

RECOMMENDATIONS CONCERNING PATENTS¹

The Department of Justice suggests:

The record before the Temporary National Economic Committee abundantly demonstrates that patent practices now current, under the assumed protection of existing statutes and judicial decisions, greatly exceed the measure of privilege which might presumably be deemed necessary "to promote science and useful arts," and seriously invade the deep-rooted national policy against monopoly and restraints of trade, of which the antitrust laws are the most popular reflection. It seems clear that:

1. It should be made unlawful for any person to sell or assign a patent, or to grant any right or license under a patent, on any condition which restricts the assignee or grantee in respect of the amount of any article which he may produce under the patent, the price at which he may sell any such article, the purpose for which or manner in which he may use the patent or any article produced thereunder, or the geographical area within which he may produce or sell such article. The foregoing prohibitions should be supplemented by a further prohibition against any other restriction embodied in a condition to any such assignment or license, which would tend substantially to lessen competition or to create a monopoly, unless such restriction is necessary to promote the progress of science and useful arts. These prohibitions, however, should not apply to any assignment of a patent or any grant of a license under a patent for use exclusively outside the United States and its territories and possessions.

In short, the owner of a patent would enjoy the full patent monopoly if he elected to retain the exclusive privilege of producing or selling under the patent himself. He would be free to assign the patent; to grant an exclusive license; and to grant licenses to anyone he pleased. But, if he grants a license, the license must be general and unrestricted, unless he is prepared to demonstrate that a particular restriction (other than restrictions in respect of price, production, use or geographical area) is necessary to promote science and useful arts. Restrictions in respect of price, production, use, or geographical areas would be unconditionally outlawed.

2. It should be made unlawful for any person to whom a patent had been issued or who has in any other way acquired any patent or any interest in or right or license under a patent, to sell, lease, or otherwise dispose of any article produced or sold under such patent or any such right or license on any restrictive condition of the kind described in paragraph 1.

1. Extract from Senate Document No. 95, Investigation of Concentration of Economic Power, Letter from the Chairman of the TNEC transmitting a preliminary report pursuant to Public Resolution No. 113 (75th Congress) authorizing and directing a select committee to make a full and complete study and investigation with respect to the concentration of economic power in, and financial control over, production and distribution of goods and services.

3. It should be made mandatory for any sale, assignment, or other disposition of any patent or of any interest in or right or license under a patent to be evidenced by an instrument in writing. Similarly, any condition, agreement, or understanding relating to any sale or other disposition of any article produced or sold under a patent by a person to whom such patent has been issued or who has in any other way acquired such patent or any interest in or right or license thereunder, should be required to be evidenced by an instrument in writing. The seller or assignor in such case would be required to file a copy of such written instrument with the Federal Trade Commission within 30 days after execution. A register of these copies should be kept by the Federal Trade Commission, and both the register and the copies should be held available for inspection by the Attorney General, the Commissioner of Patents, or any officer designated by either.

4. No action based upon a charge of infringement of any patent, whether for damages, for an injunction, or for any other relief, should be permitted against any licensee under a patent or against any purchaser or lessee of any article unless either (a) the plaintiff has previously prosecuted to successful judgment an action against the grantor of the license or the seller or lessor of the article, as the case may be, for infringement arising out of or in connection with the granting of such license or the sale or lease of such article; or (b) jurisdiction over the grantor, seller, or lessor cannot be obtained in any court of the United States.

A provision to the foregoing effect would help meet one of the most serious abuses in the patent field: The use of litigation as a deliberate weapon of business aggression, rather than as an instrument for adjudicating honest disputes.

5. If any person who owns a patent or an interest in or exclusive right under a patent, violates any of the prohibitions described in paragraphs 1 and 2 above, he should forfeit his patent or his interest in or right under a patent to the United States, and such forfeiture should be recoverable in a civil action against such person by the United States. It should be provided that, upon a proper showing in such an action, a judgment should be entered requiring the defendant to assign his patent, or interest in, or right under a patent, to the United States, such assignment to be received by the Secretary of the Treasury in the name of the United States. Thereafter, the patent or patent right would be offered for sale under the direction of the Secretary of the Treasury in the manner prescribed by law.

A provision to the foregoing effect would adapt to the patent situation a familiar principle of law: That the abuse of a privilege granted by the State--e.g., public-utility franchises, licenses to sell securities, etc.--should result in forfeiture of that privilege.

In this case, it seems wise to provide that the patent should be seized and resold, and so kept alive for useful exploitation, rather than to provide for its cancelation.

6. It should be made clear that the provisions described in paragraphs 1 to 5 shall be applicable to any extension, renewal, or modification of any existing license, contract of assignment, or contract of sale or other disposition, with the same force and effect as to any new license, sale, assignment, or other disposition.