Antitrust Encroachment on Patent Imperatives

Arthur R. Whale
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INTRODUCTION

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

It is the purpose of this article to examine certain of the specific provisions often found in licensing agreements which are under actual or threatened attack. These provisions are:

1. Field-of-use provisions;
2. The right to license or not to license;
3. The freely negotiated royalty;
4. Royalty differential between nonexclusive licensees;
5. The royalty base;
6. Royalty for the package license; and
7. Royalty payment after expiration of the patent.

The first two provisions are considered "absolute imperatives." Their importance is viewed as sufficient to justify statutory declaration of legality. The remaining five provisions are considered "provisional imperatives." They are likewise important and should at least be regarded as presumptively legal, subject to a demonstration of unreasonableness. The author believes it is necessary to foreclose (1) judicial declaration that such provisions are per se illegal and (2) effective intimidation to the same effect by the Department of Justice.

* Manager, Organic Chemicals Section, Patent Department, The Dow Chemical Company.

The author desires to express special gratitude to Tom Arnold, Theodore L. Bowes, Bill Durkee and Frank L. Neuhauser for their comments on various aspects of this subject, although it cannot be said that any of them, or The Dow Chemical Company subscribe to all of the views expressed herein.
This necessity will be shown by considering the function of patents in the innovative process and the practical problems of the patent owner in utilizing his patent through licensing.

**The Role of Patents in Innovation**

There are two distinct and 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 progress of . . . useful arts."¹

The first role is to provide an 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 to exercise 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).

But the oftentimes risky investment in research, development, design, manufacturing and marketing activities could hardly be justified if the results could always be freely copied by those having no such costs 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. This is what the patent system gives in exchange for disclosure of the invention in a patent—provided the invention can qualify as sufficiently different from what has been done before to merit a patent.

Given this limited lead time, which in the United States is seventeen years, the patent owner has an opportunity to recover his expenses, earn a profit and possibly invest in other innovative ventures, so long as the public is satisfied his product is worth the price. It is the prospect of patent coverage that justifies much of the 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 is to aid in securing or

¹ 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.

supplementing 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 is not realized until the patented invention is embodied in a product or service available to the public. The right to exclude others from using 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 the market. It is therefore essential that if the patent owner decides to market the invention he be able to license his patent to secure what he lacks in the means to market through the vehicle of license agreements.

This is particularly important where the invention is capable of application outside the inventor’s 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 to 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 is important in resolving patent-antitrust conflicts in the area of patent licensing.

Too often, however, the patent-antitrust conflicts are resolved solely by examining whether striking down the patent owner’s licensing arrangements would impair the incentive to invent. Professor Donald F. Turner, former Assistant Attorney General, has fallen victim to this all-too-narrow approach when he assesses the impact of the antitrust laws on the patent system and concludes that “antitrust does not retard technological progress.”2 This approach measures the impact of antitrust enforcement on the patent system by its effect on only one of the two essential ingredients of innovation.

Certainly, there could be an extreme reached in antitrust enforce-
ment which would all but destroy any incentive to invent. But before
that point, the innovation fostered by the patent system could be severely
impaired by unduly limiting the right of the patent owner to secure the
ability to market his invention through licensing his patent.

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, he does, indeed,
enjoy a "monopoly," albeit a temporary one. But the temporary monop-
oly of the patent takes nothing from the public, for the patent by law
covers only that created for the first time by the inventor. In some
quarters, the monopoly of the patent has given rise to the erroneous idea
that patent and antitrust concepts are endlessly opposed and that in
patent-antitrust confrontations the patent must always yield.

In truth, however, the utilization of the temporary patent monopoly
brings an entirely new dimension to the free competition sought by the
antitrust laws. This new dimension arises from the necessity for compet-
itors to discover their own routes to successful products, a process which
in its implementation brings new and better products to the market. In-
deed, there is no stronger incentive to invent, or to invest in inventive
efforts, than a successful, patented product in the hands of a competitor.
This may properly be called "innovative competition" or "competition
in value," as distinguished from "price competition" which is not secured
through application of any of the antitrust laws.

PATENTS, PROFITS, AND PROPHETS

If the support of inventive efforts leads to the 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 arti-
cle, a device or machine, a chemical compound or combination of com-
pounds, 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 to use the process in his own plant.

However, if in his business judgment he decides that the best oppor-
tunity for profitable use of the invention lies in granting licenses to
others, he must proceed with the utmost caution. 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, 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 in which he finds himself. Obviously, the arrangement must hold prospects of profit for both parties. A patent is not like a commodity that can be priced and placed on the shelf for sale. In "merchandising" or licensing a patent, many factors must be considered, some arising from the interests of the patent owner and others from the interests of the potential licensee. By a process of negotiation, each party represents its interests and strengths in seeking to arrive at an arrangement satisfactory to both which is within legal bounds and 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 licensing agreement, are the following:

- Cost of development to the patent owner and licensee;
- Anticipated volume of sales;
- Patent owner's product line and market position;
- Need for exclusivity;
- Territory of sales or use;
- Availability of substitutes not under patent;
- Number of patents involved;
- Scope of invention versus 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 licensee 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;
Availability to patent owner of later 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 infringement suits brought by others; and
Conditions for terminating the license.

In taking these and other factors into account, the patent owner can properly include in the license only those provisions reasonably related to securing the legitimate benefits of the patent grant (the right to exclude others from making, using or selling the patented invention). If the license goes further, the legality of the arrangement can properly be called into question because the patent has been employed beyond its lawful scope. In the latter instance, the patent owner is said to have "misused" his patent.\(^3\)

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.\(^4\)

\(^3\) Motion Pictures Patent Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). See also Morton Salt Co. v. Suppiger, 314 U.S. 488 (1942) for an elaboration of this theory.

\(^4\) The phrase "antitrust laws" refers to Sections 1 and 2 of the Sherman Act, which provide that contracts, combinations or conspiracies in restraint of interstate or foreign trade or commerce are illegal (§ 1) and that 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 and are subject to criminal sanctions (§ 2), 15 U.S.C. §§ 1-2; Sections 3 and 7 of the Clayton Act which provide that 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 lessor's competitors where the effect may be to substantially lessen competition or tend to create a monopoly (§ 3) and that 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 competi-
While patent misuse is effective only as a defense to a suit for infringement or a related suit for breach of a license, activities believed to constitute antitrust violations may be enjoined by a court at the request of the Department of Justice, acting in the name of the United States Government, or on the basis of an action brought by injured private parties. The penalties for antitrust violations can range from heavy fines to prison sentences, and injured private parties can sue for treble damages.

In view of recent interpretations of the antitrust laws, the patent owner who licenses his patent needs the gift of prophecy. For 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 the Department of Justice might interpret the license provisions, but also how changing business circumstances might affect such interpretations.

The Dilemma of Uncertainty

As will be demonstrated below, the state of the case law on patent license provisions is unsettled in the extreme. But of equal importance is the uncertainty created by the posture of the Department of Justice. The establishment of a Patent Unit within the Antitrust Division of the Department of Justice underscores the concern on the part of patent owners as well as licensees over some of the policies that seem to be emerging in the patent-antitrust area.5

Speaking in Washington D. C. on June 5, 1969, Assistant Attorney General McLaren, who is in charge of the Antitrust Division of the Department of Justice, outlined the guiding philosophy of antitrust enforcement:

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 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)\(^6\)

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 also with whether the particular licensing arrangement was "necessary" or whether there might have been other ways of using the patent that would have imposed less "restriction" on the licensee.

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. Nevertheless, the patent owner would be called on to 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.

**LEGISLATIVE RECOGNITION OF PATENT IMPERATIVES**

The present patent statute, 35 U. S. C. § 1 et seq., does not address itself specifically to any of the patent licensing problems of concern here beyond the general declaration in Section 261 that "patents shall have the attributes of personal property." Perhaps the first unbiased recognition of a need for legislation in this area came, surprisingly, from the President's Commission on the Patent System. This Commission, appointed by President Johnson in 1965, reported its findings in 1966.\(^7\) Its report was not regarded by the patent bar as being particularly solicitous of some aspects of the patent system, but the Commission went out of its way to deal with the relationship between the patent system and the antitrust laws. In Recommendation 22 the Commission urged:

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

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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.

Senate Bill 1042, the so-called "Patent Reform Act," was introduced in 1967 to implement generally the Commission’s recommendations, but it failed to include provisions embodied in Recommendation 22. Although Senator Long (Democrat, Missouri) subsequently introduced amendments to Senate Bill 1042 covering field-of-use licenses and adopting a rule of reason approach to determining patent misuse, later bills omitted substantial reference to this area. The reasons were two-fold: first, the patent bar became absorbed in the patent provisions of the various bills and failed to give adequate attention to antitrust questions or to take advantage of the opportunity afforded by the Commission’s Recommendation 22, even though the Commission’s Report was the basis or stimulus for all the bills that followed. Note, for example, the remarks of Senator McClellan (Democrat, Arkansas) accompanying the introduction of Senate Bill 3892 in 1968:

The bill does not contain any special provisions relating to the licensing of patent rights, field of use restrictions, and the doctrine of patent misuse, such as were recommended by the President's Commission. Although I believe that the recommendations of the Commission are generally meritorious, there was little direct testimony during the hearings on the patent-antitrust relationship. (Emphasis added).

Second, during this period the Department of Justice was effectively discouraging any legislation sounding like Recommendation 22. Note, for example, Senator McClellan’s remarks accompanying his introduction of another patent bill, Senate Bill 1246, in 1969:

This bill does not contain any special provisions relating to the licensing of patent rights, field-of-use restrictions, and the doctrine of patent misuse, such as were proposed by the President’s Commission. Although I believe the recommendations of the Commission in this area were generally meritorious, the Department of Justice during the subcommittee hearings strongly opposed the inclusion of such provisions in the patent revision bill. (Emphasis added).

Again, Senator McClellan had this to say later in 1969 as he introduced Senate Bill 2756, the patent bill now pending before the Congress:

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8 These amendments were introduced May 3, 1967.
I have felt that the relationship between the patent and antitrust laws deserved careful consideration and with the change in administration I wrote to the Attorney General on February 28 [1969] asking for the current views of the Department of Justice. I received on June 10 [1969] a letter from Richard W. McLaren, Assistant Attorney General, Antitrust Division, stating, "I strongly urge the committee not to incorporate Proposal No. 22 in any proposed patent legislation." Mr. McLaren indicated that any necessary development or clarification of the law in this area could be obtained as part of the Department's antitrust enforcement program. (Emphasis added).11

There matters stood in the Congress until April 7, 1970. On that date Senator Scott (Republican, Pennsylvania) introduced amendments to sections 261 and 27112 of the latest bill, Senate Bill 2756, which would, in essence, change the present statutory provisions in several important respects:

(1) New Section 261 would specifically legitimize the field-of-use license as a simple extension of the concept underlying the territorial license;

(2) Section 271 would extend the exemptions from misuse to those licensing arrangements which exclude conduct otherwise actionable as infringement or conduct that is reasonable under the circumstances to gain for the patent owner the full benefit of his patent grant; and

(3) Section 271 would provide for exemptions from misuse of certain specified practices concerning royalty, fee or purchase price.

The actual scope of new Section 271 is unclear, and it would appear that clarification is in order. Section 261, however, is unambiguous and, as will be noted below, is directed to much needed changes in the patent statute.

The final contribution by Senator Scott in his trio of amendments would modify Section 301 of Senate Bill 2756. This amendment is directed at the dire prospect that licensing of trade secrets and proprietary information would be precluded on the theory that the federal patent laws pre-empt the enforcement of private contracts purporting to license inventions not patented or patentable. The prospect arises from

recent court decisions, so the problem is here and now. It is submitted that Senator Scott’s Section 301 deals effectively with this serious development and merits strong support, although substantive discussion of the question is beyond the scope of this paper.

**The Imperatives**

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

Company A is a 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 the building field 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 contemplates 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

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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;\(^{14}\) (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;\(^{15}\) (3) it has opened itself to private antitrust and treble damage claims from its competitors as well as those of its licensees;\(^{16}\) and (4) it has provided ingredients of a defense of patent misuse by charging different royalty rates under the same patent.\(^{17}\)

This example illustrates several patent imperatives. Company A is small and incapable of extending its market outside its home area. But the magnitude of the invention's contribution is not diminished 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 licensees 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 for Company A would have been 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.

It should not be taken as the author's position that all the patent license provisions discussed herein should be permitted to stand in all circumstances. Even the most innocuous or justifiable terms can be applied in conjunction with other practices to produce results that are


\(^{15}\) Supra note 6.


anticompetitive and clearly beyond the scope of the patent grant and inimical to progress in the useful arts. But to adopt the uncertain test proposed by the Department of Justice, or to permit the declaration of per se illegality of individual license terms 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.

Field-of-Use Licenses

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 sums in adapting the basic technology to their particular fields and bring the public new products that differ significantly from the old ones.

Among the ways in which 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 imperative" is specifically assured in the present statute and enables the patent owner to license his patent in the whole or any part of the United States. It is, unfortunately, common to refer to this form of division of the patent right as a territorial "restriction." The technical objection to the word "restriction" is that it implies an agreement with respect to the unlicensed territorial scope. However, no such agreement can properly (or even logically) be implied from the territorial license. By accepting a territorially-limited license, the licensee is making no more commitment to stay out of the unlicensed territory than is any other

party. If he invades it he is an infringer and, like any other party, is subject to the consequences thereof.

The license for use or for sale or resale in a specified field of use might be termed a “functional imperative” and rests on precisely the same principle as the territorial license. It involves the grant of less than the patent owner’s total right to exclude. As will be noted later, semantics have also 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 than might otherwise be the case.

Those who oppose licenses to specific fields of use 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 own 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

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20 This useful analogy was suggested by Mr. John Schulman in private correspondence.
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 are like the field-of-use license: they 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 his practice of the invention or to veto additional licenses, may understandably encounter difficulties as outside the grant. But a license is a two-party negotiated agreement and must offer prospective advantages for the licensee as well as licensor. Legitimate concerns of a licensee which the patent owner may properly consider in negotiating terms of the license include the following, all of which can best be served by a field-of-use license:

A prospective licensee may want to commit himself under the license only for a particular product or technological area in which he has an interest, 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 practicing 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 lump-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 can cancel individual licenses where he is unable to meet the minimum without disturbing the licenses in his more successful fields; and

21 McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir. 1948).
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 Company B, which as the patent owner could rightfully exclude all others from practicing the invention for any purpose whatsoever, to part with a portion of its 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.

Here, as with the territorial license, semantics have become important. The Department of Justice sees no difference between a license containing a positive restriction against selling in a particular field and a patent license limited to a particular field; by mechanistic reasoning it would condemn both as illegal divisions of markets. It regards the fact that in most instances the licensee does not stray into the unlicensed area as evidence of a tacit agreement to divide the market. Here, it would appear that 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.

There is another paradox in the Department’s position. An agreement to divide markets between competitors is a per se violation of Section 1 of the Sherman Act. If field-of-use licenses are equated to division of market agreements, they, too, must be per se antitrust violations. However, the Department would sanction such licenses where the patent owner was reserving to himself a portion of the total field covered

by the patent. It would seem that if the field-of-use licensee is, according to the Department's thesis, impliedly agreeing to stay out of part of the patent's field in one case, he is doing so in the other. On what basis, then, can the Department find these field-of-use licenses justifiable and others not?

It is of interest to note that President Johnson's White House Task Force on Antitrust Policy, in a report released and commented on favorably by Assistant Attorney General McLaren, recommended that patent owners be denied the right to grant exclusive licenses except as to specific fields of use. (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.) Thus, the Task Force recognized the importance of exclusive field-of-use licenses, but the paradox in the Department of Justice continues.

The courts have been more solicitous. In 1938 the Supreme Court expressly sanctioned the field-of-use concept in the General Talking Pictures case. Since then, licenses to use in a specified field or to sell to customers for use only in specified fields have been widely upheld. Adverse decisions have, of course, resulted where the field-of-use provision was coupled with practices which in total effect violated antitrust principles.

The Department of Justice, however, predicts a judicial turn against field-of-use licenses. A spokesman argues that the reliance in General Talking Pictures on the General Electric case, the latter upholding the right of a patent owner to fix the sales price of its competing licensee-manufacturer, renders the continued legality of field-of-use licenses "extremely doubtful" because General Electric is "ripe for overturning." But price fixing does not form a necessary part of field-of-use licensing.

26 Supra note 6.
28 Supra note 6.
32 Supra note 18.
The Department could be right, however, and if General Electric is overturned a court not pausing to examine the different principles involved might well dispatch the field-of-use license on the unfortunate reasoning that it is inseparably tied to General Electric. This simply illustrates the need for legislative clarification of the field-of-use imperative.

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.

It will be recalled that President Johnson’s Commission on the Patent System singled out the field-of-use license as a subject of particular concern. The Commission urged that by statute the owner of a patent be entitled to license his patent “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.” It proposed this as an absolute right—not conditioned by a rule of reason which could be applied mischievously to defeat what the Commission clearly regarded as an imperative in the effective utilization of patents for the benefit of all concerned.

Senator Scott’s amendment to Section 261 of the presently pending Senate Bill 2756 would implement the Commission’s Recommendation 22 in this regard by the following language:

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. (Emphasis added).

This neatly combines the “territorial” imperative and the “functional” imperative, together with another absolute imperative, the right to license or not to license.

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, 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 like Company C to grant additional licenses beyond the first. 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.  

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:

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.

Compulsory licensing in the United States has heretofore been re-
served for use by the courts as a penalty for illegal conduct in connection 
with patents. Now, however, the Task Force would incorporate the 
concept into the law, not as a penalty but to apply uniformly to force 
additional licensing by a patent owner who has once licensed his patent. 
The fundamental objection to compulsory licensing as law or policy is 
fully operative here. To the degree that everyone can have access to a 
patent, the incentive otherwise afforded by the patent to invest in its 
commercial utilization is dissipated and the purpose of the patent system 
subverted.

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. This, indeed, would 
appear to be true.

The problem is not confined to study groups, as is evidenced in 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:

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 interesting to compare this language with that of a decision of the 
same court (different judge) rendered four months earlier:

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).

United States, 323 U.S. 386 (1945).
Ill. 1969).
The selection of licensees is an important undertaking. 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 devise a responsive yet "legal" licensing program. Legislative intervention to assure the right to license or not to license is in order.

It will be noted that Senator Scott's amendment to Section 261 of Senate Bill 2756, quoted above, would permit the patent owner to license his patent exclusively or nonexclusively "with a party or parties of his selection." The right to license and, no less, the right not to license are absolute imperatives that would be appropriately preserved by this statutory language.

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 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.

The above situation is taken from real life. The Court of Appeals for the Seventh Circuit held 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 requir-

ing such a royalty.\textsuperscript{41} On remand for determination of whether the royalty was in fact "exorbitant and oppressive," the district court concluded it was not.\textsuperscript{42} But the proposition stands as precedent, at least in the Seventh Circuit. One is moved to wonder if an initially "reasonable" royalty could become "exorbitant and oppressive" by virtue of changing competitive conditions in the industry, making the continuation of the license or its enforcement by the patent owner a per se violation of the antitrust laws. The uncertainty is unsettling.

Prior to the foregoing decision, 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:

> 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. . . . \textsuperscript{48}

Again, in 1964 the Supreme Court reaffirmed this position:

> A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of the patent monopoly.\textsuperscript{44}

A well-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):

> 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.\textsuperscript{45}

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 they 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 short-sighted patent owner who would not be willing to reduce the royalty in exchange for larger sales volume and, ultimately, greater royalty income.

\textsuperscript{45} Stearns v. Tinker and Rasor, 116 U.S.P.Q. 222, 235 (9th Cir. 1957).
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 an antitrust violation should be laid to rest by statute. Senator Scott’s proposed amendment to Section 271 would sanction “a royalty, fee or purchase price . . . in any amount.”

Royalty Differential Between Nonexclusive Licensees

University E owns a patent on a chemical having unique properties of interest for diverse uses. University E has no manufacturing facilities and no means for developing the uses commercially. It therefore licenses two manufacturers. One will invest in development of a valuable new use involving low volume consumption of the compound. The other will undertake to develop a new process utilizing the patented compound to manufacture more cheaply a known chemical for which the volume demand is high but market price relatively low. Royalty is set in each license to reflect the individual combinations of low volume-high value and high volume-low value, both in keeping with competition in the fields involved, the development costs to be incurred and, inherently, the value of the patented compound in the licensees’ undertakings.

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 machines 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. In those cases different rentals (royalties) were held to be anti-competitive 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. 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. 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.

Despite the compelling business justifications for such arrangements, patent owners are understandably concerned over the uncertainty of differential royalties. This, too, needs legislative clarification. Senator Scott’s amendment to Section 271 would permit “a royalty, fee or purchase price . . . differing from that provided in some other arrangement.”

The Royalty Base

Oil well drilling Company F licenses a patent on a method for treating the formation to increase oil production. The method involves 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 product 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 Company F, a less responsive or even nonresponsive basis is appropriate. For example, in the manufacture of television and radio sets involving many patents, royalty based on total sales has been upheld. The rationale

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49 Supra note 6.
advanced by the Supreme Court is the convenience of the parties and the absence of coercion by the patent owner. Other decisions involving payment of royalty 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.\(^5\)

While decisions raising the issue have usually been reasonable on their facts, litigation on the point has in every case put the defending party to great pains and expense. A simple legislative affirmation 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, that reasonably reflects the use of the invention would alleviate one troublesome aspect of patent litigation. Senator Scott’s amendment to Section 271 would allow royalty to be based on any method or measurement of payment, whether or not related to the subject matter of the patent or the extent of its use.\(^5\)

**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 municipality 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 expiration of 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 has been held that a party who seeks or volun-

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tarily accepts a package license does not thereby impose antitrust or patent misuse liability on the patent owner. 55 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. 56 Where a single product is involved, a mandatory package may be permissible, 57 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. 58 Fairly clear and objective criteria have thus 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 of 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 are related 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 desires access. It would therefore seem reasonable in such instances to permit royalty payments to continue so long

57 International Mfg. Co. v. Landon, Inc., 336 F.2d 723 (9th Cir. 1964).
as any patent in the original package that is being used remains unex-
pired.

The courts are in conflict. In the Tenth Circuit the practice of per-
mitting royalties to continue has been approved, as it was earlier by
the Supreme Court. But in the Third and Sixth Circuits the same prac-
tice has been held a patent misuse.

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 li-
cense 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 break-
down at the inception of the license, absent a package based on coer-
cion, and if at least one significant patent is still alive and being prac-
ticed, the full royalty should continue as agreed upon. Needless and
expensive litigation could be avoided by statutory acknowledgement of
this practical resolution of the problem. Senator Scott's amendment to
Section 271 would not require royalty to be separately stated for any
single patent in a licensed package.

Royalty Payment After Expiration of Patent

Patent owner H licenses a small, capable company under an impor-
tant 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 de-
veloped 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.

59 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),


61 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 (3d Cir. 1959),
cert. denied, 361 U.S. 902.

The 1964 decision by the Supreme Court in *Brulotte v. Thys Co.* held that a license requiring payment of royalties after expiration of the last-to-expire of a group of licensed patents was an attempt at projecting the patent monopoly and hence a misuse. 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 royalties, the decision has raised the prospect that payment of royalties beyond the patent's expiration might be held to 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. Senator Scott’s amendment to Section 271 would require all payments under a license, whenever due, to be for activities prior to expiration of the patent.

**Patents as Property**

The present statute declares that "patents shall have the attributes of personal property." As will be shown, much of the agitation from antitrust theorists today is in derogation of this concept.

There is no dispute that a principal attribute of personal property is the owner’s right of use and disposition. Of course, the law will im-

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pose limitations on the right or apply sanctions against the owner where
the public is injured by the exercise of the right. But ownership acts of
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 ownership rights of 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 is 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 use and disposition. Certainly, a normal incident of patent
ownership should be the right of the patent owner to retain the entire
patent property for his own use, or to dispose of all or part of it when-
ever, wherever and to whomever he chooses. It should not be presumed
at the outset that, in exercising his 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.

Nevertheless, the Department of Justice and some judicial deci-
sions 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 or
cannot afford to serve as test cases for new antitrust theories.

Some have urged, in the presumed spirit of compromise, that a
rule of reason be imported into the patent statute to test license provi-
sions against antitrust proscriptions. While the rule is often benevolently
employed as though it were a “rule of presumptive reasonableness,” it
is also susceptible of application in a manner requiring, in present con-
text, a patent owner to prove the reasonableness of his licensing arrangement, even though he is disposing of his patent rights on terms that are prima facie legal. It is no answer to say that license provisions should not be upheld unless they are "reasonable" from the antitrust standpoint, for the substantive importance of the burden of proof in any such determination is well recognized. Thus, it is submitted, where reasonableness is the only acceptable alternative to per se illegality of a licensing arrangement, it should be expressed as a "rule of presumptive reasonableness" and the burden unmistakably placed on the party asserting unreasonableness.

Senator Scott's amendments include a test of reasonableness only in conjunction with a paragraph permitting inclusion of license provisions that are "reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant." According to the Senator's introductory remarks, this is meant to include such matters as royalty reports to the licensor and other provisions for implementing terms of the license.

SUMMARY

It is too little appreciated that the role of patents in securing or supplementing the ability to market an invention can be as important as the role of patents in providing an incentive to invent or to invest in inventive efforts. Whether patents benefit the public and the patent owner or become vestigial depends in large measure on what patent owners are entitled to do with them.

This article does not contend for the legitimation by statute of practices heretofore generally condemned under antitrust. It does, however, urge resistance to the progressive encroachment of antitrust on practices clearly within the patent grant.

Three absolute imperatives for a vital patent system are under serious attack. The territorial imperative, part of the present statute, enables the patent owner to license his patent in any specified part of the United States. The functional imperative, sanctioned for many years in court decisions, entitles the patent owner to license any part of the field of use of his invention. (Both proceed on the sound theory that a

patent owner who can retain all patent rights for himself should be permitted to license less than all those rights to other parties.) The imperative of selection, presumed until recently to be the law everywhere, accords a patent owner the right to select or reject parties as licensees, regardless of whether he has previously licensed the patent. It is submitted that these licensing practices should be per se legal by statute.

Five provisional imperatives are likewise in danger. These at the very least need protection against the declaration or constant urging of per se illegality when in fact they may be entirely reasonable under the circumstances. Thus, the patent owner should have available to him, so he can adapt the license to the business situation he faces, the right to establish any royalty by free negotiation, to set different royalties between different nonexclusive licensees, to base royalties on any convenient parameter, to decline to break out royalty for single patents in a package license voluntarily agreed to by the licensee and to collect royalty after expiration of a patent for activities prior thereto. Such provisions should, by statute, at least carry a presumption of reasonableness so that the burden of proving unreasonable would rest on the party asserting it.

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.