

# THE ROLE OF SECTION 2 OF THE SHERMAN ACT IN INTERNATIONAL PATENT FRAUD: “WALK SOFTLY AND CARRY A BIG STICK”

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Legal recognition of the propriety of permitting patent monopolies in the United States is embodied in the Constitution.<sup>1</sup> Historically, the first congressional act to allow patent monopolies preceded the Sherman Act<sup>2</sup> by nearly one hundred years.<sup>3</sup> The individual inventor generally seeks protection under the federal patent system to guard inventions or improvements to existing products from commercial exploitation by competitors.<sup>4</sup> Corporations often acquire patent rights from their employees or from other individuals because corporations cannot apply for patents under the patent laws.<sup>5</sup> Although American

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1. U.S. CONST. art. I, § 8 states: “The Congress shall have the power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .”

2. Sherman Act, 15 U.S.C. §§ 1, 2 (1890).

3. The Patent Act of 1790 was enacted during the second session of the First Congress. The Act created an agency in the Department of State headed by the Secretary of State, the Secretary of the Department of War and the Attorney General, only two of whom could issue a patent for a period not exceeding fourteen years to a petitioner whose invention or discovery was sufficiently useful and previously unknown. For a more thorough tour through early American patent law, see *Graham v. John Deere Co.*, 383 U.S. 1, 5-12 (1966). The present Patent Act is codified at 35 U.S.C. §§ 1-293 (1976) (originally enacted as Act of July 19, 1952, ch. 950, 66 Stat. 792).

4. 35 U.S.C. § 154 (1976) states:

#### Contents and term of patent

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof.

5. The wording of the patent statute requires that the patent application be in the name of the human inventor. 35 U.S.C. § 102(f) (1976). Corporations are not natural persons, which is what the statute requires the applicant to be. See 35 U.S.C. § 111 (1976), which states that “Application for patent shall be made by the *inventor* . . .” (emphasis added), and section 115 which states in part that “The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen . . . .” 35

law vigorously fosters and protects property rights in inventions,<sup>6</sup> the scope of those rights is often disputed.<sup>7</sup>

The purpose of a limited monopoly grant is to provide an incentive for private enterprise to devote resources to innovative research, to expend investments to place new inventions into practice, and to expose the benefits of the inventions to a wider audience.<sup>8</sup> Courts have realized that corporations may use power derived from a patent grant to restrain free trade in violation of the antitrust laws of the United States.<sup>9</sup> The United States antitrust laws favor competition in open markets and condemn acts that either encourage or promote monopolization.<sup>10</sup> The antitrust laws are the foundation of a broad, national two-pronged commitment to competition. The consumer should be able to purchase goods at a price that an efficient business can justify and business enterprises should compete solely on the basis of their own merit in the marketplace.

The antitrust laws dictate that patent monopolies are only limited monopolies, which may not be indirectly broadened or unfairly ex-

U.S.C. § 115 (1976). The language appears to contemplate that a natural person will be both inventor and applicant. Under 35 U.S.C. § 261 (1976), a patent holder may assign or sell any or all of his rights. The statute states "[P]atents shall have the attributes of personal property." *Id.*

6. *See, e.g.,* Henry v. A.B. Dick Co., 224 U.S. 1, 26-32 (1912); Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405, 423-26 (1908); Bement v. National Harrow Co., 186 U.S. 70, 91 (1902).

7. *See* Adelman, *Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing*, 52 N.Y.U. L. REV. 977, 978 n.3 (1977).

8. *See* P. AREEDA, *ANTITRUST ANALYSIS* ¶ 403 (2d ed. 1974); Turner, *The Patent System and Competitive Policy*, 44 N.Y.U. L. REV. 450, 451-54 (1969).

9. *See* Moraine Prods. v. ICI Am., Inc., 538 F.2d 134, 144-45 (7th Cir.), *cert. denied*, 429 U.S. 941 (1976). *But cf.* Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 816 (1945) (a patent is an exception to the general rule against monopolies).

10. Sections 1 and 2 of the Sherman Antitrust Act, 15 U.S.C. §§ 1, 2 (1976) provide:

§ 1 Trust, etc., in restraint of trade illegal; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

§ 2 Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

ploited, and that assignments of patent rights are valid, contractual transactions only if they do not offend the prohibitions of the antitrust laws.<sup>11</sup> The Supreme Court has held that enforcing or attempting to enforce a fraudulently obtained patent may be unlawful monopolization or attempted monopolization if the necessary elements of the Sherman Act offenses are present.<sup>12</sup>

Legal problems facing licensors and patentees are becoming increasingly complex in the international sphere.<sup>13</sup> The licensor and licensee are not only confronted with the necessity of complying with the varied patent laws peculiar to each country, but also with the impact of their operations on the United States antitrust laws.

Recently, in *Mannington Mills, Inc. v. Congoleum Corp.*,<sup>14</sup> the Third Circuit Court of Appeals held that federal courts have jurisdiction to resolve antitrust claims stemming from fraud in the procurement of patents abroad, thus warning that American courts will scrutinize carefully conduct abroad for anticompetitiveness. This Article analyzes the monopolistic implications of *Mannington Mills* and considers the point at which international patent fraud may be determined unlawful monopolization or an unlawful attempt to monopolize.

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11. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

12. See *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). In answer to a suit by Food Machinery for patent infringement, Walker charged that Food Machinery and Chemical (FMC) had fraudulently obtained the patent by swearing before the patent office that it neither knew nor believed that its invention had been in public use in the United States for more than one year prior to filing its patent application. Walker charged that FMC had violated the antitrust laws by fraudulently and in bad faith obtaining and maintaining the patent, and sought treble damages. The district court dismissed FMC's infringement complaint and Walker's counterclaim and the Court of Appeals affirmed. The Supreme Court, however, held that enforcement of a patent procured by fraud on the patent office may violate section 2 of the Sherman Act provided all other elements necessary to this type of a case are present. The Court remanded for trial on the issue of definition of relevant market and measurement of FMC's ability to lessen competition within that market.

13. The United States Department of Justice Antitrust Division's *Antitrust Guide for International Operations*, released in 1977 [hereinafter cited as *Antitrust Guide*], was intended to aid international business decisionmakers, lawyers, and others concerned with antitrust enforcement in the international sector in making decisions that may result in enforcement of the antitrust laws. This policy oriented guide has been heavily discussed and criticized. See Fugate, *Department of Justice's Antitrust Guide for International Operations*, 17 VA. J. INT'L L. 645 (1977); Griffin, *A Critique of the Justice Department's Antitrust Guide for International Operations*, 11 CORNELL INT'L L.J. 215 (1978); Stern, *International Licensing and the New Antitrust Guide for International Operations*, 7 ALPA Q.J. 37 (1979).

14. 595 F.2d 1287 (3d Cir. 1979).

## I. THE PATENT

Patent terms must be properly defined to resolve the impact of section 2 on international patent fraud. The importance can be seen from the confusion that has existed in several courts.<sup>15</sup> An inventor is a person or a group of persons who solely or jointly discovers or invents a new and useful machine, process, article of manufacture, or composition of matter.<sup>16</sup> The Patent Act enunciates the conditions of patentability. The prerequisites indicate that patentability is dependent on three explicit conditions—"novelty and utility" as articulated and defined in sections 101<sup>17</sup> and 102<sup>18</sup> of the Patent Act, and the statutory

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15. See *Weaver Mfg. Co. v. Bear Mfg. Co.*, 109 F.2d 112, 114 (7th Cir. 1940), in which the court mistakenly stated that there could be "infringed disclosure." Disclosure cannot be infringed, only the patent claim may be infringed. See also *Duplan Corp. v. Deering Milliken Research Corp.*, 522 F.2d 809, 812 (4th Cir. 1975) in which the incorrect phrase "infringed upon the . . . license" was used. Only a nonlicensee may infringe a patent; a repudiating licensee breaches a patent.

16. 35 U.S.C. § 101 (1976) states:

**Inventions patentable**

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

17. *Id.*

18. The conditions for patentability are set forth in 35 U.S.C. §§ 102-03 (1976). The condition of novelty or newness is implied in subsections 102(a), (e), and (g). Circumstances resulting in the loss of the right to a patent are described in the remaining subsections, 102(b), (c), (d), and (f). Section 102 states:

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was

formulation of “nonobviousness” in section 103.<sup>19</sup> An inventor is always a natural person or group of natural persons, and not a corporation.<sup>20</sup> Additionally, an inventor has a common-law right to use, convey, license, or leave his invention dormant.<sup>21</sup>

A patent, a congressionally created right, allows one to exclude others for a limited period of time from making, using, or selling the invention.<sup>22</sup> Inventors receive statutory protection under an explicit grant of constitutional power to encourage inventors to disclose their discoveries to the public because common law granted no comparable right of exclusion.<sup>23</sup>

A patent applicant is one who files an application in the United States Patent and Trademark Office.<sup>24</sup> The applicant may be the in-

first to conceive and last to reduce to practice, from a time prior to conception by the other.

35 U.S.C. § 102 (1976).

19. The conditions for patentability are expressed as follows:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

35 U.S.C. § 103 (1976).

20. See note 5 *supra* and accompanying text.

21. See *Special Equip. Co. v. Coe*, 324 U.S. 370, 378-79 (1945); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 403, 429-30 (1908). In *Crown Die & Tool Co. v. Nye Tool & Mach. Works* Chief Justice Taft stated:

[T]he Government did not confer on the patentee the right himself to make, use or vend his own invention, that such right was a right under the common law not arising under the federal patent laws and not within the grant of power to Congress to enact such laws. . . . [I]n its essence all that the Government conferred by the patent was *the right to exclude others* from making, using or vending his invention.

261 U.S. 24, 35 (1923) (emphasis added).

22. See note 4 *supra* and accompanying text.

23. See notes 1-4 *supra* and accompanying text. The following quote from *Bauer & Cie. v. O'Donnell*, 229 U.S. 1 (1913), succinctly states the basis for codifying a “patent law.”

The right to make, use and sell an invented article is not derived from the patent law. This right existed before and without the passage of the law and was always the right of an inventor. The act secured to the inventor the *exclusive* right to make, use and vend the thing patented, and consequently to prevent others from exercising like privilege without the consent of the patentee. . . . It was passed for the purpose of encouraging useful invention and promoting new and useful improvements by the protection and stimulation thereby given to inventive genius. . . . With these beneficent purposes in view the act of Congress should be fairly or even liberally construed; yet, while this principle is generally recognized, care should be taken not to extend by judicial construction the rights and privileges which it was the purpose of Congress to bestow.

*Id.* at 10 (emphasis in original).

24. See note 5 *supra* and accompanying text.

ventor or the personal representative of a deceased or incompetent inventor.<sup>25</sup>

A patentee is the person who holds title to a patent for a contractually determined period of time. When the patent on a product or process expires, the patentee's right of exclusion expires and the previously patented invention enters the public domain. A patent has all the attributes of personal property.<sup>26</sup> Assignment of a patent is an effective transfer of the right to exclude others from making, using, or selling the invention.

While sections 102 and 103 stress the "new and useful" tests, the pivotal section of the Patent Act of 1952 is section 103.<sup>27</sup> Section 103 is cast in relatively unambiguous terms. In addition to novelty and utility, patentability depends on the "nonobvious" nature of the "subject matter sought to be patented."<sup>28</sup> The language of section 103 is strongly reminiscent of language in *Hotchkiss v. Greenwood*.<sup>29</sup> The Supreme Court in *Hotchkiss* gave birth to "invention" as a word of legal art signifying patentable inventions or innovations. *Hotchkiss* distinguished between new and useful innovations, which were capable of sustaining a patent and those that were not, by positing that a patentable invention evidences more ingenuity and skill than the degree possessed by an ordinary mechanic acquainted with the business.<sup>30</sup>

Section 103 expresses an additional requirement for patentability originally expressed in *Hotchkiss*. Both section 103 and *Hotchkiss* emphasize the pertinent art existing at the time the invention was made, and advances in the field. The major distinction, however, lies in congressional emphasis on "nonobviousness" as the test of section 103, rather than the less definitive "invention" language of *Hotchkiss*.<sup>31</sup>

25. 35 U.S.C. §117 (1976).

26. See W. BOWMAN, PATENT AND ANTITRUST LAW (1973).

27. See note 3 *supra*.

28. See note 19 *supra*.

29. 52 U.S. (11 How.) 248 (1851).

30. The Court stated:

[U]nless more ingenuity and skill . . . were required . . . than were possessed by an ordinary mechanic acquainted with the business, there was an absence of that degree of skill and ingenuity which constitute essential elements of every invention. In other words, the improvement is the work of the skillful mechanic, not that of the inventor.

*Id.* at 267.

31. The Senate and House Reports, S. REP. NO. 1979, 82d Cong., 2d Sess. (1952); H.R. REP. NO. 1923, 82d Cong., 2d Sess. (1952), reflect the emphasis in these terms:

Section 103, for the first time in our statute, provides a condition which exists in the law and has existed for more than 100 years, but only by reason of decisions of the courts.

Congress apparently intended the last sentence of section 103 ("patentability shall not be negated by the manner in which the invention was made") to abolish the controversial "flash of genius" test used in *Cuno Engineering Corp. v. Automatic Devices Corp.*<sup>32</sup> Section 103 both embraces *Hotchkiss* and adds a congressional directive that inquiry into the obviousness of the subject matter sought to be patented is a prerequisite to patentability. Therefore, section 103 permits a more practical test of patentability. Additionally, emphasis on nonobviousness is one of inquiry, not quality, which satisfies constitutional strictures.

One of the preeminent issues in the patent-antitrust conflict is the burden of proof required of a patent applicant to show creative process or novelty of accomplishment to qualify for a patent monopoly. In *Graham v. John Deere Co.*<sup>33</sup> Justice Clark berated the patent office for granting patents too freely. Justice Clark stressed that the constitutional reason for a patent is advancement of useful arts and that Congress could not, under the patent power, grant monopolies except for discoveries that achieve this end.<sup>34</sup> Early in America's history Thomas Jefferson recognized the danger of patent abuse when he stated that the line between patentable and nonpatentable should be between "the things which are worth to the public the embarrassment of an exclusive patent, and those which are not."<sup>35</sup> The standard, however, is difficult to apply. The patent office, and often the courts, are entrusted with the difficult task of: (1) Comprehending the existing art relevant to the claimed invention; (2) understanding the relationship between that art and the invention; (3) grasping the problems that the invention was intended to solve; and (4) attaining sufficient familiarity with the level

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An invention which has been made, and which is new in the sense that the same thing has not been made before, may still not be patentable if the difference between the new thing and what was known before is not considered sufficiently great to warrant a patent. . . .

Section 103 states this requirement in the title. It refers to the difference between the subject matter sought to be patented and the prior art. . . . If this difference is such that the subject matter as a whole would have been obvious at the time to a person skilled in the art, then the subject matter cannot be patented.

That provision paraphrases language which has often been used in decisions of the courts, and the section is added to the statute for uniformity and definiteness. This section should have a stabilizing effect and minimize great departures which have appeared in some cases.

S. REP. NO. 1979, at 6; H.R. REP. NO. 1923, at 7.

32. 314 U.S. 84 (1941).

33. 383 U.S. 1 (1966).

34. *Id.* at 5-6.

35. *Id.* at 9.

of performance of journeymen in the art to decide whether journeymen addressing the problem could be expected to come up with the claimed invention as a solution.<sup>36</sup>

The grant of a patent may conflict with antitrust laws. When patents are used in attempts to unreasonably restrain free trade in or substantially affect commerce of the United States, courts are faced with the uneasy task of reconciling patent and antitrust precepts.<sup>37</sup> For example, does a firm violate section 2 of the Sherman Act if it grants a patent license that restricts resale price of the invention or the geographic territory in which the invention may be sold or practiced? Is section 2 of the Sherman Act violated if a firm accumulates sufficient patents to control a market? The answers to these questions involve compromising, adjusting, and integrating patent and antitrust laws to fit the facts and circumstances of each particular situation.<sup>38</sup>

Conflict between patent and antitrust laws often occurs because monopoly rights granted to a patentee are greater than those possessed by an ordinary property owner. These greater rights leave the monopolist free to charge higher prices for the patented product than would be charged in its absence. A patent application is an attempt to acquire a right to engage in monopoly pricing; the ability to raise prices and reduce output without the restraints of a freely competitive market. The ability to engage in monopolistic activity (*e.g.*, pricing, output, control) appears to violate the Sherman Act. The courts, however, have declared that the purpose of patent law is to administer monopolies.<sup>39</sup>

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36. See W. BOWMAN, PATENT AND ANTITRUST LAW ch. 3 (1973).

37. The *Antitrust Guide* notes that "Terms of an agreement may be permitted, despite the fact that they restrict some competition, provided that the restriction is clearly *ancillary* to some legitimate purpose and is appropriately limited in scope." *Antitrust guide, supra* note 13, at 3 (emphasis in original). A third element, reasonableness, is also to be analyzed in determining lawfulness. *Id.* at 4.

38. *Id.* The *Antitrust Guide* notes that "the antitrust concern is very often not so much with the *particular form* of a transaction, but its surrounding circumstances." *Id.* at 3 (emphasis in original).

39. In *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 296 (6th Cir. 1896), the court stated that:

The monopoly in the unpatented staple results as an incident from the monopoly in the use of complainant's invention, and is therefore a legitimate result of the patentee's control over the use of his invention by others. Depending, as such a monopoly would, upon the merits of the invention to which it is a mere incident, it is neither obnoxious to public policy, nor an illegal restraint of trade.

In *Bement v. National Harrow Co.*, 186 U.S. 70, 91 (1902), the Court held:

[A]ny conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufac-

The Court in *Bement v. National Harrow Co.*, with full appreciation of the Sherman Act, concluded that:

The very object of these laws (patent) is monopoly, and the rule is, with few exceptions, that any conditions which are not in their very nature illegal . . . , imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the Court. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.<sup>40</sup>

Chief Justice Marshall in 1832 recognized, however, that a monopoly granted by a patent was not absolute, but was "limited."<sup>41</sup> Regarding the importance of patent rights, Justice Marshall stated:

The laws which are passed to give effect to this purpose ought, we think, *to be construed in the spirit in which they have been made*; and to execute the contract fairly on the part of the United States, where the full benefit has been actually received: *if this can be done without transcending the intention of the statute, or countenancing acts which are fraudulent or may prove mischievous.*<sup>42</sup>

Thus, "countenancing acts which are fraudulent" was understood over 150 years ago to transcend the intention behind the Sherman Act.<sup>43</sup> The policy is still in effect today in the area of patent fraud.<sup>44</sup>

## II. PATENT FRAUD

The patent process requires that an inventor file an application, which fully specifies and describes the invention sought to be protected by the patent, with the patent office. A patent examiner decides whether the technology meets standards of inventiveness, whether it is new and useful, and whether it is adequately disclosed.<sup>45</sup>

The promise of monopolistic benefits may tempt an applicant to suppress evidence of a prior practice that might have placed the claimed

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ture or use or sale of the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.

40. 186 U.S. at 91.

41. *Grant v. Raymond*, 31 U.S. (6 Pet.) 218 (1832).

42. *Id.* at 242 (emphasis added).

43. *Id.*

44. See *Mannington Mills, Inc., v. Congoleum Corp.*, 595 F.2d 1287 (3d Cir. 1979); note 12 *supra*. In *Mannington* the court held that fraud in the procurement of patents abroad was an act or agreement outside the territorial boundaries of the United States which adversely and materially affected American trade. Therefore, no immunity from the Sherman Act existed for defendant. *Id.* at 1292, 1295-96, 1300-02.

45. See L. SULLIVAN, HANDBOOK OF LAW OF ANTITRUST § 179, at 512 (1977).

invention in the public domain.<sup>46</sup> The integrity of the patent system requires that this type of conduct be examined under the antitrust laws. Thus a firm may be guilty of monopolization or attempted monopolization if it attempted, successfully or unsuccessfully, to acquire a patent fraudulently.<sup>47</sup>

Because of these dangers, the Department of Justice believes that two reasons exist for protecting United States commerce when American businesses engage in international commerce. First, the Department must protect the interests of United States consumers by assuring them the benefits of competitive products and ideas, including those produced by foreign competitors. The Department has indicated that both foreign and domestic firms can expect antitrust scrutiny when their agreements or practices restrain the free flow of United States commerce.<sup>48</sup> The second antitrust concern of the Department is to protect foreign investment and export opportunities of American businesses. Antitrust policy dictates that each American firm engaged in foreign commerce through investment or exporting be allowed to compete on its own merits.<sup>49</sup>

The protectionist policy of the Department of Justice has been derived partially from the patent misuse doctrine. Although the subject of patent misuse frequently arises as a defense in a patent infringement action, patent owners may not use their publicly granted monopoly to

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46. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965); *United States v. Singer Mfg. Corp.*, 374 U.S. 174, 176-88 (1963); *Precision Instr. Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806, 807-14 (1945); *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287, 1290 (3d Cir. 1979).

47. *See note 46 supra*. In two other cases, *Norton v. Curtiss*, 433 F.2d 779, 795 (C.C.P.A. 1970), and *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461, 469 (D. Del. 1966), *aff'd in part, rev'd in part*, 374 F.2d 473 (3d Cir.), *cert. denied*, 389 U.S. 826 (1967), the courts indicated that in an antitrust action based on fraud in obtaining a patent, the plaintiff must establish that "but for" the fraud no patent would have issued. These courts held that the party attacking validity of the patent must show that false information was given with knowledge of its falsity, an intent to deceive, materiality of the false statement, and reliance on it by the patent office. *See also Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*, 450 F.2d 769 (9th Cir. 1971), *cert denied*, 408 U.S. 929 (1972).

48. *See Antitrust Guide, supra note 13, at 5. See also Stern, International Licensing and the New Antitrust Guide for International Operations*, 7 APLA Q.J. 37, 41 (1979).

49. *Id.* The *Antitrust Guide* notes that the Department of Justice will continue to be strongly committed to enforcement of these policies. The large proportion of international business transactions involving American firms, however, will not invoke United States antitrust law enforcement. These transactions usually will not have a "substantial and adverse effect" on United States commerce sufficient to meet the "minimum contacts" standard for federal jurisdiction. *Id.*

violate the antitrust laws.<sup>50</sup> The Supreme Court enunciated the equitable rule nearly forty years ago: “[C]ourts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest.”<sup>51</sup> The patent misuse doctrine is closely related to the public interest in restraining the patentee from engaging in anticompetitive arrangements which violate the antitrust laws.<sup>52</sup>

The rationale underlying a patentee’s liability for antitrust violations is based on the notion that the patent right is not absolute. The center of the patent-antitrust controversy is the delineation of this right. Although the patent holder has limited protection from enforcement of the antitrust laws, the protection is forfeited when the patentee exceeds the scope of the rights.<sup>53</sup>

To resolve this dispute, one must distinguish between those activities that are a legitimate exercise of patent rights, and those that are not. A patent is properly exercised under the laws of the United States when its use “is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.”<sup>54</sup> In contrast, the European Economic Community (EEC) determines the propriety of the activity by determining whether the right asserted is one that goes to the “essence” or “existence” of the patent or merely to the “exercise” of the industrial property right.<sup>55</sup> These differing interpretations as to the scope of a patent may result in different results in a patent action depending on the jurisdiction.

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50. Misuse has its roots in the equitable doctrine of unclean hands. The leading case in this area is *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457 (1957). For a discussion of misuse and purge as equitable in nature, see *In re Yarn Processing Patent Validity Litigation*, 472 F. Supp. 170, 171-73 (S.D. Fla. 1979).

51. *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942). The Supreme Court later made fraud on the patent office in the procurement of a patent an equitable defense to an infringement action. See *Precision Instr. Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945).

In *W.R. Grace & Co. v. Western U.S. Indus.*, 608 F.2d 1214 (9th Cir. 1979), the court quoted *Precision Instrument’s* maxim that “he who comes into equity must come with clean hands.” *Id.* at 1217. The court in *Grace* further noted *Precision Instrument’s* warning that patent monopolies are “issues of great moment to the public” particularly suited to “the equity court’s use of discussion in refusing to aid the unclean litigant.” *Id.*

52. See Wallace, *Proper Use of the Patent Misuse Doctrine—An Antitrust Defense to Patent Infringement Actions in Need of Rational Reform*, 26 MERCER L. REV. 813, 814 (1974).

53. See W. FUGATE, *FOREIGN COMMERCE AND ANTITRUST LAWS* 190 (1973). See also *United States v. Line Material Co.*, 333 U.S. 287, 308-11 (1948).

54. *United States v. General Elec. Co.*, 272 U.S. 476, 489 (1926).

55. *Deutsche Grammophon Gesellschaft MbH v. Metro-SB-Grossmärkte GmbH & Co. KG*, 10 Comm. Mkt. L.R. 631, 647 (1971).

In a patent fraud case the primary antitrust prohibitions are monopolization, attempt to monopolize, and conspiracy to monopolize under section 2 of the Sherman Act,<sup>56</sup> and conspiracy to restrain trade under section 1 of the Act.<sup>57</sup> Additionally, the presence of elements of an antitrust violation that result in patent fraud also may result in a criminal violation under sections 1001<sup>58</sup> or 371 of Title 18 of the Federal Criminal Code.<sup>59</sup> Because the gravamen of an antitrust violation is actual or potential impact on competition, fraudulent procurement in violation of sections 1001 or 371 is insufficient to establish an antitrust violation. The patent must be enforced or asserted before the Sherman Act will apply.<sup>60</sup>

The patent office must determine, however, if the patentee has violated the standard of conduct required by the office before liability can be assessed. The Supreme Court's decisions in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*,<sup>61</sup> *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*,<sup>62</sup> and *Kingsland v. Dorsey*<sup>63</sup> represent an

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56. See note 10 *supra*.

57. *Id.*

58. 18 U.S.C. § 1001 (1976) provides:

Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material act, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement or entry, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

59. 18 U.S.C. § 371 (1976) provides:

If two or more persons conspire either to commit any offense against the United States, or to defraud the United States, or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

60. In *Struthers Scientific & Int'l Corp. v. General Foods Corp.*, 334 F. Supp. 1329, 1332 (D. Del. 1971), the court stated: "It is not the mere obtaining of a fraudulent patent which brings antitrust liability to its owner; it is the assertion or enforcement of the issued patent acquired by fraud which creates antitrust liability." *Cf. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.* 382 U.S. 172, 174 (1965) ("the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act").

The gravamen of a section 2 violation is acquisition of power over price or the power to exclude competition at will or an attempt or conspiracy to acquire such power. If the acquisition of a patent by fraud has no economic impact, then the wrongful conduct was not within the scope of the antitrust laws. *Cf. Western Dairy Prods., Inc. v. Griffith Labs., Inc.*, 175 U.S.P.Q. (BNA) 680, 681 (N.D. Cal. 1972) (court held that plaintiff had standing to bring a declaratory judgment action to seek invalidation of an alleged fraudulently procured patent, but declined, however, to entertain an antitrust suit against the patentee because there was sufficient evidence of a threat to enforce the patent against plaintiff).

61. 322 U.S. 238 (1944).

62. 324 U.S. 806 (1945).

63. 338 U.S. 318 (1949).

attempt to define the patent office's standard for the patent applicant's conduct. These cases emphasize the social and economic importance of ensuring that the procurement and enforcement of a patent, a form of monopoly, is free from the taint of inequitable conduct. Earlier case law did not address the significance of social and economic repercussions.<sup>64</sup> Thus, the *Kingsland* case, which required attorneys before the patent office to act with "the highest degree of candor and good faith,"<sup>65</sup> quickly reinforced the "uncompromising duty" standard set forth in *Precision Instrument*.<sup>66</sup> More recently, a court of appeals has held that an applicant has a "high duty" to inform the patent office of all pertinent facts affecting the processing of his application.<sup>67</sup> The duty of complete disclosure to the patent office arises for all relevant matters even though the applicant feels they do not establish anticipation. All disclosure must be:

[R]outinely coupled with an explanation as to why it does not constitute anticipation. The duty of disclosure to the patent office is enhanced by the consequence that issuance of a patent by the patent office is accorded a presumption of validity, even though the proceeding before the patent office is not adversary and is dependent upon examination by an official who may not equal in resources those who are in the field commercially, and who does not have the extra spark of an economic incentive to avoid the tribute or other restraint that may be exacted by a patentee.<sup>68</sup>

Thus, a need for the "highest degree of candor and good faith" and "uncompromising duty" standards is clear. Determination of whether applicants meet these standards is often difficult. A considerable body of authority holds that mere negligent omission or misstatement before the patent office in the absence of a showing of intentional fraud or willfulness does not amount to "unclean hands," which would bar en-

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64. In *United States v. American Bell Tel. Co.*, 128 U.S. 315 (1888), the Court focused only on the propriety of the United States being allowed to cancel or annul a patent for fraud. The opinion did not outline a policy regarding desirability of keeping patent procurement free from fraud.

65. 338 U.S. at 319.

66. 324 U.S. at 818.

67. *Turzillo v. P&Z Mergentime*, 532 F.2d 1393, 1397 (D.C. Cir.), *cert. denied*, 429 U.S. 897 (1976). The court noted that mere failure to cite a reference, without more, is not grounds for invalidating a patent. Further, in determining "obviousness" under 35 U.S.C. § 103 (1970), hindsight reconstruction of the prior art after the inventions' commercial acceptance is not the applicable standard. 532 F.2d at 1397.

68. 532 F.2d at 1399.

forcement of an otherwise valid patent.<sup>69</sup> There are indications that a patent applicant may breach an affirmative duty of disclosure by recklessness or gross negligence even though the applicant does not manifest a deliberate intent to deceive the examiner.<sup>70</sup>

The question of fraud is one of fact to which the "clearly erroneous" standard of section 52(a) of the Federal Rules of Civil Procedure applies in discerning the degree of guilty conduct before the patent office.<sup>71</sup> An allegation of fraud must be proved by "clear, unequivocal, and convincing evidence and not by a bare preponderance of the evidence which leaves the issue in doubt."<sup>72</sup>

The subject of inequitable conduct in the procurement of patents achieved its present controversial position after the landmark Supreme Court decision in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*<sup>73</sup> In *Walker* the Supreme Court recognized for the first time that fraudulent procurement and enforcement of a patent could be the basis of an action for treble damages<sup>74</sup> under section 2 of

69. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965) (willful misrepresentation required to strip patentee of its exemption from the antitrust laws); *Bendix Corp. v. Balax, Inc.*, 421 F.2d 809, 819 (7th Cir.), *cert. denied*, 399 U.S. 911 (1970) (same); *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 477 F. Supp. 371, 394-96 (S.D.N.Y. 1979) (the court was persuaded that Allied's failure to disclose was not purposeful or designed to mislead nor did it constitute gross or reckless disregard of its duty of disclosure); *Tractor Supply Co. v. International Harvester Co.*, 155 U.S.P.Q. (BNA) 420, 433 (N.D. Ill. 1967) (innocent misrepresentation without proof of intention or willfulness does not work forfeiture of patentee's rights).

70. *See Norton v. Curtiss*, 433 F.2d 779, 796 (C.C.P.A. 1970) ("Where public policy demands a complete and accurate disclosure it may suffice to show nothing more than the misrepresentations were made in an atmosphere of gross negligence as to their truth."). *Cf. Monsanto Co. v. Rohm & Haas Co.*, 456 F.2d 592, 599-600 (3d Cir.), *cert. denied*, 407 U.S. 934 (1972) (failure to disclose inconsistent representations made in prior applications "amounted to misrepresentation transgressing equitable standards of conduct owed the public"); *Scott Paper Co. v. Fort Howard Paper Co.*, 432 F.2d 1198, 1204-05 (7th Cir. 1970), *cert. denied*, 401 U.S. 913 (1971) (deliberate misrepresentation required except possibly when nondisclosed prior art is almost identical with the patentee's invention); *Xerox Corp. v. Dennison Mfg. Co.*, 322 F. Supp. 963, 968-69 (S.D.N.Y. 1971) ("recklessness indicating a disregard for [patentee's] duty of frankness" may bar enforcement of patent).

71. *Norton Co. v. Carborundum Co.*, 530 F.2d 435, 444 (1st Cir. 1976). The court held that the district court's finding that plaintiff failed to sustain its burden of proof was not clearly erroneous. The court further ruled that no common-law fraud existed. *Id.*

72. *See United States v. American Bell Tel. Co.*, 167 U.S. 224, 251 (1897); *Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*, 450 F.2d 769, 772 (9th Cir.), *cert. denied*, 408 U.S. 929 (1972).

73. 382 U.S. 172 (1965). For a discussion of *Walker*, see note 12 *supra*.

74. Section 4 of the Clayton Act, 15 U.S.C. § 15 provides:

Suits by persons injured; amount of recovery

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States

the Sherman Act provided the other elements necessary to prove the violation were present.<sup>75</sup>

*Walker* involved the question of whether the maintenance and enforcement of a patent obtained by fraud on the patent office may be the basis of an antitrust claim in a treble damage action brought under section 4 of the Clayton Act for violation of section 2 of the Sherman Act. The trial court dismissed the infringers' amended counterclaim for failure to state a claim under section 2 of the Sherman Act.<sup>76</sup> The Supreme Court reversed the appellate court's decision<sup>77</sup> to uphold the district court's judgment of dismissal. The Court held that obtaining a patent by "knowingly and willfully misrepresenting facts to the Patent Office" would be "sufficient to strip Food Machinery of its exemption from the antitrust laws." The Court emphasized, however, that "Food Machinery's good faith would furnish a complete defense." The Court said good faith "includes an honest mistake . . . [or] so-called 'technical fraud.'"<sup>78</sup>

Walker's claim rested on a concept of per se illegality under section 2 of the Sherman Act. The Court responded: "We are reluctant to extend [the area of per se illegality] on the bare pleadings and absent examination of market effect and economic consequences."<sup>79</sup>

The underlying rationale of the Court's decision can be stated simply. A patent is affected with a public interest. The public, therefore, is greatly interested that a patent monopoly is free from taint of fraud. A patent obtained by intentional fraud is against the public interest, and the exercise of the monopoly power under such a patent contravenes public policy.

Although the *Walker* Court cited *Precision Instrument*, the Court neither mentioned nor adopted the "uncompromising duty" language of *Precision Instrument*. The *Walker* Court also did not incorporate the "highest degree of candor" standard suggested by *Kingsland*. While the Court removed any doubt that knowledge and willfulness were es-

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in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover three-fold the damages by him sustained, and the cost of the suit, including a reasonable attorney's fee.

75. 382 U.S. at 174.

76. *Id.*

77. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 335 F.2d 315 (7th Cir. 1964), *rev'd*, 382 U.S. 172 (1965).

78. 382 U.S. at 177.

79. *Id.* at 178.

sential elements in determining the culpability of misconduct before the patent office,<sup>80</sup> it did not address the question of the standard to be applied by the patent office. Thus *Walker* vitiated the "uncompromising duty" standard of *Precision Instrument*.<sup>81</sup>

*Walker* makes clear that only intentional fraud can evoke antitrust claims, and that the court must examine economic data to determine the impact of the use of the fraudulently procured patent on the market for the product involved. Fraudulent procurement of a patent alone is insufficient to establish a Sherman Act violation. A plaintiff must establish three separate and independent elements to substantiate a violation of section 2 of the Sherman Act on the basis of fraudulent procurement of a patent:

- (1) That the patent was procured by the commission of intentional fraud on the Patent Office in the common law sense;
- (2) That the fraudulently procured patent was used to exclude competition in a relevant market; and
- (3) That the adverse competitive consequences required by Section 2 resulted.<sup>82</sup>

Although *Walker* is a domestic patent fraud case, it has been applied successfully to international litigation. In *Oetiker v. Jurid Werke, G.m.b.H.*<sup>83</sup> a Swiss licensor granted an exclusive license to a German licensee. The German licensee filed for German and United States patents. The German patent office refused to grant the patent because of lack of invention over prior art. The Swiss licensor asserted patent fraud on the licensee in attempting to procure a United States patent by failing to inform the United States patent office of the prior art relied on by the German office.<sup>84</sup> Noting that the question of fraud is one of fact, the court applied the *Walker* doctrine to find "that plaintiff has alleged facts from which a court could ultimately find that the U.S. patent was fraudulently procured."<sup>85</sup> Although the *Oetiker* court discusses the concept of relevant market in its monopolization analysis, the court does not reflect on *Walker*, which made clear that it is "the enforcement of a patent procured by fraud on the Patent Office" that is

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80. The requirement of knowledge and willfulness mandated by *Walker* was reiterated in *SSP Agricultural Equip., Inc. v. Orchard-Rite Ltd.*, 592 F.2d 1096, 1103-04 (9th Cir. 1979).

81. See notes 65-72 *supra* and accompanying text.

82. 382 U.S. at 177-78.

83. 556 F.2d 1 (D.C. Cir. 1977).

84. *Id.* at 2-3.

85. *Id.* at 6.

a necessary precondition to possible section 2 Sherman Act liability. It is not the procurement of a fraudulent patent that brings antitrust liability to its owner; it is the assertion or enforcement of the issued patent acquired by fraud.<sup>86</sup> A fraud may be remedied, however, before being “fully perpetrated” by the issuance of an illegal patent. The Patent Office Tribunals and the Court of Custom and Patent Appeals have authority to investigate alleged fraud prior to issuance of a patent.<sup>87</sup>

In *Mannington Mills, Inc. v. Congoleum Corp.*<sup>88</sup> Mannington alleged that another American manufacturer of floor covering, Congoleum, made fraudulent misrepresentations in procuring patents from foreign patent offices, and that Congoleum enforced the foreign patents by threatening to and filing infringement suits in foreign countries. Mannington further alleged that these acts restrained the export trade of the United States by restricting the foreign business of Mannington and other American competitors, and demonstrated an intent to monopolize.<sup>89</sup>

Mannington sought to apply the *Walker* doctrine to Congoleum’s foreign patents. Mannington also asserted that it need not prove the invalidity of the foreign patents under the issuing countries’ laws. Mannington argued that this requirement was unnecessary because Congoleum would be exposed to antitrust liability in the United States if domestic patents were at issue.<sup>90</sup> Mannington urged that even though a patent is valid under the laws of a foreign nation, the patent could not be exempt from antitrust liability if procured by conduct unacceptable to American standards.<sup>91</sup> The court noted that *Walker* held only that a patent invalid under American law because of fraud may expose a defendant to American antitrust penalties.<sup>92</sup> After discussing comity and foreign policy,<sup>93</sup> the court extended the *Walker* doctrine to conclude that subject-matter jurisdiction existed and remanded the case to the district court to resolve the “knowing and willful” requirements

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86. *Struthers Scientific & Int’l Corp. v. General Foods Corp.*, 334 F. Supp. 1329, 1332 (D. Del. 1971).

87. *Id.*

88. 595 F.2d 1287 (3d Cir. 1979).

89. *Id.* at 1290.

90. *Id.* at 1295.

91. *Id.* This would make Congoleum liable for any activity abroad that impaired Mannington’s or another competitor’s foreign business.

92. *Id.*

93. *See* notes 259-67 and accompanying text *infra*.

under *Walker*.<sup>94</sup>

To lay the basis for an antitrust claim, *Walker* requires a showing that the patentee committed intentional fraud on the patent office. The misconduct must involve some element of wrongfulness, willfulness, or bad faith. Nondisclosure, however, will not support an antitrust claim because innocent or good faith nondisclosure is insufficient to find the patent invalid or unenforceable.<sup>95</sup>

The requirements necessary to satisfy intentional fraud are identical to those required under common law. The common-law fraud requires: (1) A material representation (2) that is false, and (3) known to be false by the maker, or made recklessly as a positive assertion without knowledge of its truth, and (4) made with the intention that the misrepresentation be acted or relied on, coupled with (5) the fact of justifiable reliance by another (6) to his damage or injury.<sup>96</sup> Silence will be the equivalent of a false representation when there is a duty to speak or present information under the principles of common-law fraud.<sup>97</sup>

Additionally the following elements must be established by clear and convincing evidence to support an antitrust action for patent fraud: (1) The patentee made an intentional misrepresentation of a material fact to the patent office to obtain a patent; (2) knowledge by the patentee of the falsity of the representation, or at least reckless disregard as to whether it was true; and (3) reliance by the patent office on the misrepresentation.<sup>98</sup>

The elements of materiality and reliance are inevitably intertwined because the question of whether the misrepresentation was a determinative influence is closely related to the issue of whether the patent

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94. 595 F.2d at 1303.

95. The Court in *Walker* stated:

Walker's counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws. By the same token, Food Machinery's good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability—so-called "technical fraud."

382 U.S. at 177.

The Court accordingly held that proof of honest mistake would constitute the requisite good faith. *Id.*

96. *Homelite v. Trywilk Realty Co.*, 272 F.2d 688, 691 (4th Cir. 1959). For a similar list of requirements for deceit, see W. PROSSER, *LAW OF TORTS* § 105 (4th ed. 1971).

97. *Id.*

98. See notes 99-121 *infra* and accompanying text.

office should have relied on the misrepresentation.<sup>99</sup> A misrepresentation is material only when knowledge of all the facts would have or should have altered the decision to allow the application.<sup>100</sup> The assessment of materiality necessarily involves the knowing or willful nature of the motive to mislead the patent examiner. It is often difficult, however, to ascertain the degree of evidence necessary to establish materiality.<sup>101</sup>

*Corona Cord Tire Co. v. Dovan Chemical Corp.*<sup>102</sup> is the leading Supreme Court decision on the question of when an alleged fraudulent representation to the patent office is material. The requirement, set forth in *Walker*, that a patentee must obtain the patent by "knowing and willful" misrepresentation of facts to the patent office, follows the theme of materiality first announced in *Corona*. *Corona* is the forerunner of the "but for" test when the Court made clear that the alleged fraud must be the basis for the patent or essentially material to its issue.<sup>103</sup> The "but for" test suggests that the patent office would not have issued the patent, but for the fraud. Subsequent decisions have relied on the Supreme Court's use of the word "obtained" to fashion the "but for" test of materiality.<sup>104</sup>

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99. See *Homelite v. Trywillk Realty Co.*, 272 F.2d 688, 691 (4th Cir. 1959).

100. The relationship of materiality and reliance is discussed in *American Optical Corp. v. United States*, 179 U.S.P.Q. (BNA) 682, 684 (Ct. Cl. 1973).

101. In the past courts had been less than willing to apply elements of common-law fraud to conduct in patent cases, with some courts demonstrating a reluctance to find culpable fraud in business conduct. See *Armour & Co. v. Wilson & Co.*, 274 F.2d 143 (7th Cir. 1960). More recent decisions demonstrate an increasing willingness to find fraudulently procured patents. See note 47 *supra*.

102. 276 U.S. 358 (1928). The Supreme Court found a patent office affidavit reckless but not material to patentability. *Id.* at 374.

103. *Id.* at 374.

104. The court in *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461 (D. Del. 1966), *aff'd in part, rev'd in part*, 374 F.2d 473 (3d Cir.), *cert. denied*, 389 U.S. 826 (1967), stated:

Having found the plaintiff had an invention which was patentable over the prior art, as a legal proposition, defendant's allegations of fraud must fail. Not only must the defendant establish that an intentional misrepresentation was made to the patent examiner, but also defendant must show that the misrepresentation was material, i.e., that the patent would not have issued but for the fraud. Since the patentee was legally entitled to the patent, any misrepresentation directed to overcoming the prior art, assuming *arguendo* there were some, could not be material.

253 F. Supp. at 469-70.

In *Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.*, 324 U.S. 806 (1945), the party given patent rights in accordance with an interference settlement agreement was held to a strict duty of disclosure. As a result of his failure to disclose what he had reason to believe may have been perjurious statements on the part of the party not given the patent, the patent was

The "objective" and "subjective" standards are two separate standards for determining whether a fraudulent misrepresentation is material.<sup>105</sup> The objective standard analyzes the misrepresentation from the standpoint of whether the examiner should have allowed the application based on available evidence.<sup>106</sup> The subjective standard views the materiality issue from the standpoint of what the examiner would have done if aware of the true facts.<sup>107</sup> Both standards require that proof of a material fraudulent misrepresentation be determined from the objective facts.<sup>108</sup> The court, irrespective of which standard is chosen, must determine whether the conduct in question is so reprehensible that the public must be protected from the improvidently granted monopoly.<sup>109</sup>

Other standards also exist to judge the materiality of misrepresentation.<sup>110</sup> Regardless of the standard applied, a court must apply anti-trust concepts in addition to principles of equity. Under *Walker* an

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struck down as invalid and unenforceable. *See, e.g.,* Kolene Corp. v. Motor City Metal Treating, Inc., 307 F. Supp. 1251 (E.D. Mich. 1969), *aff'd*, 440 F.2d 77 (6th Cir.), *cert. denied*, 404 U.S. 886 (1971); Waterman Bic-Pen Corp. v. W.A. Shaeffer Pen Co., 267 F. Supp. 849 (D. Del. 1967).

105. *See* Kayton, Lynch & Stern, *Fraud and Patent Procurement: Genuine and Sham Charges*, 43 GEO. WASH. L. REV. 1, 33 (1974), in which the author comments on the two standards:

A focus upon the "but for" test, however, reveals that this test can be viewed both subjectively and objectively. From an objective point of view, proof of but for materiality requires proof that Patent Office knowledge of the truth respecting the misrepresented fact, when added to other facts bearing upon the issue of patentability would have precluded either issuance of the patent or at least allowance of one or more claims by application of Title 35. The subjective "but for" approach would require proof that the patent examiner would not have granted the patent if he had known the truth respecting the misrepresented fact, regardless of whether that decision was correct or not.

*Id.* (footnotes omitted).

106. *Id.*

107. *Id.*

108. *See* Norton v. Curtiss, 433 F.2d 779, 795 (C.C.P.A. 1970) ("whether the misrepresentations made to the Patent Office, either expressly or impliedly, were false, is simply a question of fact, to be decided on the evidence submitted.").

109. *Id.* at 793. The court reasoned:

[O]ne factor stands clear: the courts have become more critical in their interpretation of the relationship existing between applicants for patent and the Patent Office and their scrutiny of the conduct of applicants in light of that relationship. Not unlike those appearing before other administrative agencies, applicants before the Patent Office are being held to a relationship of confidence and trust to that agency. The indicated expansion of the concept of "fraud" manifests an attempt by the court to make this relationship meaningful.

*Id.*

110. *See* Kayton, Lynch & Stern, *supra* note 105, at 40. The authors advocate three types of misrepresentations—relevant, remote, and irrelevant. In viewing these degrees of materiality on a descending scale, the authors stress that in some instances the misrepresentation should be overlooked. *Id.*

applicant may be subject to treble damages when a court determines as a matter of law that a patentee has fraudulently procured a patent.<sup>111</sup> A court will award treble damages when monopoly power, inherent in the patent grant, is used to restrain competition. The antitrust immunity conferred on a valid patent should not extend to fraudulently obtained and invalid patents, which by their terms will adversely affect competition.

The second element of patent fraud is intent. *Walker* clearly indicates that the applicant's misrepresentations be made "knowingly and willfully."<sup>112</sup> Both knowledge and willfulness are rarely proven directly. Proof normally requires inference from circumstantial evidence. Some element of wrongfulness or bad faith must accompany the misconduct. Proof of negligent omission or misstatements before the patent office is not sufficient.<sup>113</sup> Some courts infer fraudulent intent from conduct that establishes a pattern of misrepresentation.<sup>114</sup> Knowledge of falsity created by an omission or misrepresentation coupled with awareness or appreciation of its significance to patentability, often la-

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111. 382 U.S. at 176-77.

112. *Id.*

113. *See Xerox Corp. v. Dennison Mfg. Co.*, 322 F. Supp. 963, 968 (S.D.N.Y. 1971), in which the court stated:

Notwithstanding this thorough lacing of their papers with claims of fraud, defendants ambivalently contend that proof of material misstatements or non-disclosure before the Patent Office, standing alone and without establishment of an intent to deceive or of recklessness, would amount to unclean hands. We disagree. The law is to the contrary. . . .

Although it is difficult to formulate a standard that will encompass all types of misconduct that would amount to inequity on the part of an applicant, the basic underlying theme is that there must be some element of wrongfulness, willfulness or bad faith that transgresses the basic concept of doing equity. It must be remembered that the purpose of the unclean hands doctrine in patent cases is to discourage an applicant from taking advantage of the fact that the prosecution of a patent application is essentially an *ex parte* rather than an adversary proceeding and that the Patent Examiner accordingly must rely heavily upon the information furnished to him by the applicant. However, to deny enforcement as a matter of law merely because of an innocent or good faith nondisclosure would go beyond what is necessary to protect the public against the improvident granting of a monopoly.

*See, e.g., Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 443 F.2d 867 (2d Cir. 1971), *on remand*, 341 F. Supp. 1303 (E.D.N.Y.), *aff'd*, 474 F.2d 529 (2d Cir. 1972), *cert. denied*, 412 U.S. 929 (1973); *Warner-Jenkinson Co. v. Allied Chem. Corp.*, 477 F. Supp. 371 (S.D.N.Y. 1979); *North Carolina v. Charles Pfizer & Co.*, 384 F. Supp. 265 (E.D.N.C. 1974), *aff'd*, 537 F.2d 67 (4th Cir.), *cert. denied*, 429 U.S. 870 (1976).

114. *See Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 295-97 (4th Cir. 1969) (findings taken together evidenced a course of conduct which, even if not actually fraudulent, revealed a calculated recklessness about the truth, constituting a "serious breach of duty to the Patent Office").

beled "conscious deliberateness,"<sup>115</sup> supports an inference of fraudulent intent sufficient to invalidate a patent.<sup>116</sup> Furthermore, gross negligence or recklessness is sufficient to create an inference.<sup>117</sup> A court should weigh the evidence of intent in light of the materiality of the misrepresentation in conjunction with the motive the applicant might have had in misleading the patent office.

The inevitable result of the lack of clear guidelines to measure misconduct is confusion.<sup>118</sup> Thus the point at which an inference is created must be determined on a case-by-case basis.

Once the patentee's knowledge of a material fact is established, and is coupled with proof that the patentee appreciated the materiality of that fact, no more evidence other than the manifest fact of the misrepresentation or nondisclosure must be elicited to prove "willfulness." In circumstances where the parties stand in a relationship of trust and confidence, such as an applicant before the Patent Office, a conscious awareness of the fact misrepresented or withheld should be sufficient.<sup>119</sup>

Generally, knowledge of the alleged misrepresentation to the patent office, coupled with an awareness or consciousness of the consequences, probably will be sufficient.

Courts must not overlook the existence of a great body of law concerning fraud and deceit. The Supreme Court's decision in *Walker* implicitly recognizes the use of these principles to determine whether misconduct before the patent office can support an antitrust claim. Yet a prima facie determination, as well as the ultimate determination of

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115. *McBride v. United States*, 225 F.2d 249 (5th Cir. 1955), *cert. denied*, 350 U.S. 934 (1956).

116. *See* note 113 *supra*. *See also* *Beckman Instrs., Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 564-66 (5th Cir.), *cert. denied*, 400 U.S. 956 (1970).

117. *See, e.g.*, *Cataphote Corp. v. DeSoto Chem. Coatings, Inc.*, 450 F.2d 769, 772 (9th Cir. 1971) ("[w]holly inadvertent errors or honest mistakes which are caused by neither fraudulent intent or design, nor by the patentee's gross negligence, do not constitute fraud under *Walker*"), *cert. denied*, 408 U.S. 929 (1972); *Ansul Co. v. Uniroyal, Inc.* 306 F. Supp. 541, 566 (S.D.N.Y. 1969) ("In view of the fact that the error arose from an honest mistake and not because of any fraudulent intent or gross negligence on the part of the patentee, enforcement of the patent should not be denied."), *aff'd in part, rev'd in part*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972).

118. *Compare* *Monsanto Co. v. Dawson Chem. Co.*, 312 F. Supp. 452 (S.D. Tex. 1970), *rev'd on other grounds*, 443 F.2d 1035 (5th Cir. 1971), *cert. denied*, 405 U.S. 974 (1972) *with* *Monsanto Co. v. Rohn & Haas Co.*, 312 F. Supp. 778 (E.D. Pa. 1970), *aff'd*, 456 F.2d 592 (3d Cir.), *cert. denied*, 407 U.S. 934 (1972). In *Monsanto v. Dawson* the court emphasized that an intent to deceive must be established when the allegation is withholding of information. 312 F. Supp. at 463. In *Monsanto v. Rohn* the court held that a specific intent to deceive is not necessary when there is evidence of a deliberate withholding of material information. 312 F. Supp. at 792.

119. *Kayton, Lynch & Stern, supra* note 105, at 44 (footnotes omitted).

culpability, should only follow after a weighted consideration of evidence regarding materiality, intent, and motive.

The final element necessary to establish fraudulent procurement of a patent is reliance. The patent office is necessarily limited in the time it can spend to ascertain facts necessary to judge patentability because of the immense volume of patent applications and because the office has no testing facilities. Consequently, the Supreme Court imposes the highest standards of honesty and candor on the applicant.<sup>120</sup> Thus the patent office must rely on representations made in the application. A court will not find reliance when the examiner had actual notice and knowledge of the true and existing facts.<sup>121</sup>

While principles of equity are necessary to evaluate alleged fraud, *Walker* mandates that an antitrust claim can be predicated only on fraudulent procurement, not on inequitable conduct.<sup>122</sup> Analysis of the case law reveals that findings of fraudulent procurement have been predicated on (1) misconduct involving the withholding of information regarding prior art, (2) misconduct involving false statements in affidavits or in arguments made to the patent office, and (3) miscellaneous conduct or actions.<sup>123</sup>

The withholding of information of prior art is generally not regarded as fraudulent when the applicant believed in good faith that the art was irrelevant to the claimed invention.<sup>124</sup> If the patent examiner had

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120. See notes 65-69 *supra* and accompanying text. See, e.g., *Precision Instr. Mfg. Co. v. Automotive Maintenance Mfg. Co.*, 324 U.S. 806, 816 (1945); *Corning Glass Works v. Anchor Hocking Glass Corp.*, 253 F. Supp. 461, 470 (D. Del. 1966), *aff'd in part, rev'd in part*, 374 F.2d 473 (3d Cir) *cert. denied*, 389 U.S. 826 (1967).

121. In *Norton v. Curtiss*, 433 F.2d 779, 796 (C.C.P.A. 1970), the court held:

Reliance and injury are the two remaining elements to be considered. In this case, of course, we have already pointed out the finding of the board that the Curtiss claims were allowed "in substantial measure" as a result of the representations made in the affidavit and demonstration. Reliance is thus not in issue here, nor can there be any doubt that the examiner's reliance was justified.

122. 382 U.S. at 177.

123. See notes 124-33 *infra* and accompanying text.

124. In *Eli Lilly & Co. v. Generix Drug Sales, Inc.*, 460 F.2d 1096 (5th Cir. 1972), the patent for the chemical compound of the drug Darvon, manufactured by plaintiff, was found valid and infringed. Defendant claimed that the patent was invalid because of plaintiff's bad faith nondisclosure to the patent office of the relevant prior art, a closely related compound, which had been disclosed in unpublished literature. The court noted that the related compound (the Chen compound) had never been brought to the attention of the patent office "[f]or some reason which is really not satisfactorily explained." The court, however, said that "in no sense can this nondisclosure be said to approach concealment or unfair dealing of the type discussed and condemned in *Beckman Instrs., Inc. v. Chemtronics, Inc.* 439 F.2d 1369 (5th Cir. 1971)." 460 F.2d at 1102. The

knowledge of the prior art through means other than the application, the "but for" test would not be satisfied.<sup>125</sup> The inference of fraud is created, however, if extrinsic evidence shows that the applicant deliberately withheld information to mislead the examiner.<sup>126</sup> The suggestion that culpable misconduct may be predicated only on the withholding of anticipatory art is found in several cases before *Walker*.<sup>127</sup> Although the "high duty" of disclosure standard exists, an applicant still can establish good faith in the event of failure to cite art that is nonanticipatory. A court may excuse an applicant from failing to cite prior irrelevant art.<sup>128</sup>

Following *Walker*, courts have begun to examine more closely conduct that involves false or misleading affidavits.<sup>129</sup> The present rule is that an applicant, in submitting an affidavit, is "held to be representing

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district court properly found that the inventor had simply and in good faith not considered the Chen compound a relevant prior disclosure. In fact, if he had called the compound to the examiner's attention, he would have made the scientifically correct assertion that it lacked the essential value of his patented product Darvon.

125. See *Alburger v. Magnaflex Corp.*, 444 F.2d 1406 (9th Cir. 1971) (the court accepted the explanation that the withheld art was irrelevant, noting that similar art was before the patent office).

126. See, e.g., *Carter-Wallace, Inc. v. Davis-Edwards Pharmacal Corp.*, 443 F.2d 867, 881-82 (2d Cir. 1971) (court held that the applicant's failure to disclose to the examiner any of three articles pertinent to the prior art could be found to be willful because the articles were of very recent publication—one was by the applicant himself, and two were by former colleagues—and must have been in the forefront of his mind), *on remand*, 341 F. Supp. 1303 (E.D.N.Y.), *aff'd*, 474 F.2d 529 (2d Cir. 1972), *cert. denied*, 412 U.S. 929 (1973); *Beckman Instrs., Inc. v. Chemtronics, Inc.*, 439 F.2d 1369, 1379-80 (5th Cir.) (patentee had deliberately failed to bring a prior art reference to the attention of the patent office and he knew it presented a serious threat to the validity of the patent he was seeking), *cert. denied*, 400 U.S. 956 (1970); *Acme Precision Prods., Inc. v. American Alloys Corp.*, 347 F. Supp. 376 (W.D. Mo. 1972) (The district court found that the original patent applicant had perpetrated fraud on the patent office by concealing material facts as to prior art and commercial use, and that the parties attempting to enforce the patent knew of the circumstances surrounding the procurement of the patent. The court also found dominance in the relevant market, the other element of a Sherman Act section 2 violation.), *rev'd on other grounds*, 484 F.2d 1237 (8th Cir. 1973).

127. See note 126 *supra*. See, e.g., *Wen Prods., Inc. v. Portable Elec. Tools, Inc.*, 367 F.2d 764, 767 (7th Cir. 1966); *Admiral Corp. v. Zenith Radio Corp.*, 296 F.2d 708, 716-17 (10th Cir. 1961), (citing *United States v. Standard Elec. Time Co.*, 155 F. Supp. 949, 952 (D. Mass. 1957)). *But see* *University of Illinois Foundation v. Blonder-Tongue Labs, Inc.*, 422 F.2d 769, 777 (7th Cir. 1970), *vacated*, 402 U.S. 313, *on remand*, 334 F. Supp. 47 (N.D. Ill. 1971), *aff'd*, 465 F.2d 380 (7th Cir.), *cert. denied*, 409 U.S. 1061 (1972). See also *Scott Paper Co. v. Fort Howard Paper Co.*, 432 F.2d 1198, 1203 (7th Cir. 1970), *cert. denied*, 401 U.S. 913 (1971); *Canaan Prods., Inc. v. Edward Don & Co.*, 273 F. Supp. 492, 501 (N.D. Ill. 1966), *aff'd*, 388 F.2d 540 (7th Cir. 1968).

128. See note 125 *supra*.

129. Cases prior to *Walker* tended to excuse misstatements or omissions in affidavits because of lack of proof of fraud or bad faith. See, e.g., *Corona Cord Tire Co. v. Dovon Chem. Corp.*, 276

that his showing includes a fair and accurate demonstration.”<sup>130</sup> The mere fact that the affidavit is misleading is not sufficient to constitute fraud. The issue of materiality must be examined under the “but for” test. No presumption exists that the misrepresentation was effective in obtaining the patent. The patent office record may be examined to determine what the examiner might have concluded had he been aware of the nondisclosure.<sup>131</sup>

Other conduct also may be inspected to find fraud. In *United States v. Singer Mfg. Co.*<sup>132</sup> the Supreme Court held that collusive settlements of interferences to assure issuance of a patent were improper and that this activity could provide the basis for a violation of section 1 of the Sherman Act.<sup>133</sup>

Both *Walker* and *Mannington Mills* demonstrate that enforcement of a fraudulently procured patent to exclude competitors from the market is a violation of the antitrust laws.<sup>134</sup> Furthermore, the Department of Justice has convinced the federal courts<sup>135</sup> that action resulting in fraud on the federal courts is as offensive from an antitrust standpoint as is fraud on the patent office.<sup>136</sup> Justice Harlan, in his concurrence in *Walker*, aptly concluded that although private plaintiffs could institute suits to recover treble damages for Sherman Act monopolization knowingly practiced under the guise of a patent procured by deliberate

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U.S. 358, 374 (1928); *Haloro, Inc. v. Owens-Corning Fibreglas Corp.*, 266 F.2d 918, 919 (D.C. Cir. 1959).

130. *Norton v. Curtiss*, 433 F.2d 779, 794 (C.C.P.A. 1970). See also *SCM Corp. v. Radio Corp. of Am.*, 318 F. Supp. 433, 449-50 (S.D.N.Y. 1970).

131. *Timely Prods. Corp. v. Arron*, 523 F.2d 288, 297-98 (2d Cir. 1975); *Kolene Corp. v. Motor City Metal Treating, Inc.*, 440 F.2d 77, 83 (6th Cir.), cert. denied, 404 U.S. 886 (1971), aff'g 307 F. Supp. 1251 (E.D. Mich. 1969).

132. 374 U.S. 174 (1963).

133. *Id.* The Court opined:

In itself the desire to secure broad claims in a patent may well be unexceptionable—when purely unilateral action is involved. . . . Singer and Gegauf agreed to settle an interference at least in part, to prevent an open fight over validity. There is a public interest here . . . which the parties have subordinated to their private ends—the public interest in granting patent monopolies only when the progress of the useful arts and of science will be furthered because as the consideration for its grant the public is given a novel and useful invention. . . . When there is no novelty and the public parts with the monopoly grant for no return, the public has been imposed upon and the patent clause subverted.

*Id.* at 199-200 (citations omitted).

134. See notes 73-94 *supra* and accompanying text.

135. See *Union Camp Corp. v. Lewis*, 385 F.2d 143, 144 (4th Cir. 1967).

136. See Stern, *A Future Look at Patent Fraud and Antitrust Laws*, 52 J. PAT. OFF. SOC'Y 1 (1970).

fraud, these actions should not impinge on the policy of the patent laws to encourage inventions and disclosure.<sup>137</sup> Justice Harlan, noting that "deliberate fraud" was required, stressed that the Court did not hold;

that private antitrust suits might also reach monopolies practiced under patents that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent [for such a result] might well chill the disclosure of inventions through the obtaining of a patent because of fear of the vexatious or punitive consequences of treble-damages suits.<sup>138</sup>

Thus, the private antitrust remedy granted by *Walker* in the case of a fraudulently obtained patent is not available to reach section 2 monopolies carried on under a nonfraudulently procured patent.

### III. MONOPOLIZATION AND ATTEMPTS TO MONOPOLIZE

Regardless of whether it is termed "patent monopoly" or "patent property," a patent system contains an aura of odious monopoly because of its prohibition on reinvention and use.<sup>139</sup> The use of a fraudulently procured patent most likely violates section 2 of the Sherman Act. Section 2 forbids monopolization, attempts to monopolize, and conspiracies to monopolize.<sup>140</sup> Additionally, section 1 of the Sherman Act may be violated if a plaintiff can establish the requisite elements of that section.<sup>141</sup>

After the Supreme Court's decisions in *Standard Oil Co. v. United States*<sup>142</sup> and *United States v. American Tobacco Co.*,<sup>143</sup> courts have

137. 382 U.S. at 179-80.

138. *Id.* at 180, (cited in *Handgaards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 989 n.6 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980)).

139. See *Nickola v. Peterson*, 580 F.2d 898, 914 n.25 (6th Cir. 1978), *cert. denied*, 440 U.S. 961 (1979), in which the court emphasized that although the reference to "patent monopoly" is not uncommon, the proper characterization is "patent property" as the patent right "is the fundamental element of all human rights called 'property.'" *Id.* But see Adelman, *Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing*, 52 N.Y.U. L. REV. 977, 985 n.31 (1977), in which the author notes that Professor Machlup distinguished between "property" and "monopoly" by comparing the homeowner to a patentee. In the pure property rights setting the homeowner can exclude trespassers, yet he cannot prevent construction of an identical house. The patentee meanwhile has both the property right to exclude and monopoly right to prevent independent development.

140. See note 10 *supra*.

141. *Id.*

142. 221 U.S. 1 (1911).

143. 221 U.S. 106 (1911).

agreed that section 2 does not outlaw monopoly per se.<sup>144</sup> Traditionally, courts have interpreted section 2 to address the issue of monopoly power<sup>145</sup> achieved by acts that constitute an unreasonable restraint of trade in violation of section 1.<sup>146</sup> The exercise of monopoly power in a free market economy may interfere with the efficient allocation of resources and result in a shift of wealth from consumers to producers that inhibits technological innovation. Thus, although courts focus on intent, wrongful purpose, exclusionary conduct, and defendant's predatory practices,<sup>147</sup> exclusionary practices condemned as monopolization by section 2 include certain business practices that are honestly industrial and not prompted solely by a desire to prevent competition.<sup>148</sup>

Although *Walker* signifies that a fraudulently obtained patent can be an illegal act of monopolization if the necessary elements of the offense are present, the case nonetheless holds that fraudulent procurement of a patent, alone, does not constitute a Sherman Act violation. The Court expressly stated:

To establish monopolization or attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved.<sup>149</sup>

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144. See, e.g., *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 430 (2d Cir. 1945). Judge Hand indicated grudging tolerance of a monopoly "thrust upon" a firm while noting the "strong argument" against imposing liability on the "single producer" who survived "out of a group of active competitors, merely by virtue of his superior skill, foresight and industry." *Id.* at 429-30. Thus a monopoly achieved by statutory grants, such as a patent, requires something beyond possession of monopoly power to be unlawful.

145. Monopoly power has been held to be the "power to control prices" and "exclude competition." See, e.g., *United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956); *American Tobacco Co. v. United States*, 328 U.S. 781, 809-11 (1946).

146. See, e.g., *United States v. Griffith*, 334 U.S. 100, 106 (1948); *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 342 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954).

147. One major case expressed the view that "size does not determine guilt; that there must be some 'exclusion' of competitors; that the growth must be something else than 'natural' or 'normal'; that there must be a wrongful intent or some other specific intent or that some unduly coercive means must be used." *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 429 (2d Cir. 1945). See *United States v. International Harvester Co.*, 274 U.S. 693, 707-08 (1927); *United States v. United States Steel Corp.*, 251 U.S. 417, 451 (1920).

148. See *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 431 (2d Cir. 1945). Judge Hand focused on the economic effects of business conduct, defined a market appropriate to evaluate defendant's power, and measured the extent of defendant's share within that market.

149. 382 U.S. at 177. The patent must have been procured by fraud, have subsequently issued, and have been enforced. See *Struthers Scientific & Int'l Corp. v. General Foods Corp.*, 334 F. Supp. 1329 (D. Del. 1971), in which an allegation that defendant, after filing a patent application

The possession of monopoly power in the relevant market<sup>150</sup> and the willful acquisition or maintenance of that power are necessary requisites to find monopolization.<sup>151</sup> The relevant market assessment is a

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had fraudulently induced the patent office to declare an interference with plaintiff's patent, failed to state a claim of attempted monopolization under section 2. The court held:

[T]he *sine qua non* of a Sherman Act violation was fraud in the procurement of a patent which . . . was . . . enforced by the defendant in the action. Neither of these essential elements of a Sherman Act offense is present or pleaded . . . and these counts are legally insufficient to state a Section 2 Sherman Act cause of action.

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[I]t is not the mere obtaining of a fraudulent patent which brings antitrust liability to its owner; it is the assertion or enforcement of the issued patent acquired by fraud which creates antitrust liability.

*Id.* at 1331-32 (emphasis omitted). See also *Forbro Design Corp. v. Raytheon Co.*, 532 F.2d 758 (1st Cir. 1976) (proof of the exclusionary power of an allegedly invalid patent claim in terms of a relevant market for the product involved is necessary to sustain a violation of section 2 of the Sherman Act).

150. The relevant market inquiry has been divided by the courts into two parts: (1) The relevant product market, generally defined to be that area of goods or services in which the product or products offered by the defendant effectively compete and, (2) the relevant geographic market, generally defined as the geographic area of effective competition in which the product or service is traded.

With respect to the product market, the issue is whether the proposed market is composed of products that are elastic, *i.e.*, reasonably interchangeable in terms of price, use, and quality. Further, there may be submarkets that may be considered sufficiently separate "parts of trade or commerce" so as to bring section 2 into play. The geographic market is generally defined as the area within which sellers of the particular product or service operate and within which purchasers can obtain such products or services. See *United States v. Grinnell Corp.*, 384 U.S. 563 (1966); *United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377 (1956). No monopolization determinations can be made without an effort to establish the relevant market. See *Universal Athletic Sales Co. v. American Gym*, 480 F. Supp. 408, 421 (W.D. Pa. 1979).

151. See *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966). See also *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 275 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980) ("The mere possession of monopoly power does not *ipso facto* condemn a market participant."); *California Computer Prods., Inc. v. IBM Corp.*, [1979-1] Trade Cas. (CCH) ¶ 62,713, at 77,974-75 (9th Cir.); *Transamerica Computer Co. v. IBM*, 481 F. Supp. 965, 974 (N.D. Cal. 1979).

Because size may be the unavoidable result of a legal monopoly or the consequence of vigorous competitive activity, size absent unlawful conduct or an intent to monopolize, is not an antitrust offense. *United States v. United States Steel Corp.*, 251 U.S. 417, 451 (1920); *Standard Oil Co. v. United States*, 221 U.S. 1, 62 (1911). Despite this well settled rule of law, however, some courts suggest that the existence of monopoly power offends the antitrust laws. See, *e.g.*, *United States v. Griffith*, 334 U.S. 100, 107 (1948) ("monopoly power, whether lawfully or unlawfully acquired, may itself constitute an evil and stand condemned under § 2 even though it remains unexercised"); *United States v. Swift & Co.*, 286 U.S. 106, 116 (1932) ("mere size . . . is not an offense against the Sherman Act unless magnified to the point at which it amounts to a monopoly"); *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 427 (2d Cir. 1945) ("Congress . . . did not condone 'good trusts' and condemn 'bad' ones; it forbid all.").

Monopoly power is "the power to control prices or exclude competition." *United States v. E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 391 (1956). This power is a primary requisite to a finding of monopolization and may be a factor in judging the reasonableness of alleged anticom-

primary issue to determine the “part of trade or commerce among the several states” involved, and whether defendants used a fraudulently procured patent to violate the Sherman Act.<sup>152</sup>

In *Oetiker*<sup>153</sup> the court did not resolve the question of whether proof that the patent covers a substantial share of the relevant market is a necessary element of a patent fraud claim. The court applied the *Walker* doctrine to find that plaintiff alleged sufficient facts from which a court could ultimately find that the United States patent was fraudulently procured. The *Oetiker* court, however, was uncertain of whether the Court in *Walker* would have held, after a full record had been developed, that the relevant market in a patent fraud case was always coextensive with the claims of the fraudulently obtained patent.<sup>154</sup>

The fraudulently procured patent must be used to exclude others from the marketplace to comprise an antitrust violation. The patentee or others with knowledge of the fraud<sup>155</sup> may accomplish the exclusion by enforcement or threats of enforcement.<sup>156</sup> These acts alone, however, do not constitute a section 2 violation. Both monopoly power and intent to exercise that power must be proven. If monopoly power is found to exist and if the patent is used to exclude others from the marketplace, the trier of fact will presume intent to exercise that power.<sup>157</sup>

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petitive conduct. The court in *Berkey Photo* stated that section 2 is aimed at a “pernicious market structure.” 603 F.2d at 272. Monopoly power remains, however, a separate element of the offense.

152. The *Walker* Court noted that availability of substitutes is crucial in defining the relevant market. 382 U.S. at 177-78. See Kayton, Lynch & Stern, *supra* note 105:

*Whether the subject matter of a patent is a monopoly under the Sherman Act, therefore, is ultimately a question of fact. When there are several interchangeable products or processes at more or less the same price, it is unlikely that the patent confers upon its owner the power to set the price of either the subject matter of the patent or the products embodying it as a component or element. Moreover, although the patentee has the power to exclude competitors from making, using, and selling the specific patented product, ownership of such a patent will not confer any power to keep competitors from making, using, and selling the substitutes for the patented product. On the other hand, a truly valuable or pioneer patent may confer monopoly power upon its owner as a result of the unique characteristics and uses of the product or the substantial cost savings that it alone will permit.*

*Id.* at 69 (emphasis added).

153. See notes 83-86 *supra* and accompanying text.

154. 556 F.2d at 6.

155. 382 U.S. at 177 n.5.

156. *Struthers Scientific & Int'l Corp. v. General Foods Corp.*, 334 F. Supp. 1329 (D. Del. 1971).

157. See, e.g., *United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966) (the “existence of [monopoly] . . . power ordinarily may be inferred from the predominant share of the market”); *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962) (the Court found that the economic power

An important consideration to determine if monopoly power exists is whether the patent is used as part of a scheme to dominate the market and whether the patentee enjoyed sufficient monopoly power to dominate the market. The percentage of the relevant market controlled is a prime tool to assess monopoly power because "size is . . . an earmark of monopoly power."<sup>158</sup> Size is particularly significant when the patentee has abused its market strength in the past.<sup>159</sup> The courts, however, have not formulated a precise percentage to determine when a firm does control a predominant share of the market. The basic statement of the rule by the Supreme Court is that "[t]he relative effect of percentage command of a market varies with the setting in which that factor is placed."<sup>160</sup>

Supreme Court cases have described the percentage of market share that will indicate monopoly power to range from 65 percent to 100 percent.<sup>161</sup> The Ninth Circuit<sup>162</sup> stated that a 50 percent market share probably is insufficient to establish monopoly power. The Fifth Circuit,<sup>163</sup> however, stated that there is no "rigid rule" that a firm with less than 50 percent lacks monopoly power. The courts consider market and industrial structure the most important factors in determining monopoly power under section 2. The analysis requires the court to examine all competitive factors that establish a seller's power to raise prices or exclude competition.<sup>164</sup> Judge Newman in *SCM Corp. v.*

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needed to restrain competition in a tied product would be presumed when the tying product was patented).

158. *United States v. Griffith*, 334 U.S. 100, 107 n.10 (1948).

159. *United States v. Swift & Co.*, 286 U.S. 106, 116 (1932).

160. *United States v. Columbia Steel Co.*, 334 U.S. 495, 528 (1948).

161. *See United States v. Grinnell Corp.*, 384 U.S. 563, 571 (1966) (87% market share "leaves no doubt" as to monopoly power); *International Boxing Club of New York, Inc. v. United States*, 358 U.S. 242, 249 (1959) (81% and 93% market shares found to constitute monopoly power); *American Tobacco Co. v. United States*, 328 U.S. 781, 796-97 (1946) (68-80% market share found to constitute monopoly power); *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 424 (2d Cir. 1945) (90% market share is enough to constitute monopoly power, 60-64% would be "doubtful," and 33% "certainly not."); *United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295, 343 (D. Mass. 1953) (75% market share found to constitute monopoly power), *aff'd per curiam*, 347 U.S. 521 (1954).

162. *Twin City Sportservice, Inc. v. Charles O. Finley & Co.*, 512 F.2d 1264 (9th Cir. 1975).

163. *Yoder Bros., Inc. v. California-Florida Plant Corp.*, 537 F.2d 1347 (5th Cir. 1976), *cert. denied*, 429 U.S. 1094 (1977).

164. The factors most often considered in making such a determination are: (1) Number of firms in an industry (*United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954)); (2) size and strength of competitors (*United States v. Columbia Steel Co.*, 334 U.S. 495 (1948)); (3) increase or decrease in defendant's market share

*Xerox Corp.*<sup>165</sup> commented:

[O]nce a company had acquired monopoly power, it could not thereafter acquire lawful patent power if it obtained new patents on its inventions primarily for the purpose of blocking the development and marketing of competitive products rather than to primarily protect its own products from being imitated or blocked by others.<sup>166</sup>

The existence of monopoly power is not unlawful unless coupled with a general intent to exercise that power and the actual exercise of the power.<sup>167</sup> This intent may be inferred readily from the exclusionary or unlawful practices to effect or maintain the monopoly. Thus, in *Alcoa* the Court stated the intent element of monopolization in classic common-law terms, and detected *mens rea* from objective acts that naturally and predictably produced the proscribed result:

We need charge [Alcoa] . . . with no moral derelictions. . . . The only question is whether it falls within the exception established in favor of those who do not seek, but cannot avoid, the control of a market. It seems to us that that question scarcely survives its statement. It was not inevitable that [Alcoa] . . . should always anticipate increases in demand for the ingot and be prepared to supply them. Nothing compelled it to keep doubling and redoubling its capacity before others entered the field. It insists that it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity already geared into a great organization, having the advantage of experience, trade connections and the elite of personnel. Only in case we interpret "exclusion" as limited to manoeuvres (sic) not honestly industrial, but actuated solely by a desire to prevent competition, can such a course, indefatigably pursued, be deemed not "exclusionary." So to limit it would in our judgment emasculate the Act; would permit just such consolidation as it was designed to prevent.<sup>168</sup>

. . . .

In order to fall within § 2, the monopolist must have both the power to monopolize, and the intent to monopolize. To read the passage as demanding any "specific" intent makes nonsense of it, for no monopolist

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(*United States v. United States Steel Corp.*, 251 U.S. 417 (1920)); (4) past and probable development of the industry (*United States v. United Shoe Mach. Corp.*, 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954)); (5) ease of entry to the industry (*United States v. Aluminum Co. of Am.*, 148 F.2d 416 (2d Cir. 1945)).

165. 463 F. Supp. 983 (D. Conn. 1978).

166. *Id.* at 1007.

167. *See Telex Corp. v. IBM*, 510 F.2d 894 (10th Cir.), *cert. dismissed*, 423 U.S. 802 (1975).

168. *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 431 (2d Cir. 1945).

monopolizes unconscious of what he is doing. So here, "Alcoa" meant to keep, and did keep, that complete and exclusive hold upon the ingot market with which it started. That was to "monopolize" that market, *however innocently it otherwise proceeded*.<sup>169</sup>

The possession of monopoly power in attempted monopolization cases is not considered an essential element because an attempt to monopolize infers that the defendant has not attained monopoly status. The courts traditionally have viewed the offense of attempt to monopolize as a single firm offense in which the requirement of specific intent can be inferred from the defendant's conduct.<sup>170</sup>

An attempt to monopolize has been defined as the "employment of methods, means and practices which would, if successful, accomplish monopolization, and which though falling short, nevertheless approach so close as to create a *dangerous probability* of it."<sup>171</sup> The requirement of specific intent to achieve monopoly power cannot be inferred simply from a general course of business conduct. A showing of acts or conduct from which an inference of wrongful intent can be drawn is required.<sup>172</sup> The court must evaluate the conduct with reference to a relevant market, unless the conduct is of a type that will always be predatory.<sup>173</sup> No reason exists to require that defendant obtain a dominant share of the relevant market to establish intent. Market structure, market share, and the effect and legitimate objects of defendant's conduct are independently relevant to determine whether a court may reasonably infer that defendant undertook a specific course of conduct to acquire monopoly power. Thus, in a highly competitive market occupied by only a few firms of similar size, inference of the subjective intent necessary for attempted monopolization from market share alone would be unreasonable. The conduct speaks for itself. If a given practice results from an objectively rational business decision, no inquiry is needed into the subjective intent behind the practice.<sup>174</sup>

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169. *Id.* at 432 (emphasis added).

170. *Independent Iron Works, Inc. v. United States Steel Corp.*, 322 F.2d 656, 667 (9th Cir.), *cert. denied*, 375 U.S. 922 (1963); *United States v. American Oil Co.*, 249 F. Supp. 799, 809 (D.N.J. 1966).

171. *American Tobacco Co. v. United States*, 328 U.S. 781, 785 (1946) (emphasis added).

172. *Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973).

173. See 3 P. AREEDA & D. TURNER, *ANTITRUST LAW* ¶ 836(b), at 352-53 (1978).

174. See, e.g., *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263, 287 (2d Cir. 1979), *cert. denied*, 444 U.S. 1093 (1980); *California Computer Prods., Inc. v. IBM*, [1979-1] Trade Cas. (CCH) ¶ 62,713, at 77,980 (9th Cir.). The role of the court is not to second guess business or

In the domestic and international patent fraud context, the sufficiency of proof of a fraudulently procured patent as establishing the requisite intent was questionable after *Walker*.<sup>175</sup> In *Mannington Mills* the court stated:

Thus, the Supreme Court has declared that the fraudulent procurement of a patent may properly be viewed from the vantage point of antitrust regulation as well as from the perspective of possible patent invalidity, and that monopolistic conduct is not sheltered from the purview of the antitrust laws merely because it involves the fraudulent procurement of patent rights. This underlying rationale of *Walker Process* appears to be just as applicable to monopolization through the fraudulent acquisition of foreign patents as it is to monopolization through the fraudulent acquisition of United States patents. And, in the words of Justice Harlan, "as to this class of improper patent monopolies, antitrust remedies should be allowed room for full pay."<sup>176</sup>

Conduct must be demonstrated that the patentee intended to use the patent to achieve monopoly power. The use of the exclusionary power of the patent, coupled with knowledge of the patentability of achieving market control, would seem sufficient.<sup>177</sup> Yet, the degree of conduct necessary to prove unlawful monopoly is uncertain. Proposed legislation replaces the need for proof of conduct in government monopolization suits seeking divestiture when there is proof of persistent monopoly power. The legislation presumes that monopoly power persistently maintained is almost always acquired through culpable conduct.<sup>178</sup>

The other element of attempted monopolization, "dangerous probability of success" in the relevant market, is established when defendant exhibited the necessary power and committed overt acts to attain a monopoly.<sup>179</sup> No definite rules exist to define the relevant

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engineering decisions. 603 F.2d at 287; *Response of Carolina, Inc. v. Leasco Response, Inc.*, 537 F.2d 1307, 1330 (5th Cir. 1976); *ILC Peripherals Leasing Corp. v. IBM*, 458 F. Supp. 423, 438-39 (N.D. Cal. 1978), *aff'd sub nom. Memorex Corp. v. IBM*, [1980-1] Trade Cas. (CCH) ¶ 63,645 (9th Cir.).

175. See 382 U.S. at 177-78.

176. *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287, 1300 (3d Cir. 1979).

177. See text accompanying note 172 *supra*.

178. See National Commission for the Review of Antitrust Law and Procedures, Report to the President and the Attorney General 141-74 (1979); Maher, *No-conduct Monopolization-Proposed Legislation*, N.Y.L.J., Mar. 30, 1979 at 1, col. 1.

179. In *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 598 (7th Cir. 1971), *cert. denied*, 405 U.S. 1066 (1972), the patentee's one-third share of the relevant market posed a dangerous probability of monopolization. The patent had been obtained by fraud. Yet it is ques-

market and the required quantum of market control. Yet, the market share rules for monopolization apparently also apply for attempted monopolization.<sup>180</sup>

The Ninth Circuit has abandoned the "dangerous probability of success" requirement in favor of a showing of "anticompetitive conduct" or "abusive trade practices," which seriously "impede the capacity of others to compete."<sup>181</sup> The court reasoned that the attempt offense would not deter a firm that controlled less than 50 percent of the entire market by leaving the firm "free to indulge in any activity however unreasonable, predatory, destructive of competition and without legitimate business justification."<sup>182</sup> Although the Ninth Circuit's view may have merit in patent fraud cases because patent fraud has no redeeming social virtue, the court in *Oetiker* reasoned that:

The prevailing view has a number of advantages. Because of the largely fictive character of "specific intent to monopolize," and the general tendency of all competitive behavior to injure weaker competitors, it is often difficult to distinguish between an illegal intent to monopolize and a lawful intent to compete. A requirement that market power be shown forces the courts to consider the market setting in which the challenged behavior took place, evidence which may illuminate both the actor's intent and the anticompetitive consequences of his conduct. Such a requirement also tends to limit the application of the Sherman Act . . . to those already powerful companies which have the least need for a broad range of competitive tactics. Nevertheless, judicial adoption of the prevailing view may leave lacunae in the coverage of the antitrust laws — types of single firm behavior that are anticompetitive and yet not subject to federal restraint.<sup>183</sup>

The law of section 2 is unchanged when intermeshed with patent law. The plaintiff must show the existence of monopoly power plus exclusionary conduct, or a specific intent to monopolize plus exclusion-

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tionable whether the power to monopolize existed. This case represents a good example of the importance of industry factors. *Cf. Bendix Corp. v. Balax, Inc.*, 471 F.2d 149, 161-62 (7th Cir. 1973) (31.2% held to be an inadequate share of the relevant market).

180. See notes 161-64 *supra* and accompanying text.

181. *Greyhound Computer Corp. v. IBM*, 559 F.2d 488, 504 (9th Cir. 1977), *cert. denied*, 434 U.S. 1040 (1978). The court found, "A prima facie case of attempt to monopolize is made out by evidence of a specific intent to monopolize 'any part' of commerce, plus anticompetitive conduct directed to the accomplishment of that unlawful purpose." *Id.*

182. *Id.*

183. 556 F.2d at 8.

ary conduct.<sup>184</sup> Although a patent creates a legal monopoly of the patented art, the presence of a patent does not eliminate the need to show possession or intent to acquire monopoly power. Furthermore, the existence of monopoly power cannot be inferred merely from the possession of one or more patents.<sup>185</sup> Lawfulness of aggregation rests partly on a logical extension of the lawful exclusionary nature inherent in each patent grant. If each patent is valid and the patentee does not exceed the scope of the grant under each patent, accumulation does not contravene either the patent or the antitrust laws. The accumulation of power is only unlawful if exercised in a prohibited manner. Exclusion may attain minimal market power if commercially feasible substitutes exist. A single patent, however, may convey sufficient power to constitute a monopoly if close substitutes do not exist or if the process is the only commercially feasible one. Thus, the existence of a patent does not necessarily prove monopoly power or monopolization. The relevant market and the power of the defendant must be proven independently.

Nonetheless, the acquisition of a patent may be exclusionary when the acquisition meets the basic test for exclusionary conduct.<sup>186</sup> A patent acquisition is exclusionary when it is not an honest industrial expression of superior "skill, foresight and industry," but represents a deliberate effort to preempt others.<sup>187</sup> For example, in *United States v.*

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184. 382 F.2d at 177-78.

185. In *Automatic Radio Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), the Supreme Court established a standard embracing as lawful the accumulation of patents based on new internally developed inventions. Although Hazeltine had accumulated 570 patents, the Court ruled that "the mere accumulation of patents, no matter how many, is not in and of itself illegal." *Id.* at 834. This approval originated from *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897), in which the Supreme Court approved the accumulation of improvement patents on new inventions that made the telephone "the most serviceable" despite extension of "the practical continuance of the telephone monopoly" beyond the expiration of the basic Bell patent. 339 U.S. at 249-50.

186. In *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 430 (2d Cir. 1945), the court stated that many alleged exclusionary practices simply reflect a monopolist's superior product, business acumen, or skill, foresight, and industry, and not willful maintenance of monopoly power. These practices are of the type encouraged by the antitrust laws.

187. See L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 509 (1977). The propositions that apply are the same ones applicable to the acquisition of any other scarce resource. If acquisition of a resource is not necessary to a firm's growth and development, but has for its major purpose or effect inhibition of growth of competing firms, it is exclusionary, as in *Alcoa*. In the case of patents no objection exists if a firm with monopoly power invents a new process that increases efficiency, but a different reaction results if company policy is to outbid all others and purchase outright every patent remotely relating to its technology, whether usable or not. *Id.*

*United Shoe Machinery Corp.*,<sup>188</sup> United Shoe accumulated many of its 2000 patents through efforts of its research program. Yet United Shoe unlawfully acquired the majority of its patents by assignment from others willing to avoid infringement suits. Thus, a conscious corporate policy that utilizes fraudulent means to acquire or procure and enforce patent applications or acquisitions also should be considered a pernicious exclusionary anticompetitive restraint which violates section 2.

Both *Walker* and its progeny<sup>189</sup> demand that the patentee control the relevant market for an antitrust violation to exist. Although the majority of courts require a dangerous probability of success in attempted monopolization cases involving a fraudulently procured patent, the Ninth Circuit's position, which advocates an anticompetitive conduct standard,<sup>190</sup> has gained support.<sup>191</sup>

If deliberate or wanton conduct exists, no policy reason is present to shield a patentee from the private damage provisions of the Clayton Act.<sup>192</sup> Any other policy encourages a patentee's antisocial conduct. On the other hand, antitrust liability should not attach to legitimate attempts to enforce a patent obtained in good faith. The extensive social and economic consequences of a patent grant the public a paramount interest to ensure that patent monopolies are awarded absent fraud or other inequitable conduct, and that patent monopolies are administered within the legitimate scope. This doctrine has been applied in the international setting when United States commerce is affected.<sup>193</sup>

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188. 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954).

189. *See, e.g.,* Acme Precision Products, Inc. v. American Alloys Corp., 484 F.2d 1237, 1244 (8th Cir. 1973).

190. *See* notes 181-82 *supra* and accompanying text.

191. The Author agrees with the position taken by the authors in Kayton, Lynch & Stern, *supra* note 105, at 72 (1974), in which they state:

An effort to eliminate a competitor from the field, whether the field is a market or simply a business, by enforcing a known spurious patent is a practice so inherently pernicious or competitively destructive in tendency, and so without legitimate justification or redeeming value, that a comprehensive analysis of economic impact would be pointless. Courts should, therefore, allow a party damaged by such conduct to recover treble damages for lost sales, litigation costs, and other losses, under a monopolization theory, if the patentee achieves a "true monopoly," and on an attempted monopolization theory, if he did not. At the very least, the court should shift to the patentee the expense and burden of establishing that the subject matter of the patent is not a relevant market. They may readily do so by examining the actions of the patentee who deliberately enforces a fraudulently procured patent.

192. *See* note 74 *supra*.

193. In *Oetiker v. Jurid Werke, G.m.b.H.*, 556 F.2d 1 (D.C. Cir. 1977), the court quoted the view of Professor Cooper:

[T]he case of imposing liability on a firm that tries to enforce a patent known to have

#### IV. THE PHILOSOPHY BEHIND APPLICATION OF SECTION 2 OF THE SHERMAN ACT TO THE FIELD OF INTERNATIONAL PATENTS

The business practice and competition laws of a foreign nation govern the conduct of an American firm engaged in business abroad. For example, the European Economic Community (EEC) countries' regulations on transfer of technology are both national and regional in scope. The antitrust laws are found principally in articles 85 and 86 of the Treaty of Rome.<sup>194</sup> The rules on competition for the EEC parallel provisions of the United States antitrust laws. Article 85 prohibits certain "concerted practices . . . which have as their object or effect the prevention, restriction or distortion of competition."<sup>195</sup> Those practices that article 85(1) specifically forbids include (a) price-fixing; (b) limiting or controlling production, markets, technical development, or investment; (c) sharing markets or sources of supply; (d) applying dissimilar conditions to equivalent transactions with other trading parties; and (e) tying arrangements.<sup>196</sup> Article 85 explicitly exempts certain restrictive practices that would fall under the prohibition of 85(1) for any agreement that "contributes to improving the production or distribution of goods or to promoting technical or economic progress,

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been fraudulently procured verges on the overwhelming. It is extraordinarily hard to conjure up the competitive advantages of deliberate fraud. The effort to enforce the patent in itself reflects the judgment of the firm that some commercial gain can be reaped from the effort. The impact of the patent on rivals in the marketplace may easily reach far beyond the limits that a court would ultimately place on it; ignorance, uncertainty as to eventual judicial interpretation, the great cost of patent litigation, the ease of accepting license arrangements that have been accepted by most competing firms, and the disastrously broad effects frequently produced by threats against customers of the coerced firm all contribute to this result. Although the brocard that a patent is a legally conferred monopoly carries precious little value, certainly an attempt to enforce a fraudulently obtained patent would justify taking the bad actor at the full value of its own judgment and imposing monopolization liability for misuse of rights falling into an otherwise valid category of "monopoly." While these considerations may not justify dispensing with an analysis of market setting, they may support other means of showing a "dangerous probability of success" than a simple demonstration of market share.

*Id.* at 8-9 (quoting Cooper, *Attempts and Monopolization: A Mildly Expansionary Answer to the Prophylactic Riddle of Section Two*, 72 MICH. L. REV. 373, 416-17 (1974)).

194. See the United States International Trade Commission publication, *International Technology Transfer: A Review of Related Legal Issues* 37 (Jan. 1979). For a complete discussion of foreign antitrust laws, see E. KINTNER & M. JOELSON, AN INTERNATIONAL ANTITRUST PRIMER ch. 11 (1974).

195. *International Technology Transfer: A Review of Related Legal Issues* 37 (Jan. 1979).

196. *Id.*

while allowing consumers a fair share of the resulting benefit . . . ."<sup>197</sup>

Article 86 of the Treaty provides that abuse by an enterprise of its dominant position within the Common Market is incompatible with the Common Market purpose because it may potentially affect trade between member states.<sup>198</sup> Article 86 is similar to section 2 of the Sherman Act. Article 86 condemns, (a) direct or indirect imposition of unfair purchase or selling prices or other unfair trading conditions; (b) limitation of production, markets, or technical development to the prejudice of consumers; (c) application of dissimilar conditions to equivalent transactions with other trading parties; and (d) imposition of tying arrangements that have no connection with the subject of the contracts.<sup>199</sup>

Application of the United States antitrust laws is particularly important to American firms engaged in foreign commerce because patent rights generally have not been affected by the prohibitions of article 85, and because article 86, while prohibiting abuse of a dominant position, does not prohibit acquisition of a dominant position.<sup>200</sup> The Department of Justice, however, applies the following policy to foreign trade involving United States commerce: "[N]o manner of trade between this country and any other is beyond the [Sherman] Act's reach."<sup>201</sup> One of two major goals of the Department in its enforcement of the United States antitrust laws in international commerce is to protect American export and investment opportunities against privately imposed restrictions.<sup>202</sup> Although the Sherman Act explicitly applies to "trade or commerce . . . with foreign nations,"<sup>203</sup> neither the Act nor its legislative history clearly indicates the scope of the extraterritorial jurisdiction conferred, and leaves this determination to the courts.<sup>204</sup>

The focal point of the extraterritorial controversy is the issue of jurisdiction. The jurisdictional problems arising under the Sherman Act essentially involve the power of the United States judiciary over commercial and trade activities of imports into and exports from the

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197. *Id.*

198. See E. KINTNER & M. JOELSON, *supra* note 194, at 219.

199. See *International Technology Transfer: A Review of Related Legal Issues* 37 (Jan. 1979).

200. *Id.* at 37-38.

201. Kintner & Griffin, *Jurisdiction Over Foreign Commerce Under the Sherman Act*, 18 B.C. IND. & COM. L. REV. 199, 203 (1977).

202. See notes 48-49 *supra* and accompanying text.

203. See note 10 *supra*.

204. See Kintner & Griffin, *supra* note 201, at 202.

United States. The extraterritorial reach of the United States antitrust laws has been the subject of controversy since Judge Learned Hand's decision in *United States v. Aluminum Co. of America (Alcoa)*.<sup>205</sup> The Supreme Court acknowledged after *American Banana Co. v. United Fruit Co.*,<sup>206</sup> and before *Alcoa*, that acts and agreements occurring outside United States territorial boundaries, which adversely and materially affect American trade, were not necessarily immune from the United States antitrust laws.<sup>207</sup> While this test is easily satisfied,<sup>208</sup> it has been criticized for impairing foreign relations.<sup>209</sup> Judge Hand con-

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205. 148 F.2d 416 (2d Cir. 1945). The *Alcoa* case was the culmination of a series of cases dealing with the extraterritorial jurisdiction of the Sherman Act. In *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909), the Supreme Court denied extraterritorial application to the Sherman Act. Focusing on sovereignty, *American Banana* reflected the view that the subjective territoriality theory was the only possible basis of legislative jurisdiction. Two years later, however, the Court shifted to what was an objective territorial approach, and asserted jurisdiction over a conspiracy entered into abroad between an American corporation and a British corporation, but which had effects within the United States. These effects were presumably considered extensions of the conspiratorial act itself, which thus served as the basis for jurisdiction. *United States v. American Tobacco Co.*, 221 U.S. 106 (1911). There followed a series of cases that, although not overruling *American Banana*, emphasized as one important factor the effects that the challenged activity had on United States commerce. *See, e.g.*, *United States v. Sisal Sales Corp.*, 274 U.S. 268 (1927); *Thomsen v. Cayser*, 243 U.S. 66 (1917).

*Alcoa*, however, finally laid to rest the holding of *American Banana* that the Sherman Act had no extraterritorial application. 148 F.2d at 443. *See* Kintner & Griffin, *supra* note 201, at 212.

206. 213 U.S. 347 (1909).

207. *See, e.g.*, *United States v. Sisal Sales Corp.*, 274 U.S. 268 (1927); *Thomsen v. Cayser*, 243 U.S. 66 (1917); *United States v. Pacific & Arctic Ry. & Navigation Co.*, 228 U.S. 87 (1913). *Sisal* was the first step in the erosion of *American Banana's* requirement that conduct must occur within United States territory. The Court held that jurisdiction would exist even though part of the alleged conduct occurred outside of the United States. 274 U.S. at 275-76. After *Alcoa*, *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690 (1962), completed the rejection of the territorial aspect of the *American Banana* holding. 370 U.S. at 704.

208. For example, two lower court decisions have rendered the "intent" part of the effects test almost meaningless. In *United States v. General Elec. Co.*, 82 F. Supp. 753 (D.N.J. 1949), the court found that the Sherman Act permitted jurisdiction over an agreement among foreign companies to divide and allocate the world market. The court seemingly substituted knowledge of effects for intent to affect, holding that the intent requirement was satisfied in that the alien corporations involved knew or should have known that their agreement was part of a plan on the part of General Electric to eliminate competition from foreign companies in the United States market. *Id.* at 891. In *Fleischmann Distilling Corp. v. Distillers Co.*, 395 F. Supp. 221 (S.D.N.Y. 1975), the intent requirement was further eroded. The court held that only a general intent to affect commerce was required and that the defendant was "presumed to intend the natural consequences of his actions." *Id.* at 227 (quoting W. FUGATE, FOREIGN COMMERCE AND THE ANTITRUST LAWS 48 (2d ed. 1973)).

209. Some critics are concerned by the assertion of jurisdiction in situations in which none of the activity takes place in the United States and in which none of the parties would normally be subject to personal jurisdiction. The argument is that the "effects test" oversteps the boundaries

cluded in *Alcoa* that although Congress did not intend the Sherman Act to prohibit conduct not affecting the United States, Congress did intend the Act to reach contracts, combinations, and conduct abroad, including conduct of exclusively foreign companies,<sup>210</sup> if the conduct or activity was intended to restrain or affect United States foreign commerce and actually did result in anticompetitive effects on domestic commerce.<sup>211</sup> *Alcoa* effectively undermined the Supreme Court's opinion in *American Banana* in which Justice Holmes doubted the intent of Congress to extend the Sherman Act to actions perpetrated beyond United States territory. The Supreme Court later supported Judge Hand's holding in *Alcoa*.<sup>212</sup>

Although the Restatement of Foreign Relations Law supports the "effects" test<sup>213</sup> of *Alcoa*, the Department of Justice's *Antitrust Guide for International Operations*<sup>214</sup> adopts a "substantial and foreseeable" requirement before utilizing the effects test. The *Antitrust Guide* buttresses section 18 of the Restatement, which grants jurisdiction to prescribe a rule of law attributing legal consequences to conduct that occurs outside its territory, when the conduct causes an effect within the territory if:

- (i) [T]he conduct and its effect are constituent elements of activity to which the rule applies; (ii) the effect within the territory is *substantial*; (iii) it occurs as a direct and foreseeable result of the conduct outside the territory; and (iv) the rule is not inconsistent with the principles of justice generally recognized by States that have reasonably developed legal sys-

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set by international law by concentrating on effects within the United States and ignoring the interests of other nations. These critics argue that jurisdiction should apply only when the effects are "direct and physical" and not when they are "remote" and "difficult to establish" as they are when the crime involved is economic. See Kintner & Griffin, *supra* note 201, at 222-23. See also Ongman, "Be No Longer a Chaos": Constructing a Normative Theory of the Sherman Act's Extraterritorial Jurisdictional Scope, 71 NW. U.L. REV. 733, 751 (1977).

210. This is the reason why the United States antitrust laws were held to apply in *Oetiker v. Jurid Werke, G.m.b.H.*, 556 F.2d 1 (D.C. Cir. 1977). *Oetiker* involved a Swiss licensor suing a German licensee for trying to procure a fraudulent patent from the United States patent office. For a more complete discussion, see note 83 *supra* and accompanying text.

211. 148 F.2d at 443-45. In *Dominicus Americana Bohio v. Gulf & Western*, 473 F. Supp. 680, 687 (S.D.N.Y. 1979), the court held that, "it is probably not necessary for the effect on foreign commerce to be both substantial and direct as long as it is not *de minimus*."

212. *Timkin Roller Bearing Co. v. United States*, 341 U.S. 593, 598 (1951); *United States v. National Lead Co.*, 332 U.S. 319, 325-26 (1947).

213. See RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 18 (1965).

214. See note 13 *supra*.

tems.<sup>215</sup>

The Department of Justice has taken the position that, "when foreign transactions have a *substantial and foreseeable* effect on U.S. commerce, they are subject to U.S. law regardless of where they take place,"<sup>216</sup> and the antitrust laws will apply when foreign activities will have a direct or intended effect on either United States consumers or export opportunities.<sup>217</sup> Conflict, however, still remains. While the *Antitrust Guide* requires an intended effect on United States commerce as an element of the jurisdictional test applied to foreign activity of American companies, the court in *Alcoa* stated that intent was a requirement only for foreign conduct of alien companies.<sup>218</sup> One court has accepted the *Alcoa* intent requirement, and rejected an American company's defense of lack of intent to restrain trade.<sup>219</sup>

Although courts must define the precise scope of the Sherman Act and the test to determine whether specific conduct falls within its prohibitions,<sup>220</sup> the myriad of case-by-case determinations have not adequately delineated the realm of the Act. Lower federal courts have relied on the Supreme Court's frequent reiteration that "Congress wanted to go to the utmost extent of its Constitutional power in restraining trust and monopoly agreements . . . ." <sup>221</sup> Thus,

the Sherman Act's applicability to foreign commerce is as broad as Congress's power under the commerce clause, which Chief Justice Marshall described as including "every species of commercial intercourse between the United States and foreign nations." No manner of trade between this country and any other is beyond the Act's reach.<sup>222</sup>

When the restraint occurs outside the flow of commerce and the re-

215. RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 18b (1965) (emphasis added).

216. *Antitrust Guide*, *supra* note 13, at 6 (emphasis added).

217. *Id.* at 7.

218. 148 F.2d at 444.

219. *United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 309 (N.D. Ohio 1949), *aff'd and modified*, 341 U.S. 593 (1951).

220. *See, e.g., Baker, Antitrust and World Trade: Tempest in an International Teapot?*, 8 CORNELL INT'L L.J. 16 (1974); Rosenthal, *Subject Matter Jurisdiction in U. S. Export Trade*, 77 AM. SOC'Y INT'L L. PROC. 214, 219 (1977).

221. *United States v. American Bldg. Maintenance Indus.*, 422 U.S. 271, 278 (1975); *United States v. South-Eastern Underwriters Ass'n*, 322 U.S. 533, 558 (1944).

222. *See Kintner & Griffin, supra* note 201, at 203 (quoting *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 193 (1824)). The authors note that the "Sherman Act therefore applies to import and export transactions, other commercial transactions, and transportation and communications between the United States and a foreign country." *Id.* (citations omitted).

straint has an "effect" on that commerce, "foreign commerce" within the meaning of the Act may exist if there is a sufficient nexus between the activity and the United States.<sup>223</sup>

Not only does a domestic firm engaging in a foreign market expose itself to the United States antitrust laws, but also a foreign firm's transactions will be subject to the United States antitrust laws if significant commerce in the United States market is restrained.<sup>224</sup> The Director of the Office of Policy Planning of the Antitrust Division of the Department of Justice has noted the effort to extraterritorially extend the United States antitrust laws because of domestic effects of foreign conduct:

U.S. antitrust officials have generally believed that the broad and even extraterritorial scope of our antitrust laws, our long-arm statutes, our courts' willingness to pierce corporate veils, and, most importantly, the attractiveness and size of our national market, have enabled us to be quite successful in policing and controlling those restrictive practices of multinational corporations which might adversely affect U.S. commerce.<sup>225</sup>

The *Antitrust Guide* incorporates this view:

[A firm] which has no business activities at all in the United States, may be more difficult to reach under the U.S. antitrust laws, but the Department will try to include all appropriate defendants in every case. If [the firm] has property in the United States, it may be seized under certain circumstances to induce consent to the jurisdiction of a U.S. antitrust court.<sup>226</sup>

Although the Department's policy evolved from events occurring in the petroleum market during 1973,<sup>227</sup> the policy is not restricted to that market. Since 1909<sup>228</sup> American courts have consistently found subject-matter jurisdiction under the Sherman Act. Although application of United States antitrust laws abroad always raises the question of jurisdiction, subject-matter and personal jurisdiction are easily found.

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223. *Id.* at 203 n.24.

224. *Antitrust Guide*, *supra* note 13, at 6-7.

225. Remarks of Joel Davidow, Chief, Foreign Commerce Section, Antitrust Division, United States Department of Justice, before the Symposium on Private Investments Abroad, Southwestern Legal Foundation, Extraterritorial Application of U.S. Antitrust Law in a Changing World 809 (June 15, 1976) (copy on file at the offices of the CORNELL INTERNATIONAL LAW JOURNAL).

226. *Antitrust Guide*, *supra* note 13, at 56.

227. *Id.* at 50-61.

228. See *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909). For an understanding of why *American Banana* has been the only case denying subject-matter jurisdiction, see notes 205-11 *supra* and accompanying text.

The acts of United States citizens in a foreign nation normally are subject to the laws of that country.<sup>229</sup> Yet, “the U.S. law in general, and the antitrust laws in particular, are not limited to transactions which take place within our borders.”<sup>230</sup> The court in *Mannington Mills*,<sup>231</sup> using the substantial effects test, stated in reference to subject-matter jurisdiction that, “it can no longer be doubted that practices of an American citizen abroad having a substantial effect on American foreign commerce are subject to the Sherman Act.”<sup>232</sup> The decision in *Mannington Mills* quoted the Court’s statement in *Steele v. Bulova Watch Co.*<sup>233</sup> that “Congress in prescribing standards of conduct for American citizens abroad may project the impact of its laws beyond the territorial boundaries of the United States.”<sup>234</sup> The *Mannington Mills* court acknowledged the basic tenet that a nation’s legislation is valid only in the territory it governs.<sup>235</sup> Nevertheless, the court held that “when two American litigants are contesting alleged antitrust activity abroad that results in harm to the export business of one, a federal court does have subject-matter jurisdiction.”<sup>236</sup>

The *Mannington Mills* theory of subject-matter jurisdiction is also applicable to foreign nationals not engaging in United States trade. The phrase “substantial and foreseeable effect on United States commerce” is a catch-all test that is difficult for foreign firms to escape. Considerations of jurisdiction, enforcement, and comity generally promote the same conclusion: All parties conducting transactions abroad, whether or not dealing with an American firm, are subject to the United States antitrust laws if their activity substantially and foreseeably affects American commerce.<sup>237</sup> In *Oetiker* the court held that attempted fraud on the United States patent office “substantially

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229. See, e.g., RESTATEMENT (SECOND) OF CONFLICT OF LAWS §§ 9-10 (1971); RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES §§ 20, 30 (1965); *Antitrust Guide*, *supra* note 13, at 6.

230. *Antitrust Guide*, *supra* note 13, at 6. See notes 207-16 *supra* and accompanying text.

231. See notes *supra* 88-94 and accompanying text.

232. 595 F.2d at 1292.

233. 344 U.S. 280 (1952). *Steele* was a case involving trademark infringement under the Lanham Trade Mark Act of 1946.

234. *Id.* at 282.

235. 595 F.2d at 1292.

236. *Id.* (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969)).

237. *Antitrust Guide*, *supra* note 13, at 6.

affected" United States commerce to support jurisdiction.<sup>238</sup>

The court in *Oetiker* noted that personal jurisdiction over nonresident patentees<sup>239</sup> is not difficult to obtain.<sup>240</sup> The general trend has been to expand the personal jurisdiction of the courts to reach patentees not present in the traditional jurisdictional sense.<sup>241</sup> The *Antitrust Guide* notes that the Department of Justice will seek to exercise the fullest permissible jurisdiction over those "cartelizing" American markets.<sup>242</sup>

While subject-matter jurisdiction may be easily asserted because of a broad interpretation of the effects doctrine and personal jurisdiction found because of a telex message or telephone call made abroad to the United States,<sup>243</sup> the question must be asked how far foreign governments will yield to the assertion of United States jurisdiction over acts committed outside the United States simply because the act may significantly affect American commerce?<sup>244</sup> The Department of Justice contends that the traditional affirmative defenses of act of state,<sup>245</sup> foreign

238. 556 F.2d at 5-6. For a complete discussion of *Oetiker*, see notes 83-86 *supra* and accompanying text.

239. 35 U.S.C. § 293 (1976) provides:

*Nonresident patentee; service and notice*

Every patentee not residing in the United States may file in the Patent and Trademark Office a written designation stating the name and address of a person residing within the United States on whom may be served process or notice of proceedings affecting the patent or rights thereunder. If the person designated cannot be found at the address given in the last designation, or if no person has been designated, the United States District Court for the District of Columbia shall have jurisdiction and summons shall be served by publication or otherwise as the court directs. The court shall have the same jurisdiction to take any action respecting the patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the court.

240. 556 F.2d at 5 n.10.

241. See *Cofinco, Inc. v. Angola Coffee Co., A.C.*, [1975-2] Trade Cas. (CCH) ¶ 60,456 (S.D.N.Y.).

242. *Antitrust Guide*, *supra* note 13, at 8.

243. See Stanford, *The Application of the Sherman Act to Conduct Outside the United States: A View From Abroad*, 11 CORNELL INT'L L.J. 195, 202 (1978). A defendant no longer must reside or be present within the jurisdiction of the court trying his case. The only constraint is a minimum contact with the jurisdiction and that exercise of the court's power not offend "traditional notions of fair play and substantial justice." See, e.g., *Shaffer v. Heitner*, 433 U.S. 186 (1977); *Hanson v. Denckla*, 357 U.S. 235 (1958); *International Shoe Co. v. Washington*, 326 U.S. 310 (1945).

244. See Stanford, *supra* note 243, at 202.

245. 595 F.2d at 1292-93. The act of state doctrine is a policy of judicial abstention from inquiry into the validity of an act by a foreign government.

The premise of the doctrine is that an act by the sovereign power of a foreign state or by its authorized agent in its own territory . . . cannot be questioned or made the subject of legal proceedings in United States courts. . . . [T]he doctrine requires an American

governmental compulsion,<sup>246</sup> comity,<sup>247</sup> and sovereign immunity<sup>248</sup> must be claimed "more broadly than seems appropriate if the Department is to carry out its essential function of protecting the competitiveness of U.S. markets and export opportunities."<sup>249</sup>

The Department of Justice position reflects determinations made by federal courts in the aftermath of *Alcoa*. In *Continental Ore Co. v. Union Carbide and Carbon Corp.*<sup>250</sup> the Supreme Court extended the Sherman Act to a case involving exports. In *Continental Ore* the complainant alleged that Union Carbide and its Canadian subsidiary conspired with another American firm to monopolize trade in vanadium. The Court stated, in reversing the Ninth Circuit's determination of lack of causation between the complainant's injury and the alleged viola-

court to reject private claims based on the contention that the damaging act of another nation violates either American or international law.

*Id.* See *Hunt v. Mobil Oil Corp.*, 550 F.2d 68 (2d Cir. 1977) (act of state doctrine was applied to dismiss antitrust conspiracy claims when Libya nationalized its oil fields). See also *Continental Ore v. Union Carbide & Carbon Co.*, 370 U.S. 690 (1962); *Underhill v. Hernandez*, 168 U.S. 250 (1897); Note, *Sherman Act Jurisdiction and the Act of Foreign Sovereigns*, 77 COLUM. L. REV. 1247, 1255 & n.36 (1977).

246. The foreign compulsion doctrine shields from antitrust liability the acts of parties carried out in obedience to the mandate of a foreign government. The doctrine is not concerned with the legality or validity of the foreign government's order, but rather with whether it compelled American enterprises to violate the United States antitrust laws. The foreign decree must be basic and fundamental to the alleged antitrust behavior and more than merely peripheral to the overall illegal course of conduct. Compare *Interamerican Ref. Corp. v. Texaco Maracaibo, Inc.*, 307 F. Supp. 1291 (D. Del. 1970) (defendant not held responsible for a boycott forced on it by the Venezuelan government) with *United States v. Sisal Sales Corp.*, 274 U.S. 268 (1927) (American banks found guilty of soliciting Mexican legislation to facilitate establishment of a cartel to monopolize American imports).

247. The principle of comity, respect for procedures and laws of foreign nations, is expressed in the RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 40 (1965):

Where two states have jurisdiction to prescribe and enforce rules of law and the rules they may prescribe require inconsistent conduct upon the part of a person, each state is required by international law to consider, in good faith, moderating the exercise of its enforcement jurisdiction . . . .

248. The *Antitrust Guide* notes that sovereign immunity is a defense to personal jurisdiction only for conduct of the sovereign acting in its "sovereign" capacity rather than in a "proprietary" capacity. *Antitrust guide*, *supra* note 13, at 8. See *Dunhill v. Republic of Cuba*, 425 U.S. 682, 706 (1976). The doctrine of sovereign immunity is similar to the act of state doctrine. A shift in focus has occurred from the notion of the "dignity of independent nations" to concerns for preserving the "basic relationships between branches of government in a system of separation of powers" and not hindering the executive's conduct of foreign policy by judicial review or oversight of foreign acts. See *Banco Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 432-33 (1964).

249. *Antitrust Guide*, *supra* note 13, at 8.

250. 370 U.S. 690 (1962).

tion, that cases following *American Banana* illustrated that “[a] conspiracy to monopolize or restrain the domestic or foreign commerce of the United States is not outside the reach of the Sherman Act just because part of the conduct complained of occurs in foreign countries.”<sup>251</sup> The Court noted in dictum that some impact on United States foreign trade would support jurisdiction.<sup>252</sup>

In *United States v. Minnesota Manufacturing and Mining Co.*<sup>253</sup> four leading manufacturers of coated abrasives in the United States formed an export and holding company to which the export company transferred patents and technology to the holding company. The manufacturers formed jointly owned subsidiaries in Britain, Canada, and Germany because direct exports from the United States to those countries were impractical. The United States parent manufacturers agreed not to export to areas where they had formed jointly owned factories. Judge Wyzanski found this arrangement to restrain unlawfully American exports by the parent companies.<sup>254</sup> Thus, the Sherman Act was extended to cover restraint of potential commerce when, but for the restraint, commerce would have existed otherwise.

In *Fleischmann Distilling Corp. v. Distillers Co.*<sup>255</sup> two American companies sued three United Kingdom companies alleging that defendants imposed unreasonably short terms and notice of termination provisions in their distributorship agreements.<sup>256</sup> The court denied a motion to dismiss for lack of subject-matter jurisdiction, and stated that distribution of whiskey to the United States affected United States foreign commerce. The court noted that the intent requirement of *Alcoa* is “a general intent to affect commerce, ‘and may be satisfied by the rule that a person is presumed to intend the natural consequences of his actions.’ Defendant’s intent to affect United States commerce is inferable from the assignment of exclusive distributorship rights in the United States.”<sup>257</sup> The court substantially eased plaintiff’s burden of proving intent to affect American commerce by permitting the trier of fact to infer intent.

In *Mannington Mills* the Third Circuit rejected traditional defenses

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251. *Id.* at 704. See note 207 *supra*.

252. *Id.* at 705 n.13.

253. 92 F. Supp. 947 (D. Mass. 1950).

254. *Id.* at 958-61.

255. 395 F. Supp. 221 (S.D.N.Y. 1975).

256. *Id.* at 226.

257. *Id.* at 227.

to jurisdiction. Defendant contended that the act of state doctrine and sovereign immunity should apply because acquisition of foreign patents could be accomplished only by affirmative foreign governmental action. The court responded: “[W]e are unable to accept the proposition that the mere issuance of patents by a foreign power constitutes either an act of State, as that term has developed under the case law, or an example of government compulsion.”<sup>258</sup> The court stated in reference to the foreign compulsion defense that, “[w]here the governmental action rises no higher than mere approval, the compulsion defense will not be recognized. It is necessary that foreign law must have coerced the defendant into violating American antitrust law.”<sup>259</sup> The court noted that an element of collusion must exist and that the issuance of patents by foreign governments did not force Congoleum to exclude Mannington Mills from foreign markets. The grant of a patent alone does not provide the necessary degree of collusion.<sup>260</sup>

Judge Weis in *Mannington Mills* noted that comity considerations were probably the most important factor in determining the existence of subject-matter jurisdiction. Judge Weis summarized the jurisdictional conflict in the following manner:

The antitrust statutes enacted by Congress commit this country to the free enterprise system and the exercise of open competition. If an American company is excluded from competition in a foreign country by fraudulent conduct on the part of another American company, then our national interests are adversely affected. In a purely domestic situation the right to a remedy would be clear. When foreign nations are involved, however, it is unwise to ignore the fact that foreign policy, reciprocity, comity, and limitations of judicial power are considerations that should have a bearing on the design to exercise or decline jurisdiction.<sup>261</sup>

The *Mannington Mills* court applied the “balancing test” adopted by the Ninth Circuit in *Timberlane Lumber Co. v. Bank of America*.<sup>262</sup> In

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258. 595 F.2d at 1293-94.

259. *Id.* at 1293.

260. *Id.* at 1294. The court held that:

The granting of the patents per se, in substance ministerial activity, is not the kind of governmental action contemplated by the act of state doctrine or its correlative, foreign compulsion. We conclude, therefore, that the asserted act of state defense does not support dismissal of plaintiff's complaint and it does not apply to the patents issued in the foreign countries.

*Id.*

261. *Id.* at 1296. Judge Weis noted that several decisions by American courts had been criticized for failing to adequately assess these concerns. *Id.*

262. 549 F.2d 597 (9th Cir. 1976).

*Timberlane Lumber* the court held that the "intended effects" test of *Alcoa* was "incomplete because it fails to consider other nations' interests. Nor does it expressly take into account the full nature of the relationship between the actors and this country."<sup>263</sup> Realizing that mechanical application of the *Alcoa* test might result in unduly broad assertions of jurisdiction when comity consideration would dictate dismissal, the court in *Timberlane Lumber* reasoned:

The elements to be weighed include the degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad. A court evaluating these facts should identify the potential degree of conflict if American authority is asserted. A difference in law or policies is one likely sore spot, though one which may not always be present. Nationality is another; though foreign governments may have some concern for the treatment of American citizens and businesses residing there, they primarily care about their own nationals.<sup>264</sup>

After analyzing the "jurisdictional rule of reason" test of *Timberlane Lumber*, Judge Weis opined that the concern for international comity did not require a court to enforce the Sherman Act extraterritorially whenever a party's conduct was also subject to regulation by a foreign government. Problems of international comity become significant only when foreign law requires conduct inconsistent with the Sherman Act.<sup>265</sup> Therefore, the court ruled that subject-matter jurisdiction ex-

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263. *Id.* at 611-12. In *Dominicus American Bohio v. Gulf and Western* the court stated that, "the effects test alone is inadequate, because it fails to take into account potential problems of international comity." 473 F. Supp. at 687. The court adopted the *Timberlane Lumber* balancing test, noting "the proper standard is a balancing test that weighs the impact of the foreign conduct on United States commerce against the potential international repercussions of asserting jurisdiction." *Id.*

264. *Id.* at 614-15. In interpreting the effects test Judge Weis in *Mannington Mills* quoted Judge Hand's statement in *Alcoa*:

[W]e are not to read general words, such as those in this Act, without regard to the limitations customarily observed by nations upon the exercise of their powers; limitations which generally correspond to those fixed by the "Conflict of Laws." We should not impute to Congress an intent to punish all whom its courts can catch, for conduct which has no consequence within the United States.

595 F.2d at 1301.

265. *Id.* at 1302.

isted because:

[(1)] [T]here [was] no indication that Congoleum was conforming to a rule of conduct prescribed by foreign law when it allegedly undertook to monopolize trade in twenty-six nations by fraudulently procuring patents in those nations;

[(2)] Congoleum was [not] compelled by a foreign nation to make materially false representations; and

[(3)] Congoleum, [as an American company] allegedly masterminded and directed its monopolization scheme from its headquarters in New Jersey with the intention of affecting its American competitors' export markets.<sup>266</sup>

The court held that application of American law would not adversely impair the policies of most foreign nations. The court concluded that subject-matter jurisdiction over the antitrust claims existed, and remanded the case to the district court for proceedings on the merits. Mannington Mills would be obligated at the district court to establish that Congoleum procured the foreign patents through knowing and willful fraud and that this conduct constituted monopolization of a relevant market of the foreign trade of the United States under *Walker*.<sup>267</sup>

## V. CONCLUSION

The majority of international business transactions involving American firms or markets generally will not invoke United States antitrust law enforcement because these transactions will not have a substantial and adverse effect on United States consumers or competition even though they may affect American commerce sufficiently to meet minimum contact standards to establish federal jurisdiction.<sup>268</sup> Additionally, courts may refuse to find the requisite effect if granting jurisdiction will unduly interfere with the internal affairs of foreign nations.<sup>269</sup> Nevertheless, the United States antitrust laws play many useful roles in international commerce by effectuating and symbolizing the United

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266. *Id.* The court further held that:

The dictate of the Sherman Act that Congoleum refrain from monopolizing foreign commerce is thus not at variance in this regard with the commands of any foreign nation. . . . [G]iven these alleged facts, there appears to be no reason why Congoleum should not be held accountable in the courts of the United States for monopolizing trade with foreign nations.

*Id.*

267. 595 F.2d at 1303. The remedy in *Dominicus* was identical. See notes 211, 263 *supra*.

268. *Antitrust Guide*, *supra* note 13, at 5-6.

269. See notes 243-67 *supra* and accompanying text.

States commitment to a free and open market approach to world trade. Since *Alcoa*, both foreign and American firms have been notified that anticompetitive conduct, which intentionally affects American commerce, is subject to United States jurisdiction. Thus, the exercise of jurisdiction in a fraudulent patent procurement and enforcement case is neither an unfair nor unreasonable means to accomplish the goals of the antitrust laws in international as well as domestic trade situations. A fraudulently obtained patent may be intrinsic to a monopolization or attempt to monopolize scheme that may harm consumers and competitors absent protection by the United States antitrust laws.<sup>270</sup>

While patents are capable of being used to create powerful and self-perpetuating monopolies capable of being exploited to the extent that the cost of the monopoly to the economy outweighs its benefit, it is equally possible to conceive of circumstances in which patent monopolies benefit the economy as a whole. The consumer gains and competition is encouraged when an important invention is granted a valid patent. Both are losers when market power is used to create or sustain a monopoly of an invention that would have been introduced by others in the absence of the fraudulently obtained patent.

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270. One commentator noted:

Prevention of fraudulent acquisition of patent rights may be more important under United States law than under foreign law, because once the right is established we generally do not police profits, and we generally do not require licensing. . . . Since we do neither of those things, and thus essentially allow a monopoly return to the inventor of a product of commercial significance, it becomes very important to determine whether the patent was valid in the first place. Because of this, we have additional engraftings on the element of validity. One enlargement . . . is the doctrine that fraudulently obtaining a patent is an antitrust violation—a monopolization or an attempt to monopolize.

See Davidow, *United States Antitrust Laws and International Transfers of Technology—The Government View*, 43 *FORDHAM L. REV.* 733, 735-36 (1975).