

PATENT MISUSE

Testimony of Robert J. Hoerner*

The topic assigned to me for these hearings is patent misuse. I am sure most of you are generally familiar with the doctrine. If not, its history and antecedents can be found in a MONOGRAPH: INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION^{1/} and the types of practices held to be, or evaluated as possibly being, patent misuse are catalogued in a 1991 article which I wrote.^{2/}

Actually, however, it may well be that the topic is an anachronism, because in a series of cases beginning in 1988,^{3/} the Federal Circuit appears to have effectively abolished the doctrine, at least as it concerns so-called extension-of-the-monopoly misuse. A decision less than a month ago by the Seventh Circuit,^{4/} per Judge Posner, gives promise, however, that the Supreme Court may revisit the doctrine,^{5/} so we shall have to wait and see.

Any discussion of patent misuse must begin with an appreciation that a patent grants only a right to exclude anyone "without authority" from practicing the claims of the patent.^{6/} The patent does not authorize its owner to make, use or sell anything.^{7/} This right to exclude is enforced only by "civil action for infringement of his patent."^{8/}

Patent misuse renders the patent unenforceable until purge.^{9/} Having in mind that patent grants only the right to exclude, which can only be enforced by suit in Federal Court, a holding

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of unenforceability by reason of patent misuse totally and completely destroys the patent right until purge. No wonder, then, that patent misuse, and the permissible bases for finding patent misuse, have created controversy for over half a century.

The "misuse of the patent" doctrine originated by name in a 1942 case, *Morton Salt Co. v. G. S. Suppiger Co.*^{10/} There Morton sued a direct infringer of its patent covering a canning machine. Morton required its licensees, which did not include Suppiger, to use salt tablets purchased from Morton. While the Supreme Court expressed concern that Morton might be using the patent "as a means of restraining competition" in salt tablets,^{11/} it refused to consider whether Morton's licensing practices violated § 3 of the Clayton Act,^{12/} since it considered that Morton's licensing program was "in any event" "contrary to public policy."

What public policy?

[T]he public policy which includes invention within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office . . .^{13/}

The decision did not rest on an anticompetitive effect of Morton's practices or on an actual or incipient supposed monopoly on salt tablets, and thus had little to do with either economics or antitrust. It rested on the fact that Morton was trying to exclude its licensees from engaging in salt tablet commerce when salt tablets were not included in its claims.

Here is where the controversy with respect to patent misuse arises. Many practitioners, law and/or economics professors, government antitrust enforcers and even judges think that patent misuse is a sort of junior level anticompetitive practice which didn't make the Antitrust Violation Big Leagues and so is awarded only Patent Misuse nomenclature as a consolation

prize. They feel, however, that the possible results of a finding of patent misuse -- unenforceability; standing not required; competitive injury not required; vague contours of the doctrine based, as it was in part, on the doctrine of unclean hands; permissible assertion of patent misuse by an infringer who suggested the offending clause; patent expiration before purge or, worse, before the patent owner realizes that purge is necessary, etc. -- are so Draconian that, despite *Morton Salt*, patent misuse should be limited to use of the patent to violate the antitrust laws.

The Supreme Court back in 1918 said that if a patent is "worth the price, whether of dollars or conditions, the world will seek it."^{14/} Why, therefore, can a patentee not demand consideration from its licensees broader than the scope of his right to exclude, if the licensee is willing to accede to the patentee's demand and the patentee judges that the terms will not violate the antitrust laws. In my view, that is where the battle should be fought.

Set out in the endnotes are several licensing demands which might be considered patent misuse.^{15/} Assuming they would not violate the antitrust laws, are they practices which should be permissible? If permissible, they will likely be utilized. Will innovation be furthered or suppressed if they are? I leave the questions raised by these demands for each of you to ponder.

In the series of patent misuse cases referred to above, the Federal Circuit has said that patent misuse can only rest on a restraint of competition determined under the Rule of Reason in an appropriately defined relevant market.^{16/} Since the Rule of Reason typically requires a finding of substantial market power,^{17/} I construe those cases as abolishing extension-of-the-monopoly misuse and limiting the doctrine to use of a patent to violate the antitrust laws. It is

for that reason that I suggested that patent misuse, at least of the extension-of-the-monopoly type, may have become an anachronism.

The Federal Circuit cases suggest that the larger question is not what license terms should be considered patent misuse, but whether there should be a patent misuse doctrine at all. The Supreme Court did not require the Terminal R.R. Ass'n. to allow traffic to pass without charge over its bridge after it violated the antitrust laws. The Supreme Court said, instead, that "one of the fundamental purposes of the statute [15 U.S.C. § 2] is to protect, not to destroy, rights of property."¹⁸ The Supreme Court has never approved forfeiture, dedication or royalty-free licensing in a Government antitrust decree.¹⁹ A patent is granted as of right once a novel and useful invention is disclosed and enabled.²⁰ If a court takes away the patent owner's right to enforce the patent, the patentee nevertheless has no way to retract his disclosure. Neither the antitrust laws nor the patent laws expressly permit forfeiture of a patent because of an antitrust violation.²¹ Title 35 only states what cannot be found misuse, not what is misuse, so courts that created this judge-made doctrine can surely un-create it. Why should a private party be entitled to relief not available to the Government after it proves an antitrust violation?

On the other hand, the statement in Morton Salt that the "public policy which includes invention within the granted monopoly excludes from it all that is not embraced in the invention" has considerable staying power. Allowing licensing stratagems which expand the patent owner's right to exclude beyond its proper scope, whether in terms of substantive coverage, duration, geographic coverage or level of distribution could be thought to distort what is a carefully balanced patent system. On balance, I would support continuation of the doctrine, if properly limited, but the issue is close and others may reasonably differ.

Before closing, I would like to address one more point. Does activity within 35 U.S.C. § 271(d)(4) and (5) enjoy protection from a finding of antitrust violation? In a law review article reviewing the legislative history of § 271(d)-- hearings in 1948, 1949 and 1951 -- I conclude that it clearly does.^{22/} Unless "illegal extension of the patent right" in § 271(d) means no more than "misuse" as also used in § 271(d), which would make it redundant (not a favored tenant of statutory construction), the text of 271(d) also requires that conclusion. Since the late Judge Giles Rich was the architect of § 271(d) and the dominant player in the hearings, I took the liberty of writing to ask whether he thought I had reached a sound conclusion. His response was that "you seem to have correctly interpreted the hearings on the contributory revision bills." My article is attached as Appendix C, my letter to Judge Rich is Appendix C-1 and his response is Appendix C-2.^{23/}

I shall, of course, be pleased to answer questions during the roundtable portion of these hearings.

Thank you.

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1/ ABA SECTION OF ANTITRUST LAW, INTELLECTUAL PROPERTY COMMITTEE, MONOGRAPH: INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION, pp. 1-35 (2000) (hereafter "Monograph").

2/ Hoerner, *Patent Misuse: Portents for the 1990s*, 59 *Antitrust L.J.* 687, 704-11 (1991), attached as Appendix A, and MONOGRAPH, note 1, pp. 37-69.

3/ They are cited and discussed in Hoerner, *The Decline (and Fall?) of the Patent Misuse Doctrine in the Federal Circuit*, 69 *Antitrust L.J.* 669 (2002), attached as Appendix B.

4/ *Scheiber v. Dolby Laboratories, Inc.*, (Seventh Cir., No. 01-2466, opinion of June 17, 2002), 2002 WL 1307414.

5/ A similar "invitation" by Judge Posner in *Kahn v. State Oil Co.*, 93 F.3d 1358, 1363 (7th Cir. 1996) was accepted and resulted in *State Oil Co. v. Khan*, 522 U.S. 3, 22 (1997).

6/ *E.g.*, *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923).

7/ *E.g. Pfozter v. Aqua Systems, Inc.*, 162 F.2d 779, 784 (2d Cir. 1947) (per L. Hand, J.)

8/ 35 U.S.C. § 281.

9/ *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 493 (1942). As to purge, see MONOGRAPH, note 1, *supra*, pp. 30-33.

10/ See note 9, *supra*.

11/ 314 U.S. at 493.

12/ 314 U.S. at 494. Nevertheless, Judge Posner characterized Morton Salt as an "antitrust tying case" in *Scheiber*, 2002 W.L. 1307414 at p. 5.

13/ 314 U.S. at 492.

14/ *United States v. United Shoe Machinery Co.*, 247 U.S. 32, 65 (1918).

15/ Most of these demands have been litigated and cases dealing with them appear in Appendix A. After each, I have appended my own view -- "PM" for patent misuse, "NMF" for need more facts and "OK" for okay.

Should it be patent misuse for the patent owner to refuse to license unless:

1. . . . the licensee agrees not to ship licensed products to Brazil where the patent owner has no patents. (PM, unless artfully drafted)
2. . . . the licensee agrees to pay undiminished royalties after the patent expires, based on sales of licensed products after the patent expires. (Not PM, but unenforceable as to sales after expiration)
3. . . . the licensee agrees to grant back all patents which are improvements on the licensed patent. (NMF)
4. . . . the licensee accepts licenses on other unwanted patents. (OK)

5. . . . the licensee accepts a royalty base broader than the coverage of the patent claims. (OK)

Suppose the patent owner refuses to license:

6. . . . further after one license has already been granted. (OK)

7. . . . except at a royalty rate higher than that already granted to another licensee. (OK)

8. . . . except at a rate higher than that computable from the sale of an unpatented input which carries a label license with it. (NMF)

9. . . . but sues for contributory infringement those selling inputs useful only in practicing the patent. (NMF. Is such an implied license "conditioned" under § 271(d)(5)?)

10. . . . unless licensee agrees not to attempt to invent around the claims of licensed patent. (PM, and clearly so)

11. Suppose the patent owner will only sell the patented product pursuant to a condition requiring the buyer to destroy the patented product after use and not to repair it for resale. (PM, although *Mallincrodt* would suggest OK).

16/ See Appendix B.

17/ *Chicago Professional Sports Ltd. v. NBA*, 95 F.3d 593, 600 (7th Cir. 1996) and cases cited in ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS (5th ed. 2002), p. 68, note 365..

18/ *United States v. Terminal R.R. Assn.*, 224 U.S. 383, 409 (1912). In *Kelly v. Kosuga*, 358 U.S. 516, 520-21 (1959), the Court spoke of the "overriding general policy" "of preventing people from getting other people's property for nothing when they purport to be buying [licensing] it."

19/ *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415-16, *clarified on other grounds*, 324 U.S. 570 (1945).

20/ *James v. Campbell*, 104 U.S. 356, 358 (1882). See also, *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186-87, 189 (1933).

21/ See, e.g., *Radio Corp. of America v. Duovac Radio Tube Corp.*, 6 F. Supp. 275, 277 (E.D. N.Y. 1931).

22/ Hoerner, *Is Activity within The Subsections of 35 U.S.C. § 271(d) Protected From A Finding of Antitrust Violation?*, 74 J. PAT & TRADEMARK OFF SOC'Y 283 (1992).

23/ By its use of italics, the Federal Circuit appears to agree with my article and with Judge Rich. *CSU, L.L.C. v. Xerox Corp.*, 203 F.3d 1322, 1326 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001), an antitrust case:

The patentee's right to exclude is further supported by section 271(d) of the Patent Act which states, in pertinent part, that "no patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or *illegal extension of the patent right* by reason of his having . . . (4) refused to license or use any rights to the patent . . . 35 U.S.C. § 271(d) (1999).