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Patent Acquisition - Violation of Sherman Antitrust Law

M. Laundry

aura, or advance or inhibit any religion. The realm of religion is set off from the political structure. The secular must remain apart from the religious. So long as the governments, both Federal and State, remain neutral, we can maintain and fully exercise the right to choose and follow our own religion.

G. COHEN

PATENT ACQUISITION—VIOLATION OF SHERMAN ANTITRUST LAW—ONE of the most difficult areas of corporate law practice involves advising the client so as to prevent violations of the Antitrust laws. This problem becomes more complicated when the client notifies his attorney that he wants to acquire patents from his competitors. In this patent-antitrust area we immediately encounter what seems to be a conflict of concepts since the patent law specifically authorizes the acquisition of patents, which necessarily involves the acquisition of a legal monopoly.[1] Yet the antitrust law prohibits ". . . every person who shall monopolize or attempt to monopolize."[2]

Thus, in the recent decision of *United States v. Singer Mfg. Co.*,[3] the Supreme Court found that Singer had exceeded the limitations of the Sherman Act. In this case the lower court had dismissed the Government's civil antitrust suit against Singer, finding non-meritorious the Government's claim of an alleged violation of sections 1 and 2 of the Sherman Antitrust Act by a conspiracy and combination to exclude the Japanese from their importation and sale of infringing zig-zag sewing machines.

FACTS OF THE CASE

After an Italian sewing machine manufacturer, Necchi, had demonstrated a definite U.S. market for a household zig-zag sewing machine, Singer, as well as many foreign manufacturers, put its staff to work to develop a simplified sewing machine mechanism capable of automatically producing zig-zag and various ornamental patterns. By 1954, Singer had developed several such machines, was producing them and had filed two

1 The U.S. Const. Art. I, Sec. 8 authorizes Congress to "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their . . . Discoveries." Under the patent Code, 35 U.S.C. 101, whoever "invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent . . . ." Section 154 provides that a patent shall contain a grant "of the *right to exclude* others from making, using, or selling the invention throughout the United States" for the term of seventeen years.

2 The Sherman Act, Sec. 1, 26 Stat. 209 (1890), 15 U.S.C. 1 et seq. (1959) prohibits: "Every contract, combination . . . or conspiracy, in restaint of trade or commerce among the several States, or foreign nations . . . ." Section 2 further prohibits "Every person who shall monopolize or attempt to monopolize . . . any part of the trade or commerce among the several States, or with foreign nations. . . ."

3 371 U.S. 918, 10 L. Ed. 2d 823 (1963).

patent applications on such mechanisms in the United States as well as in various foreign countries where Singer planned to sell its machine. Then Singer learned that a foreign competitor, Vigorelli of Italy, had also filed patent applications covering substantially the same mechanism.

To avoid the possibility of a costly interference action before the U.S. Patent Office to determine who was the first inventor entitled to a patent, Singer entered into a cross-licensing agreement with Vigorelli in which Singer and Vigorelli agreed to settle any interference difficulties in which they might become involved pursuant to the laws of the patent office.

Singer then learned that another foreign competitor, Gegauf of Switzerland, had a zig-zag patent application which had a United States priority date some nine days ahead of Singer's. This meant that in any interference action between Singer's patent application and Gegauf's patent application, Singer would not be permitted to offer proof of an earlier date of invention than its date of filing in a foreign country. Consequently, Gegauf would be declared the first inventor entitled to a patent on the basic zig-zag mechanism. Singer thus found itself faced with the position of either being excluded from the zig-zag market by Gegauf or of having to pay heavy royalties to them.

Singer then began to negotiate with Gegauf in an attempt to avoid what they thought would be equally untenable choices. While the Gegauf Company felt secure with its patent application, it was worried about the inroads which the Japanese were making on the United States market. It appears the Japanese were manufacturing a number of zig-zag and ornamental household sewing machines which fell within the probable claims of the various patent applications under which Singer was licensed or which Gegauf had filed.

Singer used Gegauf's fear of the low priced Japanese machines as a "lever" to secure a license from Gegauf. Singer argued that without a license agreement the parties might fight each other and delay the issuance of a patent to one or both parties, and that the parties would be better off by licensing each other and by enforcing their respective patents. They finally entered a cross-licensing agreement similar to the Singer-Vigorelli agreement.

A few months later when Mr. F. Gegauf attended a United States sewing machine convention, Singer added to Gegauf's concern over the great number of Japanese machines at the convention by stressing to Gegauf the difficulties of enforcing a patent in the United States due to the large number of judicial circuits. Singer suggested that it could enforce Gegauf's patents in the United States more effectively than Gegauf.

As a result of this stimulation, Gegauf was finally persuaded to assign its United States patent applications to Singer for some $90,000. Singer

granted back to Gegauf a royalty free license allowing Gegauf to sell his foreign made sewing machines in the United States.

A few months later, when Gegauf's United States patents were issued, Singer brought a patent infringement suit against Brother Corporation, the largest domestic importer of Japanese sewing machines. Then in 1959 Singer brought an action before the United States Tariff Commission seeking a presidential order which would exclude all imported sewing machines which infringed its Gegauf patent.

Shortly after Singer brought this Tariff Commission action, the Government brought an antitrust action against Singer, alleging that Singer (and its co-conspirators, Vigorelli and Gegauf) had illegally conspired and combined to exclude their common infringing competitors, the Japanese, from importation and sale of their machines here.

The District Court for the Southern District of New York dismissed the Government's suit, concluding that the charges were without merit in that Singer as a patent owner whose patent was being infringed by imports had every right to resort to the United States Tariff Commission to seek an order excluding infringing machines.[4]

Issues Before The Supreme Court

In its direct appeal to the Supreme Court, the Government based its appeal entirely on a violation of Section 1 of the Sherman Act[5] which prohibits restraints of trade, *i.e.*,

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal . . . .

Thus, the Supreme Court of the United States had the following issue to decide: Was there an unlawful combination or conspiracy to restrain or exclude competition in the trade and commerce involved?

The Supreme Court in its analysis of the situation set out what was *not* involved in the case:

> There is no claim by the Government that it is illegal for one merely to acquire a patent in order to exclude his competitors; or that the owner of a lawfully acquired patent cannot use the patents laws to exclude all infringers of the patent; or that a licensee cannot lawfully acquire the covering patent in order better to enforce it on his own account even when the patent dominates an industry in which the licensee is the dominant firm.[6]

4 United States v. Singer Mfg. Co., 205 F. Supp. 394 (S.D.N.Y. 1962).

5 Sherman Act, Sec. 1, 26 Stat. 209 (1890), 15 U.S.C. 1 (1959).

6 United States v. Singer Mfg. Co., 371 U.S. 918, 9—, 10 L. Ed. 2d 823, 834 (1963).

Thus, what was involved was whether or not:

> . . . Singer engaged in a series of transactions with Gegauf and Vigorelli for an illegal purpose, i.e., to rid itself and Gegauf together, perhaps, with Vigorelli, of infringements by their common competitors, the Japanese manufacturers . . . that in this respect amount to a combination or conspiracy violative of the Sherman Act.[7]

The Law Before Singer

While there is some apparent conflict at first glance between the patent laws and the antitrust laws, the cases and various writings on this subject suggest that there is no real conflict since each set of laws operates in its own area. The purpose of the Sherman Act is to preserve competition, which is said to be in the public interest, while the patent laws serve the public interest by promoting the progress of science and the useful arts.[8] Thus the Sherman Act does not forbid all restraints of trade but only those which are *unreasonable*. As stated in a leading case: "Only acts, contracts, agreements or combinations which operate to the prejudice of the public interest by *unduly* obstructing the due course of trade, fall within the condemnation"[9] of the Sherman Act. (Emphasis Supplied.)

It has repeatedly been held that the mere accumulation of patents is not illegal, regardless of the number acquired.[10] Thus, while a patent grant is a monopoly given to encourage invention and develop progress, it is generally considered a good monopoly and not an *unreasonable* restraint on trade.[11]

With regard to the acquisition of patents by a party, the courts note the distinction between one party's actions in acquiring patents and the actions of two or more parties in restraining trade.

> Patents confer a monopoly as respects the property covered by them but they confer no right upon the owners of several distinct patents to combine for the *purpose* of restraining competition and trade . . . .[12]

In *Kobe v. Dempsey*,[13] the plaintiff in a patent infringement action had acquired all the important patents pertaining to oil well hydraulic pumps with the result that before the defendant no one else had tried to manufacture such pumps. The court said:

> If a company acquires exclusive patent rights of one or more competitors with the result that actual or potential competition is

7 United States v. Singer Mfg. Co., *supra* note 6, 10 L. Ed. 2d 823, 835.

8 U.S. Const. Art. I, Sec. 8.

9 United States v. American Tobacco Co., 221 U.S. 106, 179 (1910).

10 Radio Mfg. Co. v. Hazeltine Research, 339 U.S. 827, 834 (1949), *rehearing denied*, 340 U.S. 846, (1950).

11 *Ibid.*

12 National Harrow Co. v. Hench, 83 Fed. 36, 38, (3d Cir. 1897).

13 Kobe v. Dempsey Pump Co., 187 F.2d 418 (10th Cir. 1952).

> decreased . . . the acquisition would appear to violate the antitrust laws.[14]

On the other hand, the law favors peaceable settlement of disputes and cross-licensing agreements are frequently considered reasonable means of settling interferences.[15]

Decision In Singer

The Supreme Court of the United States, in reversing the lower court and finding that Singer had violated the Sherman Act, again considered the District Court's finding that Singer's purpose in entering the license agreement with Gegauf was to obtain protection against the infringing Japanese sewing machines. From this, the Supreme Court found a common purpose between Singer and Gegauf to suppress Japanese sewing machine competition in the United States through use of the Gegauf patent which could only be secured to Singer by repeated assurances to Gegauf that exclusion of the Japanese would result.

Examining the various agreements entered into by Singer, the court noted:

> . . . by entwining itself with Gegauf and Vigorelli . . . Singer went far beyond its claimed purpose of merely protecting its own 401 machine—it was protecting Gegauf and Vigorelli the sole licensees under the patent at the time, *under the same unbrella.* This the Sherman Act will not permit . . . the facts . . . indicate a common purpose to suppress the Japanese machine competition in the United States through the use of the patent, which was secured to Singer on the assurances to Gegauf . . . that such (suppression) would certainly be the result.[16]

Both Vigorelli and Gegauf, as the court correctly pointed out, would be permitted under the various agreements, including one prior cross license between Vigorelli and Gegauf, to sell machines under the Gegauf patent in the United States. The sales under these agreements in 1959 alone accounted for some 16% of the machines sold in the United States.

The court then found that Singer did not *need* the assignment of the Gegauf patents since it already had a license from Gegauf to make, use and sell machines covered by the patent. Thus, Singer's purpose was to exclude competition.

> Singer cannot of course contend that it sought the assignment of the patent merely to assure that it could produce and sell its machines, since the preceding cross license agreement had assured that right. The fact that the enforcement plan likewise served Singer is of no consequence, the controlling factor being the overall

14 *Id.* at 463.
15 Standard Oil Co. v. United States, 283 U.S. 163 (1930).
16 United States v. Singer Mfg. Co., 371 U.S. 981, 9—, 10 L. Ed. 2d 823, 838 (1963).

> common design, i.e., to destroy the Japanese sale of infringing machines in the United States by placing the patent in Singer's hands the better to achieve this result. It is this concerted action to restrain trade, clearly established by the course of dealings, that condemns the transactions under the Sherman Act.[17]

In conclusion, the Court noted the advantages accruing to Singer from the assignment of the patent. Singer was the only American corporation of the group and with the assignment became the only company that could, in one action before the United States Tariff Commission, exclude all infringing Japanese machines.

Conclusion

It would appear that the Supreme Court had no other course but to find an illegal combination or conspiracy in restraint of trade when faced with the volume of evidence produced by the Government of the "common concern" about Japanese competition.

As has been said, the mere acquisition of patents is not wrong, but in this case, *one* of Singer's reasons for acquiring the patents was *to use it to exclude* the Japanese. Since Gegauf was licensed under the patent to sell their European made machines in the United States, it would profit from Singer's enforcement of the patent, but Gegauf's other reason for stopping the Japanese in the United States was to keep them from getting so large that Gegauf might not be able to stop them in the various countries of Europe in which his zig-zag mechanism was patented. Thus, what the Supreme Court condemned was a combination or conspiracy to exclude by an agreement having exclusion as an ancillary if not a primary object.

The questions which immediately occur are why did Singer go to this extent to acquire the patent, and was there another course open to Singer which would not have violated the Sherman Act?

One course of conduct open to Singer would have been the outright purchase of the Gegauf patent, probably at a much higher price, but without granting the right to Gegauf to sell his machines in the United States. In this way, it certainly could not be contended that Gegauf had an immediate reason for seeing the Japanese excluded from the United States since he would not stand to benefit directly. But Gegauf would have profited in his European market—and also, *and possibly more important* in the government's eyes, such a course would have eliminated Gegauf as a United States competitor. This would have lent more weight to a charge that Singer violated the Sherman Act by attempting to monopolize.

Another more successful course would probably have been for Singer to offer his Japanese competitors a license under the Gegauf patent at some reasonable royalty. Such a course would seem to have been at most a

[17] *Id.* at 838.

reasonable restraint on trade consistent with the patent monopoly granted and not violative of the Sherman Act.

The end of this story, however, is not yet in view for it may still be possible for Singer to cleanse its unclean hands. Whether the Supreme Court, the Government, or the District Court will permit such a cleansing remains to be seen. The result may be, as it has been in other cases, a situation in which Singer owns a valid patent rendered unenforceable by an actual or implied grant to the Japanese "infringers" of a royalty-free patent license.

On the other hand, it is entirely possible, and in fact probable, that even at this late date an offer to the Japanese importers of infringing zig-zag machines of a license under the Gegauf patent at a *reasonable* royalty may suffice to "cleanse" Singer's hands. It is clear, however, that a *reasonable royalty* now, after Singer has lost its battle with the Government, may be considerably less in amount than a *reasonable royalty* prior to the Government's antitrust action against Singer.

This case demonstrates the difficulty of reconciling the businessman—corporate client's natural drive for maximum profits (especially where he has a legal patent monopoly) with the Sherman Act's prohibitions against restraints of trade.

It is important to remember that the Sherman Act does *not* prohibit *all* restraints of trade but rather only contracts, combinations or conspiracies in *unreasonable* restraint of trade. Thus, when a corporate client seeks advice about acquiring patents from *competitors* without violating the Sherman Act, it would seem that such acquisition is more likely to be considered a *reasonable* restraint of trade where licenses under such patents are offered openly to other competitors on a reasonable royalty basis.

M. LAUNDRY