assignments of, future patents.

To curtail the effect of antitrust laws in an area of such little commercial activity, we think, can only be interpreted as a move to change the current law and to encourage anticompetitive activities—not as a move to codify existing law or promote invention.

Finally, we believe that the proposed legislation will confuse rather than clarify an area of law with which the courts have been successfully dealing for many years.

The effect of the proposed legislation upon a significant number of already decided cases is unclear. In an area as complex as this, with so many factors to be considered in any given fact situation, or combination of situations, legislation is an unwise solution.

Allowing the courts to continue in their historic common-law role, we can be certain of our continued ability to encourage technological advancement and economic growth by flexible and creative application of fundamental principles.

The courts will continue, as they have for so many years, to recognize and protect the legitimate expectations and rewards conferred by the Patent code in the interest of technological advancement, as well as the complementary growth-encouraging policies of the antitrust laws and reconciling the patent monopoly with our basic policy favoring competition as a regulator of our economy, as found in our antitrust laws.

Mr. BRENNAN. Let me ask you at that point a question that came up this morning. Some of the panel members said that the Scott amendments would not reverse any decided case.

Would you care to comment on that statement in reference to your last paragraph?

Mr. MCLAREN. We are submitting a separate memorandum of law, and I think your statement, or their statement, can very well be explained in the term "reverse". It might not reverse particular cases, but it might substantially undercut them; it might expand the fog that some claim exists in some areas of this field.

It is a little difficult to talk about it without doing it case-by-case, which I would rather do in our memorandum.

Mr. BRENNAN. You will supply this for the record, then?

Mr. MCLAREN. Yes, sir.

Mr. BRENNAN. Thank you, sir.

(See page 483 of the appendix for the memorandum referred to.)

Mr. MCLAREN. Turning to specifics on amendment No. 24, Mr. Chairman, amendment No. 24 would enact a special antitrust "rule of reason" standard in the area of patent licensing heavily biased toward upholding anticompetitive patent licensing restrictions. The only criterion proposed in section 271(f)(2) for evaluating such restrictions is whether they are "* * * reasonable * * * to secure to the patent owner the full benefit of his invention and patent grant."

This proposed provision is apparently designed to preserve from impending overruling the 1926 decision of the Supreme Court in *United States* v. *General Electric Co.*, 272 U.S. 476, which sanctioned price-fixing in patent licenses, and to prevent the application of certain so-called per se antitrust rules which have been developed over the years by the Supreme Court.

The rules of per se illegality add certainty to antitrust enforcement and aid business by making the law more predictable in areas in which it is appropriate. Such rules are applied only against practices which are, by their nature, inherently pernicious and without redeeming social value or legitimate business justifications. These per se rules reduce the cost of litigation and conserve limited Government law enforcement resources. It would be a disservice to the administration of justice, we think, to prevent the courts from evolving such

rules as they weigh particular practices and find them indefensible.

The proposed standard of 271(f)(2), moreover, is not to be found in the 1926 *General Electric* case. There, General Electric, the patent owner, was permitted to license its competitor Westinghouse and fix prices for the light bulbs manufactured by the two competing manufacturers. The court stated that General Electric could limit the method of sale and the price, "provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." Even the language of the GE case is, therefore, not as restrictive as the language of this proposal—securing to the patent owner the "full benefit" (whether or not "pecuniary" or whether or not "for the patentee's monopoly") of his "invention and patent grant" (whether or not the "invention" is claimed in the patent or is even patentable).

We strongly oppose this provision. It would codify a standard that could be subject to interpretations contrary to the public interest by excluding consideration of anticompetitive intent or effect. Furthermore, the special rule of reason here proposed bears little resemblance to the general antitrust rule of reason, under which the reasonableness of a particular practice is judged objectively from the standpoint of the public and not from the standpoint of any special group.

The Patent Office suggests that limitations could be added to the proposed special rule of reason standard by excluding price fixing, tying, and other per se kinds of offenses. Such an effort would be inadequate and unworkable. If price fixing were to be excluded, the holding of *General Electric* would be expressly overruled, and the proposed formula would then derive no content from the historical circumstances in which the Supreme Court used such language.

Second, such a possible compromise causes difficulty in that, as we understand, it says that price fixing is not per se illegal, but that such practices should be judged under a general rule of reason—not the new special rule of reason—which is the very approach the courts have adopted without legislation.

Next, I turn to the proposal for licensing less than all of the patent grant. That is contained in sections 261(b) and 271(f). The changes to section 261(b) proposed by amendment No. 24, could be construed to enunciate a principle that the patent owner's right to exclude may be fragmented into a number of pieces—dividing it by customers and fields-of-use, for example—and marketed in any way, regardless of anticompetitive intent or effect. This language suggests that the patent grant is a "bundle" of several different rights, not the constitutionally based "right to exclude others from making, using, and selling the invention." 35 U.S.C. § 154.

This proposed language may also be construed to grant blanket authority to license "any part" of a patentee's right. We do not object to field-of-use restrictions as a general rule, where they have a legitimate primary purpose, are not unduly broad, and do not have a substantial anticompetitive effect.

If I may interpolate, if the gentleman who I understand testified this morning would like to present his field-of-use problem for a

business review later, we would be very happy to accommodate him.

On the other hand, as the cases show, field-of-use licensing, used to divide customers or markets, or which in operation injures the public, may well be unlawful.

The issues involved are complex and they interrelate with issues in other areas of antitrust concern; in our view, they should be decided by the courts on the basis of fully developed records and after detailed analysis of the relationship between general antitrust doctrines and the alleged necessity for an exception in the particular area of patent licensing involved.

Furthermore, since the proposed language would empower a patentee to "license—or waive—the whole or any part of his rights", it might be argued that a patentee could fragment his patent grant in such a manner as to impose price-fixing, tie-ins, and other such anticompetitive arrangements upon his licensees. Thus, the division of the "bundle of rights" which this proposed language would authorize could, arguably, permit patentees to engage in various types of conduct which traditionally have been regarded as involving antitrust violations.

Moreover, the uncertainty which would result from departing from the general antitrust rules could be viewed as an invitation to use licensing arrangements as a cloak for cartels and similar pervasive restraints upon competition—a practice which was not unknown in the past.

Finally, the language might be construed to authorize a patentee unqualifiedly to restrict licensing to "parties of his selection." The proposed language, therefore, might legitimate all refusals to license, regardless of predatory purpose or an effect in markets broader than the claims of any particular patent, and regardless of the conspiratorial origins of a refusal. In this connection, the courts have long held it to be an unlawful conspiracy for a patentee to agree with his licensee that he would not, without his licensee's consent, grant further licenses to any other person.

The proposed amendment to create a new section 271(f)(1) might be construed to make explicit and to implement what is implicit, we think, in the proposed amendment to section 261(b), as just discussed.

The Department of Justice strongly opposes enactment of these two sections, on the grounds I have mentioned.

With regard to section 271(g), specific amendments dealing with the right to license and exact royalties (found mainly in proposed sec. 271(g)) might be construed, we believe, to permit an extension of the patent monopoly beyond that statutorily granted—both in time and in technology covered. These, too, we oppose.

Subsection (1) of the proposed amendment might make legal all nonexclusive exchanges of patent rights, however concentrated the markets involved or however discriminatory the conduct of the exchanging firms might be. To preclude an examination of the effect or overall purpose of such a nonexclusive exchange runs counter to the whole thrust of antitrust analysis, which stresses effect rather than form.

Subsection (2) of the proposed amendment could be construed to sanction, without qualification, package licensing, whether or not

coerced; exaction of royalties not based on any patented subject matter; extension of the patent monopoly beyond the patent's expiration date; and discriminatory royalties, regardless of anticompetitive intent or effect.

The first proposal in this subsection would authorize any royalty in "any amount, however paid," except for royalties based on activities after a patent has expired. No court has ever suggested that any royalty was illegal—whatever its size—except in a single case where the court originally thought the effect of an excessive royalty was the equivalent of unlawful resale price maintenance; thus, no amendment is needed to protect unusually high or excessive royalties that are not being used as a means of furthering some other antitrust abuse.

In addition, this proposal does not purport to overrule the doctrine that postexpiration royalties are illegal. Under present law collection of royalties after a patent expires is not illegal, if the royalties clearly relate to preexpiration use; the crucial question is when postexpiration collection is based on preexpiration activity. The proposed amendment will only add confusion here by its very existence.

The second proposal would authorize collection of royalties "not measured by the subject matter of the patent." This obscure language could be interpreted as making legitimate royalties that are based on the use of unpatented supplies or on the total sales of patented and unpatented products made by the licensee. The courts have condemned such practices, and I believe rightly so, when they were used as instruments of oppression or coercion, or used to create tie-ins, to deter competition with the patented product or process involved, to collect royalties for postexpiration use, when they are coerced, or when they otherwise injure competition in products beyond the scope of the patented invention.

Proponents of these amendments have claimed that these practices would continue to be held illegal, and, accordingly, we believe the proposed amendment to be unnecessary and confusing. We, therefore, favor retention of the present law and oppose adoption of the proposed amendment.

The third proposal in this subsection suggests that royalties are not illegal simply because they are not segregated by patent or claim.

Here again, the courts have condemned such arrangements only when used coercively to create tie-ins, or to exact postexpiration royalties; so the amendment, in our view, is unnecessary and confusing.

The fourth proposal suggests that royalties may not be illegal solely because they differ from those provided in some other arrangement. The courts have not held that differing royalties always constitute discrimination, nor have they held that where discriminatory royalties exist they are always illegal. The courts have held that royalty discriminations which are predatorily motivated or which monopolistically restrain competition in other markets are illegal, and it is unclear whether the proposed amendment would change these rules. The proposal is thus unnecessary, and if adopted might result in needless confusion and useless litigation.

Challenging Patent Validity.—Sections 261 (e) and (f). Proposed subsections 261 (e) and (f) would impose limitations upon the ability of a licensee to challenge the validity of a patent under which he is licensed. Such challenges have been permitted since 1969, when the Supreme Court finally abolished the doctrine of "licensee estoppel" in *Lear, Inc.* v. *Adkins*, 395 U.S. 693 (1969).

We recognize that unfairness to patentees could result if the courts should extend *Lear*—which we do not believe they will or should—and hold that a patent licensee may continue to enjoy the full benefits of a patent license while at the same time challenging the patent's validity. On the other hand, as pointed out by *Lear*, licensees may often be the only persons having enough economic incentive to challenge a patent and thus protect the public from the burden of an invalid patent.

We also recognize that patent validity litigation could be disrupted because, under *Lear* the validity of patents may apparently be challenged in State court actions brought by licensors for royalties owing to them. Patent validity, we firmly believe, should be litigated exclusively in the Federal courts.

Accordingly, although we oppose subsections (e) and (f) as presently formulated, we would be prepared to support a provision which would make it clear that nothing inheres in the law of patent conveyancing which negates the usual State contract rules dealing with such matters as repudiation, anticipatory breach, failure of consideration, and the like. Similarly, we would support a measure providing that, when the validity of a patent is challenged in an action brought in a State court, the action may be removed to an appropriate Federal forum.

We have prepared suggested language which we think is appropriate language to effect these results. A copy has been furnished to the reporter, and the chairman may wish to have it inserted in the record at this point.

Senator McCLELLAN. Very well, it may be inserted.

(The document follows:)

DEPARTMENT OF JUSTICE, PROPOSALS RELATING TO ASSIGNOR AND LICENSEE ESTOPPEL

§ ——. *Assignor Estoppel*

No assignor of a patent shall contest, directly or indirectly, the validity of the assigned patent, unless and until such assignor shall have first restored to the assignee the consideration received for the assigned patent.

§ ——. *Licensee Estoppel*

(a) Nothing contained in this title shall be deemed to pre-empt the laws of the several states permitting a licensor in any patent licensing agreement to exercise any contractual right to terminate such licensing arrangement, upon the licensee's repudiation of his obligation to pay royalties on the ground that a claim or claims of the licensed patent or patents are invalid, with respect to the claim or claims of the patent or patents so challenged.

(b) Any civil action commenced in a state court in which a licensee under a patent licensing arrangement asserts the invalidity of any patent, or of any claim or claims of any patent, under which he is licensed, may be removed by any party to the district court of the United States for the district and division embracing the place wherein such action is pending.

Mr. McLAREN. Finally, it has been proposed by some that an agreement not to contest the validity of a licensed claim or patent

should not be a basis for a finding of misuse or illegal extension of the patent grant. Such a proposal would be directly contrary to the recent Seventh Circuit decision in *Bendix* v. *Balax*, 421 F. 2d 809 (1970). There, the court remanded for trial the defendant's antitrust counterclaim based upon a license provision prohibiting licensees from ever asserting the invalidity of the licensed patent, and thereby foreclosing a competitor—the defendant—from supplying the market. On remand, the district court found that the effect of this provision had been to foreclose the market and that, therefore, it violated the antitrust laws. The patent in this case was found invalid.

We believe that agreements not to challenge the validity of patents can be used to insulate invalid patents from public ventilation. Collusion of this type in the past has led to frauds upon the Patent Office and the consuming public. We, therefore, oppose any proposal to immunize such agreements from the antitrust laws.

AMENDMENT NO. 23

Both amendment No. 23 and section 301 of S. 643 provide, in effect, that the Patent code shall not be construed to preempt or otherwise affect in any way various types of State laws that deal with the protection for intellectual property or technology.

Both versions of this provision would be said to draw into question Supreme Court holdings that state unfair competition doctrines cannot support a claim of the exclusive right to manufacture and sell unpatentable or unpatented goods. Depending on what rights are thought to be "not in the nature of patent rights," the proposal may well be unconstitutional as exceeding the limited circumstances in which a grant of exclusive right is authorized by the Patent and Copyright Clause. The proposed statute would in any event permit, if not encourage, developments inconsistent with the substantive policies recognized in many years of well-reasoned lower court decisions.

In the *Sears-Compco* cases, the Supreme Court stated that the States could not prohibit nondeceptive copying but could require labelling to prevent deception of purchasers as to the source of goods. Neither *Sears* nor *Compco* involved trade secrets or know-how. *Lear* did involve trade secrets and know-how, and the Supreme Court specifically declined to consider the issue, due to, as it said, its "difficulty and importance," until the State courts had "after fully focused inquiry, determined the extent to which they will respect the contractual rights of inventors—of unpatented secret ideas—in the future."

A single lower court case, decided last year, held that the States have no right to protect unpatented intellectual property (*Painton & Co.* v. *Bourns, Inc.*, 309 F. Supp. 271 (D.C.N.Y. 1970)). This case—quite rightly, we think—was reversed on appeal by the Second Circuit on April 27, 1971. Thus, nothing the courts have done in the area of preemption warrants legislative action at this time. Moreover, the *Sears-Compco* decisions have no effect upon the right of the States to impose labelling and other requirements in order to prevent consumer confusion. They do hold, however, that State

law may not set up a local patent system to prevent one company from copying or duplicating unpatented products sold by another company; we believe this holding is correct and one compelled by Federal patent policy.

Accordingly, we oppose legislation in this area at this time.

REPEAL OF MANDATORY LICENSING PROVISIONS OF CLEAN AIR ACT AMENDMENTS

Section 6 of S. 643 would amend section 308 of the Clean Air Act Amendments Act of 1970 by repealing the procedure set forth in that section for the licensing of patents which may be necessary to enable persons to comply with the antipollution provisions of that act.

In general, section 308 provides that the administrator is to advise the Attorney General that the implementation of clean air standards requires a right under a patent which is not reasonably available, that there are no reasonable alternative methods to meet the clean air standards, and that the unavailability of such a right may adversely affect competition. On this basis, the Attorney General may certify the matter to a court, and the court after hearing, may issue an order requiring the patentee to license the patent on reasonable terms and conditions.

We believe that these provisions should be retained. I am authorized to say that the Environmental Protection Agency concurs in this view.*

Where antipollution standards imposed by the Government are such as to require the use of a patented device, the Government has by regulation created a potential hardship situation. It has artificially expanded the patentee's market beyond that which could be expected from normal competitive conditions. In this situation, we believe that the provisions of section 308 are necessary and contain adequate safeguards to protect the patent owner's legitimate interest.

Finally, I would note that many foreign countries, including the United Kingdom, France, Germany, and Japan have provisions for compulsory licensing in the public interest, which I think is what we are talking about here.

Mr. Chairman, I regret that it has taken me some time to discuss the very important issues which are involved in this bill and the Scott amendments. Even so, I have not been able to provide a detailed legal analysis in support of our positions. I would, therefore, request the opportunity to supplement my testimony by providing the subcommittee with an appropriate memorandum of law.

Senator McCLELLAN. That request will be granted.

(The complete statement follows:)

TESTIMONY OF ASSISTANT ATTORNEY RICHARD W. McLAREN

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today on the subject of the proposed revision

*See page 474 for exchange of correspondence between Senator John L. McClellan Chairman, Subcommittee on Patents, Trademarks and Copyrights and the Honorable William D. Ruckelshaus, Administrator of the Environmental Protection Agency.

of the patent laws—a matter to which I know this Subcommittee has devoted a great deal of thoughtful attention. The lively public debate on the bills introduced in Congress following the Report to the President by the Commission on the Patent System has served to sharpen the issues concerning the proposed Patent Code revisions and to clarify their implications for the inventor, the consumer, and for competition.

The Department of Justice supports, or has no objection to, many of the changes which would be made by S. 643. We oppose, however, certain changes which would lower the standards for the patent grant, and raise the requirements for establishing invalidity, causing uncertainty and unnecessary burdens and restraints on consumers, the business community, and our competitive environment. Our particular concern is that a lowered standard of patentability will lead to the proliferation of unjustified monopolies—with consequent higher prices to the public.

We also oppose Amendments No. 23 and 24—commonly known as the "Scott Amendments." Amendment No. 23 would cast doubt upon the application of certain Supreme Court decisions and could be construed to empower the States to grant patent-like protection to subject matter which is unpatentable under the federal law. Amendment No. 24 would for the first time introduce into the Patent Code specific provisions governing the conveyance or licensing of patents, overriding the general law and creating significant exceptions to the antitrust laws and long-established equitable doctrines of patent misuse.

S. 643, THE PATENT REVISION BILL

I would like to discuss first the provisions of S. 643, the bill to revise the Patent Code.

Much of the concern which has led to proposals to revise the patent laws stems from the fact that, on a national basis, 72% of the patents which are litigated in the courts are held invalid. It is thus obvious, as the Supreme Court has observed, that there is "a notorious difference between the standards applied by the Patent Office and by the courts." *Graham* v. *John Deere Co.*, 383 U.S. 1, 18 (1966).

There are, of course, two ways to make the standards applied by the Patent Office and those applied by the courts coincide. Those applied by the Patent Office could be raised, or those applied by the courts could be lowered. We believe the standards being applied by the courts to be the appropriate ones and we are therefore opposed to any measures which would dilute these standards. It follows that we support measures which would raise the standards applied by the Patent Office and, to the extent that S. 643 includes such measures, we wholeheartedly endorse it.

On the other hand, we believe that some provisions of S. 643 would, by lowering the standards of patentability, make patents easier to obtain from the Patent Office, but more difficult to challenge in the courts. We oppose these provisions, and I will now discuss them in more detail.

Criteria for Obtaining a Patent

Under present law, an inventor can obtain a patent only if he has made an invention which sufficiently promotes the progress of science and the useful arts to satisfy the constitutional standard for patentability. To do so, the invention must be new, useful in that it provides a specific benefit to the public in currently available form, and not such a slight advance in the art that it would have been obvious to a person of ordinary skill at the time it was made. 35 U.S.C. §§ 101, 102, 103.

Standard of Invention.—Section 103. Amended Section 103 would alter the language governing the standard of invention to provide that a patent may not be obtained if the subject matter sought to be patented "was obvious" to a person having ordinary skill in the art, rather than retaining the present language which would preclude patentability if the subject matter "would have been obvious." We understand that this change is not intended to alter the present body of law as to what constitutes obvious subject matter. This being the case, we question the necessity and advisability of changing the present language.

It might, for example, be argued, based upon this change in language, that the law required a showing that there was, in fact, another person to whom the claimed invention was obvious at the time of the invention. The purpose

of present § 103 is to establish an objective standard for invention. As a hypothetical "reasonable man" sets the objective standard in negligence cases, so the Patent Code and well settled judicial precedent establish an objective standard as to what would have been obvious to a person having 'ordinary skill and knowledge of the prior art. We favor retaining this standard.

The additional language proposed to be added to the end of § 103 is unnecessarily complicated and confusing. The determination that an invention is not obvious involves so many interrelated factors that a partial check list is misleading, giving artificial weight to those factors listed and perhaps detracting from more relevant criteria. We would therefore recommend retaining the present language of § 103.

Standard of Usefulness.—Section 100(g). Proposed § 100(g) might weaken the definition of "useful," by including "utility in . . . research." In *Brenner* v. *Manson*, 383 U.S. 519, 534–35 (1966), the Supreme Court held that the Constitution and the Patent Code require that a patent not be issued without some showing that the invention will benefit society. The new definition would permit a patent to issue on subject matter which has application only in unspecified research, but which confers no immediate benefit upon the public. This result would permit blocking further research in the area of the monopoly, to the disadvantage of the public and the consumer. We therefore oppose this change.

Standard of Novelty.—Section 102. Prior knowledge, sale, public use, or a prior published description will presently render subject matter unpatentable under 35 U.S.C. § 102. These so-called "statutory bars" lend specificity to § 101's requirement that a patentable invention must be new or novel. A number of changes in § 102 are proposed that would require "identical" disclosure to bar patentability. Literal identity of disclosure is most unlikely; normally, if there is a prior disclosure or public use, it will be of substantially the same invention. As a result, to require a prior identical disclosure would reward, as a rule, insufficiently novel material. The present body of law on substantial sameness is sufficient to provide guidance for the degree or type of identity required under § 102. The use of the word "identical" would leave it open to argument that this established body of law had been changed.

Presumption of Validity.—Section 282. Proposed § 282 would require a person challenging the validity of a patent on grounds of obviousness to prove his case "by clear and convincing evidence." This is the standard often used where no evidence which was not before the Patent Office is adduced. The proposed change is unclear as to whether it is designed to codify this rule or whether it is designed to alter the present rule that, when such additional evidence is adduced, the presumption of validity is dissipated and the burden upon the person challenging the patent is then to show obviousness merely by a preponderance of the evidence. We believe, therefore, that the proposed change is likely to confuse rather than clarify existing law relating to the presumption of validity.

Other Provisions.—We oppose as well enactment of proposed § 271(b). This subsection provides that whoever imports into the United States a product made in another country by a process patented in the United States is liable as an infringer. Since a process patent may well have issued in the foreign country in which the process is carried out (possibly to a different patentee), this provision could involve a double royalty payment and would also serve to block the importation of products even though no part of the infringing process has been practiced in the United States. We recommend that this proposed section be limited to processes which cannot be patented in the foreign country of origin.

For reasons which we will set forth in greater detail in our written report on S. 643, we also oppose all or part of the proposed changes in sections 146, 148, 192 and 193.

FRAUD IN PATENT PROCUREMENT

Proceedings before the Patent Office are, in the main, *ex parte* in nature. Because no adversary is present to advocate the interest of the public in granting only valid patents, patentees are held to "uncompromising duty" to bring relevant material to the attention of the patent examiner.* Despite

Precision Instrument Mfg. Co. v. *Automotive Maintenance Co.*, 324 U.S. 806, 818 (1945).

this duty, however, the nature of Patent Office proceedings opens them to the possibilites of incomplete examinations and even of fraud.

To guard against these possibilities, rules of law have been developed to permit challenges to the regularity of procurement proceedings and to the validity of patents. Thus, the procurement of a patent by fraud on the Patent Office may give rise to an action by the United States for cancellation of a patent, or a perjury or other criminal prosecution; and an attempt to enforce such a patent may constitute a violation of the Sherman Act. Similarly, the invalidity of a patent obtained by fraud is a defense in an action for infringement.

To make it less likely that patents be issued improperly, the Patent Code should and presently does contain safeguards to insure proper conduct by applicants before the Patent Office. The duties placed upon applicants to disclose facts known to them that might point to patent invalidity should not be weakened. Moreover, in *inter partes* proceedings before the Patent Office, discovery rules which assure that all pertinent facts are placed before the Patent Office tribunals should be maintained.

The Department of Justice therefore opposes any dilution of the oath requirements of the present Code. It is most desirable to continue to require an oath from the inventor, at least within a reasonable time after the filing of the application, and in any event, if the inventor is reasonably available, before the issuance of the patent. In all likelihood the inventor is the person in the best position to have and be chargeable with knowledge concerning the facts and background of his invention and, in many cases, knowledge of the pertinent prior art. We recommend continuing current oath practice as to continuations, continuations-in-part, and reissues. We therefore oppose enactment of §§ 111 and 251 as proposed.

As to patentability briefs, we recommend that § 131(c) be modified to make it clear that the burden of showing that a failure to comply was inadvertent be by clear and convincing evidence and be upon the applicant. Failure of an applicant to meet that burden should result in application of a presumption that the failure to comply was not inadvertent, thus rendering any resulting patent invalid or unenforceable. As knowledge of inadvertence is peculiarly with the applicant, it is reasonable to place the burden of showing inadvertence on him.

We further recommend that applicants be required to advise the Patent Office promptly of any relevant prior art which may be or become known to them prior to the issuance of the patent.

The Department of Justice also strongly opposes proposed § 24 which would make the Federal Rules of Civil Procedure applicable to "contested cases" in the Patent Office only to the extent that they are consistent with regulations adopted by the Commissioner. Such limitations on discovery might inhibit disclosure on all pertinent facts in an interference or public hearing under § 192, and thus facilitate fraud and deception.

By its recent amendment to 35 U.S.C. § 135(c), Congress has confirmed the fact that settlements of interference proceedings, without complete disclosure of all pertinent facts, can be a vehicle for improper conduct. The Federal Rules of Civil Procedure relating to the attendance of witnesses and production of documents represent a well-established, fair method for obtaining all the evidence needed to decide a given dispute; we recommend changing proposed § 24 to retain these rules.

AMENDMENT NO. 24

I would like to turn now to proposed amendments No. 23 and 24.

Amendment No. 24, and a number of other proposals which to some extent cover the same ground, would for the first time introduce into the Patent Code rules of law governing the conveyance and licensing of patents. The proponents of this legislation argue, first, that there exists widespread confusion as to the law in this area and, second, that restrictive licensing provisions will promote increased profits to patent owners, thereby resulting in increased research and development.

However, detailed analysis of the cases on patents and antitrust indicates few areas of uncertainty, and with respect to those few areas, the uncertainty which does exist is simply the necessary price for the maintenance of flexibility in dealing with important and complicated issues of public

economic policy. We do not wish through rigid rules to work injury to legitimate enterprise, or through such rigid rules, to provide loopholes permitting abuse of the public. It appears to us that living with the narrow area of uncertainty which exists is far preferable to doing away with certain long established rules designed to protect the public and our competitive system, as we fear this measure would do.

As for the alleged need for increased profits to patent owners, we know of no economic or other persuasive evidence that permitting patent owners to engage more freely in restrictive licensing would increase invention or the productivity of the economy. When decisions are made to invest in research and development, so far as we can learn, the outer limits of permissible licensing arrangements receive minimal, if any, consideration.

A detailed investigation of the facts underlying this proposition may be in order; however, we believe that no basis even for inference, much less for firm conclusion, presently exists. I understand that the Federal Trade Commission has expressed a willingness to investigate this matter further. With its staff of economists and investigatory powers, it well might be an appropriate agency to carry out such an investigation.

The practices which some parts of this legislation seek to protect are, in fact, relatively infrequent. For example, a recent industrial survey by Professor Oppenheim and Mr. John Scott indicates that "first-sale price control" seems to have been almost totally discontinued. Compulsory package licensing is rare, and quantity and even territorial licensing, is relatively uncommon, as is the use of provisions requiring licensees to grant back to the licensor exclusive licenses under, or assignments of, future patents. To curtail the effect of antitrust laws in an area of such little commercial activity can only be interpreted as a move to change the current law and to encourage anticompetitive activities—not as a move to codify existing law or promote invention.

Finally, we believe that the proposed legislation will confuse rather than clarify an area of law with which the courts have been successfully dealing for many years. The effect of the proposed legislation upon a significant number of already decided cases is unclear. In an area as complex as this, with so many factors to be considered in any given fact situation, legislation is an unwise solution. Allowing the courts to continue in their historic common-law role, we can be certain of our continued ability to encourage technological advancement and economic growth by flexible and creative application of fundamental principles. The courts will continue, as they have for so many years, to recognize and protect the legitimate expectations and rewards conferred by the Patent Code in the interest of technological advancement, as well as the complementary growth-encouraging policies of the antitrust laws.

Special "Rule of Reason" Standard.—First, Amendment No. 24 would enact a special antitrust "rule of reason" standard in the area of patent licensing heavily biased toward upholding anticompetitive patent licensing restrictions. The only criterion proposed in § 271(f)(2) for evaluating such restrictions is whether they are "* * * reasonable * * * to secure to the patent owner the full benefit of his invention and patent grant." This proposed provision is apparently designed to preserve from impending overruling the 1926 decision of the Supreme Court in *United States* v. *General Electric Co.*, 272 U.S. 476, which sanctioned price fixing in patent licenses, and to prevent the application of certain so-called *per se* antitrust rules which have been developed over the years by the Supreme Court. The Supreme Court has twice divided evenly on whether to overrule *General Electric.*

The rules of *per se* illegality add certainty to antitrust enforcement and aid business by making the law more predictable in areas in which it is appropriate. Such rules are applied only against practices which are, by their nature, inherently pernicious and without redeeming social value or legitimate business justifications. These *per se* rules reduce the cost of litigation and conserve limited government law enforcement resources. It would be a disservice to the administration of justice to prevent the courts from evolving such rules as they weigh particular practices and find them indefensible.

The proposed standard, moreover, is not to be found in the 1926 *General Electric* case. There, General Electric, the patent owner, was permitted to license its competitor Westinghouse and fix prices for the light bulbs manufactured by the two competing manufacturers. The Court stated that General

Electric could limit the method of sale and the price, "provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." Even the language of the *GE* case is, therefore, not as restrictive as the language of this proposal—securing to the patent owner the "full benefit" (whether or not "pecuniary" or whether or not "for the patentee's monopoly") of his "invention and patent grant" (whether or not the "invention" is claimed in the patent or is even patentable).

We strongly oppose this provision. It would codify a standard that could be subject to interpretations contrary to the public interest by excluding consideration of anticompetitive intent or effect. Furthermore, the special "rule of reason" here proposed bears little resemblance to the general antitrust rule of reason, under which the reasonableness of a paticular practice is judged objectively from the standpoint of the public and not from that of any special group.

Some may suggest that limitations could be added to the proposed special "rule of reason" standard, by excluding price fixing, tying, and other *per se* kinds of offenses. Such an effort would be inadequate and unworkable. If price fixing were to be excluded, the holding of *General Electric* would be expressly overruled, and the proposed formula would then derive no content from the historical circumstances in which the Supreme Court used such language. Secondly, such a possible compromise causes difficulty in that it seems to recognize that some patent licensing practices should be judged under a rule of reason—which is the general approach the courts have adopted without legislation.

Licensing Less than All of the Patent Grant.—Sections 261, 271(f). The changes to § 261 proposed by Amendment No. 24 could be construed to enunciate a principle that the patent owner's right to exclude may be fragmented into a number of pieces—dividing it by customers and fields-of-use, for example—and marketed in any way, regardless of anticompetitive intent or effect. This language suggests that the patent grant is a "bundle" of several different rights, not the constitutionally based "right to exclude others from making, using, and selling the invention." 35 U.S.C. § 154.

This proposed language may also be construed to grant blanket authority to license "any part" of a patentee's right. We do not object to field-of-use restrictions as a general rule, where they have a legitimate primary purpose, are not unduly broad, and do not have a substantial anticompetitive effect. On the other hand, field-of-use licensing, used to divide customers or markets, or which in operation injure the public, may well be unlawful. The issues involved are complex and interrelated with issues in other areas of antitrust concern; they should be decided by the courts on the basis of fully developed records and detailed analysis of the relationship between general antitrust doctrines and the alleged necessity for an exception in the particular area of patent licensing involved.

Furthermore, since the proposed language would empower a patentee to "license * * * the whole or any part of his rights," it might be argued that a patentee could fragment his patent grant in such a manner as to impose price-fixing, tie-ins, and other such anticompetitive arrangements upon his licensees. For example, under the provision giving him the right to waive some of his rights, he might agree not to sue for infringement so long as his licensee practices the patent to produce articles selling for a specified price, or so long as the patent was practiced in connection with unpatented materials purchased from the licensor. Thus, the division of the "bundle of rights" which this proposed language would authorize could, arguably, permit patentees to engage in various types of conduct which traditionally have been regarded as involving antitrust violations. The uncertainty which would result in departing from the general antitrust rules could be viewed as an invitation to use licensing arrangements as a cloak for cartels and similar pervasive restraints upon competition—a practice which is not unknown in the past.

Finally, the language might be construed to authorize a patentee unqualifiedly to restrict licensing to "parties of his selection." The proposed language, therefore, might legitimate all refusals to license, regardless of predatory purpose or an effect in markets broader than the claims of any particular patent, and regardless of the conspiratorial origins of a refusal. In this connection, the courts have long held it to be an unlawful conspiracy for

a patentee to agree with his licensee that he would not, without the licensee's consent, grant further licenses to any other person.*

The proposed amendment to create a new § 271(f)(1) might be construed to make explicit and to implement what is implicit in the proposed amendment to § 261(b), as just discussed. The Department of Justice strongly opposes enactment of these two sections.

Extension of the Patent Monopoly.—Section 271(g). Specific amendments dealing with the right to license and exact royalties (found mainly in proposed § 271(g)) might be construed to permit an extension of the patent monopoly beyond that statutorily granted—both in time and in technology covered. These, too, we oppose.

Subsection (1) of the proposed amendment might make legal all non-exclusive exchanges of patent rights, however concentrated the markets involved or however discriminatory the conduct of the exchanging firms might be. To preclude an examination of the effect or overall purpose of such a non-exclusive exchange runs counter to the thrust of antitrust analysis, which stresses effect rather than form.

Subsection (2) of the proposed amendment could be construed to sanction, without qualification, package licensing, whether or not coerced; exaction of royalties not based on any patented subject matter; extension of the patent monopoly beyond the patent's expiration date; and discriminatory royalties, regardless of anticompetitive intent or effect.

The first proposal in this subsection would authorize any royalty in "any amount, however paid," except for royalties based on activities after a patent has expired. No court has ever suggested that any royalty was illegal—whatever its size—except in a single case where the court originally thought the effect of an excessive royalty was the equivalent of resale price maintenance; thus, no amendment is needed to protect excessive royalties that are not being used as a means of furthering some other antitrust abuse.

In addition, this proposal does not purport to overrule the doctrine that post-expiration royalties are illegal. Under present law collection of royalties after a patent expires is not illegal, if the royalties clearly relate to pre-expiration use; the crucial question is when post-expiration collection is based on pre-expiration activity. The proposed amendment will only add confusion here by its very existence.

The second proposal would authorize collection of royalties "not measured by the subject matter of the patent." This obscure language is capable of being interpreted as making legitimate royalties that are based on the use of unpatented supplies or on the total sales of patented and unpatented products made by the licensee. The courts have condemned such practices, and I believe rightly so, when they were used as instruments of oppression or coercion, or used to create tie-ins, to deter competition with the patented product or process involved, to collect royalties for post-expiration use, when they are coerced, or when they otherwise injure competition in products beyond the scope of the patented invention. Proponents of these amendments have claimed that these practices would continue to be held illegal, and, therefore, we believe the proposed amendment to be unnecessary and confusing. We therefore favor retention of the present law and oppose adoption of the proposed amendment.

The third proposal in this subsection suggests that royalties are not illegal simply because they are not segregated by patent or claim. Here, again, the courts have condemned such arrangements only when used coercively to create tie-ins, or to exact post-expiration royalties; so the amendment is unnecessary and confusing.

The fourth proposal suggests that royalties may not be illegal solely because they differ from those provided in some other arrangement. The courts have not held that differing royalties always constitute discrimination, nor have they held that where discriminatory royalties exist they are always illegal. The courts have held that royalty discriminations which are predatorily motivated or which monopolistically restrain competition in other markets are illegal, and it is unclear whether the proposed amendment would change these rules. The proposal is thus unnecessary, and if adopted might result in needless confusion and useless litigation.

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*See *e.g.*, *United States* v. *Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957), and *United States* v. *Besser Mfg. Co.*, 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952).

Challenging Patent Validity.—Sections 271(e) and (f). Proposed §§ 271(e) and (f) would impose limitations upon the ability of a licensee to challenge the validity of a patent under which he is licensed. Such challenges have been permitted since the Supreme Court finally abolished the doctrine of "Licensee estoppel" in *Lear, Inc.* v. *Adkins*, 395 U.S. 693 (1969).

We recognize that unfairness to patentees could result if the courts should extend *Lear*—which we do not believe they will—and hold that a patent licensee may continue to enjoy the full benefits of a patent license while at the same time challenging the patent's validity. On the other hand, as pointed out by *Lear*, licensees may often be the only persons having enough economic incentive to challenge a patent and thus protect the public from the burden of an invalid patent.

We also recognize that patent validity litigation could be disrupted because, under *Lear*, the validity of patents may apparently be challenged in state court actions brought by licensors for royalties owing to them. Patent validity should be litigated exclusively in the federal courts.

Accordingly, although we oppose subsections (e) and (f) as presently formulated, we would be prepared to support a provision which would make it clear that nothing inheres in the law of patent conveyancing which negates the usual state contract rules dealing with such matters as repudiation, anticipatory breach, failure of consideration, and the like. Similarly, we would support a provision that, when the validity of a patent is challenged in an action brought in a state court, the action may be removed to an appropriate federal forum. We have prepared suggested language which we think is appropriate language to effect these results. A copy has been furnished to the reporter, and the Chairman may wish to have it inserted in the record at this point.

Finally, it has been proposed by some that an agreement not to contest the validity of a licensed claim or patent should not be a basis for a finding of misuse or illegal extension of the patent grant. Such a proposal would be directly contrary to the Seventh Circuit decision in *Bendix* v. *Balax*, 421 F.2d 809 (1970). There, the court remanded for trial the defendant's antitrust counterclaim based upon a license provision prohibiting licensees from ever asserting the invalidity of the licensed patent, and thereby foreclosing a competitor (the defendant) from supplying the market. On remand, the district court found that the effect of this provision had been to foreclose the market and that, therefore, it violated the antitrust laws. We believe that agreements not to challenge the validity of patents can be used to insulate invalid patents from public ventilation. Collusion of this type in the past has led to frauds upon the Patent Office and the consuming public. We therefore oppose any proposal to immunize such agreements from the antitrust laws.

AMENDMENT NO. 23

Both amendment No. 23 and Section 301 of S. 643 provide, in effect, that the Patent Code shall not be construed to pre-empt or otherwise affect in any way various types of state laws that deal with the protection of intellectual property or technology.

Both versions of this provision would be said to draw into question Supreme Court holdings that state unfair competition doctrines cannot support a claim of the exclusive right to unpatentable or unpatented goods.* Depending on what rights are thought to be "not in the nature of patent rights", the proposal may well be unconstitutional as exceeding the limited circumstances in which a grant of exclusive right is authorized by the Patent and Copyright Clause. The proposed statute would in any event permit, if not encourage, developments inconsistent with the substantive policies recognized in many years of well-reasoned lower court decisions.

In the *Sears-Comco* cases, the Supreme Court stated that the states could not prohibit non-deceptive copying but could require labelling to prevent deception of purchasers as to the source of goods. Neither *Sears* nor *Compco* involved trade secrets or know-how. *Lear* did involve trade secrets and know-how, and the Supreme Court specifically declined to consider the issue, due to its "difficulty and importance," until the state courts had "after fully focussed inquiry,

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 334 (1964). See, to the same effect, *Blonder-Tongue Labs, Inc.*, v. *University of Illinois Foundation*, —— U.S. —— (May 3, 1971).

determined the extent to which they will respect the contractual rights of inventors [of unpatented secret ideas] in the future."

A single lower court case, decided last year, held that the states have no right to protect unpatented intellectual property (*Painton & Co.* v. *Bourns, Inc.*, 309 F. Supp. 271 (D.D.N.Y. 1970). This case—quite rightly, we think—was reversed on appeal by the Second Circuit on April 27, 1971. Thus, nothing the courts have done in the area of preemption warrants legislative action at this time. Moreover, the *Sears-Compco* decisions have no effect upon the right of the states to impose labeling and other requirements in order to prevent consumer confusion. They do hold, however, that state law may not set up a local patent system to prevent one company from copying or duplicating unpatented products sold by another company; we believe this holding is correct and one compelled by federal patent policy.

Accordingly, we oppose legislation in this area at this time.

REPEAL OF MANDATORY LICENSING PROVISISIONS OF CLEAN AIR ACT AMENDMENTS

Section 6 of S. 643 would amend section 308 of the Clean Air Act Amendments Act of 1970 by repealing the procedure set forth in that section for the licensing of patents which may be necessary to enable persons to comply with the anti-pollution provisions of that Act. In general, section 308 provides that the Administrator is to advise the Attorney General that the implementation of clean air standards requires a right under a patent which is not reasonably available, that there are no reasonable alternative methods to meet the clean air standards, and that the unavailability of such a right may adversely affect competition. On this basis, the Attorney General may certify the matter to a court, and the court after hearing, may issue an order requiring the patentee to license the patent on reasonable terms and conditions.

We believe that these provisions should be retained. Where anti-pollution standards imposed by the Government are such as to require the use of a patented device, the Government has by regulation created a situation in which the patentee's device must be used. It has thus artificially expanded his market beyond that which could be expected from normal competitive conditions. In this situation, we believe that the provisions of section 308 are necessary and contain adequate safeguards to protect the patent owner's legitimate interest.

Finally, I would note that many foreign countries, including the United Kingdom, France, Germany and Japan have provisions for compulsory licensing in the public interest.

Mr. Chairman, I regret that it has taken me some time to discuss the very important issues which are involved in this bill and the Scott Amendments. Even so, I have not been able to provide the Committee with a detailed legal analysis in support of our positions. I would, therefore, request the opportunity to supplement my testimony by providing the Subcommittee with an appropriate Memorandum of Law.

Senator MCCLELLAN. Thank you very much, Mr. McLaren.

Do either of you gentlemen have anything to offer?

Mr. STERN. No; Mr. Chairman.

Mr. WILSON. No; Mr. Chairman.

Senator MCCLELLAN. The Chair will make this announcement: I have a rather heavy schedule and I have to be somewhere else within the next few minutes.

I had understood that another Senator, another member of the committee would be here at 3 o'clock to relieve me. So I must go. But in the meantime, we shall simply recess for a few minutes, and when Senator Burdick arrives, he will preside and the hearing will then proceed, possibly to the conclusion of the witnesses scheduled for today.

After that, when we adjourn today, we shall be in recess until 10 o'clock in the morning.

Off the record.

[Discussion off the record.]

Senator BURDICK (presiding). The next witness will be Mr. Edward J. Brenner.

Mr. BRENNAN. Mr. Brenner, you have a prepared statement. Do you wish to have that filed for the record and just summarize your remarks?

STATEMENT OF EDWARD J. BRENNER, U.S. COMMISSIONER OF PATENTS (1964–69)

Mr. BRENNER. Yes, sir; I would prefer to have the statement filed for the record and present a summarized statement orally.

Senator BURDICK. Your full statement will be printed in the record.

Mr. BRENNER. Mr. Chairman, I very much appreciate this opportunity to testify before this subcommittee on what are important matters relating to patent legislation. I would like to testify briefly on the Scott amendments, on the amendments to the clean air bill, and briefly on the Patent Office fees and financing bill.

I might say initially that I have been in patent and related activities for approimately 20 years, including having served as U.S. Commissioner of Patents from 1964 to 1969.

As a backdrop for my comments on all of these bills, I would like to mention the following matters of national importance which I think are closely related to the matters under discussion.

First of all, costs and time for research and development and for commercializing inventions is increasing.

Second, our rate of increase of national productivity is decreasing.

Third, our balance of payments problem is continuing.

Fourth, international competition is increasing.

Fifth, inflation continues.

And finally, we are faced with a number of problems in the areas of health, safety, environment, housing, and transportation.

In my mind, invention and innovation are the key to the future of the United States in all these matters.

We must compete on American ingenuity, not really on our labor costs.

And finally, incentives are the key to invention and innovation in the United States, such as provided under the patent system and other legal forms of protection of intellectual property.

Now, moving on to the amendments introduced by Senator Scott, I strongly support these in principle. I am not committed to the particular wording, and I believe that the wording of these amendments can be improved as a result of these hearings.

First of all, I address myself to the proposed amendments to sections 261 and 271, and I would like to comment on two main points:

First of all, what is the problem; and second, what is the solution to the problem.

The problem in my mind is a process that has been going on for many years, which has resulted in an erosion of incentives through the erosion of values of patent rights and the rights to license patents on a reasonable basis. This is going on in a number of areas.

First of all, the process goes on in the courts in the form of a variety of court decisions that have resulted in this erosion.

Second, actions and many pronouncements of the Antitrust Division of the Justice Department, as well as, recently, the Federal Trade Commission, are involved in this process.

The resultant problem is that there is a tremendous turmoil and uncertainty in this country as to what are the values of patent rights and what you can do with regard to licensing your patents on a reasonable basis.

The result is that businessmen cannot plan effectively their research and their commercial activities. The result is that progress of the useful arts, in my mind, is being definitely hindered in many areas. Businessmen would probably speak out more on this particular subject, but I believe they have a fear of being singled out for possible Government action if they speak out too loudly.

Senator BURDICK. I wonder if you would elaborate? You said the court decisions.

How do they contribute to this confusion?

Mr. BRENNER. Well, I shall give you one example, Senator. This is a particular point of law that is not presently involved in the proposed amendments to 261 and 271.

It has been held by the courts that it is misuse of your patent to require a customer to buy an unpatented product from you in order to practice a patented invention on which you have a patent.

I have had some personal experience in this field of trying to commercialize or utilize patents on that particular subject.

The result has been that it has been impossible to develop any interest because of a great deal of difficulty that is involved in licensing certain specific improvements on your products.

The result was that I advised my company that they were wasting their time, in effect, in trying to develop new uses of old products because you could not get effective patent coverage, and to divert their efforts in other directions because they were not able to realize a fair return for their efforts.

The result was that research was considerably cut back, and I believe that is true in other cases.

In my judgment, the purpose of the patent system, and what we should be doing for the country, is providing incentives to do research to bring out improved products, new uses of old products, for the benefit of the country, because these will be either lower priced, or they will be better quality, or there will be new uses of old products. I just mention that as one specific example.

As I mentioned, this is not directly involved in 261 or 271.

Senator BURDICK. Would the Scott amendments improve or correct that situation?

Mr. BRENNER. No; the Scott amendments are not directed to that specific matter of patent law, but they are directed to many other areas which are different aspects of patents and licensing, which I think are in the same situation as far as being eroded further, the result being less incentive to do the invention and innovation that we need in this country.

Moving on to the solution to this problem, it seems to me that there are two fields of thought. One is that you could proceed on a case-by-case basis through the Justice Department bringing actions against business and having these settled in the courts.

The second approach is to have legislation enacted by the Congress. In my view, congressional action is the course to follow, and such action and legislation is needed now. On a case-by-case basis, this may be very exciting for lawyers in the Patent Section of the Antitrust Division of the Justice Department and in universities and law firms, perhaps, but it creates real problems and chaos for the businessmen and for the progress of our country.

Now, what is wrong with a case-by-case approach, in my view, is the following: First of all, you look at the patent system on just a single case basis, a rather static situation, rather than addressing yourself to the long-range overview dynamic aspects of the patent system.

Second, on any particular case in court, all that the court hears are the views of the two litigants, a relatively limited sample of the national interest in the particular subject.

Furthermore, there is a long delay in the development of the law. It would take years and decades to evolve the law on a case-by-case basis.

Fourth, any new decision or law by the courts is retroactive, which creates a considerable amount of confusion, whereas a law enacted by Congress takes effect from the time that law is passed.

Finally, as I understand it, the Constitution gives to the Congress the authority and responsibility of enacting our laws, and it is presumptuous, I think, to say that a few people in the Justice Department and the courts are the ones that could really figure out what is the best law for the country in this important field.

I personally support very strongly the principles of the Scott amendments.

I call your attention to the fact that the President's Commission on the Patent System supported legislation on this very point.

I can speak from actual experience, because I was a member of that commission, and the commission included people from a wide variety of backgrounds throughout our country.

Also, a number of Senators have recently stated that they believe the antitrust laws should be reviewed and brought up to date to meet the situation in the 1970's.

Finally, I feel that there is a wide support for such legislation in the private sector. Legislation, to my mind, is needed to spell out the acts that a patentee can feel free to follow, without them being considered illegal per se, provided he carries them out on a reasonable basis, or not an unreasonable basis.

I think just the testimony before this committee indicates the need to codify the present law and to create a greater certainty, not only for business but for the courts and the Justice Department.

With regard to the proposed amendment to section 301 relating to know-how and trade secrets, I consider this equally important.

Billions of dollars are being spent in this country for the development of trade secrets and confidential know-how, and this form of intellectual property needs protection in order to again preserve the incentives for spending these enormous amounts of money.

There have been court decisions that have cast a cloud on this area. It was just mentioned that, well, there was a district court decision that got reversed by a court of appeals. But I do not think that

settles it, because as you know, there are many district courts and many courts of appeals. The matter has not been before the Supreme Court, and I think this is an area that is appropriate for the Congress to address itself to, rather than leaving it for a decade or so to evolve with a great deal of uncertainty and maybe the wrong result, at least as far as incentives go, ultimately.

With regard to section 6 of S. 646, proposing an amendment to the Clean Air Act of 1970, I particularly support this amendment, too. I think that with regard to the providing of clean air and cleaning up the environment, strong incentives are needed for invention.

This includes not only those organizations operating in the particular area that may be more or less bound by the provisions of that act to come up with solutions but it also, I think, applies to organizations outside of the industry that may very well be the very ones to come up with the successful inventions. In fact, history has indicated that many times, the best inventions come from inventors and organizations operating outside of a particular field because they have an unusual insight into the problem.

With any mandatory licensing arrangement, I think it dulls or reduces the incentives at least two ways. In other words, if I am operating in this field, I can ask the question: Why should I invest substantial amounts of research money in this particular field if, when I come up with a solution I may just have to license that to my competitor or, secondly, why do I not just sit back and let somebody else invest the money, and if they come up with a good invention, I have no problem getting a license?

I think the object of the Clean Air Act is to encourage inventions, bring forth the inventions needed to clear up the environment. In my judgment, if there is no incentive, or a reduced incentive, you are not going to have inventions. If there are those incentives, I think those inventions are going to come forth much more promptly and in much higher degree.

Finally, addressing myself to S. 1255 relating to patent fees, I would like to make the following comments, which comments are based primarily on a rather extensive study we made at the Patent Office while I was Commissioner of Patents.

In coming around to the question of patent fees, it seems to me there are two basic questions which should not be mixed together or confused.

The first question is: What is the level of recovery that is appropriate for the Patent Office to receive in fees relative to their total costs?

And the second question is once an appropriate level of recovery is determined, what fee structure is the best to provide that particular level of recovery?

Well, first of all, addressing myself to the level of recovery, our study indicated that there are three basic service areas or types of operations in the Patent Office.

First of all, there is what you might call "public services." By this I mean, for example, the basic printing of patents, which is really a public function. Printing is really not of any value to the patent applicant. Copies from the basic printing of patents are sent to 22 public libraries, at least, in the United States, and exchanged with foreign countries for copies of their foreign patents, and the like.

Second, the Patent Office Research Center, which includes a scientific library and a public search room, is basically an operation like our other libraries, particularly the scientific sections, which I believe are in the public interest, and in these areas the applicants should not have to pay for that particular cost; it is a public service and should be paid for by appropriated funds.

Roughly, I would estimate in the proposed 1972 budget in the Patent Office, the amount of money involved in this public service area might be $8 to $10 million per year.

Second, there is the area of which I would call "user services." This involves supplying copies of patents to people who write in for copies, recording assignments, providing certified copies of applications, the clerical processing of patent applications, etc.

In this area these services are really for the benefit of specific users, and it would seem that 100 percent recovery would be appropriate.

Again, I would estimate in the proposed 1972 budget of the Patent Office, the costs in this area are some place in the range of $8 to $10 million per year.

Then, finally, we come to the third category, which I would term "public-user services." Basically this involves the patent examination operation in the Patent Office and related functions.

In my judgment, patent examination can be said to be carried out about equally beneficially for the applicant as well as the public.

I might add that it is not necessary to the patent system to have an examination. As a matter of fact, a number of countries of the world do not have any such examination system.

France, for many years, operated with what was called a registration system, but they recently changed to an examination system, concluding that it was in the interest of the public to provide for an examination.

In the case of the German patent system, they have a system of deferred examination under which either the applicant or a member of the public, a third party, can request an examination by the patent office.

So, in other words, I attribute half of the value of patent examination to the benefit of the applicant so he knows what sort of patent coverage he may have, and the other half to the public for knowing what, exactly, the patent coverage involved is.

The costs in this area, I would estimate, are some place in the range of $34 to $38 million in the 1972 budget.

Finally, the net result of combining these three areas comes out to a level of recovery some place around 50 percent of Patent Office costs. Therefore, based upon the analysis we made, I would recommend that an overall recovery of about 50 percent is appropriate and it is not necessary to go to 65 percent or 75 to 80 percent.

Now, finally, addressing myself to the matter of the fee structure, I personally am in favor of spreading out and graduating fees as the person proceeds through the patent process; that is, from filing to patent expiration. Basically, at the present time, as I indicated, I think a 50-percent level of recovery is appropriate and there is no need to increase the general level of fees.

But I would favor lowering most of the present fees and establishing a system of deferred fees.

In this connection, I might add that I believe that former Commissioner Watson and former Commissioner Ladd have likewise reached a similar conclusion.

So, now, applying this to the user service area, I believe that in the user service area, the fees should be administratively established by the Commissioner, including the filing fee.

I believe further that the Patent Office should be authorized to establish a trust or revolving fund in which the income from this user service area would be utilized to cover the cost.

The filing fee in this case should be reduced to, say, a basic fee of $50, reduced from the present $65. But I would also recommend continuing additional fees for additional independent claims and total claims, say, in excess of 10.

The cost of patent copies could be reduced to 25 cents, which I think is more closely related to their actual cost. I would also take this opportunity in revising fees to establish a special fee structure for what the Patent Office calls its defensive publication program, in which a person can file an application and if he elects not to have to go to the trouble and expense—not only his trouble and expense, but the Patent Office's trouble and expense—to get a patent, both groups would save money.

So, I would think, say, that a fee of $25 would be appropriate for somebody applying under the defensive publication program.

There could be a provision that if, say, within 2½ years, the person wanted to go ahead and get a patent, he could pay the balance of the filing fee and proceed in a normal manner.

Also, I think it would be well to strengthen the legal defenses that apply to a defensive publication in the same way as we do for patents.

With regard to the public-user service area or the area of patent examination, I would think a fee structure that might be appropriate —and I am not wed to any particular set of numbers—would involve a flat fee of $100 when the patent would issue.

This would be reduced over the present level. I might add that I am in favor of a flat issue fee, regardless of how the legislation comes out, which would be a change from the approach the Patent Office has been using for the last several years.

But in addition, then, say after 5 years from the filing date, an additional fee of $150 would be due; a $200 fee, say, after 10 years from the filing date; and an additional fee of $250 would be due 15 years after the filing date.

So, Mr. Chairman, the remarks I have made on fees are based upon what I would say was a rather extensive detailed cost-benefit analysis of the operation of the patent system. My comments are also aimed at maintaining an incentive for applying for and issuing patents.

Thank you very much, Mr. Chairman. If you have any questions, I shall be pleased to try to answer them.

(The complete statement follows:)

STATEMENT OF EDWARD J. BRENNER

Mr. Chairman, I very much appreciate being granted the opportunity to testify before this sub-committee on a number of important legislative proposals relating to patents which are currently being considered by this sub-committee. More particularly, I wish to testify briefly on the following matters.

1. The amendments proposed by Senator Scott to Sections 261 and 271 of S. 646 relating to patent licensing and to Section 301 of S. 646 relating to the inter-relationship of the patent laws and protection of know-how;
2. Section 6 of S. 646 proposed as an amendment to Section 308 of the Clean Air Amendments Act of 1970:
3. S. 1255 relating to Patent Office financing and patent fees.

I appear before this sub-committee as a private citizen having approximately 20 years experience in patent and licensing activities. I served five years as United States Commissioner of Patents. I have also 15 years experence in corporate and private practice. I am a patent lawyer and also have experience as a licensing attorney, engineering economist, director of patent information activities and as a corporate officer.

AMENDMENTS TO SECTIONS 261 AND 271 OF S. 646

I support in principle Senator Scott's Amendment No. 24 to S. 643. Senator Scott's amendment as it may be modified as a result of these hearings will materially advance the "progress of the useful arts" which is the basic purpose of the United States Patent System as expressed in the Constitution. As you know the constitutional provision gives to Congress the plenary power "to promote the progress of the useful arts." On the President's Commission on the Patent System, I participated actively in discussions with the other Commission members who represented a broad spectrum of backgrounds in relation to the operations of the economy and the United States Patent System. The Commission members unanimously concluded that specific legislation was required to clarify the licensing rights of a patentee. Some people argue that this entire matter is better left for development over the years in Courts. I strongly believe that the proper way to proceed is by act of Congress setting forth the specific licensing rights of patentees. The Constitution gives the power and the responsibility to the Congress to promote the progress of the useful arts and to regulate commerce. Courts are simply to decide cases under congressional enactments.

The President's Commission on the Patent System unanimously agreed upon the importance of both the patent laws and anti-trust laws of our country. Each has an important purpose and both are directed at promoting the economic development of the country through competition.

The patent laws and the anti-trust laws which have been enacted by Congress, pursuant to its plenary powers, have seemingly been on collision course for some time now. The Congress should legislate in the area between them which is now in doubt.

Unfortunately, in my mind, in the past several decades, there has been a continuing erosion of the value of patents because the rights of the patentee have diminished as a result of a variety of court decisions.

Further, and the community is most concerned here, the pronouncements, of some of the Department of Justice people, have injected into the area between the patent and the antitrust laws so much doubt that licensing executives or patent owners are unable to make full and proper use of their patent rights. The threat that the law will change, particularly as a result of Department of Justice efforts or pronouncements as these may be picked up by the courts, prevents the full measure of return to the patentee who has responded to the incentive of our patent incentive system. To this extent, there is the erosion in my mind of which I have spoken.

In certain instances particular court decisions which proceed on a case by case basis have overlooked some of the basic fundamentals of the patent incentive system. While these fundamentals supposedly are well known, I believe that certain of these should be noted.

First, it must be remembered that a patent is to be granted or held valid only in a case where the inventor had contributed something "new" to the benefit of the country. In other words, a patent grant does not deprive the public of any rights. The patent grant, based upon the Constitutional provision, secures to the patentee the right to exclude others from making, using and selling the patented invention. Since the patentee has these rights, there appears no real reason why he should not be able to license any part of his patent rights either with respect to a geographical area, field of use or any other sub-division of his patent right so long as it is done on a reasonable basis, which is calculated to permit him to reap the reward of the incentive of the patent system.

The amendments introduced by Senator Scott generally are aimed in this particular direction. Enactment of these amendments should go a long way towards eliminating the turmoil which has been created in this country by the Anti-Trust Division of the Department of Justice in its continuing stream of pronouncements with regard to its theories on patent licensing, which I can only categorize as being directed at the "socialization" of the patent system with the consequent elutriation therefrom of the needed, necessary incentive.

Amendments as suggested by Senator Scott's language and as may be changed in the legislative process, in my judgment, will help materially to promote the progress of science and the useful arts by assuring that the incentive for invention and innovation in this country, provided by patent rights, will not be further eroded in the future. This will lend great momentum to the production of the greater fund of knowledge and skills vital to our civilian and defense posture because the larger the number of people who are involved in working with the "new" invention, the more additional "new" invention there will be. Consequently in the long run, there will be more products, etc. for the consumer, ultimately more competition, product safety, etc. Our national defense posture will be improved. Needed legislation now will create certainty as to the licensing rights of a patentee which will materially assist in establishing the rights of licensors and licensees in long term licensing agreements. As technology advances, the cost and time involved in advancing the frontiers of science and progress of the useful arts increases. To maintain the incentive for research and development expenditures it is important that a patentee be provided with the protection he needs to achieve the monetary rewards which must be realized to justify the investments made in successful, as well as, I should add, unsuccessful R & D, which also cost money, i.e., time, labor and materials.

It has recently been suggested by at least one Senator that the anti-trust laws of our country need to be studied in detail in order to modernize them and more particularly, that the laws drafted in the 19th Century need up-dating for the 1970's. It has been indicated that certain court decisions have actually worked in a direction opposite of the purpose of these laws. I point out one example. The courts have severely limited the value of patents covering the use of unpatented products. This, demonstratably has reduced substantially the amount of R & D in this country in the field of products uses, to the detriment of the country as a whole.

Respecting timeliness of needed legislation, there has been considerable study on the inter-relationship of the patent and anti-trust laws.

In the past five years, the President's Commission on the patent System made a full study and its recommendation XXII.

As a member of that commission I am qualified to state that the study was comprehensive, thorough and intensive. With your permission I would like to quote from the report, pages 36–38 of which are devoted exclusively to the matter here under discussion and which are incorporated by reference.

XXII

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

"There is no doubt, in the opinion of the Commission, of the importance to the U.S. economy of both the U.S. patent system and the antitrust laws. Each is essential and each serves its own purpose within the framework of our economic structure. However, conflicts between the two have arisen. But this does not mean that the two systems are mutually exclusive, that a strong patent system is a threat to the antitrust laws, or that the latter cannot be effectively enforced so long as a patent system grants limited monopolies.

"On the contrary, the two systems are fully compatible, one checking and preventing undesirable monopolistic power and the other encouraging and promoting certain limited beneficial monopolies. In this way, each may easily achieve its objectives in a strong economy. * * *

"* * * However, uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule. This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses.

"* * * All that the Commission believes to be required is explicit statutory language defining, for the purpose of assignments and licenses, the nature of the patent grant heretofore recognized under the patent statute or by decisional law. This is, the right to exclude others from making, using and selling the patented invention.

"The mere exercise, conveyance or license of these conferred rights should not in itself constitute misuse of a patent."

I know that this Committee understands and distinguishes between per se legality or illegality of rights, on the one hand, and misuse or improper use of rights on the other. I quote further:

"A patent owner should not be denied relief against infringers because he either refused to grant a license or because he has exercised, transferred or licensed any of the conferred patent rights himself. This should not include immunity of even these conferred patent rights from the antitrust laws when the patent owner becomes involved in a conspiracy to restrain or monopolize commerce, or when the patent is itself used as an instrument for unreasonably restraining trade."

It is timely, therefore, to up-date the area between the antitrust laws and the patent laws to stabilize the present law in the area of the licensing of patent rights by legislation.

I am aware that certain people state that Senator Scott's amendments would actually work to the detriment of the public in general. In my view these critics fail to appreciate the dynamics of the patent system and instead tend to analyze the patent system on a case-by-case basis or a static basis. Their utterances will not stand up to reasoned scrutiny which takes into account the workings and results of the patent incentive system in the economy. The primary point is that the patented invention is "new" and has not heretofore existed! Thus, if one were to examine the role of invention and innovation over an extended period of time it should be apparent that inventions have been the major contributor to increased productivity and the bringing forth of greater skills and new and improved products in the United States over the years. I believe that one of the major reasons for the decline of U.S. productivity and competitiveness internationally can be traced directly to certain Court decisions and the activities of the Anti-Trust Division of the Justice Department with respect to patents. Our great people and their industries need added incentives to effectively compete in world markets and even here at home to continue the present standards of life here at home in face of cheap imports.

The primary incentive for the investment of time, effort and money in invention and innovation can be atrributed to the patent incentive system which provides the necessary protection required to justify invention and innovation in this country. Without an incentive for invention and innovation such as aflorded by the patent system, there would certainly be less invention and innovation, to the detriment of the public in general. Thus, in my judgement, legislation now with regard to the licensing of patent rights as these have been outlined briefly herein is extremely important for the benefit of the public in general and therefore our country. We must maintain, indeed increase, if possible, the incentives provided by the patent incentive system to provide invention and innovation. We must create the needed, necessary certainty in the business of licensing of patent rights.

I believe that the majority of the opponents of legislation here under consideration are persons who have had little real experience with the process or system of incentives for invention and innovation. In other words they are not *inventors* who have made inventions, *investors* who have taken the risk of investing capital in R & D and made or attempted the not always successful effort involved in the making and the bringing of an invention to the commercial stage, or *businessmen or attorneys* who have actually negotiated licensing agreements between arms-length buyers and sellers.

It is important to recognize that the proposed legislation in essence seeks to simply state that certain licensing practices shall not be considered to be per se violations of the antitrust laws provided that they are carried out on a reasonable basis. In my opinion, none of the practices stated in Senator Scott's amendments can be considered to be per se unreasonable. Further, to my knowledge, none of the licensing practices covered by Senator Scott's amendments are considered to be illegal per se under present law.

In summary, therefore, there is need for clarifying legislation. The President's Commission has recommended legislation to reasonably maintain incentive to invention by maintaining the rights which an inventor has and which are secured by our patent laws. The Congress and only Congress has the plenary power and prerogative to legislate to preserve the incentives.

I know that Senator Scott has welcomed changes to improve his language. I know there are experts working now who will be glad to make their work product available to you.

I would suggest that the legislative history of any bill state the intent to clarify the law as I have discussed it.

I respectfully urge Congress to do so!

I respectfully urge that a vacuum now exists and that it needs congressional filling!

AMENDMENT TO SECTION 301 OF S. 646

The objective of Amendment No. 23 also introduced by Senator Scott, as an amendment to S. 643 is, in my judgment, most important with regard to invention and innovation. Billions of dollars are spent each year for research and development which results in the development of valuable trade-secrets and technical know-how. Trade-secrets and know-how are in the nature of intangible property derived from intellectual effort and are presently, as they have been historically, afforded protection, as any other property, under the law of contracts, torts and the like. Unless protection of such intangible and intellectual property can be continued, so that it will be adequately protected there will be obviously a substantially reduced incentive to spend the enormous amounts of money, time and effort which are required for the development of such property. Thus, legislation having the effect of the amendment proposed by Senator Scott is extremely important to provide the legislative assurance that the forms of valuable property here involved, will be afforded proper protection.

SECTION 6 OF S. 646

The Clean-Air Amendments Act of 1970 provided for a form of mandatory licensing of patents in the subject field under certain circumstances. I speak in support of Section 6 of S. 643 which would delete the mandatory licensing provisions of the Clean-Air Amendments Act of 1970. In my judgment, the patent system has demonstrated over the years its ability to bring forth the inventions needed to meet the various National needs. I think that the important field of environmental protection will be no exception, so long as there remains the incentive under the patent system to bring forth the inventions and innovations required. The patent system creates an environment of competition with respect to invention and innovation. Thus, each competitor in the field has the incentive to bring forth new inventions and innovations to maintain or improve his competitive position. On the other hand under a mandatory licensing program there is a lesser incentive for competitors to compete in invention and innovation. Thus, each competitor knows that if he expends the necessary resources for invention and innovation he may well be required to license them to his competitors. And further, in the case of inventions or innovations made by any of his competitors, he may well be able to simply sit back and subsequently apply for a mandatory license. Thus, the incentive to compete on invention and innovation is substantially reduced in at least two significant ways.

Presently many organizations and individuals who may not come within the anti-pollution requirements of the Clean-Air Act are the ones who have the skill and background to produce inventions which will be needed. The innovator who is not under a requirement of the Clean-Air Act need not invent or seek a patent. He should know that he can recoup as by licensing, even as discussed in connection with the Scott Amendments earlier, that he can invent to produce cleaner air, can get a patent and can recoup his costs and a real incentive-creating profit.

I believe that the proposed Section 6 of S. 643 adequately protects the public. There are certain people who always expect the worst to happen in theoretical situations, but I believe history has demonstrated that these situations do not develop in fact. In any event, if such a situation should develop, the Congressional intent in Section 6 is clear and the Congress would take any corrective action that might be necessary.

S. 1255

S. 1255 relates to certain changes in fees for patents and trademarks and to the funding of Patent Office operations. I will confine my remarks on fees to those which relate to patents.

As the sub-committee may recall, I testified before this sub-committee several years ago with respect to changes in patent office fees prior to the enactment of the most recent patent fee bill in 1965. Since that time I have done a considerable amount of study and analysis on the subject, both while I was Commissioner of Patents, as well as since that time when I have once again become engaged in the practice of patent law. The comments I whish to present are based primarily on a study in depth of the subject carried out under my direction while I was Commissioner of Patents. The reason why I directed that such a study be made was that I was very much concerned about the general manner in which the subject was discussed in testimony before this sub-committee at the time of the hearings on the previous fee bill in 1964–1965. It seemed to me that there was one philosophy that the Patent Office should be 100% self-sustaining. Then there was a second philosophy that the entire cost of the Patent Office should be paid for out of the general treasury. And then, there was a third philosophy that the level of recovery should be somewhere in between 0 and 100%. It will be recalled that it was finally concluded that a level of recovery of about 75% was considered to be an appropriate level. However, all of this discussion seems to me to involve a rather superficial analysis of the various factors involved which should be important in determining what level of recovery would be appropriate.

In my judgment, the patent operations of the United States Patent Office can be divided into three general categories with respect to the matter of financing. The first general category might be termed "User Services", the cost of which should be covered 100% through administratively established user charges or fees. The second general category might be termed "Public Services", the cost of which should be covered 100% from public funds. The third general category might be termed "User-Public Services", the cost of which should be covered 50% from user charges and 50% from public funds.

First, I would like to discuss the category of "User Services". In this category I include such Patent Office services as those that relate to the filing and clerical processing of patent applications, supplying copies of patents and certified copies of patent applications and patents, drawings, assignments, as well as such other closely related operations, as, for example, the Patent Office mail room. Altogether, I would estimate that the costs of such operations are currently in the range of about eight to ten million dollars per year. Under the funding arrangement I propose, the charges for these various services, including for example, the charge for patent copies as well as filing fees, would be established administratively by the Commissioner of Patents to provide a matching income in the range of about eight to ten million dollars a year for these services. Under such a financing arrangement the fees for most services could actually be reduced. More particularly, I believe that the filing fee for patent applications could be reduced from its present level, the cost of patent copies could be reduced to say 25 cents, the fee for recording an assignment could be reduced to say $10.00, etc. With respect to filing fees, I am in favor of providing a graduated filing fee which would include a base fee of say $50.00 plus additional fees for independent claims in excess of one, say in the amount of $10.00 and additional fees for total claims in excess of ten, say $2.00.

A number of years ago while I was Commissioner of Patents we introduced a program which we termed the "Defensive Publication Program". It was our hope that perhaps 5,000 to 10,000 of the applications filed each year would proceed under the "Defensive Publication Program". Unfortunately, the results fell far below this goal amounting in fact to only a hundred or so applications each year. In view of the fact that the Patent Office is now faced with an ever increasing number of patent applications filed each year, I would strongly recommend including in any patent fee revision bill increased incentives for

applicants to elect the "Defensive Publication Program". More particularly, I would suggest that the filing fee for patent applications which enter the "Defensive Publication Program" be set at $25.00. Furthermore, I would recommend amendments to 35 USC 102 which would provide defensive publications with defensive rights equivalent to U.S. patents. I would also suggest that the law provide that the applicant could elect to proceed to have his patent application examined at any time within say 2½ years of filing, by simply paying the balance of the filing fee due, without the necessity of refiling his application for examination. Additional incentives might be suggested by others and considered by this sub-committee. I believe that the results to date under the Patent Office's "Defensive Publication Program" indicate that essentially all patent applicants who elect the "Defensive Publication" route, abandon these applications without the need to have these applications searched and examined by the presently overburdened Patent Office examining corp.

In accordance with my arrangement for Patent Office funding, I would strongly recommend that the Congress authorize the establishment of a revolving or trust fund for Patent Office operations which would be placed under the "User Services" category. In my mind, it is extremely important to provide the Patent Office with the financial and operating capability it needs to provide first-class service to the public in this user service category. This particular type of operation was strongly recommended by the President's Commission of the Patent System in their report to the President in 1966. While I was Commissioner of Patents, I always felt that it was extremely unfortunate that the Patent Office did not have a revolving or trust fund so that it could provide fast, accurate and efficient services which the public would be more than willing to pay the costs involved. Many of the problems that the Patent Office is experiencing today can be directly attributed to an inadequate financing arrangement in these important service areas. If the goal is to improve the operation of the U.S. patent system by having the Patent Office provide the service the public must have and desires in connection with the operations of that system and to which it is now entitled, I strongly recommend the authorization of a revolving fund for the Patent Office. On the other hand, if such a revolving fund is not provided for the Patent Office, I would strongly recommend that the Patent Office turn over to ouside contractors under a suitable contractual arrangement the right at their expense to perform a variety of services now performed by the Patent Office which are not absolutely required to be performed by the Government. I suggest this only as a second alternative, but I suggest it very strongly and sincerely in order to create a financial and operating arrangement in which adequate services can be provided efficiently and effectively to the public.

In accordance with my proposed arrangement for Patent Office financing, the second category of "Public Services" would be funded entirely from public funds appropriated by the Congress. In this category I would include the basic printing costs for patents as well as the operation of the Patent Office Search Center which includes the Public Search Room and the Scientific Library. In the case of patent printing, I would include the basic charges of the Government Printing Office and any outside contractor engaged in similar services, as well as the Office of Patent Publications of the Patent Office which prepares the patent applications for printing. I would roughly estimate that the total costs of these "Public Services" would be in the range of about eight to ten million dollars per year.

The reason I propose 100% funding of the "Public Service" operations by appropriate funds is as follows. The printing of patents is carried out entirely for the benefit of the public and not to any degree for the fenefit of patent applicants or patentees. For example, the basic printing of U.S. patents is necessary to provide the copies of patents which are placed in the Patent Office Search Center and are distributed to approximately twenty-two public libraries throughout the United States. Additional copies of U.S. patents are provided to various foreign countries in exchange for copies of their patent publications which are made available to the public in the Patent Office Search Center and several public libraries in the United States. The Patent Office Search Center is an operation of the type carried out by most public libraries, at least with respect to its collection of patents and non-patent scientific and technical publications. Generally speaking, public libraries are supported by public funds and I see no reason why the Patent Office Search Center should hot be treated in the same manner.

In accordance with my proposal with regard to Patent Office nnancing, the third category, namely, "User-Public Services" relates primarily to the examination of patent applications. The benefits derived from the examination of patent applications can be allocated about one-half to patent applicants and about one-half to the public in general on the basis that it is probably equally beneficial to both interests to know the scope of patent coverage at the time the patent is granted. For example, it should be noted that certain patent systems of the world operate without any examination. In this connection, I would mention that the French patent system operated for many years without an examination although patents were still granted to applicants under the system. However, several years ago the French Government concluded that examination was in the public interest and an examination system has recently been established in France.

Roughly, I would estimate that the costs of examining patent applications, based on the proposed 1972 budget of the Patent Office, are in the range of about 34 to 38 million dollars per year. Thus, in accordance with my concepts, fees paid by patent applicants and patentees for examination should bring in, in the range of about 17 to 19 million dollars per year. In order to raise this amount of money through patent fees, I would strongly recommend the early institution of deferred patent fees in the United States. Thus, for example, under a system of deferred fees in the United States there could be perhaps a flat $100.00 issue fee payable within three months after the Notice of Allowance was forwarded to the applicant. Thereafter at periods of say 5, 10 and 15 years, after the earliest U.S. filing date claimed by the applicant, deferred fees in the range of about $150, $200 and $250 might be payable. In the case of patents of independent inventors who had not realized any income from their patents at either the five year or the ten year point, such fees could be waived upon providing the Patent Office with an affidavit stating that no income had been realized by the inventor. By patents of independent inventors I am referring to those patents which are unassigned. The sub-committee may recall that similar proposals were presented with regard to maintenance fees at the time of the hearings on the previous patent fee bill in 1964–65. In accordance with my proposal the issue fee would not only not be increased by it in fact would be reduced as compared with the present fee schedule.

Incidentally, I strongly support the concept of having a flat issue fee regardless of what that fee might be. Although, the present fee structure for issue fees which is variable with respect to the number of pages of specification and drawings, has certain advantages in concept, it has proven to be difficult and complicated to administer in practice for both patent applicants and the Patent Office, and should be dropped.

In accordance with my overall proposal for financing Patent Office operations. the Patent Office would then generally recover fees approximating 50% of the cost of the operation of the Patent Office. Consistent with this approach, paragraph E of Section II of S. 1255 should then be revised to change 65% to 50%.

Finally, with respect to S. 1255 I support the concept of providing a uniform term for design patents.

Senator BURDICK. I do not believe we have any questions. Thank you very much.

The committee will be in recess until 10 o'clock tomorrow morning.

(Thereupon, at 3:30 p.m., the hearing recessed, to reconvene tomorrow, May 12, 1971, at 10 a.m.)

PATENT LAW REVISION

WEDNESDAY, MAY 12, 1971

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan (chairman of the subcommittee), presiding.

Present: Senators McClellan (presiding) and Burdick.

Also present: Thomas C. Brennan, chief counsel and Edd N. Williams, Jr., assistant counsel.

Senator MCCLELLAN. The committee will come to order. Our first witness this morning is Mr. Alan Ward, Director of the Bureau of Competition, Federal Trade Commission.

Mr. BRENNAN. Mr. Ward has a prepared statement which he wishes to file for the record and will summarize his testimony.

Senator MCCLELLAN. All right, Mr. Ward, your statement will be printed in full in the record and you may summarize it if you like. Let's see how many witnesses we have this morning.

Do you have an associate with you? You may identify him for the record.

STATEMENT OF ALAN WARD, DIRECTOR, BUREAU OF COMPETITION, FEDERAL TRADE COMMISSION, ACCOMPANIED BY ALAN RANSOM

Mr. WARD. Thank you.

My associate is Alan Ransom, Trial Attorney in the Bureau of Competition, Federal Trade Commission.

I appreciate the opportunity to appear before the Committee this morning and present the Federal Trade Commission's views on amendments 23 and 24 to S. 643.

I have a prepared statement which I am not going to read at this time, I am just going to summarize some of the more important points.

The basic position of the Commission is opposition to the proposed amendments. The Federal Trade Commission, as you know, has a considerable interest in this sort of proposal. We share with the Justice Department the responsibility for enforcement of the antitrust laws. In addition, the Commission has a broad mandate to prevent unfair commercial practices which restrict competition or injure consumers.

Like the Justice Department, the Commission has a background of experience with patent antitrust laws. Our investigations and cases have frequently dealt with patent licensing and enforcement and Commission decisions have on occasions involved the accommodation of patent and antitrust laws.

We oppose the proposed amendments or similar legislation because we believe such proposals are contrary to the public interest. Taken as a whole, we believe the proposals will encourage unnecessarily broad anticompetitive arrangements and will tend inevitably to higher consumer prices.

The arguments for legislation do not show any real need to accept such consequences to encourage invention. The general state of our technology indicates the contrary.

We understand that the proposals are basically supported on the argument that there is a direct causal relation between the magnitude of the revenue captured by the patent holder and the quantity and quality of invention. Freedom for the patentee to enter into restrictive arrangements, according to this argument, will increase his revenue and spur inventive efforts. Many students of the patent system believe, however, as Commission Jones of the Federal Trade Commission noted in a recent speech, that there is very little evidence that increasing rewards to patentees beyond the considerable rewards already received, would add significantly to our technological progress.

What does seem clear, however, is that any significant modifications of the current antitrust restrictions on the use of patents to monopolize industrial markets would impose a staggering cost on the consuming public.

The Federal Trade Commission views the law as evolving in the highly desirable direction of recognizing the rights which holders of patents have to fully exploit their patent grants but preventing misuse or extensions of the patent grants to destroy competition or to monopolize. Any interruption with this basically satisfactory evolution of the law we regard as a mistake.

I understand that the position taken by the proponents of the legislation is that it will not overrule the long line of antitrust cases which have dealt with patent antitrust problems but will merely codify what is the present state of the law.

I think the difficulty with accepting that approach to this legislation, and the reason why the Commission's opposition to the proposal is not based on draftmanship, is that the proposed language would make certain restrictions lawful. For commercially complex patent relationships, which have a direct and important bearing on vital private and public interests, specifying what is and shall remain lawful under all circumstances is a very difficult task. In our view there is no reason for Congress to try to do this for patent licensing.

The primary proposals deal with the rule of reason. Our comments on what we believe the current status of the law of rule of reason is adequately covered in our written statement. All I would add to this is that when there is in fact a broad range of alternatives open to a patentee who is going to be licensing his patent, how he licenses the patent will necessarily be measured against an objective standard of reasonableness under the current law and not against the patentee's subjective view, and it must obviously include matters other than the

profitability of the arrangement to the patentee or some elements of what he regards as the pressures that make him enter into a certain arrangement.

Our position is not that per se illegality should be expanded. We believe that the rule of reason applies in the patent field and we urge the committee to consider that test as an objective test. Any phrasing of that test should not ignore the competitive impact of the alternatives that are open to the patentee.

I believe there is not much serious argument that patent-based price fixing or market division will receive congressional or judicial blessing. The uncertain impact of these amendments will make it inevitable, however, that the broadest construction of the provisions will be urged and that there will be more, not less, uncertainty in establishing valid patent licensing systems.

With respect to field-of-use licensing, it is very difficult to see how provisions of this sort will increase the certainty of what can be done in licensing part but not all of a patent grant. At present the law makes it clear that there are no per se prohibitions on field-of-use licensing. I think that is generally conceded by those who propose the legislation as well as those who are opposed to it. There may be good reasons for field-of-use licensing, and so far as I am aware there is no broad general opposition to that type of licensing practice.

It is also true, however, that through the years the experience of the courts suggests that this type of licensing has in fact been used to extend the patent monopoly beyond the scope of its intended grant and to permit restrictions on competitive opportunities in industrial fields. The court litigation has developed standards for determining those disagreements which are in accord, I think, with both the patent and antitrust laws.

The royalty proposals in our view would introduce considerable uncertainty in a field where certainty is of great value not only to the patentees but to the licensees and to the consuming public.

The difficulty with the several proposals that are contained in the amendment 24 is that their interpretation seems to run counter—I think that this is obvious from any review of the proposal—their interpretation seems to run counter to a great many decided antitrust cases. If that is the interpretation that can be put on these amendments, and if that is in fact not the intent of the proponents of the legislation, it seems that the net effect of the legislation will be to engender uncertainty in an area where there will always be enough uncertainty.

Senator McClellan. In other words, what you are saying is if that is not the intent of them, then they are not needed?

Mr. Ward. That is right.

Senator McClellan. I am not taking sides at the moment. It seems that was the thrust of your statement.

Mr. Ward. I think that certainly the statements that have been introduced that I am aware of suggest that there is no intent to overrule the antitrust cases on coercive package licensing or extending the term of the monopoly grant beyond the period that the statute provides, and yet there are provisions, as our written statement makes clear, that are open to that interpretation.

It is the nature of litigation that the broadest possible construction

of legislation will be urged and such interpretations will be urged on the court regardless of the statements that have now been introduced in support of the legislation. The broadest construction of the amendments will be urged if they are passed, and there will be a period of time before the principles of the old cases are reaffirmed when there will be great uncertainty as to what is in fact a lawful licensing arrangement.

The one case that I would comment specifically on in connection with the royalty provisions is the *Shrimp Peelers* case, which is not a Supreme Court case. There is a suggestion in the proponents' material that the *Shrimp Peelers* case should be overruled on the ground that it would require uniform royalties. This is a Trade Commission case. It dealt with discriminatory royalties which were imposed by the patentee who was a Gulf Coast shrimp canner that discriminated against shrimp canners on the west coast and had the effect of destroying or severely injuring the west coast canner's business. Under those conditions and on the basis of a rejection of the justifications that were offered for those discriminatory royalty provisions, the Commission held that the discrimination was unlawful. But there was nothing in the Commission's opinion and nothing in the opinion of the courts, the reviewing court of the Commission decision or the treble damage court on the west coast, that implies or holds that uniform royalties are required.

So far as I know there is no statement by any enforcement agency which urges that all royalties should be uniform, and in the face of that I fail to see that legislative correction of the *Shrimp Peelers* case is warranted.

I come now to the question of licensee estoppel and would like to just briefly comment on the proposition that the *Lear* case, which is the central case in this controversy, came as a distinct and sharp break with the past current of judicial interpretation.

This was a subject that was discussed at a meeting of the American Bar Association meeting in Dallas in 1969. Professor Handler, who is an outstanding teacher of antitrust law as well as an outstanding antitrust lawyer, made this comment about the estoppel concept which *Lear* overruled. He said, "The estoppel concept had been so emasculated by a series of exceptions that its explicit obliteration comes as no surprise to the patent and antitrust bars." The erosion process began with a case decided in 1924. It continued through cases that were decided in the early and midforties, and by the time *Lear* was decided the doctrine of licensee estoppel according to Mr. Justice Harlan was pretty much a a dead letter.

Now, the other proposition is that it is unfair for one who has a benefit to repudiate it to take advantage of the patentee, and I think that that specific principle is one that we can support. But at the very same time that Mr. Handler made his remarks on the *Lear* decision, he pointed out what was his interpretation of the effect *Lear* would have. He said the licensee who decides to cross the Rubicon, that is, to challenge the validity of the patent, assumes the risk if his claims of invalidity are judicially rejected, he may thereafter be precluded from practicing the invention.

That, of course, is only one lawyer's interpretation but it certainly seems to be one that fits within the principle of *Lear* and I know of

no reason why, at least in the absence of any cases that the courts will not follow that trend, why Congress should enact legislation to deal with licensee estoppel.

Finally, the argument is also made that the comments by the dissent in *Lear* on the licensing of know-how, unpatented know-how and technology, which were then embodied in a district court decision in Painton against Bourn, required congressional overruling.

As I am sure the committee has been informed, the *Painton* case has been overruled by the Second Circuit Court of Appeals and consequently that argument for legislation loses its support.

In closing, I would reemphasize the legitimate doubt that we have that the present state of patent antitrust law imposes any significant hindrance on the patentee's ability to legitimately exploit patents. The lack of factual data on that subject underscores the undesirability at this time of such sweeping legislative proposal.

Now, the factual support for such a state of the law seems to me could be obtained if there is in fact a reluctance of financial institutions to provide money for patent exploitation or if patentees are reluctant to license patents in the face of possible challenge to the validity of the patent. If there is any real impediment to invention or exploitation of patents, it seems to me that those facts could be determined.

I know that there have been considerable assertions. I have had several discussions about the proposed amendments with lawyers of the patent bar, and it seems to me that the assertions of damage to the patent system should be supported.

The Commission would urge before any legislation is undertaken in this field specific information should be obtained from inventors and corporate and other patent holders concerning the impact of antitrust enforcement on their licensing activities. The Commission could participate in formulating such an inquiry within the limits proposed by budgetary considerations and available manpower.

Thank you.

Senator McCLELLAN. Thank you very much, Mr. Ward.

Mr. BRENNAN. Senator Hart is necessarily absent because of the hearing of the Commerce Committee on auto safety and he asked me again to propose certain questions on his behalf.

Mr. Ward, does the Federal Trade Commission have any economic studies which indicate the cost to the consumer of the patent system?

Mr. WARD. A broad study of that sort I think has not been conducted. The Commission did make a study of the tetracycline patent and the antibiotic patent licensing arrangement which was the forerunner of the Commission's litigation against the companies that had licensed that patent. In the course of that litigation, I think, and in the study itself, I think the determination was made that the costs of the arrangements there were incredibly high as far as increasing the cost of obtaining tetracycline to the consuming public.

Mr. BRENNAN. Senator Hart's next question.

Has the Federal Trade Commission ever estimated the cost of patent misuse to the consumer?

Mr. WARD. No, it has not.

Mr. BRENNAN. Thank you, That is all.

Senator McCLELLAN. Very well. Thank you.
(The statement referred to follows:)

TESTIMONY OF ALAN S. WARD, DIRECTOR,

BUREAU OF COMPETITION, FEDERAL TRADE COMMISSION

Chairman McClellan, members of the Subcommittee, it is my pleasure to appear before you today as a representative of the Federal Trade Commission to give the Commission's views on Amendments 23 and 24 to S. 643, introduced March 19, 1971. We have carefully considered these Amendments as well as other material commenting on their purpose and expected effect and we have given much thought to their possible consequences.

The Commission is of course vitally concerned with the effect these proposals may have on the relationship between the antitrust laws and patent policy. Commission cases have often dealt with patent problems under the Federal Trade Commission Act's congressional command to preserve a competitive economy.[1]

We believe that the proposed amendments are contrary to the public interest and oppose their enactment. We feel they will encourage—indeed may sanction —broad anticompetitive arrangements which will tend inevitably to higher consumer prices. The encouragement of invention does not require the acceptance of such consequences.[2]

The philosophical base for the Amendments seems to be that a direct relationship exists between inventiveness and monetary return. This, in turn, leads to the notion seemingly embodied in the amendments that great patentee freedom to enter into restrictive practices and, thus, enlarge his statutory monopoly, will increase his revenues and goad him to further inventiveness. Commissioner Jones has forcefully pointed out the fallacies in this argument.[3] There is no objective proof that licensing restrictions bear any relationship to inventiveness, and no effort has been made to show that antitrust enforcement has impeded either invention or legitimate exploitation of patents. To the contrary, enforcement efforts involving the tetracycline patent, to cite one specific example, have saved consumers millions of dollars and expedited competitive patent exploitation. Other factual examples of the commercial and consumer benefits of antitrust enforcement involving patents could be cited.

We want to emphasize that our opposition to these amendments is not based on matters of draftmanship. The proposed amendments are vague and of uncertain application—and thus certain to breed litigation. Redrafting won't remedy those defects. These proposals, bear in mind, are not, for the most part, intended to overrule specific cases or established principles of patent-antitrust law. They are largely intended to make certain licensing restrictions *lawful*. For commercially complex relationships, having a direct and important bearing on vital private and public interests, specifying what is and shall remain lawful under all circumstances is a task not lightly to be undertaken. There is no good reason for Congress to try to do this for patent licensing. A brief review of the proposals will make this clear.

THE RULE OF REASON

The main concern of the proponents appears to be not the present state of the law, but what *might* become the law—in particular, that patent licensing litigation may develop further *per se* rules. This may be so—it may not—but *per se* antitrust rules (which are an integral part of the antitrust "rule of reason") apply only to conduct shown to lack any commercial or economic justification, that is, those that are completely unreasonable restraints. If facts warrant a *per se* rule, expanded patent rights should not exist in spite of it. Notably, none of the amendments seeks to overturn a *per se* rule.

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[1] See *e.g.*, *LaPeyre* v. *FTC*, 366 F.2d 117 (5th Cir. 1966), *American Cyanamid Co., et al.*, 63 FTC 1747 (1963).

[2] Similar legislation was flatly opposed by the Commission on a previous occasion, and no new facts seem to justify a reversal now. See Senate Judiciary Committee Hearing, May 18, 1967; House Judiciary Committee Hearings, February 29, 1968.

[3] Commissioner Mary Gardiner Jones, "The Impact of the Patent and Antitrust Laws on Consumers" address before Fourth New England Antitrust Conf. Boston (Nov. 6, 1970).

Actually, there is general agreement among proponents and opponents of these amendments that the "rule of reason" approach of antitrust is sound—that is, that particular licensing restrictions should be judged on the basis of a thorough review of relevant facts to determine whether or not the restrictions "unreasonably" restrain competition. But there is some dispute about the standard which should be applied. The amendments in §271(f)(2) would approve (under what is called the "GE" rule[4]) any restriction that "is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant."

In passing, we would note that it will certainly be urged that the purpose or possible effect of such an amendment is to legitimize price-fixing and other cartel practices long held unlawful. Proponents, of course, reject this construction. But these amendments create the uncertainty, and this alone is a most telling argument against enactment of the proposed amendments.

The enforcement agency position which the proposed amendment was designed to counter was given in a much quoted speech by Assistant Attorney General McLaren, who stated his view that the lawfulness of a particular licensing provision depended on whether or not the provision in question was first, ancillary to a lawful contract, and second, imposed no greater restraint than necessary to carry out its lawful purpose.[5] This was merely a restatement of the *Addyston Pipe* rule of "ancillary restraints," a long-established and well understood antitrust doctrine. Mr. McLaren's statement, which described how the Department determines the "reasonableness" of licensing restrictions, has generated considerable controversy. The difficulty stems from the notion that the criteria formulated by Mr. McLaren are imposed in addition to the rule of reason standard, whereas they are in actuality a statement of the standard itself.

The key words are "reasonable" under *GE*, contrasted with "necessary" in the antitrust expression. But where, in fact, there is a range of business alternatives open to a patentee his choice of a licensing restriction will be measured against an objective standard of reasonableness, not the patentee's subjective view; the law does not, and should not, accord patentees greater rights (other than his right of exclusivity) to restrain competition unduly than it accords to any other property owner.

At the risk of reiteration, it is not our position that *per se* illegality in the patent field should be expanded. The "rule of reason" now applies, we believe, in determining the lawfulness of patent licensing practices. But it is and must be an *objective* test, and even if phrased in terms approving restrictions which are reasonable to secure to the patent owner the full benefit of his patent grant, it can hardly be contemplated that what is "reasonable" could ever be resolved without reference to the alternatives open to the patentee. That reference, just as certainly, could neither be limited to a comparison of the profitability to the patentee of his various licensing alternatives, nor could it ignore the competitive impact of the alternatives.

There is not much serious argument that patent-based price fixing or market division will ever again receive a Congressional or jucidial blessing, yet the uncertain import of these amendments make it inevitable that their broadest construction will be urged in litigation, engendering extensive litigation and more, not less, difficulty in establishing valid licensing systems for legitimate patent exploitation.

FIELD OF USE PROBLEMS

Two specific sections of the proposed amendments touch directly on "field of use" problems: §261(b)(2) and §271(f)(1). It is proponent's aim to reaffirm *General Talking Pictures Corp.* v. *Western Electric Co.*,[6] a decision, it should be noted, which subsequent cases[7] have limited, recognizing the anticompetitive effects of some use restrictions. The proposed amendments would doubtless be

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[4] *United States* v. *General Electric Co.*, 272 U.S. 476 (1926).

[5] Address by Assistant Attorney General Richard W. McLaren, *Patent Licenses and Antitrust Considerations*, before The Patent, Trademark and Copyright Research Institute of the George Washington University, June 5, 1969.

[6] 305 U.S. 124 (1938).

[7] *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436 (1940), for example, held redistribution restrictions illegal.

argued to legitimize market allocation,[8] quantity restrictions,[9] or customer allocation,[10] all now illegal. The possibility of such a construction is good reason to oppose the amendments.

At present, we believe, field of use restrictions cannot safely be considered *per se* legal, or accurately described as *per se* illegal. For example, a patentee may wish to divide the range of applications of his patent into different fields, possibly subject to different royalty rates, in order to broaden his patent's uses at the maximum value of the patent in each of its applications. Indeed, all of the possible applications of the patent, and their value, may not be known at the time licenses are initially granted. Thus the patentee may have good reason to carefully limit licenses to uses determinable at the time the license is granted, preserving his ability to license for new uses, and to establish royalty rates thereon, pending future information.

As a general matter, however, use of such restrictions to divide markets among companies which would otherwise be expected to compete is, without more, lacking in justification. This would seem to be the theory of a series of cases recently initiated by the Antitrust Division concerning the licensing of pharmaceuticals. The *Glaxo*, *Ciba*, *Fisons* and *Bristol-Myers* matters[11] involve bulk sale restrictions, which are sometimes described as field of use restrictions. *Fisons* and one of the *Ciba* matters also involved, respectively, customer allocation by trade classification and confining each licensee to the sale of the patented product in combination with another, and different, therapeutically active ingredient. These licensing restrictions clearly seem designed to insulate the parties thereto from the sort of price competition which might otherwise be offered by generic producers and re-packagers.

The "rule of reason" approach, balancing legitimate objectives and anticompetitive applications, is presently being used to resolve field of use questions. Since a *per se* approach has not, so far as I know, been advocated, it is difficult to determine what legislation in this area would accomplish, beyond engendering additional litigation and uncertainty.

ROYALTY PROVISIONS

As in the field of use situation, the royalty provisions have an air of unreality. The royalty provisions in the proposed legislation seem designed to thwart developments in the law which should not realistically be anticipated.

Sections 271(g)(2)(B) and (C) of the proposed amendments deal with package licensing, and arguably would approve extension of the patent monopoly beyond the present seventeen-year grant, and royalty charges based on non-patented items. Here, too, the proponents seek, by legislation, to counter a supposed threat of the emergence of *per se doctrine*. The threat is not real. The *Hazeltine* case[12] recognized the validity of truly voluntary package licensing, and dealt with the standard for distinguishing coercive from voluntary licensing.[13]

Proposed Section 271(g)(2)(A), also vague, is subject to an interpretation running directly counter to current law. In *Brulotte* v. *Thys Co.*[14] the Supreme Court held a patentee's use of a royalty agreement extending beyond the patent's validity was illegal *per se*. There is no public benefit commensurate with the disadvantages of permitting the patentee's rewards to extend beyond the lawful monopoly.

The *Rovico*[15] case, holding the issue of whether royalties were "exhorbitant" was triable, has caused much concern. This isolated case, on unusual facts, not

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[8] This was struck down in *Hartford-Empire Co.* v. *U.S.*, 323 U.S. 386 (1945). See also *United States* v. *National Lead Co.*, 322 U.S. 319 (1947).

[9] *United States* v. *United States Gypsum Co.*, 333 U.S. 364 (1948).

[10] *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271 (6th Cir. 1898); *United States* v. *Consolidated Laundries*, 291 F.2d 563 (2d Cir. 1967).

[11] *United States* v. *Glaxo Group Ltd.*, Civil No. 558-68 (D.D.C., filed March 4, 1968); *United States* v. *Ciba Corp.*, Civil No. 791-69 (D.N.J., filed July 9, 1969); *United States* v. *Ciba Corp. and C.P.C. International, Inc.*, Civil No. 792-69 (D.N.J., filed July 9, 1969); *United States* v. *Fisons Ltd.*, 69 C 1530 (N.D. Ill. 1969); *United States* v. *Bristol-Myers Co.*, Civil No. 822-70 (D.D.C., filed March 19, 1970), *In re Ampecillin Litigation*, M.D.L. DKE No. 50.

[12] *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1909).

[13] See also *Rocform Corp.* v. *Acitelli-Standard Concrete Wall, Inc.*, 367 F.2d 678 (6th Cir. 1966), *American Security Co.* v. *Shatterproof Glass Corp.*, 268 F.2d 769 (3rd Cir. 1958), *cert. den.*, 361 U.S. 902 (1959).

[14] 379 U.S. 29 (1964).

[15] *American Photocopy Equip. Co.* v. *Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966).

the least of which was that royalties were being paid on unpatented items, hardly requires legislative overruling. It is unwise to base permanent patent policy on the overruling of one lower court case distinguishable on its facts.

This same section also is directed at royalty rate discrimination, and the proponents of the amendments recommend, we believe, overturning the "shrimp peeler" cases.[16] But theese cases do not require uniform royalties. There the Commission and the courts found that the highly discriminatory royalty rates on shrimp peeling machinery had substantially injured competition in the shrimp canning industry, favoring Gulf Coast canners, of which the patentee was one, over West Coast canners—without justification. The "peeler" cases do not forbid royalty rate discrimination where it has a valid business purpose. No antitrust enforcement agency is pressing for a rule requiring uniform royalties. Indeed, the Seventh Circuit has recently held that royalty rate discrimination between competing licensees is permissible.[17]

Also of concern here, the language of the provisions which have been advocated is subject to an interpretation which could extend antitrust immunity to licensing and royalty arrangements long held unlawful. For example, the proposals would authorize licensing arrangements providing for a royalty "not measured by the subject matter of the patent" or "differing from that provided in some other arrangement," just to give two extremely vague examples. Would coercive package licensing be possible? Would discriminatory royalty provisions, regardless of the purpose or intent of the patentee, be authorized? The potential for argument and reargument of so much settled law in this area requires oppositions to the proposed amendments.

ASSIGNOR AND LICENSEE ESTOPPEL

Proposed subsections (e) and (f) of Section 261 would modify the Supreme Court's decision in *Lear, Inc.* v. *Adkins*[18] by limiting the conditions under which an assignor or licensee may challenge the validity of a patent. This appears to be reasonable; it seems unfair that one enjoying the benefits of an agreement may repudiate his obligations under it. But this substitutes private privilege for public benefit, for the public concern is with the *validity* of the patent monopoly itself. The fact is that almost three-quarters of the patents litigated in the Courts of Appeals in the last two years or so have been found invalid. And as the Supreme Court recognized in *Lear*:

> Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolistic without need or justification.[19]

Lear was no abrupt departure from previous decisions. The doctrine of licensee estoppel weakened in *Westingouse Electric Mfg. Co.* v. *Formica Insulation Co.*,[20] and became feebler in *Sola Electric Co.*, v. *Jefferson Electric Co.*[21] Finally, Mr. Justice Frankfurter suggested "decent public burial" in his *MacGregor* v. *Westinghouse Electric Mfg. Co.*[22] dissent. In *Lear* Mr. Justice Harlan simply performed the amenities suggested in *MacGregor*—he pronounced it a "dead letter."

This section may well be the most seriously defective of the proposed amendments. The validity of our patent system and the maintenance of competition in important parts of our economy make it imperative that invalid patents be detected and challenged. Indeed, the patent system assumes for its legitimacy that adversary proceedings will weed out invalid grants of the monopoly right. Any necessary action to prevent disruption of patent license arrangements can be accomplished without such sweeping proposals as these.

"KNOW-HOW" LICENSING AND FEDERAL PRE-EMPTION

Proposed Amendment 23 has been drafted, among other purposes, to overrule a District Court decision denying the licensability of unpatented know-how. This

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[16] *LaPeyre* v. *F.T.C.*, 366 F.2d 117 (5th Cir. 1966); *Laitram Corp.* v. *King Crab Inc.*, 244 F. Supp. 9 (D. Alaska 1965); *Peelers Company* v. *Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966).

[17] *Bela Seating Co. Inc.* v. *Poloron Products, Inc.*, 5 CCH Trade Cases, ¶ 73,452 (1971).

[18] 395 U.S. 653 (1969).

[19] *Id.* at 670.

[20] 266 U.S. 342 (1924).

[21] 317 U.S. 173 (1942).

[22] 329 U.S. 402, 416 (1947).

is unnecessary. The Second Circuit, to which the case was appealed, overruled that decision on April 27, 1971.[23]

We recognize that the status of know-how licensing has been left somewhat up in the air in the wake of the questions raised, but not adjudicated, in *Lear*. It is probably true that know-how and trade secrets can be as significant technologically and competitively as patented invention. Where secret non-patentable innovation of this value is involved, we believe public policy should continue to allow proper incentive for its dissemination on reasonable terms. No case holds to the contrary. No enforcement agency has urged to the contrary. This broad delegation to the states is plainly unnecessary.

More seriously, this amendment may be inconsistent with two Supreme Court decisions holding that state unfair competition laws cannot grant exclusive rights to products that do not reach the standard of patentability under the patent laws.[24] Quite apart from the issue of whether in fact the amendment, as drafted, accomplishes this (though that is one possible interpretation) we do not feel it should be done.

Sears and *Compco* stand for the proposition that monopolies are, in our society, the exception rather than the rule. A patent is a monopoly granted by the Federal Government to discoveries meeting the standard of patentability. To permit owners of products or ideas not reaching that standard to wield monopoly power under the guise of a state statute contravenes the basic policy of the patent grant. We do not feel this is wise. It is probably unconstitutional. We therefore oppose Amendment 23.

CONCLUSION

No one argues that the field of patent-antitrust law is crystal clear. One *can* argue that it should not be, if clarity is to be obtained at the expense of flexibility. The evolution of the law in this area has been basically satisfactory, as evidenced by the lack of a widespread call for overturning Supreme Court decisions in this area. There is no real basis for accepting the premise of the proposed amendments that current patent-antitrust law stifles invention and innovation. Even if there were, there is even less basis for embracing vague, confusing proposals, based on mere assertion, that would create doubt, uncertainty and, inevitably, litigation.

Where such doubt exists on a widespread basis, procedures, either through FTC advisory opinions or, more broadly, by means of generalized trade regulation rules, already exist for removing those doubts.

In closing, we reemphasize our doubt that the present state of patent-antitrust law imposes any significant hindrance on patentees' incentives to invent or legitimately exploit patents. The lack of critical empirical data underscores the undesirability at this time of such sweeping legislative proposals. We would urge that before any legislation is undertaken in this field specific information should be obtained from inventors and corporate and other patent holders concerning the impact of antitrust enforcement on their licensing activities. The Commission, we believe, could participate in formulating such an inquiry within the limits imposed by budgetary considerations and available manpower.

Mr. BRENNAN. Professors Turner and Blake.

Senator MCCLELLAN. Let them identify themselves.

Identify yourself for the record, please.

STATEMENT OF PROF. DONALD TURNER, HARVARD LAW SCHOOL

Mr. TURNER. Yes, Mr. Chairman. I am Prof. Donald F. Turner of Harvard University and with me is Prof. Harlan Blake of Columbia University.

Mr. BRENNAN. On May 7 you and a number of associates submitted a statement to the subcommittee on the Scott amendments and I would suggest it be printed at this point in the record.

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[23] *Painton & Co. v. Bourn, Inc.*, 309 F. Supp. 271 (S.D. N.Y. 1970), *rev'd*, -- F.2d -- (2d Cir., April 27, 1971).

[24] *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Senator McCLELLAN. Very well.
The letter may be printed in the record at this point.
(The letter referred to follows:)

MAY 7, 1971.

Hon. JOHN L. McCLELLAN
Chairman, Subcommittee on Patents, Trade-marks and Copyrights, Committee on the Judiciary, Washington, D.C.

DEAR SENATOR McCLELLAN: As professors of law whose experience and scholarship lie in the field of public control of monopoly and competition, we are deeply concerned by and strongly opposed to the proposed amendments to the Patent Reform bill (the so-called McClellan bill) limiting the application of the antitrust laws to patent licensing arrangements.

We oppose these amendments because we believe that they are, in general, unwise in their substantive objectives and because they are in many respects drafted in language so opaque and obscure that it is impossible to predict with any certainty the ultimate reach of their intrusion into antitrust policy. We must conclude that their effect would not be, as proponents have urged, to elucidate the law and improve the performance of the legal system in this difficult but important area, but rather to create ambiguities and difficulties of interpretation which would surely require many years of litigation to begin to clarify.

The main argument made in favor of the amendments is that greater financial incentive to invention and innovation is needed, and that abating antitrust safeguards is an appropriate way to increase rewards to patent owners.

We believe, however, that there has been no economic or other evidence that permitting patent owners to engage more freely in restrictive licensing would increase the progress of technology or the productivity of the economy. Indeed, the limited evidence we have suggests that the social costs would most likely be considerably greater than any resulting benefits.

Among other things, the amendments would have the effect of encouraging greater use of patents as a vehicle for bringing together competitors or potential competitors into cartels for the purpose of eliminating competition. In these respects we consider the amendments to be plainly harmful and contrary to the public interest.

A further major effect of the amendments would be to call to a halt the case-by-case development of law in important but imperfectly understood areas of restrictive patent licensing and antitrust policy. In these respects we consider such legislation to be premature and ill-advised.

The first of the proposed amendments would change the present law with respect to patent licensing in four distinct areas:

(1) price fixing;
(2) geographical and field of use restrictions;
(3) assignor and licensee estoppel; and
(4) permissible royalty arrangements.

We will briefly discuss the effects and shortcomings of the proposed amendment in each of these areas.

a. *Price Fixing.* The language of the amendment, by following closely the wording of the Supreme Court in *United States* v. *General Electric*, 272 U.S. 476, 490 (1926), would appear to seek to rehabilitate that case and, to that degree, overturn a number of subsequent decisions which have greatly reduced the scope of possible price fixing in patent licensing arrangements. As it stands, *General Electric* no longer presents a major antitrust problem. To the extent that the proposed legislation revitalizes *General Electric*, we are opposed to it. Legislation which would overrule or limit the cases which have narrowly restricted its scope would seriously increase the danger that patents could be made to serve as the organizational focus of powerful price fixing cartels. The history of antitrust enforcement in the heyday of *General Electric* makes it clear that this danger is a very real one, which could have seriously adverse effects on the economy, and on consumer price levels.

2. *Geographical and field of use restrictions.* If antitrust enforcement makes price fixing too risky an undertaking, similar effects can often be achieved through licensing restrictions by which competitors effectively divide the market either by geographic area or by field of application of the patent. Exclusive licenses so limited may have even stronger anti-competitive effects than price fixing arrangements. The explicit conferral of a position of exclusivity upon a

licensee, either in a particular field or within a particular geographic area, should be struck down as a violation of Section 1 of the Sherman Act, except where exclusivity for a limited period of time is shown to be necessary to attract licensees at all.

The argument, sometimes made, that Section 261 of the Patent Code authorizes territorial market divisions, is unsound. The history of Section 261 shows that its only purpose was to serve as a conveyancing rule that articulated the line between a patent *assignment* on the one hand a patent *license* on the other, thus permitting the patentee to control certain collateral rights. The conveyancing rule which Section 261 represents was passed before the Sherman Act was enacted; plainly neither its drafters nor the legislature addressed itself to the potential policy conflict between Section 261 and the rule of competition later to be embodied in the antitrust laws.

If this amendment is adopted, Section 261 would in fact do what it is now often incorrectly asserted to do: it would legalize the creation of sub-monopolies within geographic market divisions. Furthermore, the amendment would extend Section 261 to include applications as well as patents themselves; and to enable the patentee to *license* as well as to *assign* on an exclusive territorial basis.

Neither does the holding in *General Talking Pictures Corp.* v. *Western Electric Co.*, 305 U.S. 124 (1938), constitute an unassailable rule that all field of use arrangements are immune from antitrust surveillance. But the proposed amendment would both rigidify its holding into a permanent barrier against the development of a sounder patent-antitrust policy in this area and extend its scope in an uncertain degree.

3. *Assignor and licensee estoppel.* Since there is no public agency which can be depended upon to determine the validity of patents with any degree of thoroughness and regularity, the public interest requires that private parties be afforded adequate opportunities to secure judicial scrutiny of questionable patents. And with regard to private parties, assignors and licensees rank high among those possessing both the knowledge and the interest to challenge a patent's validity.

The proposed amendment, however, would increase the durability of cartels formed under dubious patents by making it more difficult for a licensee who has a change of heart to free himself from the cartel. Under present law he may challenge the validity of the patent, thus destroying the cartel if he is successful, without risking loss of his license in the event that his attack is not successful. The amendment would deprive him of that opportunity. We therefore believe it to be undesirable. If the elimination of licensee or assignor estoppel opens up possibilities for unfairness *inter partes*, as has been suggested, the courts can be expected to devise protective rules; the solution is surely not to restore and rigidify by legislation old doctrines which have not served the public interest.

4. *Permissible royalty arrangements.* The proposed amendment would exempt from the misuse rule assignments and licenses, whether or not the result of insistence of "conditioning" by the patentee, providing for non-exclusive grant backs or for "a royalty, fee, or purchase price."

(a) In any amount, however, paid or measured (with a requirement that amounts paid after expiration of the patent must be based on activities prior to expiration),

(b) Not measured by the subject matter of the patent or the extent of the licensee's use thereof.

(c) Undifferentiated in the case of a license under plural patents, and

(d) differing from licensee to licensee.

These provisions would appear to extend blanket antitrust immunity to a large but not clearly defined array of licensing and royalty arrangements which have long been regarded as outside the scope of patent law protection. For example, they would appear to overturn all those cases, since *A. B. Dick Co.* was overruled in 1917, prohibiting use of the patent lease or license as a vehicle for tying in the sale of other patented or unpatented products. Although the economic theory of tying agreements and similar arrangements is now well-developed, little is known empirically about their actual impact under diverse market conditions. It seems likely to use that there may be situations in which patent tie-ins (like others) can operate so as to injure competition in the market for the tied product, or make more difficult entry into the market for the tying product. The amendment would nonetheless give blanket sanction to such arrangements. We believe this to be undesirable, and prefer that the antitrust enforcement agencies and courts retain flexibility to adapt the law to new situations and better information about the effects of tie-ins.

These provisions of the amendment would apparently permit the patentee (1) to insist on mandatory packages of patents and (2) to define the license royalty base in any way he desires. They thus overturn or modify a substantial number of cases which have limited the patentee's freedom to tie unwanted patents to those which are needed, and to exact royalties on a licensee's output not subject to the licensed patent. Very little is yet known about the effects of these practices, but some analysis suggests that if a patentee is free to insist on mandatory packages and to define the royalty base in an arbitrary manner, at least two undesirable results are likely to follow: (1) the licensee will be unlikely to adopt the most efficient methods of production of the goods included in the royalty base; and (2) the incentive of the licensee to find new and more efficient ways of producing these goods, i.e., by "inventing around" existing patents, will be eliminated or reduced. Once again, we feel tht it is undesirable to call a halt to the traditional case-by-case development of antitrust experience and law in these areas.

Subsection (d) of the proposed amendment would apparently further offer blanket legitimation to all forms of price or royalty discriminations in patent arrangements. Since discriminatory patent licensing provisions by their nature impose a continuing and systematic differential, they have at least a potential for significant impact upon competition among licensees. This is a new area of antitrust development in which virtually no economic analysis or research has been done. Yet the proposed legislation would remove this important problem area, as well, from the scope of case-by-case antitrust surveillance.

Although this is an area in which economic considerations are more debatable than with respect to the others we have discussed, our analysis suggests that here, as well, the public interest has not been consulted by the proponents of the amendment.

The second proposed amendment would, among other things not clearly spelled out, limit the *Sears* and *Compco* cases, 376 U.S. 225 (1964) and 376 U.S. 234 (1964), and thus leave it to the states, if they wish, to attach tort liability to the copying of non-functional features of unpatented articles which have acquired "secondary meaning" and thereby serve a trademark function as an indication of origin. Although we would not undertake to defend the language of these decisions *in toto*, and believe that state action is appropriate in protecting confidential relations and trade symbols, and in facilitating the transfer of unpatented or unpatentable techniques and knowledge, we have misgivings about state remedies against product simulation. In our judgment, state courts have granted relief in this area without confining themselves to purely non-functional features, and the result is equivalent to (indeed, in excess of) patent protection. Accordingly, we believe that *Sears* and *Compco* are correct in limiting the states to restrictions relating to advertising, trade symbols and trade dress, and requirements of labeling. If the product originator wants more, he should satisfy federal patent standards.

For these reasons, we hope that your Committee will reject the proposed amendments. But if legislation in the patent-antitrust area is regarded as desirable at this time, we suggest careful consideration of proposals recently made by the White House Task Force on Antitrust Policy (the Neal committee report), and other studies more adequately reflecting a public interest approach. We note also that the Federal Trade Commission in its statement opposing the amendments, has expressed an interest in participating in such an inquiry.

We would be happy, individually or collectively, to provide more detailed comments should you desire to have them.

Very sincerely,

Stephen G. Bryer, Donald F. Turner, Harvard; Robert Pitofsky, New York University; William F. Baxter, Stanford; Laurens H. Rhinelander, Warren F. Schwartz, Virginia; Clark C. Havighurst, Duke; Jay M. Vogelson, Southern Methodist; Ribert Kamenshine, Vanderbilt; Martin J. Adelman, Wayne; Richard A. Buxbaum, Stefan A. Risenfeld, Lawrence A. Sullivan, University of California (Berkeley); Roscoe A. Steffen, University of California (Hastings); Benjamin Du Val, University of Illinois; Daniel J. Baum, Joseph Brodley, Ralph F. Fuchs, University of Indiana; Dorsey D. Ellis, Jr., James E. Meeks, University of Iowa; Hrlan M. Blake, Harvey Goldschmid, William K. Jones, Columbia; James A. Rahl, Northwestern; Ralph Brown, Gordon Spivack,

Yale; Louis B. Schwartz, University of Pennsylvania; Hal M. Smith, University of Maryland; Vincent Blasi, Arthur R. Miller, University of Michigan; Leo J. Raskind, University of Minnesota; Wallace M. Rudolph; University of Nebraska; Herman Schwartz, State University of New York (Buffalo); Martin B. Louis, Frank R. Strong, University of North Carolina; Donald C. Knutson, University of Southern California; Carl H. Fulda, Lino A. Graglia, James M. Treece, University of Texas; John J. Flynn, University of Utah.

Senator McCLELLAN. Gentlemen, do you have prepared statements? Are you making a joint statement?

Mr. TURNER. Neither of us has prepared statements. Both of us would like to make some running comments of an extemporaneous variety on the principal issues that are before you on the proposed amendments, and we would welcome questioning at any point during our comments or at the end if you so prefer.

Senator McCLELLAN. The sponsor of the amendments and the chief opponent of the subcommittee to the amendments are not present to ask questions. You just cover whatever you want to, we will make the record and the committee can then make an evaluation.

We have one member on each side of the committee taking a firm position, one opposing the amendments and one for. Apparently this is a pretty complicated issue. I don't know how important it is. But it is not one that is easily resolved because the administration can't even find its position.

Mr. TURNER. You are absolutely correct, Mr. Chairman, and this is one of the difficulties with this area. It is extremely complex; it is not an area that people unfamiliar with it would readily understand.

Senator McCLELLAN. It is not an area in which there is common knowledge.

Mr. TURNER. That is right; all of which would lead me to suggest with deference that in my view it would be very wise for Congress to separate these issues off from the patent reform bill which concerns a lot of major issues that have nothing to do with the debates on these amendments.

It seems to me it would be wholly appropriate, in part for the reasons that Mr. Ward recently just stated, that the kinds of issues raised by the proposed amendments be deferred for full consideration on their own merits at some later time, and that the Congress not endeavor to solve what are obviously very strong conflicts over these issues in a way sort of ancillary to the patent reform bill, which has many issues of importance that ought to be handled as expeditiously as possible. That would be my first comment.

Senator McCLELLAN. All right; you may proceed to discuss the merits.

Mr. TURNER. Now, as Mr. Brennan indicated, a group of us in academic life have submitted a letter to the committee in which we have indicated in general the reasons why we object to the specific proposals that have been made. I should say in passing that the objections that we raise to Senator Scott's proposals are probably as applicable to the proposals that the Department of Commerce submitted to the committee, as I understand it, in testimony yesterday. In some respects, I believe rather minor respects, I would find those proposals somewhat less objectionable, but the main objections that

we have to Senator Scott's proposals would apply to the Commerce proposals as well.

Let me briefly take up the issues. I shall endeavor not to be repetitious. You are going to get testimony tomorrow from Mr. Stedman whose prepared testimony I have read, and I think it is excellent, and I will try not to be too repetitious.

As we understand it, the amendments that have been proposed both by Senator Scott and by the Commerce Department yesterday are designed to fulfill two purposes. One, to clarify the law and, second, to do it in a public interest.

Now, we feel very strongly that the proposals do neither. They will confuse the law in a good many areas, as Mr. Ward touched on briefly in his testimony and as Mr. Stedman, I think, tomorrow will fully point out; and, second, in those areas where they do appear to clarify the law in any substantive way, we think that the answers are wrong and that they are not in the public interest.

Now, I will talk briefly about three major aspects of the proposals. One are the proposals regarding assignor and licensee estoppel. Second, a proposal already contained in the bill, section 301, for which Senator Scott has proposed a variation, which would purportedly protect State and Federal law in nonpatent areas from any adverse impact from the Patent Code. And, third, issues regarding patent licensing restriction.

Now, with regard to the first two, assignor and licensee estoppel and so-called no preemption provision. I feel very strongly, and I think my colleagues agree, that neither of these subjects is suitable for any brief simple legislative solution. Let me try to explain why we think that. The equities that may be involved in attacks on validity by someone who has assigned his patent to another or who has taken a license, and the balance of those equities with the public interest in eliminating invalid patents and freeing the areas covered by invalid patents to open competition, are just far too complex and far too varying to warrant a simple solution.

Let me give you a couple of examples in the area of assignor estoppel. I can easily think of cases where it would be wholly appropriate to apply the rule that Senator Scott's amendment would apply across the board. You can imagine a case of an assignor in plain bad faith assigning a patent knowing that completely invalid, say because there had been prior use by him; assigning it, selling it to somebody for money and then almost immediately starting to produce the subject of the patent that he has sold, then claiming invalidity when the assignee claims infringement.

Now that is obvious bad faith and it seems to me quite clearly there that it would be appropriate, if you let him assert the grounds of invalidity, to at least require that the consideration he paid be returned. He may well in fact suitably be charged with damages, perhaps punitive damages, for fraud. But even in the case of the bad faith assignor there is a public interest in the disclosure of reasons indicating that a patent is invalid—the usual public interest in making sure that competition is not restrained by patents that are invalid, thus freeing the market for competition. And there may well also be very good reasons for letting the assignor, as bad a man as he had been, produce the product. If the patent is invalid he should be

allowed to produce particularly where he may be one of the very few manufacturers capable of producing that product.

It seems to me even in the bad faith case, therefore, that private equities can be adjusted, a man guilty of bad faith can be forced to pay, without interfering with the public interest in seeing that invalid patents are shown to be invalid and with letting people produce the object of the so-called invention.

Now, if this is so with bad faith assignors, it seems to me the case of the good faith assignor is perfectly plain.

Suppose you have a patent owner who assigns his patent believing it to be valid. Five years later he discovers facts indicating that the patent is invalid. Clearly he should be allowed to plead those facts.

Furthermore, in a case like this, a requirement of the return of the whole of the consideration, or perhaps even a part of it, would be inappropriate for the assignee will have gotten 5 years of benefit out of the patent monopoly, the monopoly profits in exploiting the patent before it is held invalid.

So even as a matter of equity between the parties in a case like that, it seems clear to me that it makes no sense to require the good faith assignor to return the entire consideration paid when the assignee has gotten all or most of the benefits.

I have given you a couple of extreme cases and there are all kinds of inbetween situations.

The assignor may have known of priority that cast doubt on validity. He may have disclosed it. He may not have searched as far as he might have but it is in perfectly good faith.

All of this leads me to the conclusion that it doesn't make any sense to try by any simple formula to lay down the equitable rules that are going to apply to a wide variety of situations in the assignor-assignee case.

Now, turning to the licensee, it seems to me much the same point can be made. If you require licensees across the board, as the proposed amendment would do, to renounce rights under a license in order to be free to contest validity of the patent, or as the Commerce version would do it, give the licensor the election to treat the licensee as having abandoned the license, this means that many licensees who would otherwise attack validity, and bring to the attention of the court facts that the patent was invalid, would not run the risk. You put them to a very dangerous election, namely, they may in good faith think the patent is invalid but the choice they face under the proposed amendment is that they run the risk that if they are wrong on that, and the courts say the patent is valid, they have lost their license and maybe their business. So the consequence of that again will be to discourage licensees in a substantial number of situations from attacking validity and, therefore, perpetuate a lot of invalid patents giving monopoly where in the public interest monopoly should not exist.

Now, here, too, you can think of cases in which equities between the parties would make it appropriate to consider the license abrogated. Again I can think of a licensee being in very bad faith. The potential licensee goes to a patentee and says, "I don't think your patent is any good but if you will license me at an extremely low royalty that will save us both the burdens of litigation and I am willing to settle for

that," and he gets the patentee to give him a license and then a week later or month later he says, "I don't think your patent is any good and I won't pay."

At the least it may be equitable to say to that licensee, "You are not going to be able to continue under that license under that kind of a rate when you are now raising issues that you knew beforehand." But again, even in that case it seems to me those private equities can be adjusted suitably without interfering with the public interest in having disclosed the facts indicating that a patent is invalid, and here as in the assignee-assignor case, there are going to be an awful lot of situations where the licensees are in perfectly good faith and it would be, it seems to me, quite desirable to permit them to ask for a declaratory judgment as to the validity of a patent but to retain the license if it is subsequently held that the patent is valid.

Now the courts can, have been able to and will continue to be able to, it seems to me, find much less restrictive ways than are contained in the proposed amendments of adjusting these equities, of dealing with dishonesty, harassment or other abuse by licensees or assignors.

One way that the court might do it, the court may say to a licensee who wants to attack validity, we will let you do that and let you keep the benefit of your license providing you pay the royalties in escrow into court awaiting the adjudication, and if it is held that the patent is valid then those royalties get turned over to the patentee.

So again it seems to me here you have a situation where there is an extremely wide variety of possibilities and the amendments proposed both by Senator Scott and by the Commerce Department, it seems to me, provide very simple solutions all right, but solutions very much against the public interest. They will discourage to a very wide extent the challenging of invalid patents, and it seems to me there are no issues of private equities that would require that result.

Let me turn to the second issue, again one Mr. Ward talked about briefly, the proposals to the effect that nothing in the Patent Code will be held to preempt State or Federal law in the areas of trade secrets, unfair competition and the like.

Now, here, too, I don't see how somebody can draft legislation of this kind, which is presumably going to have some effects on substantive issues, without going into the merits of the variety of substantive issues that are raised.

Now, it is evident, or at least one suspects, that one of the purposes of these various proposals is, if not to overrule the *Sears* and *Compco* cases, at least to severely confine them. Now on this I would say the result in the *Sears* and *Compco* cases is just plain right. The essence of what the Supreme Court said in those cases was if you don't have a patent on a manufactured article then that means it is in the public domain and anybody can copy it who wants to; and it is in effect a State creating additions to Federal patent law for the State to say, even though you can't get a Federal patent on this product we are going to prevent people from copying it. There is another issue here, that of possible confusion, but the Supreme Court didn't say that the State couldn't take steps to guard against that by requiring labeling, suitable labeling which will suffice in 99 cases out of 100 and probably 100 out of 100.

If the effect of these proposals is to cast doubt on that simple proposition that you should not allow States in effect to give patent protection the Federal law would not give, it seems to me they are bad on that score alone.

Now, another issue that concerns people—Mr. Ward talked about it—is licensing of trade secrets. And the problem here is that Justice Black in his dissenting opinion in the *Lear* case advanced the view that if you didn't have a patent, if the information involved in your trade secret was not patentable, that you ought not to be able to license it for any consideration.

I think he got one other judge to support him on that. The majority of the Court did not go that far and I would be dumbfounded if the Court ever did. I can't imagine the Court will ever adopt that proposal and I am frank to say that I would completely agree with those who say that Justice Black is wrong on this issue. I won't go into the reasoning behind that, but in substance it seems to me it is in the public interest to let somebody who has technological know-how that he is entitled to keep to himself to license it for a royalty or to sell it. That means somebody else is going to have access to it too, and I don't see any public interest in saying the only way you can keep it secret is to practice it yourself, that you can't let somebody else buy it for money.

It seems to me that it is so unlikely that the Supreme Court would ever adopt Justice Black's view on this that it is pointless to pass legislation at this point, particularly this proposal which would not only cover that point but raise all kinds of issues with regard to State law on unfair competition, misappropriation and the like, which I think would be very mischievous.

Again I am stating my personal view. My personal view is that we have had some unfortunate developments in state law of the kind that *Sears-Compco* tried to stop, namely, States giving patent type protection against competition, perfectly legitimate competition, and I would hate to see a piece of legislation encouraging that.

This brings me finally to the questions of patent licensing restrictions.

Now, here unlike the subjects I have just commented on, I think, and to this extent I somewhat disagree with Mr. Ward and with Mr. Stedman who will testify tomorrow, I think there are issues in patent licensing where the law can be made perfectly clear and made perfectly clear in a way consistent with the public interest.

I did supply the counsel before the testimony with a proposed amendment which would cover several of these issues and it seems to me certainly would clarify the law and I think in the right way.

In substance, and this is under Roman I, I would propose that it be made perfectly clear, which my proposed draft does, that no patent owner shall be guilty of misuse or illegal extension of patent rights simply because he licenses only a fraction of his rights. That alone is not enough to make his action unlawful.

Senator McClellan. That amendment you are discussing will be printed in the record at this point so those who read the record can follow it.

(The material referred to follows:)

PROPOSED AMENDMENTS TO S. 2756

I. Regarding licensing restrictions generally, add a new Section 271(f) as follows:

"No patent owner shall be guilty of misuse or illegal extension of patent rights solely because he licenses less than all of the rights which might be licensed under his patent, including rights to less than all of the territory, patent term, or uses which might be licensed. Provided, however, that it shall be deemed to be a misuse for any patent owner—

(1) to require a licensee to adhere to any price on any product sold or otherwise disposed of by the licensee;

(2) to limit directly or indirectly, in a license to sell, the quantity of any goods that may be sold or otherwise disposed of by a licensee;

(3) to require a licensee to assign to the patent owner, or grant to the patent owner an exclusive license under, any patents subsequently obtained by the licensee;

(4) to require a licensee to agree not to contest the validity of any licensed claim or patent;

(5) where the patent owner has granted a license or waived rights, with an express or implied restriction as to the use or as to the territory within which the licensed or waived rights may be exercised, to refuse to grant a license, or waive rights, on comparable terms to any qualified applicant therefor, unless the patentee can show that the granting of an exclusive license, or waiver, for a reasonable period was or is necessary to obtain commercial explotiation of the use or territory in question; *Provided further*, however, that this subsection (5) shall not be construed to obligate a manufacturing patent owner to grant additional licenses for the use or territory in which he is presently engaged."

(Subparagraphs (1), (2), (3) and (5) should also be made violations of the antitrust laws, except that violations of subparagraph (5) should probably not be subject to private right of action.)

II. Regarding royalty or other consideration, add a new Section 271(g) as follows:

"No patent owner shall be guilty of misuse or illegal extension of patent rights solely because he has assigned, licensed or waived rights under this title for a consideration which includes:

(1) a non-exclusive license or waiver of patent rights;

(2) a royalty not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents;

(3) a royalty differing from that provided in some other arrangement."

Mr. TURNER. Thank you, sir.

Now, the issues that I think on the basis of what information and reasoning we now have could be handled and clarified are the ones that I have listed here. It should be a deemed misuse for a patent owner to require the licensee to adhere to any price on any product. Price fixing should be held unlawful per se.

I would guess the vast majority of the bar is proceeding on the assumption, it has for sometime, that that is the law right now.

When I was privileged to be head of the Antitrust Division I declared this was our view. I said we were going to look for a case to finally clarify this issue for once and all and we couldn't find one.

Nobody is using price fixing clauses in patent licenses anymore, and it seems to me that is about where we are, and that is where we ought to be, and as I read the Commerce Department's proposal they agree with this. Well, it is a little hard to know what they say because there they list this as something that is not covered by sort of a general declaration of no misuse and say it preserves existing law.

Existing law as on this issue is probably that price fixing is illegal per se.

I would say that the same reasoning that supports that conclusion supports the conclusion that a patentee should not be able where he licenses somebody to manufacture and sell, to limit the quantity of any goods that may be sold by the licensee.

If anything, a quantity restriction is more anticompetitive than a price restriction. If I just have a price restriction, I could at least compete with the patentee on quality, but if I am limited on the quantity I can sell, even though I put out a better product than he does, I cannot sell to those who prefer to have it.

I would say that a patentee should never be required to require as a condition of the license that the licensee hand back to the original patentee any improvement patents that he develops or an exclusive license under any of those improvement patents. The original patentee has a legitimate interest in having a benefit of any improvements that his licensee develops, that can be satisfied by nonexclusive license back. That takes care of the legitimate interest in the patentee. For the patentee to insist on the right to get the patents themselves or exclusive licenses, would enable him to perpetuate his monopoly position way past the time of his own patent; he would continue to be able to gather in all of the improvements that anybody ever developed.

By the same token, that discourages licensees from trying to improve a patent because if they improve it they have to give it back to the patentee.

It seems to me this is an issue on which we know enough to say you can't do this, you can have a nonexclusive license back on improvements, you cannot get the patent itself or the exclusive license.

Now for the fourth point, which in view of *Lear-Adkins*—which I think is sound—I don't think is enormously important, providing some of the other amendments are not passed—I don't see any point in letting patentees continue to put into their license agreements a provision that the licensee agrees not to contest the validity of the patent.

The Supreme Court has held for very good reasons that these cannot be enforced. Why allow patentees to clutter up their license agreement with a clause like this anymore? It seems to me that, too, should be held to be a misuse.

I come finally to a proposition which I would agree is more debatable but for which I think very strong reasons can be offered, and that is the proposal with regard to field of use restrictions and territorial restrictions.

Now, at this point, Mr. Chairman, I would appreciate it if I could submit and have inserted in the record two articles which, among other things, deal with these points. I think they are excellent articles, perhaps because one of them was written by me. The first is an article in the Yale Law Journal of December 1966 by Prof. William Baxter, and the second an article in the New York University Law Review—I have the date here—May 1969, which I wrote.

Now in both of these articles Professor Baxter and I have advanced this thesis. We don't object to field of use restrictions or

territorial limitations as such. We do not object to a manufacturing patentee, a patentee who is manufacturing and selling in a particular territory or applying his patent to a particular use or uses, protecting those uses or that territory where he himself is selling.

We are prepared to say: You can continue to have a monopoly on that but if you license somebody else with a field of use restriction, that is, for some use that you aren't practicing, or license somebody else for a territory in which you are not selling, you must give comparable licenses to any qualified applicants unless you can show that the parceling out of exclusive monopolies to others is necessary or reasonably necessary to insure commercial exploitation of that use or that territory.

Now, I won't bore you with going into a full statement of the analysis that leads us to this conclusion but we both feel very strongly, and we think we have adequately established the fact, that this kind of proposal would give the patentees everything they are legitimately entitled to but would prevent patentees from parceling out monopolies all over the place, monopolies in which they have no direct interest, which facilitates the formation of cartels; and we believe that this proposal would be a reasonable accommodation.

Senator McClellan. Professor Turner, these two articles that you have submitted are quite lengthy.

Mr. Turner. Yes, sir.

Senator McClellan. Let me ask as a matter of information, I don't want to deny the availability of any material that is pertinent and would throw light on the issue, may I ask if excerpts can be taken from then and thus avoid printing all of this?

Mr. Turner. Yes, sir. Could you give me a few days to do that?

Senator McClellan. Yes. Then we will print it in the appendix of the record. I haven't had time to examine it. A lot could be eliminated.

Mr. Turner. I would be happy——

Senator McClellan. And pertinent excerpts be submitted from the article with the article properly identified.

Mr. Turner. I would be happy to do that. I think we can cut it down.

Senator McClellan. That will aid us. If we get this record too bulky nobody would read it.

Mr. Turner. If you give me a few days.

Senator McClellan. Yes; you may have time to do it. We thank you very much.

Mr. Turner. I just want to repeat, because I think it is very important, the point Alan Ward made. All of the proposals to broaden the opportunity for patentees to insert restrictions in their licenses, to grant exclusives, to put in a price fixing clause and all of that, proceed on the assumption that either letting them do that or not letting them do that is in some way going to affect the incentive to invent, and I only wish to second what Alan Ward has said, namely it seems to me there is absolutely no evidence for any such proposition and that indeed if you sit down and think about it you can see that that proposition is almost certainly not so.

Mr. Chairman, assume that you are a prospective inventor, you are a corporation trying to determine whether to spend money on re-

search. Very often you don't even know what you are going to come up with. You don't know whether what you come up with will be patentable or not. It is a very risky sort of guess kind of operation. You can't make a close calculation of costs and benefits. What I am saying is this. The main guts of the reward given by a patent is a monopoly, that is to say, the right, if you do get a patent, to exclude anybody else from making, using or selling the object of that patent. So if you get something valuable, you can keep it to yourself and make very substantial profits; you get with the patent law clearly the right, if you do not care to exploit it yourself, to sell it to somebody else, and if it is valuable you get a very large payment for that; or you can license others for royalty.

Now this is the main thing that the patent gives you. What Mr. Ward was saying and what I would second is that it is almost inconceivable that when anybody sits down to try to decide whether he is going to spend money for research or not, whether he is going to try to invent or not, that that decision would be affected by whether he would be able to license with a price fixing clause or license with this or license with that. That is so marginal, that is so marginal an aspect of the potential patent reward it is almost inconceivable that the handling of that would make any difference on the incentive to invent. That is simply a red herring in these cases. The issue is not whether a patentee should be allowed to put restrictions in his license in order to cause him to spend money on inventions; that isn't the issue at all. There are legitimate issues which you sort of have to try to make your way through on whether it is better in the public interest, given the fact that he can monopolize, to let him put in these restrictions or not, but it has virtually nothing to do with the incentive to invent.

I think I have talked about long enough, and I will ask my friend Mr. Blake if he would like to add something at this point.

Do you have any questions to me?

Mr. BRENNAN. No questions.

Senator MCCLELLAN. Thank you very much. Professor Blake.

STATEMENT OF PROF. HARLAN BLAKE, COLUMBIA LAW SCHOOL

Mr. BLAKE. I think I will be quite brief in view of the excellent exposition of the legal difficulties of this proposal that Alan Ward and Professor Turner have provided.

I would like to make a couple of points and expand upon some of the comments that have been made.

First of all, I very much would like to support Professor Turner's idea that perhaps the Scott amendments as they are called are matters that should be dealt with in a way different from the patent reform bill itself.

I would like to call the Senator's attention to the fact that I believe it to be the case that in 180 odd years that we have had a patent act in this country, that patent statute has always had an integrity and did not contain provisions that deal directly with the antitrust aspects of patent licensing.

The Scott amendments are quite novel in this sense that they add to the patent statute substantive provisions of a kind which have

heretofore thought to be primarily concerned with the antitrust laws.

One might imagine that these proposals would come as amendments to the Sherman Act or the Clayton Act rather than in connection with a large work in an effort to improve the patent laws. So it does in a sense seem to me inappropriate, and one of the reasons I suspect the problem is so difficult is that this is not a matter that is entirely traditionally a part of the work of the Patent, Copyright, and Trademark Subcommittee.

I would like very much to support also Professor Turner's suggestion as to alternative legislation. If this committee does prefer to proceed with antitrust questions along the lines of the Scott amendments or the Commerce Department proposals, I clearly believe that his proposal is one that deserves serious attention and I believe the public interest would be better served by the kind of clarification and codification that his proposal entails rather than either of the other two proposals that you have before the subcommittee.

I would like to say a word or two about the statement which we have presented to you, about the signatories to the statement and what it represents.

We did make a study not only of the Scott amendment proposal itself but also the Commerce Department proposals which were available to us some months ago. Since those had not been introduced before the subcommittee until yesterday, our statement deals only with the Scott amendments.

It is our feeling that the Commerce Department alternative is hardly preferable; in some respects it is perhaps somewhat better, but in many respects we believe it to be even less attractive than the Scott amendments.

The signatories to this letter, as you may not have had a chance to see as yet, constitute 40 law professors from the major law schools throughout this country. I won't read the list of the names but I would like——

Senator McCLELLAN. They have been printed in the record. They are already in the record.

Mr. BLAKE. But I do think it is worthwhile calling to the subcommittee's attention that those who have joined us in this statement constitute, I believe it is fair to say, a substantial majority of the active scholars in the field of legal education who specialize in patent and antitrust matters.

Our interest in this is solely one of concern that the public interest would not be served by the adoption of the Scott amendments.

I think our objection to the amendments are broadly two in number. I am not going to rehearse the detail that has gone before. First of all, we find the amendments to be very difficult to interpret; they are drafted in such a way that it is difficult to understand how and why they came to have the form they have. It is really impossible to read them and know with any certainty how far their intrusion into antitrust policy extends.

The Patent Bar Association proponents of the amendment state that their intention is only to codify and clarify, but as we read the amendments we think that that statement is not necessarily accurate. The courts will have great difficulty with the language of these amendments. This is true of the Commerce Department version

equally. I think it is very difficult to predict what courts will over the years do in trying to apply and provide interpretations of these statutes. The amendments thus certainly will not elucidate or clarify the law and they are not codification of the law.

Our second broad objection is substantive. As Professor Turner has pointed out, there is no empirical evidence that has come to any of our attention to suggest that giving patent owners a broader range of alternatives with respect to restrictive licensing practices would have any important effect on productivity, technological development, invention, innovation, or any of the policies that the patent law as such is intended to support.

There is no empirical data that I know of, and I have looked hard for it, to suggest that this kind of legislation would have any beneficial effect of that kind in terms of the public interest.

The very few studies that I have seen, and there are a few, suggests that patenting or the possibility of patenting ranks very low in terms of corporate decisions with respect to research and development.

Now, that is not a subject that we have explored in detail in our statement but I think it is important that the burden of proof be on those who would argue that these kinds of exemptions to the antitrust laws should be granted on public policy grounds.

The second point, and that has also been made, is that we know perfectly well what the costs will be. The possible benefits, if any, are very speculative, but the costs are quite clear. If Congress were to grant this exemption to the antitrust laws, as Mr. Ward has told us, the result would clearly be greater facility in the establishment of price-fixing cartels and agreements and arrangements among competitors using weak patents as a facade for licensing arrangements whose primary thrust is anticompetitive. We have had experience with this in the early days of antitrust legislation.

We know what the costs of that will be to the efficient functioning of our economic system and in terms of higher prices to consumers.

I think that is all I would like to say at this time.

Senator McCLELLAN. Thank you very much.

Do you have any questions?

Mr. BRENNAN. No, Mr. Chairman.

Senator McCLELLAN. Thank you, gentlemen.

Mr. Stanley M. Clark, Patent Counsel, Firestone Tire and Rubber Co., and Mr. Martin Adelman, Attorney, Birmingham, Mich.

How do you wish to proceed? Do you have statements?

Mr. BRENNAN. Yes, we have.

Senator McCLELLAN. Each of you have statements.

STATEMENT OF STANLEY M. CLARK, PATENT COUNSEL, FIRESTONE TIRE & RUBBER CO.

Mr. CLARK. Yes.

Mr. ADELMAN. Yes, I do.

Senator McCLELLAN. They may be printed in the record in full and we will be glad to have you highlight them.

Mr. CLARK. I will highlight. I will be just as brief as I can. I want to thank you for the opportunity of testifying here today. I also want to make mention that my company also has operations in your great State at Magnolia and Prescott for another.

Senator McCLELLAN. Magnolia is a great town. I was down there recently and spoke to the chamber of commerce and I recall your operation there. That is a growing area of this Nation, all of Arkansas. When you industrialists find that out we have room for you.

Mr. CLARK. It offers a great opportunity, we think.

Senator McCLELLAN. All right.

Mr. CLARK. I am going to highlight my remarks. I wish I had more time but I realize the pressure of time.

Senator McCLELLAN. I won't crowd you too much.

Mr. CLARK. All right, but I will be brief.

Senator McCLELLAN. We are not trying to shortchange anyone. We have a burden of work and whenever we can we will expedite it.

Mr. CLARK. I have been a member of the Patent Bar and have been in practice, both private and corporate practice, since the end of World War II. I have seen many changes in this world in these past 25 years; we all have. It has been a very rapidly changing world. The growth of technology has been almost explosive in its nature, and I think it will be even more so in the next few years.

It is in that same period of time that the doctrine of patent misuse has come to full flower and it seems strange to me that one can argue that the doctrine of patent misuse acts as an inhibition upon technological innovations. That argument just does not make sense.

The doctrine of patent misuse has come about on a case by case method by the courts rather than by legislation. At the same time there has been a great growth of our industries.

For example, during the period of the court development of the case law of patent misuse we have seen Polaroid Corp. come into being, really grow to its present state. We have seen the Xerox Corp.; Texas Instruments is another.

In my written statement I noted that from 1958 until 1969 that the annual sales of Texas Instruments rose from less than $5 million to $831 million and that net income rose from $563,000 to $333 million and that the assets rose from $15 million to $526 million.

This is a remarkable growth and it took place in the absence of the proposed legislation. It is a growth that came about even though the Scott amendments were not present to act as an umbrella to such companies. It is quite obvious that industry didn't need the Scott amendments during the past decades, and these industrial concerns and all others will not need the Scott amendments or similar legislation in the future. I noted in the testimony yesterday that the Cameron Iron Works had a growth of 100 times in that same period.

So I submit that economics, as well as my own experiences and observations teach that the doctrine of patent misuse with its limitations upon unfair licensing practices has not operated as a bar to innovative creation and I am convinced it will not do so in the future.

Furthermore, I think the world is changing so rapidly that we should not freeze our law, as several proponents of the Scott amendments urged yesterday. I think we should leave it to the courts to work it out according to the basic principles of equity.

Senator McCLELLAN. On that basis, how can a lawyer advise his client, if he has to simply guess, and a lot of that has to be done anyway, as to what the Supreme Court is going to say about this?

Mr. CLARK. Well, there are thousands of licenses that are executed every year, so somebody must think they know what they are doing, sir.

Senator MCCLELLAN. If everybody has to guess, that happens in the practice a great deal anyway because no one can be sure that what the Supreme Court says today they will say the same thing tomorrow. We have that uncertainty already. But is it not good policy, government policy not just in this area but in all areas of the law to spell it out insofar as it is practical to do it, that is, to spell out the guidelines by which the administration of the law can proceed and also the interpretation that is to be given to it?

Mr. CLARK. If possible, yes, I agree with that, but I think that legislation cannot attempt to answer our future problems on a case by case basis. I think that is particularly one of the disadvantages——

Senator MCCLELLAN. I agree with you on a case by case it cannot. But insofar as it can lay down the ground rules and the principles, should it not do so?

Mr. CLARK. If it does so in language which is clear.

Let me make a point here that legislation——

Senator MCCLELLAN. I can understand that, that it ought to be as clear and concise as it can be written.

Mr. CLARK. And, it ought to be in such terms that the proponents cannot argue one interpretation to the Congress and then at a later date argue another interpretation to the courts. And to some extent that was done in the last patent bill and my grave doubt about the Scott amendments is that the language is such that this is not an attempt to codify the law, as the proponents contend; but it is intended to change the law.

Senator MCCLELLAN. I realize in an area as complicated as patent law it is simply impossible to write a statute that would cover every situation that may arise. If you could clearly interpret it to cover every situation that might arise then the courts have to be able to reckon with it and have to be appealed to many times for interpretation of what is the law and what is equity and justice between the parties.

Mr. CLARK. Then, sir, let's look at the Scott amendments from two viewpoints. The proponents have said they, the Scott amendments—I use these as a shorthand term—are intended to codify the present law and no more than that. Then I suggest it be made clear in the amendments that that is their purpose.

Senator MCCLELLAN. Do you think they do that?

Mr. CLARK. No; I think they go beyond that, and how far beyond and in what direction I can't tell and I don't think anyone else can.

Senator MCCLELLAN. Is the overall patent law and the ramifications involved in the patent system, is it so complex that we simply can't have a clear presentation of the record of the interpretation of what the law is and what it should be?

Mr. CLARK. I think the patent bar today knows what the law is. I think there is a disagreement and a fear as to what it should be. I think that is the problem. I think this legislation is offered through fear which is unjustified.

Senator MCCLELLAN. Through what?

Mr. CLARK. Through fear of the future which is unjustified.

Senator MCCLELLAN. I see.

Mr. CLARK. Furthermore, I think that many of the problems that I have faced and which I think many businessmen face are involved with the enforcement of patents and the tremendous cost and the coercive effect of patents, especially invalid patents.

Now, I have stated that the cost of major patent litigation to a major corporation probably would be in the order of a million dollars, and this means that if a corporation is faced with an invalid patent it has to expect to spend that kind of money to challenge the patent.

Senator MCCLELLAN. Spend a million dollars to do what?

Mr. CLARK. To defend against an invalid patent.

Senator MCCLELLAN. To defend a patent and its challenge?

Mr. CLARK. That is right. You questioned Mr. McLaren yesterday about why so many patents were declared invalid by the courts and why there was a double standard of invention as between the courts and the Patent Office.

I don't think there is a double standard. I think that Mr. McLaren was correct when he said that the courts have more information to judge a patent than the Patent Office has during the prosecution of the application leading to the issuance of the patent.

I will add to these remarks very briefly if I may. I think the prosecution of the patent application is a one-sided struggle. The inventor, more particularly his patent counsel, has the time and the opportunity and the incentive far beyond the overworked patent examiner and he also has the knowledge of the art and of the industry which the examiner does not have; and when you add all this together it is an unfair struggle and this is why I would lend support to the Department of Justice position that the oath of the inventor ought to be restored to the proposed patent bill and that the burden should be upon the applicant to be fully candid with the Patent Office.

Senator MCCLELLAN. You think the law does not require that now?

Mr. CLARK. I don't think it does now, no, sir.

Senator MCCLELLAN. If it is intended to it has a lot of loopholes in it; is that correct?

Mr. CLARK. That is correct. I would suggest that the burden also be placed not only upon the inventor but upon the lawyer that is representing him. At present the burden is only upon the inventor.

Senator MCCLELLAN. Why upon the lawyer?

Mr. CLARK. Because often the lawyer knows more about the prior art and is the only contact with the Patent Office. Once the inventor signs an oath, which he doesn't understand, to a patent application which he usually can't interpret, then he is through with the whole procedure and you never hear from him again.

Senator MCCLELLAN. But if the applicant testifies or signs a false oath knowing it is false, maybe his attorney doesn't know that.

Mr. CLARK. That may be true. That may be true.

Senator MCCLELLAN. I don't think the attorney should be held responsible for that.

Mr. CLARK. No; but I think perhaps the attorney ought to be required on his own to make a full statement of the prior art as he knows it to the Patent Office.

Senator McCLELLAN. In other words, you would put a burden on the attorney not to rely upon the information supplied him by his client?

Mr. CLARK. I would say if that is the only information he has he is entitled to rely upon it, but that if an attorney has additional information, which he often has, sometimes these attorneys are as expert as the inventors in the art and as knowledgeable as the inventor in the art, he should disclose that information to the Patent Office.

Senator McCLELLAN. If he has additional information maybe he should rely on it or shouldn't, I don't know. But I wonder how far we are going and I am not arguing against it at the moment, I am just trying to clarify what you are recommending with respect to placing an additional burden upon attorneys. Attorneys should not be permitted to permit fraud or to mislead, willfully mislead the court or in this instance the Patent Office, but I know that attorneys are often misled by their clients and how much a burden you put upon them or you are attempting to put upon them, they have to check the veracity and reliability of their own clients. Would you go that much farther now?

Mr. CLARK. I am not suggesting that. I am saying he is entitled to rely upon what his client tells him. I suggest if he has additional information he should volunteer it himself.

Senator McCLELLAN. Yes; if he has additional information and the client has not submitted it he shouldn't withhold that from the Patent Office?

Mr. CLARK. That is correct.

Senator McCLELLAN. That is what you are saying?

Mr. CLARK. Yes.

Senator McCLELLAN. I think that is not unreasonable at all. It might be proper.

Mr. CLARK. Let me make one other point as to why so many patents are declared invalid by the courts, and that is because the risks of litigation are so great the good patents don't get to the courts. People take licenses because they don't want to undergo the risks and the costs of patent litigation.

To subject yourself as an accused infringer to the risks and to the cost of a major litigation and the harassment and the pain and the anguish, you have got to be pretty sure that the patent is invalid or you won't subject yourself to that, and that is one reason why courts have struck down so many patents. A patent is not challenged unless somebody has a pretty good idea that it is invalid and is willing to put their money back of their conviction the patent is invalid.

Senator McCLELLAN. Off the record.

(Discussion off the record.)

Mr. CLARK. Let me say I am not making a shotgun attack upon the patent bar. These instances of fraud on the Patent Office are probably few, but when they do occur they can be very serious, very oppressive.

I would like to make just one or two more points if I may. As I listened to the testimony here I think there is considerable common ground between the proponents and the opponents. I think it is pretty hard to find a difference on many points.

I would like to emphasize that it should be made clear, if not in these hearings, then in the language of the statute itself, that there is

no intent to remove patent owners and their transactions in patents from the scope of the antitrust laws. I don't think anybody really seriously makes that contention. Certainly the proponents of the Scott amendments have not made any such contention in these hearings. But if it is not clear, and the congressional intent is not clear on that point, then I think that the language of the proposed legislation should be clarified.

I think it is clear, at least to me, that the antitrust laws still apply in the patent field in spite of the present language, but there may be some doubt and, if so, that doubt ought to be resolved.

I have just one more point. It has to do with the Clean Air Act of 1970 and I am going to take, I suppose, a very strong minority position. I think a patentee is entitled to be rewarded to a degree which is measured by his contribution in a free market.

One of the gentlemen said yesterday that one of the great costs of exploiting an invention was developing a market. That was perhaps the greatest cost.

Now, where you have a Federal law or regulation which intervenes to make the development of the market unnecessary but makes the use of such an invention compulsory in order to meet a pressing public need, then it seems to me that compulsory licensing at a reasonable royalty with the safeguards of the Clean Air Act is a perfectly proper way to meet the problem.

This is nothing new. Both Congress and the courts have in similar situations denied a patentee his right of excluding others from the use of his invention and left him to a reasonable royalty. Congress did just that, in a large measure, to even a greater measure in the field of atomic energy. They have done so in Government contracts, and the courts have done so in a number of cases.

I think that where there are reasonable regulations and safeguards, as are present in the Clean Air Act of 1970, that compulsory licensing is a perfectly proper way of dealing with a public need.

I think, too, that if we repeal section 308 of the Clean Air Act we will set a dangerous precedent and it is unnecessary to set such a precedent now and in doing so we might impose greater burdens upon both business and the public.

Let me give you one example in our own company. We face a problem, we think, of disposing of scrap tires. We went to the Government department that was running coke ovens in Pittsburgh and we paid a full market price for the use of those coke ovens to see if we could subject tires to destructive distillation and produce useful byproducts.

One of the provisions which the Government imposed upon us for the use of those coke ovens, even though we had paid a full monetary value for their use, was to grant others, all applicants, a license at a reasonable royalty under any patent that might result, and we had no hesitation in doing so even without the requirements of a statute.

It seems to me when companies are willing to grant such licenses voluntarily, they can hardly object when a statute requiring such a grant is proposed.

There are many things I would like to say, Mr. Chairman, but I realize time is pressing and I will close now.

Senator McCLELLAN. If you like you may file a reasonable supplemental statement to what you have said here for the record. I hope you had a prepared statement.

Mr. CLARK. I had a statement and I think I would like to supplement it if I might.

Senator McCLELLAN. All right. In the next few days if you wish to supplement it that space will be reserved in the record here.

I will ask the reporter to reserve space here for the supplemental statement so it will all appear together.

Mr. CLARK. Thank you, sir.

(The statement referred to follows:)

STATEMENT OF STANLEY M. CLARK OPPOSING ENACTMENT OF S. 643

This statement generally opposing enactment of the so-called Scott Amendments is an expression of my personal views and does not necessarily reflect those of my employer; it is based upon my experience and training as summarized below.

I respectfully request that this statement be filed as part of the record in the Hearings held in connection with the proposed legislation.

I am a registered Professional Engineer and have been a member of the Bar of the State of Ohio for 25 years and have been admitted to practice before the United States Patent Office for almost that period of time. My practice has generally been limited to the practice of patent law, including five years with a private law firm in Cleveland, Ohio, and the last 21 years in the Patent Law Department of an industrial company. I have been Chief Patent Counsel of this company for the past 12 years. During the course of these years, I have had what I would regard to be extensive experience in the licensing of patents and in patent litigation, both in the United States and in foreign countries.

I have a deep interest in the patent system; I believe in the patent system; and I have an earnest hope and desire that our patent system will be improved to accommodate itself to a radically changed and changing world. For this reason I generally oppose the enactment of the Scott Amendments.

For the convenience of the reader this statement, following these preliminary remarks is divided into two sections: first, an outline of the main points which I desire to make, entitled "I. SUMMARY OUTLINE"; and second, some comments on such points in correspondingly numbered paragraphs, this being entitled "II. DETAILED COMMENTARY".

I. SUMMARY OUTLINE

The first portion of this statement will confine itself to the following topics listed in outline form for the convenience of the Committee and amplified in somewhat greater detail by succeeding sections having corresponding numbers.

1. In my opinion, the Scott Amendments offer patent owners an opportunity to work incalculable mischief upon the business world. In spite of all the protestations of the proponents to the contrary, the language of the sections in question, and the interpretations of them which will be urged upon the courts could well revive such practices as exclusionary patent pools, division of markets, price-fixing, discriminatory licensing practices, control of the terms and conditions of the resale of goods, extension of patents to unpatented goods, and control of matters beyond the scope and term of patents. The opportunities for the misuse and abuse of patents will be greatly enlarged—all to the detriment of legitmate businesses—and likewise to the detriment of the public. The risks of this legislation as presently constituted far outweigh the speculative benefits.

2. The language of the Scott Amendments is vague (and, I think, deliberately so) and accordingly they are objectionable and will create uncertainty which is completely contrary to their stated purpose of bringing "certainty" into the law.

3. Patents as a form of property and dealings in and transactions involving patents should not be granted legislative immunity from the antitrust laws. It should be made clear that the proposed legislation is not intended to grant such immunity, in whole or in part.

4. The existing case law on patent misuse does not constitute an impediment to "innovative efforts". Witness the parallel growth of the misuse doctrine and

the concurrent, amost explosive growth of technology. Accordingly, the Scott Amendments are unnecessary to achieve their stated purpose.

5. The Scott Amendments, if they are intended to codify the existing case law on patent misuse, which their proponents state is their purpose, are unnecessary. If they are not intended to codify the existing case law, then the language should be clarified and it should be made clear just how and to what extent the case law is to be modified.

6. Legislation which would inhibit further development of case law in the field of "patent misuse" is not desirable. The courts should be free to handle such problems in the light of the rapidly changing economic conditions and business practices, and in accordance with established equitable principles.

7. As to certain specific practices to which the Scott Amendments are addressed, there are two such practices under existing case law (both of which are presently permissible) which I believe should be expressly forbidden; namely:

(a) A patentee should not be allowed to discriminate between his licensees.

(b) Licenses under U.S. patents should not be geographically restricted.

8. I believe the *intent* of § 301—the so-called "pre-emption" clause—is proper, but in my opinion, enactment of the section is premature and unnecessary and as drafted, may create confusion and uncertainty.

9. The proposed repeal of § 308 of the Clean Air Amendment Act of 1970 is undesirable. The "compulsory" licensing conditions of § 308 are reasonable and find precedent in other legislation and in the existing case law as well.

II. DETAILED COMMENTARY

1. As stated above, it is my opinion that the Scott Amendments offer patent owners an opportunity to work incalculable mischief upon the business world. In spite of all the protestations of the proponents to the contrary, the language of the sections in question, and the interpretations of them which will be urged upon the courts could well review such practices as exclusionary patent pools, division of markets, price-fixing, discriminatory licensing practices, control of the terms and conditions of the resale of goods, extension of patents to unpatented goods, and control of matters beyond the scope, and term of patents.

The opportunities for the mis-use and abuse of patents will be greatly enlarged—all to the detriment of legitimate businesses—and likewise to the detriment of the public. The risks of this legislation as presently constituted far outweigh the speculative benefits.

The proposed legislation fails to take into account the coercive power of a patent whether valid or invalid. The cost of patent litigation is phenomenal.* Its risks are colossal. Rather than incur such costs and run such risks, a business man faced with the threat of an infringement suit may very well accept the imposition of one or more of the misuses mentioned above as an alternative to patent litigation. A small business man not invited to join a "patent club" on equal terms will be frozen out completely. He will have no choice.

This leads to another criticism of the amendments. They do not give a licensee a practical opportunity to challenge the validity of a patent.

I would much prefer legislation permitting any person, including a licensee, to challenge the validity of a patent, even while claiming rights under a license, since the right to challenge a patent would permit a business man to take such action without incurring inordinate risks and the same right to challenge a patent would represent the public good as contrasted to the private rights between the parties that are directly involved.

Lastly, I have said many times that no matter how often business men "cuss out" the anti-trust laws, they would be the first to protest the repeal of such laws. They value the protection accorded to the conduct of their business by the laws. Likewise, business men do not oppose the doctrines of "patent misuse". Once they understand such doctrines they recognize that the doctrines provide them the necessary freedom to conduct their businesses free from threat and intimidation. Once businessmen understand the Scott Amendments they will "cuss them out" but this time they would really mean it. Business does not need nor does it want the Scott Amendments. Only the would-be "sinners" in the "patent jungle" desire this legislation.

2. The vagueness of the language of the Scott Amendments seems to be the one area in which both the proponents and opponents of the legislation are in

*Major patent litigation today will almost surely exceed $1,000,000.00 in attorneys' fees and other costs, for each party.

agreement. This criticism alone should be sufficient reason to reject the proposed sections.

In a recent meeting of the Patents Subcommittee of the Anti-trust Section of the ABA in Washington it was conceded by the proponents that the language needed clarification.

In the "legislative Summary" recently issued by the Chamber of Commerce of the United States the statement is made:

"Others who support the proposal [the Scott Amendments] are also concerned with the underlying principle of reasonableness, rather than the *precise language* of the Amendment" [my emphasis.]

Yet the "precise language" is one of those things we should be concerned with. To the extent the language is imprecise, then to that extent the Congressional intent will be imprecise and that ambiguity will give the courts great difficulty in applying the legislation to particular cases.

One of the avowed purposes of the Amendments is "to remove confusion" in the field of patent uses (and misuses). The present language fails at the outset to achieve this result. Instead of certainty, it will bring uncertainty. Instead of removing confusion, it will introduce added confusion. Instead of clarifying, it will obscure the Congressional intent.

Legislation must necessarily be drafted in succinct and general terms, but it should not be knowingly (and possibly deliberately) vague. Legislation should not be in such terms as to enable the proponents, especially the patent bar, to argue one construction to the Congress and after passage, enable the same bar to argue another construction and another Congressional intent to the courts.

My fear is that is just what is happening today with these Amendments as drafted. The difficulty should be recognized and corrected now. It should not be left to the courts to resolve at a later time.

3. As to the anti-trust laws, the Legislative Summary of the National Chamber of Commerce referred to above, supporting the Scott Amendments also made the following statement:

"There have been implications of a sinister intent to make patent owners immune from the anti-trust laws. But the actual intent is to make clear that dealings with patent property should be treated under the anti-trust laws like dealings with other property—according to reasonableness"

If that fairly expresses the position of the proponents of the Scott Amendments—"fine" I agree fully and would suggest that appropriate language be added to make this perfectly clear—that it is not the intent of this Congress to immunize dealings in patents in any manner or in any degree from the anti-trust laws.

4. As to "innovative efforts", the existing case law on "patent misuse" has not during the course of its development and it presently does not now constitute an impediment to "inventive efforts" or to the commercial exploitation of inventions.

Within the last few days, I have received telephone calls from the chief patent counsels of two large corporations remonstrating with me for the stand that I have personally taken in opposing the Scott Amendments.

During our discussions both of these chief counsel expressed their agreement with the conclusion stated in the opening paragraph of this section. (Incidentally, as the discussions progressed these same patent counsel expressed agreement with most, but not all, of the other points which I have raised in this statement.)

Based upon my experience and personal observations, I am sure that most corporations will continue to support their research efforts under present conditions, absent the Scott Amendments. I am certain that private research institutions, the colleges and universities, and the United States Government and other government agencies will also continue their research efforts in such a legal environment. In fact, none of these organizations need, and most of them do not desire, the right to grant restrictive licenses or to indulge in patent misuse or to knowingly enforce invalid patents. Their research and development work goes on for many reasons and the hope of reward through patents is only one of such reasons; and this hope of reward through patents can be and today usually is realized through royalties obtained from non-exclusive licenses granted freely to all responsible applicants. As for the "attic inventor", he would be quite content to be rewarded in the same manner; he is not motivated in his inventive efforts by thoughts of complex licensing arrangements and dealings which are later

contrived by ingenious lawyers representing his assignees and who then ascribe such thoughts as his incentive to invent.

It is to be noted that the existing case law still makes it possible for a new company such as, for example, the Polaroid Corporation to grow under the umbrella of an exclusive patent position. That incentive still remains.*

During the period of the court development of the case law of patent misuse, not only Polaroid, but other companies have flourished under our patent system. The Xerox Corporation is one. Texas Instruments is another. The latter's growth is instructive. From 1958 to 1959, annual sales of Texas Instruments rose from $4,941,752 to $831,822,000; net income rose from $563,705 to $33,511,000 and current assets rose from $15,123,000 to $526,758,000. Such a growth in a period of 22 years is truly astounding. The absence of legislation, such as the Scott Amendments, surely has formed no obstacle to the growth of this company which is based almost entirely on new technology.

5 and 6. As to the desirability of condifying existing case law on the rights of patentees:

The Scott Amendments, if they are intended to codify the existing case law on patent misuse, which their proponents state is their purpose, are unnecessary. If they are not intended to codify the existing case law, then the language should be clarified and it should be made clear just how and to what extent the case law is to be modified.

The proposed legislation is particularly objectionable because it would inhibit further development of case law in the field of "patent misuse". The courts should be free to handle such problems in the light of the rapidly changing economic conditions and business practices, and in accordance with established equitable principles. The cause of the business man and of the public would be better served by such means, rather than by legislation which "freezes" the law in the face of a rapidly changing technology and business world.

7. As to discriminatory and other licenses, I have the following comments:

First, I accept the proposition that a patentee may decline to issue any licenses at all and that under most circumstances he may issue licenses in some fields of use and reserve to himself the practice of the patent in other fields.

Second, I also accept the proposition that a patentee may find it advantageous to sell his patent or grant an exclusive license where such course seems to offer the best way of exploiting an invention and bringing it to the market place.

Both propositions are accepted by the case law as it stands today, in the absence of special circumstances surrounding such transactions which might require the anti-trust laws to be invoked.

However, in many cases, it is unnecessary for a patent owner to grant an exclusive license to obtain the full reward for his patent. A patent owner can usually obtain a full reward for his invention by setting appropriate royalties, and that reward will in all probability be greatest if the patent invention is exploited under competitive conditions, that is, by granting multiple licenses. Moreover, the public interest is better served by such an arrangement.

However, where the grant of licenses is limited to a small group of licensees, such groups may be in a position to exact an inordinate profit, not commensurate with the real contribution of the invention in question. A patent licensing arrangement with limited membership may also constitute a device by which prices are fixed or markets allocated, an arrangement definitely not in the public interest.

Such arrangements and the concomitant dangers may very well be encouraged by the Scott Amendments.

These dangers can and should be avoided (at least in part) by the requirement that, if a non-exclusive license has been granted to one responsible party, a license on the same or equivalent terms, taking into account the financial resources of the potential licensees, must be made available to all other qualified applicants. It should be contemplated that royalty rates would continue to be bargained between patent owners and the licensees, and not left for determination by the courts.

Incidentally, in the discussion of Section 4, above, I referred to discussions with patent counsel of two large corporations. One of them said to me that his company did not in practice grant discriminatory licenses "because it was good business not to do so". I retorted that "he was unwilling to preach what he practiced".

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*The only exception may be in public interest fields. See Paragraph 9 of this statement.

Mention is also made above that limiting the grant of licenses to a small group may also lead to a division of markets, with consequent injury to the interests of the public. Therefore, it is not enough that a patentee be forbidden to discriminate in his licenses as to royalty rates alone; he should also be forbidden not to discriminate between licensees on a geographical basis. To permit a patentee to divide the continental United States into separate and discrete markets would be a step backward, Balkanizing the market and depriving the consumer of the benefits of mass production and mass distribution and competition between the licensees.

In other words, I recommend that appropriate legislation be passed to terminate the present power of a patent owner to grant discriminatory licenses either as to royalty rates or as to geographical areas as well as other significant license terms and conditions. If the Congress should not choose at this time to enact this kind of legislation, i.e. to prohibit discriminatory licenses, the courts should not be prevented from doing so on a case to case basis by the enactment of the Scott Amendments.

8. § 301—The "Pre-emption" Clause: the genesis of this section lies in several court decisions which were based upon special factual situations. The patent bar has taken these decisions as establishing a trend to the effect that the Federal Patent Laws have "pre-empted" and thereby "outlawed" all other forms of technological property, particularly trade secrets and type of information which has come to be called "know-how". This fear on the part of the patent bar that recent cases hold that the patent laws have "pre-empted" the field of technological property, barring property rights in trade secrets and in know-how is unjustified.

First, the existing cases do not support this view. The one or two cases that lead in this direction are based upon and limited to peculiar factual situations and consequently a general policy on "pre-emption" has not as yet been laid down by the courts nor is there a real indication the case law is developing in this direction.

This is my personal appraisal. If I am wrong in this appraisal of the developing law, then I would be in favor of legislation which would recognize that property rights exist and should exist in the field of trade secrets and know-how; subject, however, to the existing equitable principles that have developed in these particular fields and subject also to the restraints of the antitrust laws where such property rights are abused.

However, I believe it would be the better course to delay enacting this particular item of legislation at this time. No necessity for haste has been demonstrated. Indeed as I write these comments I have learned (although I have not seen the decision) that the Court of Appeals for the Second Circuit has overruled *Painton* v. *Bourns*, 308 F. Supp. 271, one of the cases relied upon as justifying the passage of Section 301 at this time.

Accordingly, the legislation is not necessary, and if passed might well encourage state legislation which would truly be in conflict with the patent laws and then we would require new federal legislation requiring a stringent doctrine of "pre-emption" to clear up the resulting confusion and to relieve business of the burden of a variety of state-created property rights.

The question of pre-emption is therefore one which would be better left to the courts to handle on a case-by-case basis in accordance with established equitable principles and precedents.

9. The proposed repeal of Section 308 of the Clean Air Act of 1970 points up a problem of a type which has been encountered in various ways in the past and which will no doubt be encountered in increasing numbers in the future.

The problem which is posed is this:

Should a patentee be rewarded to a degree measured by the value of his invention in a free market—or should he be permitted to reap a windfall far beyond the merits of his inventive contribution because a federal law or regulation has intervened to make the use of his invention compulsory in order to meet a pressing public need.

Both the Congress and courts in the past in similar situations have properly denied a patentee his normal right to exclude others from use of his invention and have instead given the patentee the right to be adequately compensated by a "reasonable royalty".

For example, "compulsory licensing" exists in the fields of atomic energy, and government contracts. Also, over the years, the courts have, in effect, ordered

"compulsory licensing" where the public interest was involved. See City of Milwaukee v. Activated Sludge, Inc. 69F 2nd 577; Vitamin Technologists Inc. v. Wisconsin Aluminum Research Corp. 146 F. 2d 941; and other cases as well.

Careful consideration of the compulsory licensing provisions of the Clean Air Act of 1970 reveals that they are reasonable and equitable, providing adequate compensation to a patentee.

There is no need for the proposed legislation repealing § 308 of the Clean Air Act and a dangerous precedent may be set if the repeal is enacted, thereby imposing great burdens upon both business and the public.

Respectfully submitted.

SUPPLEMENTAL STATEMENT OF STANLEY M. CLARK

This supplemental statement expressing my personal views is respectfully submitted in accordance with the invitation of Senator McClellan at the close of my oral testimony.

In this statement I would like to revert to several points and questions which were discussed during my oral testimony and to comment briefly upon several additional items.

First, I would repeat again that there is no strong sentiment on the part of businessmen for passage of the Scott Amendments. The fact is that very few businessmen know anything at all about the Scott Amendments and these few do not understand the Amendments' full import. Even if they did, it is unlikely that these few businessmen would favor the Amendments. Why should they? Business based upon technological innovation has flourished without the Scott Amendments. The legal environment has not been oppressive; and, accordingly, there is simply no need for the Scott Amendments. The net effect of passage of the Amendments may be to work great mischief upon legitimate businesses.

The Scott Amendments find their support almost entirely within the patent bar and those who have been proselyted by the patent bar to come forward in support of the Amendments. Moreover, there is not unanimity in the patent bar itself. A minority within the bar has devoted itself to drumming up support for the Amendments by letters of which the following is a sample: (I have omitted the letterhead and the author of the letter but I have given the date and he body of the letter verbatim.)

"MAY 21, 1971.

"To: National Councilmen and Patent Law Association Presidents

"Jan Jancin's Letters Nos. 13–15 have given us an excellent summary of hearings on the Scott Amendments. There was considerable testimony marshalled against the amendments, and we have until June 1, 1971 to file additional statements that may be made part of the record. Statements by patent attorneys are of little value, *but* statements by *industry* will carry substantial weight, if they set forth a *need* for legislation to *clarify present law without intent to make a material change in existing law.*

"Could you please ask members of your association to solicit statements of this nature. Help is needed *now.*"

Such letters are evidence that businessmen not only feel no pressing need for the proposed Scott Amendments, but quite apparently require "prodding" if they are to support the Amendments at all. I submit that if there is a real *need* for legislation such prodding would be unnecessary.

Further, the need for the Amendments seems to be negated by the rationale of such letters. Note that the letter quoted above admits that there is no *"intent to make a material change in existing law."* Where, then, is the need for legislation?

The Chairman of this Subcommittee summed up the issue very well in asking the question, "Is the over-all patent law—so complex that we simply can't have a clear—interpretation of what the law is and what it should be?"

I submit that the field of patent law is of such complexity that it cannot be dealt with in detail by legislation but rather should be dealt with by the courts on a case-by-case basis, as the courts have done in the past and as they should be free to do in the future. The patent law is "complex"; and there is some uncertainty. But uncertainty is a natural part of any viable system of law and cannot be solved by rigid legislation. Justice is best arrived at by giving the

courts sufficient flexibility to deal with particular circumstances and with future circumstances which cannot now be envisaged. We cannot tell now "what the law should be" under future circumstances not now foreseeable.

As to the uncertainty which presently exists, it is not so great that a patent lawyer is unable to advise his client. The patent bar is certainly in a position to make much more than a guess as to what the law is. The ground rules and principles have been established. Legislation in this field would not clarify the state of the law; it would merely create additional confusion therein.

Earlier in my oral testimony I urged that not only the inventor who files a patent application be required to make an oath, as is the present practice, but also that the patent lawyer representing such inventor before the Patent Office be required to make an oath that he also had disclosed to the Patent Office such personal information as he had relating to the patentability of the application. Such oaths should be initially filed with the patent application and should set out, either in the body of the oath, or by reference to another document, a complete statement of the prior art of which each affiant is then aware. There should be a continuing duty on the part of both the inventor and his attorney to keep the Patent Office informed throughout the prosecution of the patent application of any facts having a hearing upon the patentability of the invention in question. This should be done by supplemental statements as required under the circumstances. In any event, the prosecution of the patent application should not be closed and a patent issued without final supplemental oaths from both the inventor and the attorney that no prior art has been knowingly withheld from the Patent Office.

On another point, the proposed patent bill should also provide that a patent should not have any presumption of validity over prior art not considered by the Patent Office. This is clearly the law today; and there should be no doubt that it is the intent of Congress to leave the law unchanged in this respect. There is no reason why a patentee should have a lesser burden in the courts than he has in the Patent Office. An applicant has the burden in the Patent Office of overcoming prior art relied upon by the Examiner. He should not be allowed to escape a similar burden in the courts with respect to prior art not considered by the Patent Office in the Prosecution of the application.

I also mentioned earlier in my oral testimony that there seemed to be considerable common ground between the proponents and opponents of the Scott Amendments. Let me state what I perceive to be the common ground in general terms.

First of all, as I have listened to the oral testimony and read such written statements as have been made available to me, I conclude that neither side wants to exempt patents and patent transactions from the antitrust laws, but that the language of the Amendments possibly raises some doubts on this point.

The proponents of the Scott Amendments have stated that they did not desire such antitrust immunity; they urge that the doctrine of patent misuse should remain in its present state; and that the penalty for misusing a patent, absent other circumstances, should be limited to preventing a patent owner from enforcing his patent until all of the consequences of such misuse are purged and that mere patent misuse should not incur criminal sanctions and penalties. I agree with this.

In spite of the proponents' disavowals of driving for antitrust immunity for patent transactions, some of the opponents fear that the Scott Amendments, nevertheless, represent a disguised attempt to remove patent transactions, at least in part, from the scope of the antitrust laws. I suggest that this particular situation might be resolved by incorporating in the proposed Patent Bill the following:

"Nothing herein contained is to be construed as granting transactions involving patents immunity, either in whole or in part, from the antitrust laws. The mere misuse of a patent, absent other circumstances which would bring the transaction involving such misuse within the antitrust laws, shall not render the persons actively participating in such patent misuse to criminal sanctions."

The above, of course, is not intended to represent legislative language which I recognize must be drafted by those skilled in such matters, but I submit that insofar as this particular area is concerned such language would compose the differences between the contending forces in this area.

The two groups, i.e., the proponents and opponents of the Scott Amendments, are also largely in agreement as to the desirability of retaining the existing case law on patent misuse, with but three or four exceptions.

First of all, the codification of the present law would retain intact the doctrine of the G.E. case which, generally speaking, enables a patent owner to fix the resale prices of the licensed products. The Justice Department has stated publicly that it does not approve this doctrine and I think there is much merit in the position of the Justice Department on this point. In all practical respects, however, the point is moot because licensors for many years have not resorted to price fixing restrictions in patent licenses. If the G.E. case were overruled by legislation, or by some future decision of the courts, it would have virtually no impact upon present day commercial practices. I see no economic justification for a licensor to exert power over resale prices and, accordingly, suggest that the G.E. case not be "frozen" into the law by legislation. If there is to be any legislation on this point at all, I would strongly urge that the legislation be in such terms as to overrule specifically the G.E. case. This would codify "present practice" even though it would change the present case law.

Another point in dispute is whether a patent owner should be given the right to limit his licensees to specific limited geographical areas within the United States. I strongly urge that legislation be passed to make such geographical limitations, a *per se* patent misuse. The strength of our economy depends upon national markets and I can see little excuse for subdividing a national market into a multiplicity of smaller ones. Such a situation could lend itself to much abuse and could discriminate against certain sections of the country.

For example, if 50 licenses were granted, respectively, one to each of the states and if a royalty were imposed on a sliding (i.e. a diminishing) scale based upon use of the invention (as is common practice in many license agreements) ; then a state such as Arkansas, having a market very much smaller than a more heavily populated state such as California, would find itself penalized because the royalty rates for the state of Arkansas could never reach the lower royalty rates based upon the sliding scale royalty provision as would be available to the consumers in California. Also, if the right of territorial restriction, plus the right to fix resale prices, were to be embodied in the law, as might very well be the case if the Scott Amendments were enacted, then it would be conceivable that a license limited to the state of Arkansas could carry with it a higher resale price for that state than a similar license granted for the state of California. Such a practice would be unreasonable and unfair, yet it would be possible and would be legalized by the Scott Amendments.

A third point of difference; namely, the granting of licenses as to particular fields of use, does not seem to be a point of difference. The Justice Department has stated that, absent other circumstances, it does not object to such licensing practices. Accordingly, it should be possible to draft a specific section in the Patent Bill dealing with this particular point.

Amendment No. 23 concerns itself with the law of unpatented technological information such as know-how and trade secrets. The proponents have admitted that this legislation arises *not from a present need* but from a fear that such legislation might be needed in the future. There is no sound reason to suppose that such a need will arise. The case law is not pointing in that direction. If it does develop to the extent feared by the proponents, I would be one of the first to join their ranks and urge remedial legislation. At present there is no need and I am apprehensive that the proposed language will create more uncertainty in the law and act as a curb to business and to business activities.

Lastly, I would like to close by answering two of the comments made by the proponents of the Scott Amendments. One of such comments was that the proponent wanted the Amendments passed in order to "stop the clock." Another stated, very frankly, that he not only wanted to "stop the clock" but "turn the clock back".

The Chairman recognized that patent law is a complex field and that it is difficult to have a clear interpretation of "what the law is and what it should be". I think this analysis is correct; that patent law is complex, and because it is so complex it would be a mistake to enact legislation which would "stop the clock" and freeze the law as it is, and thereby prevent it from developing into "what it should be". This is an area in which discretion should be left to the courts to handle each situation as it arises on a case-to-case basis. The present Amendments are drafted to hamstring the courts in dealing with future developments in patent licenses and practices. This is unnecessary and unwise. In this rapidly changing world we must accept some uncertainty in order that the law may grow and develop to meet the shifting problems of the future. It is both unnecessary and

unwise in such a world of change to enact legislation in order to "stop the clock".

Legislation should look to the future, not sanctify the past.

Respectfully submitted.

STANLEY M. CLARK.

Senator MCCLELLAN. Thank you very much.

Mr. ADELMAN. I think we have put your statement in the record.

STATEMENT OF MARTIN ADELMAN, ATTORNEY, BIRMINGHAM, MICH.

Mr. ADELMAN. Right. I don't believe I can add anything to the views of the distinguished speakers who have discussed the question of the need for a legislative clarification in this complex field of patent antitrust law. I want to say that I am not one of those persons who is opposed in principle to such a statutory clarification. Indeed, in a limited manner I think one could be carried out that would satisfy both the patent community and the antitrust community.

However, I firmly believe that the Scott amendments should not be enacted because, as written, they exempt from antitrust scrutiny a wide variety of anticompetitive activities, and moreover, these amendments are capable of being interpreted in a manner that is not in accord with the goals set by their drafters.

Take, for example, field-of-use licensing. There has been a lot of talk at these hearings about field-of-use licensing, and I believe that I have searched all of the speeches of the Department of Justice and I can find no indication that they believe that field-of-use licensing is per se bad. I don't know of anyplace in the literature where that is even suggested.

However, there is a feeling, whether it is correct or not, on the part of the patent community, that the Department of Justice is out to get field-of-use licenses. All right, I think that can be accepted. But what troubles me, and particularly as a patent lawyer who reads statutory language like a claim—and with patent lawyers language is very important—what matters to me is what is said, not what was intended. When patent lawyers read claims they talk about the words of the claims, not what the invention is, at least as a starting point, and so we have to look precisely at the languge, not what the drafters say they intend this language to mean, because I know with absolute certainty that whatever the intent of the drafters is, the literal meaning of these words is going to be argued in a court, and it may take 15 years—and as a litigating attorney I may get very rich in the process before we find out precisely whether it is the intent, or the literal meaning, that will be controlling.

The words field-of-use licensing are not mentioned once in either 261(b)(2) or 271(f)(1), which are the two provisions that I have heard the proponents talk about as justifying field-of-use licensing. You won't find this language there. Instead, what you find, Mr. Chairman, is language that exempts from antitrust proscriptions all limited licenses, and a limited license is defined in section 271(f)(1) as that type of license where you grant some rights under a patent and exclude other rights as long as those rights are also within the scope of the monopoly.

Let me give you some examples of limited licenses, all of which are literally exempted from antitrust.

The first one is price fixing. Here is how it would work, and here is how I know my partners and other patent attorneys will draft such licenses. A licensor grants a licensee the right to make the patented widget at $1. The licensee then has immunity from suit as long as he sells the patented widget at a dollar. If he sells it at a $1.05, he is an infringer. So literally you can achieve price-fixing, and have immunity for all kinds of price-fixing by the literal language of these statutes.

Tying arrangements can be drafted as limited licenses. Such a limited license would be as follows: Licensor grants licensee the right to practice the patented process so long as he uses in the process salts purchased from the licensor. If he uses salt, unpatented salts from any other source, he is an infringer, and has no immunity from suit. Hence this type of license is precisely within the definition of a limited license as defined by 261(b)(2) and 271(f)(1).

So regardless of what the drafters say they intended, the literal language is something else again and I think——

Senator McCLELLAN. Is that involved in the antitrust laws, would it be in conflict with the antitrust law?

Mr. ADELMAN. I think it is clearly in conflict with the antitrust law. I don't believe the drafters intended it, but I know it is going to be argued that there are clear exemptions for price fixing, and for tying, both of which are generally considered, except in special cases, per se violations of the antitrust law.

Senator McCLELLAN. And if this was enacted it would authorize that in effect, it would supersede the existing antitrust laws, would it not?

Mr. ADELMAN. I believe it would and I believe if they were passed and that happened, after awhile the patent community would begin to feel that the public was looking at patents, not as the way in which we encourage invention, which as a patent lawyer I feel is the fundamental goal of this system, but rather as a device for setting up cartels. Pretty soon we would have set in a real antipatent philosophy, and the patent system would be justifiably attacked as authorizing a wide variety of cartel practices.

So I, as a patent attorney, am very disturbed by the possibility that these kinds of practices could be carried out under the color of these amendments.

Senator McCLELLAN. If the Scott amendments were so modified as to preclude any such interpretation, would that improve them?

Mr. ADELMAN. That would help. And I have some addition——

Senator McCLELLAN. I understand it is not the author's intention to pass a statute here that would conflict with antitrust law.

Mr. ADELMAN. Well, I believe that to be the case although again I am a skeptical sort. I read language——

Senator McCLELLAN. I simply am suggesting if the language is susceptible of the interpretation you place on it, through proper modification that susceptibility might be eliminated.

Mr. ADELMAN. Certainly we can eliminate any possibility that the statute would be interpreted to authorize price fixing and tie-ins.

Senator McCLELLAN. So that is what this committee has to try to unravel here.

Mr. ADELMAN. I think that is true.

Senator McCLELLAN. It is very complicated. To me it is quite complex.

Mr. ADELMAN. I sympathize with you. I have spent years both in my role as a professor and as a practitioner trying to figure out this area and I can only sympathize with the committee having thrust upon it all of these arguments.

I would like to point out to the chairman even with respect to field-of-use licensing that things aren't all as simple as perhaps it might first appear.

Now, with field-of-use licenses, as I am sure the chairman would understand, very often there is absolutely no problem.

For example, if I have a patent on a bearing that can be used in both the aerospace and the automotive fields, and I decide to exploit the automotive field alone, and the aerospace field is something I can't get involved in, I know of no one who has ever suggested that I shouldn't have the absolute right to limit any license that I grant to the aerospace field. This should be an absolute right. However, there are problem situations even in the nonexclusive field-of-use situation. For example, I may grant such a license where I have no intention of exploiting the excluded field, and the Department of Justice has brought some cases in the pharmaceutical area where the purpose of a nonexclusive field of use license was not to protect the licensee's own market, but rather to work out what, in effect, was a boycott. I believe that this committee should, if it desires, propose legislation, perhaps along some of the lines that I have suggested in my prepared statement, which would make it clear that nonexclusive field of use licensing is legal except in those cases where it would be used not to protect the licensor's market, his legitimate market, but rather to be used in the boycott sense.

We have a greater problem, and Professor Turner touched on this when we get to exclusive field-of-use licenses because an exclusive field-of-use license is a division of markets.

Picture the following situation. I am not exploiting the aerospace field, and I am making patented bearings for the automotive companies only. I have granted an exclusive license for aerospace to one of the aerospace suppliers, and now you are an aerospace consumer of that product and you want to buy it. You can't come to me, I can't sell it to you. You have to go to the exclusive licensee.

Many times that is perfectly acceptable because but for the exclusivity provision, which is a concept well known in antitrust, we never would have gotten the exclusive licensee in aerospace to exploit the patented bearing. He simply would not have gotten going, he would not accept a nonexclusive license. But there are situations when there are many people who are ready and willing to make the patented product in a particular field, and under such circumstances there is no justification for the patent owner dividing markets.

I think that the Congress could pass legislation clarifying that exclusive field-of-use licenses are not per se illegal, particularly when they are designed to encourage the exploitation of the excluded field.

The area of royalty provisions is covered in my prepared text and I

really have nothing to add to that except that I do propose that in the area of package licensing there may be a problem and specific legislation, limited in scope, could be passed. With respect to the other royalty provisions, I see no justification for them.

Finally, I would like to comment on *Lear* v. *Adkins*. I was gratified to find that the Department of Justice in the statement that Mr. McLaren made yesterday has approved what is essentially 261(f). In opposition to Professor Turner, I do not believe it is sound law to allow a licensee to accept the benefits of a license while at the same time screaming that the patent is invalid and challenging the patent.

If the licensee truly believes that the patent is invalid, I think that licensee should stand up, say the patent is invalid, and stop paying royalties, at which time the licensor is going to terminate the license, and the licensor is going to sue for infringement.

What Professor Turner is essentially proposing is a situation where the licensee first negotiates a license, then he gets a ceiling on his possible damages, then he goes out and attacks the patent. I feel that is fundamentally unsound. I don't think it is necessary to effectuate the proper workings of the patent system. In fact, I think it would have a debilitating effect on the patent system. And to the extent that this committee believes that there is any uncertainty in the law, I believe 261(f) should be enacted along the lines set out in the Department of Justice's statement or the Commerce Department draft. There have been some suggested clarifications to make this section a little more precise.

As far as 261(e) is concerned, again I differ from Professor Turner. I think the assignor, having sold a patent to an assignee, should have to give the money back before he stands up and says that what I sold you is no good. But beyond that this committee shouldn't go. Because after all, in this situation, the assignee of the patent, the man who has purchased the patent, gets his money back so he has a free patent, he has a patent for nothing. Accordingly I agree with 261(e)(1). I see no reason, since that assignee has a free patent, to give him the additional rights which 261(e)(2) gives him. There is simply no moral justification for the giving a man who has something for nothing something more.

Finally, I just want to say that I agree with Professor Turner with regard to the amendment No. 23, the preemption amendment. It is unnecessary in view of the Second Circuit's reversal of *Painton* v. *Bourns*, and we should continue to have, in certain cases, the Federal courts looking at situations where States, not this committee, not legislation passed by this Congress, but State courts are creating rights in the nature of patent rights.

I firmly believe that this committee and this Congress fundamentally should be the primary lawmaker concerning inventions. And when we are talking about things that have nothing to do with inventions, such as know-how, blueprints, and commercial data, which has nothing to do with patents, it should be made clear by statute that that sort of thing is not preempted. However, should this Congress desire to make some statement about inventions, I have suggested some limited language which I believe would cover this subject.

That is all, Mr. Chairman.

Senator McCLELLAN. Well, thank you very much. Your testimony touched upon one of the matters that I am inclined to agree with you about and I will study it further. That is in the area of——

Mr. ADELMAN. Price fixing?

Senator McCLELLAN. Yes; and the tying and the broad extention of the limited license.

(The statement referred to follows:)

STATEMENT OF MARTIN J. ADELMAN

The activities of the Department of Justice over the last few years, both by reason of speeches made by various members of the Department as well as by actual cases filed has, with some justification, engendered in the Patent Bar a belief that patent rights are being unwisely denigrated by men in that Department who fail to understand the important public benefits achieved by the patent laws. Consequently, at the urging of some members of the Patent Bar, Senator Scott has introduced Amendments No. 23 and 24 to S. 643.

In a recent law review article[1] co-authored by me, the current state of patent-anti-trust law was analyzed and it was concluded that the law in this area is reasonably clear. Nevertheless, I am not opposed to a statutory clarification. However, I believe that the Scott Amendments should not be enacted because as written they exempt from antitrust scrutiny a wide variety of anti-competitive activities and moreover they are capable of being interpreted in a manner that is not in accord with the goals set by their drafters.

I. THE PATENTEE'S RIGHT TO REFUSE TO LICENSE

Turning to the issues dealt with by the Scott Amendments, perhaps the most fundamental is whether a patentee having granted one non-exclusive license must grant a license to any qualified applicant on non-discriminatory terms. There is no such obligation under current law, but the recent Neal report suggested that a patentee should be placed under this duty.[2] The Neal report proposal, at first blush, seems to have a certain appeal to the American sense of fair play since it puts all competitors on an equal footing. However, if this proposal were adopted, a patentee would be forced to either operate as a monopolist or alternatively grant licenses across the board for the exploitation of his invention. I believe that any such rule would be unwise. Its adoption could seriously affect the granting of patent licenses, and it cannot be doubted that it is preferable to have some competition rather than none at all. Further, it is not necessarily bad for a manufacturer to fear that someone else, and most likely one of his competitors, may make an invention and even license another of his competitors and then refuse to license him. Such a prospect may well act as a spur to inventive activity and, to that extent, should be encouraged.

Under current law a patentee may, even if he has granted one non-exclusive license, not only unilaterally refused to license another applicant but also charge different royalty rates to different licensees. However, if there is truly uncertainty in this area of the law, it could be removed by a specific statute drafted along the following lines:

A patentee may, as long as he is not attempting to monopolize an unpatented product, unilaterally: (a) refuse to grant a non-exclusive license under his patent even if another has already been granted a non-exclusive license; and (b) grant a non-exclusive license under his patent on terms and conditions different from those already contained in a previously granted non-exclusive license.

The broad and all-encompassing language of the Scott Amendments in §§ 261 (b) (2) and 271(g) (2) (d) achieves the same result, and to this extent I support them.

II. LIMITED LICENSES

A. Price-Fixing

The important subject of the status of limited licenses is taken up in §§ 261 (b) (2) and 271(f) (1) of the Scott Amendments. A good definition of a limited license is found in 271(f) (1) where such an arrangement is defined as a license

[1] Adelman & Jaress, *Patent-Antitrust Law: A New Theory*, 17 Wayne L. Rev. 1 (1971).
[2] Report of the White House Task Force on Antitrust Policy.

granting some rights under a patent but excluding specific conduct, if the conduct excluded would infringe the licensed patent. Probably the best known forms of such limited licenses are price-fixing and field-of-use licenses. While some might question the inclusion of price-fixing licenses, there is little doubt that a license can be granted which gives the licensee the right to sell a product covered by the licensed patent but only at a price set by the licensor. Then, if the licensee sells at a different price, he has lost his immunity from suit and his conduct is therefore actionable as an infringement. The same is true of field-of-use licenses where the patentee grants the licensee the right to make, use and sell in a particular field and if that licensee sells outside that field, then he infringes. Sometimes these restrictions are also achieved by contractual provisions in the license such as a covenant not to sell at a price other than at a price set by the licensee or a covenant not to sell in any field other than the licensed field. However, such covenants need not be in the license and as a practical matter even in their absence it is understood that unlicensed conduct will not occur since a licensee simply cannot be put in a position of operating under the license while infringing the licensed patent at the same time.

The argument that limited licenses should be immune from antitrust is basically that they are inherent in the patent right. The argument that since a patentee, for example, can refuse to license any competitors, that is logically follows that he can exchange the right to refuse to license for a right to a price-fixing license, is unsound. Consider the case of a manufacturer who has the right to refuse to sell his goods to a distributor. It does not then follow that if he sells to such a distributor he can insist on that distributor selling only at a price fixed by him. Hence, while a patentee has the right to refuse to license, if he chooses to license, that license should be judged under antitrust principles. Therefore, §§ 261(2) and 271(f)(1) should not be enacted in their present form permitting as they do any form of limited license, including price-fixing licenses, even if such a license has serious anti-competitive effects.

At this point, it should be noted that some thirty years ago price-fixing licenses were quite common, whereas today they are practically non-existent. As far as we know, there is at least as much invention taking place today as was taking place thirty years ago. Thus, the elimination of price-fixing licenses by the action of the Patent Bar in response to the repeated attacks by the Department of Justice does not seem to have affected the rate of inventions at all. At least the burden should be on the proponents of price-fixing license to show that they are necessary in order to stimulate inventors to invent. The proponents have not even attempted to meet this burden.

B. Non-Exclusive Field-of-Use Licenses

In addition to apparently legalizing price-fixing licenses, §§ 261(b)(2) and 271(f)(1) would also legalize all forms of field-of-use licensing. While price-fixing licenses should be per se illegal, in many circumstances field-of-use licensing is desirable. Certainly, a patentee should be able to preserve a field which is less than the scope of his claimed monopoly for his own exclusive use while at the same time granting non-exclusive licenses in any field that he is not interested in exploiting. This privilege can, however, be abused. For example, it is my understanding that certain pharmaceutical patent licenses have been granted where the patentee grants one or more field-of-use licenses, not for the understandable purpose of protecting the excluded field for his own use, but rather to suppress that field of activity entirely. Such licenses have thus prohibited the licensee from selling the patented product in bulk form in order to prevent generic drug houses from buying and repackaging in pill form. When the patentee has no intention of supplying the patented product in bulk form, and where the licensees also are not permitted to do so, then I believe an antitrust problem exists and such practices should not be made per se legal. This is another reason why the Scott Amendments should not be enacted in their present form.

However, to the extent that legislative clarification is necessary in order to clarify the status of non-exclusive field-of-use licenses, a provision along the following lines could be enacted:

A patentee may unilaterally grant a non-exclusive field-of-use license under his patent, but only if the activity precluded from the licensee is either being carried out by the patentee or another licensee or if definite and detailed plans exist for the carrying out of that activity.

C. Exclusive Field-of-Use Licenses

An exclusive field-of-use license is an agreement where a patentee and his exclusive licensee divide up fields of activity with the patentee agreeing to stay out of the licensee's field and the licensee agreeing to stay out of the patentee's field. In the absence of a patent this would be an agreement to divide markets. However, there are situations where exclusivity is required in order to induce a prospective licensee to exploit the field granted to him. In such a case the patentee has no intention of exploiting the licensed field and is unable to obtain exploitation of that field unless exclusivity is granted to his licensee. Certainly, such exclusive field-of-use licensing should be lawful. However, there are situations where there is more than one manufacturer willing to exploit the licensed field and where the agreement to divide markets (the exclusivity provision) is not required in order to obtain exploitation of that field. §§ 261(b)(2) and 271(f)(1) of the Scott Amendments would exempt from antitrust such a division of markets and, as a consequence, go beyond what is required to satisfy the legitimate needs of the patentee and the public.

However, to make it clear that exclusive field-of-use licensing is not to be considered per se illegal, a specific provision could be enacted along the following lines:

A patentee may unilaterally grant an exclusive field-of-use license, but only if such exclusivity is required in order to induce a prospective licensee to operate in the licensed field, and the party alleging that exclusivity was not so required has the burden of proof.

III. ROYALTY PROVISIONS AND PACKAGE LICENSING

Section 271(g) legalizes various forms of royalty arrangements which are not based on the use of the patented invention. For example, a patentee may insist on collecting royalties on the licensee's manufacture of unpatented items. This form of royalty payment may conceivably have adverse competitive affects because the licensee would have no incentive to develop non-infringing devices. Hence, the enactment of § 271(g) could have serious anti-competitive effects.

However, while a patentee presently has no difficulty arising from antitrust in licensing a single patent, a problem sometimes arises when two or more patents are being licensed together in a so-called package license. In the area of package licensing I believe that a specific statutory provision should be enacted so that at least one method of licensing two or more patents would be clearly legal. In this regard, I would suggest that Congress specifically legalize a package license where the licensee pays a royalty only when operating under living patent claims and where the licensee always has the right to terminate the license with respect to any claim of any licensed patent. This right to terminate means that a licensee will only pay royalties under claims which the licensee believes to be valid. However, the licensor should be able to insist on a fixed royalty rate regardless of whether the patentee is actually operating under more than one claim or more than one patent since it only takes one patent, if valid, to force an infringer out of business. A provision to specifically legalize this type of license could be enacted in the following form:

A patentee may unilaterally insist that a prospective licensee accept a license under two or more patents, but only if such license grants to the licensee the unqualified right to terminate as to any of the licensed claims and where, in addition, all running royalty payments from the licensee are based solely on activities of the licensee covered by living non-terminated licensed claims.

IV. RIGHT TO CONTEST VALIDITY OF A PATENT

Paragraph 261(g) relates to a licensee's right to contest the validity of a licensed patent, and is a response to the Supreme Court's decision in *Lear* v. *Adkins*, 395 U.S. 653 (1969). As a result of this decision, there are those who maintain that a licensee should be able to remain licensed under a patent and at the same time contest its validity. While I do not believe that is the law, if it were. it would create an atmosphere of deep mistrust with respect to all license negotiations. After all, a would-be infringer would first go out and try to become a licensee. Only after obtaining a license would he challenge validity. The patentee under such circumstances would not have the club of an injunction to protect himself but rather only the bargained for royalty rate. In other words,

the threat of an injunction against infringement, the most important power granted to the patentee, could be easily removed by deception on the part of the licensee. Such tactics should not be sanctioned and the law should insist that if a licensee believes that the licensed patent is invalid, he should be willing to stand up, say so, and take the consequences of being in error, that consequence being an injunction against further infringement. § 261(f) achieves this result and should be enacted.

With respect to § 261(e), perhaps it is not unreasonable to require an assignor to return the consideration which he received for the assignment of the patent before he challenges the validity of that patent. However, having done so, he should be as free as any other member of the public to assert invalidity and consequently he should not have to show that his defense was not reasonably available when the assignment was made. Certainly, the assignee is hardly in a position to complain since he already has a free patent, the consideration having been fully returned to him. The last clause of § 261(e) should be deleted.

V. TRADE SECRETS AND FEDERAL PREEMPTION

Amendment No. 23 is inspired by the fear that the dissenting opinion in *Lear v. Adkins* will become law with the consequence that trade secret law would be preempted in its entirety.[3] While much of the law of trade secrets should not be preempted because there is no conflict with patent laws, conflicts do occur between certain aspects of the law of trade secrets and patents. One that is a fundamental conflict arises because the law of trade secrets provides an alternative to the patent laws for inventions which may be commercially used but maintained in secret for many years. I believe that the existence of this rival system of protection discourages the disclosure of such inventions in patent specifications and as a result of the availability of state trade secret protection the inventor gets the benefit of a monopoly while the public fails to obtain immediate knowledge of the invention and also the right to use the invention when the patent expires.[4] When used to protect such potentially perpetual secrets, trade secret law should be preempted. For this reason alone § 301 of the Scott Amendments, as well as the original form of § 301 is not in the public interest. Furthermore, § 301 would, by its literal language, overturn *Lear* and its predecessors *Sears* and *Compco*. I believe that the holdings in each of these cases were sound and should not be overturned by legislation.

However, the law should be clarified so as to make it clear that the patent laws are only concerned with patents on inventions and not with non-patentable subject matter such as know-how, blueprints, confidential proprietary information, etc. Agreements with respect to such secrets should be regulated solely by antitrust considerations and should not, in any event, be considered to be preempted by the patent laws. Therefore, in order to clarify the law, I would suggest a provision along the following lines:

This Title shall not be construed to preempt any state law which grants rights, by means of unfair competition, contract or otherwise, to technical or commercial information, but excluding inventions as defined by this Title.

For example, such a provision would eliminate the confusion in the law created by the opinion in *Painton v. Bourns*, 309 F. Supp. 271. In that case a transfer of blueprints was the consideration for Bourns' contractual claim that Painton had to pay for the use of such blueprints in perpetuity. The Court in rejecting this position adopted a patent preemption argument when blueprints have nothing to do with the patent system and so it is difficult to understand how the protection of blueprints could have been preempted by such laws. However, it could well be asserted that an agreement calling for royalties in perpetuity, where the consideration was a transfer of blueprints, would be an unreasonable restraint of trade under the antitrust laws. But this would be the concern of antitrust alone, and is unrelated to patent preemption.

The problem is more complex when we deal with the subject matter of the patent laws; i.e., inventions whether patentable or not. While I believe that basically the patent laws should govern the protection of inventions as defined

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[3] The preemptive effect of the *Lear* decision is discussed at length in Adelman & Jaress, *Inventions and the Law of Trade Secrets After Lear* v. *Adkins*, 16 Wayne L. Rev. 77 (1970).

[4] This conflict is discussed in Adelman, *Trade Secrets and Federal Preemption—The Aftermath of Sears and Compco*, 49 J. Pat. Off Soc'y. 713 (1967).

by the patent laws, certain additional rights, when provided by state law, clearly do not conflict with the patent laws. For example, an inventor has a natural right to a headstart in the commercialization of his invention and that natural right does not conflict with policies of the patent laws.[5] Whether any additional rights should be available to inventors under state law is a difficult question. I would suggest a very limited statute as follows:

This Title shall not be construed to preempt any state law which grants rights, by means of unfair competition, contract or otherwise, to inventions as defined by this Title, but only to the extent of protecting an inventor's right to be the first to commercialize his invention.

VI. CONCLUSION

For the reasons set forth above, I believe that the Scott Amendments are an over-reaction to the activities of the Department of Justice which may, in its zeal, have at times given the impression that it does not give sufficient weight to the virtues of the patent system. Further, by dramatically over-reaching and exempting much anti-competitive conduct from antitrust, such Amendments, if passed, could debilitate our competitive system while doing nothing for the encouragement of invention. Further, and even worse, these Amendments could, in the long run, by sanctioning undesirable social practices, work to smear the patent system. Therefore, as a patent lawyer who believes in that system and the good that it is and will continue to do for society, I feel that in so over-reaching and making so ambiguous what is not an inordinately difficult field, the Scott Amendments will contribute to the ill repute in which many now hold the patent system.

However, while not seeking to debate the virtues of a case-by-case approach as opposed to some statutory clarification, I am not opposed to statutory provisions which would make it clear that a patentee has the right to pick and choose amongst prospective licensees so long as his conduct is unilateral and can, if he wishes, discriminate amongst licensees so long as he has a good reason for doing so. And further, except where the patentee is intending not to exploit an excluded field, a patentee should be permitted to grant non-exclusive field-of-use licensing without fear of antitrust difficulty and should even be permitted to grant exclusive field-of-use licenses when a showing can be made that exclusivity was necessary in order to obtain a licensee who would exploit the licensed field.

Further, to the extent there is any question about package licensing, a statute could make it clear that any license of a package of patents where the licensee has the absolute right to terminate as to any licensed claim and is required to pay royalties under only licensed claims is legal. In addition, a provision making it clear that a licensee, if he chooses to challenge the validity of a patent, must make up his mind that he is not going to have a stipulated damage clause for his benefit and that, if he loses (that is, if the patent is valid) he is going to be out of business, would be sound.

Finally, I believe the law should be clarified to make it clear that the preemption doctrine does not apply to state laws or contracts dealing with industrial and commercial information other than inventions as defined by the patent laws. As for inventions certainly the headstart which an invenor naturally hah at common law should be preserved intact. Beyond that, based on our present knowledge, Congress should not go.

Senator McCLELLAN. I appreciate the testimony of both of you gentlemen and of all witnesses this morning. This is going to take a Solomon almost to unravel it, to do absolute equity and justice in this field of activity.

I can preside this afternoon from 2 until 3 o'clock, and so we will resume at 2 o'clock and I hope to get someone to relieve me at 3 o'clock so that all of the witnesses who are scheduled today may be heard. We will try to accommodate everybody.

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[5] The headstart interest of an inventor regardless of whether the invention is patentable and the relationship of that interest to the law of patents is discussed in Adelman & Jaress, *Inventions and the Law of Trade Secrets After Lear v. Adkins*, 16 Wayne L. Rev. 77, 88–91 (1970).

Thank you very much.

(Whereupon at 12 o'clock noon, the hearing was recessed to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

Senator McCLELLAN. We will come to order.

Mr. BRENNAN. We have this afternoon to open the session a panel in support of the Scott amendments by the Philadelphia Patent Law Association.

I would ask the members of the panel to introduce themselves for the record starting at the right.

Apparently Mr. Miller is the spokesman or chairman for this group; is that right?

STATEMENT OF AUSTIN R. MILLER, ESQ., PRESIDENT, PHILADELPHIA PATENT LAW ASSOCIATION, ACCOMPANIED BY JAMES A. DROBILE, ESQ., CHAIRMAN, ANTITRUST SUBCOMMITTEE OF LEGISLATIVE COMMITTEE OF PHILADELPHIA PATENT LAW ASSOCIATION; WALTER W. BEACHBOARD, SECRETARY, SMITH KLINE & FRENCH LABORATORIES; DR. ROBERT W. CAIRNS, VICE PRESIDENT FOR RESEARCH, HERCULES, INC.; WILLIAM P. COLE, PRESIDENT, RUBBER CRAFTERS, INC., AND DR. CHALMER G. KIRKBRIDE, RETIRED VICE PRESIDENT FOR RESEARCH AND ENGINEERING, SUN OIL CO.

Mr. MILLER. Yes, sir.

Senator McCLELLAN. Very well, then, you identify yourself for the record and then introduce your associates.

Mr. MILLER. Thank you, Mr. Chairman.

My name is Austin R. Miller. I am a patent lawyer practicing in Philadelphia and am president of the Philadelphia Patent Law Association.

On behalf of our panel, I would like to express our appreciation to you for permitting us to appear before you and present our views.

Senator McCLELLAN. Very glad to have you, sir.

Mr. MILLER. Thank you, sir.

May I introduce on my left Dr. Chalmer G. Kirkbride, former vice president for Research and Engineering, Sun Oil Co. of Philadelphia and former president of the American Institute for Chemical Engineers.

On my left is Mr. James A. Drobile, president of the Engineers Club of Philadelphia, and chairman of the subcommittee on Antitrust Laws of the Philadelphia Patent Law Association.

On my right is Mr. William P. Cole, former president of Polymer Corp. of Reading, Pa., and now president and owner of Rubber Crafters, Inc., in the Philadelphia area.

To Mr. Cole's right, I am pleased to present Dr. Robert W. Cairns, vice president for Research, Hercules, Inc., of Wilmington, Del., former president of the American Chemical Society.

And on Dr. Cairn's right, I am pleased to present Mr. Walter W.

Beachboard, who is secretary and general counsel of Smith Kline & French Industries.

Senator McCLELLAN. Very well, do you have prepared statements or do you wish to just discuss it among yourselves for the record? How would you like to proceed?

Mr. BRENNAN. Certain members of the panel have statements.

Senator McCLELLAN. I have a prepared statement from five of you.

The statements you have submitted will be printed in the record in full. You may proceed.

Mr. MILLER. Thank you very much.

The Philadelphia Patent Law Association consists of over 400 patent lawyers and agents practicing in the area of Philadelphia, southern New Jersey and Delaware, an area of about 60 miles radius around the city of Philadelphia.

Our association contains members who represent substantially all segments of major industry, minor industry, and individual inventors in the gographical area that I have mentioned.

I would like to emphasize that the lawyers and agents in our association are not confined to the representation of big business or of producers, but represent consumers as well and it is my belief, Mr. Chairman, that the views of our association accurately reflect a cross section of all segments of American people.

Senator McCLELLAN. You are appearing here, each of you, as a representative of the Philadelphia Patent Law Association?

Mr. MILLER. Sir, only Mr. Drobile and I are members of the Philadelphia Law Association. We have brought with us four fact witnesses whose testimony I think you will find very interesting because they are in industry, small industry, including large and are in a position to give you actual cases.

Senator McCLELLAN. Very well; we are glad to have their individual views, but according to the information I have before me, it says Panel of Philadelphia Patent Law Association. Four of you do not belong to the association?

Mr. MILLER. That is correct; four are industrialists.

Senator McCLELLAN. The two that represent the association, are you emphasizing or can we be assured that what you are saying here today now represents the 400 members, the elective judgment of the 400 members of that association?

Mr. MILLER. Yes, sir; that is correct, except in a certain instance where I will make an exception and point out that my statement represents the views of the board of governors.

Senator McCLELLAN. I was simply trying to let the record reflect the strength and the support for whatever position you are going to take.

Mr. MILLER. Yes, sir; I will be careful to distinguish.

Senator McCLELLAN. You may proceed in your own way, then.

Mr. MILLER. Thank you, sir.

As will be apparent from the testimony of the witnesses that we intend to produce, we are of the strong opinion that the Scott amendments, Nos. 23 and 24, are necessary, valuable, not only for the protection of the producer, but the consumer as well.

Now, before discussing the Scott amendments, I would like to take just a minute or so to discuss supplementary provision 6 of S. 643.

This is the provision relating to the Clean Air Bill and to the matter of compulsory licensing of patents.

I have only recently received from the Patent Legislative Committee of my association, a recommendation which is based upon their study of that particular section.

I have not had an opportunity to obtain a poll of the entire 400 members of our association, but have polled the board of governors of the association.

Senator McCLELLAN. Composed of how many?

Mr. MILLER. Composed of nine.

The resolution was passed by the legislative committee, I am sorry, I cannot tell the exact number of members of the legislative committee, but I think it has about 15 to 20 members.

The resolution of the committee as approved by the board is as follows:

"Resolved, the Board of Governors of the Philadelphia Patent Law Association reaffirms its position of long standing against compulsory licensing of patents except under extreme circumstances and after the most careful of deliberations, and further resolved, the Board of Governors of the Philadelphia Patent Law Association endorses supplementary provision 6 of S. 643."

If I may, I would like to——

Senator McCLELLAN. Was that resolution adopted unanimously?

Mr. MILLER. That was.

Senator McCLELLAN. By the committee?

Mr. MILLER. That was adopted unanimously by the members of the board of governors. I cannot give the exact figure with respect to the committee except that I know it was overwhelming.

I cannot honestly represent that it was unanimous because I do not know.

Senator McCLELLAN. All right.

Mr. MILLER. If I may, I would like to speak personally for a minute as to my reasons why I feel that this was a wise action for our association to take.

I feel that compulsory licensing of patents, whether in the field of air pollution or the field of drugs, or any other field, will very effectively stifle the incentive to invent and to invest.

I feel that the compulsory licensing provision as originally introduced would have stifled incentive both to those within the field that are covered by the Clean Air Act and also those outside the field.

I am not familiar with the technology in all of the fields that would be covered by the provision but I must say that in the area of automobile exhaust gas pollution, I am somewhat familiar with the art, and I do not know either in that field or any other field relating to air pollution where there would only be one patent and no other patent in the field.

In the field of automobile exhaust, for example, there are many, many patents, certainly more than a hundred, and my feeling is that if the owner of one patent should refuse to grant a license, which by the way in my experience is very rare, even then the other 99, or whatever the other number is, would still be available for use by people in the industry who want to get into that field.

Furthermore, I feel that, and I have observed this in many cases in other fields, if there is a patent that is important and seems to stand in the way, at least partially, of competition, I have observed that this acts as a spur, it urges the competitiors to invest money in research primarily for the purpose of avoiding the claims of the offending patent, and it seems astonishing to me how many times this additional research not only avoids the patent but generates new patents and new ideas which turn out to be for the further benefit of the public.

So these, Mr. Chairman, are my views, my personal views, as to why I favor the resolution that our association has made.

There was a comment this morning with respect to whether a double standard exists between the standard of invention as set up by the U.S. Patent Office and that of the courts. Again speaking individually, may I say that in the first place I do not really believe such a double standard exists. I think the Patent Office, based on my experience with it, which goes back over 20 years, I believe the Patent Office has endeavored to stay within the confines of the standard of invention as defined by the courts.

I think it is easy to explain why some 72 percent of litigated patents are declared invalid by the courts and my explanation is this:

When an invention is in the application stage before the Patent Office, no one usually knows whether this is a "million dollar invention" or an inconsequential invention or somewhere in between. If it is a "million dollar invention," it usually takes quite a while to develop it and to appreciate the fact that it is commercially effective and truly valuable.

For that reason, when a patent becomes involved in litigation and large amounts of money are at stake, the defense, seeking to invalidate the patent, finds it worthwhile to invest very large sums of money, time and effort in searching the four corners of the world to find effective prior art. It just is not economically feasible for a patent examiner to do that. He cannot treat every patent as a million dollar invention because he would never get his examining job done.

So I think practical reasons lie behind this large number of patents that are held invalid by the courts and not any double standard between the Patent Office and the courts.

Now, I would like to point out that in the bill there is a chapter 18 which calls for reexamination of the patent after it has been issued. This is a new thing. We now have no such provision and I think this would strengthen the validity of patents if it were enacted because, in general, chapter 18 provides that any member of the public, if he wishes to do so, can notify the Commissioner of Patents about publications or patents which he thinks may have a bearing on the patentability of any claim, and in this way the patent is subjected to a more stringent examination while still at the Patent Office level.

Now, as I stated, we have produced for the subcommittee's examination a group of eminently qualified industrial and individual witnesses who are in a position to review actual case histories of factual circumstances strongly supporting the need and the urgency for enacting the Scott amendments into law.

To present the position of our association, I have the pleasure of

introducing the chairman of our subcommittee on antitrust laws, Mr. Drobile.

Mr. DROBILE. Thank you.

Mr. Chairman, it is indeed a pleasure to be able to appear before this subcommittee today to testify on behalf of the Philadelphia Patent Law Association as the chairman of the subcommittee on antitrust laws.

Our association as a whole has taken an official position in support of amendments 23 and 24 introduced by Senator Scott to the bill for general revision of the patent laws, S. 643.

A communication reflecting the prior position of the board of governors supporting the amendments in principle has been made of record and published in the Congressional Record when Senator Scott reintroduced these amendments.

I should say that our association's official endorsement goes to the Scott amendments in principle.

We are not wedded to any particular language nor do we view all of the provisions with equal favor. However, I might say that there is an extremely strong consensus as to the need in our view for legislative action in this field.

In supporting the principles of the legislative proposals, I believe our members are motivated by a serious concern for the continuing vitality of the patent system and in particular for the preservation of certain traditional rights which patent owners and owners of inventions have enjoyed.

It seems to us that certain of these rights have been clouded, if you will, if not placed in actual judicial disfavor as a result of some recent judicial decisions and some recent public pronouncements on behalf of the antitrust enforcement agencies.

We believe that the statutory provisions of the general thrust introduced by Senator Scott are necessary in order to remove this uncertainty and to preclude erosion of the rights to which I have made reference.

There has been some testimony heretofore by opponents of this legislation that no need has ever been demonstrated factually for legislation provisions.

I simply would like to make reference to the very exhaustive and comprehensive investigation and study made by the President's Commission on the Patent System and I would like to quote one place where the Commission concludes that ". . . uncertainty exists as to the precise nature of the patent right and there is no clear definition of the patent misuse rule. This has produced confusion in the public mind and a reluctance by patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses."

I think that this conclusion goes a long way toward providing some of the types of supporting documentation that the opponents of this legislation have indicated is nonexistent.

The opponents of the Scott amendments argue that this is an area of the law which should be permitted to develop on a case-by-case method rather than through legislative enactment.

The members of our association do not agree with this position and their arguments fall into two categories.

First, the Scott amendments to a large extent simply legislate or codify, we think, existing practices which traditionally have been held legal. To a relatively minor extent they restore to the law certain practices which recently have been cast into doubt or in disfavor.

With respect to the latter practices, I might mention that the asserted preemption by Federal law of the State law of unfair competition dealing with trade secrets and confidential know-how. The question of assignor and licensee estoppel to deny patent validity, the freedom of setting the rate of royalty, the basis of royalty, the manner and period of royalty payments, and package licensing without allocation of royalties among individual patents; and the right not to license are areas in which recent decisions have raised a serious question concerning the continued legality of traditional practices.

In those areas, as I mentioned, we feel that the most effective way to remove the uncertainty and reconfirm the legality of traditional practices is through legislation.

Now, in other areas where the avowed intent of the Scott amendments is merely to sanction legislatively the practices which so far as we can determine still are proper, it seems to us that the major thrust there is to remove the element of uncertainty created by recent pronouncements of the antitrust enforcement agencies.

In the absence of a codification, the owner of a patent who wishes to follow any one or more of these presently permissible practices must be willing to accept the significant risk that at some later date they may be declared illegal.

In the face of this risk, it may well be that a prudent businessman might be inclined to forego practice of a right that he otherwise should be able to engage in.

I might just quote from a speech that Prof. S. Chesterfield Oppenheim gave recently before the Licensing Executive Society here in Washington on April 21. Professor Oppenheim says, and I quote, "The bar and patent licensing exeuctives are now faced with speculative evaluations regarding the impact these newly announced challenges of the antitrust division may have on the courts or on the Congress. Under our systems of checks and balances, either the judiciary or the Congress may have the final say. In the interim, however, legal counselors may be in a quandary as to how to advise company managements. Shall they advise on the basis of what the law is or on what the antitrust division believes the law ought to be?"

It is understandable that some attorneys may be heeding the advice of Mr. McLaren's special assistant, Bruce B. Wilson, who said in a speech, and I will summarize this:

I believe this is one area in which it is wise for the private practitioner to err on the side of caution.

Going back to Professor Oppenheim's statement:

"When one considers the fear of private treble damage suits if the Government should succeed in its attack upon a particular license provision, it should not be surprising that the inhibitory effect of the warnings of the antitrust division officials may cause some counselors to hesitate to exercise a judgment based solely on existing judicial precedents."

Professor Oppenheim's address has not yet been printed but a copy of it will be made available to the subcommittee.

Finally, I would simply sum up by saying that the Philadelphia Patent Law Association believes that the value of the practices which are embodied in the Scott amendments will be amply demonstrated and have been amply demonstrated in the testimony by industry witnesses such as those that are appearing here today, and we recommend the principles embodied in the Scott amendments for serious consideration and, hopefully, favorable action by this subcommittee.

Thank you very much.

(The statement referred to follows:)

STATEMENT OF JAMES A DROBILE OF THE PHILADELPHIA PATENT LAW ASSOCIATION

My name is James A. Drobile. I am an attorney and a partner in the general law firm of Schnader, Harrison, Segal & Lewis in Philadelphia. While general in scope, my practice to a very substantial degree involves inventions and know-how.

For the past several years, I have served as Chairman of the Antitrust Laws Subcommittee of The Philadelphia Patent Law Association, one of the larger and more active groups of patent practitioners in the United States. It is in this capacity, and at the direction of the Association's Board of Governors, that I appear before you today, to urge favorable consideration of the legislative proposals embodied in the Amendments (Nos. 23 and 24) introduced by Senator Scott to the Bill for the general revision of the Patent Laws (S-643; 92d Congress, 1st Session).

A communication reflecting the support of our Board of Governors for the provisions of the Scott Amendments *in principle* was submitted to the Chairman of the Senate Subcommittee last year. At the request of Senator Scott, this has been reprinted in the CONGRESSIONAL RECORD of March 19, 1971, at pages S 3404 to S 3411. Most recently, and based upon the response to a poll of our membership, the individual members of our Association also have overwhelmingly endorsed the provisions of the Scott Amendments *in principle*. Thus, I now can state that our Association as a whole officially advocates legislative enactment of provisions of the type broadly represented by the Scott Amendments. Like Senator Scott, we are not "wedded to the language" of the Amendments, and our membership does not view all of the provisions with equal favor. However, there is an extremely strong consensus as to the need for legislative action in this field.

In supporting the principles of these legislative proposals, our members are motivated by a serious concern for the continued vitality of the Patent System and, in particular, for the preservation of legal rights traditionally available to the owners of patents and trade secrets. Certain of those traditional rights recently have been placed under a cloud of uncertainty if not in actual disfavor as a result of some unfortunate judicial decisions and the public pronouncements of the antitrust enforcement agencies. We believe that statutory provisions, of the general thrust of those here under consideration, are absolutely necessary in order to remove that cloud and to preclude erosion of those rights.

Some opponents of the proposed legislation argue that this is an area of the law which should be permitted to develop on a case-by-case basis, rather than through legislative enactment. This argument cannot apply to those provisions of the Scott Amendments which would codify certain traditional legal rights which have been placed in jeopardy by the recent court decisions to which I have made reference. Obviously, if such rights are meritorious, they most effectively can be reconfirmed through legislative action. In this category could be included such matters as: the freedom from Federal pre-emption of the State law of unfair competition dealing with trade secrets and confidential know-how; assignor and licensee estoppel to deny patent validity; freedom in setting rate and basis of royalty, and manner and period of royalty payment; and package licensing without allocation of royalties among individual patents.

Many other provisions embodied in the Scott Amendments fairly represent existing case law. Included in this category would be: territorial grants of rights under patents and applications; non-exclusive grants back; the right of a

patent owner to elect not to license his patent, to license some but not all applicants, and to license exclusively or non-exclusively; and, most importantly, field-of-use licenses, broadly. We submit that legislative action is desirable even as to these presently-existing rights, in order to lift the cloud of uncertainty which has been placed over them by threats of future challenge made on behalf of the Justice Department's Antitrust Division. In the absence of such codification, the owner of a patent who wishes to follow any of these presently-permissible practices must be willing to accept the very significant risk that at some later date they may be declared illegal. In the face of such risk and the attendant substantial liability that may follow from future treble damage suits, most prudent businessmen very likely would be inclined to forego their present right to engage in such practices.

The value of the practices sanctioned in the Amendments here under consideration is demonstrated through other testimony before this Subcommittee. The jeopardy in which they recently have been placed also is a matter of record. The Philadelphia Patent Law Association recommends the principles embodied in the Scott Amendments to this Subcommittee for serious consideration and favorable action.

Senator McCLELLAN. Thank you, sir.

Mr. MILLER. Mr. Chairman, our next witness is Mr. Walter W. Beachboard, who, as you may remember, is secretary and general counsel to Smith, Kline, & French Laboratories.

Mr. Beachboard. Mr. Chairman, my company is heavily involved in pharmaceutical research and it is certainly motivated by the patent system insofar as the investment in exploratory work in the drug field is concerned.

I am head of the legal department and within my jurisdiction come matters relating to patents and licensing. To say that the recent case of *Lear* v. *Atkins* has thrown my work into confusion is putting it mildly. I think that the case merely decided two out of a number of questions leaving many in areas where a helpful prediction is almost impossible. And this, of course, is the reason why I am most happy to be here in support of Senator Scott's proposed section 261(f) to the patent code.

However, it is not merely to relieve my burden as counselor in patents and licensing that I am here.

I feel very strongly that the case of *Lear* v. *Atkins* is terribly unfair on inventors. In order to illustrate that, I thought I would describe an example involving facts taken largely from *Lear* v. *Atkins* itself.

Let us suppose an inventor who has worked for years on a most promising device obtains a patent. He then picks what he considers to be the best manufacturing company in the entire Nation to distribute his invention and he grants that company an exclusive license. Needless to say, the inventor is most happy to cooperate with the company's engineers in perfecting the product for the market.

It turns out that the product is a smashing success and the royalties begin to pour in and he looks forward to how he is going to invest the royalties that he is receiving.

In so doing he is overlooking entirely *Lear* v. *Atkins*. While the product was being launched, the patent attorneys for the manufacturing company were looking through the art and they have found an obscure reference which they think antedates the patent. The matter is called to the attention of general counsel and general counsel says "why should my company pay royalties on the basis of a patent which, in the opinion of our patent department, is invalid?"

He advises the company to file a declaratory judgment suit to have the patent declared invalid.

How, where do the parties stand at this point in time?

First, the licensee is going on with the marketing of the inventor's device. The company no longer pays royalties. As a precaution, it puts them in time deposits or other investments and it turns out that the interest on this is enough to pay the attorneys' fees.

Meantime, it enjoys the happy thought if the company loses the law suit and the patent is finally declared valid, all the company has to do is pay what it was originally obligated to anyhow; namely, pay up the royalties.

Let's take a look at the plight of the inventor. The inventor under *Lear* v. *Atkins* cannot hope to get any royalties until the end of the road in the patent litigation. This may take a number of years.

In the meantime, if he hasn't received much in the way of royalties, payment of legal fees becomes burdensome. While the litigation goes on, he sees the heart being torn out of his patent insofar as any utility or gain for him is concerned.

He thinks hopefully—Perhaps I can license this to someone else. But, of course, the terms of his license provide for exclusivity in the company that originally received the license. This hangs as a cloud over his ability to license anyone else and he fails to do so.

As time goes by and the end of the litigation comes near, he has the further unhappy thought that if he loses he not only does not get anything for the invention that has enriched the company, but he may have to return the royalties that he had received in the early stages, on the ground that there was a complete failure of consideration.

Now, this situation is what the Scott amendments are intended to prevent.

They do not do this in full, of course, because there is no intention of doing anything more than to give the inventor a little leverage.

First, the company must repudiate the license. This at least gives the inventor a sporting chance to license someone else. Of course, that someone else might feel he does not want to go into a situation where there is an entrenched competitor but at least the inventor has a chance.

The Scott amendments also say that the inventor is entitled to receive the royalties which he received before the notice of disavowal of the validity of the patent. Now this is only fair because certainly the company has received full consideration by its start on the market and enjoying a period when the trade generally regarded the patent as being perfectly valid.

Before I close I would like to support Senator Scott's amendment on preemption.

I believe that Professor Turner in his testimony today tended to minimize the impact of Justice Black's dissent in the *Lear* v. *Atkins* case.

In the first place, I would like to point out that Justice Black was accompanied in his dissent by two Justices, one of whom was the Chief Justice.

Second, I would like to point out that there is nothing in the majority opinion which goes counter to what was said by the minor-

ity. All that the majority did in fact was to remand the whole issue of royalties paid on the basis of unpatentable inventions back to the courts below.

I believe that the validity of agreements for the protection and exploitation of unpatented inventions is important to our economy for the same reasons that the patent system is important to our economy. Such agreements serve as an incentive for going through the inventive process, and just as important, they serve as a basis for the obtaining of capital in order to pursue what is very frequently an even more tedious road; namely, the exploitation of the invention, once it has been patented.

Senator Scott's amendments do not attempt to eradicate the doctrine of licensee estoppel. They merely provide, as far as patent licensing is concerned, that the licensor should be given a minimum ability to protect himself.

As far as disclosure agreements are concerned, the amendments merely preserve time honored common law principles surrounding the protection and disposition of trade secrets including patent applications while they are still in the before patent approval stage, when their secrecy is protected by an act of Congress.

I want to second what one of my colleagues has said. Court cases are definitely not the answer to *Lear* v. *Atkins*.

That case took 10 years from its inception to the time when the decision was handed down. At the end of that time it merely established two principles, one, the doctrine of licensee estoppel is no more, and the other, during the contest no royalties will have to be paid. But it raised literally a host of problems.

In my opinion these other basic questions couldn't possibly be decided with finality for 10 or 15 years. It has been said by an earlier witness that one aspect has been solved by the recent overturning of a case in the second circuit by the court of appeals, but let me point out that a case in the court of appeals anywhere in this country settles nothing. We have other courts of appeals and even then no one knows, when the case comes before the Supreme Court itself, how the Supreme Court will decide the matter.

I would like to say in conclusion that under *Lear* v. *Atkins* there is a distinct crimp in the ability to gainfully dispose of inventions whether they are patentable or unpatentable. I think that this uncertainty and also the terrific hardship on the inventor is apt to seriously interfere with the innovative process in this country.

(The statement referred to follows:)

STATEMENT OF WALTER W. BEACHBOARD, SECRETARY AND GENERAL COUNSEL, SMITH, KLINE, & FRENCH LABORATORIES

Mr. Chairman and members of the Subcommittee, my name is Walter Beachboard. I am Secretary and General Counsel for Smith, Kline & French Laboratories of Philadelphia. My service with SK&F goes back to 1947 when I was designated as General Attorney for the Corporation. I became General Counsel in 1965 and I was elected Secretary of the Corporation in the same year.

Our Company has long been heavily research oriented. In 1970 our research and development expenses were over $31,000,000, about 9% of our total sales. Without protection for our inventions and those licensed from others, we would be unable to maintain our present high position in drug research. Consequently, we have a vital stake in the preservation of our present system for the protection of inventions.

To insure that the patent system continues to play its vital role in the expansion of our economy, the Chairman of this Subcommittee has introduced S. 643 for the general revision of the patent laws and Senator Scott has introduced the "Scott Amendments" affecting Sections 261, 271 and 301 of the proposed Patent Code.

My primary purpose here today is to support Senator Scott's amendment to Section 261 of the Patent Laws adding a new subparagraph 261(f) to stipulate that no party to a license can contest validity of a licensed patent unless he (1) first surrenders all future benefits under the patent and (2) agrees to settle all past obligations due under the license agreement.

Before going into the merits of the proposed amendment, I think it would be desirable to review the recent U.S. Supreme Court case that makes a statutory change desirable. Basically, the case of *Lear* v. *Adkins*, 395 U.S. 653 (1969) put an end to the doctrine of estoppel which prevented the licensee from attacking the validity of the patent. An analysis of the case shows that:

1. The licensee can now disavow the patent and contest its validity in court. He can do this in defense of an infringement action and also by way of a suit for a declaratory judgment of invalidity.

2. Once the licensee has asserted invalidity he can withhold royalties until the final decision in the case and thus use his attack on the patent's validity as a defense against the payment of royalties.

3. By implication the Court held that:

(a) If the patent is ultimately declared invalid, the licensee is relieved of the obligation to pay further royalties after the assertion of invalidity.

(b) If the patent is ultimately declared valid, the licensee merely has to pay the royalties which are due under the license agreement.

4. The case can be interpreted as holding that the licensee can assert invalidity without losing his rights under the license agreement.

Obviously, this decision is unfair to the licensor. A licensee can now avoid the risk of being an infringer in the initial marketing stages and then, when he is commercially established, contest the patent in the hope of avoiding further royalty payments. If the patent is ultimately declared valid, the licensor has to wait until the end of litigation for his full compensation and the licensee merely has to pay the royalties which he agreed to pay in the first place. If the patent is ultimately proved invalid, the licensee will not have to pay royalties after his repudiation of the patent. Nevertheless, the licensee will have had the benefit of a head start over unlicensed competitors during the entire time the patent was respected in the marketplace.

Let us consider a practical example where the inventor, the licensor, spends many years developing a patentable device. He then selects as licensee the best manufacturing company in the country to exploit the invention. The licensee's engineers pick the inventor's brains on how best to manufacture the product and adapt it for the market. Thereupon, the licensee markets the device which proves a smashing success. Orders pour in and the inventor begins to receive royalties. However, in the meantime the licensee's patent lawyers have found weaknesses in the patent. The licensee, having nothing more to gain from the inventor, attacks the validity of the patent and stops making royalty payments.

The inventor then goes to his lawyer who tells him that under *Lear* v. *Adkins* the only hope of obtaining further royalties is to sue for them in a case in which the validity of his patent will be attacked by experts. He is also told that:

(a) During the lawsuit, which may last for a decade, he will receive no royalties.

(b) If he loses the lawsuit, he will receive no further royalties and may have to repay the royalties already paid to him.

(c) If he wins, he will only be entitled to the royalties that were due him under the agreement anyhow. Even the question of interest on the withheld royalties is in doubt.

In this situation the inventor's principal hope is to license someone else. However, other potential licensees may not want to compete with the original manufacturing company because it is so thoroughly entrenched in the market. Or, on advice of their patent counsel, they may not want to deal with the inventor until the validity of the patent is established in the pending litigation.

If the inventor had given an exclusive license, the unfairness is even more acute. In such a situation he will be advised that, if the license agreement remains in force during the lawsuit, he cannot license anyone else. Throughout

the litigation, of course, the manufacturing company will continue to enjoy its exclusive position in the market, without a penny going to the inventor who made the success possible. By the time the litigation is over, the patent may have expired.

This is not a purely hypothetical case; most of the facts are taken from *Lear* v. *Adkins*. It is this unfair situation that the Scott Amendments are intended to redress.

The Scott amendments make it clear that the licensee must repudiate the license if he is to obtain the benefits of the *Lear* v. *Adkins* decision. If the licensee can both attack the patent and enjoy his license at the same time, he will be given the right to have his cake and eat it too. This he should not be able to do. The requirement of repudiation will tend to equalize the position of the licensor and licensee without in any way detracting from the policy which the Supreme Court wanted to protect.

Another purpose of the Scott amendments is to make it clear that the licensor is entitled to retain royalties paid up to the time of repudiation. If the patent is finally declared invalid, the licensee obviously can claim that there was no consideration from the beginning. In consequence, he may demand the return of royalties paid up to repudiation.

Any obligation to comply with such a demand would be obviously unfair for the following reasons:

1. The licensee will have received a consideration-free head start over unlicensed competitors.

2. In the case of an exclusive license, he will have had the sole benefit of the patent and will have blocked others from entering the field.

3. Where the invention is expected to have a short market life, the licensee can enter into a license agreement with the idea of repudiating it later on and demanding repayment of royalties. Such conduct is tantamount to fraud.

There is solid authority for the proposition that repudiation should not be a defense to an action for royalties accrued before renunciation. *Universal Rim Co.* v. *Scott*, 21 F. 2d 346, 349 (N.D. Ohio 1922) cited in "The Doctrine of Licensee Repudiation in Patent Law" 63 Yale L.J. 125 (1953). The reason, of course, is that the licensee has received the consideration he bargained for.

Before I close, I would like to strongly support Senator Scott's proposed Amendment No. 23 to S. 643. In *Lear* v. *Adkins* the Supreme Court did more than abolish the doctrine of licensee estoppel. It also raised doubts as to whether agreements for the confidential disclosure of trade secrets were any longer entitled to protection under the state laws of unfair competition.

License agreements commonly provide that the inventor will make a confidential disclosure to his licensee of information concerning his invention prior to the issuance of any patent. Such agreements include royalties for the disclosure regardless of the issuance of a patent thereon. These agreements frequently provide for an increase in the rate of royalties in the event of patent issuance. They may also provide for the continuation of royalties at the initial rate for a further specified period in the event the Patent Office refuses to issue a patent.

In addition, there are many agreements pursuant to which licensees have agreed to pay royalties for the disclosure to them in confidence of information concerning secret processes or other technical know-how which are probably unpatentable and for which no patent applications will be filed. The protection of such information is necessary for the same reason as the maintenance of the patent system, namely, to provide both an incentive to creativity and an incentive to risk capital to put the new developments to use.

The Supreme Court's decision in *Lear* v. *Adkins* implies that agreements for the protection of unpatentable data are unenforceable because they run counter to the national policy established by Congress in the adoption of the patent laws. The majority in *Lear* v. *Adkins* avoided pronouncement on this issue. However, Chief Justice Warren and Justice Douglas joined in a dissent by Justice Black stating that an agreement to pay royalties on an unpatented development was unenforceable because of the national policy of the patent laws. A Federal judge in New York has applied this dissent as the law to a license agreement concerning unpatentable confidential information. I understand that this case has been over-ruled but in the absence of legislation on this point one cannot confidently predict what another court will decide.

Senator Scott's proposed amendment concerning the preservation of the state laws of unfair competition is necessary to assure the enforceability of agreements providing for the confidential disclosure of trade secrets. Agreements of

this sort lie at the very heart of our nation's technological development. Consequently, invalidity or uncertainty may have the most harmful results for this country.

In conclusion, I believe that prompt legislation is essential in the field of patent licensing which is in a chaotic state as a result of the Supreme Court decision in *Lear* v. *Adkins*. The judicial process is just too slow to bring about the clarification which investors and industry sorely need now.

It took 10 years after the onset of litigation for the Supreme Court to render its decision in *Lear* v. *Adkins*. This decision, when finally handed down, merely settled two of the many issues involved in the case.

The Scott amendments are not intended to set the clock back. They do not restore the doctrine of license estoppel to test patent validity which was abolished by *Lear* v. *Adkins*. They do not propose anything novel in licensing outside the field of patents.

As far as patent licensing is concerned, they provide a minimum of protection for the licensor whose patent has been enjoyed and then disavowed by the licensee. In the field of confidential disclosures they make it clear that rules for the protection of disclosures that have been well established under the common law are still the law of the land.

Senator McClellan. Thank you, sir.

All right, Mr. Miller.

Mr. Miller. I am pleased to present, Mr. Chairman, Dr. Robert W. Cairns of Hercules.

Dr. Cairns. I have been working with Hercules, which is a major chemical manufacturer, for 37 years, and have been head of its research management for the last 15 years. In that background I have come into the recognition of the essential role of the United States patent system in guiding and stimulating the innovative process in the United States industry, particularly in the chemical industry of which I am thoroughly familiar.

In this activity we look to the patent system to contribute two things. One of the most important elements is a free communication of research results fairly promptly after they are first revealed. This would certainly not be the case if we had a seriously impaired patent system because it would push everything underground. And believe me we study the patent literature assiduously, and spend many thousands of hours for high-speed alert systems so we can get the last word very quickly, and this is a worldwide situation.

Secondly, if we are fortunate enough to develop something new, which is innovative and patentable, we do have an opportunity to develop this into a practical commercial process and into a practical market so that we can operate and give the benefits to the public of our innovations, and we must have something akin to the patent system in order to do this because otherwise we could not afford to take the types of risk that we must take to build new plants and venture into new markets with needs as yet to be demonstrated.

I am in favor of the Scott amendments in principle and I wish to speak particularly to that portion of the amendments which would allow a patent owner to license, in whole or in part, the subject matter of his patent to any party or parties of his choice. And this, of course, covers the general question of field of use and I would like to make a few remarks on that element itself.

But for a better understanding of the importance of licensing flexibility with respect to patent rights and how it may affect the health of the industrial development and in particular in international competition, I would like to acquaint the committee with some of my personal views which were formed out of this experience.

It certainly appears that world leadership of American industry is being seriously threatened by Japanese and European competition and I know of no way better to meet this competition than to exercise our innovations and put our inventions to good use as expeditiously as possible. This is the real reason why I think the American industry is in a position of leadership today.

Now, one must understand that commercial utility depends not only on a new concept, that is the basis of a patent grant, but it requires the marketing skills of an experienced industry to bring it into economically available form for the public user. You have to have both elements. You have to have the concept protected by patent, and the development brought into the market place.

Substantial capital must be put at risk. We all know that. Potential users must learn of the new product and skilled marketers must make them acquainted with the needs that they, initially perhaps, did not even appreciate that they had. This is the way that we get new growth and new developments.

The growth of new markets for new products must be nurtured for years, literally, and during that time whoever is sponsoring the developments is going to great expense and with no thought of return unless he has complete success.

While it is frequently the case that the innovating company makes discoveries outside of its own field of marketing expertise, you cannot tell in advance who is going to innovate what. You start exploring a given field of science and technology and you come up with certain innovations. They may be those you can exploit yourself or develop for public use, but generally speaking, you frequently find that you either are inventing something in someone else's field of development or you are finding that your developments are incomplete, and this is where licensing enters the picture.

It really is essential in order to match the innovative skills of one group of people with the marketing and application skills of another, and those two sets of people may seldom come under the same roof unless it is a very large organization. Consequently, I would say an essential element of the U.S. patent system is a free transferability of patent rights from the original patent owner to someone who is in position to make the patented invention freely available in the marketplace and at large volume with all of the skills that that entails, and it is in this particular area that I think the Scott amendment states something which is as yet unsaid in patent law but which we all seem to go by.

I say that because it has been my conviction in the past that one could license under reasonable conditions, I am worried about the way trends have come up recently, and particularly in light of the testimony that I have heard presented before this committee as to whether this system of free transferability of licensing rights is not under serious threats. I think, therefore, it is time for the committee to apply itself to the problem and see if one cannot generate some kind of legislative clarification which does not rely on this very painful and terribly expensive and unpredictable process of court litigation.

Now, as to the need for codification, let me explain from my own experience what happened in an explicit case. In 1954, Hercules

obtained agreement with the inventor of certain new types of catalysts, catalyst components, known as aluminum trialkyls. The invention related to a process for the manufacture of these catalyst components and the reason it was important to us is because these catalysts were used in another set of inventions of the same overseas inventor relating to the polymerization of olefins, which are basic petrochemicals, and for the protection of new plastic materials.

Well, we found that we had, as a result of agreement, the exclusive and sole right to manufacture for sale these substances in the United States under a patent granted on a basic invention. At the same time, the owner had granted to manufacturers of these polymers, these new polymeric plastic substances, the right to make and use the catalyst components for their own use, but this did not grant to them the right to sell. We were the only ones who had the right to sell.

So we were, therefore, able to develop a market among these polymer manufacturers, to sell them aluminum trialkyls for their own use, and freely.

Well, this right was challenged in the U.S. District Court in Delaware in the case between the Ethyl Corp. and Hercules and the license conditions under this challenge were held to be valid and the court determined that Ethyl Corp., who had the right from the patent owner to manufacture for its own use, did not have the right to manufacture these materials for sale.

In other words, this was a case of a limited license, from a valid patent owner, to Hercules for general sale and this was upheld in the U.S. District Court in Delaware.

After this decision, however, Hercules was informed that the Justice Department believed that the holding of the U.S. District Court in Delaware was wrong, and the Justice Department would attempt to have the issue relitigated.

Last year the Government did start a suit in the U.S. District Court in the District of Columbia on this issue. It is alleged that the licensing practice is illegal and is in violation of the antitrust laws, evidently, regardless of any rule of reasonableness.

I cite this as a specific case in the record which showed that we did have litigation to develop a point of law and then we were challenged, nevertheless, and are sitill under challenge of the Justice Department for violation of another statute which I do not believe we are in violation of.

I believe that, therefore, it is certainly necessary and desirable that the Scott amendments or a resonable facsimile of them should be included in the new patent reform bill now before this subcommittee; otherwise I think we are going to wake up some day to the complete erosion of the real beneficial effects of our patent system and to a different kind of competitive business atmosphere based, not on sharing the results of innovation, by disclosure and availability to others supported by the patent system, but rather on a system that would impair technological progress and force us back into secrecy.

Thank you.

(The statement referred to follows:)

STATEMENT OF DR. ROBERT W. CAIRNS, VICE PRESIDENT OF RESEARCH FOR HERCULES, INC.

Mr. Chairman and Members of the Subcommittee, my name is Robert W. Cairns. I appear before you in my position as Vice President for Research of

Hercules Incorporated. I had the privilege of appearing before this Subcommittee in January of 1968 in connection with one of the earlier bills relating to patent law revision. My appearance at that time was on behalf of the American Chemical Society, of which I was president at that time. In addition to my continuing association with the American Chemical Society, I have been since 1969 a member of the National Academy of Engineering and presently am a member of the Council of that organization.

I have been employed by Hercules Incorporated for 37 years and for the last 15 years I have been responsible for research and development activities of that company, first in the capacity as Director of Research and since 1966 as Vice President for Research. I am also a member of the Board of Directors. My appearance today is as a proponent of the Scott Amendments to S–673 which would add a new section 261 entitled "Transferable and Licensable Nature of Patent Rights."

I appreciate the opportunity to speak on behalf of the Scott Amendments and I intend to address my remarks to that portion of the Scott Amendments which will permit a patent owner to license his patent or patents in such a manner as to contain a field of use limitation. I sincerely believe that the public interest will be best served by a clear and unequivocal enunciation by legislation that a field of use licensing policy is within the rights granted to a patent owner. One of the very real values in any property is the right to dispose of the property in a manner which the property owner believes will best serve his own interest, and that a patent should not be treated any differently from any other property. A patent is property just as much as is land, or a house, or an automobile, or other things that we more traditionally think of as property, and it should be clearly recognized and treated accordingly.

With or without the Scott Amendments, a patent owner is free to sell or dispose of his entire interest in a patent. However, without the Scott Amendments, the right of a patent owner to dispose of only a partial interest in his patent through licensing or otherwise, will be questioned by the Department of Justice. It is apparent from the present attitude of the Anti-Trust section of the Justice Department as revealed in their testimony before this Subcommittee, as well as in other published statements that is is dedicated to establishing as illegal any limitation in a patent license agreement which amounts to anything less than the complete right to practice all rights granted to the patent owner.

Field of use limitations in patent licensing are not something new. In one of the more celebrated cases in the entire patent field, that of the General Talking Pictures case, 305 U.S. 124, decided in 1938, a field of limited use was specifically recognized and sanctioned as being within the right of the patent owner. This case is still the law and I believe the best interest of the public will be served if this remains the law.

I do not believe this important area of the patent law should be left to endless litigation at public expense. It seems to me that the right of a patent owner to limit the scope of a grant under his patent to anything he chooses less than all rights thereunder is so important to encourage the licensing of patents that it should not be left to development through the judicial process on a case-by-case basis, but rather should be sanctioned expressly by the Congress through legislation.

For a better understanding of the importance of licensing flexibility with respect to patent rights, as it affects the health of industrial development and international competition, I would like to acquaint the committee with some personal views out of long experience in the chemical industry.

The world leadership that American industry has characteristically displayed during this century is under severe threat by Japanese and European competition. To contain this threat and avoid a serious and possibly permanent decline in our economic health, we must not only continue to innovate vigorously, but above all American industry must apply its inventions as expeditiously and efficiently as possible.

Commercial utility depends not only on the new concept that is the basis of a patent grant. It requires the marketing skills of an experienced industry to bring it into an economically available form for the public user. Substantial capital must be put at risk in order to achieve high production volume and low cost of product. Potential users must learn of the new product and its usefulness to them. Thus the growth of new markets for new products must be nurtured for a term of years, at high cost to the developing company.

It is frequently the case that the innovating company, which through its

contribution to the state of the art has achieved patent ownership, is not ideally suited to accomplishing successful commercialization in the marketplace. Licensing of patents provides a logical way to match the innovative skills of the patent owner, with the necessary applications and marketing skills of a licensee. I believe that the Scott Amendments provide a legal basis for a necessary, flexible licensing policy—a policy which has in fact for many years been actively exercised in the United States, but which has recently come under increased challenge by the Department of Justice's Anti-Trust Division.

Let me explain, from my own experience, what I mean by a flexible licensing policy. The example I wish to give you is one which is facing my company today, and I believe that you will agree with me that this situation points up the need for the Scott Amendments.

In 1954 Hercules entered into an agreement with the owner and inventor of a chemical process invention under which Hercules acquired exclusive rights as to part of this patent monopoly. Hercules acquired the exclusive and sole right to manufacture for sale aluminum trialkyls in the United States under the patents granted on the basic invention. Under the agreement, the owner could license others to manufacture for their own use but with no right to manufacture aluminum trialkyls for commercial sale. This situation poses a question of a limitation in a licensing arrangement under which certain licensees have no rights to resell the product.

In a very extended and hard-fought litigation in the United States District Court in Delaware in a case between the Ethyl Corporation and Hercules, the license conditions were held to be valid and the Court determined that the Ethyl Corporation, who had a right from the patent owner to manufacture aluminum trialkyls for its own use, did not have a right to manufacture aluminum trialkyls for sale to others.

After the decision in the case of the Ethyl Corporation v. Hercules, Hercules was informed that the Justice Department believed that the holding of the United States District Court in Delaware was wrong and the Justice Department would attempt to have the issue relitigated. Last year the government did start a suit in the United States District Court in the District of Columbia on this issue. It is alleged that the licensing practice is illegal and is in violation of the antitrust laws evidently regardless of any rule of reasonableness.

In this instance the patent owner was not in a position to exploit the patent through his own production. Licensing or selling the patent were the only avenues open to him. He chose licensing. It was anticipated that the aluminum trialkyl product would never be more than a specialty product, serving a relatively small market. The product was pyrophoric and required special experience in manufacturing and handling. Under these circumstances the patent owner determined that an exclusive license for manufacture for sale would encourage the exclusive licensee to do the necessary development to bring the invention to the maximum utility which would directly benefit the patent owner. At the same time the patent owner recognized that some users might want to manufacture their own product and he structured his licensing policy accordingly. The current action in the U.S. District Court in the District of Columbia apparently seeks to test this licensing policy again.

I believe that this is as it should be and that the patent owner was clearly within his rights in licensing the patent as he did, and I do not believe that a licensee and a patent owner should be subjected to continuing litigation, nor do I believe it proper for the Justice Department to, in a sense, go forum shopping to hopefully find a forum more favorable. Litigation of this type is very expensive and we believe that the resources available to both the government and to industry can be better utilized for other purposes. More certainty as to what a patent owner can do is desirable, and I believe that the Scott Amendments would provide this certainty while at the same time affording ample protection to both the patent owner and to the public.

In this case, for example, the law would require that the limitation would permit Hercules' reasonableness to secure the patent owner the full benefit of his wishes. This standard is perfectly acceptable and the patent owners should be in a position to defend these reasonablenesses. To establish law that would artificially bar such limitations is not in the public interest.

In my opinion, unless the Scott Amendments are included in the latest patent reform bill before this Subcommittee, we can wake up some day to the complete erosion of the real effects of our patent system and to a different kind of

competitive business atmosphere based not on sharing the results of innovation, by disclourse and availability to others supported by the patent system, but on a system which could impair technological progress.

I thank you for this opportunity to testify and present my views.

Senator McCLELLAN. Does counsel have any questions?

Mr. BRENNAN. No, Mr. Chairman.

Mr. MILLER. Mr. Chairman, may I present Mr. Cole, please, as our next witness.

Mr. COLE. Mr. Chairman, I have filed a statement with a description of some of my expertise in it. I would like to emphasize that my experience is quite different from those of the other speakers. My position has been primarily in medium-size and now in a very small company in a position that is complementary to the position of a company like Hercules.

For 6 years I was president of the Polymer Corp., in Reading, Pa., which is a company that was founded in 1946 from nothing by the founder but his wife's pots and pans in his basement. By 1963 the sales were about $11 million. I took over in 1964 and when I left in 1970 our sales had reached $25 million.

All of the growth of this company was due to internal technological development. Most of it was done as a result of inventions, patentable inventions either made by Polymer people themselves or on the basis of licenses from the great companies like Hercules and DuPont and Monsanto and so on. I would like to mention one specific example of the sort of license under which we operated to demonstrate the importance of the field of use technique to the small and medium-size company, the way in which the developments of the large companies are actually made available to consumers.

Polymer was founded on the use of nylon as a plastic. This is the same nylon that so beautifully encases the legs of our ladies but it also happens to be one of the toughest and most abrasion resistant of all plastics.

At Polymer we made mill shaped rods and plates of nylon which could be sold to machine shops and machine just the way brass or iron or aluminum is machined to make parts, and we also made parts ourselves by a variety of processes. Some of the parts are as small as the tiny gears in a dial telephone, some of them are gears 6 feet in diameter which are used in paper mills.

The nylon that we used is chemically the same as the nylon that is used in textile fibers, and the chemistry of nylon is so complex that no one can afford to do broad scale deep research in this field except the very large companies which are selling hundreds of millions of dollars worth of nylon fibers.

It has been our experience on several occasions, and I will mention one of them explicitly, that we could obtain from the large companies the right to use their technology in our industrial product line provided they were not required to grant licenses to us to compete with them in the textile field.

For example, we searched for a type of nylon that we could use to make the large gears that I have mentioned and other large parts, including parts of diesel locomotives and so on.

Monsanto had developed a process for making nylon that was particularly suitable to this type of production. Although they had

come across it in their research related to textile fibers they granted to us a license in which one field was exclusively granted to us, one field was exclusively retained by them, and the remainder of the scope of the patents in question was nonexclusively licensed to us.

With that license we were able to establish a business with sales of several millions of dollars, with several hundreds of employees in the United States, and were able also to establish plants to practice these inventions abroad because we took the license from Monsanto for the whole world.

In another case we were concerned with the type of nylon called nylon 12, which is not suitable for textile applications but which is very highly desirable in coating applications. There was only one company in the world that was making nylon 12 and that was a European company. We decided to look into the question of manufacturing nylon 12 ourselves in the United States.

Our chemists studied the patent literature just as Dr. Cairns has said. Our chemists also assidously studied the prior art and we had in this case a beautiful example of the way the patent systems works. The chemists produced a chart on a piece of paper about 6 by 8 feet. In the upper left hand corner was the starting material. At the bottom right hand corner was the material we wanted to end up with, which was the precursor to nylon 12.

Covering this chart in different colors were many paths from the starting material to the finishing material and there were three or four steps in each process and at each step there was the name of the patent owner covering the process of going from A to B to C to D.

Then we sat down with the people who owned these patents and in general they were again the textile companies. I recall that one of them was Smia Viscosa. One of the critical steps was covered by a patent owned by Smia Viscosa, which is one of the large Italian textile companies. We were able to piece together a step from this patent owner and a step from that patent owner, and a step from another patent owner, and we ended up with a complete process embodying the result of millions of dollars of research by other people that we could not possibly have mounted notwithstanding the fact that we ourselves spend about $1 million a year on our own R. & D. effort. But we could not possibly have done this on our own. We were only able to succeed without quest because of the fact that the law permitted the grant of field of use licenses. We were able to negotiate with the owners of those patents who were textile manufacturers, licenses to use their technology in our field of coatings on the condition and only because they were able to grant those licenses without granting us licenses to manufacture textile fiber.

If it had not been possible for them to grant licenses of that sort they would not have granted us any licenses at all and we explicitly discussed this in the case of one large company. We said, why do you worry about excluding us from practicing the textile fiber applications of their patents, we are not going to compete with you in the textile fiber business? And they said yes, we worry about it because one of the other large companies might buy you, and if they did then they would have the right to compete with us with our own technology.

They said that for the reason we know you are not going to compete with us but, nevertheless, because we do not know what is going to

happen to you or your company we are going to put that restriction in and we will not grant the license unless we can.

Senator McClellan. They could not risk a competitor buying your company?

Mr. Cole. That is correct. But they could assume that risk provided the license was limited, and did not permit us or our successors to practice their inventions in their own field of textiles.

Now, I gather from the testimony that I have heard here today that the opponents of this legislation say here that they do not oppose field of use licenses per se, but I am afraid that the difficulty is that we in the real world are living with a specter, with the feeling that we are waiting for the other shoe to drop.

We have people like Mr. McLaren and other worthy and sincere proponents of their point of view going about the country making speeches about the direction that they think the law should go in these matters. They say, in effect, to paraphrase a famous statement, "we have no further territorial demands; why are you worried"? And I think we are properly worried because these things continue to progress.

Now, I have been a patent lawyer, I have been a teacher of patent and antitrust law, I am now an entrepreneur, an entrepreneur of the smallest sort. I have bought a small company with my own money and I cannot contemplate a life of such detachment as the lawyers and the professors can contemplate of waiting for these things to be settled on a case by case basis. I do not mean that I will not survive unless these matters are cleared up, but I mean that we will be able to bring inventions to the people more quickly, cheaper, and better if that other shoe is either suspended forever or it is allowed to drop. We do not really care so much as to which side the Congress comes down on. We care the most about having the matter cleared up for once and for all, and I think that when we have the spectacle of two departments of the Government executive unable to decide where they stand on this matter, and the professors and the lawyers unable to decide, that it is an appropriate time for the Congress to come to the rescue of business and say "this is the law."

Thank you very much, sir.

(The statement referred to follows:)

Statemennt of William P. Cole, Owner and President of Rubber Crafters, Inc., Doylestown, Pa.

Mr. Chairman, I am a former patent lawyer, having practiced in Philadelphia from shortly after the end of World War II until 1964, at which time I left the practice to become President of the Polymer Corporation, Reading, Pennsylvania, a manufacturer of industrial plastics.

Polymer is a medium size company having started from scratch in 1946 and having reached $11 million of sales in 1963, just before my joining the company. In 1969, the last full year of my presidency, Polymer's sales were $25 million.

Polymer's growth was entirely internal and was the result of the exploitation of technology to produce, from high performance synthetic materials, plastic parts and components to replace metal industrial parts. The company conducted research and development at the level of about $1 million a year. Polymer operated under patent licenses from a good many large and small companies, and was itself a licensor of several processes developed by Polymer.

I am now the owner of a very small company whose sales are expected to reach the $500,000 mark this year.

It may also be of interest to the Committee to know that I have been for five years a Director and am now Vice President of the Society of the Plastics Industry, which is the trade association of the plastics industry and includes about 1400 members, most of whom are small companies, although the very large companies are also members.

I am here to support Senator Scott's Amendment No. 24 to S. 643 proposing the codification of the patentee's ancient right to restrict licenses granted under his patent to a "field of use", which point is dealt with in Section 261(b)2 and 271(f) of the proposed Amendment.

The growth of the Polymer Corporation from a standing start in 1946 to 25 million of sales in 1969 provides striking illustration of the importance to our economy of preserving, as the Scott Amendments do, the long-standing right of the patentee to grant licenses for a field narrower than the full scope of his patent. The Polymer Corporation's experience further illustrates how such field-of-use licenses make is possible for small companies to exploit inventions of large companies, thereby contributing to their own growth and indirectly to benefit ultimate consumers.

Polymer's business was built upon and today largely rests upon the use of nylon in industrial applications. Nylon is well known to all of us as a synthetic textile fiber. What is not so well known is that the same material which so beautifully encases the legs of our ladies finds application in the form of parts or components in machinery and equipment ranging from tiny gears in dial telephone mechanisms to gears six feet in diameter used in paper factories.

The nylon used in these applications is chemically the same as that used in textiles, and is made by the same chemical processes. The chemistry of these processes is complex, and its investigation is so expensive that only the very large textile companies the Duponts and the Monsantos—can afford to undertake large-scale research in the field.

From time to time Polymer has been faced with the problem of going from a known raw material through a series of complex chemical steps to arrive at a type of nylon useful for a new industrial application.

In a typical—and actual—case, we found that the best way to make very large nylon shapes—such as the large gears mentioned above or parts for diesel locomotives—was by way of certain subtle chemical processes invented and patented by Monsanto. Under the law as it existed then and exists now, Monsanto, although not willing to license us to compete with them in the textile fibers field, was perfectly willing to grant us a license to use its inventions in the industrial parts field. We were thus able to develop a business on a million dollar scale employing hundreds of people. Monsanto, for reasons which appear entirely logical and reasonable, would not have granted that license if the law had required them to couple a license to manufacture textile fibers—which is an important segment of its business—with the license to manufacture industrial parts.

My role at Polymer was that of professional manager of a public company. I am now the owner-manager of a very small company engaged in the manufacture of precision industrial parts from natural and synthetic rubbers. It is my plan to expand that business through technological innovation in materials and processing. A cornerstone of that plan is my ability to obtain from the great chemical companies, and possibly from smaller companies and even independent inventors, the right to use their technology in fields which are not of interest to them. If I am to obtain such rights, the right of the large companies and other patent owners to grant "field of use" licenses must be unequivocal.

Some parties have advocated that if "field-of-use" licenses are to be granted at all they should be permitted on a case-by-case basis rather than as a general rule of law. If the right to grant such licenses is to be determined in such manner, at the risk of having the entire scope of licensed patents taken out of the patent owner's control, there will always be an element of serious doubt whether patent owners will be able or willing to chance granting such licenses to me or to other small companies. The result will be that small businesses will suffer. Small companies and independent inventors who may be in a position and wish to license only certain fields of use covered by their patents will suffer. Consumers, who otherwise stand to benefit by the technological development and commercial exploitation of inventions involved in fields of use which the patent owners may not be interested in developing themselves, will suffer. I therefore urge the adoption of Senator Scott's Amendment No. 24 to settle the law so that field-of-use licenses can be freely granted by patent owners, and obtained by

parties badly in need of rights to use technology that otherwise may go unexploited indefinitely.

Senator McCLELLAN .We will suspend for about 2 minutes.

[A recess was taken.]

Senator McCLELLAN. Mr. Kirkbride, you may proceed.

Dr. KIRKBRIDE. My name is Chalmer G. Kirkbride and I am very happy to be able to appear before your committee today.

I am a chemical engineer by training. I have over 40 years of experience in the field, all of that with the exception of 4 years was in industrial research and development. The 4 years that I was out of that I was teaching at Texas A. & M. as a distinguished professor.

I am here today by invitation of the Philadelphia Patent Law Association, but I want to make it clear that I am appearing as an individual; these statements are my own.

I retired from Sun Oil Co. the first of January 1970. During the course of my more than 40 years of experience in the field of research and development I encountered many cases where it became very important to be able to legally limit the field of use for which a patent might be licensed.

One example which brings out the situation very clearly arose when the Avisun Corp. was being formed. This corporation was a joint venture between the Sun Oil Co. and American Viscose Corp. and it was set up for the purpose of manufacturing polypropylene and derivative products including film fibers and molded products. I personally handled most of the negotiations for Sun Oil Co. in connection with setting up the conditions under which this company would operate. I dealt directly with Dr. Frank Reichel, then chairman of the board and chief executive officer of American Viscose. Sun Oil Co. had certain patents that it was willing to contribute to the field in the sphere of operations of Avisun, which operations centered in the manufacture of polypropylene plastics. However, these patents which Sun Oil Co. had involved the polymerization of polypropylene in a spectrum of molecular weight and the lower molecular weight products provided excellent lubricating oil, whereas the high molecular weight products were excellent plastics.

Sun Oil Co.'s life blood business was in the manufacturing and sale of motor fuels, lubricating oils, and other related products. Hence under no circumstances was Sun Oil interested or willing to convey to Avisun the right to make lubricating oils in competition using Sun's technology.

Sun was quite willing and wanted to convey the rights to manufacture plastics, polypropylene plastics.

Consequently, in the agreement which we reached between Sun Oil Co. and American Viscose Corp. the manufacture of lubricating oil by polymerization of polypropylene was very carefully eliminated from the patent licensing package that was conveyed to Avisun.

If Sun Oil Co. had not been able legally to limit the field of use in this package that it conveyed to Avisun, these patents which covered lubricating oil manufacture, I am certain that the creation of Avisun would not have taken place.

Another example in my experience which is pertinent to this situation deals with the microbiological conversion of petroleum fractions

into a useful compound. Sun Oil Co. spent several million dollars in research dealing with microbiological conversion of hydrocarbons. The objective of this work was to find some microbiological process whereby useful compounds could be convered out of petroleum and these could be marketed economically.

Sun Oil Co. discovered that many of the products that were being produced by these microbes possessed pharmaceutical effectiveness and Sun had no background or expertise in this field nor did Sun have any intent to get into the pharmaceutical business. They had plenty of problems just to stick with their own knitting in the petroleum and chemical field.

Consequently, Sun entered into a contract with one of the large pharmaceutical houses whereby that company would screen these products for pharmaceutical utility. There were literally hundreds of these compounds which were screened by this company and the agreement was that if they found one that was attractive to them from the standpoint of pharmaceutical value, they had the right to manufacture or have it manufactured and to market it.

Sun Oil wanted to retain for its own the use of these compounds in the petroleum and chemical fields. Many of them were very effective as additives both in motor fuels and in lubricating oil.

Sun Oil Co. under no circumstances was willing to convey this to the rights as to field of use pharmaceutical company to compete with Sun Oil in the petroleum and chemical field.

In summary, the thrust of my testimony here is that if the field of use limitations in patent licensing are not permitted, the growth and development of new industries and the consequent creation of new jobs will be stifled. I am, therefore, in favor of the Scott Amendment No. 24 so that the field of use limitations will have the full force and effect of statutory law. The Congress should lay down the guidelines to cover the huge majority of cases and I am sure that the Congress will do this. Then the courts can take up cases on a case-by-case basis that involve misuses of patents.

Thank you very much.

Senator McCLELLAN. Thank you. I gather from your testimony, and this is the thrust of possibly the testimony of all of you particularly in this area, is that the limited license is definitely in the interest of the consuming public.

Dr. KIRKBRIDE. I am positive this is right.

Senator McCLELLAN. Is that the general thrust?

Dr. KIRKBRIDE. Yes, sir.

(The statement referred to follows:)

STATEMENT OF CHALMER G. KIRKBRIDE

My name is Chalmer G. Kirkbride. I am a chemical engineer by training. I received my academic training at the University of Michigan, leaving there in 1930 with a Master of Science degree. I have received three honorary doctorates in science or engineering—one from Beaver College; one from Drexel University; and one from PMC Colleges.

After leaving the University of Michigan, I worked for Standard Oil Company of Indiana until 1943, when I joined the Texas A&M University as a Distinguished Professor in Chemical Engineering. While I was at Texas A&M, I wrote and published, with McGraw-Hill Publishing Company, a textbook entitled, CHEMICAL ENGINEERING FUNDAMENTALS. I taught at Texas A&M until 1947, when I joined the Houdry Process Corporation in Philadelphia as

Manager of Research and Development. In 1952, I became President and Chairman of the Board of the company. I held that position until 1956, when I joined the Sun Oil Company as Executive Director for Research, Patents and Engineering. I later was elected Vice President and a corporate Director of Sun, and held those positions until I retired on January 1, 1970.

During the period when I served with Sun Oil Company, I also participated in the organization, and served as the first President, of the Avisun Corporation. This company was a joint venture of Sun Oil and American Viscose Corporation. The purpose of Avisun was to manufacture polypropylene plastic materials.

In my professional career I also served as a Director of the American Institute of Chemical Engineers for six years, as Vice President for one year, and as its President in 1954. I was elected to membership in the National Academy of Engineering in 1967, and I presently serve on a number of committees of that organization. Recently, I have been engaged in oceanographic consulting work, particularly in the field of ocean engineering. In this connection, I have served on President Nixon's Task Force on Oceanography.

My purpose here today is to support the Amendments proposed by Senator Scott to S–643, the pending legislation intended to revise the patent laws. In particular, I wish to go on record in favor of those provisions, namely, proposed Sections 261(b) (2) and 271(f), which would sanction the continued practice of field-of-use licensing by patent owners.

During the course of my experience, particularly with the Houdry Process Corporation and Sun Oil Company, I had many cases where it became very important for the companies to be able, legally, to limit the field of use for which certain of their patents might be licensed. One example which brings out the situation very clearly arose when the Avisun Corporation was being formed. I had a great deal to do with the negotiations of the conditions under which that corporation was formed, dealing directly with Dr. Frank Reichel, the Chairman of the Board and chief executive officer of American Viscose. Sun Oil Company had certain patents that it was willing to contribute to the field of operation of Avisun, which operation centered on the manufacture of polypropylene plastic and other products such as film, fibers, and molded products. However, these patents which Sun wished to contribute to this end also covered the manufacture of polymers that were useful in the manufacture of lubricating oils as opposed to plastics.

Sun Oil Company's lifeblood business was in the manufacture and sale of motor fuels, lubricating oils and other related products. Hence, under no circumstances did Sun Oil Company wish to convey to Avisun Corporation the right to manufacture high-quality synthetic lubricating oil by polymerization of propylene. Consequently, in the agreement which was reached between Sun Oil Company and American Viscose, the manufacture of lubricating oil by polymerization of propylene was eliminated from the patent licensing package that was conveyed to Avisun. If Sun Oil Company had not been able legally to limit the field of use in the package that it conveyed to Avisun as it did, these patents which covered both lubricating oil and plastics would not have been in the package conveyed to Avisun Corporation, and in all probability Avisun Corporation might not have been formed.

Another example that happened in my experience at Sun Oil Company deals with the microbiological conversion of petroleum fractions into useful compounds. Sun Oil Company spent several million dollars in research dealing with microbiological conversion of hydrocarbons. The objective of this work was to find some microbiological process whereby useful compounds in the petroleum or chemical fields could be produced and marketed economically.

Sun Oil Company discovered that many of the product compounds had potential pharmaceutical effectiveness. Sun had no background or expertise in this field, nor did it have a desire to enter the pharmaceutical business as it had plenty of problems to occupy its full attention in the petroleum and chemical fields. Consequently, Sun entered into a contract with one of the pharmaceutical houses, whereby that company would screen these product compounds for pharmaceutical utility.

There were literally hundreds of compounds which were screened by this company. If it found one which had sufficient pharmaceutical value, and which could be manufactured and marketed profitably, it wanted the right to manufacture, or have manufactured, this product for purposes confined to the pharmaceutical field. Sun Oil Company wanted to retain for itself only the use of these compounds in the petroleum field, and there was plenty of opportunity for use in

this field in the area of lubricating oil and gasoline additives. Had it not been possible legally to set up a contract relationship, as was done with this pharmaceutical house, and limit the rights that the pharmaceutical company would have to the pharmaceutical area, Sun Oil Company in all probability would never have considered such a contract with the pharmaceutical house. Sun Oil Company definitely would not agree to an arrangement that would have given the pharmaceutical company rights to use Sun's patents in the petroleum and chemical fields.

Summing up, the thrust of my testimony here is that, if field-of-use limitations in patent licensing are not permitted, the growth and development of new industries, and the consequent creation of new jobs, will be stifled. Since there appears to be some attempts by certain Federal agencies concerned with enforcement of our antitrust laws to curtail or eliminate field-of-use licensing, I submit that it is imperative for the Congress to act favorably on Scott Amendment No. 24 so that field-of-use limitations will have the full force and effect of statutory law.

THE PHILADELPHIA PATENT LAW ASSOCIATION,
Philadelphia, Pa., June 11, 1971.

Hon. JOHN L. MCCLELLAN,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MCCLELLAN: The Philadelphia Patent Law Association and the Panel which testified on its behalf were privileged and honored to have presented their position with respect to the Scott Amendments before your Sub-Committee on Patents, Trademarks and Copyrights on the afternoon of May 12, 1971.

Professor Turner of Harvard University testified before you on the morning of May 12th and introduced a proposed amendment to Section 271 (f). At the conclusion of our testimony our Panel was asked by your Thomas C. Brennan, Esq. to submit our reply outlining our position with respect to Professor Turner's proposals.

We are pleased to enclose our reply herewith. It carries the unanimous endorsement of the Committee on Anti-Trust law and of the Board of Governors of the Philadelphia Patent Law Association.

Respectfully submitted.

AUSTIN R. MILLER,
President
(On behalf of the panel).

REPLY OF THE PANEL OF PHILADELPHIA AREA WITNESSES

At the hearing before the Senate Sub-Committee on May 12, 1971 Professor Turner introduced a proposed amendment to Section 271 (f) which reads as follows:

"No patent owner shall be guilty of misuse or illegal extension of patent rights solely because he licenses less than all of the rights which might be licensed under his patent, including rights to less than all of the territory, patent term, or uses which might be licensed. Provided, however, that it shall be deemed to be a misuse for any patent owner—

(1) to require a licensee to adhere to any price on any product sold or otherwise disposed of by the licensee;

"(2) to limit directly or indirectly, in a license to sell, the quantity of any goods that may be sold or otherwise disposed of by a licensee;

"(3) to require a licensee to assign to the patent owner, or grant to the patent owner an exclusive license under, any patents subsequently obtained by the licensee;

"(4) to require a licensee to agree not to contest the validity of any licensed claim or patent;

"(5) where the patent owner has granted a license, or waived rights, with an express or implied restriction as to the use or as to the territory within which the licensed or waived rights may be exercised, to refuse to grant a license, or waive rights, on comparable terms to any qualified applicant therefor, unless the patentee can show that the granting of an exclusive license, or waiver, for a reasonable period was or is necessary to obtain commercial exploitation of the

use or territory in question; *provided* further, however, that this subsection (5) shall not be construed to obligate a manufacturing patent owner to grant additional licenses for the use or territory in which he is presently engaged."

(Subparagraphs (1), (2), (3) and (5) should also be made violations of the antitrust laws, except that violations of subparagraphs (5) should probably not be subject to private right of action.)

TURNER'S SECTION 271(f) (1)

We are in agreement with this proposal to the extent that it applies to only non-exclusive licenses; we believe this is the present law, and properly so.

TURNER'S SECTION 271(f) (2)

We are strongly opposed to this proposed Section, which would declare it a misuse for the patent licensor to limit the quantity of goods permitted to be sold by his licensee. It is our position that one who owns the entire patent should be free to practice the invention himself without licensing anyone, or to license all of it or any part of it. If the patent owner wishes to practice the invention himself to some limited extent, and wishes to license another to practice the invention too, he should have the right to limit the number of articles to be produced by his licensee so that he can still profit from his practice of his own invention during the limited period of the lawful monopoly granted by the United States Government as provided for in the Constitution of the United States. We think the right to license is one of the major incentives to the making and commercial exploitation of inventions by the patent system. We are aware of many situations where it is of vital benefit to the licensee as well as to the licensor to limit the licensee's activity under the license, particularly under conditions where it would otherwise be poor business judgment for the patent owner to grant any license at all. Yet, in each instance where such limited licenses are granted, not only do the licensor and licensee benefit but the public benefits in receiving the product output of the licensee in addition to the productivity of the licensor.

We think the owner of a patent should have the right to practice the invention or not, and to decide whether to allow a licensee to practice the invention in his shoes. By analogy, the owner of land can license a farmer to graze his cows on this land, and can validly restrict the number of cows permitted to graze. And all of this is in the public interest; the landowner and the farmer both prosper and the public gets the milk. The owner of the land had the right to prohibit any such grazing at all if he had wanted to, so the license—even with its restriction—was beneficial to all concerned. We think this is the law and trust it will remain so with respect to all kinds of property, whether land or patents, as long as this country remains on in which the right to private property is fundamental to the form of government under which we exist.

TURNER'S SECTION 271(f) (3)

This proposed amendment states, in essence, that it shall be deemed to be a misuse for the patent owner to require the licensee to assign his improvement patents, or to grant exclusive licenses thereunder to the patent owner. We favor a policy of encouraging invention and the licensing of invention, and are in favor of the proposed amendent. It seems to us that in many cases it will be to the interest of the licensor and of the public to encourage the licensee to invent. We think there will be little or no incentive to the licensee to make improvements on the licensed inventions if he is required to assign or to license exclusively the improvements to the licensor. Similarly, we think many prospective licensees would refuse to accept the license if such a provision were included, and this would undesirably limit the use of the invention offered for license.

TURNER'S SECTION 271(f) (4)

As we have stated formally in your committee hearings, we disagree strongly with the law created by the United States Supreme Court in the Lear-Adkins case, permitting the licensee to accept a license, then deliberately to breach his covenant to pay royalties and instead attack the validity of the patent or patents constituting the licensed subject matter.

The Philadelphia Patent Law Association has, through its entire membership, taken an official position supporting Scott Amendments 23 and 24. There is an

extremely strong consensus, also, as to the need for legislative action in this field.

Further, we refer with particular emphasis to the testimony of Walter W. Beachboard on May 12, 1971 (Transcript, pages 207–210) which points out the extreme hardship on the inventor that has been caused by the Lear-Adkins decision.

Mr. Beachboard's testimony has also vividly pointed out the confusion with which his company has been confronted as a result of the Lear-Adkins decision. Mr. Beachboard, speaking for a major pharmaceutical company, emphasized the lack of mutuality that exists when the licensee can simply invest in time deposits monies due as royalties to the licensor, use the interest to pay the lawyers, and take a free shot at the patent. Even if the licensee loses the suit he has lost nothing, because under Lear v. Adkins he may then simply pay over the royalties he had already agree to pay, and continue on as a licensee. This, we submit, is so grossly unfair as to inhibit seriously the granting of licenses in the future—unless the situation is relieved by the enactment of the Scott Amendments into law.

As Mr. Beachboard has stated (Transcript, pages 211, 212) Court cases are definitely not the answer to Lear v. Adkins. That case itself required ten years from its inception to the time the decision was handed down, and the decision itself raised a host of other problems. We think legislation is urgently needed, now.

We think the question whether a provision shall be included in the license, in which the licensee agrees not to contest the validity of the patent, should be left as a matter for specific bargaining between the parties. If the licensee decides to agree to estop himself, he can nevertheless protect himself in advance by making a very careful search before he signs the agreement, thus satisfying himself as to the validity of the patent or patents involved. We have observed that it is detrimental to the conduct of business to permit a licensee to enter into a license agreement which the licensee can then disavow after the agreement has been executed. The licensee could then attack the validity of the patent, but could nonetheless again rely upon the existence of the license agreement in the event that the patent should later be held to be valid.

We think there is mutuality in the Scott Amendment §261(f) but no mutuality in Professor Turner's proposed amendment. Under the Scott Amendment the licensee may contest the licensed patent's validity but must also give written notice that he unconditionally renounces all future benefit from the license and must also pay royalties due until that renunciation. In contrast, under the Turner proposal the licensee has everything to gain and nothing to lose by trying to invalidate the patent. The licensor can gain nothing but might lose everything. Under these conditions many companies have already refused to grant licenses in situations where licenses would otherwise have been granted.

We are of the opinion that it is contrary to the public interest to encourage licensees to attack the validity of the licensed patent. Even if the one particular licensee does not attack the validity of the patent, any of the other two hundred million members of the United States public, when accused of infringement, can still do so. Therefore, we think we do not need any special law permitting the licensee to breach his agreement and attack the validity of the patent.

Further, we think there is a public interest in having patents licensed and exploited by licensees for the public benefit; under Professor Turner's theory (and under the law as decided in Lear v. Adkins) the patent owner is strongly induced *not* to grant any licenses because of the almost complete lack of mutuality. The refusal to grant licenses tends to result in more monopoly, not less. Certainly the licensing of patents would be, and is, discouraged.

TURNER'S SECTION 271(f)(5)

This section, proposed by Professor Turner, would declare it to be a misuse to refuse to grant a license on comparable terms to any qualified applicant by any patent owner where the license includes restrictions as to (a) the use permissible by the licensee or (b) as to the territory within which the licensee may sell. The proposed exceptions are that the patent owner show that an exclusive license for a reasonable period was necessary to the commercial exploitation of the invention and that the patent owner, if manufacturing, need not grant additional licenses in the territory in which he is manufacturing or selling.

We are opposed in principle to the application of limitations to the right of the patent owner to limit the scope of the license that he grants, either territorially or as to type of use.

We are particularly opposed to a limitation which, in effect, imposes compulsory licensing on a patent owner who has agred with one license to grant a license containing territory or use restrictions. Such a provision, we believe, would work contrary to the public interest, and would have an anti-competitive effect, in that it would discourage, rather than encourage the licensing of inventions.

Territorial restrictions, as we understand the present statutory and case law, are permitted. We think the public policy of encouraging licensing of inventions has been and should be encouraged by permitting licensees to accept and licensors to grant territorially limited licenses, and to have such license provisions specifically declared by Statute to be valid and enforceable.

Similarly with respect to limitations on field of use, we are aware of no valid reason to impose upon the licensor's freedom to license all or any part of his patent monopoly. We refer with particular emphasis to the testimony presented by our witnesses Beachboard, Cairns, Cole and Kirkbride on May 12, 1971 (Transcript, pages 207–229). These witnesses presented real examples, taken from the real world in which they are daily faced with the real problems of transacting real business, proving why it is in the public interest to allow both the licensor and the licensee freedom to agree to restrict the license to a certain specified field of use. It is apparent to us that, if Professor Turner's unrealistic theories were to be enacted into law, many of today's major licensors would be in many cases simply refuse to grant the license—and this would ultimately be detrimental to the public.

We appreciate the opportunity to file this statement before you and your committee.

Respectfully submitted.

THE PHILADELPHIA PATENT LAW ASSOCIATION,

BY AUSTIN R. MILLER,

President.

Senator MCCLELLAN. Very well. Any questions?

Mr. BRENNAN. I would like to ask the panel to submit for the record, their comments on Professor Turner's amendment that was offered at this morning's session.

Senator MCCLELLAN. Senator Burdick has consented to preside the rest of the afternoon. I have to leave for other duties.

I want to thank all of those of you who have appeared.

There are two witnesses, Senator. If you will hear them, it will be an accommodation to them and to me, so they will not have to come back, and we thank all who have appeared.

Senator Hart is scheduled to preside tomorrow. I think there are five witnesses scheduled.

Mr. BRENNAN. Yes, that will conclude the hearings.

Senator MCCLELLAN. The five witnesses scheduled for tomorrow will be heard by Senator Hart. Other members may be present. That will conclude these hearings, and I hope it will be the conclusion of the hearings on the Scott amendments. How much time can we give those who may want to submit additional statements?

[Discussion off the record.]

Senator MCCLELLAN. We are trying to determine how much time we might allow. I think it will not affect the expedition of the committee's consideration if we give you until the first of June. Those of you who want to submit supplemental statements to the testimony you have given, we will hold the record open up until that time.

Very well, Senator, I would appreciate it if you would take over.

Mr. MILLER. Thank you very much for permitting us to appear.

Senator BURDICK (now presiding). Mr. French, president of the American Patent Law Association, is the next witness.

STATEMENT OF NATHANIEL R. FRENCH, PRESIDENT OF THE AMERICAN PATENT LAW ASSOCIATION, ACCOMPANIED BY THOMAS F. FISHER AND GEORGE W. WHITNEY

Mr. FRENCH. I am Nathaniel R. French of Dayton, Ohio. I have been practicing in the field of patent law for more than 30 years.

On my left is Thomas F. Fisher of Cleveland; on my right George W. Whitney of New York, both of them, like me, lawyers in private practice, specializing in the field of patent law.

I am speaking here as president of the American Patent Law Association. What I would like to do is to highlight the position of the association using as the base of my remarks the statement which we filed earlier this afternoon, and which was completed this morning and is not necessarily the most finished statement that we could produce under a rather tight time schedule. I, therefore, ask leave to supplement my testimony with a more extensive written statement for printing in the record.

Senator BURDICK. Without objection, your statement will be made part of the record.

Mr. FRENCH. The American Patent Law Association presently has a membership of about 3,800 laywers from all over the country. In our practice most of us find ourselves alternatively involved in both the granting and the accepting of license rights and in the consideration of the full range of patent-antitrust problems.

Mr. Fisher is a member of our board of managers and for, I think, about at least 6 years before coming on the Board this year, he was either the chairman or subcommittee chairman of our committee on antitrust and he is presently the board liaison member to this committee.

Mr. Whitney is presently chairman of our committee on patent law and he has held that position or a subcommittee chairman in that committee for upwards of half a dozen years.

The position I would like to state briefly here has been evolved after extensive consideration by both of the committees I have just mentioned, culminating in our stated meeting in Los Angeles on Thursday and Friday of last week. Mr. Whitney attended the board meeting in order to report the recommendations of his committee, and those recommendations were adopted unanimously by the board of managers on Friday afternoon of last week. This explains, I think, some of our difficulty in having the finished position that we can give to you in writing today.

Because of our unique positions as advocates on a day-to-day basis for parties on both sides of patent-antitrust problems, we think it is essential that the law be as clear as is feasible, that it protect the viability of the patent systems incentives to competition in R. & D. and to progress of the arts resulting from new inventions, and that it also protect the public interest in competition in already existing products.

We are gravely concerned by the constantly increasing body of evidence that it is not enough to rely on case law for this protection.

Turning to amendment No. 24 of the Scott amendments, I am authorized to state here that the American Patent Law Association continues its strong endorsement and support of that amendment. It is our firm belief that there is a clear and present need for legislative confirmation of the principles set forth in that amendment.

The right to grant licenses has long been recognized by the case law, but it has never been a statutory right. That principle is clearly defined in recommendation XII of the President's Commission in 1966, especially made part of the legislative history in its entirety by Senator Scott's introductory remarks in the Congressional Record for the Senate on March 19, 1971.

We believe that the principles of amendment 24 should be confirmed by statute after hearings such as these where all points of view, public and private, can be considered. We think this is far superior to a case-by-case development where necessarily only the points of view of the two litigants on the narrow facts of a specific case are considered.

I am reminded here of the old adage that bad facts lead to bad law, and this seems to have been the development of the antitrust law as it has affected patent law in recent years.

The case-by-case method is also extremely costly, which makes it especially difficult for the private inventor and small business. In this respect we fully agree with the position of the Antitrust Division as expressed by one of its attorneys, Neil E. Roberts, in connection with proposed amendments to the Bank Merger Act. In volume 56 for March 30, 1971, of the BNA Antitrust and Trade Regulation Report, Mr. Roberts is quoted as saying, "A stubborn step-by-step development of the law in the courts, each step taking years and costing private parties as well as the Government a great deal of time and money, would not serve our interests any more than those of the other party involved."

We find it anomalous that while the Department of Justice apparently considers the case-by-case approach to be inappropriate in the bank merger field, it takes an entirely different view in the patent field. Statements by the Justice Department as to areas in which test cases are being sought have the effect of de facto law and usurp the functions of both Congress and the courts in that patent owners, in the hope of avoiding the vagaries and expenses of test cases, refuse to adopt perfectly proper, lawful and economically desirable courses of conduct simply to avoid establishing a factual situation which might give rise to a test case.

The recent pronouncements on field of use licensing are a typical case in point. We think that field of use licenses, where they are reasonable, permit a patentee to license a series of small manufacturers doing business in diverse fields, assisting them to gain access to improvements in their respective fields, in contrast to the other alternative of the patentee, which is to license a large multimarket conglomerate.

Mr. Chairman, just before you came this afternoon, we had a very graphic illustration of the importance of field of use licensing explained by one of the witnesses directly representing such a case.

I am also reminded at this point from my personal experience of the case of Polaroid Corp., which a witness this morning cited as a company which did not need the Scott amendments to grow. I have some personal experience with Polaroid. I spent 5 years with them before returning to private practice. I was there in the early days before the Land camera was developed, and while Polaroid today, I think, is perhaps a prime example of how a company can grow on the basis of utilizing its own patents, my recollection from my ancient history is that Polaroid stayed in business long enough to get going by reason of the field of use licenses that it granted as far back as the thirties. The first one was a license to Eastman to make camera filters, and for most of the years that I was there, which began prior to World War II, the great bulk of its income came from a field of use license in the sunglass field.

Now, from that start they went on to stand on their own but I think it was a poor example that this morning's witness picked.

Another problem that we run into with patent licenses is that they are often agreements which will extend over a relatively long period of time. We think it is very unfair for a patentee to find that he has rendered his patent unenforceable or in fact, he may even have committed a crime, because he entered into an agreement which was proper at the time when he made it but which through evolution of the law became improper.

The right of a licensee to contest the validity of the licensed patent, as enunciated in *Lear* v. *Adkins*, 395 U.S. 653, we think certainly implied that the licensee could contest the validity while he retained his license. We think that result would be inequitable and improper because the law favors settlement, and *Lear* makes it impossible to settle patent litigation finally.

The effect of *Lear*, we think, is a presumption of patent invalidity rather than validity if a licensee is to be permitted to maintain his license agreement while challenging validity.

He can, therefore, refuse to pay royalties until the patent is proved valid rather than continuing to pay until he proves the patent invalid.

Scott amendment 24 will force a licensee to take a choice between operating under his license and litigating, rather than taking a license which he can treat as an insurance policy against damages for infringement in excess of the statutory minimum or an injunction.

He can in effect, institute suit to challenge validity while he retains his insurance policy but does not pay policy premiums on it, which would be the royalties under the license.

We agree with the position stated by Mr. McLaren yesterday that the proper scope of *Lear* should prevent free ride insuranae policies, but we respectfully disagree with his views as to what the cases following *Lear* will hold. Legislation is needed to limit the licensee's right to contest validity to a time after the contract has been repudiated.

One further comment I have on amendment 24 derives from Mr. McLaren's statement yesterday that, and I quote, "Living with the narrow area of uncertainty which exists is far preferable to doing away with certain long-established rules designed to protect the public and our competitive system."

I note that he admits the existence of uncertainty, which obviously could be cured by legislation, but he then refers to doing away with what he calls certain long-established rules. He did not identify them.

In fact, in answer to a question yesterday Mr. McLaren frankly admitted that he knew of no case which would be directly overruled by the Scott amendments.

As a final comment on amendment 24, may I say that while the purpose of these hearings and my comments today is to treat principles and not specifics, I think it important to note that the simple introduction of the word "merely" in the various subsections of proposed section 271 would obviate to a very large extent the objections to amendment 24 discussed at length yesterday by Mr. McLaren.

In approaching Scott Amendment 23, I find it very difficult to improve in any way on the discussion which was part of the remarks of Senator Scott in originally introducing amendment 23, in which he pointed out that this legislation is needed, and I quote: "In view of recent judicial decisions which cast a shadow of doubt on the propriety of entering into contracts for the protection of trade secrets, technical know-how and the like, and which suggest that such private contracts are preempted by the patent laws."

We agree with Mr. McLaren that in reversing the district court in the yet unreported case of *Painton* v. *Bourns*, the Second Circuit Court of Appeals properly enunciated this aspect of the law of trade secrets, and I believe I heard Professor Turner say essentially the same thing here this morning. For the guidance of other circuits, however, the law as set forth in this decision should be codified in order that the concurring dissent of *Lear* will not again he followed by a lower court. We should avoid further decisions in which a court which lacks any clearly definitive statutory base and without benefit of brief or argument, as in *Painton*, reaches a decision of which the defendant was, in the words of the Second Circuit, "the unexpected beneficiary."

In a statement yesterday Mr. McLaren characterized amendment 23 and section 301 as drawing into question the holdings in *Sears* and *Compco*. We could not agree less. In our view, section 301 and amendment 23 in fact constitute consumer protection legislation in that they prevent the decisions in *Sears* and *Compco* from being misinterpreted to permit the copying of unpatented subject matter in such way as to result in the confusion and detriment of the public.

Another example of the need for legislation to clarify this presumption doctrine is provided by a decision published only this week and which actually did not come into my hands until the luncheon recess today. It is the decision of the Seventh District Court of Appeals in *Bailey* v. *Logan Square*, not yet published in the Federal Reporter but published at 169 U.S.P.Q. 322.

In that case the seventh circuit directly considered *Sears*, *Compco*, *Lear*, and *INS* v. *The Associated Press* in a case which involved the copying of specific alphabet styles used in printing.

The court remanded the case to the State court from which it had been removed for trial under State law.

Well, that leaves nine circuits in which the law has not yet been established. Must the public and the Government go on to continue to

spend time and money over the next 5 to 15 years to clarify this issue for the other nine circuits?

Again, I say now is the time to act legislatively to remove this needless uncertainty.

Turning to section 6 of S. 643, the provision to repeal the compulsory licensing section of the Clean Air Act, the American Patent Law Association strongly endorses this legislation. Our Committee on Patent Law, by an overwhelming vote, recommended to the board of managers a resolution strongly supporting this section and the board of managers approved without dissent. Our association originally vigorously opposed the proposed section 309 of the Clean Air bill in the 91st Congress. That proposed section was not enacted but the substitute section 308 was adopted by the Senate-House Conference. Section 308 was then enacted into law at the very end of the last session of the 91st Congress. Neither proposed section 309 nor actual section 308 had the benefit of public hearings or of considerations by this subcommittee or any other appropriate legislative committee.

In a letter written November 17, 1970 to the Senate-House conferees, the Secretary of Health, Education and Welfare opposed enactment of section 309. In that letter the Secretary specifically suggested that if in the future a situation should arise where refusal to make technology available threatened the antipollution effort, the Congress could legislate at that time. This is precisely the approach taken in proposed section 6.

Yesterday Mr. McLaren—and I believe it was also Mr. Clark this morning—both opposed this section and advocated compulsory licensing. We could not be in more direct disagreement and for basic practical reasons.

Let me illustrate first from my own experience. A major client some years ago had a president who did not approve of his company spending any money on R. & D. His attitude was "Let company B develop it and then we can always take a license." Well, it has been 25 years since that president retired and since his philosophy was overturned, and that company is still a major client of my firm and it is still far from catching up with company B.

When we transpose that bit of history into a field or an industry where compulsory licensing is available, who will do the research for that industry? What will be the incentive to risk the expense of R. & D.?

I very much fear that those who have appeared here as proponents of compulsory licensing suffer from the same disadvantage as most of the opponents of the Scott amendments, they are long on philosophical theory but lacking in practical experience. The simple fact is that if only one company is doing R. & D. for an industry, the results are necessarily meager as compared to what could have evolved from competitive research.

What the proponents of compulsory licensing and the opponents of the Scott amendments overlook is that competitive R. & D. may well be the highest form of competition, offering the best potential of benefits to the public and offering also the potential of maximum advance of the technology in that art or field.

Before moving on from the general subject of S. 643 I want to note that about one-third of Mr. McLaren's testimony yesterday involved

other portions of S. 643 which we had understood were not on the schedule for these hearings. We, therefore, will make no attempt to comment specifically on them at this time but we would appreciate the opportunity to do so, after appropriate study, in our detailed statement along with whatever comments seem to be in order with respect to objections he raised to the Scott amendments.

One point Mr. McLaren made, however, seemed of considerable interest to the chairman yesterday and it was repeated this morning by another witness. I refer to what Mr. McLaren identified as the "dilution of the oath requirements under the present code."

I would like to address myself to that point for a moment in the hope that it may lead to clarification.

Quite frankly, Mr. Chairman, my associates and I have been unable to fathom what Mr. McLaren or the other witness had in mind. Mr. McLaren noted specifically his oppositions to sections 111 and 251 of S. 643. There is no reference to an oath in section 111 but section 115 specifically requires that an oath of the applicant be filed before payment of the issue fee. Actually, that requirement is a little more strict than the one Mr. McLaren was urging should be in the law yesterday.

Section 251 is the reissue section. It does provide that the oath prescribed by section 115 is not required for a narrowed reissue. The reason is obvious. Such an oath is already of record and a second would be redundant.

It did occur to us that Mr. McLaren's position might in fact be an objection to section 111 because of the provision in that section for filing a patent application by an applicant other than an inventor, but that provision has been in every bill proposing revision of the patent laws since it was recommended by the President's Commission in 1966. I believe it has had the full support of all of the bar associations. It does seem rather late to object to it now if that is the basis for the objection by the Antitrust Division to section 111.

Turning to the bill proposing increases in Patent Office fees, the position of our association is that further study of the question by this committee might prove very helpful.

The testimony yesterday of former Commissioner Brenner as to the percentage of the Patent Office budget which is expended in connection with the examination of patent and trademark applications and the amount attributable to services provided to the public appeared to differ from the position expressed during yesterday's hearings by the spokesman for the Commerce Department.

Our association would like to see further study of this matter on the principle that the fees collected should bear an appropriate correlation to the cost of the services on materials received by a person paying a fee and that appropriate consideration also be given to those services provided by the Patent Office which are of primary public rather than private benefit.

The only other proposed legislation on which I am prepared to state a position of APLA at this time is S. 1252 relating to inventors' certificates. We support that legislation.

Thank you, Mr. Chairman.

Mr. BRENNAN. Could you furnish for the record your analysis of how the cost of the Patent Office should be shared by the public and the patentee?

Mr. FRENCH. It may take a little while but we will do our best.

Mr. BRENNAN. How long do you mean by "a little while"?

Mr. FRENCH. We have not had any committee actively studying that in some time. We do not have a formal position, therefore, that I am not in position——

Mr. BRENNAN. I appreciate that.

Mr. FRENCH. I do not have back-up material available nor do we have it readily available.

Mr. BRENNAN. You could not comment upon the Administration judgment of 80 percent?

Mr. FRENCH. I am not going to comment off the cuff. How soon would it be helpful for the committee for us to do it?

Mr. BRENNAN. I would assume based upon the chairman closing the record by June 1, I would like to have this early in June.

Mr. FRENCH. We will do the absolute best we can to do it and to meet your time schedule.

Mr. BRENNAN. Let me ask you another question on fees. If the committee accepts the administration analysis that 80 percent is a fair rate of recovery, would you, speaking personally, not as president of APLA, possibly see some merit in reconsidering the question of maintenance fees or deferred payment of a portion of the patent fee?

Mr. FRENCH. Speaking personally, and strictly personally, I have never been persuaded that maintenance fees were so awful a prospect as many other patent lawyers have been. I can see arguments that can be made in their favor which to me carry more weight than many of the arguments I have heard against them.

Mr. BRENNAN. I detect a certain shift since 1965 on the part of both the bar and industry.

Mr. FRENCH. Again, I am not representing a shift in the bar, I may be representing a shift in Nat French, but that position has really not changed. I held the same position when the matter of maintenance fees was such a hot topic for a fight back 5 or 6 years ago.

Mr. BRENNAN. Thank you.

Senator BURDICK. You say a shift in the belief of the illustrious practitioner?

Mr. FRENCH. I could not quite hear you.

Senator BURDICK. You say it is a shift in the opinion of the illustrious practitioner, meaning you?

Mr. FRENCH. Really, no. I was more inclined to favor them as something I felt was not unreasonable when that matter was discussed before but I was distinctly in the minority at that time and I have not taken any soundings since that time.

Senator BURDICK. Well, it is fair to say you see merit in the maintenance fee propositions, some?

Mr. FRENCH. My personal feeling is that I can see merit in something that causes someone who clearly has benefited from the patent he is holding, or is in a position to determine whether he has benefited, in being given the opportunity of paying additional sums, after

the patentee has had some chance to profit, for the purpose of continuing these benefits.

Senator BURDICK. Well, thank you for your contribution today.

(The statements and subsequent submissions follow:)

SUPPLEMENTAL STATEMENT OF NATHANIEL R. FRENCH, PRESIDENT, AMERICAN PATENT LAW ASSOCIATION

I am Nathaniel R. French of the law firm of Marechal, Biebel, French & Bugg of Dayton, Ohio. I am submitting this written statement as President of the American Patent Law Association to supplement my testimony in the same capacity before this Subcommittee on May 12, 1971, by setting forth in more detail the basis for the strong endorsement by the American Patent Law Association of Scott Amendments 23 and 24 of S. 643 and Section 6 of S. 643.

In the interests of brevity at the Hearing, my oral testimony was predicated on the assumption that the content of the legislation under consideration was already well known, and that no analysis of its provisions was therefore necessary. In the interests of completeness in this statement, it is my intention to incorporate concise summaries of the facts of the proposed legislation, with the hope of simplifying the issues under consideration.

In the course of the Hearings on May 11–13, 1971 before this Subcommittee, Admendments 23 and 24 and Section 6 were strongly endorsed and supported by many witnesses, but were opposed in varying degree and at considerable length by other witnesses. Some of that opposition was based on misinformation, exaggeration, misrepresentation and misinterpretation of extensive scope as to the purpose and effect of these proposed statutory provisions. It is therefore also my intention to point out in this statement some of the fallacies underlying the arguments of the opponents of this legislation.

At the outset, general statements can be made with respect to the testimony as a whole:

1. The opponents of the Scott Amendments testified at length on specifics, but with notably few exceptions, they did not address themselves to the stated purpose of the hearings, i.e. to discuss the amendments in principle.
2. The dichotomy of views represented by the Departments of Justice and Commerce in itself demonstrates the need for legislation.
3. The need for this legislation is further demonstrated by the divergent views expressed by its opponents; myriad specific objections were advanced, but there was by no means unanimity as to either the reasons for those objections or the specifics as to which they were voiced.

As in my oral testimony, the following discussion will concentrate on the principles involved in the legislation under consideration, and will consider specific language only when it is particularly germane. At the same time, since much of the testimony of the opponents of this legislation was directed to specific language rather than to principle, I assure the Subcommitte that our Association will be happy to contribute whatever help it can, in the form of professional manpower, to the development of improved statutory language incorporating the principles of the proposed legislation.

SCOTT AMENDMENT 24—SECTION 261

Scott Amendment 24 is concerned with the nature of patent rights and the licensing of such rights. It comprises two main parts, the first being directed to Section 261 of S. 643, and the second being directed to Section 271 of S. 643.

The first of these parts of Amendment 24 comprises two subdivisions. The first would rewrite subsection 261(b), and the second would add new subsections 261(e) and 261(f).

The purpose of proposed subsection 261(b) is to clarify the transferable and licensable nature of patent rights, and it comprises two paragraphs. Paragraph (1) differs slightly from present 261(b) of S. 643, which is in turn identical with the second paragraph of current 35 USC 261(b). This relationship is shown by the following copy in which the words to be deleted from the current statute are in brackets and the words not now in the current statute are italic:

"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] , *and in like manner exclusive rights under applications for patent and patents may be conveyed for* the whole or any [specified] part of the United States."

We agree with the position of the Department of Commerce, in its letter of May 10, 1971 to the Chairman of the Senate Committee on the Judiciary, that the effect of these amendments is merely to rephrase the first two sentences of the current statute without changing their meaning. I heard, or have read, the testimony of all of the witnesses who opposed the Scott Amendments, and I have found no indication of any objection to either the language or principle of paragraph (1) of proposed subsection 261(b).

FIELD OF USE LICENSING

Where paragraph (1) of proposed subsection 261(b) deals with assignment, paragraph (2) would codify the long-recognized right of a patent owner to grant a limited license; that is, to license less than his total patent rights, either exclusively or non-exclusively, to a party or parties of his choice:

"(2) An applicant, patentee, or his legal representative may also, at his election, waive or grant, by license or otherwise, the whole or any part of his rights under a patent or patent application and for the whole or any part of the United States, by exclusive or nonexclusive arrangement with a party or parties of his selection."

We agree with the position of the Department of Commerce, in the same letter to Senator Eastland noted above, that this provision does not and is not intended to make a limited license legal when other provisions in the license or other circumstances would render it illegal.

There is ample evidence in the record of the important part which "field of use" licensing has played in the development of American industry, and especially in the development of relatively small businesses. The testimony of William P. Cole was especially convincing as he traced the building of his former company, Polymer Corporation, with the aid of a series of limited licenses. The purpose of paragraph (2) is to make it certain that these advantages of limited licenses will continue to be available to growing businesses throughout the United States.

The objections to paragraph (2) by witnesses at the Hearings were generally based upon the proposition that this paragraph would necessarily make legal a variety of licensing practices such as price fixing, tie-ins, and cartels. Thus although Assistant Attorney General McLaren admitted that "We do not object to field of use restrictions as a general rule," he went on with an imaginative discussion of possible interpretations of paragraph (2) which "could, arguably, permit patentees to engage in various types of conduct which traditionally have been regarded as involving antitrust violations."

We think that without any modification of its language, paragraph (2) clearly goes no further than to establish by statute that limited licenses are not per se illegal. Nor would it make legal any specific licensing practice which today would properly be held illegal. At the same time, we would have no objection to modification of the proposed language to make this result even more clear, since this is the only result which we think this section is intended to achieve and should achieve.

Unexpected but strong support is provided for codification of this principle by the remarkably varied approaches, leading to considerable confusion, taken by different opponents of the Scott Amendment. Thus even the modified version of Section 271 suggested by Professor Turner would still provide that limited licenses are legal, so long as they do not include any of a list of specific limitations which he would have declared per se illegal.

Assistant Attorney General McLaren, on the other hand, appears to be opposed to any legislation which would introduce certainty into the law relating to licensing practices. His testimony with specific reference to Amendment 24 included the statement that—

"It appears to us that living with the narrow area of uncertainty which exists is far preferable to doing away with certain long established rules designed to protect the public and our competitive system, as we fear this measure would do."

He did not identify any of these "long established rules" and we have not been able to identify them. Neither has Alan Ward, the spokesman for the Federal Trade Commission, as appears from his testimony that—

"Notably, none of the amendments seeks to overturn a *per se* rule."

Detailed analysis of the testimony of all of the witnesses supporting or opposing the Scott Amendments leads to the conclusion that as of the immediate present, there is substantial agreement that within appropriate limits, it is still legal for a patent owner to license any part of his rights under a patent or patent application, for the whole or any part of the United States.

The emphasis on "immediate present" and "still" in the preceding sentence is intentional, because it also emphasizes the pressing needs for legislative action to clarify the uncertainties which have been created by Department of Justice speeches and threats to change the law by selected case-by-case attacks.

We of course recognize that there is substantial disagreement as to what definition of "appropriate limits" should apply to field of use licenses, but that disagreement is not relevant to the principle to be codified by paragraph (2).

It is also clear from detailed analysis of testimony of all witnesses that there is agreement as to the present uncertain state of that area of the law to which Amendment 24 is directed. In addition to the admission of Mr. McLaren quoted above, note the statement of Mr. Ward that—

"At present, we believe, field of use restrictions cannot safely be considered *per se* legal, or accurately described as *per se* illegal."

In the face of this admitted uncertainty, the importance of codification of the principle of paragraph (2) is emphasized by consideration of the alternative prospect of case-by-case development of the law in the absence of statutory guidelines. The Antitrust Division has made no secret of its determination to effect such case-by-case development by bringing actions in field of use license situations which present facts favorable to its theory of what the law should be. Nor has it made any secret of its definition of that theory in terms of a two-question test, the second of which is "Are less restrictive alternatives available to the patentee?"

Since that question must be answered "Yes" for every license which contains any limitation, we find no escape from the conclusion that the ultimate objective of the Antitrust Division is to have any license restriction per se, or at least presumptively, illegal. On this point, I can in no way improve on the statement of Professor Weston on May 13, 1971 that—

"The Department of Justice is in reality trying to bypass Congress to make a fundamental change in basic patent-antitrust law because it believes it can secure 'judicial legislation' easier than it can obtain Congressional legislation."

The patent system has learned too well that even a decision which the court intended to limit to the facts before it is often subject to far broader interpretation by another court facing entirely different facts. For a typical such example, we need look no further than the District Court decision in *Painton* v. *Bourns*, 309 F. Supp. 271, 164 USPQ 595, discussed in more detail below in connection with Amendment 23.

It is in no part our position that it would be proper to legislate protection for licensing provisions which should be illegal, or which should be held unreasonable in their particular context. On the contrary, we are ready and willing to have any field of use license tested by application of a rule of reason, but we think that in all fairness, such test should be applied under a statute which establishes that limited licenses are not per se or presumptively illegal.

It is the continuing absence of that statutory endorsement which makes us fear for the future of this area of licensing practice which has proved to be so important a part of the early growth of so many businesses, and which has thus contributed so much benefit to the public. This is especially the case in the shadow of the repeated threats made in speeches of Mr. McLaren and other representatives of the Antitrust Division as to their plans for attacking field of use licensing by the selected case-by-case method. (See footnote 10 of the paper by Professor S. C. Oppenheim in IDEA, Vol. 15, No. 1).

The position of the American Patent Law Association on paragraph (2) of proposed Section 261(b) may accordingly be summarized as identical with the opening lines of Resolution XXII of the President's Commission on the Patent System:

"The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, or any interests therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable . . .".

ASSIGNOR AND LICENSEE ESTOPPEL

Turning to the second of the subdivisions of Amendment 24 directed to Section 261, the proposed two new subsections (e) and (f) would codify the rights and obligations of the assignor of a patent and of the licensee under a patent with respect to challenging the validity of the assigned or licensed patent:

"(e) No assignor of a patent shall contest, directly or indirectly, the validity of the patent, when asserted against him by his assignee or any owner of the patent deriving title through the assignee, unless (1) the consideration involved has been restored to, or for the benefit of, the first assignee, and (2) such assignor asserts a ground for invalidity not reasonably available to him when the assignment was made.

"(f) No party to a license, immunity, or other express waiver under a patent shall, unless consented to by all other parties thereto, contest the validity of the patent, provided that any party who gives written notice that he unconditionally renounces all future benefit from the license, immunity, or other waiver may then and thereafter contest the validity regardless of any contract to the contrary, but such renunciation shall not operate to relieve the renouncing party from any performance due prior to the renunciation."

The need for these subsections stems from the Supreme Court decision in *Lear* v. *Adkins*, 395 US 653, 162 USPQ 1, that a licensee is not estopped from challenging the validity of a patent under which he is licensed. That decision is generally considered to have completely overruled long standing doctrines of licensee and assignor estoppel.

The purpose of subsections (e) and (f) is not to overrule *Lear* v. *Adkins*. On the contrary, it is to codify the interpretation of the scope of *Lear* v. *Adkins* within limits as to which there was substantial agreement among both the proponents and opponents of the Scott Amendments who appeared in the course of the Hearings on May 11–13, 1971.

In principle, the effect of subsection (e) would be to bar the assignor of a patent from challenging the validity of a patent which he has assigned except under two conditions:

(1) He must restore the consideration for which he had assigned the patent; and

(2) His ground for challenging invalidity must not have been reasonably available to him when the assignment was made.

These two conditions should, quite properly, prevent bad faith assignment with the invention of subsequent repudiation. We do not understand Mr. McLaren's unexplained objection, especially in view of his proposed substitute subsection, which appears similar to subsection (e) as to condition (1), but completely omits condition (2) and could correspondingly encourage the type of bad faith assignment which condition (2) is designed to prevent.

The principle of subsection (f) is similar. It bars a licensee from contesting the validity of a licensed patent unless he first renounces all future benefit from the license, and therefore in effect stands in the same position as an infringer who had never had a license. The fairness of this principle was conceded by the majority of the witnesses opposing the Scott Amendments, including the witnesses for the Department of Justice and the Federal Trade Commission. For example, Mr. McLaren testified that—

"We recognize that unfairness to patentees could result if the courts should extend *Lear*—which we do not believe they will—and hold that a patent licensee may continne to enjoy the full benefits of a patent license while at the same time challenging the patent's validity."

We respectfully submit that the Patent Bar cannot realistically advise clients on the basis of what anyone believes that the courts will or will not do in the absence of statutory guidelines. This is especially the case when we can find no basis for Mr. McLaren's beliefs as to the unlikely extension of *Lear*, either in the opinion itself or in the subsequent decisions of other courts applying their understanding of *Lear*. The pertinent dictum in the *Lear* opinion follows:

"Thus, it may be suggested that although *Lear* must be allowed to raise the question of patent validity in the present lawsuit, it must also be required to comply with its contract and continue to pay royalties until its claim is finally vindicated in the courts . . .

"It seems to us that such a requirement would be inconsistent with the aims of federal patent policy."

Decisions of two Courts of Appeal and one District Court which antedate Mr. McLaren's testimony have already extended *Lear* to hold that, in Mr. McLaren's own language:

". . . a patent licensee may continue to enjoy the full benefits of a patent license while at the same time challenging the patent's validity."

In *Beckman Instruments Inc.* v. *Technical Development Corp.*, 433 F. 2d 55, the Seventh Circuit Court of Appeals interpreted *Lear* as holding that a licensee may attack the validity of the licensed patent while continuing to use the patent and accept the benefits of the license.

As of this writing, the very recent District Court decision in *Medtronic, Inc.* v. *American Optical Corp.* has been reported only fragmentarily in BNA's PTC JOURNAL, No. 26, May 6, 1971, Page A–4. In referring to the *Beckman* decision, the Minnesota District Court said in part:

"Two points are noteworthy about the Seventh Circuit's ruling; it did not require Beckman to terminate the license before bringing its action and it interpreted *Lear* as enunciating a policy of removing legal and economic barriers to patent challenges by licensees. The court accepts the Seventh Circuit's interpretation of *Lear* in toto."

Similarly the Second Circuit Court of Appeals in *Painton* v. *Bourns,* F. 2d , 169 USPQ 528, stated with respect to the effect of the *Lear* decision:

". . . many will prefer to pay a modest royalty than to contest it, even though *Lear* allows them to accept a license and pursue the contest without paying royalties while the fight goes on. (p. 534)

". . . What *Lear* precisely held was that the courts may not enforce a royalty agreement with respect to an invention embodied in an American patent while the licensee was contesting its validity and could recover only when, as and if validity was established." (p. 535)

The language of these three decisions is not inconsistent with Justice White's reference to *Lear* in dictum in the very recent opinion handed down on May 3, 1971 of the United States Supreme Court in *Blonder-Tongue, Inc.* v. *University of Illinois Foundation,* U.S. , 169 USPQ 513, 526.

"*Lear* permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties."

The reason offered by the opponents of Amendment 24 for objecting to subsection (f) was predicated in large measure on a theory that it would have the effect of insulating invalid patents from public ventilation. We submit that there is no justification for so far-fetched an argument. History has made it much too clear for dispute that whenever the public interest needs investigation of the validity of a patent monopoly, that need will quickly be met, either by a private litigant interested in entering the same market, or by the Department of Justice.

Subsection (f) would offer no bar to "public ventilation" of invalid patents. Its primary effect would be to protect the developer of a patent who has negotiated a license in good faith from being held to the terms which he negotiated while defending the validity of his patent against a licensee who is financing his attack on the patent with royalties withheld from the patentee.

In my oral testimony, this type of situation was accurately characterized as "free ride" insurance. It might equally well be characterized as "no risk" insurance, if the licensee who challenges validity can rest assured that, at the very worst, he will merely have to pay royalties at the same rate which had been established by free negotiation prior to his challenge of the patent. We know of no other area of the law where a party to a contract can eat his cake and have it too, and this area should be eliminated by statue.

Finally as to subsection (f), the substitute proposal of the Department of Justice as to licensee estoppel appears to concede the correctness of the principle of subsection (f), although we think it lacking in clarity. It would appear, therefore, that this is now an issue which requires only agreement as to appropriate specific language.

SCOTT AMENDMENT 24—SECTION 271

The second portion of Amendment 24 would add two new subsections (f) and (g) to Section 271 of S. 643. The purpose of these two subsections is to codify the second part of Recommendation XXII of the President's Commission:

"The licensable nature of the rights granted by a patent should be clarified by

specifically stating in the patent statute that: . . . (2) a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a licensee, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant. This recommendation is intended to make clear that the 'rule of reason' shall constitute the guideline for determining patent misuse."

Subsection (f) provides that no patent owner shall be guilty of misuse or illegal extension of patent rights "because he has entered into or will enter only into" either of two types of arrangement, and we would favor insertion of "merely" before the "because" clause. The two types of arrangement are defined as:

"(1) an arrangement granting some rights under the patent but excluding specified conduct, if the conduct excluded would be actionable under this title, or

"(2) an arrangement granting rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant."

It is apparent that arrangement (1) is merely a limited license under which the excluded conduct would constitute patent infringement in the absence of a license. Arrangement (1) is therefore effectively a more specific counterpart of paragraph (2) of proposed Section 261(b), in that it defines a specific type of limited license as not per se illegal. It might in fact be unnecessary, particularly if Section 261(b) is amended along lines such as the proposal of the Tuesday-2 Group published in BNA's PTC Journal No. 23.

Arrangement (2) was intended to codify the portion of Recommendation XXII quoted at the beginning of this section. Our understanding of most of the criticism of this paragraph by opponents of the Scott Amendments is that it was directed to matters of language rather than principle. We would have no objection to revision of the specific language to a form more precisely reflecting Recommendation XXII, such as the proposal of the Tuesday-2 Group to define this arrangement as one—

". . . which includes a contractual provision or imposes a condition which (i) is related to the disclosure and claims of his patent, and (ii) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his patent grant."

The principle which we think is essential to establish by statute is a statement of the Rule of Reason as recommended by the President's Commission, viz. a Rule of Reason which starts from the constitutionally endorsed premise that a patentee, as a reward for adding a definable something to the realm of science and the useful arts and disclosing it to the public, has a limited monopoly in the form of a right to exclude all others from the practice of his invention or discovery. It is clear from statements of the Department of Justice, both before this Subcommittee and elsewhere, that in the absence of such a statutory guideline, the Antitrust Division will endeavor, through the case-by-case procedure, to shift the burden of proof and effect judicial legislation of per se illegality of one after another of the license restrictions which are presumptively legal at the present time.

Much of the testimony of the opponents of the Scott Amendments was devoted to imaginative portrayal of the dire results which they anticipated if Amendment 24 were to become law. Contrary to their position, it is neither the intention of the proponents of Amendment 24 to roll back the clock, nor is there any chance that such result would occur.

The only result we desire to achieve through subsection (f) is that in every case, the burden of establishing the unreasonableness of a particular license restriction will be on the party attacking the license, and the tests will be whether that restriction is related to the disclosure and claims of his patent and is reasonable under the circumstances to secure to the patent owner the full benefit of his patent grant.

In the testimony of Mr. McLaren, strong opposition was raised to this provision, on the basis that it proposed a special Rule of Reason which "bears little resemblance to the general antitrust rule of reason, under which the reasonableness of a particular practice is judged objectively from the standpoint of the public and not from that of any special group."

It seems to us that in adopting this view of licensing practices, the Antitrust Division has lost sight of the basic difference between illegal monopolies and the patent grant, created by the Constitution and statute, of a legal, limited right

to exclude others from the particular market which it covers—a new market for a previously unknown and nonobvious invention.

When the Antitrust Division seeks to apply the same rule of reason to every case, the result is untenable. A patent grant is not contrary to the public interest, as is emphasized by some additional basic essentials of patent law:

(*a*) A patentee benefits from his legal patent grant in direct relation to the extent to which his patent is used.

(*b*) A patentee normally grants a license because he expects that this will increase use of his patented invention.

(*c*) To the extent that any patent is used, the public receives greater benefit than if it were not used.

(*d*) The public is also benefited by the free and full disclosure of inventions made practical under a system granting to investors limited proprietary rights.

A somewhat different and very important factor, which also seems to have been ignored by the Antitrust Division, is the stimulus to inventive development which is provided by the necessity for competition with a patented product.

History has given us innumerable instances of the fact that when a manufacturer is faced with the choice between (a) losing out to a patented product in the market place, (b) indulging in the uncertainties and expense of defending an infringement suit, and (c) developing a successful product which will avoid his competitor's patent, it is the third course which has in most cases proved to be best not only for the manufacturer but also for the purchasing public. As was stated by a judge particularly experienced in patent matters:

"The patent system encourages invention, not only in that it rewards the inventor with a patent, but it spurs the competitiors to put forth their mightiest effort to produce a product as good, yet different from the patentee's. * * * It must be admitted that in an effort to avoid infringement of a patent, as much skill is often displayed as is shown in the conception or development of invention itself. There is, however, nothing objectionable in this. In fact, it is thus that the patent system is working at its best. For it is then that we have competition between a holder of a legal monopoly and his competitors. It illustrates how the legal monopoly evidenced by a patent excites the competitors to their best to meet or excel the product covered by the existing patent. Competition among industrial rivals and inventors is thus incited." (*James P. Marsh Corp.* v. *United States Gauge Company*, 129 F.2d 161, 165)

The point just discussed also serves as a most effective answer to the law professors who advocate the proposal of the Neal Committee Report which would require a patentee to grant the same license terms to all comers. This thinly veiled form of compulsory licensing would have a much greater tendency to stultify than to stimulate competition.

The basic essentials listed above and the point last discussed should make it clear that we do not advocate a rule under which the reasonableness of a particular practice would be judged otherwise than objectively from the standpoint of the public. We urge only that the public interest should be considered in the light of the basic purposes of the patent law.

To sum up on this point, the public is benefited more if a patent is used than if it is not used, whether that use be by the patentee or under license. Similarly, if the public receives some benefit by reason of the use of a patent which it would not have received if the patented invention had not been made, the public interest purpose of the patent law has been fulfilled.

This public interest purpose of the patent law is seriously threatened today by a combination of factors under the present law which is highly anticompetitive and which the Scott Amendments will cure in large part. The combination of factors is:

(i) Many uncertainties as to what is lawful licensing practice;

(ii) The fact that what is lawful today (as by the Supreme Court's 4–4 divided court or 6–3 divided court) is by Mr. McLaren's announced goal to be rendered at least partly unlawful soon—and before today's patent license expires in perhaps 17 years;

(iii) Heinous penalties of antitrust violation (e.g. unenforceability of a patent of potential million dollar value plus claims for treble damages) which may attach if today's license draftsman does not clairvoyantly anticipate tomorrow's antitrust case-by-case law development.

Those three factors exist in combination today, and on a day to day basis

they inhibit many patent owners from granting any license. By inhibiting the granting of licenses, the restrict competition among otherwise possible licensees. The total anticompetitive effect therefrom probably exceeds the total anticompetitive effect of all the restrictions which are even used today in licenses.

A firm statutory termination of the progressive case-by-case illegalizing of license practices would be highly pro-competitive in the number of licenses it would soon generate.

SUBSECTION 261(g)

Subsection (g) lists certain special licensing practices which would be declared not per se illegal when judged by the Rule of Reason to be codified by subsection (f), namely—

"(1) a nonexclusive license or waiver of patent rights; or

"(2) a royalty, fee, or purchase price:

"(A) in any amount, however paid or measured, provided that any amount paid after the expiration of a patent is based solely upon activities prior to such expiration;

"(B) not measured by the subject matter of the patent or by extent of use by the other party of the rights assigned, licensed, or waived;

"(C) not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents; or

"(D) differing from that provided in some other arrangement."

The proposals of the Tuesday-2 Group would simplify this list by omitting "however paid or measured" from item (A) and by deleting item (B). It is of significant interest that the resulting shortened list would be identical with the form of Section 271(g) proposed by Professor Turner, except that his list would omit item (A).

While it is not my intention to discuss specific language in this statement, it would seem from the preceding paragraph that there is already substantial agreement between both proponents and opponents of the Scott Amendments as to some specific licensing practices which should be declared by statute to be not per se illegal. Therefore since agreement in principle has been reached, only details of language remain to be settled.

The arguments in opposition to subsection (g) by Mr. McLaren in large measure condense to the proposition that it is unnecessary. Once again, in view of the often expressed determination of the Antitrust Division to effect progressive restriction of licensing practices by the case-by-case method, we think it important for Congress to establish statutory guidelines which would limit the effect of that method to each specific case involved.

SCOTT AMENDMENT 23

Amendment 23 is directed to Section 301 of S. 643, which is the section directed to prevention of preemption by the patent laws of rights which are enforceable today only by private contract, or otherwise recognized under state or other federal laws. In the following copy, the language deleted from Section 301 is in brackets and the language not present in Section 301 is in italic:

"This title shall not be construed to preempt, or otherwise affect in any [way, contractual or other] manner, rights or obligations not [in the nature of patent rights, imposed by State or Federal law on particular parties with regard to invention or discoveries, whether or not subject to this title.] *expressly arising by operation of this title whether arising by operation of State or Federal law of contracts, of confidential or proprietary information, of trade secrets, of unfair competition, or of other nature.*"

The intent of Amendment 23 is limited to clarification of Section 301, since both versions involve a common principle and have in common the basic purpose of codifying the propriety of license agreement for trade secrets, technical know-how, and the like. Typical examples of such arrangements include:

(*a*) Company A, which has a secret manufacturing process, agrees to disclose that process to Company B in return for a commitment by Company B to pay royalties for the use of the process in its own manufacturing operations.

(*b*) Company C, a builder of machines for performing a manufacturing process, agrees to deliver a complete set of the engineering drawings for one or a line of its machines to Company D, another machine builder, in return

for a down payment and royalties for the use of those drawings in the construction and sale of similar machines.

(*c*) E. F., an individual, invents a product and applies for patent thereon; while his patent application is pending and therefore secret, he agrees to disclose his invention and patent application to Company G, a manufacturer of similar products, in return for a commitment by Company G to pay royalties based on the number of products embodying the invention which it manufactures and sells.

It is not material whether the agreement is exclusive or non-exclusive in any of these examples, but let us assume that it is designated "exclusive" in each case. All this means is that it would be a breach of contract if any of the licensors should make a similar agreement with a third party with respect to any part of the same subject matter, or if the licensor should disclose that subject matter to a third party to use it in competition with the licensee.

The point just noted is most important because it fully disposes of the fallacious argument of opponents of Amendment 23 that an exclusive know-how license has any of the attributes of an exclusive patent license. The only party excluded from anything under an exclusive know-how license is the licensor, and the only thing he is excluded from is offering the same subject matter to a third party.

There is no way in which an exclusive know-how license can prevent full use of its subject matter by a third party who acquires knowledge of that subject matter from a source other than the licensor, even if it is by direct copying or reverse engineering. In fact, there is no way by which such an agreement could prevent use of its subject matter by a third party who acquired the necessary information from the licensor in good faith and without knowledge of the prior agreement; the licensee's only remedy would be to seek damages from the licensor for breach of contract.

The facts outlined above are so clear that we can find no explanation for those who oppose Amendment 23 as tending to establish private monopolies. Perhaps they simply do not understand the issues involved, because regardless of the forceful statement of that argument, it is totally lacking in factual basis.

Amendment 23 and Section 301 have been drafted with the specific purpose of legislative clarification of a situation which has developed as the result of a series of court decisions.

Contrary to the arguments of opposing witnesses, it is not the purpose of this legislation to overrule any case. Indeed, both Mr. McLaren and Mr. Ward of F.T.C. testified that it would not overrule any case. Rather, the specific objectives of this legislation are:

(*a*) To limit *Sears* and *Compco* to the factual issues actually decided;

(*b*) To limit extension of *Lear* beyond the issues actually decided.

(*c*) To prevent repetition of judicial aberrations like the District Court decision in *Painton* v. *Bourns*, supra.

It would appear helpful at this point to review these cases briefly in historical order, starting with *Sears, Roebuck & Co.* v. *Stiffel*, 376 U.S. 225, 140 USPQ 524, and *Compco* v. *Day-Brite Lighting*, 376 U.S. 234, 140 USPQ 528, both decided March 9, 1964.

The issue was essentially the same in both of *Sears* and *Compco* cases, namely, whether a State's unfair competition law could, consistently with the federal patent law, impose liability for, or prohibit the copying of, an article which is protected by neither a federal patent nor a copyright. In one case, the article was a pole-type lamp, and in the other, it was a fluorescent lighting fixture. In both cases, the articles in question were the subject of design and/or mechanical patents which were held invalid. The Supreme Court held in each case that in the absence of "palming off" of the articles, State law could give no protection either supplementing or in conflict with the protection of a federal patent or copyright.

We agree with other witnesses that the decisions in *Sears* and *Compco* were correct in result on the facts before the Court. Our concern is with the expansion of the rationale of *Sears* and *Compco* to other facts, and particularly with expansion to the extent of misinterpreting *Sears* and *Compco* as supporting preemption by the patent law of issues properly subject to other federal or state laws such as trademark, copyright and unfair competition.

If Section 301 or Amendment 23 had been in the law prior to *Sears* and *Compco*, the results in those cases should have been no different. Indeed, to the extent,

if any, that Section 301 or Amendment 23 might apply to factual situations comparable to those in *Sears* and *Compco*, they are directly in accord with the statement in *Sears* that "Doubtless a State may, in appropriate circumstances, require that goods, whether patented or unpatented, be labeled or that other precautionary steps be taken to prevent customers from being misled as to the source . . ." This should dispose completely of any argument that Amendment 23 is unconstitutional.

Neither the Constitution, nor Title 35, has any legislative history to suggest a grant therein of a right affirmatively to do anything for the right affirmatively to do was then and now is common law right subject to many exceptions founded each upon its own socio-economic premises. The Constitutional patent clause, and Title 35, have always been concerned only with one single exception of the right to do—that without the inventor-patentee's consent, a party for a limited time may not make, use or sell his patented invention.

Surely it is clear that there can be no constitutional patent-clause pre-emption of other law, granting rights to preclude others, which forces Congress's expression of patent law to do things not recited in the statute. And that is all Amendment 23 purports to do—to keep the patent limited to patent rights of exclusion, and not permit it by inadvertent "construction" to preclude other rights of exclusion such as copyrights, trademark rights, and unfair competition rights to prevent palming off.

The relation of *Lear* to Amendment 23 does not concern the issue of licensee estoppel already discused but is limited to the question of the propriety of the licensing of a pending patent application. The majority opinion in *Lear* remanded the case to the District Court for consideration of that question, and since the case was subsequently settled without further court action, the status of this question under California law remains open.

We are more concerned here with the concurring dissent of three judges written by Mr. Justice Black. It objected to the remand, on the basis that under *Sears* and *Compco*, the Supreme Court should have retained the case for the purpose of outlawing the propriety of license agreements under pending patent applications.

Following the lead of the concurring dissent in *Lear*, the District Court in *Painton* v. *Bourns*, 309 F.S. 271, went so far astray as to hold it contrary to national patent law and policy to enforce an agreement whereby a trade secret licensee would pay royalties on models for which no patent application had been made. It was the resulting potential havoc, which would have followed the invalidation of all licenses involving either trade secrets or patent applications, which has spurred on the effort for inclusion of Section 301 or Amendment 23 in S. 643.

The District Court decision in *Painton* was roundly reversed by the Second Circuit Court of Appeals. (169 USPQ 528) The decision written by Judge Friendly demonstrates complete understanding of the principles involved in the licensing or sale of know-how and the differences between such agreements and patent licenses. It also noted the importance to the national economy, and correspondingly to the public, of the extent to which such agreements result in payments by foreign licensees to domestic licensors:

"A particular irony of the district court's decision is that among the chief beneficiaries of a rule designed to promote American patent applications would be foreign companies that have cheerfully made the same type of agreements for the use of trade secrets as Painton did. . . . the loss of foreign dollar payments might run as high as $1 billion annually; certainly it would be very large."

The majority of those opposing Amendment 23, and who similarly oppose Section 301, do so on the basis that it is not needed. Their argument is essentially that since the clearly erroneous district couurt decision in *Painton* has now been reversed by the Court of Appeals, there is no reason to fear a similarly erroneous decision by another court.

This argument overlooks too many realities of history. As is noted in my oral testimony, a similar question has already reached the Seventh Circuit of Appeals in *Bailey* v. *Logan Square*, 169 USPQ 322, but there remain nine circuits in which this issue has not been adjudicated.

The arguments of the opponents of this legislation sound particularly hollow when considered in the light of the above discussion of Mr. McLaren's exppressed belief as to what the courts would not to by way of extension of *Lear*. It is significant that although so eminent an authoirty as Professor Turner testified that

he considered the dissenting portion of Justice Black's opinion to have been wrong, that opinion was enough to lead the district court wholly astray in *Painton*. Industry has no assurance that such judicial aberrations will not continue, and the chances will obviously be greater if Congress rejects the opportunity to establish statutory guidelines for preventing such mischief.

THE FORTY LAW PROFESSORS

The letter to the Chairman dated May 7, 1971 and signed by forty profesors of law has come to my attention as the result of its publication in 512 ATRR. It is of significant interest that only one of the forty, Martin J. Adelman, appears to have had any experience in patent law, as noted further below, which raises corresponding questions with respect to their qualifications as experts, or even as commentators, on the pragmatics of patent licensing.

As to Mr. Adelman, he testified individually as a witness on May 12, 1971, and his testimony as an individual is diametrically opposed in a number of respects to the letter which he signed. For example, the letter asks rejection of the Scott Amendments, but Mr. Adelman specifically endorsed principles of subsections 261(b) (2), 261(e), 261(f), 271(g) (2) (C) and 271(g) (2) (D), as well as Amendment 23. We recognize that in his testimony, he raised objections of language and the resulting scope of the present form of the Scott Amendments, but his agreement in principle with the bulk of them is in sharp contrast with the sweeping opposition of the group statement which he also signed.

As to the group statement itself, like much of the other opposition to the Scott Amendments, it is based primarily on straw men and other premises have no foundation in fact. Perhaps its outstanding characteristic is that it wholly ignores the rule of reason which is the main objective of the Scott Amendments, probably because the forty professors had no answer to this principle and therefore had no choice but to ignore it.

A prime straw man is the professors' definition of the "main argument made in favor of the amendments". Contrary to their statement, "abating antitrust safeguards" is not the objective of the proponents of the Amendments, nor would that be a result of the Amendments. What we seek is simply a statutory guideline which wil permit parties to negotiate license terms with the knowledge that the reasonableness of those terms, and hence their legality, will be subject to judgment only in the light of all the facts of their particular case.

What we do seek to prevent, through enactment of the principles of the Scott Amendments, is the situation in which parties who have negotiated in good faith license terms which they had every ground for believing to be reasonable and legal, then find later that their agreement is held unlawful because in a different case, based on different facts, some court, possibly guided by the Antitrust Division, has rendered a sweeping decision condemning an entire class of license terms. We very much fear that it is the latter condition which the professors seek, since it is so conducive to the "judicial legislation" which they and the Antitrust Division have found to be so much easier to achieve.

The points just discussed establish the totally fallacious nature of the special objection of the professors to the Scott Amendments on the ground that they would halt case-by-case development of the law of patent licensing and antitrust policy.

Granted that the Amendment would halt the "judicial legislation" type of case-by-case development, the particular provisions of any agreement would still be subject to judicial review. Indeed, Professor Stedman took just the opposite tack and complained that 'possibly decades" of legislation might be required "to straighten out" the results of the Scott Amendments.

The letter further charges that Amendment 24 would change the present law in four distinct areas and would "overturn a number of . . . decisions" subsequent to *General Electric*. It is impossible to reconcile this argument with the frank admissions of Messrs. McLaren and Ward that they knew of no case and no per se rule which would be overturned by the Scott Amendments.

All of the discussion of the "four distinct areas" in which the professors charge that the law would be changed ignores the basic fact that the only result of the Scott Amendments would be to establish per se non-illegality in the four areas in question and to leave the determination of legality or illegality in each case to the reasonableness of the particular case. Viewed in the light of this fact which is so totally ignored, the arguments fall of their own weight.

At the risk of appearing repetitive, it still seems important to state categori-

cally that, contrary to the contentions of the professors, the Scott Amendments would not per se legalize any price which is presently illegal, nor exempt any practice from adjudication as unreasonable in a particular case where the total circumstances justify a conclusion of misuse or illegal extension of patent rights.

The single paragraph of the professors' letter directed to Amendment 23 seems to reach no conclusions which would be in conflict with our position outlined in detail above. In fact, to the extent that it is definite, it appears to support Amendment 23.

Finally as to the recommendation by the professors of the legislation proposed by the Neal Committee, one-third of whose members are included among the forty professors, I can hardly improve on the comments in the separate statement of another of its members:

"Procrustean is the most polite adjective I can find for the bulk of the Task Force report and recommendation. Mechanistic tests may be easy for enforcement agencies and courts to apply, but that is a feeble reason for abandoning the requirement of proof of actual or probable adverse competitive effects in concrete market situations as a predicate to remedies as drastic as... compulsory patent licensing.

"The Task Force has done no case studies on... patent licensing, yet the report speaks as if there were a solid body of evidence in support of each of its recommendations...

"The draft statute would require of every patent license either (a) that the licensor be big enough so that it need not license anyone, (b) that the licensor sell the patent to someone who is big enough, or (c) that the licensor license everyone. Such tampering with corporate decision-making requires proof I have not seen."

Taken as a whole, the professors' letter makes it clear that it is not the proponents of the Scott Amendments who seek to change or roll back the law. Quite to the contrary, it is this limited group which advocates change, to a Procrustean standard under which academic theory is substituted for reason and business judgment is considered anathema. Their position is in sharp contrast with the testimony of Professor Weston, who declined to join the professorial group and so fully demolished their arguments by simple application of facts and reason, and Professor Oppenheim's paper "The Patent-Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? or Antitrust Supremacy?" in IDEA, Vol. 15, No. 1.

SEC. 6 OF S. 643

Such opposition as has been offered to this Section has not gone beyond the fact that it starts by striking Section 308 from the Clean Air Amendments Act of 1970. It seems to have wholly overlooked the substituted provision:

"If the Administrator determines that the implementation of the purposes and intent of this Act is being significantly retarded by any section of title 35 of the United States Code he shall, after consultation with the Department of Commerce, recommend to the Congress such modification of title 35, as may be necessary."

The effect of this Section as a whole is therefore to establish the principle that the Congress should decide, on the total circumstances of each special case, the need for compulsory licensing of privately developed patents in the implementation of the purposes and intent of the Clean Air Act.

Most of the opposition to Section 6 is based on what can be termed the "statutory windfall". This theory presupposes a situation in which the purposes and intent of the Act can be achieved only by means of one particular, patented, super-invention, would therefore becomes indispensable by statute. This, say the opponents, would lead to such fantastic wealth for the owner that he should be forced to share it with his less inventive competitors.

Even apart from its confiscatory nature, this theory is so full of weaknesses that it offers a multitude of starting points from which to demolish it. As a basic question, if we assume a condition of multiple competitors, what is the incentive for one of them to devote the effort and expense required for the R & D needed to make the super-invention? The greater his success, the greater is the probability that he will be forced to share it with his less successful competitors, even if they are drones.

Additionally, since the statutory windfall theory also assumes such success for the super-invention that it is accepted as the statutory standard, the corollary is

that further R & D ceases. Can any of the theoreticians who oppose Section 6 guarantee that stagnation will not result?

On the other side of the argument is the fact, which history has so often established, that in any industry which has only one leader in R & D and a group of followers, progress is only as fast as the business of the leader seems to need, while the followers complete for the crumbs which fall from the leader's table. In contrast, an industry in which there is active competition in R & D, supported by strong patent policies, will advance by the leapfrogging which results as each competitor develops an invention providing a sales advantage over the others, and as compared with the follow-the-leader condition where the leader is not under competitive pressures. We therefore think it especially important, in a field of such vital public interest, to retain the maximum incentives for competitive R & D.

It is also pertinent that even in spite of the weaknesses of the statutory windfall theory, it would still be provided for under Section 6, when and if needed, by future Congressional action in the light of all facts of the super-invention if it should ever be made, and the recommendation of the Administrator. We submit that this is the proper principle, and we therefore fully support Section 6.

OTHER COMMENTS ON S. 643

Approximately one-third of the statement of Assistant Attorney General McLaren was devoted to portions of S. 643 other than the Scott Amendments and Section 6. I commented on one of his points in my oral testimony, and some of the remainder were anticipated and fully answered in the letter from the Department of Commerce to Senator Eastland. There are still a few points raised by Mr. McLaren, however, on which our views might be helpful to the Subcommittee.

As a basic proposition, we share the concern and desire of the Department of Justice for a strong patent system and for guidance against fraud on the Patent Office. On this point, the Board of Managers of the American Patent Law Association has already adopted for its membership the Code of Professional Responsibility of the American Bar Association.

The discussion of Sections 102 and 103 in the statement of Mr. McLaren shows a surprising lack of understanding of basic essentials of the areas intended to be covered by those Sections. For example, the objection to the requirement of identical disclosure in Section 102(d) indicates a failure to understand that it is only in the absence of a condition of identical disclosure under Section 102 that a question of obviousness can arise under Section 103. Further, the identical disclosure requirement of new Section 102 is simply transposed from the present form of 35 U.S.C. 103.

As to Mr. McLaren's comments on Section 103, we agree with the Department of Commerce that the changes from the present statute accomplish substantial clarification as well as simplification of the definition and application of the test of obviousness. The present language "would have been obvious" immediately calls for qualification in terms of "under what conditions." "Should have been obvious" would perhaps have been some improvement, but we think that "was obvious" is best.

As to the objection to the additional language at the end of Section 103, surely the Department of Justice is aware of the wide disparity with which the courts apply the test of obviousness to different types or classes of invention, in the mistaken belief that some classes of invention require a higher degree of non-obviousness than others in order to be patentable.

The amplification of Section 103 is important as a long step toward eliminating the variations in the standard of patentability which exist among the judicial circuits. We think that it should prove of substantial benefit to the objective of the establishment of a reasonably uniform standard of patentability.

As to the objection to specific inclusion of utility in research in Section 100(g), it is at best unrealistic. If the basis for claiming patentability is disclosed by the applicant only in terms of utility "in unspecified research," the application would be rejected under Section 112(a). Nor is there any merit in the argument that a patent on a product having utility in research "would permit blocking further research in the area of the monopoly . . ." Even if use of the patented product in further research could constitute patent infringement, it is difficult to imagine in patentee who would seek, or for whom it would be worthwhile, to foreclose such small-scale activity, or the court which would countenance it.

The added requirement of "clear and convincing evidence" in Section 282 has an objective essentially the same as that of Section 103, namely to establish as much uniformity as possible in the standards applied in the different judicial circuits.

As to Section 271(b), the requirement that it be limited to processes "which cannot be patented in the foreign country of origin" would put a wholly unrealistic burden on the party charging infringement, which is further complicated by the fact that it would require proof of a negative. Nor can we see any equity in limiting the scope of patent protection in the United States by reference either to what can be patented in the country of origin or to what has or has not been patented in that foreign country. Momentary contemplation of typical fact situations arising under the Department of Justice's suggestion should completely dispose of it.

As to Section 131(c), we agree that it is important, but we also submit that the Department of Commerce is in a far better position to make recommendations for regulations which will be practical from the standpoint of the Patent Office. In this respect, we prefer the modified Section 131(c) suggested in the above noted letter to Senator Eastland.

Finally as to Section 24 relating to the applicability of the Federal Rules of Civil Procedure, the Department of Justice is apparently not aware of the complexities which can develop in interference practice. The Commissioner of Patents is in a vastly better position to judge what is fair and practicable. We strongly favor the retention by the Commissioner of control over discovery in contested cases in the Patent Office.

AMERICAN PATENT LAW ASSOCIATION REPORT OF AD HOC COMMITTEE ON COST OF PATENT OFFICE FUNCTIONS TO FEES COLLECTED

Pursuant to request of the President and memorandum from the Executive Director, dated May 19, 1971, the committee has made a study of Patent Office operations from the standpoint of the relation of the various functions of that operation, the beneficiaries thereof, the relative amount of the costs which should be charged against each and the amount of recovery of such costs by way of fees charged. In this study the committee has had the benefit of an extensive study and report made by a committee of the National Council of Patent Law Associations under the chairmanship of Donald R. Dunner in 1969 and additional statistics and estimates obtained from the Patent Office through courtesy of Assistant Commissioner R. D. Tegtmeyer.

The committee feels that the time is long past to question the philosophy as to whether fees charged by the Patent Office should recover any significant portion of the costs of the operation and that the practical approach to the problem is to make as factual an appraisal as possible of the beneficiaries of the various phases of the operation and attempt to reach an equitable and reasonable conclusion as to the portions of costs to be recovered by fees charges in an optimum situation. In seeking a solution along these lines the committee has attempted to classify the various services and functions and to identify the beneficiaries thereof as between the applicants for patents, and trademark registrations, the public and the users of services.

1. A first and primary function of the Patent Office is the examination and grant of patents, called the Patent Examining Operation, which includes the various examining Groups, the Board of Appeals, Board of Patent Interferences, Application and Issue Branches and other support functions.

Since the examination system, as distinguished from a registration system benefits the public by preventing the improvident issue of patents on known things in the public domain or things which would be obvious under our law, and the cost of operation of an examination system, above the formal review which otherwise would be required to issue a patent, is no real benefit to the inventor, the Committee believes that a fair and equitable division of costs of examination would be that the public and applicants share the same equally.

This view is consistent with the views of the Senate Committee at the time of institution of the examination system in 1836 as evidenced by the following passages from Report of the Investigation of the United States Patent Office made by the President's Commission on Economy and Efficiency, December, 1912, Appendix A, pages 223—225:

"A senate committee was appointed which reported with a bill on April 28, 1836. Senator Ruggles made the report and in it he points out specifically where the law of 1793 was at fault. According to the practical construction given the act, the Secretary of State had no power to refuse a patent for want of either novelty or usefulness. The only question which he could raise was in regard to compliance with the prescribed terms and forms. The term 'useful' was interpreted as 'not harmful'. The result of this policy of indiscriminate grant brought a train of evils which had grown steadily in number and intricacy until Congress was compelled to act. Hitherto its attitude toward patents had been that the subject was not of sufficient importance to demand legislation. Through Senator Ruggle's insistence, he forced it to see that a great portion of the patents issued are worthless, conflicting or infringing on the rights of others, or upon public rights not subject to patent privileges; that this flood of monopolies embarrassed the real patentee and the public as well with its inclusion of methods or articles in general use; that the startling accumulation of cases in the courts was onerous to the judiciary, ruinous to the patentee, and injurious to society; that the system was an open door to fraud and extortion . . . .

"To the minds of those who framed the new bill the prime requisites for the efficient working of the patent system were proper examination and investigation in the first decision."

2. A second function of the Patent Office is maintenance of search files, including the Scientific Library, Search Room, Documentation Operation, Data Base Division, including basic printing of patents.[1] These are library-like functions of benefit to the general public and should be funded entirely from public funds.

3. A third function of the Patent Office, is rendering services to the public, such as patent copy sales, furnishing copies of records and documents, recording assignments, and drafting services. These functions are in the nature of business services and the fees charged therefor should bear a direct relation to the costs and should afford full recovery.

4. The fourth function of the Patent Office is the registration of trademarks. This operation is primarily for the benefit of trade mark owners and probably should be self sustaining.

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If the suggested general breakdown of Patent Office functions as well as the proposed rate of recovery from fees were adopted, there would be no need for an increase in patent fees or charges at this time since, as shown in Table I, th estimated cost of the Examining Operation for 1972 is $34,867,000 and the estimated revenue from filing, appeal and issue fees is $21,225,000 or 61%, well over the 50% proposed rate of recovery for category *1*.

The actual corresponding figures for 1970, the last year on which complete returns are available, are cost of Patent Examining Operation $32,335,000 and receipts from filing, appeal and issue fees, $18,440,000 or 57%, also well over the proposed rate of recovery for category *1*.

Complete information is not currently available to this committee with respect to the expected percent return for the items in category *3* above, but if these fall below the 100% return suggested, the Commissioner has or should be given authority to set these to accomplish the desired purpose.

If the suggested general breakdown were adopted, there would be a need for an increase in Trademark (category *4*) fees or charges at this time since, as shown in Table I, the estimated cost of the Trademark Examining Operation for 1972 is $2,235,000 and the estimated revenue from fees is $1,474,000, or 66%, which is below the 100% proposed rate of recovery for category *4*.

Appended hereto is Table (I) showing estimated rate of recovery will present fees applied against estimated cost of the Patent Examining Operation and the Trademark Examining Operation for 1972.

It is suggested that at least the items in category *3* above be included in a revolving (trust) fund arrangement under which the fee income from this category would be deposited in a special account in the Treasury from which the Patent Office could draw to support the services offered. Under this arrangement, Congressional appropriations would not be required for these functions although Congress would have certain control over the individual operations under the fund.

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[1] Original printing of issue, including library and exchange copies.

No other recommendation is made with respect to the APLA position on S. 1255 since that is not a function of this Ad Hoc Committee.

Respectifully submitted.

PAUL A. ROSE, *Chairman.*
EDWARD J. BRENNER.
DONALD R. DUNNER.
EDWARD F. MCKIE, Jr.
OSCAR B. WADDELL.

TABLE I

	1970	Estimate 1972
Cost of patent examining operation	$32,335,000	$34,867,000
Filing, appeal, and issue fees	18,440,000	21,225,000
Rate of recovery from applicant's fees (percent)	57	61
Cost trademark examining operations	2,007,000	2,235,000
Filing, renewal, appeal, and sec. 8 fees	1,407,000	1,523,000
Rate of recovery from trademark fees (percent)	70	66

Senator BURDICK. Mr. B. R. Pravel, chairman of the National Council of Patent Law Associations.

STATEMENT OF B. R. PRAVEL, CHAIRMAN, NATIONAL COUNCIL OF PATENT LAW ASSOCIATIONS

Mr. PRAVEL. Mr. Chairman, Senator Burdick, I have submitted a written statement which I would ask to be printed in the record. The comments which I have now are somewhat extemporaneous.

Senator BURDICK. Without objection, your full statement will be made a part of the record and the comment is very much appreciated.

Mr. PRAVEL. My name, for the record, is B. R. Pravel. I appear here as chairman of the National Council of Patent Law Associations.

I represent those whom have given me specific written authorization to appear because this is the way our council is constituted.

Brifely, I will read quickly the names of those whom I have been authorized to represent. The Patent Law Associations of Connecticut, Michigan, Louisiana, Cincinnati, Rochester, Toledo, Houston, central New York, eastern New York, Milwaukee, Minnesota, San Francisco, Los Angeles, Oregon, Cleveland, also the patent trademark and copyright sections of the State bars of the following States. New Jersey, Indiana, Texas, and also St. Louis. And the American Patent Law Association, which has just testified is also a member of this council but, of course, they have testified and presented their own testimony and likewise that is true with respect to the Philadelphia Patent Law Association.

In private life I am in private practice as a patent attorney and I have been for approximately 20 years in Houston.

The presentation which I make today is, of course, the result of my experience individually but I speak principally as chairman of the National Council of Patent Law Associations in favor of the Scott amendments.

The associations that have given me permission to testify are not wedded to the particular language which is presently in the Scott amendments. They recognize that some language changes may be appropriate. However, the principles which are presented by the

Scott amendments are believed to be sound and we believe that this legislation is timely and is necessary for the patent system.

It has been suggested to some extent that patent lawyers approach this type of patent legislation in a self-interest or with a self-interest. In this connection I should point out that I believe that the principal purpose of the Scott amendments would be to minimize or reduce litigation because of the certainty that will be introduced into the law by the legislation. It seems to me that this in itself is an indication of the lack of self-interest on the part of litigating patent attorneys.

Now, as we see it, the principal purpose of the Scott amendments is to minimize and hopefully, to eliminate much of the uncertainty that exists today in the licensing field with respect to patents, trademarks, copyrights, not copyrights but patents, unfair competition, and trade secrets. The reason for the uncertainty is really a rather recent development in terms of years.

The *Lear* vs. *Atkins* case, which this committee has heard a considerable amount of testimony about, is, of course, a fairly recent decision in 1969 by the Supreme Court. The antitrust section of the Justice Department has been specifically vocal in recent years in their positions with respect to patent licensing. All of these together have created a climate of uncertainty for those who are in the patent profession as well as those who are in industry and who rely upon patent licensing for the value that they get out of patents.

It might be looked at this way, that the patent is in effect the tree and to some extent the licensing is the fruit. If the fruit is gradually taken away from the tree the patent becomes a rather naked thing in terms of value.

It appears that those who would attack the patent system recognize they cannot destroy it because of the constitutional basis for the patent system. They would have to amend the Constitution to remove the patent system but by gradually picking off the fruit they remove the value and limit the value of the patent system.

One of the areas that is of particular concern today is the field of use and, of course, this is in the Scott amendments. Section 261 specifically provides for the field of use, field of use licensing more specifically.

This has been the law and has been recognized since 1938 when the U.S. Supreme Court handed down the decision in the *General Talking Picture* case but recent expressions from the antitrust section of the Justice Department lead us to believe that this area is now subject to attack and that there will be test cases instituted and that they are deligently looking for such test cases. As a result of this most of the patent attorneys and those in industry who have field of use licenses are either reluctant to enter into them or they just naturally refuse to do it for fear they will be brought before the courts by the Justice Department.

Senator BURDICK. What is the name of the case you referred to back in 1938?

Mr. PRAVEL. That is the *General Talking Picture* case.

Senator BURDICK. Do you know the citation?

Mr. PRAVEL. 304 U.S. 175.

Senator BURDICK. When was that decided?

Mr. PRAVEL. 1938.

Senator BURDICK. Has there been any court that has varied from that decision since 1938?

Mr. PRAVEL. Not that I know of, sir.

Senator BURDICK. Then, why is there confusion on that point?

Mr. PRAVEL. The confusion on that point is because of the announcements and word that we get from the antitrust section of the Justice Department which indicates that they consider that this area of field of use licenses is something that they believe should be declared illegal.

Senator BURDICK. The anouncement of an administrator does not have the full force and effect of a court decision, does it?

Mr. PRAVEL. No, sir; but it certainly has an effect on industry and those that would enter into this type of license agreement because probably the type of thing that they fear the most is that they will enter into this type of agreement and then be subjected to lengthy litigation which is obviously very expensive and which is instituted by the Government.

Senator BURDICK. As far as you know now, there is no conflict among the various circuits or jurisdictions on this point since 1938?

Mr. PRAVEL. I do not know of any.

Senator BURDICK. Thank you.

Mr. PRAVEL. Now, from the standpoint of the field of use license, a patent might be looked upon as something comparable to a piece of property, maybe even a piece of land. Since I am from more or less an agriculture State of Texas, I think in terms sometimes of these patents as related to property such as land. If a land owner did not know whether he could license or use his land and lease it to others for the farming of two different products, say cotton on one section and corn on another, his reluctance would most likely lead him to farm it all himself, maybe very uneconomically, or maybe to plant only one crop which might be excessive on the market. But in any event it would lead him to this uncertainty and we find ourselves in this situation in the patent field in the area of field of use and probably in a more complex way.

I know from my personal experience that there was a patent that I obtained on a nozzle which had utility in two different fields. One was a drill bit for drilling oil wells, the other was a mud gun which was used at the surface of an oil well. This particular nozzle was invented by an individual who had no manufacturing facilities and he himself could not have produced it for either industry, but because of the licensing that he granted to the two different fields he was able to get the product on the market and into the hands of the utility consumer in both of these industries.

With respect to the *Lear* case, there is a section 301 which I believe is the most important one under the *Lear* case, at least as far as correcting what appears to be the misunderstanding in the dissent of that case.

There is also another provision in the Scott amendments, section 261, that deals with the licensee's obligations in the event the patent is challenged.

Senator BURDICK. Was the court divided in the *Lear* case?

Mr. PRAVEL. Yes, sir.

Senator BURDICK. What was the division?

Mr. PRAVEL. Three on the dissent.

Senator BURDICK. Whatever they decided, is not that the law of the land in all circuits now?

Mr. PRAVEL. The decision by the majority is the law but the point of it is that the majority did not actually decide this question of the trade secrets or what was the extent of the contractual rights between the parties. They remanded the case and the alarming part of the decision appeared in the dissent which was by Justice Black. The case went back to the lower court and it is my understanding that it was resolved there by settlement so it was left without any ultimate decision. So, we are essentially left with some of the language now of Justice Black and the other two that concurred with him in the dissent which is considerably troublesome.

It may appear this is a dissent not to be worred about but we have had at least one instance already of this being applied inappropriately in a district court in New York, *Painton* v. *Bourns*. Fortunately, it was overruled.

Senator BURDICK. It depends on what side you are on. Does not the majority have more weight than a dissent?

Mr. PRAVEL. Yes, sir. The majority, however, did not decide on this point. I should explain the point that is involved here perhaps a little more because I jumped into it.

In *Lear* v. *Atkins* the point that we are concerned about, I should say, in *Lear* v. *Atkins*, is whether or not there is anything left to the area of trade secrets; are they still protectable? Can you still grant a license under trade secrets and have anything left? Can you grant a license under a patent application?

Now, the majority opinion really did not reach that point. That is the problem. They sent it back to the district court for decision and then it was resolved by settlement, so it was never decided. And the dissenting opinion is a very strong dissent to the effect that there should not be any protection for trade secrets which are disclosed to others by license agreements.

Actually, in my practice, and I speak personally, of course, there are all types of practices represented in the National Council of Patent Law Association. We have patent lawyers in private practice and in corporate practice. Government practice, but in my practice, which is essentially dealing with individuals and relatively small corporations and companies, this licensing of patents, and particularly trade secrets and things of this sort, is a very vital and important thing. Even patent applications today are in question as to licensing and, of course, if you cannot license a patent application this means that the invention may not get on the market for perhaps 2 or 3 years until that patent is issued because it takes this length of time for the patent applications to be processed in the Patent Office. The patent owner, who may be an individual, if he has to wait until the patent issues, he is, therefore, prevented from entering into any licensing agreement until his patent is issued, which may be two or three years down the road. And if that is true, the product is effectively kept off the market and from the consumer for a period of 2 or 3 years. So, this is a very important and vital concern to the individual patent owner.

Finally, I would just briefly comment upon some of the statements made that the legislation in the form of the Scott amendments is said to be an attempt to subvert the antitrust laws. We have looked at this charge, we have examined the statutory language, we recognize that language may be modified, but certainly speaking for the smaller individual, the smaller company, we are as anxious for the antitrust laws to be enforced as anyone, and we fail to see how these amendments have any detrimental effect on the enforcement of the antitrust laws. They are directed to these areas of concern of uncertainty and we believe that they will be beneficial to the patent system, to the individual and to the users and licensees and the ultimate consumers of the products that are produced by this system.

Thank you, sir.

Senator BURDICK. I have not been here for all of the hearings, I have been in other committees, but I want to ask one question. Is the uncertainty between various jurisdictions regarding the decisions of the courts, or does uncertainty grow out of the comments made by the Department of Justice?

Mr. PRAVEL. Well, the uncertainty is two-fold at the present time, as I see it. The comments of the Department of Justice for one, and probably for the most part, but the other area of uncertainty results from the *Lear* v. *Atkins* case, not that there is a conflict in the circuits, but that the three justices spoke so strongly about the fact that trade secrets and so forth, should not be protectable.

Senator BURDICK. Well, this has happened in many fields of law where we get split decisions.

Mr. PRAVEL. Yes, sir; but the point is that we do not see that there is in—well, it is important to preserve this type of property in trade secrets. This is a valuable type of information and if you cannot license information of this kind, if I have some information that I would regard as know-how or trade secrets, if I cannot license this information to another party, this means that, effectively, that information must be bottled up within the one company that has it. It does destroy the dissemination of information and ultimately it is not as helpful to the country as a whole as if licenses are permitted.

The concern that the Supreme Court had, is in having published, things unpatented, which were given the protection by the State laws. But this is not a question of protecting published unpatented things, it is a question of permitting this information to be disseminated under contract. It is not a question of information which will be published.

Senator BURDICK. Well, thank you very much. I will study this very carefully.

(The statement referred to follows:)

NATIONAL COUNCIL OF PATENT LAW ASSOCIATIONS, ARLINGTON, VA.,
MAY 11, 1971

HON. JOHN L. MCCLELLAN
Senator, Chairman, Subcommittee on Patents, Trademarks and Copyrights, Judiciary Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR MCCLELLAN: As Chairman of the National Council of Patent Law Associations, I have been authorized to represent some of our member associations, whose names are listed at the conclusion of this letter. My

comments are directed to Amendments 23 and 24 to S. 643 which were introduced by the Honorable Hugh Scott. As the following statement will reflect, I speak in favor of such Scott Amendments.

At the outset, we wish to make it clear that the National Council of Patent Law Associations is made up of patent attorneys from every category of activity including corporate, government and private practice. The associations forming the National Council are widespread throughout the United States. It has sometimes been charged that patent attorneys foster and support patent legislation solely because it is in their self-interest but it is submitted that there is no more logical group to study, suggest and support patent legislation than patent attorneys because it is they who are in daily contact with the business world insofar as patents are concerned and it is they who deal with the day-to-day usage and problems of the patent system. Therefore, I make no apology for the fact that this presentation is made in behalf of interested patent attorneys. In fact, one of the principal aims of the Scott Amendments is to minimize litigation which has been threatened by the Justice Department in certain areas and it certainly cannot be said that it is in the self-interest of patent attorneys to minimize litigation.

The primary purpose of the Scott Amendments is to stabilize the law with respect to the licensing of patents so as to remove the uncertainty which has been created in recent years by dictum and misunderstanding in the courts, and by zealous efforts of some in the Justice Department to attack the patent system. The certainty which is introduced by these Scott Amendments will reduce costs of litigation to patent owners as well as patent licensees, not only in private suits between parties, but in government suits inspired by some in the Justice Department for their own purposes.

The certainty in the law which will be improved by the Scott Amendments will produce an increased use of patents and a greater respect for the value of patents in the business world. A simple comparison of a patent as a piece of property with a tract of land as a piece of property will reveal the value of this legislation. If the owner of a tract of land did not know for certain that he could lease it in part for growing cotton and in part for growing corn to different parties, the chances are that he would not lease the land at all, or he might lease the land entirely for growing cotton or corn, even though such approach might be uneconomical and perhaps even socially undesirable if either product is in excess. The same situation in a more complex way exists with respect to the licensing of a patent.

For example, under proposed Section 261(b) (2), a patent owner can license his patent in a specified "field of use", or he can license his patent on a basis which is less than all of the patent rights to different parties. This places the patent owner in a position to more widely diversify the use of his patent in fields in which he may not economically be interested or competent so that those parties who are interested and competent can put the patent to use in industry and thus make the patented item or process available to the ultimate consumer on a more economic basis. The short range effect of the field of use provision is thus to make available products to the consumer which might not otherwise be available in a particular field, or which might be available only at excessively high costs because of an unqualified or inexperienced manufacturer uneconomically attempting to use the patent in the particular field. The long range effect of permitting the field of use licensing is that inventions will be encouraged and new fields of uses for the inventions will be encouraged which is certainly a socially desirable end in the free enterprise economy of this country.

Section 261, subsections (e) and (f) of Senator Scott's Amendment No. 24 deal with the respective obligations of an assignor who sells a patent and a licensee who obtains a license under a patent. In both situations, the assignor and the licensee are left free to challenge the validity of a patent, but they are required to do so in a manner which is equitable and in good faith. Certainly, an assignor should not be permitted to retain consideration received for an assignment of a patent if he knows of a ground of invalidity of that patent at the time of the assignment. Likewise, a licensee should not get the benefit of a patent license while still attempting to destroy that patent in the courts. These subsections (e) and (f) thus protect the public interest by assuring the right of an assignor or licensee to challenge the validity of the patent, but they prevent bad faith actions by an assignor or a licensee which is encouraged by the present state of the law.

Section 271 (f) of Amendment No. 24 assures that the courts will apply the "rule of reason" test in considering license arrangements. This section is consistent with recommendation XXII of the "Report of the President's Commission on the Patent System". For example, this section would make it clear that such traditionally acceptable royalty arrangements, such as a percentage of the sales of a patented product or a product made by a patented process would not be considered a misuse or illegal extension of the patent right. Contrary to the charges made by critics of the Scott Amendments, it is submitted that this section clearly retains the rule of reason and assures that the patent system will not be arbitrarily limited by per se limitations or violations in the courts.

Section 271 (g) (1) of Amendment No. 24 provides for reciprocal rights of a patent owner to obtain a grant back of a nonexclusive license from his licensee. This provision would definitely encourage the licensing of a patent to a competitor or a potential competitor because it would assure such patentee that he would not be placed at a competitive disadvantage by the granting of the license on his original patent. This would place the parties in a more competitive position in the market place and thus benefit the ultimate consumer and the economy of this nation. In the absence of such a provision, a patent owner has little, if any, inducement to grant a license to a competitor or potential competitor because he constantly fears the grant of an improvement patent to the competitor or potential competitor which will place him at a competitive disadvantage. Thus, this subsection definitely serves as an inducement to a greater use of patents with a more widespread competitive effect from such usage.

Proposed subsections 271 (g) (2) (A) and (B) are principally concerned with the licensing of a group of patents owned by a single entity. The patent owner is encouraged by this legislation to license the entire group of patents to others if the royalty rate can be based upon the final product marketed rather than requiring a detailed inspection of each product to determine whether or not one or more of the patents in the group is being used. For example, if a patent owner of a number of patents on color television can charge a royalty for each television set which is sold, rather than requiring an inspection of each complicated television circuit, the cost of the license arrangement would normally be materially reduced to both the licensee and the licensor. Further, such licensor would not have to constantly "police" each TV set which is being sold to determine whether or not a royalty should be paid, and likewise, the licensee does not have to assume such obligation to determine when the royalty is to be paid. It is quite evident that if unnecessary and extra costs result from inspection and policing, such costs would unavoidably be passed on to the ultimate consumer. The savings in costs to the licensor and licensee can therefore be passed on to the ultimate consumer.

Subsections 271 (g) (2) (C) of Amendment No. 24 preserves the free enterprise bargaining on licenses as to royalty rates between the licensor and different licensees. It often develops that the first licensee is a pioneer in the use of a patented invention and is entitled to a lower license rate than a later licensee who enters the market without the pioneer expense of the licensee. This subsection will permit a different royalty rate under such circumstances. Of course, this section does not permit anti-trust violations which result from a conspiracy between the patent owner and the first licensee or any other licensee to exclude other licensees from the use of the patent.

Scott Amendment No. 23 to Section 301 of S.643 is essential to preserve the traditional protection and freedom of individuals and companies to contract with respect to know-how, trade secrets and confidential information. It prevents the courts from requiring the patenting of such information before any protection is available to the owner of such information. Know-how, trade secrets and confidential information can be extremely valuable, even though not patentable, and this is evidenced by the fact that many companies are willing to pay others for the disclosure to them of the know-how, confidential information and trade secrets of the other company having same.

In the absence of a clear statement of anti-preemption of this important field of information by the patent laws, the courts may continue to follow the totally destructive approach taken by the dissenting Supreme Court Justices in *Lear* v. *Adkins*, 395 U.S. 653 (1969), and by the District Court in *Painton* v. *Bourns*, 309 F.Supp. 271, (1970).

On the other hand, the passage of this proposed Section 301 would encour-

age the disclosure and use of know-how, trade secrets and confidential information. Why should an individual or company disclose or license its know-how, trade secrets or confidential information, or even its pending patent application, to any one unless it can be assured that it will receive fair and just compensation for such disclosure or license? The clarity and certainty of Section 301 is essential in this very important area of law.

In conclusion, I have read a letter to Senator McClellan charging that these Scott Amendments encourage the use of patents to bring competitors together into cartels for the purpose of eliminating competition. It is submitted that such charge is based upon emotionalism and an apparent distrust of the free enterprise system of government which has made this country the economic giant that it is. So far as can be determined, this charge is not founded on any substantive analysis of the provisions of the Scott Amendments, or upon any concrete evidence. Those who speak in support of the Scott Amendments including patent attorneys and patent owners, are certainly not advocating this legislation for the purpose of violating any anti-trust laws. The Sherman Act, Clayton Act and other anti-trust laws remain in effect. The entire purpose of these amendments is to strengthen the patent system, which has made its undisputed contribution to the economic greatness of the United States. The benefits of these amendments will flow to all, including consumers, and it is submitted that there is no basis in fact for the charge that the restraints of the Sherman Act, Clayton Act and other anti-trust laws are destroyed or limited by the Scott Amendments.

Respectfully,

B. R. PRAVEL,
Chairman.

ASSOCIATIONS AUTHORIZING THE FOREGOING STATEMENT

1. Connecticut Patent Law Association.
2. Michigan Patent Law Association.
3. Louisiana Patent Law Association.
4. New Jersey State Bar Patent, Trademark & Copyright Section.
5. Cincinnati Patent Law Association.
6. Rochester Patent Law Association.
7. Patent, Trademark & Copyright Section of Indiana State Bar Association.
8. Toledo Patent Law Association.
9. Houston Patent Law Association.
10. Central New York Patent Law Association.
11. Eastern New York Patent Law Association.
12. Patent Section of Bar Association of Metropolitan St. Louis.
13. State Bar of Texas, Patent Trademark & Copyright Section.
14. Milwaukee Patent Law Association.
15. Minnesota Patent Law Association.
16. San Francisco Patent Law Association.
17. Los Angeles Patent Law Association.
18. Oregon Patent Law Association.

Senator BURDICK. The committee will be in recess until 10:30 tomorrow morning.

(Whereupon, at 4:10 p.m., the hearing was recessed, to reconvene at 10:30 a.m., Thursday, May 13, 1971.)

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