Chapter 3 Comparative Analysis: US Legal Treatment of Patent Pools - Delineating the Modern Archetype

A. Outlook on the American Model: The Early Years

I. From the Initial Patent Holders' Immunity to the Fierce Supreme Court's Antitrust Scrutiny

Between the end of the XIX and the beginning of the XX century, US courts gave sweeping deference to the licensing of patents and such activities, in whatever forms they came into existence, were in practice considered immune to the application of antitrust restraints.[169] At the time you could rightly speak of a patent pools' substantial freedom of any competitive scrutiny. The first organizations mandating the licensing of technologies and the establishment of patent pools were indeed entrusted by the government of the United States in order to promote the public interest. This "green light" for the creation of patent pools has characterized the early history of this practice, which has played an important role in the business scene over the last one hundred years.

In 1856, some forty years before the Sherman Act became effective, the sewing industry, as mentioned in the preceding section, successfully instituted one of the first patent pools. Subsequently, the passage of the Sherman Act in 1890 – one hundred years after the first Patent Act of 1790 – set the stage for courts to begin construing how antitrust and patent doctrines should interact. As the Federal Trade Commission Report on Innovation pointed out,[170] "although both patent and antitrust have antecedents dating back farther than the enactment of those two statutes,[171]

169 Baltes C., "Patent Pools – An Effective Instrument for the High Technology Cooperation?", Spring 2003, available at: http://www.jur.lu.se/internet/english/essay/masterth.nsf/0/6C1CE2960E92A1BCC1256D2C003F6BEC/$File/xsmall.pdf?OpenElement, p.22 *et seq.*

170 US Federal Trade Commission, "To Promote Innovation: the Proper Balance of Competition and Patent Law", Report, October 2003, Chapter I, p. 15 *et seq.*, available at: http://www.ftc.gov/os/2003/10/innovationrpt.pdf

171 As Robert Merges and John Duffy pointed out, tracing the history of the core concepts of patent law through the present days, Aristotle discussed and rejected a proposal for a patent-like system in the fourth century B.C.; See Merges R. and Duffy J., "Patent Law and Policy: Cases and Materials", 2002, 3. ed., p. 1-13. Conversely, English courts wrestled with competition law early on and, for example, rejected a monopoly granted by Elizabeth I.; See "The Case of Monopolies", 77 England Report, 1260, 1603. Other competition law issues, such as restraint of trade cases, with parties demonstrating cartel behavior, were brought as contract cases. Courts in England and the United States refused to uphold such contracts, long before the

courts did not give significant attention to the intersection of patents and antitrust until the early 1900s". Early court opinions generally refrained from subjecting patent-related conducts to antitrust scrutiny,[172] most typically because it was considered that the very object of these patent laws was in fact nothing but a monopoly. Therefore Courts often seemed "to immunize from antitrust scrutiny the conduct of firms holding patents",[173] which also held true in case of patent pools with outright price fixing.

These were the golden years of patent pooling agreements, which reached their apices in 1902, when the Supreme Court, in the case *Bement & Sons v. National Harrow Co.*,[174] established the dominance of patent law over federal antitrust provisions. The Supreme Court expressly proclaimed that a patent holder enjoys absolute freedom to license his patents under any conditions contractually agreed upon between the patentee and the licensee. In the Court's view, the fact that the contract created a substantial monopoly, or even fixed prices, did not constitute a violation of the Sherman Act.

This idyllic situation for patent holders ended in 1912 with the United States Supreme Court's decision in *Standard Sanitary Manufacturing Co. v. United States*,[175] which dissolved a patent pool because of alleged antitrust violations. This case marked a milestone, since the courts began to condemn patent pooling as a practise that could indeed have antitrust implications. The patent pool at issue related to an enamelling process for sanitary ironware. In fact the pool brought together eighty-five per cent of the enamelware manufactures. Specifically, the pooling agreement provided that the participants agree on minimum sales prices, resale prices enforcement, and refusal to sell to unlicensed manufactures. The Supreme Court found that this was a clear case of misuse of intellectual property rights and ruled that the patentees crossed the line on what is necessary to protect the use of a patent, going beyond the legal scope of protection.[176]

When the United States entered World War I in 1917, they found themselves in desperate need of airplanes. As has also been set forth in the preceding section, at this time two firms held blocking patents necessary for the airplane manufactures. The Wright Company controlled the basic patent, namely the wing-twisting mechanism, while Curtiss Aeroplane & Motors Corporation held the principal patents for a

Sherman Act was written. See: Lopatka J., "The Case for Legal Enforcement of Price Fixing Agreements", Emory Law Journal, 1989, vol. 1, p. 38 *et seq.*

172 Among others, see: Bement v. National Harrow Co., 186 US 70, 1902; Heaton-Peninsular Button-Fastner Co. v. Eureka Specialty Co., 77 F. 288, 6th Cir. 1896; Strait v. National Harrow Co., 51 F. 819, N.D.N.Y. 1892.

173 Anthony, 28 AIPLA Q.J., p. 5.

174 Bement v. National Harrow Co., 186 U.S. 70 (1902), available at: http://supreme.justia.com/us/186/70/case.html

175 Standard Sanitary v. United States, 226 US 20 (1912), available at: http://supreme.justia.com/us/226/20/case.html

176 For a contextual historical-based approach, already embracing i.a. the decision at issue, see *supra,* Part. I of this contribution.

wing-flap mechanism that improved Wright's basic patent. The two companies, engaged in a long drawn-out dispute in which Wright accused Curtiss of infringement on its wing-twisting mechanism, refused to manufacture airplanes. This put the American government in a grave situation just before the entry into the war. To exit the impasse the National Advisory Committee for Aeronautics proposed a cross-licensing agreement where the aircraft manufactures should each pay a royalty to be able to have access to all patents in the pool. The Attorney General concluded that the pro-competitive effects of these arrangements outweighed any anti-competitive effects. It was the first time that a balance of the overall effects of a pooling agreement was reached, with due account taken of the concrete contextual features of the specific situation at issue. This agreement had the pro-competitive benefit of removing the stranglehold on the aircraft industry and, as the patents did not compete with each other or with any others outside of the pool, competition could not be hampered.[177]

However, by the 1930s the Supreme Court soon returned to its stricter approach towards patent pooling agreements, reflecting in its attitude a newly emerged stronger role of antitrust and a corresponding weaker role of patent law. In fact, at the time, patent was perceived by some commentators as a legal instrument favouring "the powerful and the unscrupulous" and therefore as being detrimental to competitors.[178] This jurisprudential line culminated in 1931 with the decision *Standard Oil Co. v. United States*,[179] which is also remembered as "the cracking patents case", where the Supreme Court created and applied the so-called "market power test" for the first time, which, based on the actual market power of the participating undertakings, provided the competent authorities with practical guidelines for determining whether a patent pool is violating antitrust provisions.

In 1945 the Supreme Court, applying again its "market power test", dissolved one of the most notorious patent pooling agreements in history with its decision in *Hartford-Empire Co. v. United States*.[180] The patent pool covered over six hundred patents, allowing its members to sustain glass prices at unreasonably high levels. Judge Hugo Black stated in the judgement: "The history of this country has perhaps never witnessed a more completely successful economic tyranny over any field of the industry than that accomplished by the appellants". As partial remedy the Court mandated the participating undertakings to license their patents to all interested third par-

177 On the antitrust issues underlying this case, see: Laurence I., "Patents and Antitrust Law", Published by Commerce Clearing House, inc., 1942, p. 148 *et seq.*; For a panoramic history of the rise of the US aerospace industry, retracing also the origin of the Manufacturers Airplane Association, see: Wayne B., "Barons of the Sky: from Early Flight to Strategic Warfare: the Story of the American Aerospace Industry", Published by Johns Hopkins University Press, 2002, p. 114 *et seq.*

178 Kahn A., "Fundamental Deficiencies of American Patent Law", American Economic Review, 1940 (30), 475, p. 485-86

179 Case, 283 US 163, 1931.

180 Case, 323 US 386, 1945; for more information see also the opinion of the Court delivered by Mr. Justice Roberts, available at: http://www.ripon.edu/faculty/bowenj/antitrust/hart-emp.htm

ties without discrimination or restrictions, at the standard royalty level. Three years later, in 1948, the Supreme Court ruled that even an agreement, which combines blocking patents that could not be otherwise fruitfully exploited without infringing on each other's intellectual property rights, could violate the Sherman Act, as in the specific case in *United States v. Line Materials*,[181] if a price-fixing clause is involved.[182]

II. The Patent Act of 1952 and the "Nine No-Nos": Defining the Spheres of Interference between Antitrust and Patent Law

The Congress reacted to this judicial trend by passing the Patent Act of 1952, which strengthened the patent system by limiting the interferences of antitrust law and the overreaching doctrine of patent misuse.[183] In 1957, as a result of the frequent overlaps of the patent and the antitrust system,[184] a lengthy study was issued on the initiative of the Congress on "The Patent System and the Modern Economy".[185]

Within this framework, an important step towards the regulation and a certain level of legal certainty of patent pools, although always through a suspicious approach, occurred in the 1960s, when the US Department of Justice closely evaluated all existent patent pools and produced a list of nine stereotyped patent licensing practices that would be considered per se antitrust violations. This list was soon known as the "Nine No-Nos" and comprised the following prohibited general practices in the context of patent licensing: "(1) requiring a licensee to buy unpatented materials from the licensor; (2) requiring a licensee to assign to the patentee any patent which may be issued to the licensee after the license agreement is executed; (3) attempting to restrict the purchaser of a patented product in the resale of that product; (4) restricting the licensee's freedom to deal in products or services not within the scope of the patent; (5) agreeing with the licensee that the licensor will not,

181 United States v. Line Material Co., 333 U.S. 287 (1948), available at: http://supreme.justia.com/us/333/287/case.html

182 For a thorough analysis on the antitrust considerations of price-fixing clauses, particularly when applied to patent pools, in the American jurisprudence of the time, see: Dreiss U., "Die Unzulässigkeit der Preisbindung bei Gleichzeitiger Lizenzierung und fremder Patente durch Patent Pools: United States v- Line Material Co." in "Die Kartellrechtliche Beurteilung vom Lizenzvertragssystemen im Amerikanischen und Deutschen Recht", Schriftenreihe zum Gewerblichen Rechtschutz, 1972, vol. 26, p. 65 *et seq.*

183 35 USC. Sect. 1 *et seq.*

184 For a critical analysis of the application of the so-called "Misuse Doctrine" as a justification for the wide interference of the general protection of antitrust law at the costs of the special system of patent rights, see: Strohm G., "Wettbewerbsbeschränkungen in Patentlizenzverträgen nach Amerikanischem und Deutschem Recht", Schriftenreihe zum Gewerblichen Rechtschutz, 1971, vol. 24, p. 213 *et seq.*

185 US Senate Commission, "Study of the Subcommission on Patents, Trademarks and Copyrights of the Senate Commission on the Judiciary", 84th Congress, 2nd Session, 1957.