

STATEMENT  
of  
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before  
THE PATENT COMMITTEE  
of  
THE HOUSE OF REPRESENTATIVES  
on  
H. R. 3360 - 77th Congress, 1st Session

March 11, 1941.

I have been asked here to testify in respect of H. R. 3360 which has been introduced by the Chairman of your Committee. The bill was not drafted in the Department of Justice. However, there is certain independent experience of the Department of Justice that is relevant to the need for such a measure.

I want to talk first to the broad objectives of the bill. I want then to direct myself to the specific drafting problems, the machinery which has been set up to accomplish those objectives. I have various suggestions on the latter point as well as materials which I think indicate the need and explain the objectives of the bill.

## Objectives

As I understand the objectives of the bill, they are these: We want machinery which will guarantee that the patent monopoly may not be used to curtail production essential to the national defense.

There has been some suggestion here that section 68 of Title 35 of the United States Code takes care of the problem. It seems to me quite apparent that that is not the case. The 1910 Act, as amended in 1918, provides only that production by or on order of the Government of the United States shall not be enjoined on account of any patent infringement. It leaves the patent holder to an action against the Government in the Court of Claims for the reasonable value of a non-exclusive license.

It is evident to all of us that Government orders alone are never adequate to build up the plant capacity which the Government needs for its purposes at a critical juncture. The case of airplanes is a compelling instance in point. We have critical need today for plant capacity to manufacture airplanes for defense purposes. In an economy such as ours it is unthinkable that that plant capacity should have been built up over the past years by Government orders alone. In a free economy such as ours the Government directs so little of production that its own orders can never be depended on to provide the capacity for its critical needs in a crisis such as that we now face.

Consequently, devices which result in strangling or sharply curtailing the normal commercial development of a product undermine the strength of the Government itself when it is ultimately confronted with a situation where life or death of the Nation may depend upon its productive capacity.

The totalitarian governments, of course, face no such problems. They dictate production in times of peace just as they dictate it in times of war. The German decrees, for instance, permit the Nazi leaders to assert absolute control over what will be produced, the quantity of production and the uses of production.

We stand on our faith that we can live as free men and meet the threats of any such regimented economy. But certainly we cannot afford to permit regimented economies to use patent monopolies in this country, and to use our courts for enforcing such patent monopolies, to the end of holding down our production to a point where they can completely outstrip us in essential materials for defense. I shall give you some examples where that has been done. Naturally I do not charge that our own business connived at the end result. On the contrary, it would appear in some instances at least that they were bludgeoned into such limitations of commercial development by threats of having patent suits on their hands for the rest of their lives if they didn't agree to arrangements dictated by

foreign interests. I do not necessarily suggest either that the foreign interests had in mind maneuvering to leave us in a wartime situation with markedly inferior capacity for production of our defense needs. However, in this regard I shall point out to you German decrees which clearly show that every commercial agreement which a German company makes is made at the dictation of the German government.

What answer is to be made to the suggestion that if patent monopolies have been used to restrain the development of our capacity to produce, that is an old wrong and not a present problem? I think the answer is clear that it is a persistent problem. Even today we are not developing the plant capacity for our defense needs exclusively by orders of the Government alone. We have recognized that production for England is an essential item in our own defense. We are aware also that the development of plant capacity on orders from England is giving us the essential equipment to fulfill our own defense needs. And it is not only England. Production for all of the countries that are struggling to defend democracy is equally important to our ultimate security. It is consequently necessary that we be in a position to eliminate restrictions on production which is not exclusively on order of this Government.

Finally, it must be recognized that in these days declarations of war are not the rule. We may have enemies driving hard at our security who may never declare war upon us. In these circumstances we cannot resort for our defense to the normal machinery which operates in time of war. We cannot without more ado seize property which we consider to be used in ways inimical to our security. But if it is clear that a patent is being used by a foreign power in ways which are to the disadvantage of our defense and safety there should be some way of taking over that patent upon payment of reasonable compensation.

Now let me turn to a body of data which I think brings out sharply the problems which we face and the objectives that should be realized by this bill.

#### Illustrations of the Need

The following are some outstanding illustrations of situations in which control of patents and licenses have hampered and even completely obstructed the production of essential materials for the national defense. Some of the instances which I shall cite are necessarily highly confidential, and I shall withhold the names of the persons and the companies involved. However, I shall be glad to divulge further information privately

to the members of this Committee upon request.

These instances are by no means exhaustive. A full discussion of every case in which patents and licenses and agreements made thereunder have cut down or stifled the production of vital articles would take too much time, but I have tried to select the most representative. I might add at this time that in showing the close tie-ups between certain American companies and German companies, I make no charge that there has been deliberate collaboration to further the military aims of Germany. I think that business interests and the desire to obtain valuable business rights upon the best available terms have been the real factors; but in any case, the result is the same.

1. Magnesium. Magnesium is a metal which is highly important to the national defense. It is light, strong, and in many respects more efficient than aluminum. Since it is lighter than aluminum by about one-third, a pound of magnesium is more effective than a pound of aluminum. It is highly desirable for use in aircraft, where the creation of less flying weight is a constant problem. Numerous important parts of airplanes are made in whole or in part of magnesium and of magnesium alloys, including crankcases,

manifolds, supercharger diffusers, oil pumps, and valve covers. Indeed, 70% of all magnesium castings purchased in 1937 in this country was used in aircraft, and in 1938 the consumption of magnesium alloy castings and other structural products of the aircraft industry reached a new peak. Magnesium has also proved of great value in bombs. The highly destructive German-made bombs used in the Spanish Civil War were found to be enclosed in a magnesium alloy shell. Since the magnesium bombs were lighter, the carrying capacity of each plane was thereby increased.

The I. G. Farbenindustrie, of Germany, was the holder of the most important patents covering the production and fabrication of magnesium. Together with the Aluminum Company of America it formed the Magnesium Development Company, by means of which the magnesium patents held by the German and American companies were pooled. Each party owned 50% of the stock in the Development Company, but an agreement executed in 1931 provided that the German holders of the stock were to have control over the amount of magnesium which would be produced by the Development Company or any company created by it.

The Magnesium Development Company licensed only one company to fabricate magnesium--The Dow Chemical Company--which had developed patents covering the production but not the fabrication of magnesium. The license from the Development Company to Dow gave the latter the right to sub-license others, which right



Dow exercised in a number of cases. To this day, Dow remains the sole producer of magnesium in this country. The production of magnesium by Dow never exceeded 2,500 tons until 1940, when the production was 6,000 tons, involving the use of all existing facilities at capacity.

A comparison between these figures and the production in Germany is highly significant. The reports of the Bureau of Mines show that in 1938, while the United States produced 2,400 tons of magnesium, Germany produced 12,000 tons; and the 1940 domestic production of 6,000 tons is to be compared with the German production of at least 25,000 tons, and possibly double that figure.

I am given to understand that one of the great needs of the British today is magnesium. By an express agreement between Dow and I. G. Farbenindustrie, shipments of magnesium to Great Britain by Dow were limited to 500 tons per year. This agreement is believed to have been in effect until the present war started. One further fact: I. G. Farbenindustrie was given a preferential price on Dow's exported magnesium considerably lower than the United States market price. Thus, at a time when the need for magnesium is becoming so great and so widely appreciated, and when the productive capacity of aluminum--the only acceptable substitute--is by some said to be inadequate to meet the numerous demands of the expanding airplane industry, we are confronted with limited capacity for the manufacture of magnesium.

The members of the Committee are of course familiar with the Federal Grand Jury indictments returned on January 30, 1941, charging six corporations and nine individuals engaged in the magnesium industry with violations of the Federal antitrust laws. The defendants include the Aluminum Company of America, I. G. Farbenindustrie, the Dow Chemical Company, the Magnesium Development Company, and the General Aniline & Film Company, an American corporation which is affiliated, directly or indirectly, with I. G. Farbenindustrie. The indictments charge that several American companies conspired together with the German corporation, with the result that there is now a serious shortage of foundry facilities available for the fabrication of magnesium products, so that the production of aircraft and other defense material in which magnesium is necessary has been seriously impeded and delayed. The indictments further charge that as a result of the conspiracy, the development and use of magnesium and magnesium products have been restrained and discouraged, that the price of magnesium in this country has been maintained at artificially and unreasonably high levels, and that the Dow Chemical Company sold magnesium abroad at prices substantially lower than those charged domestic users.

Control over the production and fabrication of magnesium is thus dependent to a large measure upon patents and licenses under foreign control. The mechanism provided by H.R. 5560 could remove this stranglehold upon the production of a vital defense commodity,

by permitting the production of magnesium on a much larger scale by other concerns than the exclusive licensee, after the necessary certification is made that the manufacture and use of magnesium are in the interests of national defense. The holders of the patents and licenses would have their remedy for reasonable compensation in the courts, but they could not invoke an injunction nor exercise the threat of an injunction to prevent firms not now having licenses from entering into the production and fabrication of magnesium. This bill would of course not prevent voluntary agreements with the present holders of patents and licenses for the payment of royalties. I am informed that certain individuals are interested in entering into the production of magnesium. The offer to such a group of the safeguards provided in H.R. 3360, removing the threat of injunction after the investment of large sums in necessary plant equipment, would in my opinion constitute an important factor in inducing groups such as these to enter into the production of this vital metal.

2. Tungsten Carbide. Next to diamonds, tungsten carbide is the hardest substance known. Its main use is in the cutting edges of machine tools, where its performance has been extraordinary, and its use in Government arsenals in shaping and cutting armor plate is absolutely essential. The use of tungsten carbide in munitions of war is also a probable development of large importance.

The main component of tungsten carbide, tungsten, has been

declared by the War Department to be a strategic war material, and reserve stores of this commodity have been purchased.

Around 1925, the Fried. Krupp A.G. of Germany developed patents on tungsten carbide, while the General Electric Company also was conducting research in this material in the United States. Up to 1928, Krupp exported tungsten carbide to the United States and sold it for \$48 a pound. In 1928, the General Electric Company and Krupp entered into an agreement pooling their patents and fixing the prices to be charged by the G.E. as well as its licensees. As a result, the price skyrocketed to \$53 a pound, and at no time during the 12-year period of this joint control did it ever fall below \$205 a pound, although the manufacturing cost was approximately \$25 a pound. In 1936, Krupp and General Electric entered into a further agreement whereby Krupp agreed not to sell in the American market and General Electric agreed that no tungsten carbide manufactured by it or its licensees would be exported. In the agreement, Krupp expressly reserved the power to prevent General Electric from issuing any licenses in the United States.

The admitted result of this control has been to postpone the development and use of tungsten carbide in American industry. Its present use in Germany, according to experts, is about twenty times the amount used in the United States. The president of one of the largest manufacturers of tungsten carbide in the United States has stated:

"The control of the tungsten carbide patents by the General Electric Company and the Krupp Company has resulted in keeping the

prices at exorbitant levels. Now when the emergency has come, industry has not learned how to use tungsten carbide and has not the machines, the skilled men or the technique which it would have had if the material had been available at the same low price at which it was available to German industries."

An indictment based upon the above facts has been obtained under the antitrust laws against the General Electric Company, and is now pending in the Federal District Court for the Southern District of New York. Recently, when another machine-tool company--the Willoys Carbide Tool Company--attempted to use tungsten carbide in the manufacture of tools, the General Electric Company and its subsidiary which manufactures tungsten carbide--the Carboloy Company of Detroit--brought suit for an injunction in the Federal District Court in Detroit, contending that the Willoys Carbide Tool Company was infringing upon its patents. The District Court has just held that the patents were invalid for want of an invention, but I understand that the plaintiffs are going to appeal. In any case, it is obvious how the right to sue for an injunction under patents can serve as a deterrent against the enlargement of plant capacity to manufacture a particular commodity. Anyone familiar with the uses of patent litigation in this country knows how often a small company can be brought to its knees by one of the great patent holders. Usually it is not merely one but a number of patents which are or might be involved. A threat to commence a new patent suit every six months for ten years not only against the manufacturer but against the persons to whom he sells is the kind of threat against which few small companies will stand up with equanimity.

Obviously, the procedure provided for in H. R. 3360 could have prevented the restricted development of the uses of tungsten carbide. In any case, the remedies afforded by this bill would protect such a company as the Willeys Carbide Tool Company in using tungsten carbide in the manufacture of machine tools, in regard to which the defense effort feels acute shortage.

3. Naval Equipment. An American company, which I shall not name, is a builder of naval equipment, and its president owns 30% of its stock and a company in Berlin, Germany, owns the controlling stock interest of 65%. When the present emergency arose, the United States Navy invited the American company to submit proposals for the construction of a naval device for the Navy. The German parent company was advised of this, and instructed the American company not to bid on the job. In spite of this, the American company is proceeding with its plans to bid on the Navy proposal and on other Government proposals, but they have expressed the fear that the German parent company will exercise its controlling interest in the company, dismiss the present personnel and eliminate the company as a factor in American production. The vice-president of the American company wrote the following letter to the Department of Justice last October:

"The perpetuated existence particularly at this time of the [American] Company is of the utmost importance inasmuch as this company has vested in it a number of valuable patents which might conceivably play an important role in our defense plan."

The letter then listed the vital patented devices which might not be available for American production if the Germans should dissolve the company and withdraw the patents from use.

It is of course clear that under present law the German company, controlling the American company through stock ownership, could prevent use of the patented processes by others in this country. This they could do by voting out the present management and installing others more willing to cooperate, who would then invoke their right to an injunction under the patents. Although the 1918 Act would prevent the issuance of an injunction on contracts with the United States for the equipment in question, it would not prevent an injunction under contracts for such equipment awarded by the British Government or by other countries whose defense needs are vital to our own National Defense. H. R. 3360 would prevent the use of injunctions to block production of such valuable equipment, and would leave the patent-owners to their right to recover reasonable damages.

5. Beryllium. Beryllium is a metal which has been known for a long time, but its industrial use is of recent origin. As an alloy of copper, nickel, steel and other metals, it gives valuable promise. Its distinctive quality is the fact that an addition of as little as 2% of beryllium to copper makes an alloy of strength, hardness and resistance which few metals can equal. This alloy already is being used in aviation equipment and instruments, automobile engines, and surgical instruments. The endurance of a beryllium alloy is almost beyond belief, and its use value is very high in equipment and instruments where continuous wear and function are vital, particularly at high temperatures. For instance, we know that up to 1938, 15,000 beryllium bushings were used in Germany on aeroplane propellers which have known service of over 12,000 hours without any apparent signs of wear, whereas the average bushing formerly used on aeroplane propellers lasted only 300 hours or so. Beryllium-nickel is a perfect metal for valve springs for high-speed aeroplanes, because it is as strong at a temperature of 500° C. as it is at room temperature.



The modern beryllium industry was originated in Germany in the 1920's by the Siemens and Halske Company, a huge German concern, with interests in all parts of the world. The German company made an arrangement with the American Metal and Thermit Company of New York, whereby the American company held for some time the German beryllium patents in the United States and secured additional ones for the German company from the United States Patent Office. The American company did very little with the new alloy, and no other concern had any access to it. The following quotation from a document written by the Siemens and Halske Company to the American Metal and Thermit Company casts some light upon the purpose of their arrangement:

"I would at once agree to have the application assigned to your firm, if thereby the matter could be better pursued, when it appears under American auspices before the Patent Office, in a new shape or form. Since you, as I was happy to learn from Dr. Frank, have decided to take up the Beryllium matter in America, I assume that you, too, are interested in the fight for these patent rights, so that outsiders, like the Beryllium Corporation \* \* \* the General Electric Co., etc., cannot secure any ground in the realm of the Beryllium-Heavy-Metal industry."

Testimony given before the Temporary National Economic Committee in 1939 by the President of the Beryllium Corporation of America shows the difficulties which were encountered by American concerns that desired to produce beryllium but were restrained from doing so by the ever-present threat of injunctions under foreign-held patents. The President of the Beryllium Corporation testified that for nearly three

years he had conferences with representatives of Siemens & Halske and was unable to find out whether that company or the American Metal and Thermit Company owned the beryllium patents, and was also unable to find out whether or not Siemens was going into the beryllium business in the United States. The witness then continued:

"That left us in a rather precarious position, because if we continued our development, by this time we had spent considerable money and a few years' work; if we continued the development we might find after 5 or 10 years a lot of overhanging patents, owned by Siemens, which would be held against us and we would be told some day, 'Well, you can't operate any more,' or 'You can't make beryllium-copper and heat treat it, or you can't use beryllium copper alloys for certain specific purposes, or you can't heat treat beryllium nickel,' and so forth, and the customers we had, or hoped to have in the future, might also be embarrassed.

"You see we had a situation with which I was familiar before the war; a number of patents in dyestuffs were taken out in this country and as a result no dye businesses were started in this country. The patents were held merely as you are more familiar with than I am, merely as a means of preventing a business in this Country. I didn't know but what, to be quite frank, that was the situation. I didn't know whether that was the situation or not."

Finally, after considerable negotiations, the Beryllium Corporation of America entered into a cross-licensing agreement with the Siemens and Halske Company, in 1934, whereby the Beryllium Corporation received the Americas as its exclusive territory while Siemens and Halske had similar rights in Europe. This agreement debarred any American sales of beryllium in or to England. When the British learned that the Beryllium Corporation

of America was not permitted to sell beryllium to England, they forced the Germans to alter this contract by the threat of invoking their compulsory licensing act against the German company on these patents. This threat was sufficient to make Siemens and Halske alter the contract so that the Beryllium Corporation of America could sell to Great Britain. I consider this instance to be a very valuable object lesson of the potential effectiveness of a bill such as H. R. 3360.

Another example of the effective use of threats of an injunction is furnished by the case of the P. R. Mallory Company of Indianapolis. This company wished to do certain beryllium business in England through a subsidiary, but was squarely met by threats of Siemens and Halske to bring a patent infringement suit unless the Mallory Company agreed to purchase all of its beryllium from the Beryllium Corporation of America, the licensee of Siemens and Halske. The American company had to yield to this pressure. At the outbreak of the present war, the German company ordered the Beryllium Company of America to stop shipments to England. This was not done, and shipments are going forward, but the patents covering it are still those held by the German company and licensed to a few American companies. The power exists to invoke an injunction against concerns which enter into the production of beryllium. Indeed, the experience of the Beryllium Corporation of America is in itself a vivid illustration of the obstacles confronting domestic concerns desiring to produce an important commodity controlled by foreign-held patents. There is little incentive to make a large-scale investment for the development of the

commodity if the concern is under the perpetual threat of injunction against the use of the product after expending considerable funds in constructing a plant and acquiring the necessary equipment.

6. Military Optical Equipment. The Bausch & Lomb Optical Company dominates the production of military optical equipment, which includes such highly important articles as range finders, bomb sights, periscopes, altimeters, torpedo directors, gun sights, telescopes, and bore sights. This equipment is vitally necessary for the fire control of naval vessels and artillery, and for anti-aircraft and aeroplane machine-guns. Before April 28, 1921, two companies--Bausch & Lomb and Carl Zeiss of Jena, Germany--competed with each other, but on that date Bausch & Lomb entered into agreements with Zeiss, whereby American patents developed by Zeiss were held for the German Company's account in the name of Bausch & Lomb, thus concealing the German ownership of the United States patents. Under this agreement, the Bausch & Lomb military department was to be supervised by persons acceptable to the Zeiss firm of Germany,

and Bausch & Lomb was to pay royalties on all military optical goods whether patented or not, including sales to the United States Government. Since the agreement required itemized and descriptive accounts of royalties due, the German company was able easily to determine the amount of purchases made by the Army and Navy, through analysis of the royalty payments. Bausch & Lomb under this agreement could sell only in the United States, the rest of the world being reserved to Zeiss.

The agreement contained the express provision that the parties would, through their control over patents, forbid any other manufacturer to sell in their respective allocated territories. Since Zeiss and a subsidiary in Holland manufactured the greater part of all military optical instruments sold in Europe, and Bausch & Lomb manufactured about 50% of all military optical instruments in this country and almost all of the optical instruments for heavy uses, such as artillery and naval guns, aeroplane and anti-aircraft guns and periscopes, this agreement has resulted in world control of the business by these companies. One paragraph of the contract provided that each company would conceal the existence of the contract from third persons, and insofar as practicable not even disclose it to their own employees.

Whenever orders were placed with the Bausch & Lomb Company by South American or European governments for military optical equipment, the American company always sought the permission of Zeiss, which the latter invariably refused. Thus, in 1935, the British and French Governments placed an order for \$1,500,000 worth of optical goods with Bausch & Lomb. That company turned the order down, stating that it had no interest in arming foreign countries, but making no mention of its agreement with Zeiss. Various smaller nations also sought to make contracts with Zeiss and were refused. Again, in August 1939, shortly prior to the Russian invasion, Finland attempted to purchase range finders. Zeiss vetoed the sale of this equipment by Bausch & Lomb.

As this Committee knows, the Antitrust Division brought a civil action under the antitrust laws in the Federal District Court for the Southern District of New York against Bausch & Lomb Optical Company, Carl Zeiss, and several other individuals, alleging that since April 28, 1921 (the date of the agreement), Bausch & Lomb and Zeiss have unlawfully combined and conspired to suppress and limit competition in military optical instruments, by dividing the world market between them, fixing arbitrary and

unreasonable prices and terms of sale, and refusing to permit anybody else who wished to engage in the business of manufacturing and distributing military optical instruments in competition with Bausch & Lomb and Zeiss, to use any of the devices, information, instruments, machinery and equipment controlled by the parties. Through this combination and conspiracy, the defendants had substantially and unreasonably restrained interstate and foreign commerce in military optical instruments, and had exacted arbitrary and unreasonable prices from purchasers of such instruments, including the Government of the United States, and had prevented and restrained free competition in the production and distribution of such instruments.

On July 9, 1940, the Court entered a decree with the consent of the defendants, declaring the agreements between Bausch & Lomb and Zeiss to be unlawful and void, and perpetually enjoining and restraining the defendants from dividing the world market, fixing or maintaining prices, refusing to sell or make bids on such instruments at the request of any other manufacturer, and refusing to permit any person engaged or wishing to engage in the business of manufacturing and distributing such instruments, from using any of the devices, information, instruments, machinery or equipment of Bausch & Lomb, if such person was ready, willing and able to compensate Bausch & Lomb adequately for the use thereof.

As a result of this consent decree, the tight monopoly maintained by Bausch & Lomb and Zeiss can be regarded as ended, but its existence for almost twenty years, under the aegis of the dominating patents held by the companies, has so limited the domestic productive capacity for making the military optical equipment covered by the Zeiss patents as to represent a serious handicap to the present defense program. H. R. 3360, if it had been in effect in time, would have released these German-held and German-controlled patents, if it had been determined that expansion of production in this industry was important to the National Defense. The Bausch & Lomb case constitutes a vivid object lesson of the need for a procedure such as is provided in H. R. 3360.

7. Airplane Parts. An American company is the licensee of a German company under certain United States patents useful in the manufacture of certain aeroplane parts. The licensee claims it is not controlled by the German company but that there is merely a licensee--licensor arrangement under these patents. Recently, Finland attempted to purchase some of this material. The American company was unable to make the delivery because under the contract, the German licensor had the right to veto such sales, which it did. If other companies had the right to utilize the processes covered by these patents, upon payment of reasonable compensation and without fear of an injunction, the aeroplane parts in question could be manufactured for Great Britain and for other countries whose defense is important to



our national defense, without fear that German control of the patents could stop production.

8. Steam Turbine Engines. In the files of the Department there is a copy of a contract between an American company and a citizen of Germany. This contains the following clause:

"The licensee (the American company) agrees to send the licensor (the German citizen) duplicates of all correspondence with the United States Navy as well as drawings worked out by the former."

This relates to a license under patents covering steam turbine engines which are of great importance to the United States Navy. Investigation is still proceeding to determine to what extent these patents are restricting production of the steam turbine engines covered thereby, but I need hardly point out that the use of the patented process by American companies not under contractual obligation to send to Germany duplicates of drawings made by the American companies would be far preferable to the present arrangement.

9. Filaments for Precision Finders and Radio Tubes. The Navy Department was negotiating for over a year with the holders of patents covering a new filament useful in the manufacture of precision finders and radio tubes. Navy was unable to arrange proper terms with patent owners for licenses under the patent. Although the Navy Department could itself manufacture the things or have a contractor do so for Navy, and merely incur liability under the 1910 and 1918 Acts for compensation to the patent owners, its present needs are very negligible. Navy is really most interested in expanding the productive facilities and private industrial capacity for the filament. It is interested in having the filament manufactured by such concerns as General Electric, on a large commercial scale,

so that if, as and when the Navy needed the filament on a large scale, it could obtain it.

10. Patents Held by Chemical Foundation, Inc. During the World War, the Alien Property Custodian seized patents held by Germans and German companies, pursuant to Section 10 of the Trading with the Enemy Act. Pursuant to Section 7 of that Act, 6,400 of these patents, *including applications for patents, rights under Patents, Copyrights and Trademarks* were sold under Executive order of the President to the Chemical Foundation, Inc., an American corporation organized to hold and administer patents for the benefit of the American chemical industry, with the general purpose that in this manner the American chemical industry would forever be kept free of German control. It appears, however, that many of these patents which were originally owned or controlled by Germans have now found their way, either directly or by means of licenses, into companies still under German control.

Documents in the files of the Department of Justice indicate that among the patents seized by the Alien Property Custodian were patents originally held by Badische Anilin-und Soda-Fabrik, a German company engaged in the dye, nitrogen and coal extract business, and patents held by two other German companies, Aktiengesellschaft Fuer Anilinfabriken and Farbenfabriken vorm. Friedr. Bayer & Co. (These three companies were merged into the I. G. Farbenindustrie in 1925 and 1926). Prior to the World War, the Badische patents were transferred to a subsidiary in New York (Badische of New York). The Alien Property Custodian seized and sold these patents to the Chemical Foundation, [which entered into cross-licensing agreements

with the General Aniline & Film Corporation of New York, formerly the American I. G. Chemical Corporation. } This company is 91% controlled by I. G. Chemie of Switzerland, which in turn was affiliated with the I. G. Farbenindustrie and is believed still to be closely allied with it. The patents held by the other two German companies (which were later merged with I.G.) had been assigned to New York subsidiaries (Standard I. G., Berlin Aniline Works of New York, Bayer & Co. of New York, Synthetic Patents Co., Inc. of New York) and were seized by the Alien Property Custodian in the hands of these subsidiaries. The patents coming originally from the Aktiengesellschaft fuer Anilin Fabriken were sold by the Alien Property Custodian to the Chemical Foundation, [and some of these are now apparently covered by cross-licensing agreements with the General Aniline & Film Corporation of New York.]

The remainder of the patents which were taken over by the Alien Property Custodian from Bayer & Co. and Synthetic Patents Co., Inc. were subsequently sold with all the assets of the company to the Sterling Products Company, a New York corporation. Through a series of transactions, part of the assets of the Sterling Products Company was transferred to the General Aniline & Film Corporation.

A German official publication of 1950 indicates the existence of contractual relationships between the I. G. Farbenindustrie of Germany and the Chemical Foundation, setting forth royalties which were being paid to the Chemical Foundation by I. G. Farbenindustrie for the use of certain United States patents seized during the war.

Control by a German Company over an American Company, through Licenses and Patents, Means Control by the German Government.

I should like to emphasize a fact which I believe is of fairly general knowledge. When an American company controls a German company by stock-ownership, patent or license agreements, or otherwise, we usually think of this solely as a business arrangement. The same does not hold true of control by a German company over an American company, but such control is tantamount to direct control by the German Government of the American company. This is so because under the new German economic and political system, no step can be taken by any private person against the advice or desire of the German Government, and every step desired by the German Government must be taken by persons under its jurisdiction.

Through the currency control of the German Government, no payment can be made by a German corporation or individual to a person residing abroad without a license from the German Government, regardless of whether the money which is to be used for such payment is situated in Germany or in a foreign bank. Thus, a German cannot enter into any agreement under an American patent or license which requires the payment of any kind of fees or royalties without obtaining a license from the German Government. Similarly, a German corporation or individual which wishes to assign a patent or grant a license thereunder to a person outside of Germany must obtain a license from the German Government, since this amounts to a disposal of property.

Thus, every contract made by a German with an American, which involves cross-licensing, assignments of patents, or other agreements

relating thereto, must be subjected to the approval of the German Government. Before obtaining the approval of the Government, full information must be submitted to the German currency authorities, which obtains the views of other German experts. If a German patent owner obtains fees or royalties from abroad, he is ordered to pay the proceeds to the Reich Bank as income in foreign currency, and to give the currency authorities all the information which they may require either for their own purposes or for the purposes of any other government agency. Any modification of a patent, license or agreement relating thereto, or any additional investment by the German company under the patent or license, requires a new authorization from the German Government and the submission of additional information concerning it.

Moreover, no contract can be performed by a German which involves the disposition of a patent or license or an interest therein, unless the approval of the German Government is obtained. This approval has to be renewed again and again, since such control is a very effective means whereby the German Government and its technical staff acquires information.

In this connection, a certain German decree may be enlightening. A Circular Decree issued by the Chief of the German Agency for Currency Administration on October 22, 1936 provided:

"Branches of domestic corporations in foreign countries and legally dependent foreign plants of a resident of Germany if the place of their management is in Germany are deemed residents of Germany.

"The same rule must be applied to a legally independent partnership and corporation whose seat is abroad provided its management is in Germany.

"In regard to the determination of where the place of management of partnerships and corporations is, the place where the actual decisions relating to the management of foreign corporations are made shall be decisive."

Plainly, any American corporation or partnership which is managed in Germany, by means of a corporate affiliation, stock control or patent agreements, is deemed to be a "resident of Germany". The implication of this provision is obvious: The German Government thus gives notice that it intends to assert, through its own corporations and individuals, the power to acquire information concerning, and as far as possible to control, corporations and partnerships abroad, which are in any way managed or controlled by a German company.

It may be instructive to point out that the German laws do not give American patents anywhere near the freedom which an American patent gives to the German owner. Even before the Nazis came to power, the German patent statute permitted the Government to issue compulsory licenses whenever the grant of such licenses was in the public interest. (This is similar to the British statute.) Under the German statute, in 1926, the German Government decided that the manufacture of rayon was in the public interest, and a court in Germany granted a compulsory license under certain rayon patents.

#### Analysis of the Bill and Suggested Amendments

I should like now to turn to the bill which has been introduced and examine it from the point of view of the problems which it is

designed, or in my judgment, ought to be designed to meet. The Bill provides that on the advice of the Secretary of War, and other chief officers of the Government concerned with defense, the Commissioner of Patents shall certify that the manufacture, use, or sale of an invention covered by United States patents is, or was during the period of the Act, necessary to the national defense. When such certification is made no injunction shall be issued or continued during the period of the emergency against such manufacture, use or sale and the patents owners only remedy shall be reasonable compensation for the infringing acts.

It seems to me that for several reasons this does not effectively do the job which it is intended to do. I believe that the Commissioner of Patents contemplates that certification will be made after an infringement suit is started. It seems to me rather much to expect that anyone will go into production, involving heavy investment, with the threat of an injunction overhanging him and his only protection the assurance of someone in the Government that if an attempt is made to enjoin him such a certificate will be issued. I think it is necessary before the investment is made that some binding assurance be given that production will not be closed down. It would be extremely hard to give such assurance under the present proposal. Any production of war materials is likely to involve the possibility of

infringing numerous patents. To determine all patents which might possibly be infringed would require an infringement search taking several months to complete. When this was done, the Commissioner of Patents would certainly hesitate to certify that the free use of all possible inventions involved was necessary to the national defense.

In the first place the use of such inventions could be for other purposes than the manufacture of the things that were wanted for defense. This was a point made by Mr. Jackson last time. It seems to me that the Bill can be drafted in a way to eliminate throwing open the patent for all uses where the objective is merely to secure its free use for defense purposes. Also the certification as made by the Commissioner would be urged as strong evidence that the production which the Government sought did in fact infringe the patents certified. This it seems to me is a serious defect in the drafting. The holder of the patent should be required to prove the validity of his patent and the actual infringement of the patent by the production in question. The certification should not stand as having bearing one way or the other on these issues. Again, it seems to me that the bill can be drafted in ways which will eliminate these difficulties.

I have drafted a suggested substitute for the measure which I will now distribute to the Committee. The first section of the Bill provides as follows:



"notwithstanding the provisions of sections 67 and 70 of Title 35 of the United States Code, whenever the President shall certify that the manufacture, use or sale of any material, article, product or commodity, or that the expansion of facilities or capacity for such manufacture, use or sale, is in the interest of national defense, no injunction based upon an alleged infringement of any patent or patents in or by any such manufacture, use or sale shall issue, be continued or enforced during the continuance of the national emergency declared by the President of the United States to exist on September 8, 1939, and the sole remedy of a patent owner against an infringer on account of all such infringements of any patent occurring during such emergency shall be the reasonable value of a non-exclusive license under such patent for such period. In any such suit the alleged infringer shall have available any and all defenses, general or special, which he might assert in the absence of the provisions of this Act.

You will note that under this provision it is possible to give a manufacturer assurance before he starts that for the emergency he will not be enjoined. In short, he can make his investment knowing that so long as the emergency lasts his production cannot be interfered with. Under this bill, for instance, the President might certify that the manufacture of magnesium is in the interest of national defense. Thereafter the production and fabrication of magnesium cannot be enjoined on account of any patent infringement. The holder of a patent is not without his remedy, if in fact he can show a valid patent which has been infringed by such production. But he must prove the validity of his patent and he must prove actual infringement. The certification would have no bearing on either issue.

If he makes the essential proof then he is entitled to the reasonable value of a non-exclusive license for the emergency period. That means in addition that the manufacturer is freed of the threat of a measure of damages which would render production impossible. In the one suit it will be determined what the reasonable value of a non-exclusive license is. Thereafter for the emergency period the producer is free to manufacture the product on payment of such a license fee.

This section alone it seems to me is not adequate to meet the entire problem. I have therefore proposed a second section.

This section provides as follows:

Whenever the President shall determine it to be in the interest of national defense, he is authorized, during the continuance of the national emergency declared by him to exist on September 8, 1939, to acquire patents of the United States, applications therefor, inventions or licenses under any of the foregoing, by donation, purchase, condemnation, or otherwise, and to issue licenses and partial licenses thereunder. Acquisition by condemnation under this section shall be effected by a declaration of taking filed in the United States Patent Office. It shall be the duty of the Commissioner of Patents to mail a notice of such declaration to the person appearing on the records of the United States Patent Office as the owner of such patent, at such address, if any, as may appear on such records and to publish such notice in the Official Gazette of the United States Patent Office. After such declaration of taking, the owner may bring suit against the United States in the Court of Claims, in the manner provided by section 250 of Title 28 of the United

States Code, for any compensation to which he may be entitled under the Constitution. In any suit under this section the United States may avail itself of any and all defenses, general or special, including any defenses which might be pleaded by a defendant in an action for infringement of patent. The remedies afforded by this section shall be exclusive.

This section permits the President when necessary in the interest of national defense to condemn a patent or condemn a non-exclusive license under a patent and to license or sublicense others to use it. It also provides for acquisition of patents by donation or purchase.

It seems to me that this supplementary provision is needed for several reasons.

In the first place, in some instances heavy investment will be required in order to give the Government a second or additional sources of supply for an article or commodity. If a person is investing several millions of dollars in a plant, unless he can reasonably foresee amortizing that investment during the period of emergency or unless he can foresee converting the plant to other uses after the emergency, he would be reluctant to proceed under section 1 of the Bill. Under section 1 at the expiration of the emergency he could be enjoined from further production which infringed any given patent. In these circumstances before involving himself in such investment he might want to be assured of a non-exclusive license which would be