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COMMENTARY

Coping With Novel Starting Materials (35 U.S.C. § 112)

What is "known" to one of ordinary skill in the art is certainly not an absolute; it varies with the role that is being played. We all know that MOSITA (Man Of Ordinary Skill In The Art) is virtually omniscient with regard to written publications anywhere in the world for the purpose of precluding patentability and is no less than ingenious when it comes to piecing together carefully selected bits from diverse references to "reconstruct" the substance of what an application may claim. Unfortunately, MOSITA does not clearly possess the same capabilities when it comes to figuring out how to practice an invention from a given disclosure in an application for United States Letters Patent.

Basically, an applicant "may begin at the point where his invention begins and describe what he has made that is new and what it replaces of the old. That which is common and well known is as if it were written out in the patent and delineated in the drawings." *Webster Loom Co. v. Higgins,* 105 U.S. 580, 586 (U.S. S. Ct. 1882).

The catch is in what is regarded as "common and well known". An issue with regard to adequate disclosure of how to make novel starting materials in chemical cases arises, perhaps, more often than it should. Some Examiners regard failure to disclose how to make novel starting materials as a fatal defect which is virtually uncurable; others take a far more realistic approach. Such disclosure was directly in issue in *In re Howarth,* 210 U.S.P.Q. 689 (C.C.P.A. 1981), wherein Judge Nies, speaking for the Court, stated:

> To supplement a specification which on its face appears deficient under §112, evidence must establish that the information which must be read into the specification to make it complete is known to those having ordinary skill in the art. We do recognize that part of the skills of such persons includes not only basic knowledge of the particular art to which the invention pertains but also the knowledge of where to search out information. Well known textbooks in English are obvious research materials. Similarly, public records concerning U.S. patents are likely to be checked, and information therein is reasonably accessible in view of the published abstracts and our classification system. Thus, U.S. patents are considered pertinent evidence of what is likely to be known by persons of ordinary skill in the art. We do not exclude the possibility that foreign patents and foreign language printed publications may also be relevant to the inquiry of what is likely to be known, but we do not *ipso facto* give all patents and printed publications the same evidentiary weight for purposes of showing enablement under §112, even though all such references are treated the same for prior art purposes under §102.

The cited rationale may prove entirely workable in the context in which it is provided. We recognize that, from time to time, the PTO truly extends itself in making rejections of this type. Claims directed, e.g., to a novel genus of compounds have been met with a rejection under the first paragraph of §112 when the examiner has conjured up an encompassed compound for which the corresponding starting material may not be known. Some examiners even appear to relish in selecting those possible embodiments which would be expected to involve steric hindrance. How to deal with issues of that type, however, will be left for another day; there are certainly many real-life situations that are more meaningful to consider.

Hypothetical situations undoubtedly abound, but *Howarth* brings to mind another interesting case. *Cf.* the file history of USP 3,365,456.

The starting material for a specifically-claimed final product was stated (Example 5) to be (d,1)-6-methoxy-α-methyltryptamine. Prior to the determination of the issue by the PTO Board of Appeals, a record was developed which established that the preparation of corresponding tryptamines was clearly known well before the Applicant's filing date. It was not disputed that virtually hundreds of tryptamines were known at that time and that no reason appeared why anyone of ordinary skill in the art could not prepare the particular tryptamine in accord with any of a number of published procedures (from known starting materials) for producing other tryptamines.

The Applicant explained that organic synthesists often initiate the preparation of a new compound by reviewing available literature to elicit classical routes that may be followed from known starting materials. Just such a review revealed an article, *Chem. Abs., 31,* 3913^9 (1937), which provided a classic reaction for producing gramine from indole. A second reference, *J.A.C.S., 69,* 3140 (1947), described the synthesis of α-methyltryptamine from gramine. From these two syntheses it was clear that, as early as 1947, an α-methyltryptamine substituted on the 6-membered ring could be prepared from the correspondingly-substituted indole so long as no such substituent was reactive under the required conditions. It was also well known prior to the critical date that a methoxy grouping on such a ring was extremely inert and would not be altered by the conditions necessary for the synthesis. Under the circumstances the sole inquiry should probably have been the availability of 6-methoxy-indole. One preparation of the last noted compound was described in 1938. *Journal of the Chemical Society: London,* Part I, pp. 97-101 (1938).

The cited publications were well known and highly respected publications, and the compounds referred to therein were extensively indexed for making the material accessible.

The Applicant pointed out that the mere name of the compound would actually convey to any artisan a synthetic route for its preparation. Two affidavits were presented by experts who reviewed the noted publication and stated unequivocably that "any ordinarily-skilled organic synthesist, given either the name (d,l)-6-methoxy-α-methyl-tryptamine or the corresponding formula, would be able to prepare said compound prior to the effective date . . .".

Among further publications cited and relied upon was Gilsdorf, *J.A.C.S., 74,* 1837 to 1843, 1952, who showed the lithium aluminum hydride reduction of a 2-nitropropene to the corresponding isopropylamine. This teaching would provide any artisan with the precise route which was set forth in French Patent 1,187,065, which was also cited to the PTO.

Numerous other highly-respected publications were cited and relied upon. Articles subsequent to Applicant's filing date were cited to show that projected syntheses had actually been proved to produce the indicated product. The described generic reactions made it ultimately clear that the practitioner of ordinary skill in the art had available (prior to Applicant's effective filing date) a considerable variety of routes to obtain the starting material in issue.

Moreover, the synthesis of the actual starting material involved was fairly described in USP 3,042,684; although this patent issued subsequent to Applicant's filing date, it had been filed earlier. It confirmed one of Applicant's projected syntheses.

Applicant directed attention to the opinion for *In re Brown,* 141 U.S.P.Q. 245, 248 (C.C.P.A. 1964), which stated:

> The fallacy in Applicant's argument lies in the fact that the N-butyl amino phenyl mentioned by the patentee is more than a mere name of an individual substance, otherwise unrecognized. This is a name according to a standard system of chemical nomenclature (Geneva system) whereby a chemically individual substance of definite chemical molecular structure is generally capable of synthesis by the recognized classical organic reactions.

The opinion of the PTO Board of Appeals was rendered on May 5, 1967. The issue was disposed of as follows:

> There is no question that the necessary intermediate is named in the application . . ., and it is equally clear that the application does not disclose how to make 6-methoxy-α-methyltryptamine. The issue therefore is whether this compound was known in the art when this application was filed.
>
> Appellants present two types of evidence to establish prior art knowledge of 6-methoxy-α-methyltryptamine and the making thereof.
>
> Appellants first rely upon a number of publications dated prior to their filing date and, reasoning by analogy with a combination of publications, they postulate several reaction schemes which might result in the production of the necessary intermediate. In support of this position, they refer to affidavits . . .

> The publications antedating Appellants' filing date are insufficient to establish prior art knowledge of 6-methoxy-α-methyltryptamine because it is necessary to postulate by using several of them in combination and reasoning by analogy. For example, the affidavit of Frey and the first affidavit of Houlihan rely upon three publications to formulate a multi-step reaction scheme, aside from the necessity of reasoning by analogy. Similarly, Houlihan's second affidavit relies upon four publications in combination. It is of interest to note that when a position of this nature is adopted by an Examiner in rejecting claims, it is usually met by arguments of "hindsight" and "nonanalogous art". This post-construction by Appellants is clearly too speculative and uncertain to meet the requirements of 35 USC 112.
>
> Appellants further rely upon a later publication by Young *(J. Chem. Soc. London,* 1958, pages 3493 to 3496) as confirmation of one of their postulated reaction schemes. We are unable to agree that this publication, dated subsequent to Appellants' filing date and describing "A new route to 5-hydroxy-tryptamine (serotonin) and related substituted tryptamine," can demonstrate that 6-methoxy-α-methyltryptamine was known prior to Appellants' filing date.
>
> The other type of evidence presented by Appellants consists of patents granted after Appellants' filing date but having a filing date under 35 USC 119 and/or 120 prior to Appellants' filing date. This category includes the Young Patent 3,042,684 with its parent application and claim to a British priority date and the Velluz et al. Patent 3,260,722 with its claim to a French priority date and its reference to an Allais application . . . and the Allais claim to a French priority date . . .

The issue was clearly not " . . . whether this compund was known in the art when this application was filed", as stated by the board; the issue was, rather, whether Applicant's disclosure was sufficient to enable one of ordinary skill in the art to practice the claimed invention. The criteria for determining this set forth in the *Howarth* Case appears to be far more realistic.

The analogy between the role of an artisan in finding a synthesis for a compound having a structure which is immediately before him and that of an examiner devising a synthesis for a compound having a structure that may not have even been conceived prior to the Applicant's work are clearly not comparable. Classic organic reactions are known to occur repeatedly irrespective of non-interfering substitution, and this is well known to the novice in organic chemistry; it is second nature to those who have reached ordinary skill in the art.

Applicants had carefully submitted evidence in affidavit form to establish how organic synthesists approach the preparation of a new compound. They provided affidavit evidence of readily-available and well-classified authoritative publications which would make the missing synthesis available.

The Board of Appeals proceeded to misstate the law, disregard evidence of those truly skilled in the art and contrive a rationale which, at best, was remote from the issue at hand.

At least partially in jest doctors have been rebuked as burying their mistakes. Although PTO mistakes may be hidden in files, they are not buried; they actually tend to undermine the very system the PTO was created to promote.

The preceding review is presented to show, perhaps, how far our practice has advanced since 1967, with the hope that the disservice to the applicant involved may not reoccur. One of the purposes of our patent system is to promote progress. Rejections based on inadequacy of disclosure do have their place, but that place should be restricted to those instances wherein there is virtually no question that a disclosure is nonenabling. The PTO time can be far more profitably spent in processing more applications rather than substituting conjecture or presumptions of examiners or members of the board for evidence by experts in the art.

No justification is found for such substitution, but misstatement of the issue (prevailing point of law) by the PTO Board of Appeals is a far more serious defect of the noted 1967 opinion. Prior to the rendering of that opinion, a chairman of the PTO Board of Appeals advised a practitioner, who was presenting legal arguments during a hearing on behalf of an appellant, that the board knew all there was to know about the law. Apparently such is not always the case.

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Meaningful Prosecution (37 C.F.R.§1.111)

Crystalizing issues requires a positive contribution by each participating party. This is partially recognized by the requirement for Applicant, when requesting reconsideration, to point out distinctly and specifically "the supposed errors in the Examiner's Action; the Applicant must respond to every ground of objection and rejection in the prior Office Action . . ., and the Applicant's action must appear throughout to a bona fide attempt to advance the case to final action". Also, in amending an application in response to a rejection, "the Applicant must clearly point out the patentable novelty which he thinks the claims present in view of the state of art disclosed by the references cited or the objections made. He must also show how the amendments avoid such references or objections." 37 CFR §1.111.

Unfortunately, the Applicant is only one of the participants in the prosecution of any application for letters patent, and issues cannot truly be formulated unless an equal contribution is provided by the PTO in its role in the prosecution. It is true that an Examiner is called upon to state the reasons for any adverse action or any objection or requirement and to give such information or references as may be useful in aiding the Applicant to judge the propriety of continuing the prosecution of his application. 37 CFR §1.104(b). After re-examination and reconsideration the Examiner is instructed to notify the Applicant if claims are rejected, or objections or requirements made, in the same manner as after the first examination. 37 CFR §1.112. He is not instructed, however, to point out distinctly and specifically the supposed errors in the Applicant's arguments; he is not required to respond to every rebuttal, cited authority or evidentiary matter presented on Applicant's behalf in support of the patentability of asserted claims. He is not instructed to point out errors in Applicant's argument, why cited authorities are not pertinent or how they are distinguished over or the manner in which submitted evidence fails to overcome retained grounds of rejection.

When a ground of rejection is repeated after traversal by an Applicant, the Examiner should take note of Applicant's argument and answer *the substance* of it. MPEP 707.07 (f). The language defining the PTO participation in prosecution is certainly not commensurate with that indicative of the part an Applicant must play in the resolution of issues.

To permit an Office Action to be sent out on re-examination with an allegation;

> Applicant's response . . . has been carefully considered but appears unpersuasive that the rejection is improperly made and maintained.

is considered an insult to the Applicant and a disservice to the patent system, yet the cited language was taken directly from an Office Action with a mailing date of August 17, 1979.

Examiners at the PTO are recognized professionals who hold responsible positions. If there is any fallacy in arguments presented in support of patentability, it should be the duty of the Examiner to point out such fallacy on the record. If he cannot point out any deficiency in patentability-supporting arguments presented on behalf of an Applicant, he should be instructed that the issue involved must be regarded as overcome. Likewise, if controlling authorities are provided on behalf of an Applicant and the Examiner cannot distinguish over the authorities or provide later and controlling authority to the contrary, he should be instructed to regard the issue as resolved in the Applicant's favor. When an Applicant provides evidence in support of the patentability of asserted claims, the Examiner should be similarly instructed to allow the claims involved unless he can clearly explain on the record why the evidence is inadequate to serve the purpose for which it was intended.

When the PTO raises the status of Examiners to that of professionals who are charged with knowing prevailing law and practice to the extent necessary to respond formally to each and every argument, authority and piece of evidence provided on behalf of an Applicant in support of patentability, prosecution will be more compact, the number of appeals will be significantly reduced and the stature of the PTO will be immensely improved.

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Products Liability of A Successor Corporation — Acquisition of "Bad Will" With Good Will

BY DAVID W. HILL*

Introduction

In recent years, there has been a proliferation of litigation in which plaintiffs have sought to impose strict products liability on successor corporations for injuries resulting from the defective design or manufacture of products by predecessor corporations. "Successor corporation" is used herein to mean any corporation which has acquired some or all of the assets of another corporation. In many of these cases the original manufacturer of the machine and any number of intermediate successors had long since dissolved or ceased business operations in the particular product line involved.[1]

The general rule in the majority of American jurisdictions is that a corporation which purchases the assets of another corporation does not succeed to the liabilities of the selling corporation.[2] Nevertheless, many courts faced with difficult decisions of how innocent victims are to be compensated for serious injuries have found new exceptions to the

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[1] *See, e.g.*, Menacho v. Adamson United Co., 420 F. Supp. 128 (D.N.J. 1976), where the plaintiff sought recovery for injuries sustained on a machine manufactured 53 years prior to the injury. The original manufacturer had sold all of its assets and had been liquidated 29 years before the injury, and two subsequent mergers had effected further changes in the ownership of the original business. *See also* Gee v. Tenneco, Inc., 615 F.2d 857 (9th Cir. 1980) where the plaintiff sued the successor to a chemical company which had manufactured a drug allegedly causing her husband's death. The successor had never made or sold the drug. The antibiotic division of the original manufacturer which was responsible for the drug in question had been sold to a different corporate entity 10 years before the successor acquired any of the chemical company assets.

[2] *See, e.g.*, Bazan v. Kux Machine Co., 358 F. Supp. 1250 (E.D. Wis. 1973); Leannais v. Cincinnati, Inc., 565 F.2d 437 (7th Cir. 1977).

rule in extending the reach of strict liability in order to protect "otherwise defenseless victims of manufacturing defects" and to spread "*throughout society* . . . the cost of compensating them."[3]

In the wake of recent decisions, serious consideration must be given to the question of contingent products liability claims in any corporate acquisition. The potential effects of including in a transfer such assets as trademarks and good will or service responsibility for products made and sold by the transferor corporation, and the impact which the form of consideration may have on future products liability must now be carefully weighed by the parties involved in such a transaction.

The purpose of this paper is to review the evolving state of the law in this area, and to offer some practical suggestions for dealing with the problem of contingent successor corporation products liability.

The Traditional Rule

As noted above, a general rule of corporation law, developed long prior to the recognition of strict products liability,[4] provides that a corporation which merely purchases for cash the assets of another corporation does not assume the seller corporation's liabilities.[5]

Against this general rule of successor corporate nonliability, several exceptions have been made which are now generally recognized by the courts.

> There are, however, four well-recognized exceptions to the general rule under which liability may be imposed on a purchasing corporation: (1) when the purchasing corporation expressly or impliedly agreed to assume the selling corporation's liability; (2) when the transaction amounts to a consolidation or merger of the purchaser and seller corporations, (3) when the purchaser corporation is merely a continuation of the seller corporation; or (4) when the transaction is entered into fraudulently to escape liability for such obligations.[6]

These exceptions have been readily applied by numerous courts to impose liability on successor corporations, particularly in those instances where the original manufacturer is no longer in existence.[7] The first exception necessarily turns on the language of the contract or other agreement of sale involved in the particular case. For example, in *Bouton v. Litton Industries, supra,* the court held that Litton had

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[3] Ray v. Alad, 19 Cal. 3d 22, 560 P.2d 3, 136 Cal. Rptr. 574, (1977).

[4] *See* dissenting opinions of Chief Judge Fairchild in Leannais v. Cincinnati, Inc., 565 F.2d 437 (7th Cir. 1977) and Travis v. Harris Corp., 565 F.2d 443 (7th Cir. 1977).

[5] *See,* 15 Fletcher, Private Corporations, Sec. 7122 n.1.

[6] *Leannais v. Cincinnati Inc., supra* at 439.

[7] *See, e.g.,* Bippus v. Norton Co., 437 F. Supp. 104 (E.D. Pa. 1977); Bouton v. Litton Industries, Inc., 423 F.2d 643 (3d Cir. 1970).

assumed the risk of product liability claims arising from accidents after its purchase of all assets of a predecessor machinery manufacturer. The agreement provided that Litton assumed liabilities and obligations "in respect of... all other contracts and commitments entered into in the regular and ordinary course of [the predecessor's] business." The court held that this language evidenced an intent by Litton to assume the risk of insuring against claims arising from future accidents.[8]

Exception (2) has been applied frequently in cases involving the actual absorption of one corporation into another with the former losing its existence as a separate corporate entity. Even when the seller corporation retains its existence while parting with its assets, a "de facto" merger may be found where the consideration for the assets is shares of purchaser corporation stock. *Bazan v. Kux Machine Co.,* 35 F. Supp. 1250 (E.D. Wis. 1973) A "consolidation" normally occurs when two combining corporations are dissolved and lose their identity in a new corporate entity.[9]

A key element in those cases where a "continuation" has been found, is common identity of the officers, directors and stockholders of the selling and purchasing corporations. Cases involving the mere continuation exception have generally taken a broader approach. For example, in *Cyr v. B. Offen & Co.,* 501 F.2d 1145 (1st Cir. 1974), a jury found a successor corporation liable as a "continuation" and that finding was affirmed on appeal. The machine which caused the injury in question had been manufactured by a sole proprietorship which, on the death of the proprietor, was sold by his estate to a new corporation. However, the acquiring corporation was made up of one outside financier and key employees of the former company, the employees receiving 70% of the stock in the new corporation. Noting the familiar law that a corporation "cannot disable itself from responding to liability for its acts by distributing its assets", the court stated:

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[8] *See also,* Kloberdanz v. Joy Manufacturing Co., 288 F. Supp. 817 (D. Colo. 1968) where the court found no express or implied assumption when the contract specifically excluded liability for the transferor's torts.

[9] Tretter v. Rapid American Corp., 514 F. Supp. 1345 (E.D. Mo. 1981). *See also,* Knapp v. North American Rockwell Corp. 506 F.2d 361 (3d Cir. 1974), *cert. denied,* 421 U.S. 965 (1975) a merger was found despite the fact that the manufacturer, whose assets had been exchanged for Rockwell stock, continued in existence for nearly 18 months after the sale. The court was impressed by the fact that the contract required the manufacturer to dissolve "as soon as practicable," and although the manufacturer technically existed as an independent corporation after the sale, "it had no substance."

> [T]he dictates of freedom of business decision are less compelling when an ongoing business assumes all other benefits and liabilities of its predecessor, holds itself out to the world as the same enterprise, without notifying known customers, continues to function in the same manner — indeed is under contractual obligation so to do — with the same key employees, producing the same product.[10]

The court was also unimpressed with the argument that the defendant was not the legal entity which had launched the defective product into the stream of commerce. In answer to this argument, the court stated:

> But in the most real sense [the successor] is profiting from an exploiting all of [sic] the accumulated good will which the products have earned, both in its outward representations of continuity and in its internal adherence to the same line of equipment.[11]

Thus, the *Cyr* court obviously placed great weight on the fact that the successor corporation was benefitting from the accumulated good will of the original manufacturer of the defective product.

The fourth exception, involving fraudulent transactions, has rarely been invoked in a products liability situation. In *Wolff v. Shreveport Gas, Electric Light & Power Co.*, 138 La. 743, 70 So. 789 (1916) it was held that a corporate transfer was not a good faith sale and that the transferee was therefore liable for injury caused by a defective pipe manufactured prior to the transfer. The consideration involved in that case was only $1000.00, and the transferee consisted of many of the same stockholders and employees of the transferor.

In general, courts have been reluctant to expand the traditional exceptions discussed above when the facts of the particular case could not be construed to fit into one of those exceptions. This is particularly true in those cases decided by federal courts based on diversity of citizenship, where the courts have necessarily had to apply state law, often in cases of first impression. However, other courts, faced with the possibility that innocent plaintiffs might otherwise go uncompensated have extended the law beyond these traditional exceptions when the facts of the particular cases did not fit one of those exceptions.

Development of the "Product Line" Theory

The basic "continuity" principles enunciated in *Cyr v. B. Offen & Co.*, were carried a step further by the California Supreme Court in *Ray v. Alad Corp., supra.* In that case the plaintiff had been injured on a defective ladder manufactured by the defendant's now dissolved pred-

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[10] 501 F.2d at 1153.

[11] 501 F.2d at 1154.

ecessor, "Alad Corporation" (Alad I). The defendant Alad Corporation (Alad II), had purchased Alad I for cash and had continued to manufacture the same line of ladders under the Alad name using the same plant, equipment, designs and personnel, and soliciting Alad I's customers through the same sales representatives. Alad II had acquired all rights to the trade name and good will of Alad I, and there had been no outward indication of any change in the ownership of the business. The sale agreement did not mention liability for defects in products manufactured or sold by Alad I although the purchaser did assume liability for certain narrowly specified obligations. With respect to the traditional rule and its exceptions the court held that "none of the rule's four stated grounds for imposing liability on the purchasing corporation is present here." However, obviously concerned with the innocent victim in the case, the court went on to decide whether "the policies underlying strict tort liability for defective products call for a special exception to the rule that would otherwise insulate the present defendant from plaintiff's claim". Drawing analogies from the treatment of certain labor law problems of successor corporations by the United States Supreme Court,[12] the court created a special "strict tort liability exception". Relying heavily on elements of continuity between Alad I and Alad II, the court had little trouble explaining its rationale:

> Justification for imposing strict liability upon a *successor* to a manufacturer under the circumstances here presented rests upon (1) the virtual destruction of the plaintiff's remedies against the original manufacturer caused by the successor's acquisition of the business, (2) the successor's ability to assume the original manufacturer's risk-spreading rule, and (3) the fairness of requiring the successor to assume a responsibility for defective products that was a burden necessarily attached to the original manufacturer's good will being enjoyed by the successor in the continued operation of business.[13]

Particularly emphasizing the "good will" aspect, the court stated:

> Finally, the imposition upon Alad II of liability for injuries from Alad I's defective product is fair and equitable in view of Alad II's acquisition of Alad's I's trade name, good will, and customer lists, its continuing to produce the same line of ladders, and its holding itself out to potential customers as the same enterprise. This deliberate albeit legitimate exploitation of Alad I's established reputation as a going concern manufacturing a specific product line gave Alad II a substantial benefit which its predecessor could not have enjoyed without potential liability for injuries from previously manufactured units. Imposing this liability upon successor manufacturers in the position of Alad II not only causes the one "who takes the benefit [to] bear the burden" . . . but precludes any windfall to the pred-

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[12] Howard Johnson Co. v. Hotel Employees, 417 U.S. 249 (1974); Golden State Bottling Co. v. N.L.R.B., 414 U.S. 168 (1973).

[13] 560 P.2d at 8-9.

ecessor that might otherwise result from (1) the reflection of an absence of such successor liability in an enhanced price paid by the successor for the business assets and (2) the liquidation of the predecessor resulting in avoidance of its responsibility for subsequent injuries from its defective products.[14]

Very similar principles were enunciated by the court in *Turner v. Bituminous Cas. Co.,* 397 Mich. 406, 244 N.W. 2d 873 (1976) in holding a successor corporation liable on a "continuation" theory. In *Turner,* the court relied very heavily on *Cyr v. B. Offen & Co., supra,* in holding that a sale of assets for cash consideration was sufficient to establish a "continuation" of corporate responsibility for products liability where:

1) There was basic continuity of the enterprise of the seller corporation including, apparently, a retention of key personnel, assets, general business operations, and even the Sheridan name.
2) The seller corporation ceased ordinary business operations, liquidated, and dissolved soon after distribution of consideration received from the buying corporation.
3) The purchasing corporation assumed those liabilities and obligations of the seller ordinarily necessary for the continuation of the normal business operations of the seller corporation.
4) The purchasing corporation held itself out to the world as the effective continuation of the seller corporation.[15]

The "product line" type analysis was adopted by the New Jersey Appellate Court in *Ramirez v. Amsted Industries, Inc.,* 171 N.J. Super. 261, 408 A.2d 818 (N.J. App. 1979) where the court stated:

We conclude that where, as in the present case, the successor corporation acquires all or substantially all the assets of the predecessor corporation for cash and continues essentially the same manufacturing operation as the predecessor corporation the successor remains liable for the product liability claims its predecessor.[16]

The Supreme Court of New Jersey affirmed *Ramirez*[17] in 1981 and in so doing specifically overruled *McKee v. Harris-Seybold Co.,*[18] which had applied the traditional standard for imposing liability on a sucessor corporation for injuries caused from a defective product manufactured by a predecessor. The court held:

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14 560 P.2d at 10-11.

15 244 N.W. 2d at 883-84.

16 171 N.J. Super. 261, 408 A.2d 818 (1979). The same court applied the *Ramirez* standard in finding a successor corporation responsible for the environmental damage caused by its predecessor. *See* N.J. Transportation Dept. v. PSC Resources, 175 N.J. Super. 447, 419 A.2d 1151 (1980).

17 Ramirez v. Amsted Industries, Inc., 86 N.J. 332, 431 A.2d 811 (1981).

18 McKee v. Harris-Seybold Co., 109 N.J. Super. 555, 264 A.2d 98 (Law Div. 1970), aff'd 118 N.J. Super. 480, 288 A.2d 585 (App. Div. 1972).

> The social policies underlying strict products liability in New Jersey are best served by extending strict liability to a successor corporation that acquires the business assets and continues to manufacture essentially the same line of products as its predecessor, particularly where the successor corporation benefits from trading its product line on the name of the predecessor and takes advantage from its accumulated good will, business reputation and established customers.[19]

In a companion case, the New Jersey Supreme Court vacated a lower court summary judgment which had been awarded to a successor corporation under *McKee.* In remanding for trial under the *Ramirez* standard, the court held that Bruno Sherman and a related successor corporation, Harris Corp., also had a duty to warn purchasers of the predecessor corporation's presses of defects as they became known to the successors and to update the purchasers as to the changing state of art in machine safety.[20]

The same transaction involved in the Ramirez case was the subject of inquiry in *Korzetz v. Amsted Industries, Inc.,* 472 F. Supp. 136 (E.D. Mich. 1979). There, following a lengthy discussion of conflicts of law principles, the court relied upon Michigan law and the *Turner* case, discussed above, in holding the successor liable. Although the successor operated under a different corporate name than the original corporation, the court placed great weight on the fact that the successor had represented its products as "Johnson Presses", the name of the original manufacturer. As noted by the court:

> [T]he world of the marketplace continued to see and rely on the name "Johnson Press." . . . Amsted was attempting to exploit the Johnson name and market.[21]

The "product line" theory of *Ray v. Alad* was further expanded in *Rawlings v. D.M. Oliver, Inc.,* 97 Cal. App. 3d 890, 159 Cal. Rptr. 119. (1979). In that case, the defendant corporation had purchased the assets and trade name of a corporation which had previously manufactured industrial kelp dryers according to customer specifications. Since the dryers were generally customized, the predecessor had ceased manufacture of that product line. The successor purchased the predecessor's plant and continued in the same general line of business, but did not manufacture the identical product. The plaintiff was injured while operating a dryer manufactured by predecessor. In holding the successor liable for the injury despite its failure to continue making the identical product, the court stated:

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[19] 431 A.2d at 825.

[20] Nieves v. Bruno Sherman Corp., 86 N.J. 361, 431 A.2d 826 (1981).

[21] *See also* discussion of "duty to warn", *infra.*

> Oliver bought a going business including its good will and continued that business at the same location under the same ficticious name as its predecessor. Where one takes the benefit one ordinarily should bear the burden ... Oliver, unlike plaintiff, was in a position to protect itself from loss by expressly providing for that risk in the bargain it made with sellers. Even now, by cross-complaining for indemnity, Oliver can transfer the economic burden to the responsible party.[22]

Pennsylvania is the latest state to adopt a product line exception to the traditional rule. Noting that how one enlarges the scope of liabilities of successor corporations is perhaps a matter of style, the Pennsylvania Superior Court in *Dawejko v. Jorgensen Steel Co.*[23] eschewed an expansion of the traditional meanings of "merger" and "continuation" and adopted the *Ramirez* court formulation of the product line exception as the new rule for Pennsylvania. Although the Supreme Court of that state has yet to rule on the issue, the U.S. District Court for the Eastern District of Pennsylvania assumed the *Dawejko/Ramirez* rule would govern in deciding whether a successor corporation would be held liable for an employee's injuries received when operating an ink mill machine manufactured by a predecessor corporation. See *Savini v. Kent Machine Works, Inc.*, 525 F. Supp. 711 (1981). However, defendant Kent Machine was found not liable because it had purchased only the trade name rights and good will and not the substantial assets of the predecessor. The federal court warned that "courts must be especially careful in applying the new product line cases where defendant corporations only purchase limited assets for cash."[24] The court reiterated the product line exception to be a limited exception to the general rule and one to be applied when the successor corporation acquires "all or substantially all the manufacturing assets ... and undertakes essentially the same manufacturing operation ...."[25]

A review of the above cases on the "product line" theory suggests that a predominant factor which convinced these courts to impose liability on the successor corporations for injuries caused by products manufactured by the predecessor was the exploitation of the pred-

22 97 Cal. App. 3d at 901.

23 434 A.2d 106 (Pa. Super. Ct. 1981).

24 525 F. Supp. at 721.

25 525 F. Supp. at 722. For earlier cases where purchasing corporations were not held liable, *see*, Jacobs v. Lakewood Aircraft Service, Inc. 512 F. Supp. 176 (E.D. Pa. 1981) (no continuity found in de facto merger of Connecticut corporation into California corporation); Long John Silver's v. Arch. Engineering, 520 F. Supp. 753 (W.D. Pa. 1981) (where predecessor corporation still exists and can satisfy claims of products it produced, no liability will fall to successor corporation).

ecessor's good will and the continuation of the predecessor's business as a going concern by the successor. The continued use of the predecessor's trademark or trade name also seems to have been persuasive in these cases.

The "product line" theory discussed above is still a minority rule and many courts have found justification for not adopting this theory.

Reluctance to Expand the Traditional Rule

As noted above, not all courts have been so amenable to expanding the general rule. For example, in *Leannais v. Cincinnati, Inc., supra,* the Seventh Circuit Court of Appeals expressly refused to adopt the "product line" theory of *Ray v. Alad* as the law of Wisconsin in a diversity case. The courts refusal to adopt "such a far-reaching exception to the non-liability of asset purchasers, so long the basis of economic decisions . . ." was explained as follows:

> It is on occasion absolutely necessary, if justice be done, for courts to "legislate" within the "interstices" of a statute, or by analogy to other laws and judicial precedents. In recent years, for a variety of reasons, many have thought it necessary to turn to the courts in search of solutions to social problems. Courts are ill-equipped, however, to balance equities among future plaintiffs and defendants. Such forays can result in wide-ranging ramifications on society, the contemplation of which is precluded by the exigencies of deciding a particular case presented on a limited record developed by present parties. Absent compelling necessity, therefore, a Federal Court should not impose the policy pronouncements of the Supreme Court of one state upon the citizens of another . . . [S]uch broad public policy issues are best handled by legislatures with their comprehensive machinery for public input and debate.[26]

The same court rejected the "product line" theory in interpreting Ohio and Indiana law in *Travis v. Harris Corp.,* 565 F.2d 443 (7th Cir. 1977). In that case, the court was interpreting the same sale of assets which had been the subject of review in *Turner v. Bituminous Cas. Co., supra.* The court commented on the *Turner* decision, and Justice Coleman's dissent therein, as follows:

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[26] 565 F.2d at 441. The court also commented specifically on *Ray v. Alad:*

> With deference, grave risks arise from court adoption of policy considerations to effect a change in a law so fundamental to the interdependent economic segments of a complex society. Whether the mounting costs of such change can be absorbed by insurance, whether product liability costs may grow so high in one state as to encourage business emigration, whether the relationship of workmen's compensation laws to product liability laws should be adjusted, and whether the many other economic and social effects of such an exception can be justified, are questions difficult to answer by analysis of the facts of a particular case and, it would appear, are more amenable to legislative investigation and determination.

> In *Turner,* the court held that the same sale of assets by Old Sheridan to Harris created a de facto merger, refusing to recognize the distinction between cash and stock as consideration. We disagree and find persuasive Justice Coleman's comprehensive argument in support of the general rule.[27]

The underlying rationale of *Ray v. Alad* was also rejected and severely criticized in *Woody v. Combustion Engineering, Inc.,* 463 F. Supp. 817 (E.D. Tenn. 1978). The case involved a series of related products liability claims arising out of the exposure of the plaintiffs to various asbestos products. One of the defendants, Nicolet, moved for summary judgment on the basis that it should not be liable for any injuries from exposure to products produced and distributed by its predecessor, K & M, prior to 1962, when Nicolet purchased a large portion of K & M's assets. The good will and trade name of K & M had been among those assets and had been used by Nicolet for approximately one year.

The court applied Pennsylvania law and found that K & M's sale to Nicolet did not fall within any of the traditional exceptions to the general rule. However, the plaintiff relied upon the series of recent cases discussed previously, in which the liability of successor corporations for defective products manufactured by the predecessor corporations has been expanded. The court's analysis in rejecting the theories in *Turner v. Bituminous Cas. Co.* and *Ray v. Alad Corp.* is particularly instructive:

> The Court has serious doubts about this reasoning. The corporate stranger which purchases some or all of the assets of a corporation bears no closer relationship to a defective product produced by that predecessor than does any other company in the industry which is producing the same product. Indeed, most of the policies advanced by the courts in support of the rule of expanded liability would be more efficiently advanced by placing liability upon the entire industry rather than on the good faith purchaser alone. No court has ever suggested such a result.[28]

The court also noted "that even in product liability cases a manufacturer is responsible only for *it's own actions.*"[29] While a plaintiff in a products liability action need not prove negligence, it must show that

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565 F.2d at 40 n.7. *See also* Tift v. Forge King Industries, Inc., 102 Wis. 2d 327, 306 N.W. 2d 289 (1981) for continued rejection of the product line exception is Wisconsin.

[27] 565 F.2d at 447 n.6; *Contra,* Bonee v. L & M Construction Chemicals, 518 F. Supp. 375 (M.D. Tenn. 1981) where *Turner* test is applied under Ohio law to defeat summary judgment motion of successor corporation.

[28] 463 F. Supp. at 820.

[29] *Id.* at 820, emphasis added.

the product manufactured by the defendant was "in a defective condition unreasonably dangerous to the user or consumer. . . ." Analyzing the underlying purpose of strict liability relied on in *Ray v. Alad,* the court noted that its purpose "is also to encourage the manufacturer to take greater care in manufacturing his products." Accordingly, the could held:

> Thus, while the manufacturer is not "at fault" in the sense that it is negligent, it is held personally responsible for the level of safety which it has selected. This responsibility cannot idly be cast upon a stranger to the production process. Responsibility for production decisions should remain with the party which made them. For this reason an entire industry is not held liable for the defective products of one company. For the same reason, a simple purchaser of assets should not be liable for the defective products of its predecessor.[30]

The court also had problems in tying the retention of a trade name and the purchase of good will to successor corporation liability.

> The Court does not agree with the argument that holding the successor liable under these circumstances causes the one "who takes the benefit [to] bear the burden." . . . [T]he entity which benefitted from the sale of the defective product was the predecessor, not the successor. The predecessor received the profits from the sale of the product which caused the harm, as well as receiving profits from sales of products which, though similarly defective, did not cause harm. The successor does not acquire these profits. The good will and trade name do give the successor an interest in the reputation of the predecessor for excellence in production. The revelation of past production failures injures that reputation and deprives the successor of the only benefit it has purchased. Thus, the successor has lost the benefit of its bargain. A windfall from non-liability comes not to the successor, but rather to the predecessor corporation.[31]

While the court noted that it was not insensitive to the plight of a plaintiff injured by a defective product manufactured by a now-dissolved corporation, it found such a "charitable instinct" insufficient to justify holding the successor liable "more or less at random" in order that the wealthier party could bear the burden.

More recently, the Ninth Circuit Court of Appeals in *Gee v. Tenneco, Inc.,* 615 F.2d 857 (9th Cir. 1980) refused to find a successor liable despite the fact that the California law was applicable to the transfer. In *Gee,* the defendant successor had not succeeded to any good will in the line of business related to the product which caused the injury. The manufacturer had ceased making the product in question, had sold the right to manufacture that product to a third party, who had also purchased the entire division which manufactured related products. In

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[30] 463 F. Supp. at 821.

[31] *Id.* at 821.

these circumstances, the court distinguished both *Ray v. Alad,* and *Rawlings v. D.M. Oliver* and held that summary judgment on this issue in favor of the defendant was proper.

Another recent case which failed to adopt the expanded "product line" type theory is *Tucker v. Paxson Machine Co.,* 489 F. Supp. 391 (E.D. Mo. 1980), *aff'd.* 645 F.2d 620 (8th Cir. 1981). In that case the court, applying Missouri law, held that none of the four traditional exceptions to the general rule were applicable, and found no indication that Missouri courts would adopt a "good will" theory only two years after that state's highest court had first recognized the traditional exceptions.[32]

In a series of recent cases, the Illinois Appellate Courts have also rejected the "product line" theory in favor of maintaining the traditional exceptions to the general rule.[33]

Obviously, the "product line" theory is still subject to serious question. The analysis of the court in *Woody v. Combustion Engineering, Inc., supra,* presents several important policy points which were apparently not addressed by the California Supreme Court in *Ray v. Alad* or by the Michigan Supreme Court in *Turner v. Bituminous Casualty Co.* Moreover, the insights of the Seventh Circuit in *Leannais v. Cincinnati, Inc.* are particularly compelling in view of the fact situations involved in the decided cases. The court's analysis of the potential impact of judicial "legislation" to solve social problems based upon the facts presented in a limited record is particularly worthy of note. Whether the "product line" theory will turn "ordinary business transactions into traps for unwary successor corporations"[34] can only be ascertained as additional case law develops.[35]

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[32] *See also* Bernard v. Kee Mfg. Co., 394 So. 2d 552 (Fla. 1981) where the court declined to adopt the "product line" theory of liability absent state legislation; Menacho v. Adamson United Co., 420 F. Supp. 128, 139 (D.N.J. 1976), where the court stated:

> No social policy is served by imposing unbargained-for liability on a corporation just because it purchases assets.

[33] *See, e.g.,* Freeman v. Whiteway Sign and Maintenance Co., 82 Ill. App. 3d 884 (1980); Barron v. Kane and Roach, Inc., 79 Ill. App. 3d 44 (1979); Domine v. Fulton Iron Works, 76 Ill. App. 3d 253 (1979); Hernandez v. Johnson Press Corp., 70 Ill. App. 3d 664 (1979); and Johnson v. Marshall and Huschert Machinery Co., 66 Ill. App. 3d 766 (1978).

[34] *Woody v. Combustion Engineering, Inc., supra* at 821.

[35] *See also,* Gonzalez v. Progressive Tool and Die Co., 455 F. Supp. 363 (E.D.N.Y. 1978) for a discussion of the imposition of liability on the shareholders of dissolved corporations, and the need for an obligation to insure against such claims after corporate dissolution.

Evolution Of A Duty To Warn

In addition to the theories discussed above for holding a successor corporation liable for products liability claims arising from the acts of a predecessor, several cases have presented the issue of whether the successor corporation may acquire, under certain circumstances, a duty to warn the owners or users of such defective products. As noted in *Leannais v. Cincinnati, Inc., supra,* such a theory is not based upon strict liability, but on the successor's own alleged omission under traditional principles of tort law.[36]

The question of whether the successor corporation has a legal duty to warn third parties of the dangerous condition of a product was addressed directly in *Chadwick v. Air Reduction Co.,* 239 F. Supp. 247 (N.D. Ohio 1965). In that case, the complaint alleged that Air Reduction had knowledge of other personal injury claims based upon the same defective product at the time of, and subsequent to, the acquisition of assets from the predecessor. It was the plaintiff's position that such knowledge imposed a duty on Air Reduction to notify past purchasers of the product's danger.

The court relied on the tort principles of the "Good Samaritan" under which no duty is imposed on an ordinary bystander to rescue others. Finding Air Reduction Co. to be a stranger to the act of negligence which created the hazard, despite its purchase of the assets of the predecessor, the court held that Air Reduction did not owe the plaintiff a duty to warn him or his employer.

In *Shane v. Hobam, Inc.,* 332 F. Supp. 526 (E.D. Pa. 1971) the court had difficulty accepting the reasoning of *Chadwick.*

> In the case before me, the defendant can hardly be said to be an innocent bystander, "in no way connected with defendant's conduct or enterprises or undertakings, past or present." Here, it is alleged that after the purchase of the assets of the Smith Company, Hobam continued to operate this company under its original name (John E. Smith's Sons Co.,) as one of the divisions of Hobam. The Agreement provided that "the entire right to the use of Smith's corporate name and all good will of Smith's business" was "expressly included in the assets" purchased by Hobam .... Further, the agreement contemplated that Hobam would continue to have responsibility for servicing equipment previously manufactured and sold by the Smith Company.[37]

Based on the above facts, the court was unwilling to grant summary judgment:

> Plaintiff is treading on uncharted precedential seas and while there may be a serious question as to whether he has tipped the balance of precedent in

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[36] 565 F.2d at 441-42.

[37] 332 F. Supp. at 530.

> his favor, I am reluctant to, and therefore will not, grant a summary judgment before pertinent factual gaps in the present case are filled in, thereby permitting the above questions to be answered with greater precision.[38]

These "uncharted precedential seas" were again explored in *Leannais v. Cincinati, Inc., supra,* and *Travis v. Harris Corp., supra.* In *Leannais,* the court noted that a duty to aid another arises from special relations between the parties, and that such a duty has been imposed where the relation is of some actual or potential economic advantage to the defendant, and the expected benefit justifies the requirement of special obligations. In that case, the court found an indication of actual or potential economic benefit. The successor corporation had assumed all service obligations of the predecessor. While expressly avoiding a decision on whether this created a sufficient nexus to establish a legal duty to warn, the court reversed the grant of summary judgment and remanded the case for further factual findings on such questions as "whether the particular machine involved was under a service contract, whether [the successor] had ever serviced that machine, or whether [the successor] had information on present or prior ownership of [predecessor] — built machines."[39]

In *Travis v. Harris Corp., supra,* the court followed a similar analysis, but reached a different result. In this case, the evidence was insufficient to create any special relationship between the successor corporation and the plaintiff or his employer. Accordingly, the court held that the defendant had no duty to warn on the facts of that case.

The question of duty to warn was also presented in *Gee v. Tenneco, Inc., supra.* There the court recognized that a successor corporation may acquire an independent duty to warn where defects in a predecessor's products come to its attention. The court noted, however, that succession alone does not impose a duty to warn of recently discovered defects. The court stated:

> A common thread running through decisions imposing a duty to warn upon a successor corporation has been the continuation of the relationship between the successor and the customers of the predecessor. In *Shane* and *Fare Well Corp.,* both *supra,* the successor had inherited service contracts which included responsibilities for servicing the alleged defective product.... The rationale of these decisions is consistent with a benefit/burden analysis, and also imposes a burden which the manufacturer can realistically bear.[40]

Since there was no evidence of any of the factors which might have

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[38] *Ibid.*

[39] 565 F.2d at 442.

[40] 615 F.2d at 866.

suggested the existence of a duty to warn, the court affirmed the grant of summary judgment on this issue.

As result of these cases, it is clear that succession to a predecessor's service contracts, and knowledge by the successor of defects in machines manufactured by the predecessor can result in the imposition of products liability upon the successor corporation for injuries caused by those defective products. Accordingly, a successor corporation should carefully weigh the risk of assuming such service contracts, and should also take adequate precautions to warn potential users in the event it becomes aware of a defect.

Impact Of The Evolving Law

The case law discussed above points out the critical need for careful consideration by both parties in any corporate asset transfer. As a result of decisions holding the successor corporation liable for injuries resulting from activities of the predecessor, a corporate transferee may desire to include in the transfer agreement a provision for the establishment of a fund for the payment of contingent liability. Alternatively, the agreement may provide for a specific amount of insurance to be procured in order to cover the risk of contingent products liability. Such steps as these, while not insulating the successor from liability, do provide evidence of the good faith of the parties involved in the transaction, and may help to tip the balance in a given fact situation.

The lack of an appropriate defendant in the case of dissolved corporations points out the need for possible revision of state statutes covering the liability of such corporations after dissolution. Many states provide by statute that a corporation may be sued for a specific period after the dissolution. Perhaps these statutes should be revised to extend that period in view of the evolution of products liability law. In addition, it may be appropriate to consider the establishment of a fund or an insurance requirement for all dissolved corporations to protect against contingent products liability.

The modern trend under which products liability causes of action accrue when the injury or damage occurs, rather than when the negligent conduct takes place or the defect is created has emphasized the need for legislative consideration of a special statute of limitations in products liability cases. Numerous jurisdictions have adopted such statutes. For example, in Arkansas all products liability actions must be commenced within three years after the date of injury. In Georgia, no action may be filed more than ten years after the first sale or consumption of the product. In Oregon, suits against sellers must be commenced within two years of the injury but in no event more than eight years after the product was first sold. In Florida, products liability actions must be brought within twelve years after the delivery of the completed product to the original purchaser, regardless of when the defect was or should have been discovered. Obviously, these statutes will alleviate somewhat the problems presented by the cases discussed herein. However, the existence of different types of statutes in different states, and the lack of statutes in a majority of states can only add to the present confusion in this area of the law.

Summary

The potential liability of a successor corporation for damage or injury caused by a product issued by its predecessor has undergone a substantial change in recent years. The general rule of the common law, with its traditional exceptions, has been expanded in several states to hold successors liable based on policy related grounds. Nevertheless, numerous courts have expressed a reluctance to expand the traditional rule and have supported this reluctance with well-articulated reasoning. While it is often difficult for a court to allow an innocent victim to go uncompensated, decisions in this area often overlook the fact that the victim actually has been compensated by one insurance company or another, and the litigation is simply an attempt by these insurance companies to recover their losses.

It is the author's hope that with greater legislative interest in this area, meaningful statutes will be enacted which will lessen the adverse impact on the corporate community of such contingent liability. With the enactment of such statutes, and additional case law development, it is hoped that the law will stabilize and become more predictable in the future. In the meantime, corporations must anticipate and provide for the possibility of future products liability claims in any major corporate asset transfer.

THE PAST AND PRESENT OF WORKING EXAMPLES

IRWIN M. AISENBERG*

A fundamental distinction between United States Letters Patent and those in some other countries is that no actual reduction to practice is needed to obtain patent protection in the United States of America. Any requirements which facilitate restriction of available patent protection on the basis of embodiments actually reduced to practice are in direct derogation of this very principle upon which the United States patent system is predicated.

Notwithstanding this, the following disturbing text is found in the *Manual of Patent Examining Procedure* (M.P.E.P.):

> D. SIMULATED OR PREDICTED TESTS OR EXAMPLES
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> Applicants must indicate which tests and examples disclosed are only simulated or predicted and which tests and examples have actually been carried out in order to permit the examiner to evaluate the same properly. Simulated or predicted tests and examples are "paper" examples and must not be confused with actual "working" examples. Working examples must correspond to work already done and must be written in the past tense so as to describe tests which have been actually conducted and results that were achieved. Paper examples, however, describe tests which the applicant would perform in order to reduce the embodiment to practice, and must be written in the present or future tense. The application must be prepared in such a manner that it is clear whether the tests and examples are "paper" examples or "working" examples in order not to be misleading. For example, no results should be described or implied as actual results unless they have actually been achieved.
>
> Clarity as to test results is essential because patent examiners have relatively little or no resources to test the veracity of representations made by applicants. Applicants who withhold information do so at their own risk since it is ultimately the duty of the Office, and not the applicants or their attorneys, to determine what information is pertinent. For a further discussion of "paper" examples see "Patent Preparation & Prosecution Practice", Vol. II, Chapter 9, pages 9-16 to 9-18. Patent Resources Institute (1976, May).[1]

Some insight of the level of authority of the M.P.E.P. is available from the foreword thereof, which reads in part:

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*Partner — Berman, Aisenberg & Platt

[1] M.P.E.P. §608.01(p) (4th ed., Rev. 5, Jan. 1981).

> This Manual is published to provide Patent and Trademark Office patent examiners, applicants, attorneys, agents, and representatives of applicants with a reference work on the practices and procedures relative to the prosecution of patent applications before the Patent and Trademark Office. It contains instructions to examiners, as well as other material in the nature of information and interpretation, and outlines the current procedures which the examiners are required or authorized to follow in appropriate cases in the normal examination of a patent application.
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> * * *
>
> Examiners will be governed by the applicable statutes, the Rules of Practice, decisions, and orders and instructions issued by the Commissioner and the Assistant Commissioners. Orders and Notices still in force which relate to the subject matter included in the Manual are incorporated in the text. Orders and Notices, or portions thereof, relating to the examiners' duties and functions which have been omitted or not incorporated in the text may be considered obsolete.[2]

The introduction of the M.P.E.P. further explains the nature of this publication: "A loose-leaf manual which serves primarily as a detailed reference work on patent examining practice and procedure for the Patent and Trademark Office's Examining Corps."[3] The M.P.E.P. is thus a manual which defines and explains practices of the United States Patent and Trademark Office (P.T.O.) for the benefit of examiners so that they may perform their duties in a uniform manner. It provides forms, guidelines and directives covering virtually all of the procedures performed by patent examiners. It serves to guide examiners in a manner similar to, but far more detailed than, that in which the Rules of Practice guide applicants. Changes in the M.P.E.P. do not require the safeguards imposed, *e.g.*, in changing substantive Rules of Practice. Any fundamental alteration in disclosure requirements should clearly require an appropriate statutory enactment rather than an insert in the M.P.E.P.

As established practice enables an examiner to challenge the truth of any statement in an application with regard to which there is good and sufficient reason to doubt its accuracy, all statements in a specification should be otherwise accepted as factual without distinction between "paper" and other examples. In the opinion of the Court of Customs and Patent Appeals (C.C.P.A.) for *In re Sichert* we find the following:

> As this court said in *In re Marzocchi*, 58 CCPA 1069, 1073, 439 F.2d 220, 224, 169 USPQ 367, 370 (1971):
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> [I]t is incumbent upon the Patent Office, whenever a rejection on this basis is made, to explain *why* it doubts the truth or accuracy of any statement in a supporting disclosure and to back up assertions of its

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2 *Id.* p.III.

3 *Id.* p.2.

> own with acceptable evidence or reasoning which is inconsistent with the contested statement. Otherwise, there would be no need for the applicant to go to the trouble and expense of supporting his presumptively accurate disclosure.
>
> *Cf. In re Gazave,* supra. In order to affirm this rejection, there must be evidence or reasoning of record which is inconsistent with a critical statement in the disclosure.[4]

The fact that "patent examiners have relatively little or no resources to test the veracity of representations made by applicants" is wholly irrelevant to the examining procedure, particularly insofar as it concerns any possible distinction between "paper" examples and actual reductions to practice.

There is a good reason to challenge an examiner's right to accord a wholly constructive reduction to practice any less esteem than an actual reduction to practice since the latter is not a requirement for patent protection. If an applicant knowingly and purposely makes false statements in his disclosure, the validity of any resulting patent is subject to challenge on other grounds, but it is not within the examiner's domain to limit available protection or to challenge support of claim scope by differentiating between examples which reflect concluded experiments and those which do not. It is highly questionable whether an examiner even has a right to ask which examples are merely "paper" examples.

The statute states what is required of the description:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.[5]

It is particularly significant that no actual reduction to practice is required even for the best mode.

The Rules of Practice amplify the statutory text somewhat:

> **Detailed description and specification of the invention.**
>
> (a) The specification must include a written description of the invention or discovery and of the manner and process of making and using the same, and is required to be in such full, clear, concise, and exact terms as to enable any person skilled in the art or science to which the invention or discovery appertains, or with which it is most nearly connected, to make and use the same.
>
> (b) The specification must set forth the precise invention for which a patent is solicited, in such manner as to distinguish it from other inventions and from what is old. It must describe completely a specific embodi-

[4] 566 F.2d 1154, 1161, 196 U.S.P.Q. 209, 214 (C.C.P.A. 1977).

[5] 35 U.S.C. §112 (1976).

> ment of the process, machine, manufacture, composition of matter or improvement invented, and must explain the mode of operation or principle whenever applicable. The best mode contemplated by the inventor of carrying out his invention must be set forth.
>
> (c) In the case of an improvement, the specification must particularly point out the part or parts of the process, machine, manufacture, or composition of matter to which the improvement relates, and the description should be confined to the specific improvement and to such parts as necessarily cooperate with it or as may be necessary to a complete understanding or description of it.[6]

But the Rules still fail to provide any authority for distinguishing between examples which reflect actual reductions to practice and those which do not. Whether or not an example is based on work which was actually done is of no concern to the examiner or to the P.T.O. and has no bearing under the United States system on patentability or scope of protection to which an applicant is entitled. Rivise and Caesar explain the nature and substance of a constructive reduction to practice without providing any basis for denigrating disclosure beyond that which describes what has actually been reduced to practice.[7]

Decisions related to constructive reduction to practice which are directly in point have been found, but general support appears from the following excerpts:

> By filing a patent application on December 10, 1975, plaintiff achieved a constructive reduction to practice as of that date.[8]
>
> A constructive reduction to practice is established as of the date an inventor files an application complying with 35 U.S.C. § .... The requirements of a constructive reduction to practice are thus description of (1) the product; (2) a process for making it, such process being the best mode known to the inventors; and (3) the product's utility.[9]
>
> E. The filing date of the Dawson application ... on July 28, 1948, and its subsequent allowance, is conclusive evidence that Dawson made the inventions of the ... patents in suit as of that filing date.[10]
>
> Further, the fact that the operability of the process was verified on simulated lunar fines is of no consequence inasmuch as the instant disclosure itself constitutes a constructive reduction to practice of the claimed invention.[11]

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[6] 37 C.F.R. §1.71 (1981).

[7] *Chapter XII: Constructive Reduction to Practice* in 1 INTERFERENCE LAW AND PRACTICE pp. 494-536 (1940) (The Michie Company).

[8] Honeywell, Inc. v. Diamond, 208 U.S.P.Q. 452, 459 (D.D.C. 1980).

[9] Standard Oil Company (Indiana) v. Montedison, S.p.A., 494 F.Supp. 370, 383, 206 U.S.P.Q. 676, 693 (D. Del. 1980).

[10] Remington Arms Company, Inc. v. Funasaw Company, Ltd., 201 U.S.P.Q. 217, 223 (N.D. Ill. 1978).

[11] Ex parte McKay, 200 U.S.P.Q. 324, 326 (P.T.O. Bd. App. 1975).

Swain v. Crittendon, 51 C.C.P.A. 1459, 1463, 332 F.2d 820, 823, 141 U.S.P.Q. 811, 813 (1964), states that "where an applicant alleges that he is entitled to rely upon a previously-filed application under section 120, the parent application must comply with the first paragraph of 35 U.S.C. 112.... Accord *Martin v. Johnson,* supra, cited by the board. Fritz proposes a definitional... issue: what is necessary to constitute a prior constructive reduction to practice...? *Automatic Weighing Machine Co. v. Pneumatic Scale Corp.,* 166 F.288, 297 (CA1 1909) defines "constructive reduction to practice" as the filing of "a complete and allowable application;" therefore, under that view, a prior constructive reduction to practice is a previously-filed "complete and allowable application." However, as *Swain* and *Martin* recognize, §120 provides a statutory definition of what constitutes a prior constructive reduction to practice.[12]

A large body of case law interprets the statutory standard for sufficiency of disclosure[13] without discriminating between actual and projected examples. Some precedent does exist, however, for according different weight to what is disclosed as "hard" fact and to what is indicated merely as a possibility.[14]

This suggests that an applicant's best interests are served by presenting an invention in a manner which does not distinguish between examples describing what has already been done and "paper" examples. If the past tense is used for all examples, "paper" examples might be subject to attack on the basis that applicant knowingly misled the examiner to believe that the involved work had actually been performed. Presenting all examples in cook-book fashion (i.e., instructing a reader how to make the invention, what the invention is and how to use it) is not vulnerable in this way. It does not misstate any facts; it does not mislead; it can and does satisfy the relevant requirements of the statute[15] and of the Rules of Practice[16]

In this light we should examine the effect of "paper" examples which have no apparent infirmity. To the extent that the disclosure enables one skilled in the art to practice the claimed invention without undue experimentation, and only to that extent, the disclosure requirements are satisfied if they also include a teaching of the best mode contemplated by the applicant at the time of applicant's filing date. Both the public and the applicant are protected to the degree prescribed by statute.

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12 Weil v. Fritz, 572 F.2d 856, 865, 196 U.S.P.Q. 600, 608 (C.C.P.A. 1978).

13 35 U.S.C. §112, 1st paragraph.

14 *Cf.* In re Surrey, 370 F.2d 349, 151 U.S.P.Q. 724 (C.C.P.A. 1966); In re Robins, 429, F.2d 452, 457, 166 U.S.P.Q. 552, 556 (C.C.P.A. 1970) ("§112 does not require that a specification convince persons skilled in the art that the assertions therein are correct....").

15 35 U.S.C. §112, 1st paragraph.

16 37 C.F.R. §1.71.

In the absence of substantial basis for challenging satisfaction of enablement, the P.T.O. should direct its attention to other statutory requirements, particularly those relating to novelty and obviousness. The concentration on formal issues is not in proportion with its impact on the system and its contribution to promoting progress in useful arts.

The wording of working examples primarily concerns inventions of a chemical nature. The cited portion of M.P.E.P. 608.01(p) thus artificially exacts a different standard of disclosure for such inventions in spite of the fact that no basis for any such distinction is provided by either the statute[17] or the Rules of Practice.[18] The P.T.O. has devised numerous formal impediments to obtaining a reasonable scope of protection for many inventions in chemical arts. Many of these impediments have no counterparts in other arts. Even if a large corporation can "live" with the added burden, someone should recognize that the patent system was not created for the large corporation alone, and an individual inventor in the chemical arts is already hard put to perform or obtain testing often required to procure a reasonable scope of patent protection.

There are many areas in which the P.T.O. and the M.P.E.P. can materially contribute to improving the examining process without adding further impediments to obtaining valid patent protection in a minimum length of time.

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[17] 35 U.S.C.

[18] 37 C.F.R.

CURRENT LITERATURE IN LAW/SCIENCE: POLICY AND INTELLECTUAL AND INDUSTRIAL PROPERTY

COMPILED BY THOMAS M. STEELE*
AND JUDITH GIRE NORCROSS**

After one year's effort at compiling a bibliography of law/science literature, the compilers have concluded that the sheer volume of material is such that subject arrangement of the materials would make the bibliography more useful. The following subject headings have been established: Industrial/Intellectual Property, Patents, Copyright, Trademarks, Trade Secrets and Science Policy. Each subject is further subdivided by jurisdictional descriptors: United States, International and By Country. Please feel free to contact us with your opinions about this arrangement.

The compilers encourage readers to bring materials of merit, published and unpublished, to their attention. While every effort is made to furnish complete order information, readers should feel free to contact the compilers for more information.

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COMMENTARY

Unpublished Knowledge Abroad can preclude Patentability

The prevailing statute (Title 35 of the United States Code):

§102. Conditions for patentability; novelty and loss of right to patent
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 a 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 . . .
>
> (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 first to conceive and last to reduce to practice, from a time prior to conception by the other . . . [Emphasis added]

§103. Conditions for patentability; non-obvious subject matter

> 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 negatived by the manner in which the invention was made.

clearly distinguishes between the effectiveness of knowledge in this country and knowledge outside of the United States for precluding patentability. With regard to the specific requirement of 35 U.S.C. 102(f) there is a decision, *Hedgewick v. Akers,* 182 U.S.P.Q. 167 (C.C.P.A. 1974), which is directly in point. The opinion makes it ultimately clear that it is concerned solely with derivation and not with any degree of innovation. The opinion emphasizes the fact that derivation is shown by a prior, *complete* conception of the claimed subject matter and communication of the *complete* conception to the party charged with derivation:

> The board held that Hedgewick failed to satisfy his burden of proving

> that sufficient information was communicated to Akers to constitute a complete conception, bearing in mind the narrow difference between the invention and the prior art Palm-N-Turn cap. For this purpose, it assumed, without deciding, that Hedgewick possessed the necessary complete conception prior to the alleged disclosure to Akers.
>
> That Akers had access to the files in the engineering area is, without more, insufficient to establish derivation. Any inference of derivation that could possibly arise from such access is dispelled by the differences in form and design between the embodiments of the parties . . .

For the purpose of precluding patentability, based on derivation, the C.C.P.A. (in an interference proceeding) appears to negate any availability of §103 in this connection.

With this background, an opinion [*Ex parte Andresen,* 212 U.S.P.Q. 100 (P.T.O. Bd. App. 1981)] published on January 11, 1982, appears to be adding a new dimension to previously-established practice by taking the position that §103 is available for combining with knowledge in a foreign country imparted to an applicant prior to his making an invention subsequently claimed in an application for United States Letters Patent. In reaching its conclusion, the Board of Appeals relies upon *Dale Electronics, Inc. v. R.C.L. Electronics, Inc.,* 180 U.S.P.Q. 225 (C.C.P.A. 1st 1973). It appears that the knowledge involved was knowledge in this country so that the court was not concerned with distinctions that might be required were the facts limited to knowledge available only in some foreign country. The opinion in the *Dale* case goes into some detail as to the circumstances.:

> . . . Preliminarily, Dale argues that none of these can constitute prior art because they are not or have not been proven to be "publications". Dale seems to be seizing on one category of prior art as exclusive. In Graham, supra, 383 U.S. at 15, 148 USPQ at 465-466, the Court refers to the Congressional reports in relation to §103 defining the condition of obviousness as referring to "the difference between the subject matter sought to be patented and the prior art, meaning what was known before as described in section 102". Section 102 refers to the conditions which foreclose invention. Among them are that "the invention was known *** by others", §102(a), and that the supposed inventor "did not himself invent the subject matter", §102(f). Since §102 is the referent for §103, we draw the conclusion that if the facts that the whole of an invention was known to others or that none of the invention was created by the patent applicant bar entitlement under §102, the condition of knowledge by others or the borrowing by the applicant of a sufficient body of lore to make the invention obvious bars entitlement under §103. General Instruments Corp. v. Hughes Aircraft Co., 399 F.2d 373, 384, 158 USPQ 498, 507-508 (1st. Cir. 1968) (notebooks recording experimental work were accepted as evidence of prior art); see Colourpicture Publishers v. Mike Roberts Color Production, 394 F.2d 431, 434-35, 157 USPQ 659, 661-662 (1st. Cir. 1968) (common objectives were contemplated as eligible prior art).
>
> Coming to the facts, the whole significance of Hay's conversation with the salesman is muted somewhat by the fact that Dale could not find a copy of Hay's letter to the salesman following the conversation. But enough remains. Hay testified that, had it not been for his conversation with the

> salesman, in which the latter suggested BeO as a core material with high thermal conductivity, the idea of making a resistor core from BeO "wouldn't come up in my mind". He also testified that the salesman, whose company was already selling Dale a material for a capacitor product, did not mention BeO for that use and that the only product Dale was making to which the salesman's suggestion could be relevant was a resistor.

Although the facts before the court in the *Dale* case were thus different from those presented to the Board of Appeals, the former proved to be the stepping-stone for the Board of Appeals to enunciate the position:

> The decision in the Dale Electronics case, supra, is directly applicable to the issue of a rejection based upon 35 U.S.C. 102(f)/103, and is therefore here controlling. We are of the view that the jumping off point for here determining whether or not what the appellant did would have been unobvious is the point at which we find the appellant after he received the basic information from Rasmussen. It is at that point that we commence the inquiry as to whether the appellant is barred from obtaining a patent. Since the appellant has agreed that his contribution thereafter would have been obvious, the Examiner's rejection must be affirmed.
>
> The fact that the events concerning the invention and derivation occurred abroad is not here fatal to the rejection. Despite the reference to locus of invention in 35 U.S.C. 102(g) and 104, the site of derivation need not be in this country to bar a deriver from patenting that subject matter. See Hedgewick v. Akero, 497 F.2d 905, 182 USPQ 167 (CCPA 1974).

It now appears that there is a readily-available way of completely negating the distinction made in §102 between knowledge in this country and knowledge abroad. Whenever foreign knowledge is relied upon, however, it is apparently still necessary to establish that such knowledge had been directly imparted to the applicant prior to the filing of his application. Even this, however, appears somewhat difficult to accept in view of the absolute language concerning derivation in the very opinion *(Hedgewick v. Akers, supra)* relied upon by the Board of Appeals. We are told that derivation requires communication of the complete conception to the party charged with derivation. Whenever there is a variance therefrom, derivation is not established. If the knowledge relied upon is only knowledge in some other country, it is not available under those paragraphs of §102 which are concerned with the effect of knowledge to preclude patentability.

The opinion of the Board of Appeals may now lead to a requirement of applicants to disclose to the P.T.O. the level of all relevant knowledge which is imparted to them prior to making their invention in order to satisfy their duty to disclose under 37 C.F.R. §1.56.

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TRADEMARK REGISTRATION — WHAT'S THE USE?*

I. *Introduction*

Use of a trademark in commerce has always been a prerequisite to common law trademark ownership in the United States. The trademark must have been affixed to goods sold to members of the public, as a manufacturer's mark is stamped into a bar of soap, or a department store's label is sewn into an item of clothing. And there must have been "trade" or "commerce" in the goods — not just a few isolated sales. The federal registration statute[1] merely codifies this common law principle.

But even though requiring use of a trademark before it can be registered works well to protect established property values in trademarks, it hinders the development of new trademark properties. If use were not required for registration, companies would be able to protect the large initial investments necessary to create new trademarks. By registering their new trademarks before the marks were actually used, companies could "reserve" them during the preparatory stages of large-scale marketing campaigns. Registration would provide notice to others that the marks were unavailable, which would prevent wasteful battles in the marketplace to establish priority of rights through use.

Most foreign countries do not, for this very reason, require use in commerce as a condition precedent to trademark registration.[2] The Trademark Registration Treaty[3] (which the United States has not yet ratified[4]) likewise allows reservation of trademarks by permitting registration of marks which have not yet been used in commerce.

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1 Lanham Act, 15 U.S.C. §1050 (1980).

2 *See* Allen, *The Trademark Registration Treaty, Its Implementing Legislation,* 21 IDEA: THE JOURNAL OF LAW AND TECHNOLOGY 161 (1981).

3 Trademark Registration Treaty, *signed at* Vienna, Austria, June 12, 1973, *entered into force* Aug. 7, 1980. The countries among whom the Treaty has entered into force are the U.S.S.R., Gabon, Togo, Congo, and Upper Volta.

4 Allen, *supra* note 2 at 161.

The United States Patent and Trademark Office (PTO) has also recognized the economic necessity for a method of reserving a trademark while marketing plans are under way, and has begun to allow registration when use in commerce has been minimal (*i.e.*, when a company shows only token sales or shipments made solely for the purpose of registering the mark).[5] But what is the point of obtaining a registration based on such token sales or shipments when both the statutory and common law standards for trademark ownership require more than token use?[6] These differing standards for trademark ownership have led to confusion, which the courts, of course, can resolve only by recognizing that the PTO is required to implement the statutory standards, and must not act in excess of its statutory jurisdiction.

It is time, therefore, that Congress took notice of the PTO's compelling reasons for allowing registrations based on token use, and amended the statute so that companies could reserve their trademarks by registrations based on intent to use. Proposed implementing legislation for the Trademark Registration Treaty[7] contains such provisions; and adopting this particular legislation would have the added advantage of enabling the United States to share in the benefits of this treaty.

II. *History of Use as a Prerequisite to Trademark Ownership*

Trademarks arose at least 4,000 years ago,[8] and like cattle branding, were primarily used to indicate personal ownership.[9] During the Middle Ages, trademarks were widely used in England as "Merchant Marks" and "Production Marks."[10] Until 1838, however, trademark infringement actions were actions at law to protect the public from deceit, or "passing off," where a competitor had used the trademark of another on his own goods in an attempt to fool the public into believing that his goods originated with the trademark owner. Fraudulent in-

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5 *See* discussion *infra* beginning at p. 55.

6 *Id.*

7 *See* 973 TRADEMARK OFFICIAL GAZETTE 3 (1978) for proposed Trademark Registration Treaty Implementing Legislation authored by the Department of Commerce.

8 Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADEMARK REP. 121 (1978).

9 Diamond, *The Historical Development of Trademarks* 45 TRADEMARK REP. 265, 266-72 (1975); and McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 TRADEMARK REP. 305, 340 (1979).

10 F.I. SCHECTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS 21 (1925).

tent was a necessary element of proof.[11] There was no action a trademark owner could bring to protect his own property rights if the public had not been deceived. And because a trademark must necessarily be in use for the public to be deceived by its counterfeit, procedures for reserving trademarks which had not yet been used had to wait until the rights of trademark owners were recognized as protectable property interests.

The first English trademark statute[12] recognized the developing common law concept that trademarks were property rights; however the registration of trademarks under this statute did not create any property rights, but merely confirmed trademark property rights already existing through use.[13] The first United States trademark statute (which did not require prior use[14]) also recognized that the trademark owner had a property interest in his mark. This statute was declared unconstitutional soon after its enactment;[15] however the Supreme Court at the same time recognized the common law basis of trademarks as property.

In 1905 Congress passed a new trademark act.[16] This statute created no new substantive rights in trademarks (unlike the prior act which had allowed registration without use), and explicitly provided that common law rights were left unaffected.[17] Later revisions and amendments to the 1905 Act preserved the requirement for use in commerce.[18] The Lanham Act of 1946, our present federal registration statute, also preserves the historical requirement of use in commerce as a prerequisite to trademark ownership. Under the Lanham Act, proof of use is required for registration,[19] registration being merely prima facie evidence of ownership.[20] The legislative intent is clear that

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[11] McClure, *supra* note 9 at 312.

[12] After earlier refusals to pass an act recognizing trademark rights in terms of property in 1862 because of fear that monopolies would result, Parliament passed the first English trademark statute in 1875. *See* McClure, *supra* note 9 at 313.

[13] *Id.*

[14] An Act to revise, consolidate and amend the statute relating to patents and copyrights, Act of July 8, 1870, ch. 2 §§77-84, 16 Stat. 198.

[15] Trademark Cases, 100 U.S. 82 (1879). The court held that Congress had no authority to regulate instruments of trade not in interstate commerce.

[16] The Trade-Mark Act of 1905, ch. 592, 33 Stat. 724.

[17] *Id.* at §23.

[18] The 1905 Act was amended or supplemented on sixteen occasions. *See* Pattishall, *supra* note 8 at 136, for a more detailed discussion.

[19] 15 U.S.C. §1057(b) (1980).

[20] 15 U.S.C. §1051(a)(3) (1980).

no property rights in proposed trademarks prior to their use are created by the Act.[21]

Very few foreign countries require use of a trademark as a prerequisite to its registration.[22] A substantial number, primarily the common law countries, follow the British model of allowing registration based on intent to use.[23] Most of the civil law countries — known as the "pirate countries" — allow registration and trademark ownership without requiring any showing of use whatsoever.[24] In these "pirate countries," there is nothing to stop unscrupulous persons who learn that a company is about to expand into a particular country from registering the company's trademarks in their own names. If the company wants to use its trademarks in that country, it must then deal with the "pirate," who may offer to sell the registrations for a high price, demand to be made an exclusive licensee or distributor, or impose other burdensome conditions.[25] The Paris Convention[26] provides for refusal or cancellation of a trademark registration of a mark "well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar

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[21] S. Rep. No. 1323, 79th Cong., 2d Sess., *reprinted in* [1946] U.S. CODE CONG. SERVICES 1274, 1277.

[22] The Philippines and the United States follow strict use requirements. *See* Allen, *supra* note 2 at 169.

[23] *See* Allen, *supra* note at 169-70; and MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS AND TRADEMARKS THROUGHOUT THE WORLD (OCTROOIBUREAU LOS EN STIGTER AMSTERDAM) [hereinafter cited as OCTROOIBUREAU].

[24] These "pirate countries" include Afghanistan, Algeria, Argentina, Bolivia, Brazil, Bulgaria, Chile, Costa Rica, Czechoslovakia, Denmark, Dominican Republic, Egypt, El Salvador, Finland, France, East and West Germany, Greece, Guatemala, Honduras, Hungary, Iceland, Iran, Italy, Japan, Jugoslavia, Korea, Kuwait, Lebanon, Liberia, Libya, Mexico, Morocco, Norway, Paraguay, Peru, Poland, Portugal, Rumania, Saudi Arabia, Spain, Sweden, Syria, Tangier, Turkey, and Uruguay. *See* Landau, *Trademark Management Systems,* XIII. LES NOUVELLES 112 (1978), and OCTROOIBUREAU, *supra* note 23. *See also* Cooper, *On Your Mark,* COLUM. J. WORLD. BUS. (Apr. 1970).

[25] In one widely publicized case of trademark piracy, Dr. Robert Aries, an American expatriot residing in Paris, registered the "EXXON" trademark and variations in many countries for obscure classes of goods. As evidence of his "roguish, indeed malevolent sense of humor," he registered not only "CHEMEXXON," "PETROL-EXXON," "EXXTRA," and "XX"; but "TRUSTBUSTEXXON" and "NADER-EXXON." 1 J. GIBSON, TRADEMARK PROTECTION AND PRACTICE §901[4] (1974).

[26] Paris Convention for the Protection of Industrial Property, March 20, 1883, revised July 14, 1967, T.I.A.S. No. 6923, OCTROOIBUREAU, *supra* note 23 at § Paris Convention (Stockholm Text) (Supp. 24, Mar. 1969).

goods."[27] However, this provision often does not serve to protect against trademark "piracy," especially where the original trademark owner is a small, relatively unknown company entering the international market for the first time.[28] The problem of "piracy" is somewhat mitigated in many countries, however, by requirements that trademarks not used within a short period of time, usually two to five years, are subject to cancellation.[29] The Trademark Registration Treaty also provides this safeguard against trademark "piracy." Under article 19, a trademark may be reserved for an initial three-year period.[30] Further, any member country may provide that during the initial three-year period there is no right to sue for infringement unless continuous use has commenced, and any remedy in such action may relate only to the period of such use.[31]

The primary advantage to a system allowing registration without use is that a company may safely make large initial investments in preparing to market to product without fear that another will begin using the mark and thereby establish prior rights in the interim. This is particularly beneficial where a great deal of advertising must be done before the goods are marketed, such as in the case of new magazines, soft drinks, paper goods, and other consumer items which rely on advertising for product differentiation.

The Trademark Registration Treaty was drafted under United States sponsorship in 1970.[32] More than five years have now passed since the Treaty was forwarded to the Senate for its advice and consent.[33] Implementing legislation for the Trademark Registration Treaty was submitted by the Department of Commerce to the Office of Management and Budget in the fall of 1975;[34] however, the legislation has not yet been introduced in Congress.[35] So as not to give foreign nationals the ability to create property rights in proposed trademarks

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27 *Id.* at art. 6 bis. (1).

28 *See* note 25, *supra*.

29 *See* Cooper, *supra* note 21.

30 Trademark Registration Treaty, *supra* note 3, art. 19.

31 *Id.* The United States would impose these conditions should it ratify the Treaty. *See* notes 33-40 *infra,* and accompanying text.

32 Allen, *supra* note 2, at 165.

33 *Id.* at 173.

34 The proposed legislation was published in substantially the same form as submitted to the OMB as *Trademark Registration Treaty, Implementing Legislation* 973 TRADEMARK OFF. GAZETTE 3 (1978) and 990 TRADEMARK OFF. GAZETTE 135 (1980) [hereinafter cited as Implementing Legislation].

35 Allen, *supra* note 2 at 161.

by registration when such advantages are denied to United States citizens, the proposed implementing legislation provides that domestic trademark registrations in the United States may be based on intention to use.[36] It also includes the requirements, allowed by article 19 of the Treaty,[37] that the registrant may reserve an unused trademark for no more than three years from the filing date of the application,[38] and infringement actions will continue to be contingent upon commencement of use,[39] with damages applying only to the period of actual use.[40]

Despite the many advantages of belonging to the Trademark Registration Treaty, including reduction of paperwork, standardization of trademark policies, ability to effect title changes by one recordation rather than many, and most importantly, the ability to reserve a trademark prior to use,[41] the United States has resisted ratification, principally because of opposition by the Justice Department.[42]

While it is true that a trademark can become a very valuable marketing tool, giving its owner a competitive advantage in the marketplace, this happens only after it has become well-known to the public as a symbol of good quality through massive advertising or long use. A newly-selected trademark, unknown to the public, would provide only a minimal competitive edge to its owner, and then only if it were especially "catchy." And there would be nothing to preclude competitors from selecting their own equally attractive marks. Trademarks, unlike patents, do not confer exclusive rights to deal in the products they cover. Nevertheless, because of the unquestioned power of strong, well-established marks, many take the position that any trademark has the ability to confer monopoly power on its owner.

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36 Implementing Legislation, *supra* note 34, at amended §1(a).

37 *See* note 31 *supra*.

38 Implementing Legislation, *supra* note 34, at amended §1(a).

39 *Id.*, at §22.

40 *Id.*, at §24.

41 *See* Allen, *supra* note 2 at 167-68. The Department of Commerce also lists advantages to United States businesses in the preamble to its 1980 publication of the Implementing Legislation, *supra* note 34 at 135 and 137-38. *See also* Pattishall, *The Use Rationale and the Trademark Registration Treaty,* II A.P.L.A. J 97 (1974); Pirkey, *Changes in U.S. Law Resulting from the TRT, II A.P.L.A. J. 112 (1974); and Robin, TRT - a Domestic View,* II A.P.L.A. J. 123 (1974).

42 Allen, *supra* note 2 at 174. Opposition to the Trademark Registration Treaty has been expressed in the private sector, partly based on fears that courts will react more favorably to antitrust counts asserted by defendants in infringement actions if it is ratified. *See* Hoffmann, *Some Reasons Why the U.S. Should Not Ratify the Trademark Registration Treaty,* II. A.P.L.A. J. 135 (1974).

That "substantial monopoly rights can be granted in a trademark as such on a mere request,"[43] becomes, to those who take this view of the Treaty, an idea to be resisted.

III. *The "Token Use" Doctrine*

Recognizing the problems of companies that need to protect their proposed trademarks while initial investments are being made in preparation for large-scale marketing, the PTO has begun to allow registrations based on mere token use. In recent years, language substantially identical to the following, quoted from *Standard Pressed Steel Co. v. Midwest Chrome Process Co.*[44], has appeared in numerous Trademark Trial and Appeal Board decisions:

> It has been recognized and especially so in the last few years that, in view of the expenditures involved in introducing a new product on the market generally and the attendant risk involved therein prior to the screening process involved in resorting to the federal registration system and in the absence of the existence of an "intent to use" statute, a token sale or a single shipment in commerce may be sufficient to support an application to register a trademark in the Patent Office notwithstanding that the evidence may not show what disposition was made of the product so shipped. That is, the fact that a sale or a shipment of goods bearing a trademark was designed primarily to lay a foundation for the filing of an application for registration does not, per se, invalidate any such application or a registration subsequently issued thereon.[45]

An early case involving token use was *Phillips v. Hudnut*[46] in which the applicant claimed a first use date at a time when he had no established place of business, but shipped unrequested samples (for which five cents each were paid) to three out-of-state locations. No further sales were made under the mark for a period of two years. In this case, the court held Phillips' token use not to be a bona fide business transaction, but rather that it was "a mere laying basis for the

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[43] Hoffmann, *supra* note 42, quoting from papers prepared by the Joint Committee of the Patent and Trademark Institute of Canada and the Canadian Group of AIPPI. For an excellent history of the tension between trademark and antitrust principles, *see* McClure, *supra* note 9.

[44] 183 U.S.P.Q. 758 (T.T.A.B. 1974).

[45] *Id.*, at 764. Technically, this oft-cited language is dicta in this case which involved an unsuccessful attempt to register the mark "UNBAR" for fasteners, when applicant's only use of the mark was in connection with its plating services and not with the fasteners themselves. However, the registration doubtless would have been granted based on applicant's token sample shipments according to the court's expressed rationale had it actually been using the mark to sell fasteners. The Board found applicant's sample shipments to a company sales representative to be bona fide. *Id.*, at 765.

[46] 263 F. 643 (D.C. Cir. 1920).

filing of his application for registration, and created no trademark rights."[47]

However, later cases involving judicial review of the Board's policy of accepting "token use" as a basis for registration, held that so long as the "token use" did meet statutory requirements for registration, the fact that it had no other purpose was irrelevant. These holdings essentially destroyed the precedential value of *Phillips*. In *Montgomery Ward & Co., Inc. v. Sears, Roebuck & Co.,*[48] for instance, it appeared that both companies had independently conceived of the same name for a non-fouling ammunition at roughly the same time. Sears' first sale to a Dr. Marr was challenged by Ward under *Phillips*. The court however, distinguished these facts from those of *Phillips:*

> [T]he contention is that the whole transaction was brought about in an effort to meet the interstate commerce requirement of the registration law. Dr. Marr ordered the cartridges and paid the regular price for them with his own money. It is not material how he used them, or whether he used them at all. It may be that the transaction was one brought about by appellee's desire to meet the requirements of the law, but this does not destroy its rights if, in fact it did meet these requirements.[49]

Fort Howard Co. v. Kimberly-Clark Corp.[50] is a leading case approving a clear attempt to reserve a mark. Owners of the trademark "SO-DRI" for paper towels opposed the registration of "HI-DRI" for the same goods. After finding that no possibility of confusion between the marks existed, the Court of Customs and Patent Appeals went on to consider whether or not the applicant had alleged sufficient first use for registration. The applicant had shipped six boxes of the product worth a total of $1.91[51] from its plant to a drug store, following which no further sales were made for eighteen months. The Board's finding that this use was a sufficient basis for registration was upheld. The court noted that it normally takes about three years after adoption and first use of a new mark for the products to reach national distribution (during which time marketing, advertising tests, and preparation for production and sale take place) and thus the eighteen-month hiatus in sales did not constitute abandonment of the mark.[52] The initial token use was held not "damning per se," but was instead deemed to be

[47] *Id.*, at 644.

[48] 49 F.2d 842 (C.C.P.A. 1931).

[49] *Id.*, at 844.

[50] 390 F.2d 1015 (C.C.P.A. 1968).

[51] Fort Howard Paper Co. v. Kimberly Clark Corp., 148 U.S.P.Q. 607, 610 (T.T.A.B. 1966).

[52] 390 F.2d 1015, 1017.

sufficient for registration when coupled with applicant's intent to continue use followed by actual continued use.[53]

In *L'il Red Barn, Inc. v. Red Barn Systems, Inc.*[54] the court upheld a registration in which evidence of actual continued use following the original token sales was "sparse indeed." However, reasoning that the existence of plaintiff's federal registration placed the burden of proof on the defendant to show lack of intent to continue use, which burden had not been met, the court upheld the validity of the registration.

The Trademark Trial and Appeal Board has, in recent years, upheld some very flimsy token uses. *Coca-Cola Co. v. Clay*[55] involved a highly sympathetic defendant in a cancellation proceeding. The defendant, not having the advantage of a large corporation like Coca-Cola to assist in his product development and marketing efforts, had devoted a great deal of time and effort, relying only on his personal resources, to develop and attempt nationwide marketing of a hot cola drink to be known as "CUP-O-COLA." In April of 1957 he shipped a packet of the "CUP-O-COLA" drink mix bearing a typed label out of state to a person "who wanted to be the first customer to buy it."[56] One other similar packet was shipped to a different state. Both shipments were C.O.D. with a value of one dollar. Although defendant worked diligently at marketing the product, he made no real sales until January of 1960. Nevertheless (after first finding no confusion between "CUP-O-COLA" and "COCA-COLA"), the Board held that the two early sales were sufficient to establish defendant's right to register the mark.

The leading *Fort Howard* decision, *supra,* was followed by the Trademark Trial and Appeal Board in *E.I. DuPont de Nemours & Co., v. Big Bear Stores, Inc.,*[57] an interference between DuPont, as the first user of the mark "SUPER SHIELD" for paint with minimal sales, and Big Bear, that adopted and made substantial use of the mark for the same goods after having cleared it for use through a search of Trademark Office records and trade directories. DuPont conducted test mar-

[53] *Id.,* citing Montgomery Ward & Co. v. Sears, Roebuck & Co., 49 F.2d 842 (C.C.P.A. 1931); Calif. Spray Chem. Corp. v. Ansbacher, Siegle Corp., 55 U.S.P.Q. 298 (Comm'r of Pats. 1942); Western Stove Co. v. Geo. D. Roper Corp., 82 F. Supp. 206 (S.D. Cal. 1949); Maternally Yours, Inc. v. Your Maternity Shop, Inc. 23 F.2d 538 (2d Cir. 1956).

[54] 322 F. Supp. 98 (N.D. Ind. 1970).

[55] 133 U.S.P.Q. 606 (T.T.A.B. 1962).

[56] *Id.,* at 608.

[57] 161 U.S.P.Q. 50 (T.T.A.B. 1969).

keting in several major cities, with total sales of eight to nine thousand gallons, and subsequently stopped manufacturing the product. Big Bear adopted the mark in good faith shortly before DuPont discontinued use, and through large-scale advertising made sales of $100,000 the first year. Big Bear contended that DuPont's use was merely sporadic and experimental, and that once it discontinued use, it should have been held to have abandoned the mark. But because DuPont testified that it "intended" to transfer the mark to another finish, the Board found that it had not lost its rights.[58]

The parameters of the "token use" doctrine are by no means clear, however. Another case in which the Board granted priority to a token user was *La Maur, Inc. v. International Pharmaceutical Corp.*[59] Applicant's first sales of "PROTECT" toothpaste were to retail outlets in April of 1975. Opposer had previously shipped two dozen containers of its "PROTECT" deodorant as free samples to a drug store in March of the same year, and a few days later shipped a larger volume. The Board held that priority of the trademark rights could not depend on who got to the consumer first, but simply on who made the first shipment. Two days after this decision, however, the Board, in dicta in another "token use" case, noted that use sufficient to establish trademark rights must be "'open and notorious' use reaching purchasers or prospective purchasers of the goods in connection with which the mark is used."[60]

In *Dynamet Technology Inc. v. Dynamet Corp.*[61] the Board, however, seemed to predicate priority of trademark rights on usage unconnected with specific goods. After considering a long string of token-use-type

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[58] *But cf.* Bluebell, Inc. v. Farah Mfg. Co., Inc., 508 F. 2d 1260 (5th Cir. 1975), discussed *infra* at pp. 19-20, for a holding that token use must be in connection with the actual goods for which the mark is intended. Another similar case, *E.I. DuPont de Nemours & Co. v. G.C. Murphy Co.,* 199 U.S.P.Q. 807 (T.T.A.B. 1978) was a trademark opposition between DuPont, who had made test market shipments of its "EASY CARE" paint in December of 1973, then discontinued the line, resuming use three months later on another paint, and applicant, Murphy, who, after a trademark search showed the mark to be clear for use, in February of 1974, began shipments. The Board again held that token use in test markets are actual sales from which rights in the mark accrue so long as there is continual activity. The hiatus in DuPont's use of the mark, during the three months between the time it discontinued the sales of its first product, and began sales of the new paint formulation under the "EASY CARE" mark was not seen as a sufficient period of time to constitute abandonment.

[59] 199 U.S.P.Q. 612 (T.T.A.B. 1978).

[60] E.I. DuPont de Nemours v. C.G. Murphy Co., 199 U.S.P.Q. 807, 812 (T.T.A.B. 1978). For the facts of this case, see note 58 *supra*.

[61] 197 U.S.P.Q. 702 (T.T.A.B. 1977).

activities on the part of both plaintiff and defendant, including trade name usage, first shipment of free samples, first order, first contact with customers, and first shipment (although it was not clear which of these uses was the deciding factor), the Board stated that intrastate use can be sufficient to establish trademark rights and preclude registration by a subsequent user, even if the subsequent user is the first to enter the stream of interstate commerce. Such prior use can be as a trade name in connection with a viable business entity or an advertisement. This "use analogous to trademark use" must be open, notorious, and demonstrate an intent to appropriate the mark.[62] Thus, it appears that the law is by no means settled or clear, even within the PTO, as to the limits of the "token use" doctrine.

The PTO has normally been extremely cautious in its recognition of trademark rights arising from "token use," explicitly spelling out limitations on the principle even as it uses it to justify the registration of specific trademarks. For instance, the Board has stated that mere "adoption" of a mark without more is insufficient to give rise to the right to register.[63] And in *La Maur, supra,*[64] the Board, after repeating the oft-quoted *Standard Pressed Steel* language set forth at the beginning of this section relative to the risk involved in introducing new products to the market,[65] went on to provide that the token use must have "the color of a bona fide transaction," and must be followed by other shipments or accompanied by activities or circumstances which would indicate a continuing effort or intent to continue such use and place the product on the market on a commercial scale."[66] *Standard Pressed Steel* itself explains that token use sufficient as a basis for registration may not be "intracompany transactions for the purpose of company research and experimentation," but must have "the color of bona fide transactions, and most important of all . . . be accompanied or followed by circumstances which would tend to establish a continuing effort or intent to . . . place the product so shipped on the market on a commercial scale."[67]

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[62] *Id.*, at 705-06.

[63] E.I. DuPont de Nemours v. C.G. Murphy Co., 199 U.S.P.Q. 807, 812 (T.T.A.B. 1978).

[64] 199 U.S.P.Q. 612 (T.T.A.B. 1978).

[65] *See* note 45 *supra,* and accompanying text.

[66] 199 U.S.P.Q. 612, 617.

[67] Standard Pressed Steel v. Midwest Chrome Process Co., 183 U.S.P.Q. 758, 765 (T.T.A.B. 1974).

In cases where the Board has refused to rely on the "token use" doctrine for purposes of granting registrations, further limitations are explained. For example, in *La Maur, Inc. v. Block,*[68] the applicant made his first sample shipments to a wholesaler, using hand-written labels, and giving his return address as that of his attorney's office. He made no additional sales for four years. Priority was awarded to the opposer who had made substantial and continuous sales under the same mark from a date five months subsequent to the applicant's first shipment of samples. The Board held that the mark must be used in connection with an existing business — use of attorney's address to receive mail and expending $37.50 on letterhead stationery did not constitute evidence of such a business and would not suffice.[69]

Similarly, in *Times Mirror Magazines, Inc. v. Sutcliffe,*[70] the Board, after language similar to that of *Standard Pressed Steel,*[71] sustained an opposition against an application for registration of "OUTDOOR SPORT" for a magazine. The applicant had merely affixed the mark to a magazine already in existence and made three sales. The Board held that because the actual magazine with which the mark was intended to be used was not yet in existence, opposer's token use was not a bona fide use.

In *Bellanca Aircraft Corp. v. Bellanca Aircraft Engineering, Inc.,*[72] the Board held in a cancellation proceeding that rebuilding and selling one seaplane under the mark was not sufficient use to support a registration. Rather, "[t]here must be a trade in the goods sold under the mark or at least an active and public attempt to establish such a trade."[73] It is clear, however, that more than a mere "attempt" is necessary. For instance, the Board held in a later case that listing of a term with a trade association directory is not an open and public use sufficient to give rise to trademark priority.[74]

The courts have also taken a strict view of the type of token use which may be a basis for registration. In *Jim Dandy Co. v. Martha*

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[68] 176 U.S.P.Q. 218 (T.T.A.B. 1972).

[69] *Id.,* at 220-21, citing United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918), St. of Fla., Dept. of Citrus v. Real Juices, Inc., 300 F. Supp. 428 (D.C. Fla. 1971); and Clairol, Inc. v. Holland Hall Products, Inc., 165 U.S.P.Q. 214 (T.T.A.B. 1970).

[70] 205 U.S.P.Q. 656 (T.T.A.B. 1979).

[71] *See* note 45 *supra,* and accompanying text.

[72] 190 U.S.P.Q. 158 (T.T.A.B. 1976).

[73] *Id.,* at 167.

[74] Duron Paint Mfg. v. St. Charles Mfg., 198 U.S.P.Q. 187 (T.T.A.B. 1978).

White Foods, Inc.[75] the Court of Customs and Patent Appeals held billboard use of a term to be miniscule in nature and insufficient to establish priority in an interference proceeding. Likewise, the court failed to award priority for a use of a toy trademark on a plaster mock-up of the toy since a mock-up is not a toy and cannot be used for that purpose.[76]

In a fact situation similar to that of *Times Mirror, supra,*[77] following the Board's reasoning in that case, the Southern District of New York in *Trans-High Corp. v. Alstar Corp.,*[78] failed to enjoin the publication of defendant's "HILIFE" magazine. Plaintiff's claim to prior use arose out of shipments of a few copies of its own magazine, "HIGH TIMES," over which the label "HIGH LIFE" had been pasted, with no price and no issue date.

Where the question is one of maintaining an existing registration in the face of challenge by third parties, as opposed to originally obtaining a registration, the Board has usually given little weight to token use. For instance, in *Conwood Corp. v. Loew's Theaters, Inc.,*[79] registrant had originally used the trademark "STAG" for tobacco, but discontinued sales in 1955. Then, after a decision to use the mark for a plastic-tipped cigar, the registrant made token shipments of filter-tipped cigarettes labelled "STAG." The Board granted cancellation because registrant "never had a bona fide cigarette business under the mark.... [A]nd these shipments were made solely in an attempt to preserve [registrant's] rights in the mark."[80]

The courts, too, distinguish between trademark maintenance and registration. For instance, the Southern District of New York has held directly against token use in connection with large manufacturers' "minor brands programs" by which they attempt to maintain unused trademarks. In *Proctor & Gamble Co. v. Johnson & Johnson, Inc.*[81] plaintiff had purchased tampons from another company to which it applied its registered trademark "SURE" and made shipments in small quantities. The registered trademark was not otherwise in use

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75 458 F.2d 1397 (C.C.P.A. 1972). *But cf.* Hovanian Enterprises, Inc. v. Covered Bridge Estates, Inc., 195 U.S.P.Q. 658 (T.T.A.B. 1977) (billboard use held sufficient to establish priority).

76 Gay Toys, Inc. v. McDonald's Corp., 585 F.2d 1067 (C.C.P.A. 1978).

77 Times Mirror Magazines, Inc. v. Sutcliffe, 205 U.S.P.Q. 656 (T.T.A.B. 1979).

78 204 U.S.P.Q. 567 (S.D.N.Y. 1978).

79 173 U.S.P.Q. 829 (T.T.A.B. 1172).

80 *Id.*, at 830.

81 485 F. Supp. 1185 (S.D.N.Y. 1979).

by the company. The court held that such use was insufficient to create any consumer awareness, and that while such nominal use program might be sufficient as a predicate to major marketing, it would not serve to protect the registrant against defendant's use of the mark "ASSURE" for mouthwash and shampoo.

The Second Circuit takes an even stricter view. In *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*,[82] a 1974 case in which *Phillips v. Hudnut, supra*,[83] was cited for the proposition that token sales had not previously been enough for registration,[84] the court pointed out that while "adoption and single use may be good enough to register a trademark,"[85] the "relatively few courts that have treated the question have uniformly manifested reluctance to consider usage sufficient when it is obviously contrived solely for trademark maintenance purposes."[86]

When the question is one of trademark ownership at common law rather than trademark registration or maintenance, the courts have been even more reluctant to consider token use sufficient. For example, in *Sweetarts v. Sunline, Inc.*[87] the Eighth Circuit held that one of the parties' very minimal sales, amounting to less than $100 per state over an eighteen-year period, were not sufficient to assign trademark ownership in the states involved to preclude a competitor's entry into those markets.

Similarly in *Chardon Champagne Corp. v. San Marino Wine Corp.*,[88] the Second Circuit held that importation and sale of a few hundred cases of champagne over a period of three years was not enough to reserve an unregistered mark and preclude its use by a subsequent company continuously selling at least a thousand cases per year. The court explained: "In contrast to patent and copyright law, the concept of priority of the law of trademarks is applied not in its calendar sense but on the basis of the equities involved."[89]

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[82] 495 F.2d 1265 (2d Cir. 1974).

[83] 263 F. 643 (D.C. Cir. 1920).

[84] 495 F.2d 1265, 1273, citing Mendes v. New England Duplicating Co., 94 F. Supp. 558, 560 (D. Mass. 1950), *aff'd* 190 F.2d 415 (1st Cir. 1951).

[85] *Id.*

[86] *Id.*

[87] 380 F.2d 923 (8th Cir. 1967).

[88] 335 F.2d 531 (2d Cir. 1964).

[89] *Id.*, at 535, citing 3 CALLMAN, UNFAIR COMPETITION AND TRADEMARKS 1189, 1198-99 (2d ed. 1950), *But cf.* the Board's opinion in Gio. Buton & C.S.P.A. v. Buitoni Foods Corp., 205 U.S.P.Q. 477 (T.T.A.B. 1979) where, following its own established doctrine that the extent of a prior user's actual use is irrelevant, it rejected the princi-

The Fifth Circuit in 1975 explicitly pointed out the different standards for trademark registration and common law ownership. In *Bluebell Inc. v. Farah Mfg. Co., Inc.*[90] both parties conceived the trademark "TIME OUT" for men's clothing at about the same time, without knowledge of each other's plans. Farah made token sales to sales managers in July 1973 and shipped its first goods to customers in September; while Bluebell attached the "TIME OUT" label to some old slacks already labelled "MR. HICKS" (so that the slacks bore two labels) and shipped them in July. Bluebell did not ship the real goods for which it had intended the "TIME OUT" mark until October. The case, decided on the basis of common law (which was considered to be the same all over the country for trademarks[91]), turned on the fact that Farah had made the first "real" shipment in September. Bluebell's first shipment was considered insufficient because the mark was not in use with the goods actually intended to bear the mark. Likewise, Farah's earlier token sales to sales managers were held insufficient to establish trademark rights because of the distinction between common law ownership requirements and registration requirements. After discussing *Standard Pressed Steel, supra,*[92] and quoting the language set forth at the beginning of this section, the court distinguished registration and common law trademark ownership requirements:

> The [*Standard Pressed Steel*] decision may demonstrate a reversal of the presumption that ownership rights precede registration rights, but it does not affect our analysis of common law use in trade. Farah had undertaken substantial preliminary steps toward marketing the Time Out garments, but it did not establish ownership of the marks by means of the July 3 shipment to its sales managers. The gist of trademark rights is actual use in trade.[93]

A similar conflict between common law and registration requirements came to light in *Big O Tire Dealers Inc. v. Goodyear Tire &*

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ple of "equitable priority," as it had done in E.I. DuPont de Nemours & Co. v. Big Bear Stores, Inc., 161 U.S.P.Q. 50 (T.T.A.B. 1969), discussed *supra* at p. 12, and held that even though the plaintiff's sales had been small and the defendant registrant's large, the fact that plaintiff was, in fact, the first user gave it the right to cancel defendant's registration. Prior court decisions had also rejected the notion that volume of use was irrelevant. *See, e.g.,* Fieldcrest Mills, Inc. v. Couri, 220 F. Supp. 929 (S.D.N.Y. 1963), and Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365 (10th Cir. 1977), *cert. denied* 434 U.S. 1052 (1978).

90 508 F.2d 1260 (5th Cir. 1975).

91 *Id.,* at 1264. The actual basis of the decision was a Texas statute intended to preserve common law principles. *See also* Pattishall, *supra* note 8 at 128.

92 *See* note 45 *supra,* and accompanying text.

93 508 F.2d 1250, 1266-67.

Rubber Co.[94] Goodyear had obtained a federal trademark registration for the mark "BIG FOOT" based on token use of the mark for snowmobile track belts. When it later attempted to revive the mark for use on automobile tires, the court found its registration inadequate to protect it against the plaintiff's intervening, bona fide, use.

In the area of concurrent registrations, where two parties in different parts of the country adopt the same trademark in good faith and build up common law rights in their own trade areas, head-on conflicts between common law and registration rights have often arisen. Commonly, the parties agree to stay within their own territories, and a registration is issued to each under section 2(d) of the Lanham Act,[95] restricted to only a portion of the United States. Deciding the question of whether or not the entire United States should be divided between the applicants, as opposed to leaving territories of non-use open to preclude confusion, the Court of Customs and Patent Appeals reversed the Board's decision to leave territories open in *In re Beatrice Foods Co.; In re Fairway Foods, Inc.*,[96] and allowed the applicants to divide the country between them by agreement. The court pointed out that it was the intent of the Lanham Act to provide the registrant with the procedural advantages of prima facie exclusive rights throughout the country. As to the requirements of use for concurrent registrations, the court stated that both parties must be entitled to concurrently use the mark in commerce, and that "[a]s with a single applicant, we consider the extent of such actual use to be irrelevant so long as it amounts to more than a mere token attempt to conform with the requirement of the statute."[97] Drawing a distinction between common law and registration rights which "would not, in and of themselves, create any new right to *use* the trademark or to assert rights based on ownership of the trademark itself,"[98] the court held that the Board should properly consider each applicant's zone of probable expansion in granting concurrent registrations dividing the entire United States.

It is clear from the foregoing that although a great deal of confusion exists in defining how much and what kind of use will suffice for registration, and how much and what kind is necessary to prove com-

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94 408 F. Supp. 1219 (D.C. Colo. 1976), *aff'd* and *mod.* on other grounds, 561 F.2d 1365 (10th Cir. 1977), *cert. denied* 434 U.S. 1052 (1978).

95 Lanham Act, 15 U.S.C. §1051(d) (1980).

96 429 F.2d 466 (C.C.P.A. 1970).

97 *Id.*, at 473.

98 *Id.*, at 472.

mon law ownership of trademark rights which courts are willing to enforce, in general, the use standards for common law rights are higher than for registration.

IV. *Confusion in Trademark Standards*

Differing standards for trademark registration and common law ownership leads to harmful confusion. Consider the case of two large companies, each of which adopts the same trademark for competing goods in good faith and without knowledge of the other. The attorney for Company A, following the common law, advises that large-scale use be established before registration is attempted. The attorney for Company B advises token use and an immediate application for federal trademark registration. Company B files its application first, but Company A has a larger investment and wider use. It seems obvious that under the present state of the law, in an infringement action Company A should prevail. The fact that Company B has a trademark application on file has no legal effect and would have no legal effect until the registration issued. Even then, it would give rise only to a prima facie presumption of ownership, easily rebutted by Company A's showing of extensive use. This being the case, what is the use of Company B's application for registration? It does not function to reserve the trademark for Company B because the courts do not recognize the sufficiency of prior token use to set aside widespread, established common law trademark rights.

The difference between the requirements for common law ownership and registration highlights another flaw in the PTO's registration policies. Not only is it futile to rely on the "token use" doctrine in asserting property rights in trademarks as we have seen, but in addition, in implementing this policy, the PTO is not acting in accordance with the legislative mandate of the Lanham Act. There is no question but that Congress intended the Act as "merely protection to goodwill, to prevent the diversion of trade through misrepresentation,"[99] and not as a mechanism for the creation of property rights in unused marks.

Under the Administrative Procedure Act[100] the courts are specifically required to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . in excess of statutory jurisdiction, au-

[99] S. Rep. No. 1323, 79th Cong., 2d Sess., *reprinted in* [1946] U.S. CODE CONG. SERVICES, 1274, 1277.

[100] 5. U.S.C. §551 (1980).

thority or limitations."[101] The PTO has exhibited one of the strengths of an administrative agency in being flexible and responsive to changing conditions, and recognizing the economic necessity for allowing businesses to reserve trademarks while dealing with the complexity and high cost of establishing national and international trademark use. Nevertheless, its attempts to provide even a limited form of trademark reservation are clearly ultra vires and do not function to preclude actual use of the "reserved" mark by others. The courts, following the statute and the common law, as they must, have failed to give effect to registrations based on token use.

V. *Amending the Trademark Act To Allow Registrations Based on Intent to Use*

Since the PTO is powerless to change the current state of affairs, even though it has clearly pointed the way toward such a change, Congress should amend the Lanham Act to include the "token use" policies instituted by the PTO, or, even more to the point, to allow registrations based on "intent to use." This could be simply and neatly accomplished by adopting the proposed Trademark Registration Treaty Implementing Legislation.[102] Even though this legislation provides that no infringement actions may be begun until actual use is established,[103] potential intervening users would not be able to establish priority of use through actual sales after the applicant's filing date. Thus, trademark reservations could always mature into substantive rights, and not be defeated by intervening use.

Membership in the Trademark Registration Treaty would clearly benefit United States industry. The Madrid Union[104] is a trademark registration treaty to which most European countries belong. This treaty has proved of such advantage to firms in member nations that 95 percent of all trademark applications in those nations are filed

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[101] *Id.*, at §706(2)(c). *See also* Investment Annuity, Inc. v. Blumenthal, 442 F. Supp. 681 (D.C.D.C. 1977) (administrative actions inconsistent with the Internal Revenue Code are "in excess" of statutory authority); Public Utility Dist. No. 1 v. Federal Power Comm'n, 242 F.2d 672 (9th Cir. 1957) (Commission's granting of license without granting hearing to intervenor as required by statute was "in excess" of statutory jurisdiction); and MacDonald v. Best, 186 F. Supp. 217 (N.D. Calif. 1960) (Interior Department illegally voided mining claims for failure of owners to record notice of claims, when statute did not specify forfeiture as a penalty for failure to record).

[102] *See* notes 34-40 *supra*, and accompanying text.

[103] *See* note 40 *supra*.

[104] Madrid Agreement for the International Registration of Marks, *concluded on* Apr. 14, 1981 (as revised at Brussels on December 14, 1900, at Washington on June 2,

through the Union.[105] But because the United States is not a member, obtaining international trademark protection is often more difficult for domestic firms than it is for their competitors abroad. A large number of important market nations, namely Sweden, Denmark, Finland, West Germany, Japan, France, the U.S.S.R., Spain, Portugal, Austria, Rumania, and Hungary, have already indicated that their continued interest in the Trademark Registration Treaty is contingent on positive action by the United States.[106] Clearly these nations will lose interest in participating in the Treaty if the United States fails to take action. Thus domestic firms will continue to be at a competitive disadvantage with regard to international protection of trademark rights.[107]

The number of words and symbols which can be used as trademarks is almost infinite, and even under a system allowing the first registrant to reserve a particular mark for all the world, competitors would not be harmed. They, too, have an almost infinite universe of words and symbols to choose from for marketing their own goods. As the globe shrinks, the entire planet becomes a potential marketplace for every producer. In an ideal trademark system, upon receipt of an application, a Central Trademark Registry would perform an immediate search via computer and advise that the mark was either clear or already in use. Territorial rights (*i.e.*, trademark rights covering limited geographical areas) would gradually phase out as the new worldwide registrations issued. Such a system would eliminate public confusion as to the source of similarly trademarked goods emanating from different geographical areas, and would protect each firm's investment in its mark as it prepared for use.

1911, at The Hague on Nov. 6, 1925, at London on June 2, 1934, at Nice on June 15, 1957, and at Stockholm on July 14, 1967), OCTROOIBUREAU, *supra* note 23 at § Agreement of Madrid (Supp. Apr. 1978). For a complete discussion of the history and provisions of the Madrid Agreement, see II S.P. LADAS, PATENTS, TRADEMARKS AND RELATED RIGHTS §§ 758-95 (1975).

105 *See* Allen, *supra* note at 164.

106 *Id.*, at 173.

107 Interestingly enough, this same consideration was a major legislative purpose of the 1946 Act, which provided procedures allowing the United States to accord reciprocal registration rights to foreign registrants. *See* 15 U.S.C. §1094 (1980); and S. Rep. No. 1323, 79th Cong., 2d Sess., *reprinted in* [1946] U.S. CODE CONG. SERVICES 1274, 1276, which states one of the purposes of the Act to be "to promote international conventions."

V. *Conclusion*

The Lanham Act should be amended to bring statutory and Trademark Office requirements into line with each other and eliminate the present confusion in the law. Allowing registrations based on "intent to use" not only conforms with present day economic realities, but, if enacted along with the other provisions of the proposed Trademark Registration Treaty Implementing Legislation, would allow the United States to participate in the Treaty.

LAW/SCIENCE IN LAW SCHOOLS

THOMAS G. FIELD, JR.*

Hugh Gibbons has recently completed a four-part series in which he concludes that there are three questions:[1]

> . . . about science and technology that are singularly within the province of law: (1) How should technology be employed in the legal process? (2) In what ways should law affect science and technology? (3) Under what scheme should decisions about science and technology be made?

Also, he concludes that these questions should be addressed in law schools.[2] I agree. It would be difficult to determine what *should* be done in each instance without determining what *is* being done. Moreover, it would seem to be impossible to address, *e.g.*, the third question without being mindful of various uniquely legal constraints such as those imposed by the Constitution.[3]

In thinking about those things, I am reminded of the lowly gum band. For years, gum bands have been holding things together (but nothing so vital as what the legal system holds together). Yet only recently has anything been learned about *how* gum bands work.[4] So long as something works perhaps it isn't very important to know *why* it works, but if it quits working or isn't working as well as might be wanted, the hows and whys become vital to progress.

Lawyers, of course, aren't accustomed to thinking in such terms. Over the years, the legal system has been perfected by tinkering. When faced with novel problems, various things have been tried: those

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[1] *The Relationship Between Law and Science,* (Part IV), 22 IDEA 283, at 284 (1982).

[2] *Id.,* at 306-308

[3] For example, after several decades of neglect at the federal level there is some sentiment for reexaming the extent to which legislatures can delegate the power/responsibility for making basic policy decisions. *See, e.g.,* Industrial Union v. American Petroleum Institute, 100 S.Ct. 2844, at 2864-67 (1980)

[4] *See, e.g., Stretch of Imagination,* April 1981, SCIQUEST 3.

which seemed to work[5] have been kept; those which didn't seem to work have been discarded. Unfortunately, little attention has been given, *e.g.*, to controlled evaluation of alternative solutions to legal problems,[6] and some of the efforts along that line have not been warmly received.[7] If we are ever to get beyond the tinkering stage, law schools will probably have to exercise some leadership.[8]

However, such matters are not likely to become a core component of legal education in the near future, if ever. For that reason, it is useful also to direct attention to law/science issues which ought to be a part of every lawyer's education. Far too few lawyers seem to appreciate the potential for using scientific knowledge or scientists' skills in all kinds of legal controversies. Those who do appreciate that potential sometimes get carried away.[9] The real issue, it seems, is: Where can scientific information be used to advantage in legal processes? More fundamentally the question might be: How do we measure "advantage?" (What kind of advantage? To whom?)

Over the past several years, I have tried to develop a lecture course to address those kinds of issues.[10] Also, this past year I devised six appellate advocacy problems which raised one or more of them rather pointedly.

The current bibliography for the course follows as an appendix to this comment and largely speaks for itself. To the extent the elaboration would be necessary for someone who might be interested in teach-

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[5] Of course, just because something *seems* to work doesn't necessarily mean it *is* working; *see, e.g.*, Mosteller, *Innovation and Evaluation,* 211 SCIENCE 881 (1981).

[6] One of the more interesting efforts to learn more is discussed briefly in *Cann Explains Plea Bargaining Experiment,* 8 N.H. Law Weekly 205, Dec. 9, 1981.

[7] *See, e.g.*, Henry,... *The Role of Empirical Evidence in Developing Labor Law,* 1981 U. ILL. L. REV. 1. *See, also, The Science Court Experiment: An Interim Report,* 193 SCIENCE 654 (1976) — for better or worse, that particular experiment was never tried; *see, e.g.*, Jasanoff and Nelkin, *Science, Technology and the Limits of Judicial Competence,* 214 SCIENCE 1211, at 1214 (1981).

[8] *See, e.g.*, Yegge, *Introduction: the Implications of Science-Technology for the Legal Process,* 47 DENVER, L.J. 549. 550-51 (1970).

[9] *See, e.g.*, Greely, *In Soft Defense of Sociologists,* 23(2) N.Y.U.L. SCH. BULL. 26 (1977). *See, also, e.g.*, Rosenberg, *Anything Legislatures Can Do, Court Can Do Better?,* 62 A.B.A.J. 587 (1976) — particularly the discussion of *Hawkins,* at 588-89.

[10] Entitled *Science in the Legal Process.* For discussions of early efforts along those lines, *see* Field, *Law and Science,* 16 JURIMETRICS 106 (1975); *Training Lawyers to Cope With Science,* 4(3) LEARNING AND THE LAW 28 (1977); and *Science, Law and Public Policy: Meeting the Need in Legal Education,* 13 N. ENG. L. REV. 214 (1978). A bibliography used in the course follows as an appendix to this comment.

ing such a course, it would take considerably more space than is available here. For that reason, I would like to focus on the issues raised in the appellate advocacy problems.

Three of the problems followed much the same process pattern, although the substantive areas were quite different. One was designed to test the continuing validity of the fertile octogenarian rule in the face of vastly improved medical knowledge;[11] a second examined the problems of proof in applying the American rule in lateral support cases;[12] and the third addressed the relative merits of the accepted-medical-practice and Learned-Hand-formula standards in medical malpractice cases.[13] Moreover, each case raised the doctrine of stare decisis — providing an opportunity to evaluate comparatively the appropriateness of legislative and judicial process in dealing with such issues.

The other three problems tended to focus on the traditional "law/fact" dichotomy as used to apportion responsibilities within the legal process. One did so in the context of a *Kewanee*-type preemption problem;[14] a second did so in exploring the constitutionality of a state "filled milk" statute;[15] and the third (which was ultimately used only for illustrative purposes in the lecture course) focused on the "unreasonably dangerous" and/or "defective" concepts in a products liability case.[16]

Our appellate advocacy program is organized in such a way as to permit students to elect the problems they want to work on. Notwithstanding that most of our students do not have a strong scientific/technical background[17] and that few of them are likely to pursue a career strongly emphasizing one of the traditional "law/science"

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[11] *See, e.g.,* Re Bassett Estate, 104 N.H. 504 (1963). [Copies of this and the other problems are available upon request.]

[12] *See, e.g.,* J. CRIBBETT, PRINCIPLES OF THE LAW OF PROPERTY, 365-7 (2d Ed., 1975).

[13] *See., e.g.,* Helling v. Carey, 519 P.2d 981 (Wash. 1974); *also* Epstein, *The Limits of Medical Malpractice,* 298 N. ENG. J. MED. 1311 (1978).

[14] Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), focusing in particular upon the empirical justification for nonpreemption, at 489-90.

[15] Vernon's (Tx.) Ann. Civil St., art 4474a. *See* Martin v. Wholesome Dairy, Inc., 437 S.W.2d 586 (Tx. Civ. App. 1969); *compare* Milnot v. Douglas, 452 F.Supp. 505 (S.D. W.V. 1978).

[16] *See, e.g.,* Montgomery and Owen, *Reflections on the Theory and Administration of Strict Tort Liability for Defective Products,* 27 S. CAR. L. REV. 803, at 830 (1976).

[17] Moreover, several of those who have such a background elected to enter the Giles S. Rich Patent Moot Court Competition sponsored by the AM. Pat. L. Assn.

areas,[18] over half of the first-year class chose to work on one of the problems described above.[19] Yet, regardless of ultimate career paths, it is doubtful that anyone will find that their time was wasted in pursuit of some sort of esoteric subject matter.

Problems involving science in the legal process are nevertheless legal process problems. When technical subject matter is involved (or potentially involved), however, the process issues become more pointed and their resolution becomes more compelling. As a consequence, a subject which students often regard an uninteresting tends to generate much more lively discussion. If "science" did nothing except to increase student interest, that alone would warrant its inclusion in legal process courses.

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[18] The majority of our graduates have traditionally gone into small (general) law offices — indeed, even some who have had more lucrative offers from corporations and patent law firms.

[19] *Science in the Legal Process* is also a first-year course — one of four courses which can be elected in the spring term. Because of an enrollment overlap, it was possible to use all of the problems for illustrative purposes in the lecture course. In fact, the combination of approaches (moot court problems and process lectures) worked better than either, alone. Perhaps in the future it will be possible to devise a way to more completely integrate the two approaches.

SCIENCE IN THE LEGAL PROCESS

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WHETHER PATENTED OR UNPATENTED: A Question of the Economic Leverage of Patents to Coerce Tie-Ins*

DAVID A. LOWIN**

Part I
INTRODUCTION

> . . .the statutory grant of a patent monopoly . . . represented tying products that the court regarded as sufficiently unique to give rise to a presumption of economic power. *Fortner II*[1]

The above-quoted passage appeared initially as a footnote in Justice Black's opinion for the majority in *Fortner I.*[2] It was elevated to text in *Fortner II,* written by Justice Stevens. The statement was part of a comparison between the credit offering under scrutiny as an illegal tie-in in *Fortner*[3] and other types of offerings which had been previously found in violation of the antitrust laws. The elevation to text may be mistaken as an indication of greater significance than the analogy was intended to have, and even though neither *Fortner* case involved any patents, the statement may be regarded in future patent-antitrust cases as expressing the current state of the law.

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1 United States Steel v. Fortner Enterprises, 429 U.S. 610, at 619 (1977).

2 Fortner Enterprises v. United States Steel, 394 U.S. 495 (1969).

3 The *Fortner* cases involved the offer of unusually good credit terms to buyers of prefabricated houses as an incentive to buy the houses. At issue was whether the offeror of the credit terms possessed sufficient economic power to coerce buyers to purchase the houses, in violation of the antitrust prohibition against tie-ins.

Does the existence of a patent on an alleged tying product give rise to a presumption of sufficient economic power to coerce a tie-in? What reasons could be behind such a presumption? Uniqueness is one of the statutory requirements of patentability. Since the patent grant confers a seventeen year monopoly and since, by definition, patented inventions are unique, the patent owner should be the only source of a patented invention. Any purchaser *needing* the invention *must* deal with the patent owner who, therefore, has a superior bargaining position. It is this superior bargaining position which the Court equates with possession of sufficient economic power to coerce a tie-in.

This article will trace the history of patent tie-ins and how they have fared with the antitrust laws. It will thereby be determined whether the presumption of economic power as suggested in *Fortner* has a legitimate basis in the case law. It will further be determined, by analysis of the relevant statutory provisions and legislative histories, whether it was the intent of Congress when it enacted the antitrust laws to create such a presumption. Finally, the ensuing analysis will explore whether the interpretation suggested by the *Fortner* court furthers public policy and should be the law.

Following this introduction, the article will continue in Part II with a brief description of what a tie-in is, when it is illegal, and why it is illegal. Part III will deal with the case law at the turn of the century, a time when tie-ins involving patents were considered legitimate business practice. Part IV explores section three of the Clayton Act, and the congressional response to Supreme Court opinions condoning patent tie-ins. Part V will trace the case law after the Clayton Act, paying particular attention to those cases which might support the Court's *per se* economic power theory. Finally, in Part VI the overall picture will be summarized; then the question "Should a *per se* economic power theory apply to patents?" will be answered.

Part II
TIE-INS

A tie-in is the legal name for a business transaction in which the seller conditions the sale of a product or service on the purchase of additional goods or services. This is not to say that all agreements involving more than one subject are tie-ins, for not all multiple-subject contracts are conditioned on a seller's insistence that more than one commodity be included in the deal. Nor does it say that all tie-ins are illegal, because the law requires that certain specific conditions relating to the parties and the products be present before a violation of the antitrust laws has occurred. It does say that the freedom of parties to conclude contracts which involve more than a single subject is limited to instances where *both* parties have *freely* undertaken *all* of the conditions, otherwise a potential violation of the Sherman or Clayton Acts may occur.

What sort of multiple-subject agreement would not be a tie-in? For example, a buyer who orders 100 cases of ball point pens, 200 cases of coffee mugs, and 75 cases of ash trays would not have entered a tying arrangement. The fact that the order entails more than one subject is due to the buyer's need for ball point pens, coffee mugs and ash trays, and to the availability of goods which satisfy each of those needs from one seller. The law does not require contracting parties to draft separate agreements to cover each item in a transaction.

How about a six-pack of beer or a dozen eggs, or a quart of milk or a pad of paper, where all the buyer really wants is a bottle of beer, or a single egg, or a glass of milk, or a single leaf of paper? These are limitations on the units in which the seller has chosen to offer products for sale. Practicality of packaging or transportation, and the fact that some products cannot be reasonably sold on a drop by drop or a gram by gram basis, lead to the conclusion that these conditions are reasonably necessary to the conduct of the seller's business and are not tie-ins. These conditions are not attempts to tie the sale of unlike products, another element of the tie-in. Likewise, the inclusion of heat, hot water, and electricity in a month's rent would not be tie-in since each item is but an element of a reasonable package, namely a suitable place to live.

What does constitute a tie-in? (Remember that not all tie-ins are illegal.) Seller offers razor blades for sale, but the package which contains the razor blades includes a disposable cigarette lighter. Where neither of these two distinct products is offered individually for sale, the seller is using a tie-in to force prospective buyers needing only razor blades or a cigarette lighter to purchase both. Of course, physical attachment is not required for there to be a tie-in. For example, the rental or sale of office equipment such as typewriters or photocopiers on the condition that the buyer purchase its requirements of paper, ink, erasers and the like from the seller would be a tie-in. The sale of one product has been conditioned on the future purchase of distinct, albeit related products. The sale of photographic film conditioned on the purchase of developing is an example of a tie-in involving a product and a service. Tying arrangements are not limited to contracts which connect only goods to goods or services to services. The condition that a warranty will be void in the event that a product is serviced by an unauthorized repairman is another example of the tying of goods to services, even though it is not the sale of the merchandise which is being conditioned, but the guarantee of the merchandise which is tied to the services.

What public policies are responsible for the prohibition against some tying arrangements but not others? It is not the policy of the antitrust laws to prevent arms length bargaining which results in the sale of more than one item. The public policy being served by the prohibition against some tying arrangements is the preservation of free competition, where a strong bargaining position in one market is used to influence sales in another, unrelated market. From an antitrust standpoint the scenario reads as follows: a seller, by virtue of the excellence of its products or services has gained a strong position in the market for those products or services (yet its competitive advantage in that market does not amount to a monopoly in violation of the Sherman Act); that seller may seek to extend its strong bargaining position to secure sales in another market where its goods or services do not enjoy a superior reputation and where, but for the position in the first product market, it would be in no better position than any other seller in that tied product market. It is the negative effect on competition in the second product market which the antitrust laws seek to avoid. This supports the policy that there be free competition in each market based on the relative attributes of the individual products available.

The two major ill-effects from the use of tie-ins have been summarized as follows; first, that a misallocation of resources to the tying seller away from competitors in the tied product market occurs, resulting in a tendency towards monopolization of the tied product market; and second, that buyers may be required to purchase things which they simply do not need, resulting in the waste of resources.

There are, occasionally, valid reasons for employing tie-ins. In one instance it is used as a counting mechanism to apportion the amount of royalties due according to the amount of use made of a patented invention. When this is done, smaller licensees with less need for the invention can still use it because their payments reflect their need. Otherwise, they would be paying the same amount as larger licensees which make extensive use of the patented invention. In other instances the tie-in is used as a method of collecting royalties on patented processes or combinations based on sales in the tied product market, for example, for a raw material used in the process, thereby permitting the patentee to keep track of licensees where monitoring the amount of process use would be impractical. The tie-in is also useful to insure that components which may cause damage are not used on leased patented machinery. In the case of new or developing industries the use of tie-ins to prevent damage from the substitution of incompatible parts, or damage from improper servicing by persons not completely familiar with the new technology, may be permitted to protect these new industries from destruction at the hands of those who are not yet competent to be dealing in it. Where a trade reputation is at stake, a tie-in may be used to insure quality control, such as the case of requiring franchisees to maintain certain quality standards, in order to satisfy the policing requirements of the trademark laws.

In view of the above-mentioned policy considerations, how have the courts interpreted the law to govern every day business transactions? Where has the line been drawn between those contracts that are legal and those that are illegal tie-ins? The Supreme Court, in *Northern Pacific Railway v. U.S.*,[4] has prescribed a two part test delineating which agreements are illegal. First, it must be shown that the tying seller had "leverage" or sufficient economic power in the tying product market to coerce a buyer to accept the tying provision. Second, there must have been sufficient economic impact in the tied product market. These terms, however, are not employed in their traditional Sherman Act monopoly sense, because a tie-in involves a cause and effect in different markets. What then, is meant by leverage and market impact when used in connection with a tie-in case?

Leverage entails analysis of the tying seller's economic position in the tying product market. It is a function of the amount of competition in the tying product market and the buyer's need for the tying product. While the showing of a monopoly position in the tying product market, such as that required by the *Alcoa*[5] case for violations of the Sherman Act is not necessary, many similar considerations will point to the seller with sufficient economic power. Such factors as the number of competitors in the market and the availability of fungible substitutes for the product are considered to show just how much economic power the seller has in the relevant markets. The superior quality of a particular seller's goods may influence the range of fungible substitutes, thereby limiting the market in which a seller of the highest quality goods competes. The seller's position in the tied product market must also be determined, since, if it is on an equal or higher level than that seller's position in the tying product market,

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4 356 U.S. 1 (1958).

5 United States v. Aluminum Company of America, 148 F.2d 416 (2d Cir. 1945).

it would be difficult to conclude that leverage in one market was being applied to bolster an already superior position in another market. The buyer's need for the seller's product must also be taken into consideration, since the ability of the seller to wield economic power in the tying product market will be limited by the buyer's need for the tying product. The buyer's need for the tied product will also be used to determine the economic effect on the tied product market. Hence, the optimal case for showing the existence of an illegal tie-in would be as follows: the tying seller enjoys a superior position in the tying product market, in which it has few competitors and in which there are few, if any, fungible substitutes for the tying product; the buyer is in a business which absolutely needs the tying product for survival, or in other words will go broke without it. Under these circumstances the buyer is forced to deal with the tying seller, who is consequently in the perfect economic position for the exercise of leverage, namely, it can charge whatever it wants in terms of cost and conditions until the price reaches a point where the buyer can no longer reasonably profit in business. The unsatisfactory nature of the terms to the buyer is a measure of the use of economic leverage. For example, if the agreed price for the tied product is very unreasonable in compariparison with the open market, or if the tied product is something which the buyer would normally not need or want, the fact that the buyer entered such a disadvantageous relationship is inferential evidence of the use of leverage. This is the sort of comparative economic analysis which is used to determine whether a tying seller has employed leverage, or in other words has coerced the acceptance of a tying agreement by the buyer. The importance of coercion in this theory must be emphasized, since where no coercion is present and the seller is simply refusing to deal on any terms but its own, the right to conduct business as it pleases is protected by the *Colgate* doctrine[6]:

> In the absence of any purpose to create or maintain a monopoly, the act does not restrict the long recognized right of trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal; and, of course, he may announce in advance the circumstances under which he will refuse to sell . . .[7]

The second element of the test requires that the effect of the tying arrangement "may be to substantially lessen competition or tend to create a monopoly . . ."[8] in the tied product market. Once again, this

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[6] United States v. Colgate & Co., 250 U.S. 300 (1919).

[7] *Id.* at 307.

[8] 15 U.S.C. §14.

second element need not be proven to the extent required in a Sherman Act monopoly case such as the *Cellophane Wrap*[9] case. This is where consideration of the position of both buyer and seller in the tied product market comes into play. If the seller is already established as a dominant figure in the tied product market, then what effect, if any, will the sale of the tied product to the buyer have on the market? One would expect that effect to be minimal. The amount of business which the buyer normally does in the tied product market will also indicate the effect, if any, of the seller's activities. If the buyer normally does a large amount of business in the tied product market, then that buyer's removal from the realm of potential customers for which the competitors in the market contend, will have a major impact of lessening competition in the market. If, on the other hand, the buyer did not do much business in the tied product market, the effect of that buyer's removal from all potential customers in the tied product market will be minimal. Some lessening of competition may take place, the substantiality of which would be a question of fact for the court to decide. The number of buyers involved in the tying arrangement will also be a contributing factor to substantiality of the lessening of competition. While it is not possible to explore the entire range of combinations between leverage and market impact, suffice it to say that these are the areas in which a showing must be made. A better feel for where within this range of combinations the line of illegality falls can be anticipated upon consideration of the case analyses which follow.

Now, armed with a knowledge of the elements which constitute an illegal tie-in, the reader should be in a position to understand the distinction between use of a *per se* rule and the rule of reason in a tie-in case, and thereafter appreciate the significance of the statement in *Fortner II*[10] which was quoted in the Introduction.

The rule of reason requires consideration of all factors which would lead to a conclusion of law, and the analysis of whether, in the circumstances of a particular case, that conclusion may be reasonably drawn. Therefore, under the rule of reason, each of the elements from the preceeding discussion would have to be proven to the trier of fact to find a violation.

The *per se* rule hypothesizes that on the showing of certain facts, reasonable minds could not differ in arriving at a particular legal conclusion. The step of submitting such facts, in the context of the particular case in which they arise, to a trier of fact who would deter-

[9] United States v. Du Pont De Nemours & Co., 351 U.S. 377 (1956).

[10] See footnote 1, *supra*.

mine what could reasonably be concluded from those facts, is thereby eliminated. (See, for example, the cases on constitutionality of irrebuttable presumptions.) In the context of a tie-in case, it has been suggested that whenever a tying product is patented, sufficient economic power, or leverage to coerce the acceptance of a tying agreement may be presumed because of the uniqueness of patented products. This eliminates the need to consider the many factors described earlier in this section, on the theory that whenever the tying product is patented, those factors may be presumed to exist. Such will be the effect, and is the importance, of the quoted statement from *Fortner II* to any case involving a patented tying product.

This concludes the discussion of what constitutes a tie-in and when it is illegal. The focus of the article will now turn to a study of the case law.

Part III
BEFORE THE CLAYTON ACT

The case law prior to enactment of the Clayton Act in 1914 may be characterized as giving almost *carte blanche* to patentees in their dealings with licensees. The court felt that the Sherman Act, which with the exception of its original section 7 permitted only the Attorney General to bring suit for its violation, did not apply to the constitutionally granted monopolies called letters patent. License terms such as restrictions on resale, price, the sale of competing goods, and the purchase of unpatented materials were commonly used. Justification for this was based on the limited scope of the Sherman Act and the broad reach of the patent grant.

Among the earliest in this line of cases is the *Cotton-Tie Company v. Simmons*[11] decision, which involved the alleged infringement of three patents on improved ties for cotton bales. Each tie consisted of a metal buckle and a metal band which would be wrapped around the bale and inserted through pre-cut holes in the buckle to secure the cotton. Each buckle was stamped "Licensed to Use Once Only". In order to remove a tie the metal band would be cut, leaving it too short to be reinserted through the buckle for later use. The defendant aquired used destroyed cotton ties, lengthened the severed metal bands sufficiently to be inserted through the buckles, and sold the again usable buckles and bands to customers of the plaintiff, which sued for patent infringement. The case was defended on the ground that defendant was

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[11] 106 U.S. 89 (1882).

not practicing the patented invention, but was instead repairing destroyed ties. The Court rejected this argument because the ties were licensed to be used only once and were voluntarily destroyed, making the defendant's actions more in the nature of reconstruction than repair, and therefore, an infringement. In a later case arising under the same patent, Judge Blatchford addressed the legality of this type of restriction as follows:

> . . . The words, "licensed to use once only", stamped on each buckle, were a notice to everyone who handled it that there was attached to it a restriction in the shape of a license, and of a license merely to use, and of a license to use only once. This was a lawful restriction.[12]

In 1901 the Supreme Court was presented with a far more direct challenge under the Sherman Act to the rights of patentees.[13] National Harrow Company held title to patents on float spring-tooth harrows;[14] Bement was one of their licensees. The license terms included restrictions on the price and terms to be used in the licensee's sales of patented harrows, a requirement that the licensee purchase labels from National Harrow to be put on each article sold (10 cents of the price of these labels would be credited against royalties), prohibition against the manufacture or sale of other competing types of harrows, and other similar covenants. National Harrow sued Bement for breach of the license, claiming liquidated damages of of $5.00 for each article sold in violation of the license, a sum of $20,000.00. (Liquidated damages was one clause of the license not mentioned above.) For a defense, Bement alleged that the license terms violated the Sherman Act and were unenforceable.[15]

The Court began its analysis of this issue by referring to the cases cited in the *Button Fastener Case*[16] as limiting the realm of the license restrictions available to a patentee. In the first case cited, a patented improvement for burning oil had been condemned as unsafe for illuminating purposes by a Kentucky state inspector. The resulting prohibition against sale of the patented improvement was found to be within the police power of the state, which outweighed the patentee's

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[12] American Cotton Tie Supply Co. v. Bullard, 4 Ban. & A. 520.

[13] Bement v. National Harrow Co., 186 U.S. 70 (1901).

[14] A harrow is a cultivating instrument set with teeth, in this case spring teeth, and is used for pulverizing and smoothing the soil.

[15] The Court rejected the plaintiff's argument that only the Attorney General could bring suit under the Sherman Act stating that a violation of the act, if proven, would be a valid defense.

[16] See footnote 20, *infra*.

right to sell the invention.[17] The second cited limitation on a patentee's rights arose in the communications area, where telephone companies had been licensed to use patents for the purpose of operating public telephone lines. The companies were prohibited from providing services covered by the licenses to any other telephone companies within their districts that were not licensees. This condition was designed to prevent other telephone companies from avoiding payment of royalties to the patentee by dealing with its licensees. The case held that the telephone companies status as common carriers required them to offer equal service to all who applied, and that a patentee could not restrict them in a manner which would prevent the discharge of those duties.[18] Returning to the license restrictions at issue, the *National Harrow* Court stated:

> Notwithstanding these exceptions, *the general rule is absolute freedom* in the use or sale of rights under the patent laws of the United States. The very object of these laws is monopoly, and the rule is, with few exceptions, that any 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 manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keeps up the monopoly or fixes price does not render them illegal.[19] (Emphasis added).

The Court went on to find that the license restrictions in suit did not violate the Sherman Act and were therefore enforceable.

Mr. Justice Lurton authored two opinions expressly sanctioning practice of the tying arrangements which are so carefully scrutinized today. Writing for the Sixth Circuit Court of Appeals in the Button Fastener Case,[20] he upheld a license restriction on the purchase of unpatented buttons used in conjunction with a patented button fastening machine. The plaintiff, Heaton, held patents on a machine which would automatically fasten buttons to shoes with metal fasteners. The machine employed a raceway or staple chute which fed staples to the attaching point where they were automatically clinched. Even a slight variation in the dimension of staples used in the machine would render it non-functional. The machines were made and sold

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[17] Patterson v. Kentucky, 97 U.S. 501 (1878).

[18] *Missouri v. Bell Telephone Company,* 23 F. 539 (E.D. Mo. 1885); *State v. Delaware Company,* 47 F. 633 (D. Del. 1891); and *Delaware & Atlantic Company v. Delaware,* 3 U.S. App. 30.

[19] Bement v. National Harrow Co., 186 U.S. 70, at 91 (1901).

[20] Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co., 77 F. 288 (6th Cir. 1896).

with a conspicuous metal plate which plainly expressed the condition that only fasteners made by Heaton may be used in it. The defendant, Eureka, made and sold fasteners to be used with the patented machine. Eureka was charged with contributory infringement[21] for inducing the plaintiff's licensees to breach the terms of their licenses. The fact that the licensees had expressly agreed to the restriction played a significant role in the court's decision that injunctive relief was proper to restrain such continuing infringement. The court agreed that the restriction was within the bounds of the patent monopoly.

Sixteen years later, in *Henry v. A. B. Dick Co.,*[22] Justice Lurton was called on to decide whether the sale by Henry of unpatented goods to a licensee of the A. B. Dick Company amounted to an actionable contributory infringement. The licensee was restrained to purchase its requirements of those unpatented goods from its licensor, the Dick Company.

The Dick Company had a patent on mimeographing machines. It sold the machines outright to purchasers, with the following restriction:

> License Restriction
>
> This machine is sold by the A. B. Dick Co. with the license restriction that it may be used only with stencil, paper, ink and other supplies made by A. B. Dick Co.[23, 24]

Henry defended the suit on the ground that the above-quoted license restriction amounted to a violation of public policy (such as the Sherman Act) and should therefore not be enforced by a court of equity. If the license was not enforceable there would be no contributory infringement, because no license provision would have been broken by the sale of restricted goods. If a violation of public policy was found,

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[21] Contributory infringement occurs when someone sells items which in and of themselves do not infringe any patent, but, which are meant to be combined with other items in an infringing manner. In this case, the use of defendant's fasteners breached the licenses, rendering them void. The ex-licensees became infringers when they began to practice the invention by using the machine without a license.

[22] 224 U.S. 1 (1912).

[23] *Id.* at 25-26.

[24] This was unenforceable under common law since title had passed.

the court of equity would be precluded from enforcing the patent by the unclean hands doctrine.[25]

The majority was not sympathetic to the defense raised by Henry. Justice Lurton was from the school of thought which believed that since the patent monopoly is the right of complete exclusion (from making, using, and selling), and since the patentee may, in his discretion, permit some use of the patented invention, any limits placed on that use by the patentee could be no more offensive to public policy than would be an exercise of the right of complete exclusion. This was an extension of the rationale used in the *Paper Bag Patent Case*[26] where the Court was asked to decide whether a patentee that had never made use of its patented invention, but was simply using the patent to prevent others from practicing it, could receive injunctive relief from a court of equity. Pointing out that the Congress could have, but did not require patentees to either use or license their inventions, the Court held that a patentee's right of complete exclusion included the right to use a patent only to restrain others, and found injunctive relief to be the proper remedy.

When confronted with the argument that the license restriction amounted to an extension of the patent monopoly to unpatented goods, thereby lessening competition, the *A. B. Dick* Court reasoned that the market in which competition was supposedly being lessened had been created by the invention of the patented mimeograph and would disappear completely if the right of complete exclusion was exercised. The affected market was defined as sales of ink, stencil, and paper for use with the patented invention, since that is all that the restriction covered. The court pointed out:

> Had he kept his invention to himself, no ink could have been sold by others for use upon machines embodying the invention. By selling it subject to the restriction he took nothing from others and in no wise restricted their legitimate market.[27]

The majority, therefore, rejected any contention that the proper market in which to look for substantial effect was all ink, paper, and stencil sales.

The Court made the following statement with regard to the then existing antitrust laws and their expression of public policy which is

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[25] The unclean hands doctrine requires that a court of equity may not grant equitable relief to a party that has prevailed in a suit if that party has been guilty of some wrongdoing in connection with the subject matter of the suit, thereby protecting the public interest.

[26] Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908).

[27] 224 U.S. at 32.

believed to be directly responsible for the inclusion of the words "whether patented or unpatented" in section three of the Clayton Act.

> An attack upon the rights under a patent because it secures a monopoly to make, to sell and to use, is an attack upon the whole patent system. We are not at liberty to say that the Constitution has unwisely provided for granting a monopolistic right to inventors, or that Congress has unwisely failed to impose limitations upon the inventor's exclusive right of use. And if it be that the ingenuity of patentees in devising ways in which to reap the benefit of their discoveries requires to be restrained, Congress alone has the power to determine what restraints shall be imposed. As the law now stands it contains none, and the duty which rests upon this and every other court is to expound the law as it is written.[28]

Since the law on tie-ins was still in its infancy, The Court in *A. B. Dick* was under no duty to make a finding on the amount of power conferred by the patent monopoly. It did, however, respond to the suggestion that a patentee would, if not restrained, extend his monopoly through license restrictions.

> ... the public is always free to take or refuse the patented article on the terms imposed. If they be too onerous or not in keeping with the benefits, the patented article will not find a market. The public, by permitting the invention to go unused, loses nothing which it had before, and when the patent expires will be free to use the invention without compensation or restriction.[29]

Such was the state of the law before the passage of the Clayton Act on October 15, 1914.

Part IV
THE CLAYTON ACT AND ITS EFFECT

Congress reacted to the decision in *Henry v. A.B. Dick Co.* with passage of the Clayton Act. This served as the indication of public policy needed to sway the majority of the Supreme Court.

> We are confirmed in the conclusion which we are announcing by the fact that since the decision of *Henry v. Dick Co.*, 224 U.S. 1, the Congress ..., as if in response to that decision, has enacted a law making it unlawful for any person engaged in interstate commerce "to lease or to make a sale or contract for sale of goods ... machinery, supplies or other commodities, *whether patented or unpatented* for use, consumption or resale ... or fix a price charged therefor ... on the condition, agreement or understanding that the lessee or purchaser thereof shall not use ... the goods ... machin-

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[28] *Id.* at 35.

[29] *Id.* at 34-35.

ery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce." 38 Stat. 730.[30]

So said the court in *Motion Picture Co. v. Universal Film Co.*,[31] where both the *A.B. Dick*[32] and *Button-Fastener*[33] cases were specifically overruled. The *Motion Picture Patent Case* involved a patent on an improvement in motion picture projectors, which was licensed with the provision that projectors embodying the patented improvement be used only with films provided by the licensor. As in many of the earlier cases, this suit was brought for contributory infringement, this time based on the use of films provided by the defendant to the plaintiff's licensees in violation of the license restrictions. The court was again asked to determine whether such license restrictions were valid, enforceable, and could be the basis of a contributory infringement action.

The majority, led by Justice Clarke, felt that the license restrictions had the same effect as fixing " . . . the price at which a patented article must be sold after the first sale of it . . ."[34], a practice which had already been declared illegal.[35] Now, the Court found the use of tying arrangements involving patents objectionable because:

> . . . under color of its patent the owner intends to and does derive its profit, not from the invention on which the law gives it a monopoly but from the unpatented supplies with which it is used and which are wholly without the scope of the patent monopoly, thus in effect extending the power to the owner of a patent to fix the price to the public of the unpatented supplies as effectively as he may fix the price on the patented machine.[36]

Such activity by a patentee was found to be against " . . . the pervasive expression of the public policy of our country . . ."[37], which the Court found to be the Clayton Act. Since an injunction against infringement involves the powers of a court of equity, and since the public interest is always before such a court, it was unnecessary to rule on whether

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30 243 U.S. 502 at 517 (1917), the *Motion Picture Patent Case.*

31 *Ibid.*

32 See footnote 22, *supra.*

33 See footnote 20, *supra.*

34 243 U.S. 502 at 516.

35 Bauer v. O'Donnell, 229 U.S. 1 (1912). This represented a change from the theory of the *Paper Bag Patent Case, supra,* that the right of complete exclusion justified any restrictions employed short of it, to a theory which limits the rights of patentees to those specifically enumerated in the patent laws.

36 243 U.S. 502 at 517.

37 *Id.* at 517-518.

there had been a violation of the Clayton Act because the unclean hands doctrine precludes a court of equity from aiding activities inconsistent with public policy. The license restrictions prohibiting use of films not provided by the licensor, which gave rise to contributory infringement, were found to be inconsistent with public policy and were, therefore, unenforceable.[38]

The dissent by Justice Holmes, who was joined by Justices McKenna and Van Devanter, relied on the philosophy of the *Paper Bag Patent Case*[39] as supporting the right of a patentee to impose whatever restrictions it chooses on licensees. The dissenters also declined to rule on the legality of the practice in light of the Clayton Act. While the imprimatur of the Court was taken away from patent tie-ins here, the decision taking it away did not condemn the patent tie-in as a *per se* violation of the antitrust laws.

The power to coerce theory was addressed during this period by Justice McKenna in *United States v. United Shoe Machinery Co.*[40] The government, alleging violations of the Sherman Act by United's licensing policy which restricted the use of its patented machines to shoes made using United's other patented machines, contended that these license restrictions had been forced on the licensees.

The Court recognized that the superior quality of United's machines added to its bargaining power; the government contended that it was United's patents which accounted for its ability to force unfavorable terms on licensees. The Court responded to this suggestion of a patentee's power of coercion by stating:

> A patentee is given rights to his device, but he is given no power to force it on the world. If the world buy it or use it the world will do so upon a voluntary judgement of its utility, demonstrated, it may be, at a great cost to the patentee. If its price be too high, whether in dollars or conditions, the world will refuse it, if it be worth the price, whether dollars or conditions, the world will seek it.[41]

United's licenses were held enforceable.

Four years later, in *United Shoe Machinery Co. v. United States,*[42] the same and some new license restrictions were scrutinized under the Clayton Act and held illegal.

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[38] The power of a patentee to coerce acceptance of a tie-in was not considered.

[39] See footnote 26, *supra*.

[40] 247 U.S. 32 (1918).

[41] *Id.* at 65.

[42] 258 U.S. 451 (1922).

> The Clayton Act specifically applies to goods, wares, machinery, etc., whether "patented or unpatented." This provision was inserted in the Clayton Act with the express purpose of preventing rights granted by letters patent from securing immunity from the inhibitions of the act.[43]

The school of thought that the rights of a patentee are specifically limited to those rights expressly granted in the patent laws was reaffirmed in this decision.[44] A careful reading of this interpretation of the Clayton Act language concerning patents shows the Court concluding that it was not the intent of Congress to enact a *per se* rule of illegality to be applied against patents. Rather, they concluded it was the intent of Congress to put patentees on notice that their patents did not grant them *immunity* from the antitrust laws. The *Shoe Machinery*[45] case is also noted for the proposition that a tie-in from one patent to another patent, or in other words a tie-in between legally granted monopolies, is no less offensive to antitrust policy than is a tie-in with only one, or no legal monopolies.[46]

In conclusion, the cases immediately following passage of the Clayton Act evidence a compliance by the Supreme Court with the Congressional mandate that the existence of patents does not render anti-competitive business practices immune from the antitrust laws. These original cases, however, do not support a *per se* power to coerce theory, leaving an examination of the cases cited in *Fortner* to show support for the *per se* rule.

Part V
DEVELOPMENT OF THE *PER SE* POWER THEORY

Having thus traced the historical treatment of patent tie-ins from a time when they were considered legitimate business practice through the Clayton Act, which denied the immunity of patentees from the antitrust laws, the focus of this article will return to its original course. Does the case law preceding and cited in *Fortner*[47] support use of a *per se* rule when the economic leverage of a patentee to coerce a tie-in is before a court?

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[43] *Id.* at 460.

[44] See footnote 35, *supra.*

[45] See footnote 42, *supra.*

[46] Note the analogy between tying a patent to another patent and the block booking of copyrighted motion pictures, (see *U.S. v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)), or to package licensing (see *Zenith Radio Corp. v. Hazeltine, Research, Inc.*, 395 U.S. 100 (1969)).

[47] See footnotes 2 and 3.

In *Carbice Corporation v. American Patents Development Corporation*[48] the Court was asked to decide another contributory infringement question, this time involving patent license conditions and unpatented materials. The American Patents Development Corporation and its exclusive licensee, Dry Ice Corporation, held title to a patent covering a refrigerated transportation package which employed solid carbon dioxide as a coolant. The Dry Ice Corporation was in the business of selling solid carbon dioxide under the trade name "Dry Ice". Each invoice for the sale of "Dry Ice" contained the following notice:

> The merchandise herein described is shipped upon the following condition: That DryIce shall not be used except in DryIce Cabinets or other containers or apparatus provided or approved by the DryIce Corporation of America; and that DryIce Cabinets or other containers or apparatus provided or approved by the DryIce Corporation of America shall be refrigerated or used only with DryIce. These uses of DryIce are fully covered by our Basic Method and Apparatus Patent No. 1,511,306. Granted October 14th, 1924, and other Patents Pending.[49]

Carbice Corporation sold solid carbon dioxide to customers of the Dry Ice Corporation. Dry Ice alleged that the sales were made with the knowledge that the product would be used in transportation packages like those covered by its patent and, therefore, amounted to a contributory infringement. The Court bypassed the issues of patentability and infringement because it felt that no relief could be granted to the plaintiffs.

> Relief is denied because the DryIce Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of upatented material used in applying the invention.[50]

The same rationale was the basis of Justice Brandeis' majority opinion in *Leitch Manufacturing Co. v. Barber Co.,*[51] where a patented method which could only be practiced using unpatented materials was licensed with the requirement that those unpatented materials be purchased from the patentee.

A new defense to the Clayton Act was argued before the Court in 1936 when *International Business Machines Corp. v. United States*[52] was decided. I.B.M. held patents on its computer hardware and on its tabulating cards. The cards had to be punched to fall within the scope

[48] 283 U.S. 27 (1930).

[49] *Id.* at 30.

[50] *Id.* at 33-34.

[51] 302 U.S. 458 (1938).

[52] 298 U.S. 131 (1936).

of I.B.M.'s claims. I.B.M. and three other manufacturers of similar machines had agreed by contract to use a lease for their machines that required the lessee to purchase tabulating cards from the lessor. The government brought suit, alleging that the leases violated the Clayton Act and that the contract between the four manufacturers was void under the Sherman Act. The parties consented to a decree cancelling the contract. I.B.M. argued that the lease terms did not violate the Clayton Act because they did not extend I.B.M.'s monopoly, since a sale of unpunched cards would be a contributory infringement of the patent on punched cards. The Court relied on the "whether patented or unpatented" language of section three of the Clayton Act in rejecting I.B.M.'s argument that since the tied product could fall within one of their patents, the tie-in did not extend their patent monopoly.

The new defense[53] involved I.B.M.'s claim that the lease conditions were necessary to protect the good will of their customers, which good will would be lost in the event of even infrequent malfunctions caused by the use of substandard cards.

> To insure satisfactory performance by appellant's machines it is necessary that the cards used in them conform to precise specifications as to size and thickness, and that they be free from defects due to slime or carbon spots, which cause unintended electrical contacts and consequent inaccurate results.[54]

Nevertheless, the restriction was held to be a violation of section three of the Clayton Act, to which the Court stated there were no exceptions. One consideration which weighed heavily against I.B.M.'s claim that the restriction was necessary was that I.B.M.'s leases with the government contained no such restriction.[55] It appeared from the facts that the inaccuracies in card manufacture which could cause the malfunctions of which I.B.M. complained could be eliminated by following detailed specifications which could easily be provided. I.B.M. was, however, told that it could condition its leases on conformance with the required specifications. The Court did not reach, nor was it presented with a question of the economic leverage conferred by patents.

Ethyl Gasoline Corp. v. United States[56] involved a nationwide licensing program for lead-treated motor fuel. Ethyl held patents on the composition of the fuel additive, the composition of gasoline mixed

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[53] *Compare Jerrold Electronics,* footnote 87, *infra.*

[54] 298 U.S. 131, at 134.

[55] The government did, however, pay a 15% higher royalty for the privilege of not buying its cards from I.B.M.

[56] 309 U.S. 436 (1940).

with the additive, and on the method of using the treated fuel in combustion motors. Ethyl licensed its patents to refiners and jobbers, but did not charge any royalty on the licenses. Instead, Ethyl manufactured the additive itself and sold it to the refiners to be combined with gasoline, thereby deriving its profits from sales of the additive. In the licenses, Ethyl insisted that fuel containing the additive be sold only to licensed jobbers. The licenses also required conformity with certain health regulations, prescribed maximum and minimum octanes for regular and premium gasolines, set the price differential between regular and premium, and conditioned the use of its trademarks. The Court felt that by attempting to exercise control over the actions of the jobbers, Ethyl was attempting to extend its monopoly beyond the first sale in violation of section one of the Sherman Act. The holding of the District Court for the Southern District of New York, which enjoined Ethyl from enforcing the particular license condition that refiners sell lead-treated gasoline only to licensed jobbers, was affirmed. The Supreme Court did state that Ethyl had achieved its dominant position "by the leverage of its licensing contracts resting on the fulcrum of its patents . . ."[57], however, no formal holding nor argument was made on the economic power of patents or their effect on tying arrangements.

Strong public policy precludes the courts from enforcing patent licenses which extend the monopoly to unpatented raw materials. This was the rationale of Mr. Chief Justice Stone's opinions in the companion cases *Morton Salt Co. v. G.S. Suppiger Co.,*[58] and *B.B. Chemical Co. v. Ellis*[59]. The respondent in *Morton Salt* had a patented salt tablet depositor which it licensed on the condition that only its salt tablets, which were not patented, be used with the machine. Since the suit was brought to restrain a direct infringement (the unlicensed manufacture and sale of salt tablet depositors employing the patented invention), the respondent argued that the line of cases refusing to enjoin a contributory infringement (such as selling salt tablets to a licensee to be used with a licensed machine) was inapplicable. This argument was rejected by the Court because:

> Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such a sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent.[60]

[57] *Id.* at 457.

[58] 314 U.S. 488 (1942).

[59] 314 U.S. 495 (1942).

[60] 314 U.S. 488, at 493.

The clean hands doctrine, therefore, applied to any inequitable conduct involving the matter before the court and was not limited to the specific transaction in question. The Court concluded by pointing out that establishment of a Clayton Act or other similar antitrust violation is not necessary for a finding of misuse which will preclude enforcement of a patent.[61]

The factual setting of the *B.B. Chemical*[62] case involved a patented method for reinforcing the insoles of shoes, use of which was allowed by the patentee only to purchasers of unpatented materials sold by it. While there was no specific licensing provision involved, use was in fact restricted to customers of the patent holder, so the Court ruled that the effect was the same as if a license was being employed. The respondent was alleged to have actively induced the infringement of petitioner's patented method. The Court held that "the maintenance of this suit to restrain any form of infringement is contrary to public policy . . ."[63] because of the use of patents in establishing a limited monopoly in unpatented materials.

Neither of the above-mentioned companion cases even discussed the issue of *per se* economic power. Neither could be authority for the *per se* rule suggested in *Fortner II.*[64]

Mercoid Corp. v. Mid-Continent Investment Co.[65] is the last in the series of cases which preceded the four cases cited in *Fortner* as authority for the *per se* proposition. Mid-Continent owned a combination patent on a domestic heating system, on which it granted an exclusive license to Minneapolis-Honeywell. Mercoid, although not in the business of selling or installing such domestic heating systems, did manufacture and sell combustion stoker switches, the only known use for which was as a part of the patented combination. The Court found that the license between Mid-Continent and Minneapolis-Honeywell was being used to prevent the use of any combustion stoker switch in the patented combination which was not "made by Minneapolis-Honey-

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[61] It should be noted that the equitable doctrine of misuse will cease being applied once a patentee had discontinued prohibited conduct. This is a distinguishing factor of the misuse doctrine as compared to an antitrust violation which is not forgiven once discontinued. In an antitrust violation, the act which restrains competition is enjoined; in misuse cases, relief is simply denied without enjoining the anticompetitive conduct.

[62] See footnote 59, *supra.*

[63] 314 U.S. 495, at 498.

[64] See footnote 1, *supra.*

[65] 320 U.S. 661 (1944).

well and purchased from it or its sub-licensees."[66] In this manner, royalties would be collected and measured by sales of unpatented switches used in the patented combination.

Referring to past decisions in both direct and contributory infringement cases, Justice Douglas wrote:

> The Court has repeatedly held that to allow such suits would be to extend the aid of a court of equity in expanding the patent beyond the legitimate scope of its monopoly.[67]

The Court went on to reject the argument that since the combustion stoker switch was a part of the patented combination, Mid-Continent was not expanding its monopoly by basing royalties on an unpatented part. The Court felt that despite the component's part in the combination and its lack of other uses, the licensing policy restricted competition in an unpatented market.

Finding that Mid-Continent had misused its patent, the Court refused to enforce it. There was an indication that the antitrust laws may have also been violated, but the Court remanded Mercoid's counterclaim for treble damages under section 4 of the Clayton Act to the district court.

The *Fortner II*[68] Court pointed to four cases in its analogy to situations where there had been sufficient economic power to coerce a tie-in: in the patent area *International Salt Co. v. United States*[69] was cited; for copyrights both *United States v. Paramount Pictures, Inc.*[70] and *United States v. Loew's Inc.*;[71] and *Northern Pacific R. Co. v. United States*[72] was cited, dealing with extensive land holdings.

International Salt Co. provided that its patent licensees must purchase their requirements of unpatented salt and salt tablets from International, unless a competitor offered the same quality salt at a better price. The government brought a civil action to obtain an injunction against the enforcement of such license restrictions, basing its claim for relief on section 1 of the Sherman Act and section 3 of the Clayton Act. In the case below, the Southern District of New York[73] had granted the government's motion for summary judgment. In af-

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[66] *Id.* at 663.

[67] *Id.* at 665.

[68] See footnote 1.

[69] 332 U.S. 392 (1947).

[70] 334 U.S. 131 (1948).

[71] 371 U.S. 38 (1962).

[72] 356 U.S. 1 (1958).

[73] U.S. v. International Salt Co., 6 F.R.D. 302 (S.D.N.Y. 1946).

firming the decision of the lower court[74], Mr. Justice Jackson emphasized that there was no doubt that the contracts affected a significant amount of commerce. He added:

> By contracting to close this market for salt against competition, International has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws.[75]

The statement is far from a *per se* condemnation; absence of immunity is surely different than *per se* violation. The court also rejected the theory that freedom to purchase like quality products from competitors only at lower prices saved the contracts from being unreasonable restraints of trade, since competitors were being foreclosed from a substantial market.

Northern Pacific Railway Co. v. United States[76] is generally regarded as the decision in which the Supreme Court set forth the test to be employed in all tie-in cases. Northern Pacific had been selling and leasing parts of the extensive territories which the government had granted it as inducement to construct a railroad line. A majority of the contracts and leases contained a "preferential routing" provision in which the buyer or lessee agreed to ship the products of the land using the Northern Pacific, whenever its rates were equal to or better than its competitors. The tying product was land and the tied product was transportation service. The government filed suit under section four of the Sherman Act seeking a declaration that section one of the Sherman Act had been violated. The government's motion for summary judgment had been granted by the lower court.

Justice Black's majority opinion affirming the grant of summary judgement began by stating that tying arrangements are *per se* unreasonable restraints of trade (a requirement of section one), citing *International Salt*[77] as authority. Competition based on power in the tying product market and the elimination of free choice in the tied product market were given as reasons for the *per se* unreasonableness of tie-ins. That did not, however, end the inquiry. The following rule was laid down for determining the illegality of a tie-in.

> They are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a "not insubstantial" amount of interstate commerce is affected.[78]

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[74] See footnote 69, *supra*.

[75] *Id.* at 396.

[76] See footnote 72, *supra*.

[77] See footnote 69, *supra*.

[78] 356 U.S. 1, at 6.

Thus, even in *Northern Pacific* where the tying product was land, something which has historically been considered unique, the Court nevertheless required an evaluation of the seller's economic leverage.

Northern Pacific contended that the *International Salt* case should not be dispositive of the issue because the tying product there was patented. The Court interpreted the significance of patents in the *International Salt* case as follows:

> In arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful despite the fact that the tying item was patented, not because of it.[79]

Finally, in footnote 8 of the majority opinion, the Court specifically addressed and rejected the theory that requisite economic power or leverage may be presumed from the existence of a patent on a tying product.

> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.[80]

Justice Harlan's dissent was aimed at the majority's interpretation of *International Salt,* suggesting that the majority had been too lax in its comparison of the uniqueness of land and the uniqueness of patents. The dissenters felt that further inquiry into the unique nature of Northern Pacific's landholdings should have been made, in light of what they believed was an inadequate record. They suggested that *International Salt* mandated that a patent is the equivalent of market control. Neither *Northern Pacific* nor *International Salt* supports the *per se* power theory.

The *Paramount*[81] and *Loew's*[82] cases involved block booking of copyrighted motion pictures, for exhibition in theatres in the former and on television in the latter. Block booking entails offering only packages of films for sale or lease, as opposed to offering each film individually. Supposedly, in this manner, the monopoly of controlling the copyright of higher quality of films can be transferred to lesser quality films by refusing to vend them individually. The fact that the tying film is copyrighted and can be obtained only from the seller is con-

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[79] *Id.* at 9.

[80] *Id.* at 10.

[81] See footnote 70, *supra.*

[82] See footnote 71, *supra.*

sidered to be evidence of leverage to coerce acceptance of the less desirable, tied film, regardless of the fact that it is also copyrighted. *Paramount* was merely an application of the supposed patent theory to copyrights. All that was held illegal was the refusal to license one or more copyrights unless another copyright is accepted. If the patent theory did apply, then why would there be any need to coerce acceptance of the other copyright? Since all copyrights are unique and are monopolies, and if desirability follows from that uniqueness, then all copyrighted works would, therefore, be equally desirable and there would be no need for a tie-in.

In *Loew's,* after stating the test of illegality from *Northern Pacific,* Justice Goldberg went on to say:

> Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.[83]

He then asserted that "the requisite economic power is presumed when the tying product is patented or copyrighted"[84] and cited *International Salt* and *Paramount* as authority for a *per se* rule:

> This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent.[85]

The language "denied all relief" illustrates the Court's misreliance on a line of unclean hands cases as support for a *per se* illegality rule in antitrust.

Finally, the "new industry" defense must be discussed. The availability of specifications capable of being followed by manufacturers other than the patentee was a crucial distinction in the *I.B.M.*[86] case, since in *United States v. Jerrold Electronics Corp.*[87] a similar defense to an alleged Sherman Act violation was accepted. Jerrold held a patent on a community television antenna system, which was considered to be a pioneer invention. Not only did Jerrold require that the entire system be purchased from it (the system consisting of several components), but it also required that all service be performed by it. Despite a finding that there was a tie-in, the Court could not find a violation of the antitrust laws because in such a new industry it was impractical to provide sufficiently detailed specifica-

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[83] *Id.* at 45.

[84] *Id.* at 45.

[85] *Id.* at 46.

[86] See footnote 52, *supra.*

[87] 187 F.Supp. 545 (E.D. Pa. 1960), Affirmed per curiam, 365 U.S. 567 (1961).

tions for outside manufacture and servicing. The potential for damage to reputation which would follow from improper servicing by others was held a valid defense. The Court did caution, however, that as the industry further developed the need for such restrictions to protect goodwill would disappear.

The concept of ability to provide adequate specifications was tested in the trademark area in *Siegel v. Chicken Delight, Inc.*[88] Seeking to protect the distinctive quality of its trademark, Chicken Delight required licensees to purchase cookers, fryers, packaging, and mixes from it. The court held that since each of the tied items was capable of being adequately specified for production by manufacturers other than Chicken Delight, the defense of protecting good will would be to no avail. It was mentioned that a different result could be expected if providing others with the necessary specifications would result in the divulgence of a trade secret.

At this point, all of the cases relied on in *Fortner II,* and even the cases before them have been discussed. *Nowhere* has the Supreme Court held, in a tie-in case involving a patented tying product, that the economic power or leverage to coerce a tie-in, as required by *Northern Pacific,* may be presumed from the existence of the patent.

A recent case in the line of patent misuse interpretations by the Supreme Court is *Dawson Chemical Company v. Rohm and Haas Company,*[89] decided on June 27, 1980. There, the Court held that the refusal by Rohm and Haas to license its competitors to use its patented process covering use of the chemical propanil as a herbicide, while at the same time granting implied licenses for the same patent to its customers for propanil, did not constitute patent misuse and was not a tie-in between the patented process and the unpatented product. The case includes a detailed analysis of the contributory infringement and patent misuse doctrines, paying particular attention to the language and legislative history of 35 U.S.C. §271. Propanil was stipulated to be a nonstaple article (in other words, an article of commerce with no substantial uses which would not infringe the patent). The Court concluded:

> In our view, the provisions of section 271(d) effectively confer upon the patentee, as a lawful adjunct of his patent rights, a limited power to exclude others from competition in nonstaple goods.[90]

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[88] 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972).

[89] 100 S.Ct. 2601, (1980).

[90] 100 S.Ct. 2601, at 2615.

The Court did not find misuse in tying the sale of propanil with the implied license to practice the patented process. The petitioners efforts to establish misuse by this alleged "tie-in" was unsuccessful, as the Court could not find any improper extention of the patentee's rights.

Part VI
SUMMARY AND CONCLUSIONS

There is no doubt that tying arrangements involving patents were a commonly accepted business practice at the turn of the century. Their use was considered to fall within the bounds of the patent monopoly, and, when so used, the Supreme Court refused to extend the scope of the Sherman Act to condemn them. Congress reacted by passing the Clayton Act, prohibiting the lessening of competition through conditioning the sale of goods on a future purchase or agreement not to purchase other goods, whether the items involved were *patented or not.* Case law responded to the Congressional mandate condemning tie-ins, and in many instances relief was denied to patentees in infringement suits because their tying practices offended public policy. Finally, in *Northern Pacific,*[91] the Court prescribed a two pronged test for determining the existence of an arrangement unreasonably in restraint of trade; namely that there be sufficient economic leverage to coerce acceptance of a tie-in and that there be significant market impact.

The Supreme Court, in its *Fortner*[92] decisions has suggested that established precedents in the case law eliminate the need for finding economic leverage where a tying product is patented, because patented products are unique, and unique things require no additional leverage to coerce a tie-in. It remains to be considered whether the precedents relied on actually support the *per se* power theory, and, finally, regardless of whether they are supportive, if a *per se* power theory is in fact justified and should be the law.

Turning first to the precedents relied on in the *Fortner* decisions, both *International Salt*[93] and *Northern Pacific*[94] specifically do not support a *per se* finding of economic leverage based on the tying product being patented. The quoted language[95] from *Northern Pacific*

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[91] See footnote 72, *supra.*

[92] See footnotes 1 and 2, *supra.*

[93] See footnote 69, *supra.*

[94] See footnote 72, *supra.*

[95] See footnote 79, *supra.*

makes it clear that the two part test was intended to be applied in all cases, regardless of the existence of patents. The *Paramount*[96] decision was specifically limited to cases where copyright licenses are conditioned on the additional acceptance of other copyright licenses. *Northern Pacific* was decided ten years after *Paramount,* and its language is specific enough to dispel any doubt that the two pronged test was intended to be applied as the overriding rule in all subsequent tie-in cases.

It is the *Loew's*[97] decision which presents the most interesting problem. Justice Goldberg based support of a *per se* power theory on a line of cases which involved misuse, or the equitable doctrine of unclean hands — not on a line of cases in which antitrust violations had been found. The following diagram (FIG. 1) is provided to illustrate the difference between application of the misuse doctrine and finding of an antitrust violation. FIG. 1 also shows where in the range of legality to illegality some representative cases fall.

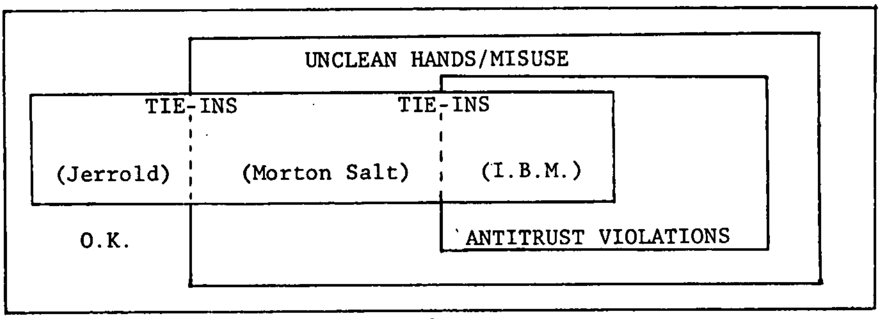

FIG 1

The reliance of the *Loew's* court was misplaced. A court of equity may deny relief to any party that does not come before it with clean hands. If a party's conduct with respect to the events involved in the suit were offensive to public policy, it is within the discretion of the court to deny equitable relief to that party. Note, that this is in the *discretion* of the court and is, therefore, not subject to the usual standards for burden of proof and burden of persuasion (such as "beyond a reasonable doubt" in criminal cases). Such discretionary decisions are also not subject to the same standard of review on appeal, and must be proven clearly erroneous.

[96] See footnote 70, *supra.*

[97] See footnote 71, *supra.*

Referring to FIG. 1, if a party is guilty beyond a reasonable doubt of an antitrust violation, that party's actions were contrary to public policy and any equitable relief would be denied. All antitrust violations fall within the doctrine of unclean hands. The cases studied have shown that some tie-ins will be antitrust violations (e.g., the *Shoe Machinery* case), and some will not (e.g., *Morton Salt*). Some tie-ins would not even fall within the unclean hands doctrine (e.g., *Jerrold Electronics*), despite the fact that a patent was involved.

How then, can a series of cases which decided only misuse (which is a discretionary finding of the court not subject to the strictest evidentiary standards), cases in which antitrust violations were not even at issue, be used as precedential justification for a *per se* rule in the determination of antitrust violations? Such precedent should not be sufficient basis for a *per se* rule to charge a patentee with antitrust violations. The two pronged test should be applied with its intended scope, to the facts in each tie-in case, whether the case involves patents or not. The case law cited in *Fortner* does not support the *per se* power theory.

An example of the fallacy in the Court's argument that uniqueness of a patent confers economic power, is the suggestion that there could ever be a need to tie a patent to another patent, or a copyright to another copyright. If the assumptions about economic power and uniqueness are true, such a suggestion is self-contradictory. Since each patented or copyrighted item is supposedly presumed, by virtue of its statutorily required uniqueness, to have sufficient economic power to coerce a tie-in, the so-called tied item in these cases would also have the same desirability to consumers and the same economic power as the alleged tying item. Why would there be any need for a tie-in in the first place? There must be some reason why one is tied to the other and not vice versa. The presumption must be incorrect, as recognized by Judge Orrick in *In re Data General Corp. Antitrust Litigation.*[98]

Is the *per se* power theory supported by logic? Do all things which are unique command sufficient economic leverage to coerce a tie-in?

There are many items which, although considered unique, would surely not be said to have economic leverage. Consider a world record for standing on the corner of Main Street and Elm, on one foot, while hopping up and down, juggling oranges, and whistling "Dixie", on a Thursday afternoon, in the rain. Such a record would certainly be considered unique. It would also be considered much too limited to be of any

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98 490 F.Supp. 1089 (N.D. Cal. 1980).

value. What about a combination toothpick — hairbrush — mop — hammer — knife — and desk lamp? Assuming that the requisite utility, novelty, unobviousness, and invention had been proven and that a patent had been granted on it, would the holder of this unique patent have the power to coerce any buyer to accept a tie-in? Regardless of its uniqueness and patented status, such an item does not possess great economic leverage. Admittedly, the chosen example is extreme, but it is intended to prove the following important point.

The granting of letters patent is conditioned on the acceptance of certain limitations in the claims; limitations which distinguish the invention from the prior art. These limitations set the boundaries of the patent monopoly so that only what has actually been invented is protected. Many times such limitations reduce the subject matter covered by a patent to almost a nullity. Many patents, as has been pointed out by the Supreme Court itself[99], are limited to a specific improvement, greatly narrowing the scope of the patent. Yet, the proponents of the *per se* power theory would have the courts condemn all patents as possessing the requisite power, regardless of their scope, solely because all patents are presumed unique. This is no more acceptable than a *per se* rule applied to the world record or the device referred to earlier. It is not always uniqueness which confers the power to coerce. It is need which provides the fulcrum for coercing a buyer to accept a tying arrangement, and possession of goods to fit the buyer's needs which provides the force to tip the scales.

Why is it that a seller can include a tying provision in a contract? Why does a buyer accept it? In order to remain profitable, a business must seek out and accept only the best available deal. There are two circumstances in which a rational business decision to enter a tying arrangement will be made. In the first, the typing product has no fungible substitutes and is so essential to the business that the only choices are to accept the tying condition or find a new line of business. In the second circumstance, the tying product is not essential to the business or there are fungible substitutes available. Here, the tying agreement is entered because it is the best deal which can be found. In either of these two circumstances the tying product could be patented without affecting the result. The *per se* power theory as applied to patented tying products is not logically consistent.

Where the form of an invention is such that it is impossible to measure the amount of use made of that invention, use of a tie-in to an unpatented component is a reasonable counting mechanism for col-

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[99] See footnote 80, *supra*.

lecting royalties. It has been pointed out that without such an ability to measure royalties on the amount of use, a single royalty would have to be charged to both large and small users. This may make the use of that invention economically infeasible to the small user and prevent the most efficient and widespread use of new technology.

In short, as was acknowledged in *Jerrold Electronics*[100], there are some valid uses of the tying mechanism, uses which do not offend, but, in fact, further the goals of public policy. Where the only method of collecting royalties on an invention has been declared *per se* illegal, an important incentive to obtaining patent protection for such an invention will be lost. If possible, the trade secret route will be chosen. It must not be forgotten that 200 years ago, in the Constitution[101], the encouragement of progress in the arts and sciences was declared to be our national public policy.

In conclusion, our courts owe the inventors, authors, and entrepreneurs of our nation the consideration of reviewing antitrust actions involving their legally acquired monopolies on the same case-by-case basis which is used to review the activities of litigants who have not disclosed their inventions, writings, and other contributions to the public.

Since a patent does not necessarily wield economic power, and since coercion is not the only explanation for acceptance of a tying arrangement, the interests of justice require any court faced with an alleged illegal tie-in, *whether patented or unpatented,* to examine the economic power of the alleged tying product on the facts of the case at bar, and *not* to employ a *per se* rule.

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[100] See footnote 87, *supra.*

[101] Article I, Section 8, Clause 8.

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AND JUDITH GIRE NORCROSS**

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COMMENTARY

Why Not Patent Law

[This item quotes a letter commenting on an earlier submission by Professor Field to IDEA.]

I noted with interest your short commentary at page 194 of Volume XXI, No. 4, of IDEA. This volume just reached my desk, a circumstance which suggests that others of my partners higher up our circulation list find much in IDEA to interest them.

Your comment asks why a perceived vast majority of technically trained lawyers end up practicing patent law. In my case, I believe the answer lies in the second part of point 3 of your comment, namely, that technically trained lawyers find patent law to be more interesting a field of practice than they would find doing something else.

Perhaps a case history (myself) will help explain my position. I graduated in 1958 from Webb Institute of Naval Architecture, Glen Cove, Long Island, New York, with the degrees of B.S. in naval architecture and marine engineering. Even though my uncle had for years been Chief Patent Counsel to the Glidden Company, I had no thought in 1958 of becoming a patent lawyer. Instead, I entered the employ of American Shipbuilding Company in Cleveland, Ohio; I do not remember the job description and I did not much care. I joined American Ship for a number of reasons including 1) I had previously worked for American Ship on two separate occasions while attending Webb Institute and knew and liked the company, and 2) Cleveland was not that far from Toledo where I had been born and raised. On balance, I quite enjoyed a short post-graduate employment experience with American Ship. I left the employ of American Ship voluntarily in the fall of 1959 because I sensed that, due to the doldrums then affecting the Great Lakes maritme industry, I would soon be laid off. (Others who had been employed by American Ship longer than I were already beginning to receive pink slips.)

For reasons which seemed good and convenient at the time, I took the position of law clerk to a sole practitioner patent attorney (Hugh A. Kirk) in Toledo, Ohio. The same day I joined Mr. Kirk I enrolled in law school at night at the University of Toledo. Guess what? I found working in a patent law office to be fascinating. On the other hand, the trauma of an engineer entering into law school was something else and is the subject of a whole different letter; I have definite thoughts about how an engineer entering law school should be briefed.

In February 1961, with Mr. Kirk's blessing and encouragement, I joined Christie, Parker & Hale, Pasadena, California, as a law clerk, and simultaneously transferred to the College of Law, University of Southern California, again at night. I am now a partner at Christie, Parker & Hale.

I have been involved in patent law, first as a law clerk, then as an associate, and now as a partner, for almost 23 years. I have found the experience to be intellectually stimulating, professionally challenging, economically rewarding and, most importantly, an awful lot of fun. Like most who do so, I entered engineering school because I had the academic aptitudes and found matters technological to be of considerable interest. While I do not know where fate and circumstance would have led me as an engineer, I am happy that I found my way, largely along the path of least resistance, into patent law. I enjoy patent law because, almost by definition, I am working at the forefront of technology. I am fortunate in that my present clientele includes corporations and individuals with whom my engineering background is directly in point. My education in technology continues; whereas before I learned the theory behind pertinent technology in academic surroundings, now I learn from them (clients) both a pertinent technology in general and in detail in the context of their specific interests. I find it particularly challenging to take a new development presented to me in a specific context of the problem and environment in which it was created, to analyze it for its general application, and to describe it and claim it in a patent application which I hope makes the development understandable to a reader of limited familiarity with the pertinent technology. I also greatly enjoy the give-and-take dialog with patent examiners during the prosecution phase of a patent application. In the latter activity, I win some and I lose some. Fortunately, more of the former than the latter. I should also note that, with very few exceptions, I have found the members of the Patent Office examining corps to be professionals seriously concerned with doing the best job they can under difficult circumstances, and I respect them while I enjoy working with them in support of the public interest to which the patent system is addressed.

As my practice has matured, I have become increasingly aware of and involved in the business affairs of my clients. This, too, I find to be most interesting. I especially enjoy licensing activity; each license situation is unique and has its own technological and economic dynamics. I especially enjoy licensing because, as opposed to prosecution practice where the patent attorney functions largely as a scribe and technical writer, in licensing I can be innovative and creative to the benefit of my client. There is more of a people aspect to licensing with a different set of problems and a different measure of satisfaction for a successful result.

I entered engineering, among other reasons, because I wanted to see new things from the inside. I get that in spades as a patent lawyer. I never know what an existing or new client is going to bring to my attention, and so every day starts with the prospect of something new and challenging. A surprising percentage of my days bring me something new to be amazed about, to be interested in, and for this I am considerably grateful to my clients.

Point 3 of your comment postulates that "patent attorneys make more money". I really don't know about that, and I am not sure I really care. The economic rewards of being a patent lawyer are more than adequate in my case, but I am not sure your remark is true across the board. In any event, mere money without the intellectual challenge, personal relationships with clients and satisfaction of accomplishment of a job well done, whether or not you win, would make mere money a rather hollow reason for being a patent lawyer. I know very few patent lawyers who are in this practice merely for the money, and they stand out in a light I do not find flattering.

From time to time as a patent lawyer, I have varying contacts with other technologically oriented aspects of the practice of law such as products liability and customs law as it pertains to technology and other topics. While those are interesting areas, successful practice in those areas, in my perception, does not require daily application of technical knowledge and background as does patent law. For example, in view of my technological background, I have often been asked why I did not go into admiralty law. I have a good friend who is not an engineer who is a very good admiralty lawyer. In my judgment, admiralty law does not require a technical background except in occasional instances where the necessary technical expertise is readily available in the person of experts. Perhaps your concern that "too large a percentage of a precious resource is diverted to patent practice" could be more meaningfully addressed by increased recognition by the non-engineer lawyers in other law/science areas that patent lawyers of suitable technological background are available as resources, perhaps of a co-counsel nature, in these other areas. Alternatively, perhaps too few engineers understand what they can do in the law, and so do not enter law school. In any event, we have found it difficult to locate and hire qualified associates. Maybe patent law is the area which is in greatest need of technically trained lawyers, and so absorbs those few available whereas, if there were more technically trained lawyers, both the needs of patent law and other areas could be satisfied.

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FORMALITIES IN PERSPECTIVE (35 U.S.C. 112)

Examiners are instructed (MPEP 706.03) that a determination whether or not claims define a patentable advance over prior art should not be relegated to a secondary position while undue emphasis is given to non-prior art or "technical" grounds of rejection. Examination of an application should be concentrated on truly essential matters, minimizing or eliminating effort on technical rejections which are not really critical.

There are actually two distinct aspects to consider with regard to the application of formal grounds of rejection. One aspect involves the necessity of making any particular formal ground of rejection in order to assure that a resulting issued patent will reasonably satisfy what appear to be basic prerequisites for promoting progress. The other aspect is equally significant; it places into question whether the nature and/or number of formal grounds of rejection applied against any set of asserted claims might involve harassment and thus be in direct conflict with the previously-noted Constitutionally expressed intent.

The cited section of the MPEP appears to suggest that only material formal grounds of rejection should be applied and, when applied, should be clearly explained:

> Where a major technical rejection is proper (e.g., lack of proper disclosure, undue breadth, utility, etc.) such rejection should be stated with a full development of the reasons rather than by a mere conclusion coupled with some stereotyped expression.

The cited terminology should be adequate instruction to limit formal grounds of rejection to those instances wherein a disclosure or claims are beyond any reasonable satisfaction of requirements of 35 USC 101 or 35 U.S.C. 112. Formal grounds of rejection should never be used as a substitute for examination and/or search.

In a single Office action (see the file of U.S. patent 4,279,918) issued on March 3, 1978, twelve claims were withdrawn from consideration pursuant to a telephone election-of-species requirement, two claims were indicated as allowable and the remaining twenty-eight claims were rejected under the first two paragraphs of 35 U.S.C. 112 as follows:

Paragraph 1

A) Inadequate enabling disclosure as to how to make and use.

B) No reasonable assurance compounds embraced by claims possess asserted utility. *In re Surrey,* 151 U.S.P.Q. 724 (C.C.P.A. 1966).

C) No community of common properties in intended use is shown. *In re Fouche,* 169 U.S.P.Q. 429 (C.C.P.A. 1971).

D) Disclosure on uses is speculative. *In re Wiggins,* 174 PQ 44 [179 U.S.P.Q. 421 (C.C.P.A. 1973)].

E) There is inadequate support for the sources of starting materials. *Ex parte Moersch,* 104 U.S.P.Q. 122 (P.T.O. Bd. App. 1955), and *Ex parte Haas,* 188 U.S.P.Q. 374 (P.T.O. Bd. App. 1975).

F) There is inadequate support for pyrrolidinium compounds nowhere exemplified.

Paragraph 2

A) Indefinite in expressions "aliphatic", "hydrocarbyl", "aralkyl", "substituted aralkyl", "monosubstituted amino", "disubstituted amino", "substituted phenyl", "optionally. . .aralkyl" and "optionally substituted phenyl".

B) The number and arrangement of these and other variable substituents is indefinite.

C) Claim 2 is indefinite in the expression "physiologically active".

D) Claim 5 fails to set forth a carrier and is thus a substantial duplicate of Claim 1 [Rule 75(b)].

E) The antecedency for Claims 4 and 5 is nowhere apparent in Claim 2.

F) The expression "acid addition salt" is indefinite. *Ex parte Reed,* 135 U.S.P.Q. 34 (P.T.O. Bd. App. 1961).

There is something basically wrong with the manner in which the first two paragraphs of 35 U.S.C. 112 are applied to generic claims. The first paragraph states:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor for carrying out this invention.

It is particularly important to note what that paragraph does not state. It does not state that the specification shall contain a written description of each and every possible embodiment of the invention, and of the manner and process of making and using each such embodiment.

There is no known authority for interpreting the statute to require the type of disclosure which would explicitly support separate claims to each and every possible embodiment of a claimed genus. One purpose of using generic language is to avoid the necessity of having to enumerate all possible species. The PTO is extremely critical in other contexts of verbosity, even when there may be substantial reasons for detailed explanations. When a generic invention is claimed, the ultimate issue should be whether the disclosure makes the genus substantially available to the public by teaching what the genus is, how to make it and how to use it in a manner which substantively places the genus (not necessarily every possible species thereof) in possession of those of at least ordinary skill in the art to which the claims and disclosure are directed.

Nothing is found in the first paragraph of 35 U.S.C. 112 that requires an applicant to provide "reasonable assurance" that all compounds embraced by the claims possess the asserted utility. The onus, rather, appears to be on the other foot; if there is really basis to conclude that the asserted utility is unbelievable on its face, the PTO should support such a position in order to shift any burden in that regard to an applicant. Unsupported allegations by the PTO that disclosed uses are speculative neither advance prosecution nor promote progress; they do no more than waste an examiner's time and an applicant's money.

Rejections which are allegedly, but improperly, based on the cited *Moersch* case seem to be appearing with increased frequency. The *Moersch* case had a claim specifically defining a process for preparing a stated compound from a defined starting material. What is significant to the decision reached by the PTO Board of Appeals is that no embodiment of the indicated starting material was known prior to Moersch's filing date. The following text appears in this opinion:

> Appellant does not seriously assert that the starting material named in the present application was known to or available to the public prior to the filing date of the present application and it is not asserted that the material could be easily prepared from the identification thereof, in the original specification taken with the expected skill of the art.

In that particular case the essence of the holding was that the disclosure completely failed to make any embodiment of the invention available to one of the ordinary skill in the art; it thus lacked the necessary enablement of the first paragraph 35 U.S.C. 112.

In the exemplary case the PTO's position was amplified in a subsequent Office action wherein the PTO selected specific possible embodiments (of a substantial claimed genus) which were alleged to require unavailable starting materials. The corresponding final products were not expressly enumerated in any claim. The invention was not the specific compounds selected by the PTO for making this ground of rejection; it was in a genus, clear enablement for which was substantially provided by an extensive disclosure. Just because some small percentage of contrived encompassed structures may not have corresponding known and available starting materials does not mean that a specification lacks the requisite written description of the invention. Neither the time to devise and write such grounds of rejection nor that required to respond thereto should be permitted to encumber patent prosecution. When an invention is in a genus, the disclosure should be regarded as adequate if the teaching is sufficient to enable one of ordinary skill in the art to make and use at least one embodiment of each and every recited variable.

Amplification of the PTO's position was provided in a subsequent Office action that read, in part, as follows:

13 Claims 1-22, 44 and 45 are rejected under 35 USC 112, paragraph 1, as having inadequate description as to how to make and to use. Sources of starting materials wherein R is, for example, adjacent various sterically hindered tertiary alkyl such as t-butyl or other sterically hindered groups as in 2, 6 diodo phenyl or 2, 3, 4, 5, 6 penta phenyl, etc., are nowhere shown. *Ex parte Moersch,* 104 USPQ 122, and *Ex parte Haas,* 188 USPQ 374. Applicants' urging that showing sources for the starting materials places an undue burden upon applicants is not understood.

14 Applicants' failure to disclose sources of starting materials does not place a burden upon applicants but upon the public who is to benefit from applicants' disclosure. The pertinent decisions clearly recognize this. *Ex parte Moersch, In re Haas, supra,* and *In re Ekenstam,* 118 USPQ 349. The claims do not represent an invitation to experiment. *United Carbon Co. et al v. Binney et al,* 55 USPQ 381.

15 There is inadequate description of how to make and use compounds wherein the expression "substituted" is used, as all manner of substituents such as poly nitro or poly peroxy which are unstable and explosive, or azido, amino, etc., which are reactive, or arseno, etc., which are toxic, are all embraced.

16 There is inadequate description of "aliphatic hydrocarbyl" inclusive of triacontyl and other long chain alkyl, polyalkenyl, etc., alicyclic (aliphatic cyclic?) which is not defined but presumably inclusive of cycloalkenyl, etc., nowhere shown.

17 There is inadequate description of how to make and use compounds embracing the term "aralkyl", "alkoxy", etc., inclusive of triacontyl and other high molecular weight alkyls nowhere shown. The expression "acyloxy" is inclusive of not only acyl groups derived from all manner of carboxylic acids, but alkyl phosphonic alkyl sulfonic, etc., acids, as well nowhere shown. The term "halo" is inadequately described as per fluoro and mixed halo substituents are nowhere described.

18 The expression "substituted amino" includes not only alkyl amino, but all manner of moieties thereon such as azido peroxy, etc., and any other carbon containing moiety saturated or unsaturated such as alkenyl, alkynyl, etc., similarly substituted, nowhere shown.

19 There is also inadequate description as to how to use alkyl pyrrolidinium compounds as quaternary ammonium compounds cause paralysis. See Burger article attached.

20 Applicants have urged that mere description or mention or definition constitutes exemplification as to how to make and use. Mere naming, however, is inadequate description (*In re Wiggins,* 179 USPQ 421) and constitutes merely speculation that the named compounds can in fact be made and used.

21 There is inadequate description of "acid addition salts", as all manner of salts, i.e., fulminates, arsenates, perborates, etc., which would be explosive or highly toxic are embraced and whose use is nowhere shown.

22 There is inadequate descriptive support for the Markush group of compounds claimed. *In re Fouche,* 169 USPQ 429, and *In re Surrey,* 151 USPQ 72.

23 There is no community of common properties shown for compounds described by "substituted", as what is and what is not embraced thereby is not defined.

24 There is inadequate descriptive support for a community of common properties for compounds having broadly defined moieties such as aliphatic hydrocarbyl, alicyclic hydrocarbyl, cycloalkyl alkyl, acyloxy as well as for substituted aralkyl, monosubstituted amino, disubstituted amino and substituted phenyl in the utilities urged.

25 Applicants' contention that the *Fouche* and *Surrey* decisions are not controlling is unpersuasive, as the issue of inadequate descriptive support for use of the Markush group of compounds claimed as evident. A generic disclosure of utility is not evidence of a community of common properties but the mere allegation they would have such properties.

26 The utility of alkyl pyrrolidium compounds is clearly "unbelievable", as they would be expected to be paralysis-causing agents, as shown by Berger.

27 The expression "substituted" compound and other members whose preparation, and sources of starting materials are nowhere described, are certainly not shown to be having "a community of common properties". If the Markush claims embrace compounds which could not have been made or whose source of starting materials are not known or shown, they clearly are not an adequately described Markush group with a community of common properties.

28 Claims 1-24, 44 and 45 are rejected under 35 USC 112, paragraph 2, as indefinite. The expressions "aliphatic hydrocarbyl", alicyclic hydrocarbyl", cycloalkylalkyl, aralkyl and alkyl where the number of carbon atoms is nowhere defined is indefinite.

29 The term "substituted" is indefinite, as the number and type of substituents is not indicated.

30 In claim 2, the functional preamble "physiologically active and pharmacologically active" does not in any way define the compounds. It is thus a substantial duplicate of claim 1. Rule 75(b).

31 There is no antecedent in claims 1 or 2 for "pyrrolium" or "acid addition salts" of claims 4 and 5.

32 The expression "acyloxy" is indefinite, and it is not apparent what is intended to be embraced thereby. "Lower" is indefinite, as the upper limit of carbon atoms is not set forth.

33 In claim 44, the term "radical" is indefinite and redundant. *In re Barr,* 170 USPQ 330.

34 The expression "acid addition salts" is indefinite, as it is inclusive not only of pharmaceutically acceptable salts but those whose pharmaceutical acceptability is nowhere shown. Thus *Ex parte Reed et al,* 135 USPQ 35, is on point and properly cited.

It clearly reveals an approach which serves virtually no useful purpose and which greatly encumbers the entire patent process. In this particular case both the number and nature of formal grounds of rejection may well be regarded as abhorrent examples of what is condoned. A decision on petition merely noted:

> It is the policy of the Patent and Trademark Office to *not* place undue emphasis on non-prior art rejections. MPEP 706.03. Nevertheless, the review of any specific rejection is an appealable matter, not a petitionable one. The mere number of rejections made under 35 USC 112 does not involve any clear abuse of discretion by the Examiner under the circumstances of this case.

At one time the PTO provided an authority to review the work product of examiners without having to take an appeal to the PTO Board of Appeals. Such review is no longer available for work of examiners with signatory authority, and even those practices which may be regarded as unnecessarily harsh apparently can be accorded only limited review. Examination of this aspect of our practice may well be in order.

The second paragraph of 35 U.S.C. 112 appears to be very simple on its face:

> The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the Applicant regards as his invention.

Nothing is found in this condition which excludes claiming a generic invention, no matter how broad. We are repeatedly told by case law that the key to this paragraph is whether anyone of ordinary skill in the art can tell whether a particular embodiment is or is not encompassed by a particular claim. If one can make this determination, the definition meets the requirements of this paragraph. We are also warned that it is what the applicant regards as his invention and not what the PTO perceives such invention to be. Case law further explains that breadth is not to be confused with indefiniteness, although broad terms can be indefinite, they are not necessarily so.

Thus, terms, such as aliphatic, hydrocarbyl, aralkyl, substituted aralkyl, substituted amino, etc., provide the necessary definition so long as they satisfy the noted test.

Application of the first two paragraphs of 35 U.S.C. 112 may well involve a basic understanding of the nature of the invention. Those minutiae that do not go to the essence of what an applicant regards as his invention should not be used as a basis for formal grounds of rejection. Returning to MPEP 706.03, such grounds of rejection should be truly limited to major technical deficiencies which preclude the specification and claims from serving their intended purposes. When the description in claims is no broader than corresponding terminology used in the specification to teach how to make and how to use the invention, the first paragraph of 35 U.S.C. 112 should be regarded as satisfied in the absence of some extreme and unusual circumstance. Likewise, when that which is claimed corresponds to the applicant's statement of what his invention is and one of ordinary skill in the art can tell whether a particular embodiment is encompassed by any claim, the requirements of the second paragraph of 35 U.S.C. 112 should be regarded as satisfied in the absence of some extreme and peculiar circumstance. The PTO should not waste its time with formal nitpicking. Goals for reducing backlog and reducing the work load of the PTO Board of Appeals would undoubtedly be greatly facilitated if this encumbrance on our practice were completely eliminated or at least severely reduced.

Berman, Aisenberg & Platt
Washington, D.C.

ANNOUNCEMENT

The Judges of the United States Court of Claims and the United States Court of Customs and Patent Appeals have determined that members of the bars of the respective courts will be admitted without charge to the bar of the United States Court of Appeals for the Federal Circuit as of October 1, 1982.

Members desiring admission should write:

Admissions Clerk
U.S. Court of Customs and Patent Appeals
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Washington, D.C. 20439

Members desiring a CAFC Certificate should enclose a check for $10.00 payable to "Clerk, CCPA".

ENVIRONMENTAL AND OCCUPATIONAL HEALTH REGULATION AND THE NEW FEDERALISM: PRELIMINARY OBSERVATIONS*

GARY C. MARFIN, B.A., M.A.**
CHRISTOPHER H. MARRARO, M.Sc., J.D.***

> I have never been more struck by the good sense and the practical judgment of the Americans than in the manner in which they elude the numberless difficulties resulting from their federal constitution.
>
> Alexis de Tocqueville

The Reagan Administration, since it assumed office in 1981, has been steadfast in its determination to limit the size and role of the federal government and therewith to alter significantly the relationship between federal and state government. This goal and the specific proposals that are intended to bring it to fruition is what is commonly meant by the term, the New Federalism. While there are many items in the New Federalism package, one of the most significant is the proposal to reduce the role of the federal government, and enhance that of the states, in the development and implementation of environmental and occupational health regulations and programs. In a recent statement before Congress[1], the Assistant Secretary of Labor for Occupational Safety and Health, Thorne G. Auchter, stated that, "In the area of state programs, we will take appropriate action to address the problems standing in the way of final certification of effective state safety and health programs." Similarly, the Administrator of the En-

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*The viewpoints expressed in this paper are those of the authors and not necessarily those of the organizations with which these authors are affiliated. The authors thank Walter M. Gawlak for his comments on an earlier version of this paper.

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1 Statement of Thorne G. Auchter before the Subcommittee on Investigation and General Oversight and the Subcommittee of the Senate Committee on Labor and Human Resources, September 23, 1981.

vironmental Protection Agency, Anne M. Gorsuch, in a letter[2] to the Office of Management and Budget Director, David Stockman, affirmed that, "The President's objective and mine is to simplify our relationships with the state and local governments and provide real incentives other than money for the states to fully implement each statute."

Although the Administration is convinced that it is both necessary and feasible to reduce the federal presence in environmental and occupational health matters, some of the interest groups that would be directly affected by a diminished federal presence remain skeptical. Environmental groups fear that states will be inactive; that states will be reluctant to enforce and enact environmental health regulations. Industry organizations with multi-state operations fear that states will be only too active; they are concerned that "fifty different sets of regulations" await them if the federal government abandons the field. At the state level, administrators complain that they are already burdened with a number of politically sensitive decisions and that they hardly need more. Finally, members are to be found in each group that question whether the states possess the requisite level of technical expertise to fill adequately whatever vacuum the withdrawal of federal involvement may create.

These are legitimate concerns and they merit the serious attention of interested scholars. These concerns, however, cannot be fully evaluated until the Administration's proposal is more clearly developed. At present, the New Federalism is more a pledge than a policy. Although proposals exist in each of the Agencies for increasing the participation of states and decreasing the involvement of the federal government in the environmental health area, there has to date been no systematic attempt by the Administration either to define the overall direction of the scheme or assign roles to federal and state governments. This essay attempts to delineate the broad contours of the environmental and occupational health component of the New Federalism. More specifically, the aim is twofold: 1) to establish a general framework into which some of the individual programs can be integrated which the Administration has advanced on behalf of the New Federalism as it applies to environmental and occupational health concerns and; 2) to identify a federal role, consistent with the concept of the New Federalism, which could facilitate the effective transfer to the states of federal regulatory responsibilities in the area of environmental and occupational health.

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[2] Reprinted in *Inside EPA,* November 27, 1981.

I. A Framework for the New Federalism in Environmental and Occupational Health Regulation

The New Federalism, as the name itself suggests, must be understood in the context of that which it seeks to supplant. In general, as will be described in more detail below, proposals advanced on behalf of the New Federalism seek improvements in one of two areas: a) the federal review, monitoring and approval of state programs which are proposed by states under the directives contained in federal environmental statutes and; b) the current process by which environmental and occupational health standards and regulations are developed.

A. *The New Federalism as an Administrative Remedy*

Under several of the most important environmental health statutes, each state is required to submit a plan or statement which will show the administrator how it plans to implement and enforce the federal statute. The administrator is authorized to review, and if necessary to modify, the proposed state program if, in his/her judgment, it fails to satisfy the regulatory objectives of the federal law. For example, Congress, in the Clean Air Act, directed that, "the prevention and control of air pollution at its source is the primary responsibility of states and local governments."[3] However, the authority and responsibility for determining if state action constitutes adequate "prevention and control" was bestowed by Congress on the United States Environmental Protection Agency. For example, states under Section 110[4] must submit implementation plans which provide for implementation, maintenance and enforcement of national primary and secondary ambient air quality standards established by EPA pursuant to Section 109[5] of the Clean Air Act. However, Section 110 mandates that the EPA Administrator must approve or disapprove the state implementation plan based on the existence of adequate state laws and administrative capacity to assure attainment of the national standards. Similarly, Congress in the Occupational Safety and Health Act (OSH Act) encouraged states to assume full responsibility under the Act for developing and enforcing standards in an area where standards have been promulgated under the OSH Act. However, Congress legislated that full participation by states under the Act is conditioned on federal approval of a state plan which assures that a state will develop and enforce standards at

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[3] 42 U.S.C. §7401(a) (3).

[4] 42 U.S.C. §7410.

[5] 42 U.S.C. §7409.

least as effective as those developed by the Secretary of Labor.[6] Through these statutory schemes, Congress has directed state participation toward the attainment of national goals and standards.

It should be noted that the state environmental and occupational health programs do not have to be "mirror images" of those proposed at the federal level. Under most statutes states can, and in many instances have, developed environmental and occupational health programs with regulatory objectives more stringent than the federal law requires. State authorization requirements under the Resource Conservation and Recovery Act (RCRA) are exemplary. Pursuant to Section 3006 of RCRA, a state application need only demonstrate "substantial equivalence" between the proposed state program and the federal requirements in order to obtain from EPA Phase 1 or interim authorization.[7] Thus far, 13 of the 29 states that have received interim authorization under RCRA have programs with rules more stringent than those of the EPA.[8]

In general, the federal administrator reviews the state program with the aim of determining whether it is at least as stringent as the federal standard requires. A major thrust of the New Federalism is to facilitate the federal review of proposed state programs and to increase the autonomy of the states in administering the programs that have been approved. Proponents of the New Federalism claim that the federal government, in its review of proposed state programs, has in the past demanded a level of conformity with federal standards that exceeds the statutory requirements. For example, Assistant Secretary of Labor, Thorne Auchter, has reexamined the OSHA state plans of Virginia and Indiana in the belief that the last administration subjected those states' programs to an unreasonably rigorous review.[9] Further, in an effort to increase the autonomy of the states in the administra-

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[6] Section 18 of the OSH Act (29 U.S.C. §664) permits any state "to assume responsibility for the development and enforcement therein" of standards "with respect to which a Federal standard has been promulgated under Section 6..." Under Section 18, any state that seeks to assume full responsibility must submit a plan for approval specifying how it will develop and enforce standards.

[7] 42 U.S.C. §6926(c); 40 C.F.R. Part 123.

[8] According to an EPA chart the 13 states are New Hampshire, Rhode Island, Vermont, Connecticut, Maine, Massachusetts, Pennsylvania, Maryland, Virginia, Missouri, Kansas, California and Oregon. Additionally, South Carolina uses an extraction procedure toxicity level of 10 times the federal interim primary drinking water guideline.

[9] Assistant Secretary Auchter published on March 27, 1981 a notice in the Federal Register (46 FR 19000) rescinding the Federal withdrawal action against the In-

tion of their programs, OSHA, on October 1, 1981, eliminated its dual jurisdiction policy. In essence, the elimination of the dual jurisdiction policy will mean that OSHA will no longer inspect plants in states which have assumed responsibility for administering OSHA. Similarly, EPA is reportedly prepared to accelerate the federal approval of state land disposal permits under RCRA. Specifically, the Agency is "considering the possibility of giving the states *full permitting authorization right away* rather than going through the interim authorization process."[10]

B. *New Federalism as a Means to Facilitate State Standard Setting*

The New Federalism proposals described previously are intended to assist the states in their efforts to administer and enforce enacted federal statutes. In general, the final decision as to what constitutes an acceptable environmental health standard with respect to the major environmental health statutes is lodged at the federal level, specifically with the federal administrator. A "more radical" variant of the New Federalism can be identified with those proposals that advocate state standard setting or that seek to increase the role of the states in the development of environmental health rules and policy. This component of the New Federalism is directed toward the promotion of increased flexibility of states to set their own goals. The goal is to provide the states with greater opportunities to develop environmental and occupational health standards and regulatory policy based on value judgments and experiences unique to each state. Of course, even under the New Federalism, regulatory protections that impact interstate commerce will remain within the province of the federal government. It should be noted, however, that the federal statutes now in effect embody, as they constitutionally must, the principle that the federal government's jurisdiction extends only to regulatory practices with interstate impact.[11] But proponents of the New Federalism, insofar as they seek to delegate standard setting authority to the states, may well define "interstate impact" more narrowly than has heretofore been the case.

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diana state plan which was initiated by the Carter Administration on April 2, 1980. Auchter also denied (46 FR 36142, July 14, 1981) a petition for withdrawal of approval of the Virginia state plan filed in 1978 by the Oil, Chemical and Atomic Workers Union (OCAW).

[10] *State Regulation Report,* Business Publishers, Bethesda, Maryland Vol. 1 (25) p. 193 (December 24, 1981).

[11] Gibbons v. Ogden 22 U.S. (9 Wheat.) 1 (1824), United States v. Darby 312 U.S. 100 (1941), Wickard v. Filburn 317 U.S. 111 (1942).

There are at least two paths to the goal of state standard and regulation setting in the environmental and occupational health area. First, the major statutes could be repealed or amended so as to give states exclusive jurisdiction over responsibilities now within the jurisdiction of the federal government. Most environmental statutes would require substantial modification if the states were to assume primary responsibility over concerns that have, at least in the last two decades, fallen within the jurisdiction of the federal government. There is little indication that this path would receive public support or is likely to be followed.

The second path to state standard setting works within the context of existing statutes. Essentially, under this option, the statutes would remain intact but the federal government would refrain from initiating regulations preemptive of current state activity. There is evidence to suggest that in the environmental and occupational health area, states are likely to enact legislation and adopt regulatory programs where federal standards are absent.[12] Proponents of the New Federalism who support standard setting at the state level are more likely to prefer this option. It must be noted, however, that the Administration recently let pass an opportunity to refrain from preempting state activity. On March 19 of this year, OSHA released in the *Federal Register*[13] a hazard communication (labeling) proposal that will have the practical effect of preempting state activity in the area of worker right to know. The decision to publish the proposal was apparently a difficult one for the Administration to make. Indeed, the proposal languished in the Office of Management and Budget (OMB) for so long that many concluded it would never reach the *Federal Register*. That the regulation finally did clear OMB review is an indication that the Administration's faith in both the free market and the regulatory capability of the states was insufficient to overcome its fear that multi-state labeling regulations might interrupt the free flow of interstate commerce. On the question of state standard setting, the Administration is clearly divided.

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[12] For example, the control of hazard communication of toxic substances in the workplace has not until recently been the subject of federal regulation. Many states have responded to the lack of federal standards by enacting worker right to know laws and community right to know laws. See 1980 Cal. Stats. 2961 (to be codified in CAL. LAB. CODE §§6360-99); Conn. Pub. Acts, P.A. No. 80-257; also Conn. P.A. 80-464 (1980); ME. REV. STAT. ANN. tit. 26 & 1701 (1980); 1980 Mich. Pub. Acts, P.A. 51; 1980 N.Y. Laws 892 (to be codified in N.Y. LAB. LAW §875); W. Va. Code §21-3-18; cf 46 Fed. Reg. 4412, 4422-23 (summary of state statutes and regulations requiring some form of labeling on chemicals in workplace).

[13] 47 FR 12092 (1982).

Where the Federal government remains in the standard setting process, proponents of the New Federalism may move to increase the role of the states vis-a-vis the federal government in the development of those standards. The *State Regulation Report,* printed that during a December 11, 1981 interview, the Administrator of EPA, Anne Gorsuch, "seemed genuinely committed to wanting states to play a greater role in policy development than they have in previous administrations."[14] Further, Mrs. Gorsuch has already taken a step in this direction: she reportedly endorsed a proposal by the National Governors' Association (NGA) to amend the Federal Advisory Committee Act (FACA)[15] to remove the "advisory committee" status of state and local officials. By removing state and local officials from "advisory committee" status, the National Governors' Association hopes to reduce the formality and thereby increase the candor, the "give and take", that rulemaking requires.[16] In general, as the NGA proposal implies, proponents of the New Federalism can be expected to suggest modifications in the rulemaking process which, if accepted, would increase the opportunity for state and local officials to negotiate on equal terms with federal officials.

II. The New Federalism and the Federal Role

Attempting to predict the precise impact of any of the New Federalism proposals is beyond the scope of this essay. But a general statement on the impact of the New Federalism is clearly in order. Overall, it seems obvious that, if acted upon, the proposals advocated on behalf of the New Federalism would increase the discretion of state officials, and decrease what control federal officials currently exercise, over environmental and occupational health matters. It follows that, as the discretion and authority of state officials increase, so too will the degree to which they will be held accountable in their jurisdictions for the quality of environmental and occupational health. What is less obvious is what precisely the federal role should be if the New Federalism becomes a reality. The remainder of this essay addresses one such potential role.

The New Federalism does not obviate the need for the federal government, it merely redirects its focus. The federal role in the development of standards and in the supervision of state programs may subside, if it is not abandoned entirely. But a qualitatively distinct role can and should be assumed and emphasized by the federal agencies:

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14 *State Regulation Report,* Vol. 1 (25) p. 196 (December 24, 1981).

15 5 U.S.C. App. I, Pub. L. No. 92-463 (1972).

16 *Inside EPA,* September 11, 1981.

the role of providing technical assistance to the states. More precisely stated, the federal government under the New Federalism should concentrate its efforts on the development and dissemination of information necessary for the prediction of occupational and environmental health hazards and assessment of risk, information that state and local officials will require if they are to assume greater responsibility in the establishment of regulatory agendas and in the development of environmental health standards.

Of course, this is not an entirely new role for the environmental and occupational health related agencies. This role, however, will have to be taken more seriously and will have to command more resources, if the New Federalism becomes the status quo. Consider, for example, the findings of a recent NGA report, *State Integrated Toxics Management: Fact and Challenge.*[17] This, and other, reports underscore the fact that state administrators find their present scientific information base to be inadequate to the problems they face.[18] If the discretion of state administrators is to increase as a result of the New Federalism, their need for scientifically valid information will be even more pressing. Some may contend that the states should be saddled with the responsibility for developing information relevant to environmental and occupational health regulations. Nevertheless, it can be seen that the New Federalism itself places this function on the federal government. Two points force this conclusion. First, if states are given more flexibility to administer and enforce federal statutes, *it is the federal government that needs information.* For example, it will need information upon which to base decisions on exemptions to federal statutes, as it is currently attempting to do in the issuance of water quality cri-

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[17] *State Integrated Toxics Management: Fact and Challenge,* National Governors' Association (March 1981) p. 17. NGA in this report recommends a strong EPA information and scientific support role in the health effects and analysis field. The report emphasizes both that EPA "should coordinate the exploration, packaging and dissemination of currently available environmental disease data" and also that EPA should develop guidelines for analytical techniques in the areas of environmental epidemiology and toxicology and institute training programs at medical institutions and other facilities.

[18] The Association of State and Territorial Solid Waste Management Officials (ASTSWMO) has concluded in a multi-volume study conducted for the Commerce Department that state laboratories do not have the funding, facilities or technical know-how to properly test hazardous wastes under RCRA and are operating with an "alarming virtual non-existence of adequate laboratory and field training". The findings suggest that RCRA's entire regulatory structure may rest on a shaky foundation since "the ability to sample and conduct reliable laboratory analyses becomes the enforcement tool of the act's mandate to protect the public health."

teria.[19] In addition, the federal government may choose to monitor state programs utilizing flexible performance standards. The development of such standards will require federal research.

Second, if the states are to be given a larger role in the development of environmental and occupational health standards and regulations, *it is in the interest of the federal government to develop and disseminate information* which states may choose to utilize in developing those standards and regulations. This point merits elaboration. One of the principal criticisms of the New Federalism, as was indicated above, is that it will produce 50 different sets of regulations; if the federal government withdraws from the environmental and occupational health field, it is claimed, the chances for inconsistent regulations increase dramatically.[20]

Of course, as was also discussed, the attainment of complete uniformity of environmental and occupational health regulations among the fifty states under the present federal-state relationship is a difficult, if not impossible, task. Recall that 13 of the 29 states that have been awarded interim authorization under RCRA have standards that differ from those proposed at the federal level. Unless the federal government requires states to adopt the exact federal standard, a principle which seems antithetical to the New Federalism proposal, complete uniformity of environmental and occupational health regulation and standards is beyond the control of public policy to the extent that states retain dissimilar values and experiences. Stated differently, it can be argued that inconsistency is inherent because the issue of what constitutes an acceptable risk is a political judgment and necessarily depends on each state's unique values and experiences. Nevertheless, some attempt to reduce the level of inconsistency may be necessary and under the New Federalism, perhaps the most effective means of reducing the potential for disparity between states is to provide state and local decision makers the same scientific information base for the development of standards and regulations. Essentially, states are faced with two basic questions in deciding whether and to what degree

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[19] *Inside EPA* (March 5, 1982) reported that, "EPA is expected to issue a proposal shortly that would allow states to request modifications or exemptions from EPA's national water quality criteria (Clean Water Act, Section 303) to reflect local conditions." EPA is expected to include in the proposal a set of methodologies that will permit states to obtain data that can be used to support *site-specific* modifications from EPA's national water quality criteria for toxic metals.

[20] Concern voiced by Robert C. Forney, Senior Vice President, E.I. du Pont de Nemours and Company. Reported in *Pesticide and Toxic Chemical News* (November 4, 1981), p. 47.

regulation is necessary. These questions are: 1) what is an acceptable risk to health or environment, and 2) what degree of risk is associated with a particular substance, technology, or process? Interstate regulatory uniformity can be expected only if states agree on the answers to these two questions. Conversely, an increased probability for inconsistent state regulation will exist whenever states vary in their responses to these two questions.

A consistent scientific data base,[21] distributed to all the states, may not produce uniform answers on the question of what constitutes an acceptable risk; but it should increase the probability of obtaining uniform answers to the question of what degree of risk is associated with a particular substance, technology or process. Therefore, the existence of a consistent scientific data base emanating from the federal level should enhance the opportunity for increased uniformity in state regulation. The federal government, under the New Federalism, has a stake in the development of such a data base.

Conclusion

This essay has made principally two arguments. First, it has argued that there are essentially two sides to the New Federalism. On the one hand, the New Federalism includes proposals to assist the states in their efforts to administer and enforce federal environmental and occupational health statutes. On the other hand, the New Federalism embraces a more radical sentiment: that states should be free to establish their own health standards and rules in areas such as hazard communication or that states should, at least, work on more equal terms with the federal government in the development of those rules and standards. Needless to say, as OSHA's position on the labeling issue attests, one can support one aspect of the New Federalism without supporting the other. That is, one may want to assist states in fulfilling their responsibilities under federal law but stop short of supporting state autonomy in standard setting.

The second argument in this essay is closely related to the first. While both sides of the New Federalism seek to increase the role of

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[21] A scientific data base provided by the federal government could consist either of a compilation of raw data or of a uniform interpretation of the results of scientific studies conducted by government, university or industry scientists. The scientific data base provided to the states might also consist of standard testing procedures and guidelines for the states to follow. The areas of environmental epidemiology, toxicology, and risk assessment techniques would be prime candidates for consideration.

states in environmental and occupational health matters, neither side necessitates the complete withdrawal of the federal agencies. Rather, the New Federalism entails a shift of emphasis: the federal regulation of environmental and occupational health matters may wane, but the federal role of developing and providing scientific and other information will surely take on more prominence.

CAMERA CARE AND INTERIM DECISIONS OF THE COMMISSION OF THE EUROPEAN COMMUNITIES: SOLUTION TO THE PROBLEMS CREATED BY SUSPENSION OF NATIONAL COURT PROCEEDINGS INVOLVING ARTICLE 85 OF THE EEC TREATY?

MARK WISNER*

I. *INTRODUCTION*

Article 85(1) of the Treaty of Rome prohibits as incompatible with the ideals of the European Common Market "all agreements between undertakings, decision by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which: . . . limit or control production, markets, technical development, or investments . . . ." This *per se* prohibition of certain anti-competitive practices is not unlike the *per se* prohibition used in the analysis of some United States antitrust decisions. However, just as the rule of reason acts to moderate the application of the American *per se* rule, there are moderators of the Article 85(1) prohibiton.[1] First, an "undertaking" may apply to the Commission of the European Communities

* J.D., Franklin Pierce Law Center, 1982. The author wishes to express his appreciation to Mssrs. Robert Shaw, Director of the PTC Research Foundation, and Bryan Harris, of the Commission of the European Communities, for their constructive comments and criticisms.

[1] For a comparison of antitrust law in the United States and the EEC, *see* W.F. Schwartz and E.W. Wellman, Jr., The Rule of Reason in EEC Antitrust: Efficiency Enhancement Through Integration By Agreement Among Competitors, 12 Virg. J. Int'l. L. 192 (1972) and J.W. Burns, Antitrust Under the Treaty of Rome, 11 Int'l. Lawyer 369 (1977).

for a declaration of inapplicability; a statement that the agreement to which the undertaking is a party is not prohibited by Article 85(1).[2] Further, an undertaking may apply to the Commission of the EC for a statement exempting the agreement to which it is a party from the prohibition of Article 85(1) according to Article 85(3).

Major problems arise when an agreement to which an undertaking is a party is challenged in a national court of one of the Member States as being prohibited under Article 85(1). As a defense, the other party may assert that the agreement should be exempted from or given a declaration of inapplicability of Article 85(1) by the Commission of the EC, and that because EEC law preempts the law of the Member States, it cannot be liable under Article 85(1). In that situation, the national court is faced with the prospect of finding the agreement in contravention of Article 85(1) only to have the Commission grant an exemption or declaration of inapplicability, effectively overturning its decision, or upholding the agreement and creating the possibility of the Commission refusing to issue an exemption or declaration of inapplicability, again effectively overturning the decision of the national court. A third alternative is for the national court to suspend proceedings pending the Commission's decision regarding the declaration of inapplicability or the exemption. However, as will be developed, a stay of the proceedings in the national court has disadvantages such that, in many situations, this third alternative leaves much to be desired.

The *Camera Care* case,[3] which by decision of the Court of Justice of the EC confers upon the Commission the power to make interim decisions, offers a possible mechanism for the resolution of cases involving an exemption or declaration of inapplicability defense to a challenge under Article 85(1) in a national court. If the parties were able to invoke the interim decision making power of the Commission, the problems associated with staying the proceedings in the national court could be mitigated. Unfortunately, because of the nature of the interim decision making power of the Commission, it is unlikely to offer a solution in many cases. This writing will explore the reasons why this power may be of little practical use in many of the cases involving a suspension of the proceedings in a national court.

II. *AN INTRODUCTION TO ARTICLE 85 OF THE EEC TREATY*

Because Article 85 of the EEC Treaty may be foreign to the experience of many attorneys, a brief over-view of its important aspects will

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[2] Regulation No. 17/62, Art. 2.

[3] Camera Care, Ltd. v. Commission, Case No. 792/79, (1980) E.C.R. 119, COMM. MKT. REP. (CCH) para. 8645.

be presented. It should be noted that disputes between parties in a Member State and parties in a state outside the Community may be adjudicated by the Commission of the EC or in the Court of Justice of the European Communities. Consequently, the EEC Treaty is important to any attorney involved in antitrust law or an international practice.[4]

A. *Preemption of the Laws of Member States By Community Law*

The primacy of EEC law is now well established. It is perhaps stated in its extreme by Peter Hay in his discussion of the decision by the Court of Justice in *Costa v. ENEL:*[5] "the decision's message is clear: by joining the Community, the member states 'relinquished, albeit in limited areas, their sovereign rights and thus created a body of law' applicable [to themselves and other nations]."[6] Further, the Court has noted that

> the EEC Treaty has established its own system of law, integrated into the legal systems of the Member States, and which must be applied by their courts. It would be contrary to the nature of such a system to allow Member States to introduce or retain measures capable of prejudicing the effectiveness of the Treaty.[7]

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4 The reader is referred to the remarks of Adolfo Comba, made while he was serving as the information officer from the EEC in Washington, D.C. and reproduced in 16 Idea 117 (1974) for a discussion of the worldwide aspects of Community law and especially the relationship between American and Community law. For a general introduction to Articles 85 and 86 of the Treaty, the reader is referred to S.S. Nathan, Antitrust Law of the European Community — An Interpretation of Articles 85 and 86 of the Treaty of Rome, 4 Int'l. Trade L.J. 251 (1979).

5 Case No. 6/64, (1964) E.C.R. 585, (1964) Comm. Mkt. L.R. 425. *See* also Van Gend en Loos v. Nederlandse Administratie der Belastingen, Case No. 26/62, (1963) E.C.R. 1, (1963) Comm. Mkt. L.R. 105.

6 P. Hay, Supremacy of Community Law in Natural Courts, 16 Am. J. Comp. L. 524 (1968). *See* also Note, The External Tariff of the European Economic Community: The Commission and Supranationalism, 5 Virg. J. Int'l. L. 211 (1965); Recent Decisions, 7 Vand. J. Transn'l L. 487 (1974); and P. Hay and V. Thompson, The Community Court and Supremacy of Community Law: A Progress Report, 8 Vand. J. Transn'l L. 524 (1975). It is worth quoting a personal communication from Bryan Harris of the Commission of the EC (Feb. 16, 1982): "The quotation from Peter Hay's article is highly controversial. There is a big difference between 'the supremacy of EEC law' and the relinquishment (albeit in limited areas) of a member state's sovereign rights. The former is given force in the United Kingdom, for example, solely by virtue of the European Communities Act, 1972, — itself an assertion of national sovereignty. This is not a purely theoretical point. The attorney with a case justiciable in the United Kingdom may have a hard enough job before some judges, pleading the supremacy of EEC law, without the additional task of persuading them to swallow a loss of sovereignty!"

It should be noted that under this rule of preemption, the national courts of the Member States have jurisdiction to apply the laws of each nation to an agreement between undertakings even when the Commission is examining the same agreement from the point of view of its compatibility with Article 85(1).

B. *Article 85 in General*

Competition plays a central role in the economic policy of the EEC. According to the Commssion, which is responsible for the implementation and shaping of the competition policy of the Community, it is the stimulus by which all Community members have the widest freedom of action, adjust best to technological development and may best improve their economic efficiency. Promotion of competition is considered the essential method for achieving the individual and collective needs of the European Society.[8]

In keeping with this emphasis, Article 85(1) prohibits those agreements which affect trade between Member States or prevent, distort or restrict competition in the Community. Under Article 85(2), such agreements are considered void. However, an agreement may avoid the application of Article 85(2) by qualifying for a negative clearance or an exemption.

At this point, a distinction must be made between old and new agreements. Under Regulation No. 17/62, old agreements are those in effect when the regulation became effective (March 13, 1962), new agreements are those entered into after that date. The parties to old agreements were required to notify the Commission of the existence of the agreement by November 1, 1962 or February 1, 1963, depending upon the type of agreement. Certain old agreements were exempted from this notification requirement, however, all new agreements must be notified. Notification has its benefits. It is a prerequisite to qualifying for an exemption under Article 85(3). Also, once notified, the agreement is considered "provisionally valid;" i.e., valid until a Commission decision to the contrary. If a provisionally valid agreement is later found to be within the prohibition of Article 85(1), the Commission may declare that Article 85(2) does not apply for a specified amount of time if the parties terminate the agreement or modify it so as to qualify for an exemption. If the parties do terminate the agreement or make modifications, in the case of old agreements,

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7 Walt Wilhelm v. Bundeskartellamt, Case No. 14/68, (1969) E.C.R. 1, (1969) Comm. Mkt. L.R. 100.

8 EEC Commission 1*st* Report on Competition Policy at 11 (annexed to the 5*th* General Report (1971)).

the Commission can make the exemption retroactive to cover the time between notification and the Commission's decision so that the offending party will not be liable in a private action for any penalties which might otherwise be levied. This retroactivity is not available to the parties to new agreements.[9]

C. *Negative Clearance*

Article 2 of Regulation No. 17/62 provides for the issuance of a negative clearance by the Commission at the request of the parties.[10] The negative clearance is simply a declaration that the agreement is not within the prohibition of Article 85(1). Even though an agreement cannot qualify for a negative clearance, i.e. it was held to be within Article 85(1), there is still the possibility that it may qualify for an exemption. Although a detailed discussion of the procedure involved is beyond the scope of this writing,[11] in brief, the application is sent to the competent authorities of the Member States and published by the Commission. The parties and interested third parties must be heard and the Advisory Committee on Restrictive Practices and Monopolies[12] must be consulted. If granted, the negative clearance is published as a formal Commission decision.

D. *Article 85(3) Exemptions*

Under Article 85(3), the provisions of Article 85(1) may be declared inapplicable in the case of:

> — any agreement or category of agreements between undertakings;
>
> — any decision or category of decisions by associations of undertakings;
>
> — any concerted practice or category of concerted practices; which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
>
> (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
>
> (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Under Article 9(1) of Regulation No. 17/62, the Commission is the Community entity with the authority to issue these exemptions (also

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[9] A more complete discussion of the difference between old and new agreements can be found in J.P. Cunningham, Restrictive Practices and Monopolies in EEC Law (1973) or H. Smit and P. Herzog, The Law of the EEC (1976).

[10] Regulation No. 27/63 (as amended by Regs. No. 1133/68 and 1699/75) fixes the form, content and other details of this application.

[11] Cunningham, note 9, *supra*.

[12] Set up by Art. 10 of Reg. No. 17/62.

called declarations of inapplicability). Before Regulation 17 became effective, exemptions could be granted only by the appropriate authorities of the Member States,[13] and some question remains as to whether the Commission alone may issue them now. This controversy will be treated in more detail later in this writing.

Although Article 85(3) is worded in the permissive (the Commission "may" grant an exemption), it is generally assumed that if the conditions are met, the Commission has no discretion and must issue the exemption.[14] However, as pointed out by Smit and Herzog,[15] this question is probably of little consequence because of the large degree of discretion which the Commission may exercise in its determination of whether the conditions have been met.

When Regulation 17 became effective, the Commission was overwhelmed with applications for exemptions, and subsequent regulations attempted to ease the Commission's workload by authorizing it to issue exemptions for groups of similar agreements (e.g., a standard distribution agreement) rather than to consider each application on a case by case basis.[16] Exemptions are issued for a specified period, and conditions and obligations may be part of the exemption; they also may be renewed or revoked.[17]

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[13] EEC Treaty, Art. 88.

[14] Smit and Herzog, note 9, *supra; see* also A. Deringer, Ann. 4 on Article 85(3).

[15] Smit and Herzog, note 9, *supra* at 3-166.

[16] Reg. No. 19/65, Reg. No. 2821/71. *See* Feffer, Emergence of Group Exemptions within the EEC Policy on Competition, 6 Virg. J. Int'l. L. 128 (1965), which characterizes the development of a pattern to the Commission's actions regarding group exemptions and applauds the Commission's actions as an important step in enabling the Commission to control competition in a manner which will lead to the EEC ideal of a merged economic unit. *See also* Weiser, Recent EEC Antitrust Activity Relating to Exclusive Dealerships and Trademarks, 9 P.T.C. J. Res. & Ed. (Idea) 35 (1965); Buxbaum, the Group Exemption and Exclusive Distributorships in the Common Market — Procedural Technicalities, 14 Anti. Bull. 499 (1969), discussed *infra;* Note, Exemption of Exclusive Dealing Agreements from Article 85(1) of the Treaty of Rome, 16 Virg. J. Int'l. L. 931 (1976); P.S.R.F. Mathijsen, A General Guide to European Community Law, 3*rd* ed. (1980); Smit and Herzog, note 9, *supra.* For a comparison of the group exemptions under Article 85(3) with the United States' antitrust law in the context of the patent laws and related questions, see M. Handler and M.D. Blechman, An American View of the Common Market's Proposed Group Exemption for Patent Licenses, 14 Int'l. Lawyer 403 (1980) (also M. Handler and M.D. Blechman, The Proposed EC-Group Exemption for Patent Licenses: A Comparison with U.S. Antitrust Law, 11 IIC 295 (1980)), however the Handler-Blechman article should not be read without reference to the correspondence of U.P. Toepke, 15 Int'l. Lawyer 342 (1981).

[17] Reg. No. 17/62, Art. 8.

The Commission decision process involves circulation of the exemption application to the competent authorities of the Member States, consultation with the Advisory Committee, and if so demanded, the hearing of sufficiently interested parties before going to the Advisory Committee.[18] The term "sufficiently interested" has been given little substance; in *Consten-Grundig,*[19] the Court of Justice held that it was desirable for the Commission to extend its inquiry to all who may be affected by its decision but that third parties have a right to be heard only if their legal rights would be directly affected.[20] The rules governing the hearing are set out in Regulation No. 99/63, but the decision process itself is administrative rather than judicial in nature, consequently there are no strict rules of procedure. The burden of proving the existence of the prerequisites for the grant of an exemption does not rest exclusively on the party seeking the exemption, as the Commission must use the means available to it in an effort to make its determination.[21] The Commission must publish the decision and its reasons for the decision[22] and invite comments from interested persons.[23] Final decisions must also be published,[24] and are subject to review by the Court of Justice.[25]

III. *STAY OF NATIONAL COURT PROCEEDINGS*

A. *Introduction*

Assume the following set of facts: A is a manufacturer and distributor of perfumes and other related beauty products of such a nature and retail price that they appeal to a certain segment of the female consumers of the Community. B is a retailer who sells women's clothing, shoes, accessories and beauty items and would like to sell A's products. A refuses to sell to B, claiming that B's retail outlet is not of

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[18] Reg. No. 17/62, Arts. 19(1) and 19(2).

[19] Consten — Grundig — Ver Camp GmbH v. Commission, Cases No. 56/64 & 58/64, (1966) E.C.R. 299, (1966) Comm. Mkt. L.R. 418, COMM. MKT. REP. (CCH) para 8046.

[20] For a discussion of the rights of third parties affected by Articles 85(1) and 85(3) proceedings, see J. Temple Lang, The Position of Third Parties in EEC Competition Cases, 3 Eur. L. Rev. 177 (1978).

[21] *Consten - Grundig,* note 19, *supra.* For a discussion of these prerequisites and the interpretation of Article 85(3), the reader is referred to Smit and Herzog, note 9, *supra,* and Mathijsen, note 16, *supra.*

[22] Kali & Salz v. Commission, Cases Nos. 19-20/74, (1975) E.C.R. 499, (1975) Comm. Mkt. L.R. 173, COMM. MKT. REP. (CCH) para 8384.

[23] Reg. No. 17/62, Art. 19(3).

[24] *Id.,* Art 21.

[25] *Id.,* Article 9(1); EEC Treaty Art. 173.

the type which the customers to whom his products are directed frequent because B sells products directed to a different segment of the women consumers in the market. A further claims that his products are already selling at a rate in that area which indicates that the market to which he caters is being fully reached by those retail outlets with which A already has distribution agreements.

B challenges A's actions in the courts of that country, alleging among other things, that those existing distribution agreements are in contravention of Article 85(1) in that they are a restraint on trade which affects competition in the Community. A's defense is that he has applied to the EEC for an exemption for those agreements under Article 85(3).[26] The national court has three alternative courses of action in that it may: (1) find the agreements to be within Article 85(1) and therefore void under Article 85(2), creating the possibility that the Commission may subsequently issue an exemption for those agreements, thereby effectively overturning the court's decision; (2) hold the agreements to be outside the scope of Article 85(1) and continue to enforce them, creating the possibility that the Commission may subsequently refuse to issue an exemption, again effectively overturning the court's decision; or (3) stay the proceeding until the Commission rules on the application for the exemption.[27]

B. *Evaluation of the Procedural Alternatives*

Certainly the first two of the possibilities listed above are less than satisfactory because of their annulment of the "final" decision of the national court. Further, it has become obvious that the third alternative, staying the national court proceeding, has its drawbacks. For instance, Faull and Weiler[28] have identified a case in which the Magistrate of the Kantongerecht of Rotterdam, on January 29, 1976, suspended the proceeding until the Commission could make its decision.[29] The Commission did not make its decision until December 2, 1977,

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[26] Readers may recognize this set of "hypothetical" facts as being based more or less on the case of Anne Marty S.A., Paris v. Estee Lauder S.A., Paris, Case No. 37/79, Comp. L. Rptr., Current Reporter, Part 2, Court Decisions at 6-258.97.

[27] This is but one example of a possible problem. J.M.H. Faull and J.H.H. Weiler, in their article Conflicts of Resolution in European Competition Law, 3 Eur. L. Rev. 116 (1978), characterize several of these "conflicts of resolution" and discuss the implications of each.

[28] *Id.*

[29] Central Bureau voor de Rijwielhandel v. Firma Donck and Zn., 20 O.J. EUR. COMM. (No. L 20) 18 (1977). *See* also the survey report of this decision in 2 Eur. L. Rev. 474 (1977).

almost two years later, and it refused to issue an exemption, holding a number of the contract provisions incompatible with Article 85(1). During the two years, the contract stayed in effect. The Court of Justice recognizes that this delay can cause serious hardship to the parties. In *de Haecht II,*[30] in its discussion of the concurrent jurisdiction of the Commission and the national courts of the Member States, it noted that "whilst the principle of legal certainty requires that in applying the prohibition of Article 85, the sometimes considerable delays by the Commission in exercising its powers should be taken into account. . . ."

There are other cases which, although they occurred early in the development of EC law, illustrate similar difficulties. For instance, Buxbaum[31] has identified a case in which the French Tribunal de Commerce of Seine held certain exclusive dealing arrangements of which the Commission had been notified valid unless the Commission ruled otherwise.[32] At the same time, it invited the defendant to evade the holding by prohibiting the sale of his products so long as the plaintiff agreed neither to complain to the Commission nor to intervene in the notification-exemption proceeding. The plaintiff did neither, but did ask for penalties for the past actions of the defendant, at which point the Tribunal suspended the case. Apparently the French Court recognized the potential for conflicts in the resolution of the dispute and attempted to avoid the problem by working out a settlement between the parties. When the plaintiff asked for penalties for the defendant's past actions, the court was effectively forced into staying the proceedings until the Commission acted. In the meantime, the parties were in the same position as they were before the action was instituted.

Apparently the spector of these unattractive possibilities has affected the national courts of the Member States in other ways as well. For instance, Buxbaum[33] has identified another case which points out the undue deference which the courts have towards the Commission because of the potential for conflict. In *Société UNEF,*[34] after a French lower court held an exclusive dealing agreement proper under French

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30 S.A. Brasserie de Haecht v. Wilkin & Janssen (de Haecht II), Case No. 48/72, (1973) E.C.R. 77, (1973) Comm. Mkt. L.R. 287, COMM. MKT. REP. (CCH) para 8170.

31 R.M. Buxbaum, Incomplete Federalism: Jurisdiction Over Antitrust Matters in European Economic Community, 52 Cal. L. Rev. 56 (1964).

32 Société Pierre Rivière et Cie v. Société nouvelle de produits alimentaires "La Maison du whisky", Tribunal de Commerce de la Seine, March 5, 1963.

33 Note 31, *supra.*

34 Societe Union nationale des économies familiales v. Consten, Cour d'Appel de Paris, Jan. 26, 1963; case reprinted in COMM. MKT. REP. (CCH) para 8009.

law, the losing party appealed and, at the same time, requested the Commission to rule on whether the agreement violated Article 85(1). The Court of Appeals of Paris held that it could not consider the case because the Commission had exclusive jurisdiction until such time as the Commission made its decision. In the meantime, the parties continued in their original relationship. It should be obvious that none of the three alternatives listed above can consistently provide a reasonable method to resolve conflicts involving Article 85 of the EEC Treaty.

C. *The Relationship Between the Application of Article 85(3) by the National Courts of the Member States*

At this point, it is useful to explore the development of the Commission's jurisdiction to issue Article 85(3) exemptions and to relate it to the national courts of the EEC Member States. Article 9(1) of Regulation No. 17/62 confers upon the Commission exclusive jurisdiction to grant exemptions; before the promulgation of this regulation, they could only be granted by the national authorities in the Member States under Article 88 of the EEC Treaty. Article 9(1) of Regulation No. 17/62 may be interpreted in two ways: (1) a wide interpretation is that no entity other than the Commission may grant exemptions; (2) a narrow interpretation is that residual jurisdiction to apply Article 85(3) remains in the national courts. Under the wide interpretation, the ability of the national courts to render a judgment is effectively curtailed whenever it is procedurally possible for one of the parties to resort to Article 85(3). It would appear that the Court of Appeals of Paris followed this interpretation of Article 9(1) in *Société UNEF*.[35]

The EEC Court of Justice apparently adheres to the narrow interpretation of Article 9(1). Speaking of new agreements (those entered into after March 13, 1962), the Court in *de Haecht II*[36] held that

> it devolves upon the [national] Court to judge, subject to possible application of Article 177 [of the EEC Treaty] whether there is cause to suspend proceedings in order to allow the parties to obtain the Commission's standpoint, unless it establishes either that the agreement does not have any perceptible effect on competition or trade between the Member States, or that there is no doubt that the agreement is incompatible with Article 85.

Under the *de Haecht II* decision, the Commission has exclusive jurisdiction to *grant* exemptions, but the national courts of the Member

[35] *Id.*

[36] Note 30, *supra.*

States may rule on the inapplicability of Article 85(3).[37] Further, in both *de Haecht II* and *SABAM*,[38] the Court of Justice expressed itself in such a way as to indicate that the wide view of Article 9(1) of Regulation 17 would be counter to the basic tenants of Community law. At the same time, the Court recognized that the Commission was particularly suited to make an Article 85(3)-type inquiry and because of the unique resources of the Commission, recommended that the national courts suspend proceedings in cases of doubt.

D. *Possible Use of Article 177*

The national courts, when faced with these types of dilemmas, have one other alternative: Article 177 of the EEC Treaty permits (and in some situations, requires) the national court to submit questions involving the interpretation of the Treaty or act of the Community to the Court of Justice. National courts of last resort are required to submit questions, lower courts may do so. However, as pointed out by Buxbaum,[39] Article 177 is of little help in matters of competition and antitrust for two reasons. First, it is the Commission, not the Court of Justice which has been given the responsibility for the development of competition law in the Community. To have the Court of Justice exercising concurrent jurisdiction over Article 85 questions might very well compromise the development of a uniform body of competition and antitrust law by the Commission. Additionally, the Commission has powers of investigation to better enable it to make decisions in such cases. These difficulties are compounded by the exemption procedure: if a national court refers a question involving an Article 85(3) exemption to the Court under Article 177, what does that referral do to the Commission's exclusive jurisdiction to grant those exemptions? The second difficulty with the use of Article 177 is that lower courts need not refer Treaty issues to the Court and their refusal to do so is not appealable in the higher courts of that nation or to the Court or the Commission.

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[37] For an example of a national court exercising this jurisdiction, see Re Dry Shavers (Case 6U 440/72, (1975) Comm. Mkt. L.R. 550), in which the Oberlandgericht of Frankfort had no difficulty in rejecting an Article 85(3) defense. However, the reader must remember that, given the primacy of Community law, only the Commission can make a positive and definite decision on Article 85(3).

[38] Belgische Radio en Televisie and Société Belge des auteurs, compositeurs et editeurs v. S.V. SABAM and N.V. Fonior, Case No. 127/73, (1974) E.C.R. 313, (1974) Comm. Mkt. L.R. 238.

[39] Note 31, *supra*.

There is a third problem with the use of Article 177. According to Faull and Weiler,[40] the national courts of the Member States have shown a "marked reluctance" to use it. It is clear that, although Article 177 has an important role in EEC law,[41] it is of limited utility in matters of Community competition law.

E. *The Commission's Position in Concordia*

Such was the situation when, in *Concordia,*[42] six questions were referred to the Court of Justice under Article 177. Among these six questions were the following:

> A. Are the national courts under a duty to suspend proceedings where exemption pursuant to Article 85(3) is possible? and
>
> B. If the suspension of the proceedings merely constitutes an option, is the national court permitted in its consideration of Article 85(3) to decide that Article 85(3) is not applicable?

The Court decided the case without answering these questions, but the observations of the Commission and the Advocate General are of note.

The Commission stated flatly that the national courts must be permitted to decide that Article 85(3) is not applicable. The Commission also suggested that there only existed a right to suspend the proceedings when an exemption was a procedural possibility and further, that where there was Commission or Court of Justice precedent, the national court should follow that precedent and avoid suspension of the proceedings. In the oral procedure, the Commission went even further, suggesting that when precedent left no reasonable doubt, the national court should apply Article 85 positively and after cautious examination of the facts and the precedent, issue the exemption.

In contrast to the extremely narrow view of Article 9 of Regulation 17 exhibited by the Commission, the Advocate General took a wide view. He claimed that the national courts should not apply Article 85(3) either positively or negatively. Although it is the function of this writing to discuss jurisdiction to apply Article 85(3) only as it relates to the stay of proceedings in the national courts until ruled upon by the Commission, it seems appropriate to comment on the Advocate General's views. In light of the established precedent of *de Haecht II*

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[40] Note 27, *supra*.

[41] For a discussion of the role of Article 177 in Community law, *see* R.M. Buxbaum, Article 177 of the Rome Treaty as a Federalizing Device, 21 Stan. L. Rev. 1041 (1969) and G. Beber, Article 177 of the EEC Treaty in the Practice of the National Courts, 26 Int'l. & Comp. L.Q. 241 (1977).

[42] Alexis and Martine De Norre v. N.V. Brouwerij Concordia, Case No. 47/76, (1977) E.C.R. 65, (1977) Comm. Mkt. L.R. 378.

and *SABAM,*[43] in which the Court of Justice endorsed a narrow interpretation of Article 9 of Regulation 17, the Commission's attitude as expressed in *Concordia,* the fact that the Commission is hard pressed in the face of a heavy workload,[44] and the fact that to allow the national courts to apply Article 85(3) negatively takes away a defensive tactic from the defendant which may be no more than a time-consuming and frivolous delay while the case awaits Commission disposition, it is suggested that the Advocate General's wide interpretation of Article 9 of Regulation 17 is simply unrealistic.

As noted above, the Court of Justice disposed of *Concordia* without answering these questions. Consequently, the EEC is left with the dilemma as stated by Faull and Weiler:[45] which is more desireable: uniformity and consistency in EEC competition law at the expense of curtailing the application of Community law by the national courts, or more functional integration at the cost of the adjudicatory discord such as that in the example involving the perfume manufacturer presented at the beginning of this section?

IV. *CAMERA CARE AND THE INTERIM DECISION MAKING POWER OF THE COMMISSION*

A. *Camera Care*

One possible solution to the dilemma is a sort of compromise: as suggested by Faull and Weiler,[46] a mechanism could be created to provide rapid resolution of the issues by the Commission when the national court submits them after staying the proceedings in that court. This solution would minimize inconsistencies in EEC competition law without completely depriving the national courts of jurisdiction over the controversies which it is their responsibility to adjudicate, and would therefore seem to present a reasonable way to resolve the problems discussed in the preceding sections. As a result of the ruling by the Court of Justice in the *Camera Care* case,[47] an interim decision making mechanism is now available to the Commission.

In that case, Camera Care brought a complaint before the Commission because Hasselblad had terminated a standard distribution agreement with Camera Care. Because the terms of the standard dis-

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[43] Notes 30 and 38, *supra.*

[44] *See* note 16, *supra* and accompanying text.

[45] Note 27, *supra.*

[46] *Id.*

[47] Note 3, *supra.*

tribution agreement prevented Hasselblad distributors from supplying businesses other than those designated by it, Camera Care was left without a source from which it could obtain Hasselblad products. The complaint asked for enforcement of the distribution agreement and challenged the practices of Hasselblad under the distribution agreements as being in violation of Articles 85 and 86. The complaint also asked for an interim decision requiring Hasselblad to continue to supply these products at the same price and terms because without the products, Camera Care's business would be placed in a position in which its continuing economic viability was in jeopardy.

The Commission refused to take interim action because it claimed it had no legal basis for doing so. Consequently, Camera Care brought an action against the Commission before the Court of Justice claiming that the Commission did indeed have the powers necessary to take such actions. At the same time, Camera Care brought an action before the Court for those interim measures.

The Commission conceded that Camera Care had made out a prima facie case for relief and that, if it had the legal basis for doing so, an interim decision would have been issued. The elements necessary to make out a prima facie case are not easy requirements to meet. To make out a prima facie case, Camera Care had to show that it had "defined the market correctly or substantially correctly, that Hasselblad (GB) is dominant in the market, that the refusal to supply is unjustified and that it affects trade between Member States."[48] In addition to the requirement that Camera Care make out a prima facie case in order to get interim relief from the Court of Justice, under Article 186, the relief "must be urgent and necessary to prevent irreversible or at least serious damage."[49] Also, there must be "danger of damage which could not be remedied merely by compensation or some other appropriate remedy" even if Camera Care were to succeed in its main action. Finally, there must be a balancing of the consequences of ordering or not ordering the interim measures and that balance must be favorable to Camera Care.

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48 *Id.*

49 It is not necessary to show that the firm will go out of business if the interim measures are not ordered. A showing that it would suffer a serious loss without adequate compensation or other satisfactory remedy is sufficient. *See,* for instance, Geitling v. High Authority (Case No. 19/59, (1960) E.C.R. 34) in which the Court referred to "damage which could not be redressed," Acciaieria e Tubificio di Brescia v. High Authority (Case No. 31/59, (1960) E.C.R. 98) in which the Court referred to "irreparable or at least serious damage," and GEMA v. Commission (Case No. 45/71R, (1971) E.C.R. 791) in which the Court noted that "serious disturbance" would justify interim relief but "inconvenience" would not.

In its decision, the Court of Justice noted that no power to make interim decisions is expressly conferred upon the Commission by Regulation No. 17/62. Article 3(1) of that regulation authorizes the Commission to make decisions and to terminate the infringement complained of, but this authorization is not to be construed as a limitation on the decision making power of the Commission. The Court went on to say that decision making must be done

> in the most efficacious manner best suited to the circumstances of each given situation. To this end the possibility cannot be excluded that the exercise of the right to take decisions conferred upon the Commission [by Article 3(1) of Regulation No. 17/62] should be linked in successive stages so that a decision finding that there is an infringement may be preceded by any preliminary measures which may appear necessary at any given moment.
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> ... [t]he Commission must also be able ... to take protective measures to the extent to which they might appear indispensable in order to avoid the exercise of the power to make decisions given by Article 3 from becoming ineffectual or even illusory because of the action of certain undertakings. The powers which the Commission holds under Article 3(1) of Regulation No. 17 therefore include the power to take interim measures which are indispensable for the effective exercise of its functions and, in particular, for ensuring the effectiveness of any decisions requiring undertakings to bring to an end infringements which it has found to exist.[50]

The Court went on to re-state the rquirements which must be met before interim relief may be ordered and concluded by noting that the rights of the parties were safeguarded by the fact that they could apply to the Court for emergency measures under Articles 185 or 186 after a Commission decision regarding interim relief.[51]

B. *Is the Commission's Interim Decision Making Power the Answer to the Problems Associated with a Stay of the Proceedings in the National Courts of the Member States?*

Let us return to the case of the perfume manufacturer introduced above. B has challenged the terms of A's distributorship agreements in the national court as being a restraint of trade which affects competition in the Community, and A has interposed the defense that he has applied to the Commission for an exemption for those agreements

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[50] *Camera Care,* note 47, *supra.*

[51] Once again it is interesting to note the view of the Advocate General in order to get both sides of the issue. In keeping with his wide view of Article 9 of Regulation No. 17/62 (see the text at note 43, *supra*), in *Camera Care* he took the position that the Commission has only the powers which are expressly conferred upon it or inherent by necessary implication. Since he could not find that the power was expressly conferred or inherent in Regulation 17, he claimed that the Commission had no authority to make interim decisions.

under Article 85(3). At this stage, we will assume that the national court suspends the proceedings in that court to await the decision of the Commision. Meanwhile, B applies to the Commission for an interim decision under *Camera Care.* What result?

The answer to this inquiry and, it is contended, the answer in many cases which will arise under Article 85(1), lies not in the newly established power of the Commission to issue interim decisions, but in the ability of B to make out a prima facie case for interim relief. In this example, for instance, B may well be able to show that it has correctly defined the market, that A is dominant in the market, that the refusal to supply is unjustified and that trade in the Member States has been affected. Certainly it would seem that the damage could not be remedied by mere compensation, as an attempt to fix money damages in this situation would be pure speculation. But are the measures sought "urgent and necessary to prevent irreversible or at least serious damage?" It is clear that B will not suffer such damages; in fact, B will continue to sell the clothing, shoes, accessories and beauty items he has always sold and will suffer no damage to those sales.

There is another reason why B will be unable to obtain interim relief from the Commission. As pointed out by John Temple Lang,[52] since interim measures are designed to protect the *status quo ante,* they will not normally put the party requesting the relief in a better position than it would have been had competition not been infringed. In our case, ordering A to distribute to B would significantly change the positions of the parties rather than preserve their status.

As noted by Temple Lang,[53] the power to order interim relief may be appropriately exercised in several situations. The Commission is most likely to be asked to order interim relief in cases involving the termination of distribution agreements when the distortion in competition caused by that agreement damages the customer-complainant. The Commission could also use its power on its own initiative, at the request of consumer associations or national authorities, in the public interest or the interests of the Member States.

A look at the procedure in a case involving a request for interim relief is also instructive. Except in cases in which the Commission initiates the proceeding in the public interest, the Commission will not consider an application for interim measures unless preceded or accompanied by the formal complaint required by Article 3 of Regulation No. 99/63. Further, the complainant must have an interest in the out-

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[52] J. Temple Lang, The Powers of the Commission to Order Interim Measures in Competition Cases, 18 Comm. Mkt. L.R. 49 (1981).

[53] *Id.*

come of the case sufficient for the purposes of that article. In the normal case appropriate for interim relief, these requirements will not pose a problem. However, something which may present a problem is the fact that, unless acting on its own initiative, the Commission will not exercise its investigatory powers before deciding whether to order interim relief (it will take into account any facts within its knowledge at the time). In a proceeding on the merits, the Commission makes use of its considerable investigatory powers in order to determine the circumstances more accurately. Since the complainant in a request for an interim decision cannot benefit from the Commission's use of these investigatory powers, the burden of proof which the plaintiff must meet, which as discussed above is a heavy burden, to present a prima facie case is made that much more difficult to meet.

Another procedural aspect which may produce difficulty is that the Commision must give the party at which the complaint is directed an opportunity to argue that no interim decision is warranted.[54] Given the vagaries of proving the elements required to make out a prima facie case, it seems likely that that party will be able to introduce evidence which, if not sufficient to overcome the complainant's proof, will, in many cases, at least serve to increase the already heavy burden of proof on the complainant.

The foregoing is not to imply that the power of the Commission to order interim relief could not help solve some of the problems that may be created by the suspension of proceedings in the national courts to await Commission disposition of Article 85 cases. In some cases, the *Camera Care* decision could provide the Commission with a needed tool with which it may shape competition law in the Community. However, as the attempt to fit the example of the perfume manufacturer into the context of the procedures of this interim decision making power illustrates, there are many problems which may cause the Commission to decline to exercise this power. Because of these problems, and because of the heavy burden of proof which the complainant in such an action must meet and because the Commission will order such relief only when it is necessary to preserve the status of the parties, the availability of the power to order interim relief is not likely to provide a solution to the problems of suspending the proceedings in the national courts in all cases.

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[54] *Camera Care,* note 47, *supra.*

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COMPILED BY THOMAS M. STEELE*
AND JUDITH GIRE NORCROSS**

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COMMENTARY

At the Industry/University Interface: Pajaro Dunes

(Editor's Note: A Biotechnology Conference was held at Pajaro Dunes, Calif., March 25-27, 1982, that included about thirty-five participants: university presidents, other administrators, faculty scientists, and members of commercial organizations. The meeting was convened by the presidents of Stanford, the California Institute of Technology, the University of California, Harvard, and the Massachusetts Institute of Technology to consider the opportunities and problems offered by developing university/industry relationships in the field of biotechnology, and to help with the task of framing university policies. While the stress of the Conference was on biotechnology, the participants addressed the broader issue of industry/university interaction. Below are excerpts, printed with approval, from an issue of the MIT Tech Talk that reported on the Conference. It is hoped that readers of IDEA will submit thoughtful contributions for COMMENTARY on this, one of the most important issues of our time.)

Background and Summary

Research of the past several decades . . . has profoundly advanced the understanding of life processes. A new biotechnology of extraordinary promise has emerged. [A]pplications of present knowledge can be forseen that are likely to be of far-reaching benefit to people everywhere. These useful applications may well improve health, enhance food and energy supplies, improve the quality of the environment, and reduce the cost of many industrial processes and products.

Most of the basic research which made these applications possible has been done in American universities, mainly with government funding. The development of these findings into useful processes and products is already vigorously underway in American industry. The chain of progress from basic research to useful applications necessarily involves universities and industry. For the promise to be fulfilled, all links in the chain must be strong.

There are several strong motivations for academic institutions and their faculties to seek industry support for research. First, there is a genuine interest in facilitating the transfer of technology — from discovery to use — to contribute to the health and productivity of society;

second, there is interest in an ongoing dialogue with industry which could improve the level of applied science by close association with industry applications; and, third, academic institutions and their faculty members are feeling particularly hardpressed financially and see such cooperation with industry as a way of compensating for a small but important part of the support lost from federal sources.

From industry's point of view, a competitive position is the critical measure of success. Each high-technology company seeks to develop the "best technology" and to apply it to produce lowest product cost. The development by a business of a cooperative research relationship with a university is likely to be based on the presumption that "best technology" can most readily be created by "best people," access to whom is the target for the business which finances the program. So long as the conditions which surround access to a university's "best people" are not too onerous, business will continue to make new arrangements with universities in order to achieve competitive advantages.

It has long been felt [however] that university administrators, faculty and industry leaders have not been communicating enough about the problems arising within the universities in connection with the commercialization of basic research. Equally important, the problems and objectives of industry have been often ignored.

Relationships Between Universities and Industry

Research Agreements

It is important that universities and industries maintain basic academic values in their research agreements. Agreements should be constructed, for example, in ways that do not promote a secrecy that will harm the progress of science, impair the education of students, interfere with the choice by faculty members of the scientific questions or lines of inquiry they pursue, or divert the energies of faculty members from their primary obligations to teaching and research.

Universities have a responsibility not only to maintain these values but also to satisfy faculty, students and the general public that they are being maintained. One way of accomplishing this result might be to make public the relevant provisions of research contracts with industry. Another method may be to allow a faculty committee or some other competent body to examine all research contracts with industry and assure that their terms are consistent with essential academic values. Reasonable people may differ on the choice of methods to be used, and we propose no single solution. What is essential is that each university establish some effective method.

The tradition of open research and prompt transmission of research results should govern all university research, including research sponsored by industry. Those traditions require that universities encourage open communication about research in progress and research results. However, it is appropriate for institutions to file for patent coverage for inventions and discoveries that result from university research. This action may require brief delays in publication or other public disclosure.

Receipt of proprietary information from a sponsor may occasionally be desirable to facilitate the research. Such situations must be handled on a case-by-case basis in a manner which neither violates the principles stated above nor interferes with the educational process. Any other restrictions on control or information disclosure by institutions are not appropriate as general policy.

Patent Licensing

Universities are now developing more effective programs to identify and patent potentially useful discoveries and to license them to interested firms. With few exceptions, such programs have not resulted in significant financial gains to universities though greater gains may come in the future. However, regardless of the uncertainty of the economic return, as recipients of public funds universities have a responsibility to initiate and maintain effective patent and patent licensing programs in order to encourage technology transfer.

It is important that universities administer patent programs in a manner that conforms to the public interest and to the university's primary commitment to teaching and research. One important question is whether universities should grant exclusive or non-exclusive licenses. Some people fear that allowing a single firm the sole right to develop a patent will necessarily remove competition, slow the development of the patent or even prevent development altogether. This fear is exaggerated. [I]n some cases, exclusive rights are essential if development is to take place since no firm will expend large sums for development if it cannot expect a reasonable rate of return.

While the foregoing policies seem acceptable for licensing patents on discoveries already made, greater difficulties arise in corporate research agreements where the sponsor requests the right to exclusive licenses on all discoveries made as a result of the research funded by the company. Some of us believe that such exclusive rights are an appropriate *quid pro quo* for the funds provided for research. Others believe that the university should be willing to agree to provide non-exclusive royalty-free licenses to the sponsor but should not give up its right to examine the appropriateness of exclusivity for each invention on a case-by-case basis.

[Underlying all the foregoing is the vital constraint] that universities not influence the nature of the research proposed by professors, postdocs or graduate students by pressing them to do work of potential commercial importance or to become involved in other commercial activities. Professors may choose to delay publication of research findings for a brief period in order to permit the timely filing of patent applications, but in the absence of a contractual obligation, universities should not try to prevent faculty members from publishing or disclosing their research findings in order to preserve the universities' patent rights.

Excerpted by
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COPYRIGHT AND CONTRIBUTORY INFRINGEMENT*

ROBERT CONLEY**

Introduction

The copyright law[1] is an incentive system.[2] The foundation of this

*This article was awarded first prize at Capital University Law School in the 1982 Nathan Burkan Memorial Competition in Copyright Law sponsored by ASCAP. The author wishes to express his thanks to his faculty adviser, Professor Donald B. Pedersen.

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[1] 17 U.S.C. §§101-810 (Supp. IV 1980). The present Copyright Act, Copyright Law Revision Act, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. §§101-810 (Supp. IV 1980)) was a general revision of the Copyright Act of 1909, Copyright Act, ch. 320, 35 Stat. 1075 (1909) (codified at 17 U.S.C. §§1-216 (1976) (revised 1976). The regulations pertaining to the copyright law are contained in 37 C.F.R. §§201-308 (1981). The copyright system of the United States is derived from the Constitution: "The Congress shall have Power ... To 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." U.S. Const. art. I, §8, cl. 8. This clause was adopted unanimously, without debate or controversy, by the Constitutional Convention. L. Wood, Patents and Antitrust Law 13n.62 (1942). In explaining this clause James Madison said "The utility of this power will scarcely be questioned ... The public good fully coincides in both cases [copyrights and patents] with the claims of individuals." The Federalist No. 43 (J. Madison) (C. Rossiter ed. 1961 at 271-72).

[2] *Compare* Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 Geo. Wash. L. Rev. 521, 523 (1953) where the author states "The patent law is an incentive system." More succinctly, "At the heart of the U.S. system are indeed many motives — as many, perhaps, as in democracy itself. Yet one motive remains fundamental, in theory and in fact. This is the old selfish hope of self-betterment, also known (forgive the expression) as money." *Id.* (quoting from Life, Jan. 5, 1953 at 46). "[I]t is clear that the real purpose of the copyright scheme is to encourage works of the intellect. ..." Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963, 965 (9th Cir. 1981).

system is the monopoly[3] in original works of authorship[4] granted to an author.[5] To help safeguard the author's monopoly from infringement,[6] the courts have developed the doctrine of contributory infringement.[7] This doctrine enables an author to seek damages from those who aid and abet another in the infringement of his copyright.

The doctrine of contributory infringement is not synonymous with absolute liability. The doctrine does have ascertainable limits beyond which it should not be applied. For example, in the recent "Betamax"

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[3] This economic monopoly is contained in 17 U.S.C. §106 (Supp. IV 1980). In short, the five fundamental rights that comprise the economic monopoly of a copyright owner are the exclusive rights of reproduction, adaptation, publication, performance, and display. Of course, these "exclusive rights" are subject to the various limitations, qualifications, or exemptions contained in 17 U.S.C. §§107-18 (Supp. IV 1980).

[4] An eloquent description of the unique property protected by the copyright system is the following statement of Benjamin Disraeli:

> There are works requiring great learning, great industry, great labor, and great capital, in their preparation. They assume a palpable form. You may fill warehouses with them, and freight ships. And the tenure by which they are held is, in my opinion, superior to that of all other property; for it is original. It is tenure which does not exist in a doubtful title, which does not spring from any adventitious circumstances. It is not found; it is not purchased; it is not prescriptive. It is original. So it is the most natural of all titles, because it is the most simple and least artificial. It is paramount and sovereign, because it is a tenure by *creation.*

M. Handler, Business Torts 257 (1972) (quoting from Drone on Copyright 82 (1879)) (emphasis added).

[5] The word "author" has not been confined to its strict literal meaning. "While an 'author' may be viewed as an individual who writes an original composition, the term, in its constitutional sense, has been construed to mean an "originator,' 'he to whom anything owes its origin'." M. Nimmer, Copyright, 486 (1979) (quoting in part from Burrow-Giles Lithographic Co. v. Sarony, 111 U.S. 53, 58 (1884)). Consequently, works of authorship ("writings") include the following categories: (1) literary works; (2) musical works, including an accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audio-visual works; and (7) sound recordings. 17 U.S.C. §102 (Supp. IV 1980).

[6] 17 U.S.C. §501(a) (Supp. IV 1980) defines Infringement of Copyright: "Anyone who violates any of the exclusive rights of the copyright owner... is an infringer of copyright."

[7] The doctrine of contributory infringement can find its basis in the common law doctrine of joint tortfeasors. It is directed to the conduct of a defendant who intentionally aids another in the infringement of a copyright.

> An infringement of a patent [copyright] is a tort analogous to trespass or trespass on the case. From the earliest times, all who take part in a trespass, either by actual participation therein or by aiding

case,[8] the court erroneously applied the doctrine to attach liability to the manufacturer of a videotape recorder. The proper place of the doctrine of contributory infringement in copyright law is not that of a cure-all for any infringement where it is not feasible to seek or recover damages from the direct infringers.

This paper will deal with the proper limits of the doctrine of contributory infringement in copyright law. A four-part analysis will be presented, often using the Betamax case as a convenient touchstone. First, the limits of the common law doctrine of joint tortfeasors, the ancestor of the doctrine of contributory infringement, will be discussed. Second, the doctrine of contributory infringement in patent law will be explored. Special attention will focus on both the appropriateness and the danger of transferring concepts from patent law to copyright law.

Third, four models of copyright contributory infringers will be created, using, as guides, the pre-Betamax copyright cases that involved contributory infringers. It is believed that most, if not all, of the traditional copyright contributory infringers will fit into one or another of these models. Finally, these models will then be tested to determine their possible usefulness in future attempts by authors to attach liability as contributory infringers to the manufacturers of advanced technological inventions, of which the Betamax is surely just the beginning.

I. Contributory Infringement: The Confused and Uncertain Progeny of Joint Tortfeasors.

Copyright infringement is a tort.[9] Likewise, contributory infringement is also a tort.[10] The common law doctrine of joint tortfeasors

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> and abetting it, have been held to be jointly and severally liable for the injury inflicted. There must be some concert of action between him who does the injury and him who is charged with aiding and abetting, before the latter can be held liable. When that is present, however, the joint liability of both the principal and the accomplice has been invariably enforced. If this healthful rule is not to apply to trespass upon patent property [copyright property], then, indeed, the protection which is promised by the constitution and laws of the United States to inventors [authors] is a poor sham.

Thomson-Houston Elec. Co. v. Ohio Brass Co., 80 F.712, 721 (6th Cir. 1897).

8 Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963 (9th Cir. 1981).

9 "Courts have long recognized that infringement of a copyright is a tort, and all persons concerned therein are jointly and severally liable as such joint tort-feasors." Ted Browne Music Co. v. Fowler, 290 F.751, 754 (2d Cir. 1923).

10 "It is clear that copyright infringement is a tort and that all infringers may be held to

provides the underlying rationale for the doctrine of contributory infringement.[11] Unfortunately, the term "joint tortfeasor" is of indeterminate meaning.[12] Indeed, no one knows exactly what constitutes a joint tort.[13] Nevertheless, the original meaning of the term "joint tort" probably comprised two basic elements: (1) the pursuit of a common purpose or plan and (2) mutual aid in carrying out that common purpose or plan.[14] A joint tort is the result of concerted action.[15] Put differently, joint tortfeasors act in concert.[16]

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be jointly and severally liable for the damage occasioned by the infringement." Celestial Arts, Inc. v. Neyler Color-Lith Co., Inc., 339 F. Supp. 1018, 1019 (E.D. Wis. 1971).

[11] Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 Geo. Wash. L. Rev. 521, 525 (1953). One writer has suggested that "a modern and more realistic approach to the nature of the tort itself suggests that patent infringement in its 'indirect' form at least, is analogous to a tortious interference with economic relations." Miller, *Some Views On The Law of Patent Infringement by Inducement,* 53 J. Pat. Off. Soc'y 87, 92 n.14 (1971). In copyright law, the term "indirect infringers" should probably be used merely to denote that broad category of infringers who are not direct infringers.

[12] Prosser, *Joint Torts and Several Liability,* 25 Cal. L. Rev. 413 (1936).

[13] *Id:*

> Various tests of "jointness" have been proposed: the identity of a cause of action against each of two or more defendants; the existence of a like, or common duty; whether the same evidence will support an action against each; the single, indivisible nature of the injury to the plaintiff; identity of the facts as to time, place and result; whether the injury is direct and immediate, rather than consequential; responsibility of the defendants for the same *injuria,* as distinguished from the same *damnum.*

[14] W. Prosser, The Law of Torts 291 (4th ed. 1971).

[15] *Id.*

[16] *Id.* A general rule concerning persons acting in concert is the following:

> For harm resulting to a third person from the tortious conduct of another, one is subject to liability if he:
>
> (a) does a tortious act in concert with the other or pursuant to a common design with him, or
>
> (b) knows that the other's conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other so to conduct himself, or
>
> (c) gives substantial assistance to the other in accomplishing a tortious result and his own conduct, separately considered, constitutes a breach of dtuy to the third person.

Restatement (Second) of Torts §876 (1979). In reference to clause (a), "Parties are acting in concert when the act in accordance with an agreement to cooperate in a particular line of conduct or to accomplish a particular result." RESTATEMENT

Of course, the mutual aid element need not be active participation.[17] And further, the pursuance of the common purpose or plan may be by tacit understanding rather than by express agreement.[18] But, tacit understanding should not be confused with mere knowledge of what another is doing. More to the point, mere knowledge should not be enough to hold one liable as a joint tortfeasor.[19] In addition, if one of the alleged wrongdoers is not acting with an intent to commit a tort, or with negligence, he should not be held to be a joint tortfeasor.[20]

These very general observations about the doctrine of joint tortfeasors in no way imply that this doctrine means the identical thing to different courts or the same thing to the same court.[21] It is not surprising, therefore, to find that the doctrine of contributory infringement, which is based upon this doctrine, is itself confused and uncertain. Indeed, the present reality, in a copyright case, is that contributory infringement is whatever a particular court says it is.[22]

In the recent "Betamax" case,[23] the courts, in an attempt to provide support for their particular positions on contributory infringement, analogized from patent law to copyright law. The doctrine of contributory infringement as developed by the courts in patent cases does have some relevance to the related area of copyright law and can and should be used as a helpful guide. Nevertheless, the concepts associated with contributory infringement in the specialized area of patent law should be studied closely before they are transported to the equally specialized, but different, area of copyright law.

(SECOND) OF TORTS §876, comment a (1979). In reference to clause (b), "Advice or encouragement to act operates as a moral support to a tortfeasor and if the act encouraged is known to be tortious it has the same effect upon the liability of the adviser as participation or physical assistance." *Id.* comment d.

17 Note 14, *supra,* at 292.

18 *Id.*

19 *Id.*

20 *Id.*

21 Note 12, *supra.*

22 *Compare* Rich, *Supra* note 11 at 531: "[T]he essential characteristic of contributory infringement . . . is any act a court can be persuaded to say is a violation . . . which is not a direct infringement."

23 Universal City Studios, Inc. v. Sony Corp. of America, 480 F. Supp. 429 (C.D. Cal. 1979); *rev'd in part, aff'd in part,* Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963 (9th Cir. 1981) and Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963 (9th Cir. 1981).

II. Contributory Infringement and the Analogy to Patent Law.

A. *Contributory Infringement and Patent Law.*

Section 271 of the Patent Act of 1952[24] deals with infringement of patents. Even a cursory glance at this section leads to the conclusion that the concept of contributory infringement in patent law is considerably more developed than its counterpart in copyright law.[25] This

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[24] 35 U.S.C. §271 (1976). This section is entitled "Infringement of Patent" and is composed of the following:

> (a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
>
> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

Section 271(d) deals with conduct of the patentee that is not patent misuse. Although this section is very important in understanding the full meaning of sections 271(b) and (c), its analysis is not necessary for the present discussion.

[25] 17 U.S.C. §501(a) (Supp. IV 1980) entitled "Infringement of Copyright" states that "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright." Although contributory infringers are not mentioned in section 501(a), they are covered in section 106 which states that "the owner of copyright under this title has the exclusive rights to do and to authorize . . . ." 17 U.S.C. §106 (Supp. IV 1980). The House Report explains that the

> Use of the phrase 'to authorize' is intended to avoid any questions as to the liability of *contributory infringers*. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

particular section was the legislative reaction to the trials and tribulations of the doctrine of contributory infringement in patent law.[26]

1. Section 271(a) of the Patent Act of 1952.

Section 271(a) of the Patent Act of 1952[27] deals with direct infringement. This section, in brief, labels as a direct infringer anyone who makes, uses, or sells a patented invention without the authority of the patentee. The significance of direct infringement for the present discussion is that it is a condition precedent for contributory infringement. In other words, without a direct infringement there can be no contributory infringement.[28]

2. Section 271(b) of the Patent Act of 1952.

Section 271(b) of the Patent Act of 1952[29] is short, to the point, and self-explanatory: "Whoever actually induces infringement of a patent

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H.R. Rep. No. 94-1476, 94th Cong. 2d Sess. 61 (1976), *reprinted in* 1976 U.S. Code Cong. and Ad. News 5659, 5674 (emphasis added). The House Report also mentions vicarious or related infringers. "A well-established principle of copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 159 (1976), *reprinted in* 1976 U.S. Code Cong. and Ad. News 5659, 5775. Of course, these related or vicarious infringers are merely specific types of contributory infringers.

26 Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980). For discussion and explanation of the doctrine of contributory infringement in patent law see Hildreth, *Contributory Infringement,* 44 J. Pat. Off. Soc'y 512 (1962); Miller, *Some Views on the Law of Patent Infringement by Inducement,* 53 J. Pat. Off. Soc'y 86 (1971); Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 Geo. Wash. L. Rev. 521 (1953); Rich, *Contributory Infringement,* 31 J. Pat. Off. Soc'y 449 (1949); Rich, *The Relation Between Patent Practices and the Anti-Monopoly Laws,* 24 J. Pat. Off. Soc'y 241 (1942); Thomas, *The Law of Contributory Infringement,* 21 J. Pat. Off. Soc'y 811 (1939); and Note, *Dawson Chem. Co. v. Rohm and Haas Co.: The Reconciliation Between Contributory Infringement and Patent Misuse,* 10 Cap. U. L. Rev. 829 (1981).

27 35 U.S.C. §271(a) (1976). Note 24, *supra.*

28 "It is plain that . . . there can be no contributory infringement in the absence of a direct infringement." Aro Mfg. Co. v. Convertible Top Co., 365 U.S. 336, 341 (1961) (Aro I). The same situation exists in copyright law. As rapid increases in technology continue to turn out sophisticated and spectacular inventions such as the "Betamax," more attempts to find contributory infringers will no doubt arise. Obviously, it is not always either economically or realistically feasible to sue the individual direct infringer. The doctrine of contributory infringement can be a valuable tool in ensuring that the efforts and investments of authors do not go unrewarded. Nevertheless, the doctrine will probably not provide the ready access to corporate treasuries now envisioned by some. The reason for this seems elementary: copyright owners will not be successful in gaining monopoly control over someone else's equally creative efforts which are in the form of new inventions.

29 35 U.S.C. §271(b) (1976). Note 24, *supra.*

shall be liable as an infringer."[30] An infringer under this section is properly referred to as a contributory infringer.[31] For this section to become operative, there must first be a direct infringement. The active inducement referred to in this section implies that the direct infringement was not done by the one doing the inducing.[32] The term "active inducement" clearly involves the element of intent.[33] An additional factor suggested by case law is a "proximity test."[34] Specifically, the evidence must show that but for the act of inducement the direct infringement probably could not have occurred.[35] It is also clear that 271(b) can reach staple[36] articles of commerce where the manufacturer of that staple is purposely aiding and abetting a direct infringement.[37]

In summary, the basic points of 271(b) are these: (1) there must be a direct infringement by one other than the active inducer[38]; (2) the active inducer must purposely aid and abet the direct infringer[39]; and

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30 *Id. cf.* Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1162 (1971), a copyright case, where the court said "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."

31 Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 J. Pat. Off. Soc'y 512, 537 (1953). "Some cases . . .[ignore] the refined distinctions implied by the words 'direct' and 'contributory'." *Id.* at 538. Of course, a contributory infringer is an "infringer".

32 Rich, note 11, *supra* at 537.

33 *Id.* at 538. This section gets the planners and promoters of infringements. Many cases involve the supplying of both the means and the instructions.

34 "[I]t is not enough to show that one merely 'passively' induces infringement. The present statute explicitly requires that the inducement be 'active' before liability can occur." Miller, note 11, *supra* at 103.

35 *Id.*

36

> A "staple" is an article that has uses outside of the patented invention. A "nonstaple" is an article that has no use outside of the patented invention. In patent terminology, a nonstaple that is a material part of a patented invention can have no use other than an infringing use. An infringing use is a use that is a trespass upon the patent rights of the patentee. Therefore, when an alleged infringer makes or sells a nonstaple, it can only be for use in the patented invention as there is no other known use.

Note, *Dawson Chem. Co. v. Rohm and Haas Co.: The Reconciliation Between Contributory Infringement and Patent Misuse,* 10 Cap. U.L. Rev. 829, 835 n.28 (1981).

37 Hildreth, *Contributory Infringement,* 44 J. Pat. Off. Soc'y 512, 519 (1962).

38 The "active inducer" is a contributory infringer.

39 The mere sale of a staple will not, without more, constitute active inducement. *See* Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 Geo. Wash. L. Rev. 521, 539 (1953).

(3) the direct infringement must have been proximately caused by the active inducer.

3. Section 271(c) of the Patent Act of 1952.

Section 271(c) of the Patent Act of 1952[40] deals with the classic contributory infringement situation.[41] The basic result of 271(c) is that a patentee has the statutory right to control those nonstaple goods that are (1) capable only of an infringing use in his patented invention and (2) are essential to that invention's advance over prior art.[42] It has been held that under 271(c) that the alleged contributory infringer must know that the invention for which his particular article was especially designed was both patented and infringing.[43] In essence, this indicates that intent may be a necessary element of 271(c), just as it is for 271(b).

For present purposes, attention will focus on that portion of 271(c) which says "Whoever sells a component . . . not a staple article . . . suitable for substantial noninfringing use, shall be liable as a contributory infringer."[44] This phrase does not mean that a staple that one hopes to characterize as not having "substantial" uses outside of the patented invention will fall within 271(c).[45] The crucial point here is that 271(c) distinguishes between staple and nonstaple articles of commerce.[46] The bottom line is that 271(c) is restricted to the sphere of nonstaple goods.[47] Consequently, if an item has uses outside of the patented invention, it is a staple and falls outside of the scope of 271(c).[48]

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40 35 U.S.C. §271(c) (1976). Note 24, *supra.*

41 Rich, note 39, *supra.*

42 Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176, 213 (1980). "The phrase 'advance on the prior art' is generally used in reference to patents to mean that tangible 'thing' that distinguishes the present invention from what was previously known." Note, *Dawson Chem. Co. v. Rohm and Haas Co.: The Reconciliation Between Contributory Infringement and Patent Misuse,* 10 Cap. U.L. Rev. 829, 833 n.17 (1981).

43 Aro Mfg. Co. v. Convertible Top Co., 377 U.S. 476, 488-91 (1964) (Aro II).

44 35 U.S.C. §271(c) (1976), note 24, *supra.*

45 *Dawson Chem.,* note 42, *supra.*

46 *Id.* at 200.

47 *Id.* at 213.

48 The important point here is that the phrase "a staple article . . . suitable for substantial noninfringing uses" does not mean that an article with uses outside of the patented invention will fall within 271(c) just because the alleged "primary" use is in the patented invention. Put directly, if there are uses outside of the patented invention, the article is a staple and falls outside of the scope of 271(c). For example, in a recent patent case, the chemical "propanil" fell within the scope of 271(c) because it was

B. *Beyond the Outer Limits of Contributory Infringement: The Betamax Case.*

1. Contributory Infringement and the District Court's Opinion.

In *Universal City Studios, Inc., v. Sony Corp. of America,*[49] the district court devoted considerable attention[50] to the discussion of the doctrine of contributory infringement.[51] The court began its discussion by

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found to be a nonstaple: an article that had no real use outside of the patented invention. Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980). Nevertheless, when and if other uses for propanil are found, this particular chemical will immediately cease to be a nonstaple and thereafter will fall outside 271(c), even though these "new" uses are not the "primary" use of the chemical. Confusion and uncertainty arise because a clear distinction is not made between staples and nonstaples. A staple, whether it has either "substantial" noninfringing uses or what one would like to characterize as "not substantial" noninfringing uses, will not fall within the scope of 271(c). Only nonstaples fall within the scope of 271(c). Dawson Chem., note 42, *supra.*

49 Universal City Studios, Inc. v. Sony Corp. of America, 480 F. Supp. 429 (C.D. Cal. 1979). The "Betamax" case involves a situation where the owners of copyrighted audiovisual materials brought infringement action against manufacturers, distributors, retailers, and advertisers of a videotape recorder, the Betamax. In the present discussion the focus will be on the manufacturer.

50 *Id.* at 459-461. Under its discussion of the liability of the corporate defendants, *Id.* at 457-62, the court also had a *separate* discussion of both direct infringement, *Id.* at 457-59, and vicarious liability, *Id.* at 461-62. The court explained that "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn . . . ." *Id.* at 458. Then the court proceeds to say that "It is true that one can be found to have infringed directly even without participating in the actual infringing activity." *Id.* at 458. The court cites Kalem Co. v. Harper Bros., 222 U.S. 55 (1911) as authority for this confusing statement. What the *Kalem* court *actually* said was the following: "If the defendant did not *contribute to the infringement,* it is impossible to do so without taking part in the final act." Kalem Co. v. Harper Bros., 222 U.S. 55, 63 (1911) (emphasis added).

51 No small amount of confusion arises in copyright law in the area of infringement and infringers because the courts and the commentators use different terms for the same thing and the same term for different things. A compilation of suggested simple definitions may be useful. (1) Any infringement that is not a direct infringement is an indirect infringement. (2) Any infringement that is not a direct infringement is a contributory infringement. (3) A contributory infringement is the same as an indirect infringement. (4) Direct infringements, indirect infringements, and contributory infringements are all "infringements." (5) Any infringer who is not a direct infringer is an indirect infringer. (6) Any infringer who is not a direct infringer is a contributory infringer. (7) A contributory infringer is an indirect infringer. (8) A related infringer (defendant) is a contributory infringer. (9) A vicarious infringer is a specific type of contributory infringer. (10) A joint tortfeasor (excluding the direct infringer) is a contributory infringer. (11) Direct infringers, indirect infringers, contributory infringers, related infringers, vicarious infringers, and joint tortfeasors are all "infringers". (12) A contributory infringer is vicariously liable, or has vicarious liability, for a direct infringement.

explaining that even had it found direct infringement[52] by those who engage in home-use copying, it still could not have held the manufacturer contributorily liable for this particular direct infringement.[53] The court then proceeded to support this statement by establishing two separate positions,[54] each supported by its own distinct line of reasoning.

The first position was the more traditional approach. The court began with what it deemed to be the most clear definition of contributory infringement: "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."[55] Therefore, a contributory infringer must satisfy two requirements:[56] (1) he must have knowledge of the infringing act, the direct infringement; and (2) he must induce, cause, or materially contribute to the act of

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[52] The court held that there was no direct infringement as the home-use copying was found to be a "fair use". *Universal City Studios,* note 49, *supra* at 456.

> Accordingly, this court finds that the home-use copying made possible by this new technology constitutes fair use of plaintiffs' works. The use, limited to home recording and playback of audiovisual material broadcast free of charge to Betamax owners over public airwaves, is noncommercial and does not reduce the market for plaintiffs' works.

Id. The threshhold question in this case, of course, was the determination of whether or not the home-use copying of copyrighted works was a fair use of those copyrighted works. For a general discussion of the district court's opinion and in particular the critical comments of its analysis of the doctrine of fair use, which doctrine is codified at 17 U.S.C. §106 (Supp. IV 1980), see *Note, Universal City Studios v. Sony Corp.: "Fair Use" Looks Different on Videotape,* 66 Va. L. Rev. 1005 (1980); Note, *The Betamax Case: Accommodating Public Access and Economic Incentive in Copyright Law,* 31 Stan. L. Rev. 243 (1979); Note, *Copyright: Gone With the Betamax?,* 8 N.Y.U. Rev. L. and Soc. Change 45 (1978); Note, *Copyright - The Home Video Recording Controversy,* 81 W. Va. L. Rev. 231 (1979); and Marsh, *Betamax and Fair Use: A Shotgun Marriage,* 21 Santa Clara L. Rev. 49 (1981). For a general discussion of some important aspects of this case, *see* Nimmer, 3 Nimmer on Copyrights, §§12.04[A], at 12-36 to -61, and 13.05[F] at 13-93 to -98 (1981). The views expressed by Nimmer were similar to those subsequently adopted by the court of appeals. *See* Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963, 975 (9th Cir. 1981).

[53] Note 49, *supra* at 457.

[54] These two positions are (1) the traditional model of copyright contributory infringers and (2) the "staple article of commerce" theory borrowed from patent law.

[55] Note 49, *supra* at 459, quoting from Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1162 (2d Cir. 1971)).

[56] Apparently both of these conditions must be met.

direct infringement. The district court found that the manufacturer did not meet either requirement.[57]

In reference to the first requirement, knowledge of the infringing activity, the court concluded, simply, that the knowledge of the manufacturer was not sufficient to make it a contributory infringer.[58] The court explained that the defendant manufacturer here, unlike the contributory infringers in other copyright cases,[59] had neither a direct involvement with the infringing activity nor any direct contact with the purchasers of the Betamax,[60] the subsequent direct infringers. Further, the court pointed out that the manufacturer did not sell or deal in any way with the actual infringing work.[61]

The court then explained that even if the manufacturer had constructive knowledge of the home-use copying of copyrighted works, it would still not satisfy the knowledge requirement for the simple reason that no one knew whether or not home-use copying was an infringing activity.[62]

In reference to the second requirement of the test of the contributory infringer, inducement of the direct infringement, the court found that even though the manufacturer, Sony, was responsible for advertising specific uses of the Betamax, there was no evidence that these adver-

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57 Universal City Studios, Inc. v. Sony Corp. of America, 480 F. Supp. 429, 459-60 (C.D. Cal. 1979).

58 *Id.* at 459.

59 The court specifically listed the following three cases: Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159 (2d Cir. 1971); Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F. Supp. 399 (S.D.N.Y. 1966); and Universal Pictures Co., Inc. v. Harold Lloyd Corp., 162 F.2d 354 (9th Cir. 1947). Universal City Studios v. Sony Corp. of America, 480 F. Supp. 429, 461 (C.D. Cal. 1979).

60 Note 49, *supra* at 461.

61 *Id.* at 460.

62 *Id.* at 460. The requirement of knowledge can be categorized as requiring different things, depending on the viewpoint of a particular court. For example, (1) knowledge could be deemed to consist merely of the knowledge that a copy of a copyrighted work could be made; (2) knowledge could be held to mean that the alleged contributory infringer knew that the Betamax was being used to both copy copyrighted works and that that particular copying was a direct infringement; or (3) no knowledge at all is required. The district court appears to adopt the second viewpoint. *Id.* at 460. The court of appeals, on the other hand, appears to adopt the third viewpoint. Universal City Studio, Inc. v. Sony Corp. of America, 659 F.2d 963, 975 (9th Cir. 1981). The problem here is that if a court, for example, adopts viewpoint three, no knowledge required, it would seem to be mandatory that the alleged contributory infringer must meet, at the minimum, some very precise conditions of participation in the direct infringement.

tisements induced a direct infringement.[63] That, essentially, was how the district court found that the manufacturer could not be guilty of contributory infringement under the traditional copyright model. The court did not stop there.

The district court apparently realized that there was more to this case than the relatively simple matter of alleged concerted action to infringe a copyright. Involved in this case was an incredible invention[64] which has an independent existence outside of any or all copyrighted works. Therefore, to provide additional support for its finding of no contributory infringement by the manufacturer, the court adopted a second position: the staple article of commerce theory of patent law. To find specific support for this position, the court stepped into what proved to be the unfamiliar waters of patent law. In brief, the court analogized to the staple article of commerce theory of patent law and found that the Betamax was a staple article of commerce.[65] Thus, if the manufacturer was held liable commerce would be hampered.[66] The analogy may very well prove to be an appropriate one,[67] but the

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[63] Note 49, *supra* at 460.

[64] The invention is the Betamax videotape recorder. For a general discussion of how the Betamax works, *see Universal City Studios*, note 49, *supra* at 435-36. The present Register of Copyrights, David Ladd, recently discussed the continuing problems associated with copyrights and new technologies:

> Historically, copyright has always been challenged to keep pace with technology. During the transitions from theater to radio and then to television, copyright specialists had the luxury of assessing the copyright implications at some leisure. But, as technological advances occur at a continually accelerating pace, and the only norm is change, the strains on copyright — its theory, law, and commercial practice — intensify concomitantly. It is, therefore, imperative that we try to discern where our technologies may be taking us, so that we may adapt copyright to them — soundly, creatively, and timely.

Ladd, *A Pavan for Print: Accommodating Copyright to the Tele-Technologies*, 29 J. Copr. Soc'y 246, 248 (1982).

[65] Note 49, *supra* at 461.

[66] *Id.* at 461. "Commerce would indeed be hampered if manufacturers of staple items were held liable as contributory infringers whenever they 'constructively' knew that some purchasers on some occasions would use their product for a purpose which a court later deemed, as a matter of first impression, to be an infringement." *Id.*

[67] *But cf* Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963, 975 (9th Cir. 1981) where the court of appeals said that the district court's "reliance on the 'staple article of commerce' theory was inappropriate". Nevertheless, the major reason it may, in the future, prove to be appropriate is that it is very unlikely that copyright owners will, except very briefly, be able to control the Betamax. Among the several bills introduced into Congress to solve this particular copyright-

court's analysis was too short and too incomplete. More importantly, the patent law authorities cited by the court[68] were neither sufficient nor correct.

The court makes its first error when it states that "manufacturers ... of staple articles... suitable for substantial noninfringing use cannot be held liable as contributory infringers."[69] This is true only if a particular plaintiff is confined to seeking relief under section 271(c) of the Patent Act of 1952.[70] An active inducer under section 271(b)[71] is also a contributory infringer.[72] Manufacturers of staples, under certain circumstances, could be reached under section 271(b).[73] To further complicate matters, the court cites the patent case of *Aro Manufacturing Co. v. Convertible Top Co.*[74] as support for this position. Unfortunately, the pages cited to[75] are concerned primarily with the knowledge requirement of section 271(c) and do not offer any real support and certainly no explanation for the court's statements about contributory infringers and staple articles of commerce.

Finally, adding insult to injury, the court's citation to the patent case of *Henry v. A.B. Dick Co.* [76] as support for its position serves as its

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technology dilemma is H.R. 5705, 97th Cong., 2d Sess. (1982). One of the sponsors of the bill, Representative Don Edwards of California, said the following:

> The need for adequate compensation for those who create intellectual property... is clear...[T]he costs of creating and marketing audiovisual programs today are enormous... Deprived of these [secondary] markets [pay cable, pay television, network television, prerecorded video cassettes, disks, and syndicated television], copyright owners will have only two choices: First, produce less intellectual property; or second, limit the distribution of works produced so that these programs cannot be recorded by the consumer without compensating the copyright owner. In either event, the public is the big loser. I believe that a reasonable copyright royalty fee on video records and blank tapes paid by the manufacturers and importers who profit from home taping is an equitable solution to this complex problem.

128 Cong. Rec. H630-31 (daily ed. March 3, 1982) (remarks of Rep. Edwards).

68 35 U.S.C. §271(c) (1976); *Aro Manufacturing,* note 43, *supra* at 488-89; and Henry v. A. B. Dick Co., 224 U.S. 1, 48 (1912).

69 Note 49, *supra* at 461.

70 35 U.S.C. §271(c) (1976).

71 35 U.S.C. §271(b) (1976).

72 See the discussion of §271(b), *supra* at 190.

73 *Id.*

74 Note 43, *supra.*

75 *Id.* at 488-89.

76 Henry v. A. B. Dick Co., 224 U.S. 1 (1912).

coup de grâce.[77] In *Henry* the United States Supreme Court held that a patentee could control the staple articles of commerce used in connection with his invention.[78] Obviously, this particular holding is the clear opposite of the position advocated by the court.[79] Moreover, *Henry* was legislatively nullified in 1914 by the Clayton Act.[80] Further, *Henry* was expressly overruled by the United States Supreme Court in 1917.[81]

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77 The phrase "used in connection with" refers to an article that may be necessary for the proper functioning of an invention, but which is not a material component of the actual invention. For example, in Henry v. A. B. Dick Co., 224 U.S. 1 (1912) the ink (a staple article of commerce) used in the patented rotary mimeograph machine of the A. B. Dick Co. was an article that was necessary for the proper functioning of the machine, but it was not a material component of the actual patented invention.

78 *Henry v. A. B. Dick Co.*, note 68, *supra* at 49:

> These defendants . . . made a direct sale to the user of the patented article [the rotary mimeograph machine], with knowledge that under the license from the patentee she [the user of the patented rotary mimeograph machine] could not use the ink [a staple article of commerce], sold by them directly to her in connection with the licensed machine, without infringement of the monopoly of the patent. It is not open to them to say that it may be used in a noninfringing way . . .

79 The district court in the Betamax case is saying that a copyright owner cannot control staple articles of commerce. The *Henry* court held that a patentee could control staple articles of commerce.

> The logic employed in *A. B. Dick Co.* was the culmination of the proposition that says that since a patent owner has the exclusive control over the making, using, and selling of the invention, the lesser right to set the limits and the conditions under which the invention may be used is necessarily included within that exclusive right.

Note, *Dawson Chem. Co. v. Rohm and Haas Co.: The Reconciliation Between Contributory Infringement and Patent Misuse,* 10 Cap. U. L. Rev. 829, 835-36 (1981).

80 15 U.S.C. §14 (1976). The Clayton Act, which became effective in 1914, stated in pertinent part that it was unlawful to attempt to substantially lessen competition or to try to create a monopoly by the use of a "lease . . . sale or contract of sale of goods . . ., or other commodities, whether patented or unpatented . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . ., or other commodities of a competitor or competitors of the lessor or seller . . . ."

81 Motion Picture Patents Co. v. Universal Film Co., 243 U.S. 502, 518 (1917). "It is obvious that the conclusions arrived at in this opinion are such that the decision in Henry v. A. B. Dick Co., 224 U.S. 1, must be regarded as overruled." The patent case of Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980) is a current authority on staples, nonstaples, and section 271(c) of the Patent Act of 1952.

2. Contributory Infringement and the Court of Appeals' Opinion. In *Universal City Studios, Inc. v. Sony Corp. of America,*[82] the Court of Appeals for the Ninth Circuit unceremoniously rejected just about everything the district court said about contributory infringers and contributory infringement. Just exactly what the court of appeals did say about contributory infringement is especially important not only because it rejected the views of the district court, but also because it found that home-use copying was a direct infringement.[83] The court also found that the manufacturer of the Betamax was a contributory infringer.[84] The court's tactic of analysis, in respect to the doctrine of contributory infringement, was to build up its position as it proceeded to dismantle the two positions of the district court.

The court began its attack by saying that the district court's "reliance on the 'staple article of commerce' theory was inappropriate."[85] The court's reasoning is contained in three concise statements: (1) "Videotape recorders are manufactured, advertised, and sold for the primary purpose of reproducing television programming. [2] Virtually all television programming is copyrighted material. [3] Therefore, videotape recorders are not 'suitable for substantial noninfringing use'."[86] Reduced to a simple syllogism,[87] what the court is actually saying is the following: (1) All television programs are copyrighted material; (2) All videotape recorders copy television programs; (3) Therefore, all videotape recorders infringe copyrighted material. Of course, the court's conclusion can only be factually true if both the major premise (1) and the minor premise (2) are correct. Unfortunately for the court's analysis, the problems in the Betamax case are not that simple. The court's syllogism is flawed.

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82 659 F.2d 963 (9th Cir. 1981), note 67, *supra.*

83 *Id.* at 969.

84 *Id.* at 975-76.

85 *Id.* at 975: "Appellees' analogy of videotape records to cameras or photocopying machines may have substantial benefit for some purposes, but does not even remotely raise copyright problems." The court supported this statement by stating that the Betamax did not have substantial noninfringing uses, whereas, so the implication would appear to be, cameras and photocopying machines do. Of course, all *three* machines do have uses aside from copying copyrighted works. All *three* machines are, therefore, staple articles of commerce. There is no such thing as "degrees" of staples. An article is either a staple or a nonstaple. *See* Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980).

86 Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963, 975 (9th Cir. 1981).

87 What the court "actually" said was not a syllogism and probably never could be. *See generally* Copi, Introduction to Logic (5th ed. 1978).

First, the videotape recorder in question, the Betamax, is a staple, which in this context means that it has uses aside from copying copyrighted television programs.[88] Therefore, when the court found that the manufacturer of the Betamax was guilty of contributory infringement, it was not only giving the author monopoly control of his own creative product, but it was also giving the author monopoly control of the Betamax. This constructive monopoly of someone else's creative product does not appear to be a right granted to authors by the copyright laws. The court's syllogism might find some small measure of justification if the *only* use of the Betamax was to copy copyrighted television programs.

Second, once the court determined that the primary purpose of the videotape recorder was to copy copyrighted television programs, it then proceeded, for all intents and purposes, to judicially transform the Betamax into a nonstaple capable only of an infringing use. If an article of commerce has uses outside of copyright infringement, the mere determination that the primary purpose or the predominant use may be to copy copyrighted television programs would not appear to be near sufficient reason to remove the machine from the public domain. Certainly, a mere finding of primary use cannot transform a staple into a nonstaple.

After rejecting the district court's staple article of commerce theory, the court of appeals then proceeded to attack the district court's analysis of the traditional model of contributory infringement. The court of appeals began by adopting the district court's definition of contributory infringement.[89] In its discussion of the first requirement, knowledge of the infringing activity, the court explained that the alleged contributory infringer need not "have actual knowledge that activity which he *makes possible* constitutes a copyright infringement."[90] The knowledge requirement, said the court, was met because the manufacturer "knew" that the Betamax would be used to reproduce copyrighted material.[91]

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88 Specifically, the copying of noncopyrighted broadcast material and the recording of one's own material by means of the optional video camera. For an exhaustive list of the former see Note, *Copyright: Gone With the Betamax?,* 8 N.Y.U. Rev. L. and Soc. Change 45, 56-57 (1978). The manufacturer of the Betamax, however, has not been idle since the decision. A new function has been added. A recent advertisement explains that "We saw the process of recording, editing, and reviewing a video home movie as similar to that of thumbing through, reading, and referring to a book." Atlantic Monthly, June, 1982, at 54.

89 Note 67, *supra* at 975.

90 *Id.* (emphasis in original).

91 *Id.*

The second requirement of the test of contributory infringement, that the alleged contributory infringer induce, cause, or materially contribute to the direct infringement, received summary treatment from the court. It merely declared that there was no doubt that this requirement had been met and thereby concluded its discussion of contributory infringement.[92]

This was hardly a satisfactory conclusion to a very important and a very complicated case. The end result is that all one can be certain of is the obvious: under some circumstances, actual knowledge of the infringing activity is not a condition precedent to finding one guilty of contributory infringement. Nevertheless, even on this point, the court did not adequately explain how this applied to the facts of the Betamax case. For example, in those cases where actual knowledge of the infringing activity has been held to be unimportant, the alleged contributory infringer has generally been either one who had some direct involvement in the direct infringement[93] or one who had the ability to supervise and control the infringing activity and receive economic profit as a result of the direct infringement.[94]

Without proper analysis by the court, it is difficult to comprehend how a manufacturer, who makes a product, which is separate and independent from the copyrighted material; and which all admit has a variety of uses aside from copying copyrighted material can "know" that individuals, who subsequently purchase its product and with whom it has no connection whatsoever, will take what is then the purchaser's personal property into the privacy of his own home and proceed to copy copyrighted television programs.

In addition, it is very difficult to fathom just how the conduct of the manufacturer of the Betamax, which is a staple article of commerce, could somehow be the proximate cause, specifically, the inducer, of the direct infringement of a copyright by an individual who, independent and separate from the acts of the manufacturer, purchases the Betamax, takes it home, and "probably" copies his favorite television program which is "probably" copyrighted. One possible reason for the court's lack of analysis was that this case did not fit any existing model of contributory infringement.

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[92] *Id.* at 975-76.

[93] *Gershwin Publishing,* note 55, *supra.*

[94] Shapiro, Bernstein and Co., v. H.L. Green Co., 316 F.2d 304 (2d Cir. 1963).

III. Copyright and Contributory Infringement: the Traditional Models

A. *The Model of the Unauthorized "Copier" Who Subsequently Becomes a Contributory Infringer.*

1. Kalem Co. v. Harper Bros.

Kalem Co. v. Harper Bros.[95] involved an infringement of General Lew Wallace's book, *Ben Hur.* Defendant Kalem Co., a producer of moving-picture films, made a film based upon the book. The Kalem Co. then sold the film to jobbers. The film was eventually shown at a public exhibition. The defendant claimed nonliability because it did not commit the direct infringement, which was the actual public exhibition of the film.

The court, speaking through Justice Holmes, made the observation that "where an ordinary [staple] article of commerce is sold nice questions may arise as to the point at which the seller becomes an accomplice in a subsequent illegal use by the buyer."[96] In *Kalem,* the defendant made the film, the actual infringing work, which had no use other than an infringing use;[97] it expected the film to be used in an infringing use; and it advertised the film for the infringing use.[98] The court found that the defendant, the Kalem Co., had contributed to the direct infringement.[99]

Essentially, the defendant did everything except supply the theaters and run the projectors. The copier turned contributory infringer, in *Kalem,* met both of the requirements of the test of the contributory

[95] 222 U.S. 55 (1911). It is imperative to make clear that even though all of the cases discussed in section III are properly treated as involving contributory infringers, and will be so treated in the present discussion, the courts and the commentators may use a term such as "joint tortfeasors" to refer to these contributory infringers. This lack of a consistent and clear use of terms is, in some part, responsible for the confusion and uncertainty in copyright infringement cases. For example, *Kalem,* which appears to be a relatively simple case, has been the recipient of various classifications. The district court in the Betamax case discusses *Kalem* as a case involving direct infringement. Universal City Studios, Inc. v. Sony Corp. of America, 480 F. Supp. 429, 457-59 (C.D. Cal. 1979). Latman discusses this same case as one involving contributory infringement. A. Latman, The Copyright Law 232 (5th ed. 1979).

[96] Kalem Bros. v. Harper Bros., 222 U.S. 55, 62 (1911). The court also makes the point that mere knowledge by the seller that the buyer is contemplating an "unlawful use is not enough to connect him with the possible unlawful consequences." *Id.*

[97] This is assuming that there could have been no "fair use" of this particular film.

[98] Kalem Co. v. Harper Bros. Co., 222 U.S. 55, 62-63 (1911).

[99] *Id.* at 63.

infringer[100]: (1) it had knowledge of the infringing activity and (2) it induced, caused, or materially contributed to the direct infringement.

2. Harper v. Shoppell.

In *Harper v. Shoppell,*[101] the defendant made an electrotype copy of a substantial portion of a March, 1873, issue of the famous *Harper's Weekly* copyrighted illustrated newspaper. The defendant then sold the plate to a competitor of Harper, knowing that the competitor would print and publish the matter copied by the defendant in its own newspaper. The court concluded that the defendant occupied the position of a party acting in concert with the direct infringer, the competing newspaper, and was liable with it as a joint tortfeasor.[102] Here, as in *Kalem,* the defendant was dealing directly with the copyrighted material. Also, the electrotype plate could have no use other than an infringing use. Certainly, a defendant under these circumstances, satisfies both of the requirements of the test of the contributory infringer: (1) knowledge of the infringing activity and (2) inducing, causing, or materially contributing to the direct infringement.

3. Universal Pictures Co., Inc. v. Harold Lloyd Corp.

In *Universal Pictures Co., Inc. v. Harold Lloyd Corp.,*[103] a certain Mr. Bruckman, who was employed as a writer for both the plaintiff, Harold Lloyd Corp., and later the defendant, Universal Pictures Co., Inc., hoped to escape liability as a contributory infringer because "he had nothing to do with the production, release, or exhibition of the alleged infringing photoplay."[104] Bruckman's activity was that during his employment with the direct infringer, Universal, he deliberately chose material for inclusion in its movie, "So's Your Uncle," that he previously had prepared for and which the plaintiff, the Harold Lloyd Corp., had previously used in its own movie, entitled "Movie Crazy". The

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100 The test used is the one allegedly employed in the Betamax case. See *supra* note 55.

101 28 F. 613 (C.C.S.D.N.Y. 1886).

102 Harper v. Shoppell, 28 F. 613, 615 (C.C.S.D.N.Y. 1886). It is interesting to note that the *Harper* court cites Wallace v. Holmes, 29 F.Cas. 74 (C.C.D.Conn. 1871) (No. 17,100) as authority for this proposition. *Wallace* was the beginning of the doctrine of contributory infringement in patent law. Also, the same court which decided *Harper* may have been the first court to use the term "contributory infringement". This occurred in a patent case in 1886, the same year it decided *Harper*. Snyder v. Bunnell, 29 F.47 (C.C.S.D.N.Y. 1886). The contributory infringement connection between patent law and copyright law is nothing new.

103 162 F.2d 354 (9th Cir. 1947).

104 *Id.* at 365.

court termed this conduct by the alleged contributory infringer, Bruckman, as a deliberate misappropriation of the plaintiff's property.[105]

The court held that Mr. Bruckman was liable as a contributory infringer.[106] Here, again, as in both *Kalem* and *Harper*, the contributory infringer was dealing directly with the copyrighted material and had himself copied the copyrighted work. Mr. Bruckman had knowledge of the infringing activity and he induced, caused, or materially contributed to the direct infringement.

B. *The Model of the No Knowledge Contributory Infringer: Dance Halls, Landlords, and Department Stores.*

There are certain types of copyright infringement cases where the defendant is held liable as a contributory infringer even though he may have had no knowledge of the direct infringement. Nevertheless, when there is no knowledge, liability will not attach to the alleged contributory infringer unless certain specific conditions are met.

The so-called "Dance Hall" cases[107] represent one end of the spectrum in this type case. Representative of the Dance Hall cases is *Dreamland Ball Room, Inc. v. Shapiro, Bernstein and Co.*[108] Defendant, Dreamland Ball Room, owned, and operated for profit, a dance hall. The orchestra furnishing the music for the paying customers of the dance hall was the admitted direct infringer. The defendant, Dreamland Ball Room, denied liability because it claimed that the orchestra, as an independent contractor, should alone be liable for its torts. The court held that even if the orchestra was an independent contractor, the owner of the dance hall would be liable if he profited from the direct infringement, which was the actual performance of the copyrighted material.[109] The court held that the defendant, Dreamland Ball Room, was liable.

On the other hand, one is not liable merely because he is the landlord and a direct infringement by one of his tenants had taken place in

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105 *Id.* at 366.

106 *Id.* at 365.

107 For an exhaustive list of these cases see Shapiro, Bernstein and Co. v. H.L. Green Co., 316 F.2d 304, 307-308 (2d Cir. 1963). These cases can be referred to as the employer-employee or the principal-agent model.

108 36 F.2d 354 (7th Cir. 1929).

109 For a judicial discussion of the elements of liability involved in the Dance Hall cases see Shapiro, Bernstein and Co. v. H.L. Green Co., 316 F.2d 304, 307-308 (2d Cir. 1963).

his building. *Deutsch v. Arnold*[110] is representative of the no knowledge cases at this, the other end of the no knowledge spectrum. In *Deutsch,* the direct infringer, Mildred Arnold, had worked for the plaintiff, Deutsch, as an analyzer of its copyrighted handwriting charts. When the direct infringer left the employ of the plaintiff, she opened up her own handwriting analysis business by leasing space from the alleged contributory infringer, Dorothy Dworman. In her business, Arnold used and sold what was determined to be infringing copies of the plaintiff's copyrighted handwriting analysis charts.

The court found that there was no proof of any acts of infringement by the alleged contributory infringer, the landlord. Specifically, the court found that (1) the landlord was not a partner of the direct infringer; (2) the landlord neither received nor was she entitled to receive anything as a result of the direct infringement; and (3) she did not know, at the time when the lease was made, that a direct infringement was possible.[111]

The leading case in this area is *Shapiro, Bernstein and Co., Inc. v. H. L. Green Co.*[112] In this case, the direct infringer, Jalen Amusement Co., Inc., manufactured unauthorized copies of the records of major record manufacturers. Jalen then sold these infringing works in its capacity as a licensed concessionaire in twenty-three stores owned by the alleged contributory infringer, the H. L. Green Co. The court analogized to the doctrine of *respondeat superior* and determined that the elements of that doctrine may be effectively applied to a situation where there was no actual technical employer-employee relationship.[113]

The court held that the H. L. Green Co. could have vicarious liability for a direct infringement by its licensee who sold pirated records in its store.[114] The court clearly outlined the necessary elements needed for a finding of contributory infringement, even though the H. L. Green Co. had no knowledge of the direct infringement by its licensee. These necessary conditions precedent are the following: (1) the alleged contributory infringer must have the right and ability to supervise the

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[110] 96 F.2d 686 (2d Cir. 1938). Cases similar to *Deutsch* can be conveniently referred to as the landlord-tenant model.

[111] *Id.* at 688. For a judicial discussion of the elements of liability involved in this line of cases see *Shapiro, Bernstein,* note 107, *supra* at 307-308.

[112] Note 109, *supra.* No doubt one reason this is a leading case is that the court has clearly and concisely spelled out the conditions precedent for contributory infringement. The court in *Shapiro* does not use the term contributory infringement. Instead the court talks about vicarious liability. *Id.* at 308.

[113] *Id.* at 307.

[114] *Id.* at 308.

conduct of the direct infringer; and (2) the alleged contributory infringer must have a direct financial interest in the direct infringement.[115]

C. *The Model of "Pervasive Participation".*

1. Gershwin Publishing Corp. v. Columbia Artists Management, Inc.

In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,[116] the defendant organized, nurtured, and maintained for profit, local community concert associations. These associations in turn sponsored an annual concert series at which artists managed by the defendant performed.[117] The defendant deliberately made no effort to obtain copyright clearance for the musical compositions performed at these concerts. It believed that such clearance was unnecessary because it claimed no responsibility for the direct infringement of the copyrighted material by the performing artists. The court held that one who had knowledge of the infringing activity and induced, caused, or materially contributed to the direct infringement may be liable as a contributory infringer.[118] The knowledge requirement was met because the defendant knew that its artists included copyrighted compositions in their performances.[119] Further, the defendant induced, caused, or materially contributed to the direct infringement, the second requirement of the test, as a result of its "pervasive participation". This pervasive participation included, among other things, the formation of the associations and the programming of the musical compositions that were subsequently infringed.[120] The court made note of three additional factors: (1) the defendant was in a position to provide proper guidance to the associations, which depended upon it for such guidance; (2) the

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115 *Id.* at 307. In the Betamax case, the court of appeals made the statement that the contributory infringer need not "have actual knowledge that activity which he *makes possible* constitutes a copyright infringement." Universal City Studios, Inc. v. Sony Corp. of America, 659 F.2d 963, 975 (9th Cir. 1981) (emphasis in original). The court of appeals, however, fails to explain how the manufacturer satisfies the conditions precedent as set forth by the court in *Shapiro* or any other conditions precedent.

116 Note 55, *supra*.

117 The defendant booked approximately 3,000 community concerts each year. *Id.* at 1161 n.2.

118 *Id.* at 1162.

119 *Id.* at 1162-63.

120 The court in *Gershwin* also pointed out that the defendant had created the audience as a market for the direct infringers. *Id.* at 1159 and 1163.

defendant was in a position to police the infringing activity of its artists; and (3) the defendant received substantial financial benefit from the direct infringement.[121]

2. Elektra Records Co. v. Gem Electronic Distributors, Inc.

Elektra[122] involved what at the time was a new electronic invention, the "Make-A-Tape" system. This invention could duplicate, in two minutes, the 35 to 45 minute musical performances on another 8-track tape cartridge.[123] The defendant, Gem Electronic, operated retail stores where it sold electronic equipment and supplies which included blank and prerecorded tapes and cartridges.

Generally, the activity that led to the direct infringement by the customer was the following: (1) the retail customer purchased an 8-track blank tape from the defendant; (2) upon the purchase of the blank tape, the customer received the 50 cents in coin needed to operate the in-store "Make-A-Tape" machine owned by the defendant; (3) the customer then selected a copyrighted recording from a catalog or card file maintained by and supplied by the defendant; (4) upon selection by the customer, a store employee would get the desired copyrighted sound recording from the store's "inventory"[124]; and (5) the customer then duplicated the copyrighted sound recording.[125]

The defendant denied liability, emphasizing two factors: (1) the

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121 *Id.* The court in *Gershwin* refers to the direct infringers as the "primary infringers." *Id.* Still different terminology is discussed in 44 Colum. L. Rev. 644, 645 n.6 (1945).

> A distinction should be made between the situation where the parties unite in the infringement and the situation where there is an intentional aiding, inducing, or contributing to the wrongful act. Infringers may be divided into two classes: (1) *principal infringers,* including both direct and indirect infringers, and (2) contributory infringers. Thus, parties who unite in the infringement will come within class (1), while parties who aid, induce or contribute to the infringement will come within class (2). The difference between the two classes lies in the different consequences attached to each. Intent is not an essential element in actions against *principal infringers,* but guilty knowledge is the basis of liability for contributory infringement. [Emphasis added.]

122 Elektra Records Co. v. Gem Electronic Distributors, Inc., 360 F.Supp. 821 (E.D.N.Y. 1973) (preliminary injunction granted).

123 *Id.*

124 These particular tapes, in the store's "inventory" were for the sole purpose of copying and were not for resale.

125 There was some question as to just what extent the employees of the defendant actually participated in the direct infringement, which was the actual duplication. The court found that this particular point was unimportant. Note 122, *supra.*

copying was individual rather than mass duplication[126] and (2) the copying was self-service rather than active reproduction.[127] The court found that these arguments had no merit and held that the defendant was engaged in mass piracy on a custom basis.[128]

The knowledge requirement of the test of the contributory infringer was met because the defendant had actual knowledge that its customers were making unauthorized phonorecords of copyrighted sound recordings. Further, as the defendant supplied (1) the place where the direct infringement occurred, (2) the machine needed to make the infringing works, (3) the coin needed to operate the duplicating machines, (4) the blank tape needed to make the copy, and (5) the actual copyrighted work that was subsequently copied, it had certainly met the second requirement of inducing, causing, or materially contributing to the direct infringement.

D. *The Model of the Limited and Direct Participant: Advertising Agencies, Radio Stations, and Service Agencies.*

Screen Gems – Columbia Music, Inc. v. Mark-Fi Records, Inc.,[129] is a case where the direct infringer, Mark-Fi Records, who was a record pirate, manufactured and sold, without authority from the copyright owners, a phonograph record album that mechanically reproduced the copyrighted musical compositions of the plaintiff. The plaintiff, Screen Gems-Columbia Music, Inc., claimed the following were contributory infringers: (1) the advertising agency which prepared advertising material for the infringing album and which arranged the purchase of radio time to broadcast the advertisements concerning the infringing work; (2) the radio stations which broadcast the advertisements;[130] and (3) the service agency which packaged and mailed the infringing album.[131]

The court found that if these defendants had either actual[132] or

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[126] The court rejected the defendant's attempts to analogize to (1) the use of a photocopier in a library and (2) the "home recording" exception. *Id.* at 822.

[127] *Id.*

[128] Elektra Records Co. v. Gem Electronic Distributors, Inc., 360 F.Supp. 821, 825 (E.D.N.Y. 1973).

[129] 256 F.Supp. 399 (S.D.N.Y. 1966) (defendants' motion for summary judgement denied).

[130] The advertisements as broadcast by the radio stations did not contain any material from the infringing works. Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F.Supp. 399, 402 (S.D.N.Y. 1966).

[131] *Id.* at 403.

[132] To meet the requirement of actual knowledge the defendant must have some concrete and definite knowledge that the album was an infringing work.

constructive[133] knowledge of the direct infringement and still proceeded to assist and participate in the direct infringement, they could be liable as contributory infringers.[134] The court explained that since the common law concepts of tort liability applied to copyright infringement actions, the basic common law doctrine of joint tortfeasors was applicable. That is, "one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor."[135]

This case gets very close to suggesting possible absolute liability.[136] The facts indicate that the selling price of $2.98 per album was low enough to somehow put these defendants on notice that the album was an infringing work.[137] Presumably, if the price was $6.98, the defendants would have had to have actual knowledge of the direct infringement. Finally, in discussing what it described as the "tenuous" factual showing against the radio stations, the court made the statement that all of these alleged contributory infringers could have required the direct infringer to present them with proof of the authority of his product.[138]

A significant point here is that all three defendants either directly promoted the actual infringing work[139] or had direct contact with the actual infringing work.[140]

IV. The Betamax Case and the Traditional Models.

The Court of Appeals for the Ninth Circuit summarily concluded that the manufacturer of the Betamax knowingly induced, caused, or materially contributed to the direct infringement of the plaintiffs'

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133 The requirement of constructive knowledge would apparently be satisfied as there would be an inference of knowledge of the illegal nature of the album as it was being sold well below its market value. Note 130, *supra* at 405.

134 *Id.* at 403. What the plaintiffs actually wanted was for the court to adopt a doctrine of absolute liability. The court pointed out at pp. 402-403 that such a doctrine

> exceeds the present outer limits of vicarious liability now imposed in copyright infringement cases — one that if accepted would fasten liability no matter how remote the relationship to the actual infringer and even though the defendant was without financial stake in the infringing product and without power to control or supervise the acts of the infringer.

135 *Id.* at 403.

136 *Id.*

137 Note 133, *supra.*

138 Note 130, *supra* at 405.

139 The advertising agency and the radio stations.

140 The service agency which packaged and mailed the infringing works.

copyrighted works.[141] It may be instructive to see if the Betamax case will fit any of the traditional models. First, it is obvious, that the Betamax case does not fit the model of "the unauthorized 'copier' who subsequently becomes a contributory infringer". Sony did not copy any copyrighted work nor did it supply any unauthorized copy of a copyrighted work to a direct infringer.

Second, the model of "the no knowledge contributory infringer" does not fit. Even assuming that the manufacturer "knew" that its machine could be used in an infringing manner, Sony hardly had the right or the ability to control or supervise what the direct infringer was doing in his own home. In addition, Sony did not profit from the direct infringement.

Third, the Betamax case does not fit "the pervasive participation" model. Making and selling a staple article of commerce is not pervasive participation in a direct infringement, by another, of a copyrighted work. Fourth, assuming that the radio stations and the service agency in *Screen Gems*[142] would have been found to be liable as contributory infringers, because they knew or should have known that the record album was an infringing work, "the limited and direct participation" model is still not broad enough to reach the manufacturer of the Betamax. The manufacturer was not dealing directly with or directly promoting the infringing work. It was merely dealing directly with and directly promoting its own machine, a staple article of commerce, which has as one of its uses, the copying of copyrighted television programs.

Although the Betamax case did not fall within any of the traditional models, the court of appeals used a traditional definition of contributory infringement to find the manufacturer contributorily liable for the direct infringement. Understandably, the court of appeals did not cite a single case as support as to just how or why the manufacturer satisfies the dual requirements of the test of the contributory infringer that it adopted. In attaching liability to the manufacturer of the Betamax, the court has gone way beyond the scope of any of the traditional models.[143] Of course, a court is not bound by these or any other models. But, if there is a legitimate need to create a new model of contributory

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141 Note 67, *supra* at 975-976.

142 Note 130, *supra*. The radio stations and the service agency settled out of court. The advertising agency was eventually found liable, but liability attached under the theory of *respondeat superior*. Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 327 F.Supp. 788 (S.D.N.Y. 1971).

143 To avoid an arbitrary discretion in the courts, it is indispensable that they should be bound down by strict rules and precedents, which serve to define and point out their duty in every particular case that

infringement, the court should at least specify the elements of that model. On the other hand, if the decision is actually based upon a finding of absolute liability, a court should not claim that it is based upon a finding of contributory infringement.

Conclusion

The purpose of the doctrine of contributory infringement is to assist authors in protecting their creative works from those who find it easier and less expensive to steal than to create. No doubt the doctrine of contributory infringement will continue to provide this valuable service. Nevertheless, this judge-made doctrine can no longer adequately protect an author from the onslaught of technology. With all due respect to the ninth circuit, contributory infringement cannot reach technological marvels like the Betamax.[144] Moreover, theories borrowed from patent law do not help to fill the gap. These theories specifically exclude staple articles of commerce, such as the Betamax, from the scope of contributory infringement.

Copyright specialists, authors, composers, publishers, and anyone else who believe in the copyright system, should forget about hoping that the courts will continue to twist, manipulate, and extend the scope of contributory infringement, in well-intentioned, but misguided efforts, to protect the rights of authors. Dependence on the doctrine of contributory infringement to provide that service, when new inventions such as the Betamax are involved, will in the long run, prove to be a fruitless endeavor. Therefore, those persons rightfully concerned about the erosion of protection for copyrighted works, had best go to and convince both Congress and the general public that new and imaginative means are needed to preserve the copyright system.

The proper place of contributory infringement in copyright law is neither to alienate everyone outside the area of copyright law because the doctrine is misapplied nor to provide a makeshift shield to stem the inevitable tide of technological progress.

> comes before them; and it will readily be conceived from the variety of controversies which grow out of the folly and wickedness of mankind, that the records of those precedents must unavoidably swell to a very considerable bulk, and must demand long and laborious study to acquire a competent knowledge of them.

J. McCarthy, 1 Unfair Competition and Trademarks iii (1973) (quoting from The Federalist No. 78 (A. Hamilton) (May 28, 1788)).

144 The correctness of this statement may or may not ultimately be decided by the U.S. Congress. Nevertheless, it is now certain that the United States Supreme Court will have the final judicial word. Universal City Studios v. Sony Corp. of America, 659 F.2d 963 (9th Cir. 1981), *cert. granted,* 50 U.S.L.W. 3973 (U.S. June 15, 1982) (No. 81-1687).

RECENT DEVELOPMENTS IN GERMAN AND EUROPEAN TRADEMARK LAW

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Trademark law is an area of law which is constantly undergoing change and development. Even once enacted by statute, the courts and the legislature must then apply the law to everchanging commercial situations. This article will review some of these recent changes and developments in German and European trademark law. Whereas change in German law results from new applications to commercial usage, in the European field change evolved through a process of economic integration with the goal being the creation of a single set of applicable laws. Since trademark law is far too broad a topic to consider within the limitations of a single article, the focus here will be on some major examples and trends.

A. German Trademark Law

I. *Legal Sources*

The legal regulation of trademarks is codified in the Trademark Act (Warenzeichengesetz) of January 2, 1968.[1] This statute became law in 1874 and has since been amended several times. Since the Trademark Act sets forth only basic provisions, changing economic circumstances have required the courts to modify their interpretations of these statutory concepts.

The basic common law concept of the Law of Unfair Competition augments trademark protection under the Trademark Act; trademark law being regarded as but a single aspect of competition law.[2] A trade-

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[1] Bundesgesetzblatt 1968 I 129 (W. Ger.).

[2] Röemer, 14 BHZ 15 at 18 (1954).

mark owner using his mark for the promotion of his goods or services is competing with other trademark owners having the same purpose. Consequently, trademark law is a special type of competition law and is influenced by the same principles as is the latter. For instance, a trademark used in a manner so as to mislead the public would violate the Law of Unfair Competition. Similarly, even the use of a trademark *not* protected under trademark law is considered unfair exploitation of another's rights and is consequently forbidden under the common law principle.

II. *Functions of the Mark*

Section 1 of the Trademark Act defines the mark as distinguishing the source or origin of goods or services, i.e., the mark identifies goods or services as coming from a particular, common source. The consumer is thus assured of the make and quality of the article bearing the mark. Since the mark suggests a certain consistency of quality, the trademark owner has an economic interest in preventing deterioration of the product's quality which would otherwise result in a loss of both the goodwill and customer following he had previously nurtured.

This indication of origin as established by the mark is the only function which is protected by the German trademark law. Goodwill, as symbolized by a trademark, is by trademark law regarded as an economic phenomenon and not a legal one. This has been stated repeatedly by the Federal Supreme Court of Germany. In *Maja*[3], the Court rejected an attempt of the trademark owner to claim trademark infringement against unauthorized imports. The decision was based on an extended application of the so-called Exhaustion Doctrine. Under this doctrine, a trademark right is exhausted once the product bearing the mark is marketed by the owner or by someone else with the owner's permission. The Court held that the doctrine was to be applied even in those cases where the product was marketed abroad:[4]

> The opposite interpretation, according to which the trademark owner should have the right (to oppose the importation of the articles legally marked and put on sale abroad by him) as a consequence of the territorial nature of the trademark, even though he has already disposed of the goods, would have the sequel that on the basis of a trademark, which should be nothing more than the indication of origin and quality of the goods, it would be possible to make a division of the market territory by frontiers with the corresponding fixing

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[3] Maja, 41 BGHZ 84 at 93 (1964), translated in 2 Patents, Trademarks and Related Rights 1329 (1975).

[4] Thus, the application of the exhaustion doctrine was not foreclosed by the principles of territoriality.

> of prices and of the manner of selling, without it being possible to raise objections against this on the basis of antitrust law or of treaties between countries on market regulation.[5]

III. *Trademarks – Service Marks*

Until 1979, the Trademark Act provided protection for trademarks only, i.e., marks for goods, and not for services. However, the 1979 amendment to the Act made possible the registration of service marks. Through this amendment the legislature responded to the increasing demand for legal protection as emphatically urged by business and commerce, and also to the problems of mutual trademark protection in the international sector. Until this time, German companies had experienced considerable difficulty in getting protection for their marks in international transactions. For example, the U.S. Court of Customs and Patent Appeals ruled that the German company Löwenbräukeller could not apply for the registration of "Löwenbräu" as a service mark for brewery services in the U.S.A. due to the lack of legal registration at that time for service marks under German trademark law.[6]

Another reason to include service marks under the Trademark Act was the growing trend towards unification of national trademark laws within the European Economic Community.

IV. *Defensive Marks and Reserve Marks*

Under German trademark law the trademark owner must have the intention of using his mark. This would seem to be a matter of course; however, in the past, some trademark owners have applied for trademark protection solely to preclude the use of that mark by anyone else, thus enlarging the scope of protection by surrounding the mark with a circle of defensive marks. Formerly this policy was accepted by the courts, but now there is an increasing tendency towards denying the legal effectiveness of such defensive marks. Today a defensive mark is protected only under "extraordinary circumstances", where it is necessary for the development of another trademark. In the future, it may be expected that the protection of defensive marks will be denied even under these circumstances.

Defensive marks are distinguishable from another category of marks, the so-called Reserve Mark (Vorratszeichen). While a defensive mark is characterized by a lack of intention to use, the owner of a reserve mark has the intention to use his mark, albeit, not momentarily but in the

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[5] Note 3, *supra* at 94.

[6] In re Lowenbraukeller, 175 U.S.P.Q. 178.

future, as where a manufacturer still in preparation for the production of new goods wishes to have a registered trademark ready by the time he starts marketing.

Formerly, there was no statutory regulation for such reserve marks. These marks were generally accepted by the courts as protectable provided that the owner had a reasonable excuse for not using the mark immediately. There were cases where such excuses were held reasonable even after a lapse of twenty years of nonuse. However, the growing number of trademarks and the resulting difficulty in finding new protectable marks made necessary a limitation on this period of nonuse.[7] Now, according to the Trademark Act § 1, 1, 4 (1967), anyone may claim cancellation of the registration of a trademark if the mark has not been used within a period of five years following registration.

V. *Accompanying Marks*

A recent development in German trademark law is the concept of accompanying trademarks. The court has described an accompanying trademark as "a trademark affixed to a raw or intermediate material that remains with the product during subsequent processing in other plants, so that it finally appears on the finished product".[8] It has become customary, particularly in the field of the popular synthetic products, to affix the trademark of the fiber or yarn to the finished product. In some cases the trademark appears by itself, while in other cases, it appears in addition to the trademark added by the manufacturer of the finished product, often resulting in some confusion as to what the several trademarks actually represent.[9]

As the German Federal Supreme Court pointed out: the use of the accompanying trademarks " . . . intends to make the final consumer aware of new synthetic fibers . . . ."[10] The fiber manufacturer may also be interested in warranting the correct processing of the material, and he may grant trademark licenses accordingly since the quality of the finished product affects the public image of the intermediate or initial product. Conversely, someone who subsequently processes the product may also place some value on marking the product correspondingly, particularly in the case of well-known fiber marks representing quality. However, in doing this, he takes the risk that the fiber manufacturer's

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7 1953 Gewerblicher Rechsschutz und Urheberrecht (GRUR) at 179, 55 GRUR 179 (1953).

8 Dolan, 72 GRUR 80 (1970) translated in 1 International Review of Industrial Property and Copyright Law 393 (1970).

9 *Id.,* at 80 et seq.

10 *Id.,* at 81.

advertising may serve as a basis for a claim of product liability against him, the secondary manufacturer.

> This kind of labeling can indeed aid the consumer who is interested in knowing which materials comprise the finished article of clothing and how the garment should be cared for. An accompanying trademark serves this function especially in situations where new synthetic materials are used. Then, the trademark serves not only to indicate the origin of manufacture, but also as a substitute for complicated chemical or technical terms. Thus, the mark approaches the characteristics of a product name.[11]

From this situation arose the legal question of whether the owner of an accompanying mark for an intermediate or initial product may claim trademark infringement against the user of an identical or confusingly similar mark used on the finished goods.

Under German trademark law, protection against trademark infringement is given only where a corresponding or confusing mark is used for the same or similar goods. The traditional definition of similarity of goods is that "... two products are similar if, in view of their economic importance and function, and in particular, in view of their regular place of manufacture, they appear to be so closely related that the average consumer could believe that they are from the same manufacturer [if they are] marked by identical or seemingly identical trademarks."[12]

Intermediate or initial products and finished products are not considered similar goods since usually both are produced in different plants. Therefore, protection against the use of an accompanying mark on finished products is not granted because of the lack of similarity of the goods. However, the Federal Supreme Court ruled in *Dolan,* that "... intermediate or primary products and finished goods must be considered similar goods, if the trademark of the former is also used on the finished product as an accompanying trademark."[13] The Court said:

> ... the trademark law criterion of similarity, serves to reasonably protect against confusion of the origin of a product. The traditional view holding that intermediate and finished goods generally are not identical, has been influenced mainly by the fact that both are not customarily produced in the same plant and particularly are not intended for the same consumers. Consequently, the trademark of the intermediate product is not at all, or hardly ever, seen by the consumer of the finished goods, thus omitting confusion as to the origin of the product. However, the factual situation in the textile branch at issue here is different. Whereas it is true for this trade that fibers and clothing are generally made by different manufacturers, the raw or

[11] *Id.,* at 80.

[12] *Id.,* at 80.

[13] *Id.,* at 82.

intermediate material decisively controls quality and reputation of the finished goods. Unlike manufacturers of other raw or intermediate products, the manufacturer of a new synthetic fiber will not only advertise the new material to the clothing manufacturer as his immediate customer, but also to the ultimate consumer to induce the latter to purchase ready-made clothing made from the new material. The consumer would not even be surprised if the fiber manufacturer were to offer finished goods under the same mark in order to prove the fitness of the new material. This situation must not be overlooked by trademark law, otherwise serious confusion in the trade might result. Trademark law can appropriately resolve these conflicts, particularly since such instances of possible confusion cannot be resolved by the Law of Unfair Competition.[14]

VI. *Transfer and Licensing of Trademarks*

Under German law, Trademark Act §8, a trademark can only be transferred with the business to which it relates. This principle proceeds from the main function of trademarks, that is, the function of indicating the origin of goods. A trademark otherwise used apart from any association with the business would mislead the public since there would not be any indication of a common source; however, this rather orthodox approach does not comply with the requirements of modern commercial practice. Consequently, as in other countries, German courts have gradually taken a more liberal approach, and it is no longer necessary to transfer the entire business. The assignment of only the business goodwill as symbolized by the mark is sufficient. According to the Federal Supreme Court, it is not a prerequisite that the assignee have the intention of carrying on the business connected with the use of the acquired trademark.[15]

The German Trademark Act contains no provision for regulating the licensing of trademarks. However, based upon the principles previously discussed, the courts have allowed licensing. The trademark owner can permit the use of the trademark by other parties, with the licensee acquiring an obligatory right to use the mark. As a matter of course, the license is valid only if there is an assignment of the goodwill or of a part thereof.

B. Trademarks and European Community Law

One of the more complicated legal problems presented by the integration of the European Economic Community concerned the question of trademarks, and, more generally, of industrial property rights. When the European Economic Community came into existence, there were only national property rights, the scope of which was limited to

[14] *Id.*, at 82.

[15] Decision of the Federal Supreme Court of May 26, 1972; 1973 Gewerblicher Rechtsschutz und Urherberrecht at 363.

national territories, i.e., there were no common European rights covering the inclusive territory of all Member States. Consequently, whenever one applied for industrial property rights in several states, a composite of different national rights came into play. The question then arose as to whether the importation of goods protected by the laws of one Member State could be protected by means of a claim of infringement in another or whether Community Law prohibited this since it had as a major objective the elimination of interstate trade barriers. In the words of Henri Mayras, Advocate General of the European Court of Justice: "The basic difficulty arises from the conflict between the industrial property right — a national right with territorial effect — and community law, the application of which in each of the Member States guarantees its efficacy."[16]

Solutions to these problems were approached in two ways: first, the European Court of Justice tried to harmonize European Community law and national industrial property rights; and second, greater efforts were made to harmonize national rights and to establish European industrial property rights which extended beyond the limits of national borders. This article will review both of these remedies.

I. *The Jurisdiction of the European Court of Justice*

The jurisdiction of the European Court of Justice has been gradually defined in several cases, most of which involved the importation of goods bearing a particular mark into a country where another person owned the same or a confusingly similar mark and was using it. Consequently, this second individual attempted to prohibit the importation of the alien goods. The resulting cases can be grouped into three categories on the basis of the distinction between the trademark with which the imported goods are marked and the trademark as already in use in that country.

The first category of cases is characterized by the fact that the two trademarks are so-called parallel trademarks, i.e., the marks are identical by name but registered in different states; therefore, they are legally two trademarks. Between the two enterprises owning the parallel trademarks, there are integral legal or commercial associations, e.g., exclusive distributorship agreements or a corporate relationship, and the imported or reimported products are marketed with the direct or indirect consent of the trademark owner.

This situation is demonstrated by the first case decided by the European Court.[17] In order to augment its system of territorial protection as

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[16] Van Zuylen Freres v. HAG AG, 2 Comm. Mkt. L.R. 127 at 131 (1974).

[17] Consten S.A. and Grundig-Verkaufs GmbH v. EEC Commission, 1 Comm. Mkt. L.R. 418 (1966).

applied by its sales organization, the German manufacturer, Grundig, authorized its sole distributor in France, Consten, to register the mark "GINT" in its own name. The mark was used on all appliances made by Grundig. When other French companies started to buy Grundig product in Germany and then sell them on the French market, they were sued by Consten for trademark infringement.

The second group of cases concerns the situation in which there are several parallel trademarks belonging to various owners who are neither legally nor commercially linked to each other and who use their respective trademark without any consent from the other party. However, the parallel trademarks have a common origin resulting from either previous private agreements or from measures taken by public authority.

A common origin resulting from former private agreements was found in *Siren S&L v. Eda S&L,*[18]. In 1937, the American company Mark Allen assigned to the Italian company Sirena its Italian-registered trademark "Prep" for a cosmetic cream. Sirena subsequently renewed the mark on its own behalf after the termination of its association with Mark Allen. Unknown to Sirena, Mark Allen allowed a German company to use the mark "Prep" in West Germany. In 1971, when products made by the German licensee and bearing the mark "Prep" were imported into Italy and sold at a lower price than that charged by Sirena, Sirena brought action against the importer for trademark infringement.

A common origin created through legislative means was the situation in *Van Zuylen Frères v. HAG AG.*[19] Since the turn of the century, the German firm HAG had used the trademark "HAG" for its decaffeinated coffee. The mark was registered in several European countries, including Germany, Belgium, and Luxembourg. In 1935, the German company assigned the trademark rights for Belgium and Luxembourg to its Belgian subsidiary as well as transferring the process of decaffeination. At the end of World War II, the State of Belgium sequestered the Belgian subsidiary and sold the shares to a Belgian merchant who, in 1971, assigned the trademark to the Belgian firm Van Zuylen Frères. When the German company (which had unsuccessfully tried to get back into the Belgian market with a new mark) supplied decaffeinated coffee to Luxembourg under the trademark HAG, Van Zuylen brought action against the German company for trademark infringement.

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[18] Sirena S & L v. Eda S & L, 1 Comm. Mkt. L.R. 260 (1971).

[19] Note 16, *supra*.

The third category of cases in our analysis involves those situations in which there is neither common legal or commercial ties, nor common origin between the two marks. Instead, two independent companies have acquired and used two identical or confusingly similar marks for their respective goods in different states. A well known example of this is the case of *Terrapin Ltd. v. Terranova Industrie.*[20] In 1961, the English company, Terrapin Ltd., applied to the German Patent Office for registration of their trademark "terrapin" with the intention of using the mark in Germany. The German company, Terranova Industrie, which owned the trademarks "terra" and "terranova" for similar goods, filed an opposition against this registration. Since the German Courts found the marks confusingly similar, the question then arose as to whether Terranova's prevention of Terrapin Ltd. from using its trademark in Germany was in violation of the EEC Treaty.

In those cases belonging to the first category of our analysis, the European Court of Justice held that trademarks must not be used to protect the trademark owner's area against parallel imports. The reasoning underlying this holding is the legal or commercial ties between the two trademark owners. The companies in different Member States which own the parallel national trademark rights are regarded as a single economic entity. Consequently, no confusion can arise and no one is deprived of well-earned profits if marked goods, once put on the uniform market, pass national boundaries. Trademarks are not meant to divide the economically uniform market into different outlets where different prices can be fixed.

In those cases of the second category, the Court derived the same solution. In spite of the fact that there were no legal or commercial ties between the respective trademark owners, the Court held in *Sirena:*

> Article 85 applies if the importation of products coming from different Member States and carrying the same trademark is prevented by invoking the trademark right, where the owners of the trademark acquired this mark or the right to use it under agreements between them or agreements with third parties. The fact that national law makes trademark rights subject to elements of law or of fact other than the agreements referred to, such as the registration of the mark or the continuous use thereof, does not prevent the applicability of Article 85.[21]

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[20] Terrapin Ltd. v. Terranova Industrie, 2 Comm. Mkt. L.R. 482 (1976). A similar situation arose when the French trademark "Phildar" was used in the U.K. where it came into conflict with the trademark "Sirdar." Sidar v. Phildar, 1 Comm. Mkt. L.R. D.93 (1975).

[21] Note 18, *supra* at 263.

Similarly, in *HAG AG,* the Court reasoned:

> The exercise of a trademark right tends to contribute to the partitioning of the markets and thus to impair the free movements of goods between Member States, particularly since, unlike other industrial and commercial property rights, it is not subject to limitations of time. Accordingly, the holder of a trademark cannot be permitted to rely on the exclusiveness of the territorial limitation of national legislations, with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trademark having the same origin. Such a prohibition, which would legitimize the isolation of national markets, would conflict with one of the essential aims of the Treaty, which is to unite national markets in [to] single market.[22]

This holding has been severely criticized, and many of these critics have said that additional decisions of the European Court of Justice along these lines would result in the end of effective national trademark protection.[23] Thus, there was a great sigh of relief from these critics when the *Terranova* decision was handed down. There the Court held that HAG, as applied in the factual situations of the first two categories, did not apply to trademarks where there was no common origin.

In its details, the Court's opinion in *Terranova* is rather sophisticated, for the Court used not only the rules of competition, Articles 85 and 86, as a legal basis for its exercise of jurisdiction, but, also, those provisions relating to the free movements of goods, Articles 30 et seq.

Article 85 applies only in situations where the exercise of a trademark right is the object, means, or result of a cartel agreement or is based upon concerted practices. Article 86 is applicable only when the exercise of trademark rights represents the abuse of a dominant position within the Common Market. Thus, the preconditions of Articles 85 and 86 are not met when international trade is hindered solely by the exercise of the prohibitive rights attached to a trademark. This situation is governed exclusively by Article 30 et seq.

In interpreting Articles 30 et seq. the Court presumes that these provisions also govern the exercise of industrial property rights. The Treaty does not affect the existence of industrial property rights

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22 Note 16, *supra* at 144.

23 See German Association for Industrial Property and Copyright Law 77 GRUR 65 (1975); also see the resolutions of the AIPPI at its 29th Congress in San Francisco, 77 GRUR Int. 345, 347 (1975); in the legal literature, reactions have ranged from the position that the rights of the trademark owner "are being sacrificed on the altar of the Common Market" (6 MAK, IIC 29, 36 et seq.), to the demand that the national courts should no longer observe their duty of referral under EED Treaty, art. 177 (3); see 24 I.C.L.Q. 31, 41 (1975).

created by national legislation of a Member State, but the exercise of these rights may be limited by the prohibitive norms in the EEC Treaty.

This is especially apparent in Article 36, which must be understood as an exception to one of the basic principles of the Common Market. Article 36 creates the possibility of restriction on the free flow of goods, but only in so far as they are necessary for the protection of rights which form the specific object of this property. The specific object of the trademark right is that which ensures the holder of the exclusive right to put a product into circulation using the trademark, thus protecting him against competitors who would take advantage of the position and reputation achieved by the mark by selling goods improperly bearing the mark.[24]

Whether a trademark owner may enjoin the importation of products by reason of his trademarks, depends upon whether or not parallel marks or marks of common origin are involved. If a trademark owner has parallel marks in several countries, he may not hinder the importation of products which have been legally brought into commerce in the market of another Member country by himself or with his permission.[25] The same applies when the parallel trademarks are owned by numerous owners legally or economically connected with each other. The principle of the free flow of goods also takes precedence over national trademark law when marks of common origin are involved, i.e., marks which have resulted from the division of an originally unitary trademark, regardless of whether this division took place voluntarily,[26] or was the result of compulsory measures by a sovereign.[27] National trademark law takes precedence over the principle of free flow of goods only when the marks are neither parallel nor of common origin, i.e., asserted on the basis of varying national legal systems by various, mutually independent owners.

This interpretation of Articles 85 and 86 was summarized again in the *EMI* decisions.[28] According to these decisions, trademark law, as a legal institution, does not fulfill the preconditions of Article 85. In contrast to the *Sirena* decision, the Court no longer appeared to view the conveyance of a mark, which took place before the coming into

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[24] Centrafarm v. Winthrop BV, 2 Comm. Mkt. L.R. 480, 508 (1974).

[25] Note 20, *supra* at 505 et seq.

[26] Note 18, *supra*.

[27] Note 16, *supra*.

[28] EMI Records Ltd. v. CBS United Kingdom Ltd., 2 Comm. Mkt. L.R. 235 (1975); EMI Records Ltd. v. CBS Grammofon, 2 Comm. Mkt. L.R. 235 (1975); EMI Records Ltd. v. CBS Schallplatten BmbH, 2 Comm. Mkt. L.R. 235 (1975).

force of the EEC Treaty and the effects of which continue after its coming into force, as an agreement or concerted practice fulfilling the requirements of Article 85.

A trademark as such will also not fulfill the preconditions of Article 86. The fact that the trademark owner may forbid others from using his mark does not in itself constitute a market-dominating position, and the assertion of this exclusive right does not constitute improper conduct.[29]

The situation is different when the exercise of a trademark right is not directed against international trade in goods within the Community, but rather against the importation of products from third countries into the Community. Article 30 et seq. does not forbid such conduct, since the free flow of goods between Member States, and thus the unity of the Common Market, is not affected.[30] Therefore, in such a case there is no need to examine whether parallel marks or marks of common origin are involved.[31] Nevertheless, Article 85 may be applicable when a regional cartel exists between enterprises within the Common Market and competitors in third countries which detrimentally affects supply and thus the competitive conditions within the Common Market.[32]

The *Terranova* decision constitutes, at least for the time being, a milestone in the development of the European Court's jurisdiction. Three subsequent decisions are based on the principles previously discussed and deal with issues which further define these basic precepts.

In *Hoffman La Roche v. Centrafarm,*[33] the Roche-Sapac group owned and used the trademarks "Valium" and "Roche" in various countries including Great Britain and Germany. The drug Valium was put on the market in Germany in small packages. In Great Britain, Valium was marketed in packages containing more tablets at prices considerably lower than those charged in Germany. The defendant purchased packages on the British market and repackaged the tablets in batches onto which he affixed the names "Valium" and "Roche". These pack-

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[29] *Id.;* see also note 18, *supra.*

[30] Note 28, *supra;* the preliminary ruling in *EMI Records Ltd. v. CBS United Kingdom* Ltd. additionally contains the determination that Article 30 et seq. does not prevent the assertion of domestic trademark rights when the owner of an identical trademark not located in the Common Market affixes this mark to products which he or his subsidiary manufactures or distributes within the Common Market.

[31] Note 28, *supra.*

[32] *Id.*

[33] Hoffman La Roche & Co. AG v. Centrafarm Betriebsgesellschaft Pharmazeutischer Erzeugnisse GmbH, 3 Comm. Mkt. L.R. 217 (1978).

ages were sold on the German market. The Roche-Sapac group tried to prohibit this conduct by claiming infringement of trademark rights.

The European Court, confirming its formerly stated principles, held that a trademark owner is not hindered by European law in preventing another person from such a use of his trademark, provided that such a prohibition does not constitute a disguised restriction of trade between Member States according to EEC Treaty, article 36, sentence 2.

In *Centrafarm v. American Home Products,*[34] the defendant corporation was owner of the mark "Serestra" registered in its name in the Benelux and of the mark "Serenit D" in Great Britain. Both marks were used for the same type of tranquilizing drugs. Centrafarm bought the drugs in Great Britain where they were marketed under "Serenit D" and repackaged them for sale in the Netherlands under the "Serestra" mark. Once again, the Court ruled that American Home Products was justified in preventing Centrafarm from doing this because of trademark rights. Nevertheless, such prohibition can be unlawful only if it constitutes a disguised restriction of trade between Member States according to Article 36, sentence 2, namely if it is used for the purpose of partitioning the European Common Market.

In *Pfizer Inc. v. Eurim-Pharm GmbH*[35] (the most recent decision), the plaintiff was owner of the mark "Vibramycin" which was used for antibiotics. The defendant corporation bought the antibiotics for a lower price in another EEC member state and repackaged them for sale in West Germany. Contrary to the situation in *Centrafarm v. American Home Products,* however, the defendant repackaged the antibiotics in a transparent cover, so that the original trademark, "Vibramycin", could be read through the package. Here, the Court ruled that Pfizer was not justified in preventing Eurim-Pharm from doing so because the original inner wrapping of the product had not been altered, therefore, the consumer had not being misled.

A new case, *(Eli Lilly v. Bergel*[36]*),* is now pending before the Court.

II. *Towards a New Trademark System for the European Community*

The jurisdiction of the European Court of Justice has been able to overcome only some of the barriers created by national trademark rights. In particular, the owner of a national trademark is no longer entitled to prohibit a third person from using the mark in respect to goods which have been marketed under it in another Member State by

34 Centrafarm BV v. American Home Products Corporation, 1 Comm. Mkt. L.R. 326 (1979).

35 Pfizer Inc. v. Eurim-Pharm GmbH, 84 GRUR Int. 69 (1982).

36 Eli Lilly v. Bergel, Official Journal No. C324/7(1981).

the owner himself or with his consent. Furthermore, this jurisdiction has been extended to trademarks of common origin. However, most of the obstacles to the free movement of goods or services still exist. Above all, there are still trade barriers resulting from identical or similar national trademarks which have no common origin.[37] The European Commission has estimated "... that such conflicting marks form about a quarter of the total number of trademarks registered in the Community (about 1.8 million), and in any event not less than several hundred thousand."[38]

Consequently, since 1959 efforts have been made to create a Community trademark as well as to harmonize the national trademark law of the Member States. After many years of discussion and consultation, the European Commission has presented to the European Council a proposal for a first Council Regulation to approximate the laws of the Member States relating to trademarks and a proposal for a Council Directive on the Community Trademark.

1. *Proposal for a Council Regulation on Community Trademarks*

The trade barriers resulting from the existence of national trademark laws can be overcome only by creating trademark protection co-extensive with the area of the Common Market. There must be a trademark entirely independent of national trademark laws which is legally valid throughout the Community. Within the area of a uniform Community trademark, the barriers of territoriality can no longer exist. However, at least for the present time, national trademark protection cannot be abolished. There is no way to require individuals to apply for registration of their trademarks as Community trademarks. Therefore, the creation of a Community trademark existing alongside national trademarks is the only possible solution. The conflicts of national trademarks and hence the obstacles to the free movement of goods and services would diminish as an increasing number of existing national trademarks are converted into Community trademarks and as more new trademarks are registered as Community trademarks. Throughout the world, uniform trademark law has proven to be an essential factor in promoting trade and industry.

The basic principles of the Community mark are as follows: (a) a Community trademark can be registered for goods and services (Article 1, paragraph 1) — it can be acquired or transferred only for the entire area of the European Community (Article 1, paragraph 2); (b) trademark owners may also be nationals of any other state which

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[37] Note 20, *supra,* at 506.

[38] 5 Bulletin of the European Communities 53 (1980), explanatory memorandum for the proposal of a council regulation on community trademarks.

either is party to the Paris Convention for the Protection of Industrial Property, or which accords to nationals of the EEC the same trademark protection as it accords to its own nationals (Article 4); (c) trademark rights can be obtained only by registration, and not by use (Article 5); (d) in order to guarantee the free movement of goods, the Community trademark does not entitle the owner to prohibit the use of goods which have been placed into the market under that trademark by the owner or with his consent (Article 11, paragraph 1) — one of the few exceptions to this principle being where the condition of goods has changed or has become impaired after being placed in the market (Article 11, paragraph 2); (e) the implementation of the Community trademark is a complex administrative function which must follow a uniform procedure, thus requiring judicial enforcement. Therefore, a Community Trademark Office would be established which would uniformly administer the Community Trademark Law (Article 2).

2. *Proposal for a first Council Directive to approximate the laws of the Member States Relating to Trademarks.*

Since the implementation of the Community trademark does not lead to the abolishment of national trademark rights, there must be a harmonious consolidation of national rights. As the European Commission has pointed out in its explanatory memorandum, the proposal would bring about conditions similar to those existing in the national market in the field of trademarks.[39] To achieve this goal, a first step would be to isolate those provisions of the national trademark law which "... have the strongest and most direct influence on the establishment and functioning of the common market in goods. These are the rules governing the scope of the protection afforded to the use of trademarks, amicable settlement of conflict and the relative and absolute grounds for the refusal of registration or invalidation of trademarks."[40] The analysis of additional areas of national trademark law such as the definition of registerable marks, the introduction of service, collective, and guarantee marks, and an analysis of procedural rules would be subsequently completed.

According to the Commission's opinion, "... it does not appear to be necessary at present to undertake full-scale harmonization of the trademark laws of the Member States. It will be sufficient if the integration is limited to those national provisions of law which most directly affect free movement of goods and services."[41] This Directive appears to follow the basic principles set out in the Regulation.

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[39] *Id.*

[40] *Id.*

[41] The Directive, 5 Bulletin of the European Communities 8 (1980).

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