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Patent Ecology: Some Interrelationships With Antitrust and General Law

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THE NEED FOR A POSITIVE DEFINITION OF THE PATENT RIGHT

The patent bar has been concerned since 1967 with a series of Congressional bills dealing with a full revision of the statutory patent law. The initial problems that arose in considering these bills were largely intramural, i.e., confined to the mechanics of the patent law itself. Because of recent judicial decisions, and because of positions advocated by Department of Justice personnel, there has, of late, been greater consideration of (1) the proper limits to be used in applying antitrust and patent misuse concepts to a patentee's license arrangements with others and, (2) the extent to which the federal patent law preempts the application of contract, unfair competition, and trade secret law to unpatented subject matter. The time has ripened for a general appreciation, by those not intimately connected with patents, of the role of our patent system, and for a structuring of a patent philosophy, so that the extent of a patentee’s rights in exercising dominion and control over the invention covered by his patent grant can be more positively stated. The patent bar has been remiss in not relating the importance of the patent grant to our socio-economic system, and in failing to develop concrete definitions of the powers a patentee should have over the sharing of his invention with others through the medium of license arrangements.

Since 1917, when the Motion Picture Patents Co. case was decided, the application of antitrust doctrine to patentees’ arrangements with other parties has increasingly limited the conditions a patentee may impose in exchange for rights to make, use, or sell patented subject matter. We have arrived at the point where it is essential, in order to maintain a workable patent system, to define positively the degree of freedom which the patentee will have, regardless of antitrust philosophy, to exercise control and dominion over his patented invention. Application

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2 The term "patentee" as used herein includes assignees of the inventor.

of antitrust law has resulted in formalized and philosophical doctrines that look toward unrestricted competition. If an overall arrangement between parties appears to have anti-competitive effects, to restrain the freedom of action of one party, or to tie up or control some particular market, then the situation is vigorously attacked. With respect to patents, if such doctrines are carried to an extreme, so that the patentee is restricted to no more than a modest royalty in exchange for a license, then there will be such minimal incentive to license that the patent grant will be reduced to an instrument useful only as an entree into court for attempting to exclude others from making, using, and selling the invention.¹ Patentees will be deterred from entering into contractual relationships containing reasonable restrictions for obtaining adequate benefits from their inventions for fear of being found guilty of violation of the antitrust laws. However, license contracts are necessary to induce patentees to share their inventions and often to obtain optimum commercialization. It would be wiser to encourage licensing through the development of a positive body of rights which the patentee may exercise when dealing with other parties. These rights would be an expanded definition of the basic statutory right of exclusion, and would make patents better tools for inducing innovation.

**Patents are an Essential Incentive in a Complex Society**

Our social system rests upon an inordinately complex economic structure in which our dependence upon one another makes it imperative that a continual, highly productive economy be maintained. Intricably interwoven with this need is a necessity for effective utilization of those economic costs that enter into the production of usable and distributable wealth. Traditional economic input factors in the form of labor, capital, and land and natural resources have limited availability.² In order to meet today's unprecedented requirements for combating pollution, controlling population, and funneling large sums into community projects necessary to maintain adequate standards in over-dense, sprawling urban centers, we must encourage conservation and effective allocation of economic resources.

Particularly, we must cultivate any resource that can be multiplied in kind, and there is one outstanding resource capable of such multiplication. This is human innovation. Innovation makes possible new and

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¹ The right to exclude others from making, using or selling is the statutory grant to the patentee, 35 U.S.C. § 154 (1964). Standing by itself, this right is obviously a mere right to litigate. To have only the right to exclude would diminish the patentee's incentive to share his invention, and thus detract from the common good.

² In the United States, the high quality of life cannot be sustained with an ever expanding population; it has been suggested that our numbers be reduced, which means a decrease in the economic resource of labor. The imminent need for curtailing pollution will undoubtedly require a cut back in the rate of consumption of many natural resources, thus working a decrease in another economic input factor.
better tools and processes for producing goods. It creates entire industries and channels of commerce. It is, in short, the prime expandable economic resource at our disposal. It gives us new ways of achieving goals with reduced labor and entrepreneurial numbers, and thus provides a basis for channeling efforts into the solutions of other social problems. This expandable resource is created through incentives to the human mind.

The traditional basic incentive has been the possibility of a reward larger than would result if one's efforts or money were invested more safely in some business of already demonstrated earning power that earns a "reasonable return." The patent grant comprising an exclusive privilege for a limited time has been the vehicle for this incentive. It functions to allow the marketplace to determine the worth of an invention, similarly as prices in a free competitive economy are the best measuring stick man has devised for determining the value of a product. And, the opportunity of a large reward, possible through a patent grant and proportional to the inventor's own efforts and acumen, incites the channeling of economic costs into innovation, our primary expandable resource. In the late 1700's the patent grant was, in the absence of a yet-to-be-developed business-structured economy, directed to the individual inventor, and our federal constitution is so worded. Today, the investment of time, effort and money in innovation is largely sustained by the multi-personed business enterprise, but the incentive to invest in research and to develop new conceptions is still proportional to the possibility of a larger reward—a result that is less likely when investments are made in older, time-proven products. Thus, patents are as essential for the company as for the many individual inventors for whom the patent grant remains a paramount factor in their work.

6 The Italian city states granted exclusive privileges as early as the 1300's, Galileo being a recipient of a Venetian patent for a machine raising water which obliged him "to construct within one year said new form of machine, and that it has never before been invented or thought of by others and that it has never before been the subject of a grant, otherwise the present grant will be as though never made." English history indicates the existence of grants for new manufactures as early as 1559. The American colonies followed the English practice for developing colonial industry, and granted exclusive rights to both inventors and those introducing new businesses from overseas.

7 Congress shall have the power "To promote the Progress of Science and the useful arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8.

8 "The establishment of any new manufacture, of any new branch of commerce, or of any new practice in agriculture, is always a speculation, from which the projector promises himself extraordinary profits. These profits sometimes are very great, and sometimes, more frequently, perhaps, they are quite otherwise; but in general they bear no regular proportion to those of other old trades in the neighborhood. If the project succeeds, they are commonly at first very high. When the trade or practice becomes thoroughly established and well known, the competition reduces them to the level of other trades." A. Smith, The Wealth of Nations 103.
It may be said that today we have learned how to invent, and that inventing has become a professional way of life for many who derive ample satisfaction and reward from the social prestige and salary that today's society provides. For a substantial segment this is true, but in the investment of capital and entrepreneurial talents some legal protection remains absolutely necessary for those persons and businesses making such investments in the form of money and manpower. Salaries for the professional inventor and the provision of laboratory facilities rest in an ultimate profit, and a profit in speculative research requires some time—limited exclusivity in order to properly capitalize and recoup its costs. Patents are a vehicle for this necessary protection.

Some judicial statements declare patent grants to be a narrow exception to the antitrust laws, implying a deep distrust of patents as being anti-competitive. Patent practitioners dealing on a day to day basis with these grants draw the opposite conclusion; that is, patents are, indeed, instruments for fostering competition, and in a unique manner that gives us a diversity of goods that pure price competition cannot. For example, the claims of the average patent define a structure, or process, in terms that by no means dominate a field of commerce. The opportunity to devise a multitude of competing devices or processes in the same market is seldom disturbed. The patent a party obtains for an invention protects an underlying technical concept embodied in a product which may have unique advantages and features giving a competitive advantage. Competitors, faced with such advantage, normally seek their own further improvements, and by developing them move ahead of the party holding the original patent. This is such a recurrent event that it becomes manifest patents are instruments of competition which foster greater diversification of products. Society is provided with a greater arsenal of competing products from which to choose in making further advances that open up still new comerses and occupational opportunities. The lead time a party may obtain through a patent grant fosters competition and is a significant social good.

9 "[T]he granting of patent monopolies under this constitutional authority represents a very minor exception to the Nation's traditional policy of a competitive business economy, such as is safeguarded by the antitrust laws." Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 522 (1964) (dissenting opinion).
10 "[A] position of dominance in the market need not be qualified as 'monopoly' providing it is temporary and the leader is closely followed by competitors who are free to overtake him in turn. Hence, it does not follow that such progress as is promoted by the expectation and hope of taking the lead in a given industry should be attributed to monopoly. It is legitimate to speak of monopoly only where this competition for the 'lead' is eliminated and the 'lead' becomes a permanent position of privilege and power—a situation which is calculated more to hinder than to promote progress. On this reasoning, the state's legal sanction by a patent of the 'lead', provided by an invention or innovation, constitutes not only just security for intellectual property rights, but also an indispensable economic incentive. Patent rights begin to be problematical, however, to the extent that competition is thereby hindered, and
A hallmark of our society is a widespread distribution of the economic wealth. Individual needs are in the grasp of almost any person willing to train and apply himself. This distribution depends, in a large measure, upon a wide variety of goods and services, the existence of which creates numerous trade channels that so thoroughly interlace our communities that almost everyone has a substantial participation in the flow of goods, services, and money.

Without the variety of goods and services we have today, the number of avenues open for an individual to achieve success in a vocation would be lessened. Within a given industry, a reduction in the variety of goods would lessen competition based on the selling of features of products. Competition would become reduced toward pure price competition, with its deleterious effects upon net earnings and gross income. An economy that encourages the introduction of a variety of competing goods will promote the public weal. A diversification of goods competing with one another gives a society superior quality over one in which there is only price competition in nearly identical goods. Patents foster this diversification, for the attainment of a variety of goods depends, in part, upon innovation.

History teaches that innovation has not been a natural phenomena during most of man's recorded years. But, with proper incentives many individuals display an amazing ability to innovate and advance our practical arts. Incentives should be encouraged, and our patent laws should not be so restricted in their application that this particular form of incentive is excessively curbed.

The business of seeking highly novel creations that embody new concepts, and which are not merely new designs based on old principles, is extremely speculative. Much research leads down unproductive alleys, but in order to expand our technical know-how exploration of the blind alleys is unavoidable. To counter this frustrating truth, an incentive of possible large financial gain, larger than for more prudent investment in existing enterprises, is necessary for inducing persons to risk money and time in the making of inventions. Through a patent system the grant of exclusive rights to an invention for a restricted time has furnished such an incentive to those who equip laboratories, finance tooling, and pay salaries of the technically minded. By such exclusive right society is more likely to pay the true worth of the invention, than in any arbitrary award system. At the same time the risk of research will be undertaken if the patent owner can seek, and at times gain, a reward as large as he can gather in a competitive market place. The possibility of a reward as handsome as the patent owner may secure in the exercise of an exclusive right is a necessary compensation for his many fruitless

monopoly rights ending in abuses of market power are created." Wilhelm Röpke, *Economics of the Free Society* 162-63 (English translation).
developments that consume money and time and only show a disappointing loss. A large return is essential to incite a person to venture into an unknown undertaking.

Our courts frequently justify our patent system only upon the Constitutional phrase “promote the progress of . . . the useful arts.” It is submitted that this public purpose, while paramount, is not to the exclusion of other purposes. There is for example, a strong morale motivation.\textsuperscript{11} It is unfair for one party to copy outright what another has pioneered at the expense of much time and effort in developmental work. Copying, as a sanctioned practice, reduces us to a mediocrity. One should have some protection for the fruits of his mind, as well as of his hands. That it is difficult for the law to cope with protection of the intangible is no reason to deny the morality of affording protection for mental innovations. We should not lose sight of the fact that the security a society affords its workers spurs their economic endeavors.\textsuperscript{12} For spurring inventing, the security a patent may offer should not be narrowly construed or restricted, and a patentee should have ample latitude in the manner in which he puts his invention to work.

One further observation on the value of a strong, effectively exercisable patent right. Small businesses are frequently dependent upon the ability to maintain exclusivity in a product. This is necessary for investing and promoting a new product, and for effective competition against the large, entrenched firm. Without protection in their developments, small businesses with promising futures are frequently quite vulnerable. The desirableness of the infusion of new, independent businesses into the economy is generally recognized. It develops a greater number of independent individuals, it gives greater opportunity to many, and produces a broader, more competitive basis for the economy. It combats the monolithism of the big enterprise. Patents are a

\textsuperscript{11} “What a man earns by thought, study and care, is as much his own, as what he obtains by his hands . . . . Invention, as a right of property, stands higher than inheritance or devise, because it is personal earning. It is more like acquisitions by the original right of nature. In all these there is an effort of mind as well as muscular strength. Upon acknowledged principles, rights acquired by invention stand on plainer principles of natural law than most other rights of property. Blackstone, and every other able writer on public law, thus regards this natural right and asserts man’s title to his own invention or earnings.” Address by Daniel Webster, 1852.

\textsuperscript{12} “[T]he great risks implicit in an extreme dependence of all individuals in society upon each other are tolerable in the long run only where an efficiently administered legal system and an unwritten but generally accepted code of minimum moral precepts assure to the participants in the division of labor that they will be able to carry on their activities in an atmosphere of mutual confidence and security. Economic history is a constant illustration of the truth that the intensity of economic activity rises or falls in the degree to which these conditions are fulfilled. Likewise, the spatial extension of economic activity is limited as a rule to the radius within which such conditions, i.e., monetary and legal security, obtain. This is nothing less than the first principle underlying the rise and fall, the expansion and contraction of the economic system itself.” Röpke, supra note 10, at 48.
basic building block for stimulating the technically oriented small business, and these businesses should have ample latitudes in exercising control over their patent rights.

The small business can frequently improve its position by licensing its patent rights. Selective licensing is often the only practical program for the small company that commercializes its inventions by granting rights to make, use or sell. The selection and limitation of who shall be a licensee is imperative. Restrictions upon the areas of licensees' activities, such as model sizes to be built, are frequently necessary to protect the integrity of the licensing company. The right to deal with one licensee on terms different from another licensee can also become necessary, and other arrangements tailored to fit particular situations are necessary before small businesses can be adequately induced to share inventions through licensing. In short, the possibility of licensing under flexibly selected terms is as important an incentive to promote the useful arts as is the patent grant itself.

MEANINGFUL IMPLICATIONS OF THE RIGHT TO EXCLUDE ARE NECESSARY

For developing an effective utilization of patents, a basic question is what should be the definition of the patentee's sphere of rights. By statute, and Constitution, he can exclude others from making, using or selling for a limited time period. But, this is a bare bones definition, and if strictly construed would be an unsocial monstrosity. The patentee would be confining production of the invention to himself, and resorting to litigation as the sole means of enforcing his rights. Converse to this, a social purpose of patents is to induce the patentee to share his invention on some terms acceptable to him; i.e. some terms that are bargainable. If he has sufficient productive capacity he may wish to "go it alone". That is his prerogative, but also the door to sharing through licensing must be open. This sharing must take into recognition the preservation of the fundamental nature of a patent—the patentee's exercise of dominion and control over the invention, for a limited time, in return for having made and then disclosing the invention to the public.

Undue inroads upon the dominion and control of the patentee over his invention, or upon the extent of his monetary reward, will discourage his sharing. Such discouragement can gravitate toward a deterioration in investing in research, and thus result in a decrease of that expandable economic resource—innovation. We thus need a positive definition of rights in licensing that amplify the bare rights of exclusion, in order to make the right of exclusion more meaningful for the general good.

In this vein, we can briefly itemize some rights a patentee should be able to exercise in order to have sufficient dominion over his invention to encourage licensing, which encouragement in turn is part of that
inducement for which the patent system exists. Then, we can compare these rights with current trends in the law.

The first elementary right in the patentee must be the sole discretion to select who shall be licensed. Lack of the power to select licensees would quickly place an invention outside the patentee's dominion over the subject matter. Such would be the antithesis of a right to exclude. Having the right to exclude, and the further right to waive such exclusion through licensing, it is elementary that the decision as to whom the waiver shall extend must lie in the patentee, if he is to truly have an exclusive right in accordance with our Constitutional design. If he cannot select his licensees, as for example when society dictates that a patentee must license all parties applying for a license once an initial license is granted, then the very central concept of a patent being a right of dominion and control over an invention is denied, and in addition the incentive to share by licensing is lost, all to the impairment of our general social good.

Second, the patentee must be able to control the licensee's quantum of practice of the invention. Limits on the number of patented machines that may be made, or on machine sizes or styles should be well within the patentee's dominion over his invention. Similarly, a licensee may be restricted to a territory, or the number of times the invention is practiced, or the type of business or product for which patented devices may be intended. All of these restrictions fall within the general term "field of use" licenses. They are nothing more than the patentee exercising a degree of waiver over his right to exclude. Manifestly a field of use license is a patentee's exercise of dominion over a lesser part of the larger right to exclude altogether. We are dealing here with the very essence of a patentee's control, or dominion, over his invention. As with other forms of property, the degree to which it may be shared is the owner's decision. The central core of the patent right is exclusion; thus if we denied the patentee the right to exclude anyone, including a licensee, from practicing the invention in some prescribed areas we would be violating a most basic tenent of the patent grant. Manifestly, the "exclusive right" guaranteed in the Constitution envisions granting permission to use an invention in some limited degree. Hence, field of

13 The right to waive exclusionary dominion over an invention by licensing is as solidly American as apple pie. "An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it." Bement v. National Harrow Co., 186 U.S. 70, 88 (1902). As with other property, ownership includes the incident of determining who shall use.

14 The concept that all "qualified" applicants must be licensed, once an initial license is granted, has been advocated in the "WHITE HOUSE TASK FORCE REPORT ON ANTITRUST POLICY" (1969). As yet, there is no public reaction to this report by the Department of Justice, but proposals such as this now lying semi-dormant can readily become tomorrow's active policy implemented by persons having little regard for the patent system.
use licenses must be within the rightful sphere of the patentee's activities.

The field of use license is also one of the best methods available for patentees to share the practice of their inventions with others. They are a means for licensing without impairing or endangering the patentees' own activities, and for enhancing the real or anticipated reward of the patentee. As has been mentioned repetitively herein, maximizing the incentive to inventors is a goal of the patent law, provided the incentive concerns utilization of the invention, and not domination of things outside the patent grant.

Third, the patentee should be entitled to bargain for as large a monetary reward as he can secure. This is part of the bargain the public makes by granting the right to exclude, and then making the inventor realize whatever income he can secure from his own business acumen. “Reasonableness” of reward cannot be a test in judging any license agreement. The possibility of a large reward is the incentive, and it is a just balance for the many inventions that produce only a loss. Further, the income a patentee receives bottoms out as the social value of the invention lessens, similarly as prices in the economy seek the level the public is willing to pay for a commodity, so we can rely on normal market forces to temper the size of the reward.

A supplementary problem arises in selecting methods for measuring a royalty, or payment. For example, the invention may be but a part of a larger assembly and it is not feasible, or desirable to directly measure payments by this part of the whole. Or, a patent, or patents, may cover only a part of a licensee's production, and it is not feasible, or desirable to ferret out those particular items under the patent, or patents, for measuring the amount of royalty due. In such instances, any imposition by the patentee to collect payments on some not unreasonable basis should be sanctioned.

Another problem arises in so called package licensing; i.e. when a multiple number of patents are involved. A patentee who has worked on an item of technology should be entitled to keep this work product intact. If an item of technology has produced several patents, they should not be treated as severable against the patentee's wishes. Mandatory package licensing on the part of a patentee thus has a place in the scheme of the patent law.

A further problem of package licensing lies in the computation of royalties, or payments. Namely, must each patent have its price separable from the others? If they comprise parts of a whole, definable item of technology there should be no such requirement. Licensing as a package and pricing without regard to the severability of patents should be within a licensor's prerogative when a unity is involved. In other situations, reasonable restrictions would seem permissible.

The last problem to be covered here involves grant backs of im-
provements made by a licensee. Licensing involves the risk that the licensee, who becomes the party having the most intimacy with an invention, may by generating improvements usurp the patentee's value in the main invention. As a legitimate security interest, the patentee, if he requires, should have some rights in practicing a licensee's improvements.

These rights should, at the minimum, comprise a non-exclusive, royalty-free, non-cancellable license with the right to sublicense others who hold a license under the original patent. It is not difficult to recognize that some situations may reasonably justify more, such as a grant of exclusive rights to the licensee's improvements. In no event should a per se rule of illegality be developed for any form of grant back, and it is advocated here that the foregoing described "minimum" should, without question, be an existing right that may be insisted upon.

There is no attempt here to treat all areas of restriction that may be imposed upon licensees. Rather, in summary, a patentee's dominion and control over his invention should include (i) power over the degree of waiver of exclusive rights in the invention, (ii) the selection of licensees, (iii) the amount of award sought, and (iv) the retention of a group of patents as a package when they relate to a unity of technology or development. Other restrictions imposable by a patentee should be within a rule of reason, governed by the test of whether the restriction is unreasonable in the quest of the patentee for his reward.

A Comparison of the Patentee's Legitimate Area of Control With Developing Law

We now come to a comparison of the foregoing propositions for defining a patentee's licensing rights with the present law and directions toward which it is evolving. The principal curtailments upon the conditions and terms a patentee may impose in contracts with others revolve around the doctrine of patent misuse. In general, a patentee may not use his patent as leverage for placing a restraint upon, or obtaining some control over, or benefit from things outside the scope of the patent claims. If he does, his patent is unenforceable against any party, regardless of whether such party is injured, until the misuse is purged.

The foregoing doctrine has evolved from application of and analogies to antitrust principles at a pace roughly paralleling growth of our antitrust law. Early decisions allowed a patent owner to severely limit the conditions upon which a patented item could be used, and a purchaser could, for example, be restricted to using an invention only with other products of the patentee that were outside the patent. In Henry v. A. B. Dick Co., 224 U.S. 1, 11 (1912) a restriction reading "This machine is sold by the A. B. Dick Co. with the license restriction that it may be used only with the stencil paper, ink and other supplies made by A. B. Dick Company, Chicago, U.S.A." was upheld. The larger right of exclusive
decisions were overruled, so that a patentee could no longer condition sale of a patented machine to use with materials that are no part of the patent claims.\(^{16}\) Licenses conditioned on purchase of unpatented materials were also held improper extensions of the scope of the patent monopoly, so that persons selling the unpatented materials were not guilty of contributory infringement.\(^{17}\) Then, in 1942 conditions in leases of patented devices requiring a lessee to use non-patented items with a patented machine were condemned, and the term "misuse" was born.\(^{18}\) The patentee was not entitled to an injunction against a direct infringer of the patent claim, so long as the patent was being used to gain control over or restrain competition in an unpatented article.

The propositions advanced in this paper are compatible with the traditional misuse doctrine. The dividing line between control over the subject matter within the patent claims, and attempted control or restraint over subject matter outside the patent claims, as developed in the foregoing misuse cases, is the line that defines legitimate dominion and control by a patentee over his invention. It is the boundary between the exclusive right of the patent law and illegal restrictions in the general law. However, the Department of Justice is advocating a breakdown of this boundary. The Department seeks to leave every licensing arrangement open to question with a test of legality being a hindsight restrictive alternative.\(^{19}\) The resulting uncertain state of flux would leave every licensing patentee in a state of suspension regarding the legality, and hence social morality, of his acts. This is untenable for inducing the sharing of inventions, or for creating the necessary security a society must furnish its citizens in approving their acts, so as to enhance their social contributions. Rather than to have such a constant state of uncertainty, we must positively define at least a part of the boundary of the patent monopoly in licensing arrangements, to include

\(^{16}\) Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).


\(^{19}\) Richard W. McLaren stated in an address:

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

Address by Richard W. McLaren, United States Assistant Attorney General, June 5, 1969.
sole control, or determination over who shall practice the subject matter of the patent claims, the extent of such practice, and for what fee.

The invasion of general law-antitrust concepts into the very nucleus of the patent right is illustrated by the present Justice Department attack upon field of use licenses.\(^2\) Now, field of use licenses have been regularly upheld,\(^2\) and they are by nature wholly within the ambit of the patent law: \textit{i.e.}, the exercise of waiving the exclusive rights of making, using or selling. A Justice Department theme, in attacking field of use licenses, appears to be that competition between licensees appointed to different fields is restrained. This theme imports antitrust rationale directly into the nucleus of the patent law, namely the Constitutional and statutory right of dominion and control over the right to exclude others from making, using or selling by either (i) complete enforcement of the exclusionary right, or (ii) partial relinquishment through waiver or licensing, so that a licensee can share an invention with the patentee. There is no precedent for injecting antitrust rules into the core of the patent right. To do so destroys the patent right, for two directly opposite concepts cannot subsist within the patent law itself.

Aside from the legal error in the Justice Department theory, field of use licenses play an important role in promoting the use of inventions. Small businesses employ them for opening new fields to inventions without undue jeopardization of their own activities. Companies

\(^{20}\) McLaren, in his address, \textit{supra} note 19, stated with regard to field of use licenses: "[S]uch restrictions in effect grant a submonopoly to each of the licensees, and all competition among those who would be likely competitors is eliminated. In due course, I expect that we will bring a case directly challenging restrictions of this type." Roland W. Donnenm, Director of Policy Planning for the Antitrust Division, in a subsequent address to the Michigan Bar, stated that it is unlikely that a field of use license could be justified, and that a burden of proving absolute economic necessity for an exclusive field of use restriction should rest on the patent owner. He further prophesized that if \textit{U.S. v. General Electric}, 272 U.S. 476 (1926), involving control of prices, is overruled, then \textit{General Talking Pictures v. Western Electric}, 304 U.S. 175 (1937), the basic case for supporting field of use licenses, will also fall. Mr. Bruce B. Wilson, assistant to Mr. McLaren, has stated that the Department of Justice has brought cases against pharmaceutical makers challenging their right to prohibit sales of patented products in bulk form. He probably refers to \textit{U.S. v. Ciba Corp.}, filed July 9, 1969 (the government is attacking restrictions to sell certain diuretic drugs in dosage form only), \textit{U.S. v. Ciba Corp. and CPC International} (the government is attacking a license to make and sell a drug in bulk form only, with the patent owner agreeing not to issue additional licenses for bulk sales), and \textit{U.S. v. Fisons Limited}, filed July 23, 1969 (the agreements under attack are limited to dosage form only and in limited fields).

\(^{21}\) The leading case is \textit{General Electric Pictures v. Western Electric}, 272 U.S. 476 (1926). \textit{See also} \textit{Armstrong v. Motorola}, 374 F.2d 764, 775 (7th Cir. 1967) (Armstrong had the right to restrict licensee's sales to certain classes of customers); \textit{Ansul Co. v. Uniroyal, Inc.}, 306 F. Supp. 541, 556, (S.D. N.Y. 1969) (the patentee could license chemicals for regulating plant growth to some parties for agricultural use at one royalty and to other parties for non-agricultural use at a different royalty); \textit{Deering, Millikin & Co. v. Temp-Resisto Corp.}, 160 F. Supp. 463, 480 (S.D. N.Y. 1958) (license restricted sale of a patented fabric to specified fields).
with special abilities in special fields can be licensed, so that an invention can be promoted effectively in different fields. Absent the right to grant field of use licenses, a patentee would, if it licensed, axiomatically only license the large conglomerate. In short, it is competitively beneficial to have patentees exercise control over their licensee's activities of making, using and selling. It would be directly consistent with the concept of a patent giving a patentee economic control over a new invention to provide by statute that a patentee can waive in whole or in part the right to exclude others from making, using or selling. And, the time is ripe to write such provision into the statutes to enhance advancement of the useful arts through innovation.

The right of the patentee to select his licensees is also coming under attack from government officialdom. One court has also declared, although in an apparent pique at the parties before it, that a patentee cannot assert his rights if he refuses to license an applicant when he has already granted a license to the applicant's competitor. If a patent system, as ours, requires the patentee to seek and work out his reward, then a clear corollary is that he must be able to select those with whom he will share in practicing the invention. From the standpoint of legal precepts, this again is a matter of dominion over the subject matter of the patent grant, and in view of the threatened invasion upon the right to select licensees it is timely to enact a statute spelling out such a freedom.

Setting the price a licensee should pay the patentee has, under recent decisions, become unduly complex, so much so average counsel responsible for drafting license contracts can easily be prey to a growing body of unsuspected and ill-defined rules. This is particularly true when the patentee has a group of related patents and seeks to license the group. Some cases imply that the royalty rate charged must decrease as the patents expire, without regard to whether the parties considered this matter in negotiation. Other cases require that there must have been a coercion on the part of the licensor before a constant royalty

22 Remarks of both McLaren and Donnem attack exclusive licenses without the right to grant sublicenses. McLaren has stated: "One of my predecessors suggested—and I think rightly—that the rule of Krasnov should be extended to make unlawful any sole or exclusive license without sublicensing rights." Address, supra note 19.

Donnem's remarks, made before the Michigan Bar, were: "[T]here is something to be said for the view, that the rule of Krasnov should be extended to make unlawful any sole or exclusive license without sublicensing rights." In addition, the White House Task Force Report on Antitrust Policy released May 21, 1969, recommends that whenever a patentee issues a license he must thereupon license all other qualified parties that apply for a license.


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be declared illegal.25 Another rule is that a licensee, if he requests, must be able to select patents from a group at a varying royalty rate depending upon the patents selected.26 And further, compulsory package licensing has been condemned as a patent misuse, on the theory the price commanded for one patent is leverage for securing a price on another patent.27 The tragic result of these cases is the gamesmanship introduced into license negotiations. A prospective licensee can play an effective game of cat and mouse by first seeking a license for the group, then seeking reduced royalties as patents expire, and then selecting different combinations of patents at different royalties, all for the purpose of drawing the unwitting patentee into a violation of the case law.

The developing case law overlooks the manner in which the marketplace usually determines royalty rates, and thus the law is deviating from a realistic approach. Royalties, based on sales of goods, are typically dictated by determining the prospective percentage profits may constitute of net sales, and then applying some reasoning as to what share of profits might be attributed to the invention. In other words, for the licensed product, what portion of the selling price is the licensee willing to pay the patentee? In some industries, custom establishes a norm for a royalty, from which there is little deviation. There are also numerous secondary factors in determining a royalty, such as: the strength of the patents, computation of an adequate return on the patentee’s investment, whether or not the license is exclusive, et cetera. For licensing a process invention, another sound basis for determining a royalty may be the savings obtained using the process. It has not been a practice in the marketplace to set royalties on the basis of the number of patents or claims in force, and to vary royalties with expiration dates. These incidents have come into being from court decisions, and such decisions have created artificial licensing criteria.

Presume an inventor develops, as an item of technology, a furnace recirculator with controls that drastically reduce pollutants issuing from the stack, and secures a number of patents for the development. Whether we break up his development into several patents, or retain them as a unit, for purposes of licensing, should be of negligible legal consequence. Otherwise, we put form, derived from the particular patent system involved, over the substance of a cohesive development project with a central objective. The inventor should be free to retain his development as an integral package when he seeks to license. The marketplace normally treats a development as a unity, and if the life

25 McCullough Tool Co. v. Well Surveys, Inc., 343 F.2d 381 (10th Cir. 1965); Well Survey, Inc. v. Perfo-Log, Inc., 396 F.2d 15 (10th Cir. 1968).
of the law is experience, rather than mere logic, then let the experience of the market set the rule that an inventor solely determine how his project shall be subdivided. Absent some clear intent to gain control over matters outside the inventive subject matter, in all reasonableness, one royalty rate and a mandatory retention of all patents in one package should be the right of the patentee when dealing with a developed unit of technology. The metes and bounds of an item of technology may, at times, be difficult to define, but it is a fact determination worthy of the sanction of packaging licensing.

There are other problems in setting a royalty, beside the package license problems, which require some mention here. First, there is lingering authority that a patentee cannot charge "excessive" rates. A reasoning advanced for limiting royalty rates is that somehow competition is restrained. If the competition be with other articles, then the patentee and his licensee may have priced themselves out of a market. But here, general principles of free, open price competition, which are so vigorously touted by antitrust advocates, should prevail. If we do not allow the practice of the patentee to solely set the price for which a licensee may share that which he owns, but instead impose a royalty ceiling by government, or judicial fiat, the incentive of the patent system is destroyed. In many instances the realization of a large return induces further research and inventing. The patentee's income is plowed back into his work, and thus a refusal of the law to arbitrarily set ceilings on the amount of a possible reward is an incentive to continue to invent and compete in the market.

Turning to the problem of different royalties in different licenses, which is a sub-topic of the subject of competition between licensees, this is an area that should be staked out as under the sole control of the patentee, absent, of course, any intent to use a patent to injure one licensee at the favor of another (which is a matter outside the patent law). The patentee is the owner of the invention, and a basic concept of the legal monopoly of ownership is freedom from competition in one's own commodity. This freedom must exist between a patentee and a licensee, and logically between licensees, if the patentee so desires. But, when the patentee, or licensee, parts ownership with embodiments of the invention, then the freedom from competition no longer exists with respect to these embodiments in the hands of third parties. The freedom from competition concerns intramural events between a

28 In American Photocopy Equipment Co. v. Rovico, Inc., 359 F.2d 745 (7th Cir. 1966), a preliminary injunction was vacated and what was described as excessive royalties were condemned; then, after a trial on the merits, the court found no oppressive royalties, but definitely left open the proposition that high royalty rates per se can run afoul of the law. 384 F.2d at 813.

patentee and those with whom he shares the invention, and it is an essential aspect of the precept that a patent gives to the inventor exclusive control and dominion over his invention. We do not want to stifle licensing by forcing a patentee to lose his control over a licensee’s practice of the invention.

By licensing, a patentee should not become subject to claims from licensees of some unequal treatment affecting competition with another. Rarely are two licenses of like content, and the door would be open to all sorts of ingenious claims, the net result of which would make multiple licensing a tenuous venture. Let us not turn a patentee’s willingness to license against him; the social consequences of negating innovation is not worth the price.

The unusual results that can flow from considering licensees to have a right to royalties that place them on an even footing with one another is illustrated in the “Shrimp Peeler” cases.30 These cases involved the supplanting of hand cleaning shrimp with patented machines. The patent owners had a shrimp canning operation in the Gulf of Mexico and licensed canners in the Gulf are at a rate computed on labor saving involved. Later, they licensed Pacific Northwest canners, who previously had not engaged in any significant shrimp canning business. Cleaning shrimp in the Gulf required less handwork than cleaning the smaller shrimp in the Northwest, and the licenses granted to the Northwest canners were also calculated on labor savings, with the result that the rates per machine operation were higher in the Northwest. However, the original competitive differential between the two regions were maintained at about the same level, with the Pacific Northwest canners in a slightly improved position. Several Northwest canners, however, lost money, and were not able to compete. The FTC found an “unfair practice” under § 5 of the Federal Trade Commission Act, and the Fifth Circuit held the arrangements as discriminatory. The Alaska court found the differing rates to be arbitrary, and in the Washington case a jury verdict finding an antitrust violation was upheld. If the royalties based on labor saving were discriminatory, then it is evident that rate schedules based solely on machine operation would also be discriminatory, but in such instance against the Gulf canners instead of the Northwest canners. Introduction of the invention had such a profound effect on the industry that it could not maintain a status quo. The decisions placed the patentee in a untenable position when it offered to grant licences.

The “Shrimp Peeler” cases imply that a licensor may be responsible for preserving competition that would not exist in the absence of licens-

ing! It would have been better for the licensor to not have licensed in the Northwest! Rather than try to apply rules of restraint or antitrust doctrine in cases such as these, better to permit the patentee to set his price for sharing his invention.

A word is necessary on the question of permitting royalties to be paid after the expiration of a patent. In *Brulotte v. Thys Co.* this was condemned in broad terms by the Supreme Court. The decision has been criticized on the ground that payments continued beyond expiration may be in the nature of installment payments on a loan that has been extended in time and royalties during the life of the patent may be reduced in amount. The rationale of such criticism has such merit that we should permit, by statute if necessary, payment of royalties after expiration if they are based on acts under the patent prior to expiration.

The last licensing problem area for consideration in this paper is the matter of requiring licensees to grant back to the licensor any improvements they may make. The Supreme Court has sanctioned this condition, but it is, and has been, a favorite target for the Justice Department. While some grant back provisions might perpetuate control over an area of commerce after the patentee's patent privilege expires, in other cases licensee improvements might quickly obsolete or make valueless the patentee's technology if practiced without such improvement. As a security to induce licensing, some degree of right to use a licensee improvement is essential. As earlier stated herein, a rule of reason is justified, with a minimum of a non-exclusive, royalty-free license with a right to sub-license. Stabilization of the law by statute is in society's best interest.

*A Case-by-Case Approach to Solve Licensing Problems Will Be Deleterious*

The Justice Department aims to preserve a case by case approach in its goal of limiting a patentee's control over his invention. This, of

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34 "We expect to bring cases under Sherman Act Section 1 against patent licenses which require an assignment or license grantback of all improvement patents."
course, provides an endless opportunity to develop and finely hone legal propositions that whittle at the patent law. Such whittling is not only evidenced, but proven, by the recent effort of the Justice Department to outlaw the present doctrine of equivalents, as an *amicus curiae* in *Standard Industries, Inc. v. Tigrett Industries.*

Quite predictably, deciding issues on a case by case basis will result in an overwhelming application of antitrust doctrine into the very core of the patent grant. This is because lawyers and jurists, as a whole, are schooled and versed in antitrust concepts, while they have little acquaintance with the overall scheme of a patent system, and have minimal exposure to the philosophic thrust of the system or to first hand acquaintance with development engineering. On a case by case basis, there is insufficient realization of the general order and purpose of the overall patent system, and the facts of each particular case may cloud a deeper public purpose in inciting innovation by giving an exclusive privilege, from which the patentee must then forge his own reward.

A statute defining a patentee's rights in licensing will give necessary stabilization for encouraging utilization of inventions. Further, it will clarify the patentee's exercise of rights, in sharing his invention, that are necessary incidents of his exclusionary rights. These incidents make patents more useful tools for social gain than the mere right of excluding others from making, using and selling by resort to litigation.

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36 This doctrine states that if a device charged as an infringement does not meet the literal wording of a patent claim, but attains substantially the same result in substantially the same manner by substantially the same construction it is the equivalent and stands as an infringement, unless there is an inconsistency with the prior art or representations made to the patent office in solicitation of the patent. The doctrine has been a part of our law from the first time it was raised as a proposition. See *Winans v. Denmead*, 56 U.S. (15 How.) 330 (1853) and *Machine Co. v. Murphy*, 97 U.S. 120 (1877). Its existence is relied on in our statutes, to-wit: "An element in a claim for a combination may be expressed as a means...and...shall be construed to cover the corresponding structure...in the specification and equivalents thereof." 35 U.S.C. § 112 (1964). This doctrine is an equitable principle based on necessity, arising from the fact inventions are mental concepts difficult to express in words, and it defies normal ability to unfailingly define the *scope and breadth of an invention* in words. Patent attorneys preparing patent claims do not have the sheer clairvoyance, or knowledge of many substi tutions known in a technical art, to unerringly describe the metes and bounds of an invention in order to protect their clients' inventions in words alone. In Europe, it is the common practice to clearly and distinctly point out in the claims the invention as described, and then in litigation the courts resolve the breadth of the invention. This may be a better practice than ours, and our doctrine of equivalents arises to give us as satisfactory a system. Without it, fraud can be too easily practiced upon patents. *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U.S. 605, 607 (1950). The point being made is that a small group in the Department of Justice, the individuals of which have no extensive experience in representing patentees in patent matters, take upon themselves to develop theoretical attacks upon the patent system. To allow them a free hand in the area of patent right—antitrust conflict is inimical to our social good, and timely statutes should preserve the patentee's rights. Fortunately, the Supreme Court decided *Standard Industries, Inc. v. Tigrett Industries* without any reference to the doctrine of equivalents.
The patent grant, as an encouragement for investing time and money in the high risk activity of innovation, remains a sound social tool. To be of value it should be exercisable in a manner that the patentee is induced not only to make and sell his invention, but to license and share the invention by making contractual arrangements with others. Antitrust concepts should not be extended to the point of retarding invention sharing, nor should the law purposely be unduly unsettled by proceeding on a case by case basis in all areas of licensing. Rather, a statute should define the patentee's rights in the area of licensing, and we should seek to develop some positive definitions of the incidents of the patent grant.

The Developing Paralysis of a Preemption Doctrine

In 1964 the Supreme Court took the unique step in the Sears and Compco cases\(^{37}\) of expanding the sphere of the Federal patent law to deny the states the right to control the appearance of unpatented articles. Over the years, there had developed a large body of state unfair competition law that afforded protection from slavish copying, or imitation, of distinctive designs of articles of a non-functional character that had acquired secondary meanings in the mind of the relevant public such that designs were an indication of the source of the articles. The analogy to trademarks is obvious, and quite logically distinctive appearances of non-functional portions of articles were treated similarly as descriptive words that become trademarks. The law, then, was giving credence to the condition of the public mind, and this primarily for the purpose of protection of the public, so that it would be the victim of confusion or mistake in selecting goods. Nonetheless, the Supreme Court found this body of unfair competition law to be incompatible, under the Supremacy Clause,\(^{38}\) with the Federal patent law that grants exclusive rights only to true inventions that meet statutory requirements of patentability. Federal law implies that what is not patented may be copied. As a result, the states must resort to labeling requirements as the sole means of diminishing public confusion. Except where articles are not susceptible of adequate labeling which will catch the purchaser's eye, the overturning of unfair competition doctrine raises no particular problem. But, the extension of Sears and Compco into a doctrine that the Congressional provisions for the granting of patents prohibits the courts from enforcing trade secrets and contracts involving unpatented technical information has become an alarming spectre.

The case of Lear, Inc. v. Adkins\(^{39}\) has now brought us to the threshold of this spectre. There, Adkins invented an improved gyro and

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\(^{38}\) U.S. Const. art. VI.

entered into a license agreement with Lear in return for royalties. A patent application was filed, and Lear ceased paying royalties before the patent issued in the belief Adkins had failed to make a patentable invention. As soon as a patent did issue, suit was brought by Adkins on the contract. The state court (California) awarded Adkins judgment for all past royalties without going into the question of patent validity. The Supreme Court reversed, holding that the licensee Lear could contest the validity issue, and it sent the case back for the determination of patent validity. One issue not decided was whether royalties could be collected for the period prior to the date of patenting if the patent is invalid. During this period the application was in secrecy and Lear had available to it, and used, technology developed by Adkins. Three of the Justices would deny Adkins any right to receive consideration under a contract for divulging such technical information:

What the Court does in this part of its opinion is to reserve for future decision the question whether the States have power to enforce contracts under which someone claiming to have a new discovery can obtain payment for disclosing it while his patent application is pending, even though the discovery is later held to be unpatentable. This reservation is, as I see it, directly in conflict with what this Court held to be the law in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234 (1964).

I still entertain the belief I expressed for the Court in Stiffel and Compco [that] one who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State. (J. Black concurring in part and dissenting in part, at 395 U.S. 676, 677)

Thus, there is a very real and dangerous present threat that parties developing bodies of technological know-how might not be able to vend them as a commodity for which they can receive and enforce contractual payments. The common industry practice of developing comprehensive bodies of technical information and know-how, and contracting for its disclosure to establish production facilities of licensees, would be struck down by enforcement of the above quotation. By simple extension of the *Sears* and *Compco* principle, entire bodies of confidential information upon which engineering and research departments are bottomed may become free game for the copiers and those willing to engage in espionage and other deceitful practices.

A very important segment of our economy is based on the accumu-
lation of technical data. Part of such data constitutes important lead time over competitors and represents tremendous investments in time, money and effort. Part of it is disclosed to suppliers and others in the trade on a presumed confidential basis. Part of it becomes known to the public in the form of finished products, if the public stops to measure and closely assay such products. Men's jobs and the success of businesses rest in the development and use of such information. The great bulk of this information is not susceptible of patenting, and actually patents are not a satisfactory vehicle of protection even if technical information fell within the categories of patentable subject matter. To enlarge the preemption rule in *Sears* and *Compco* to the advocated position above in *Lear* seems motivated by an animosity toward technical spheres of our economy, or a lack of appreciation of the endeavors of men working in creative pursuits of the practical arts.

Prior to *Lear*, the commentators were divided as to whether *Sears* and *Compco* affected unpatented technical information.\textsuperscript{40} *Lear* appears to be a step toward confirming the views of the pessimistic. Hence, the time is ripe to state in our statutory patent law that Congress has not preempted areas of trade secret and contract law by providing for patents.

The concept of a broad preemption of the patent law over all things unpatentable is highly questionable. There do not appear to be any past, persuasive roots in our law upon which to anchor such a preemption. It has been held that when a patent expires the public has the right to make precisely what is shown in the patent, and that the public can share in the "goodwill" of an unpatented item.\textsuperscript{41} But this does not support the concept that any article may at all times be freely copied if not patented, for example when the sharing of "goodwill" is deceptive. Nor has there been demonstrated need, or any vocal support for the theory that the Federal patent law, which only deals with granting and enforcing patents, preempts all law regarding non-patented matters and the rights of states to grant injunctions from copying appearances of non-functional character.

The proposition of preemption expressed in the *Sears* and *Compco* cases overlooks a basic fact that article patents are not concerned with protection of surface configurations.\textsuperscript{42} A patent for an article, or machine, protects an underlying concept of the inter-related aspects of the parts or elements of such article, or machine, without regard to surface styling. Thus, the appearance of the patented article may take


\textsuperscript{41} Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 120, 122 (1938).

\textsuperscript{42} We do not overlook design patents, but they are inapplicable to configurations of parts of articles and ornamentation that does not meet the standard of invention. The worth of a design patent is questionable as long as they must meet the requirements of 35 U.S.C. § 103 (1964) and courts strike them down with regularity.
an infinite variety of embodiments, none of which are germane to the patent claim. No one is foreclosed from practicing the underlying concept protectable by a patent when he is merely enjoined from slavishly copying non-functional surface configurations. It clearly follows that rules forbidding acts of unfair competition by product simulation relate to matters outside of a patent grant, and therefore are not in conflict with the subject matter of patents. Consequently, there was no need or compelling reason to invoke any doctrine of preemption in the Sears and Compco cases.

There is some indication in Compco that the Constitution restricts any arm of government from prohibiting copying of unpatentable subject matter. But a look at Constitutional history belies such proposition. At the time of the Constitutional Convention it was recognized that the individual states could not adequately provide for the grant of patents, for the conflicts between jurisdictions would become uncontrollable. The states therefore delegated power to grant patent privileges to the Federal government, without any indication of an intent to strip themselves of other powers they may inherently have had in regard to controlling matters of manufacture.

A striking consequence of the Sears and Compco decisions is the rejection of the business morality that had been developed by the state rules of unfair competition. The state rules deterred sharp practices of capitalizing upon public confusion by slavishly imitating others' goods. All the state law required was that a man devise his own surface configurations. Such law made no restriction upon the right to duplicate the mechanical essence of a device which lies in the domain of patents. Free and open competition remained, but on a plane above that condoning trade deceit.

It is a fair conclusion that the broad preemption enunciated in Sears, Compco and Lear is unnecessary, and that extending it to its limits will irreparably injure an important segment of the economy. It is urged that a statute remedy the existing situation, for otherwise, ab-

43 "[T]o forbid copying would interfere with the federal policy, found in Art. 1, § 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. . . ." Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. at 237.

44 The history associated with Gibbons v. Ogden, 22 U.S. (9 Wheat.) 1 (1824), suggests that the framers of the Constitution never contemplated complete divestiture by the states of the power to exercise some control over articles and manufactures. That case dealt with the power of the state of New York to grant an exclusive right for steamboats. Chancellor Kent of the New York Court held that the Constitution did not prohibit states from granting such exclusive rights, for they did not relate to inventions. Justice Marshall overruled the New York court, but he declined to discuss the patent issues involved, and based his decision on the supremacy of the commerce clause of the Constitution, to the effect that a state could not interfere with matters in interstate commerce. That he declined to consider the patent issues is an indication that it was not clear that the federal power to grant patents had fully preempted state rights in such matters as we are now dealing with.
stract legal reasoning may be employed to paralyze the important work of innovation. We already have an expression in the lower court opinion in *Painton Company Ltd. v. Bourns, Inc.* that preemption of the Federal patent law denies a person the right to a consideration in exchange for disclosure of his ideas unless he has applied for a patent. Absent a statute indicating that Congress has not preempted the here-tofore existing rights to contract for one another’s ideas or to protect one’s confidential information, a few jurists may impose upon us an entirely different legal order concerning intellectual property than that which we have previously enjoyed.

It is the nature of engineering work to develop bodies of knowledge which must be given a proprietary value, protected by law. A legally protected value supports a willingness to pay salaries and consultation fees, and it encourages numerous men and firms to develop technical know-how that is vended as a commodity. Such legal protection forms a security for the jobs of technically trained people, and without such a security men will lose an incentive to innovate. Further, bodies of technical know-how will not be licensed and exchanges of information such as have advanced our economy, and the economies of other countries will cease. Large amounts of business rest on know-how agree-

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45 U.S.D.C., S.D.N.Y., Case No. 68 Civ. 3834. The opinion in this case is dated February 4, 1970, and reads in part:

California courts must obey the dictates of the Supremacy Clause, follow federal law, and refuse to enforce defendant’s trade secrets in respect to those models covered by a patent.

Pursuant to Paragraph 6 of the 1962 contract, Painton agreed to pay royalties on models for which no patent application had been or would be made. Painton is not required, however, to make any future payments. This court’s enforcement of such an agreement would be contrary to our national patent law and policy, *Lear vs. Adkins, supra.* Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas without being required to submit these ideas to the Patent Office, and, thereby, eventually have the ideas disclosed to the public. Furthermore, patent policy (reaffirmed by the holding in *Lear* that estoppel will not be a bar to challenging the validity of a patent, *Lear* at 655-71) which allows compensation only for ideas which rise to the level of invention would be further undermined by the enforcement of such a contract, since compensation would be awarded for non-inventions. And if this court were to hold that before a state could enforce a trade secrets contract, the ideas must be found to be an invention as prescribed by the rigid requirements of federal patent law, inventors would be able to circumvent “the manner in which (inventions) may be protected.” *Lear,* at 677. Inventors would be encouraged to avoid filing applications altogether and contract for long licensing arrangements. The severely restricted area which the Supreme Court left open to applicable State law would become a yawning abyss. Fewer patent applications would be made. The Patent Office would soon have a less accurate view of the state of the art in a particular field. And state courts, rather than the Patent Office, would become the initial triers of whether a discovery is an invention.

For these reasons, this court holds that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea.
ments, both domestically and abroad, and the United States will stand oddly alone among the nations, if we follow the preemption doctrine now being cultivated in our courts.

The interchange of ideas for a consideration has been a cornerstone of society. The painter receives a commission for his renditions, an author of simple writings receives royalties on his published works, the architect delivers a set of plans for a price, and a business consultant obtains a handsome "finders fee" for arranging a corporate merger. Why, in the same vein, cannot a technical idea be conveyed for a consideration? Business has depended upon such exchanges, and no meritorious reason has been given in *Sears, Compco, Lear,* or *Painton* why we should destroy the asset value of technical ideas, which in the past have created new industries and inspiring vocations. Just why should grown men be denied the right to contract for knowledge that is originated by one and communicated as something novel to the other? Clearly, they should not be restricted.

The preemption doctrine has been premised on a Federal policy of competition, as evidenced by the anti-trust laws. But the fallacy is that protection of competition cannot reside only in a slavish adherence to a rule that we can all copy and appropriate ideas of others which come to us not by observance and inspection of what is in the public domain, but through channels of confidence, secrecy and mutual trust. The patent law has never had any application to such matters, nor has Congress or the Constitution intimated such an application. To follow the preemption doctrine will curtail the highest order of competition, i.e. creation of new goods, and it is urged here that the preemption being expressed in court opinions be revised by timely legislation.\(^{46}\)

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\(^{46}\) As this article was being completed Senator Hugh Scott of Pennsylvania introduced Amendments Nos. 578 and 579 to S. 2756 which contain provisions largely supported by remarks in this article.