

Patent Misuse

- History:
 - Origins in equitable doctrine of unclean hands
 - Gradually becomes increasingly associated with antitrust analysis
 - Corresponding incomplete transition from “fairness” criterion to “efficiency” criterion
 - Large fluctuations in its scope
 - From *Henry* (1912) to *Mercoïd* (1944)
 - Stabilized somewhat by adoption of §271(d) in 1952 and its amendment in 1988

35 USC 271(d)

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Patent Misuse

- Source of the Turmoil = Fundamental Contradiction:
 - Merits of Monopoly vs. Merits of Competition
 - Patent vs. Antitrust
 - Contributory Infringement vs. Patent Misuse
 - See Dawson Chemical: doctrines rest on “antithetical underpinnings”

Patent Misuse

- Patentee has “impermissibly broadened the ‘physical or temporal scope’ of the patent grant with anticompetitive effect”
 - *Windsurfing Int’l* (1986)
- Remedy:
 - Patent is unenforceable until effects of the misuse have been “purged” (practice abandoned and adverse impact dissipated)
 - Anyone can raise the defense

Patent Misuse Problems

- a) Patent suppression
- b) Selective Refusal to License
- c) Demand that licensees purchase staple supplies only from patentee
- d) Demand that licensees purchase nonstaple supplies only from patentee
- e) Limits on sale prices of products made with the patent
- f) Geographically discriminatory royalty structure
- g) Limits on the regions in which products made with the patent are sold
- h) Metered licenses
- i) Nonmetered licenses
- j) Grantback licenses
- k) Label licenses

(a) Patent Suppression

- Contexts:
 - P suppresses the invention entirely
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- Doctrinal Options
 - Patent Suppression is Fine ————— USA
 - Rare option to refuse injunctive relief
 - Patent Suppression (violation of “working requirement”) triggers compulsory license } Most countries --TRIPS 27.1 issue
 - Patent Suppression is Patent Misuse

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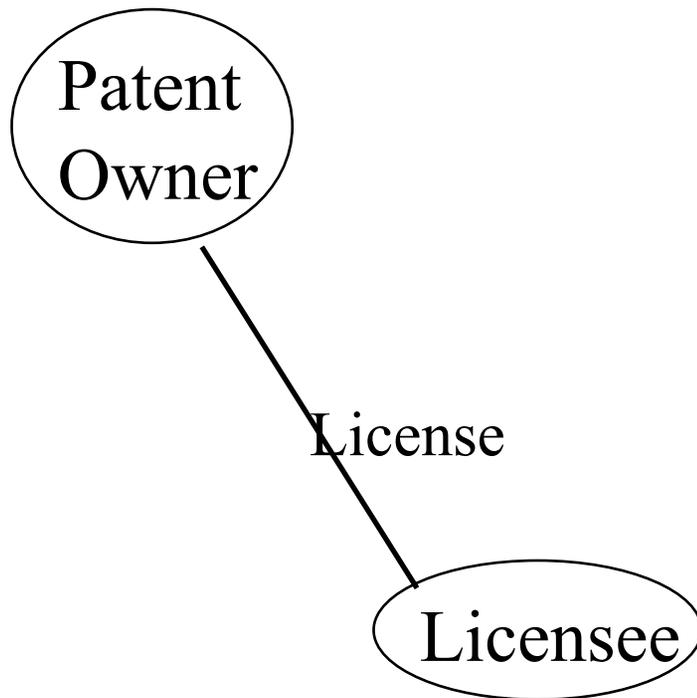
(b) Selective Refusal to License

- Background: *Aspen Skiing* – refusal to deal can give rise to AT violation
- Refusal to sell patented parts to independent service organizations
 - *Kodak* (SCt 1992): might give rise to AT violation
 - *ISO II* (CAFC 2000): in absence of a tying arrangement, no AT violation; motivation of patentee irrelevant

Patent Misuse Problems

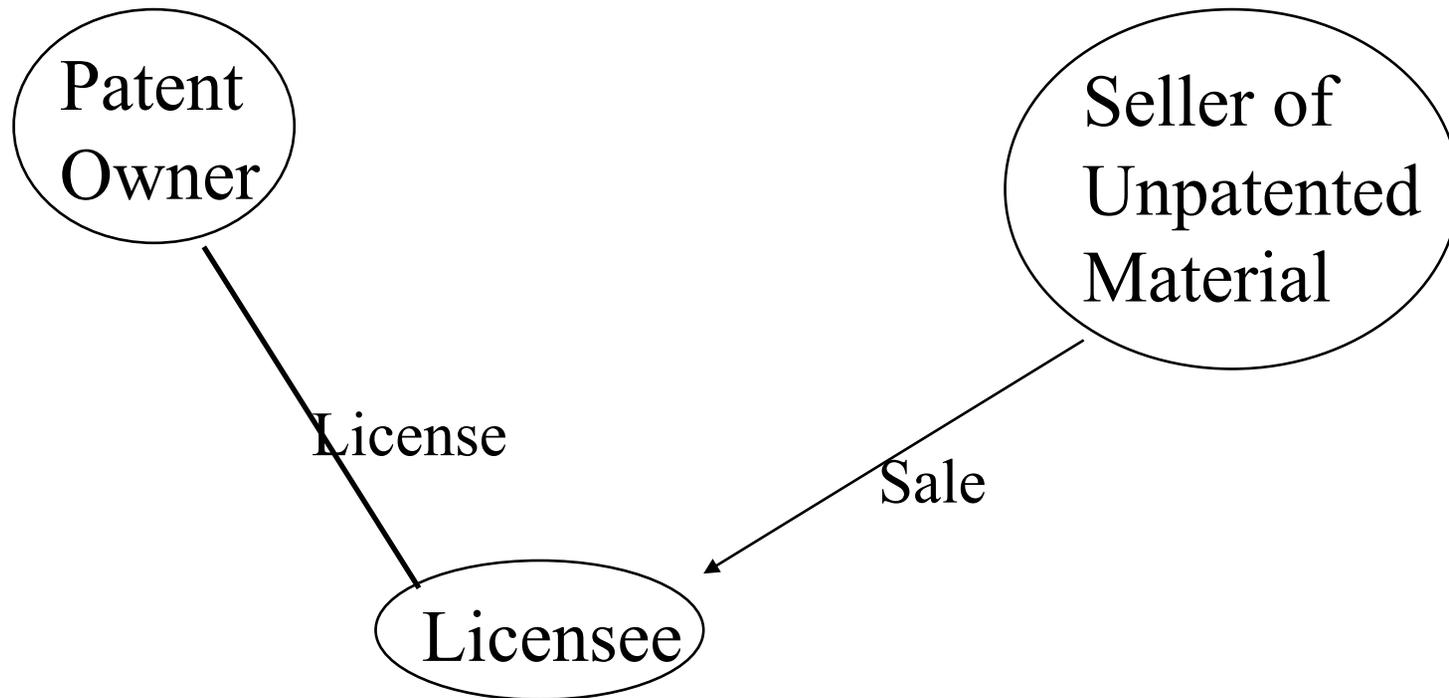
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Sale of Unpatented Material for Use with a Patented Product -- 1



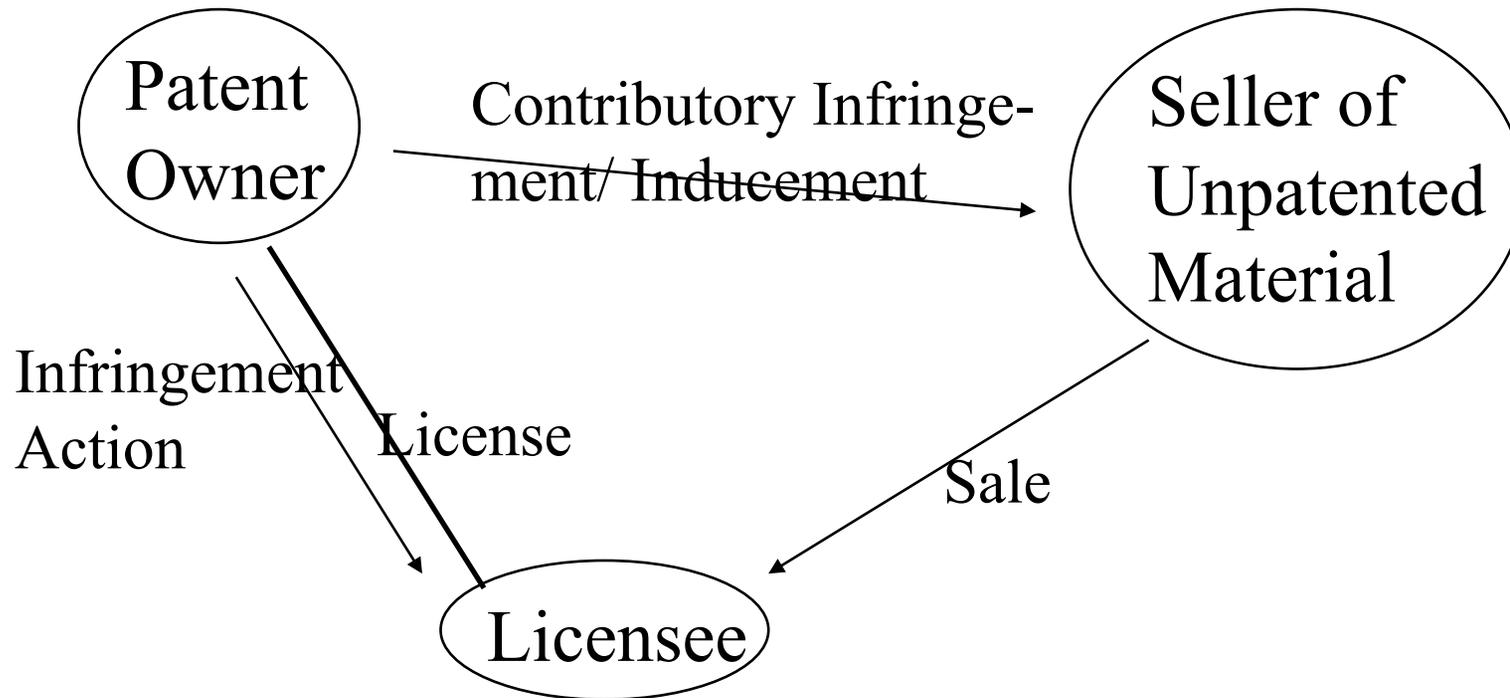
Licensee agrees to buy unpatented material only from patent owner

Sale of Unpatented Material for Use with a Patented Product -- 2



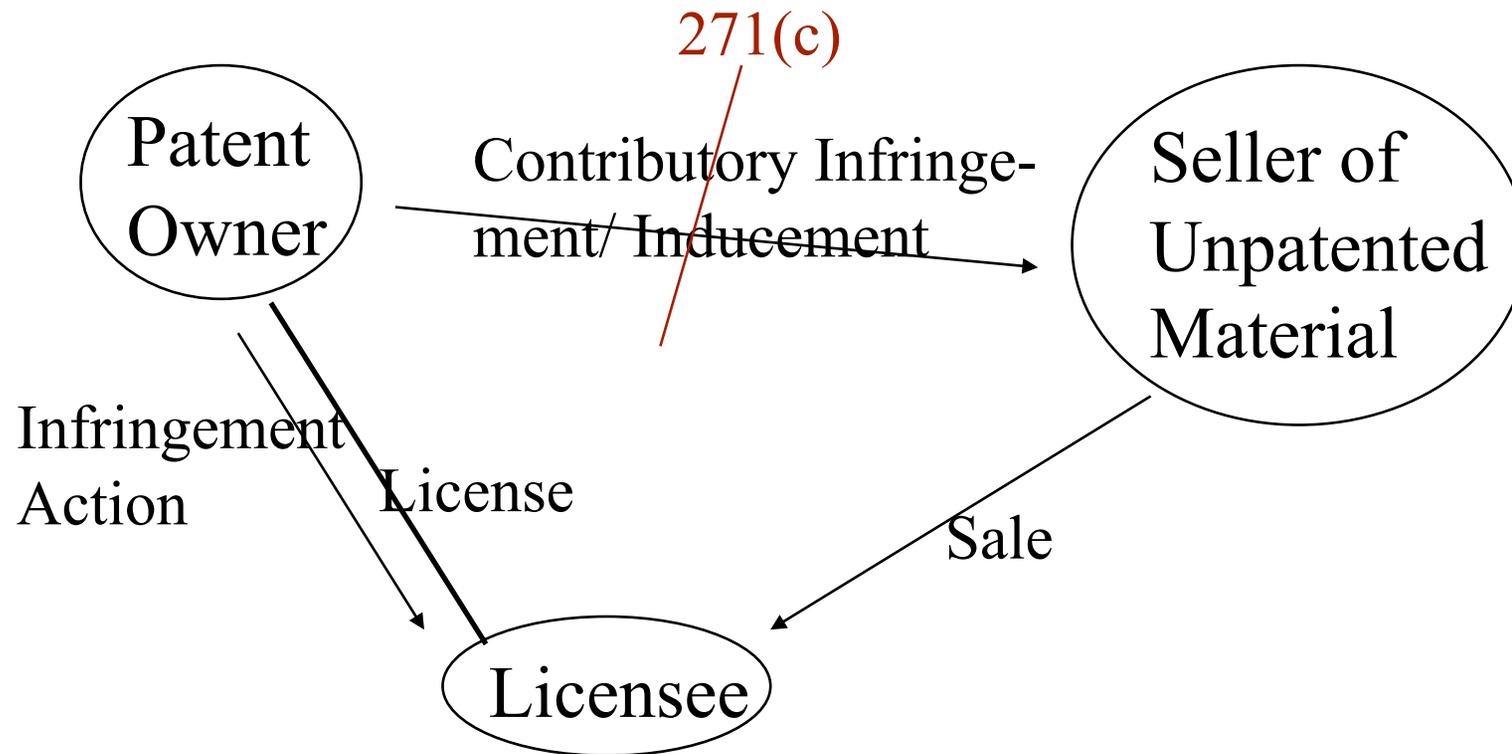
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Sale of Unpatented Material for Use with a Patented Product -- 3



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Sale of Unpatented Material for Use with a Patented Product -- 4

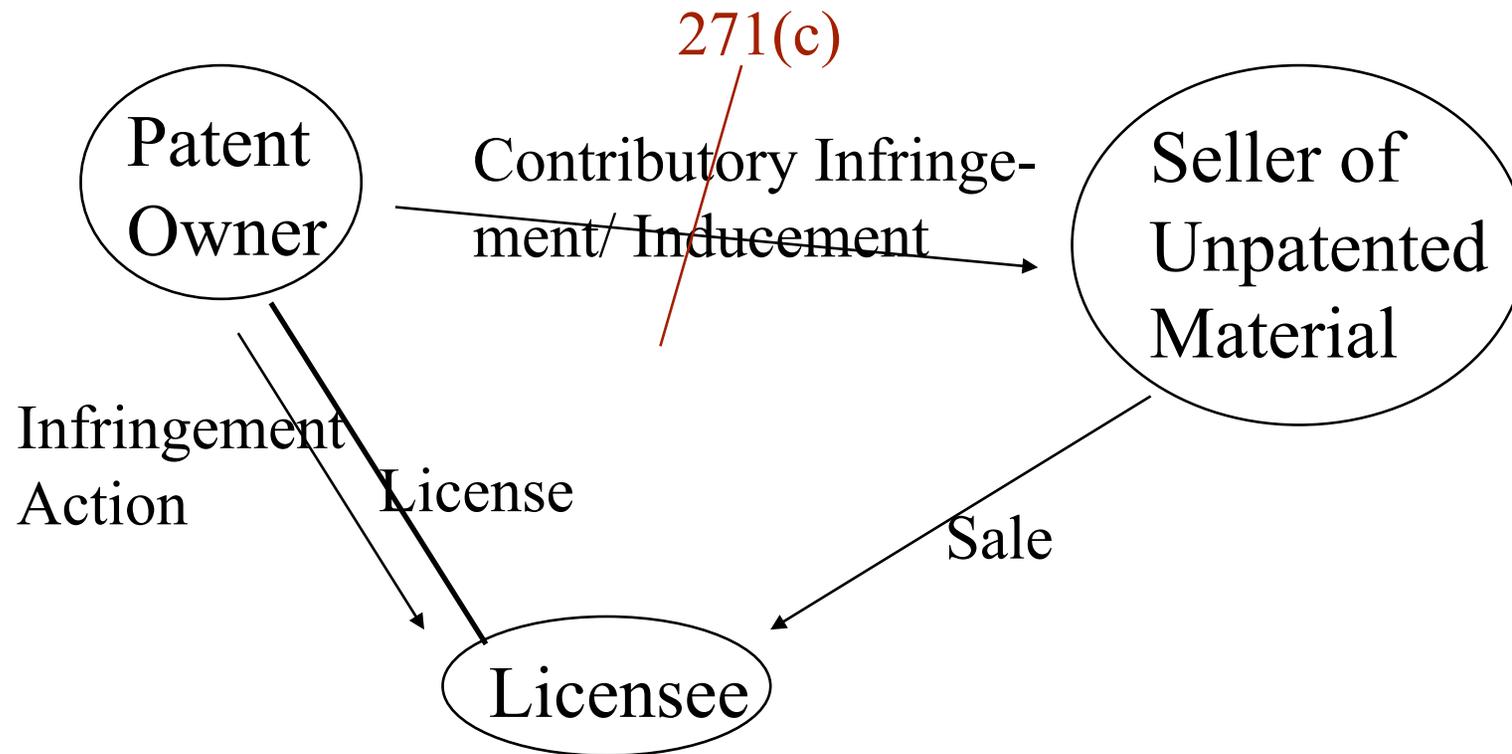


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§271(c)

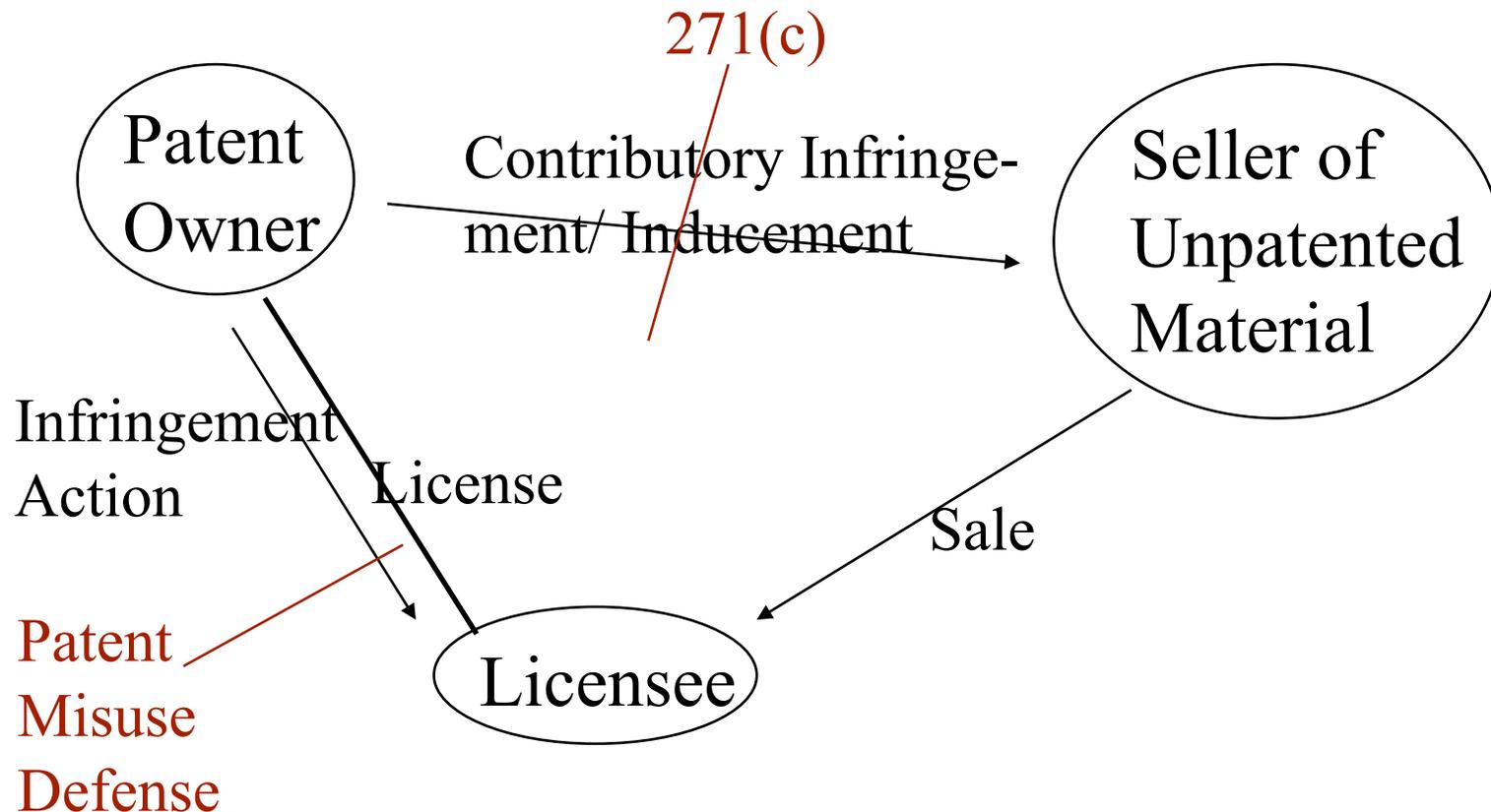
Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to 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.

Sale of Unpatented Material for Use with a Patented Product -- 4



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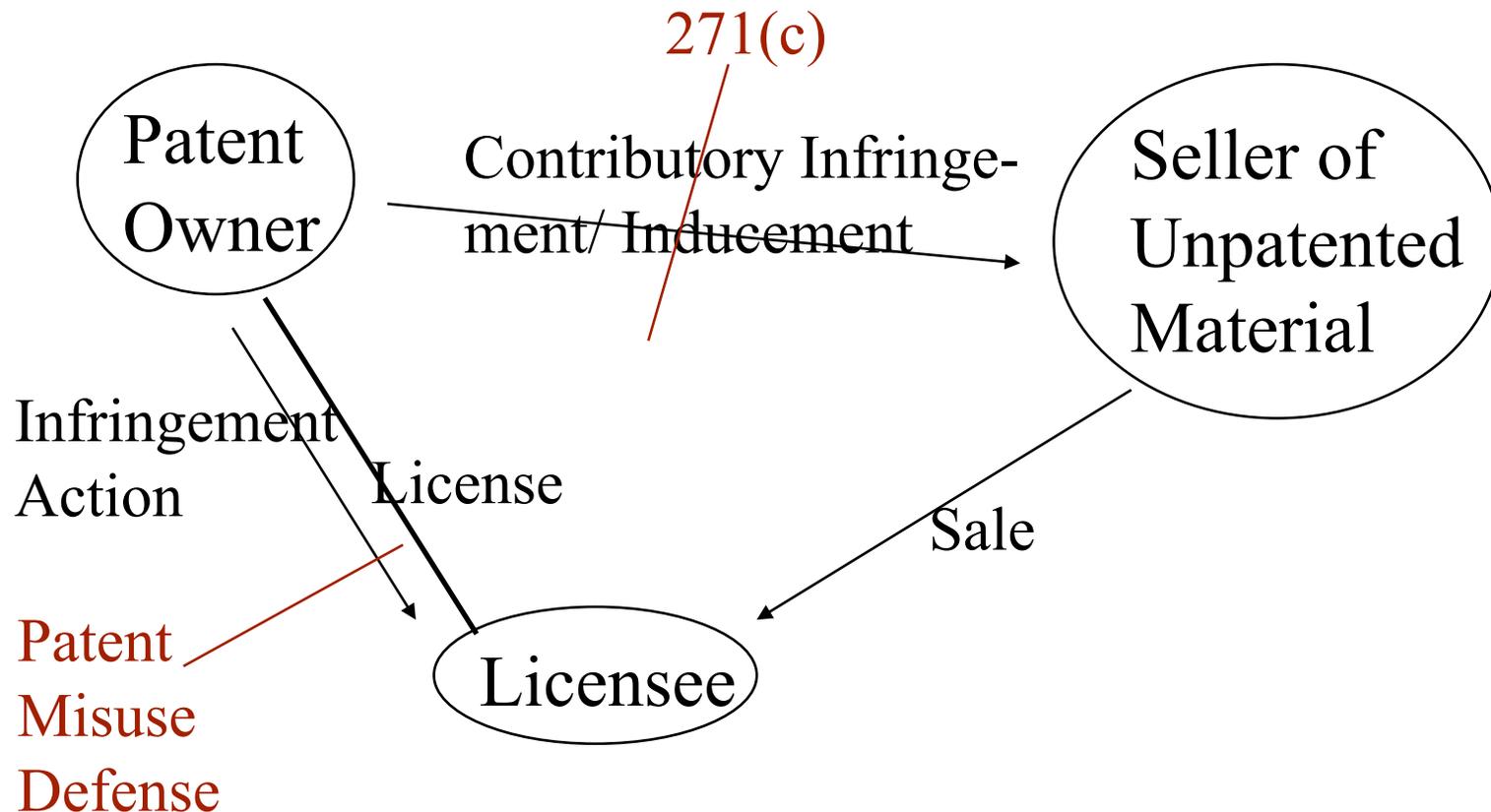


Licensee agrees to buy unpatented material only from patent owner

Dawson Chemical (1980)

- 5/4
- Tying license of the right to practice a patented process to an agreement to purchase from the patentee an unpatented but nonstaple product (used in conjunction with the process) is not patent misuse

Sale of Unpatented Material for Use with a Patented Product -- 4



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Representative Kastenmeier (1988)

- "The use of the term [']in view of the circumstances['], is again designed to give the courts the requisite flexibility to exercise their equitable powers. See 35 U.S.C. section 283. This phrase is designed, in part, to allow the courts to assess the potentially competitive or anticompetitive effects of the tie-in practice. In making this assessment the courts may wish to look at whether the tied product is a staple or a nonstaple. In the case of tying a patented product to a nonstaple the net effect of such an arrangement may serve to expand the economic rights of the patent owner. This result, however, is generally appropriate because in most situations involving high technology the market for the nonstaple product would not exist but for the existence of the patented product.

Representative Kastenmeier (1988)

- "On the other hand, courts that apply a rule of reason analysis to the tie-in of a patented product involving a staple may evaluate it in a slightly different manner. The ability of a party with a patented product to require that the purchaser or the licensee of that product to use a particular staple could have an anticompetitive effect. Thus, for cases involving the tie-in of staple products, the courts should be sensitive to the potential anticompetitive burden on commerce such a practice may have if the maker of a competing staple has its market substantially diminished as a result of the tie-in." Cong. Rec. H 10648 (Oct. 20, 1988).

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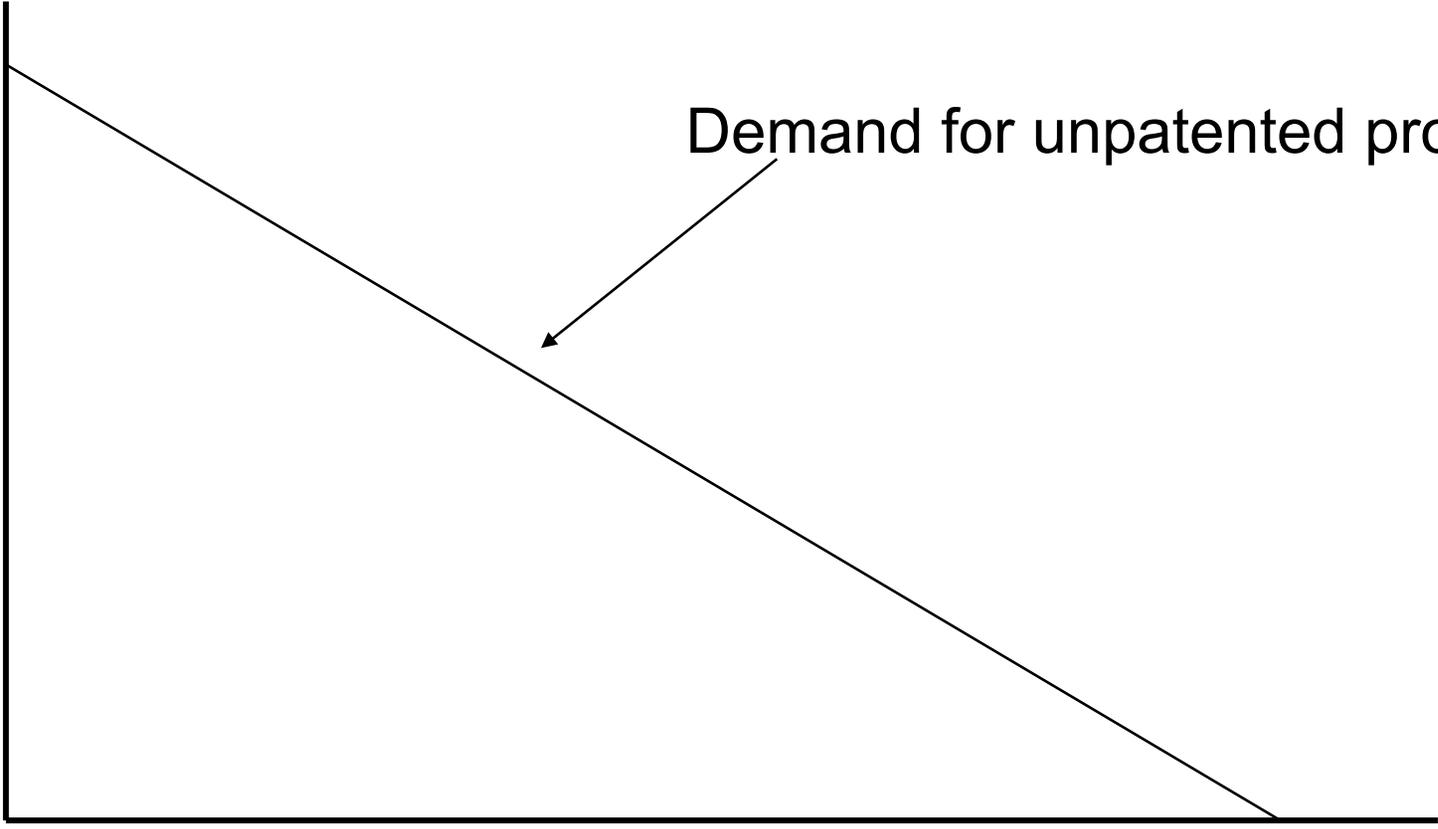
(e) Price-Restricted Licenses

- Suppose three firms (A, B, C) are currently producing and selling a unpatented product (e.g., shredded wheat)
- An employee of firm A invents and patents a process that reduces the cost of producing shredded wheat
- What should we permit A to do?

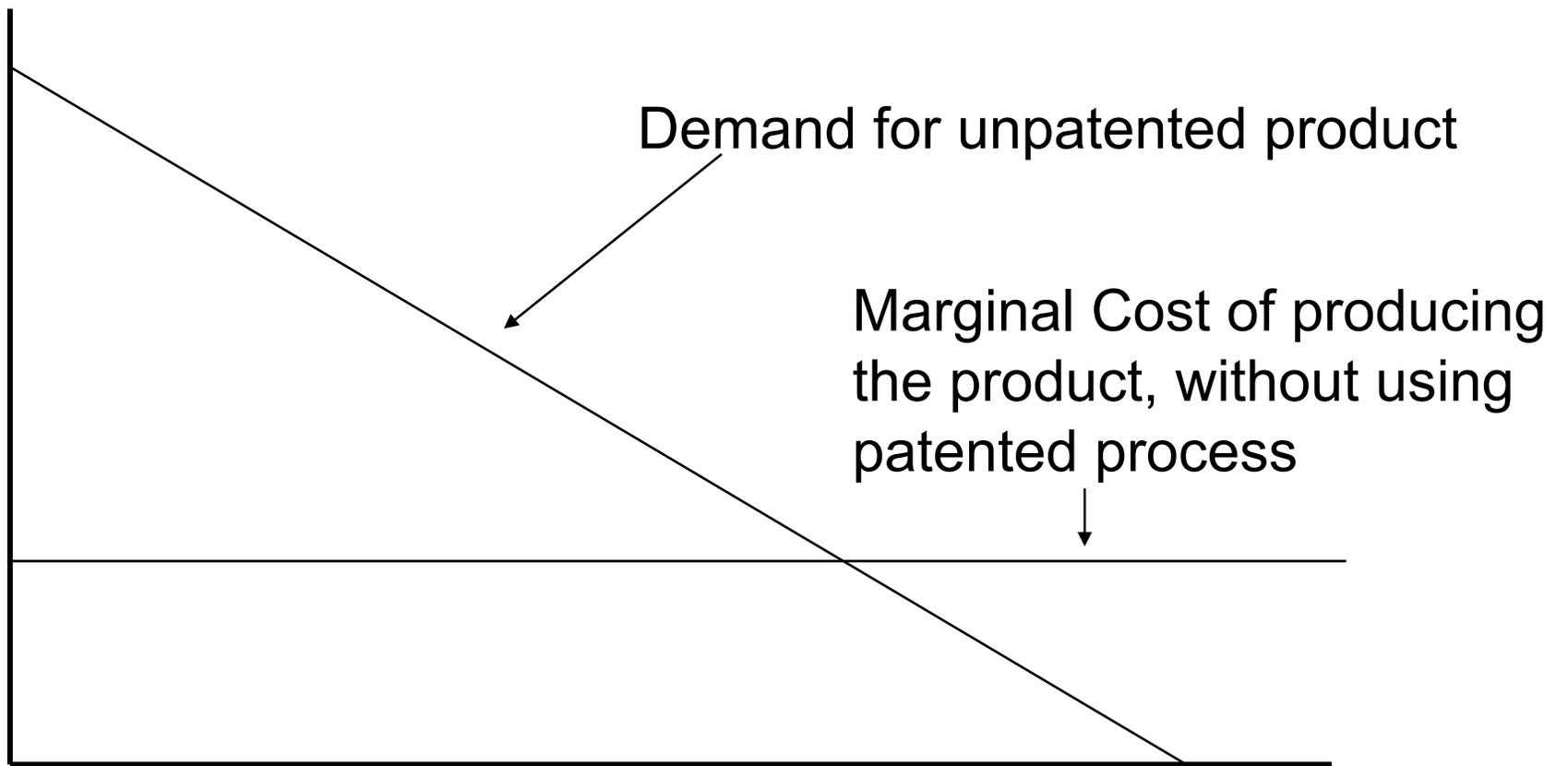
Price-Restricted Licenses

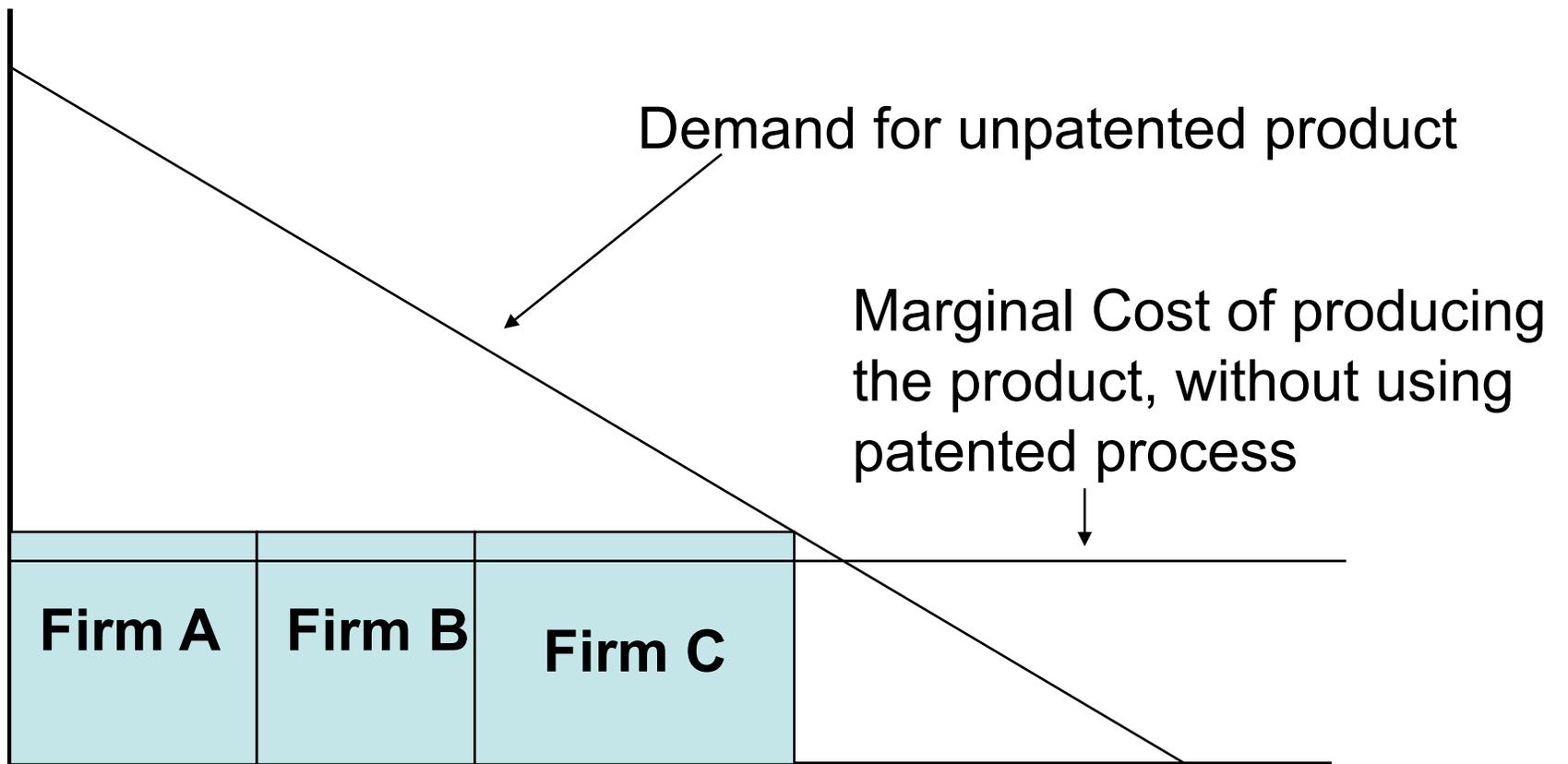
What's the Purpose of the P-R License?

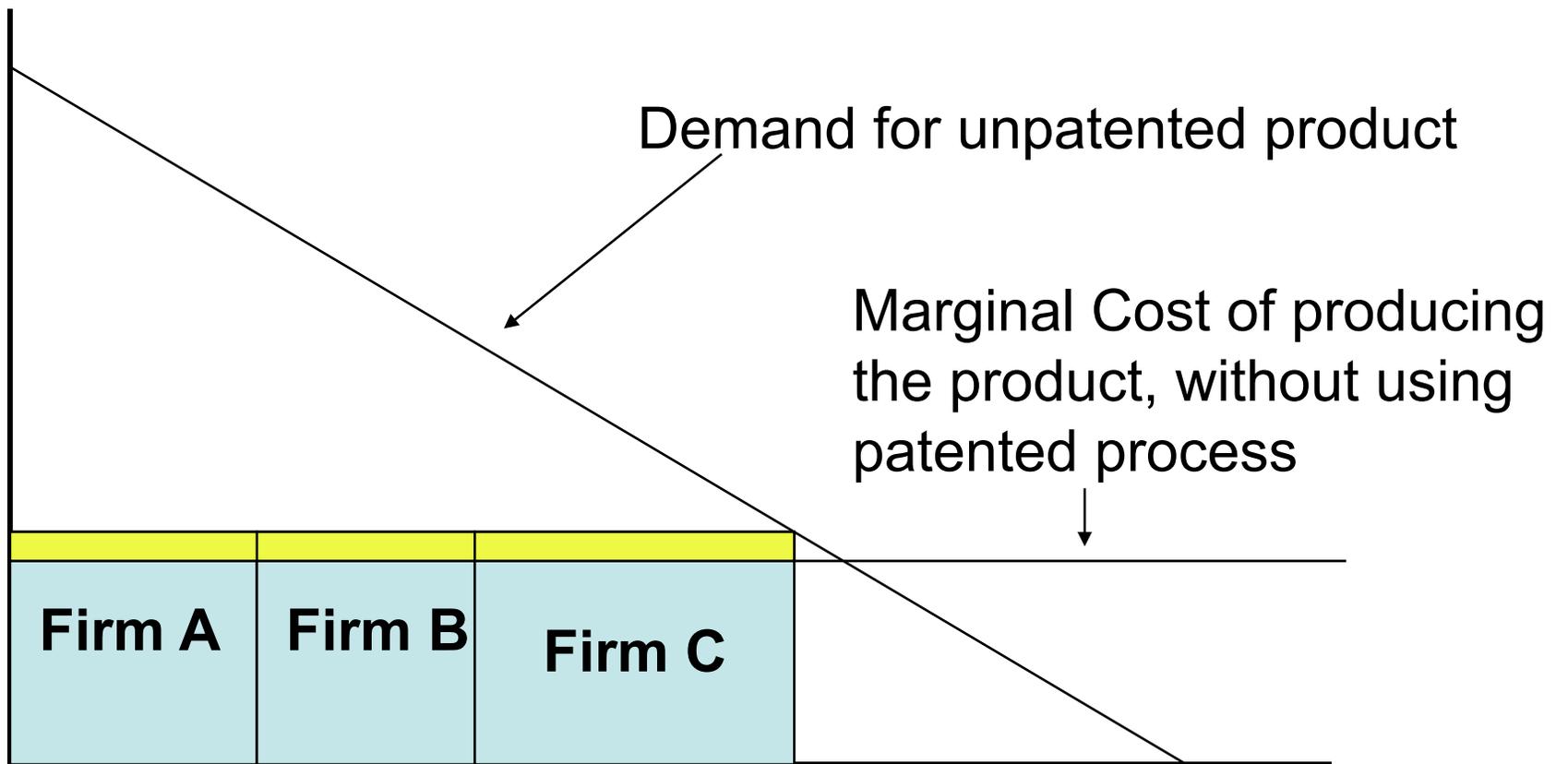
- 1) Protect Patentees' market (and associated profits) against erosion by competitors
- 2) Facilitate cartelization
- 3) Maintain quality of repairs and service

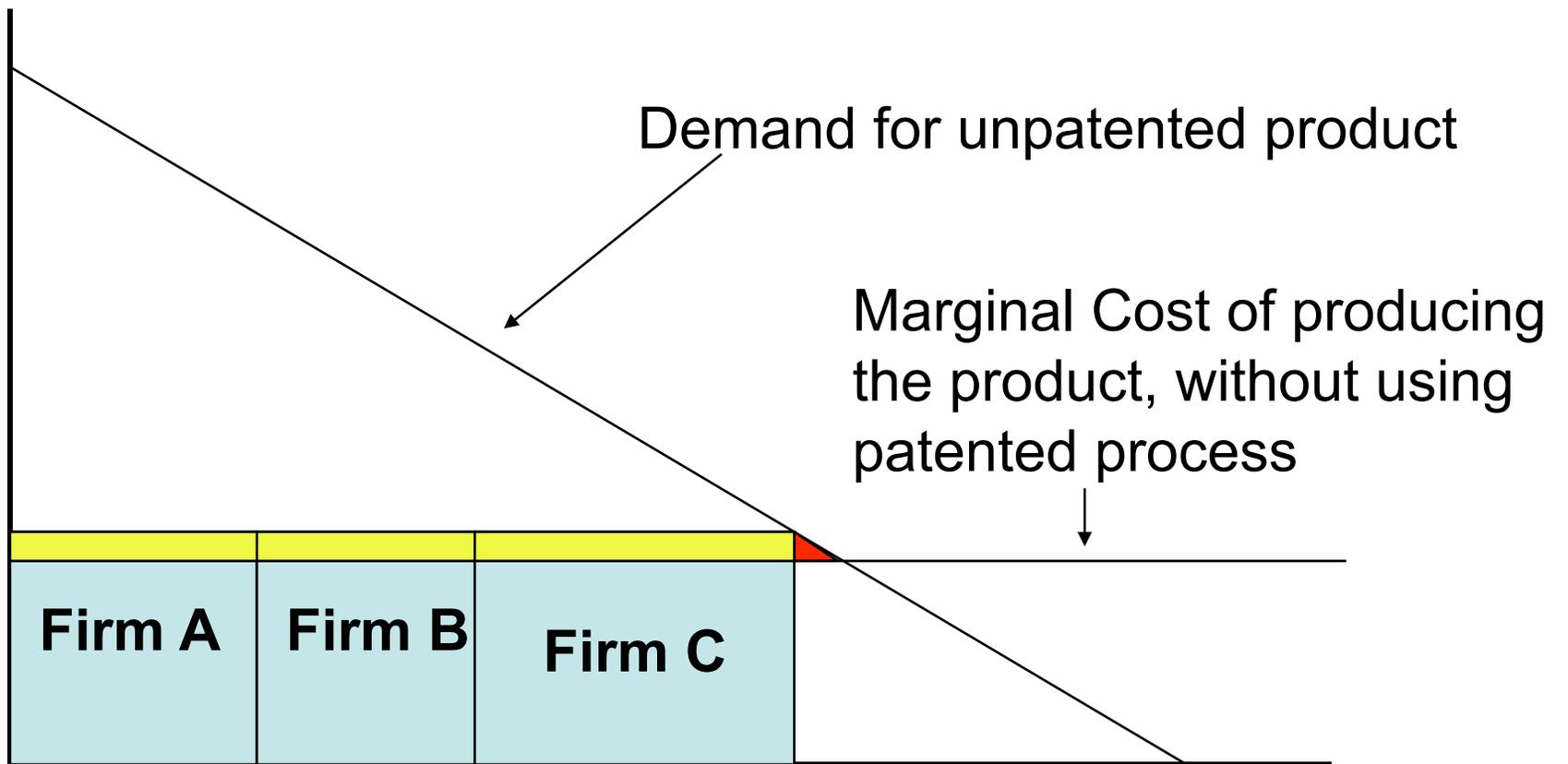


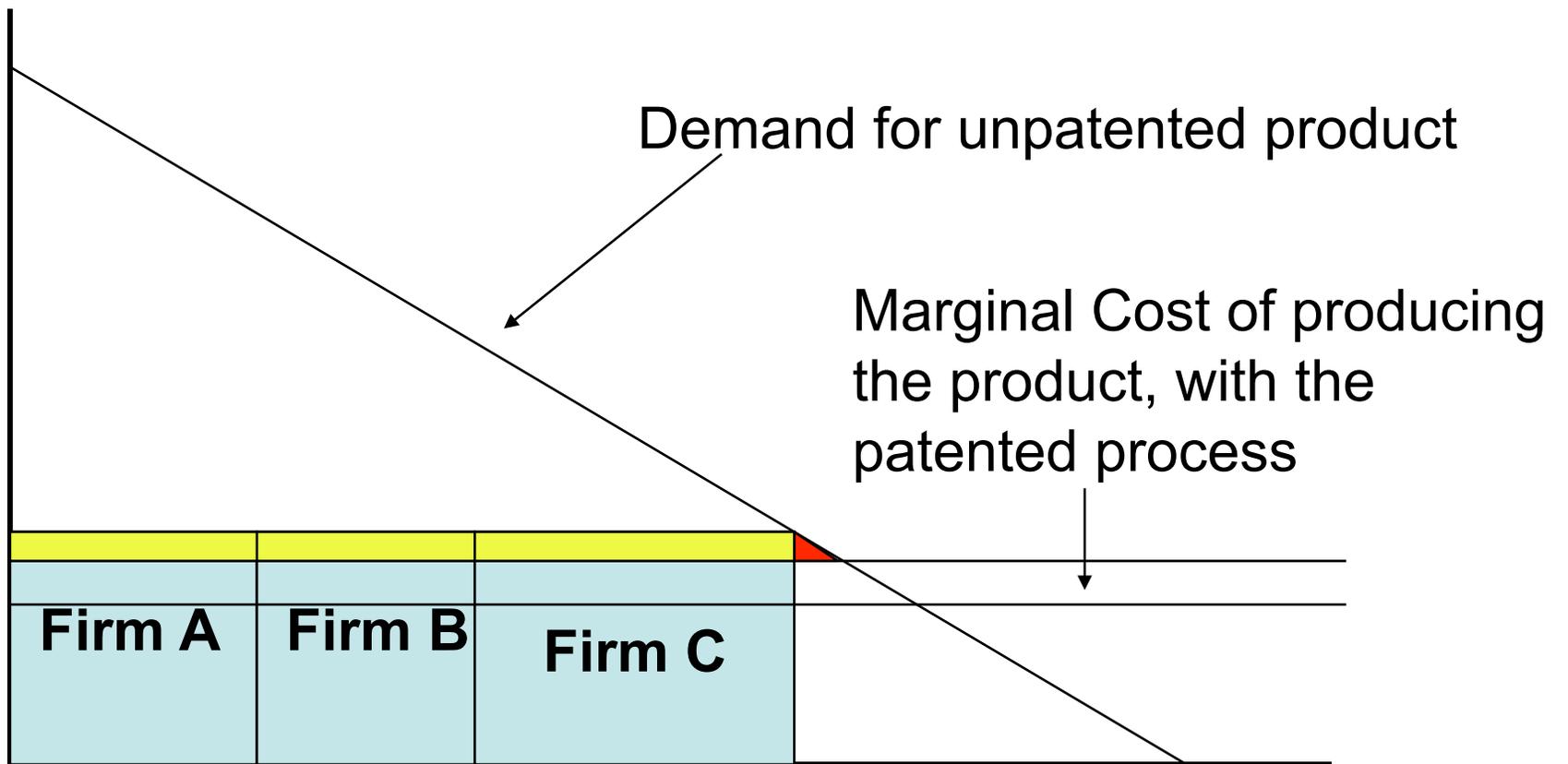
Demand for unpatented product

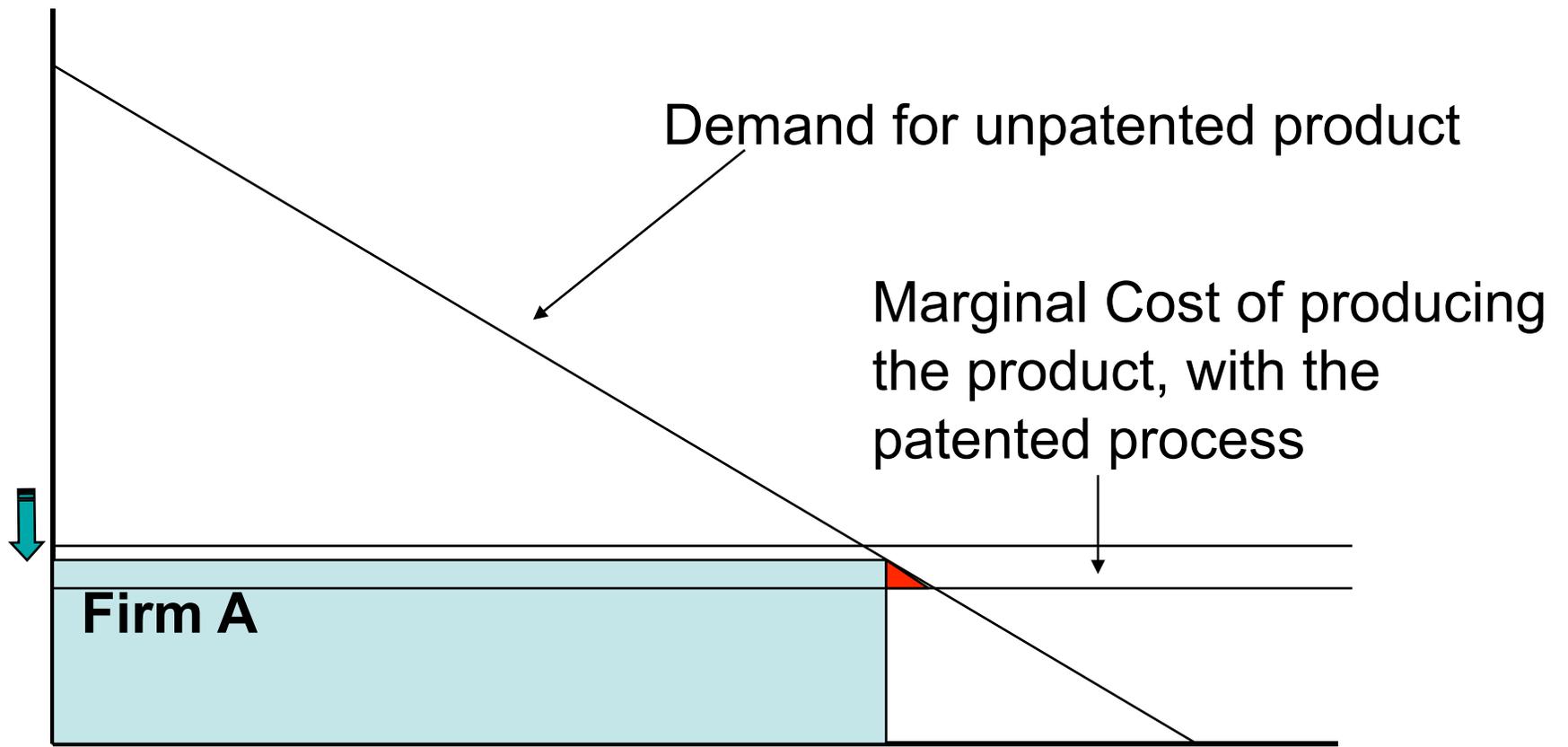




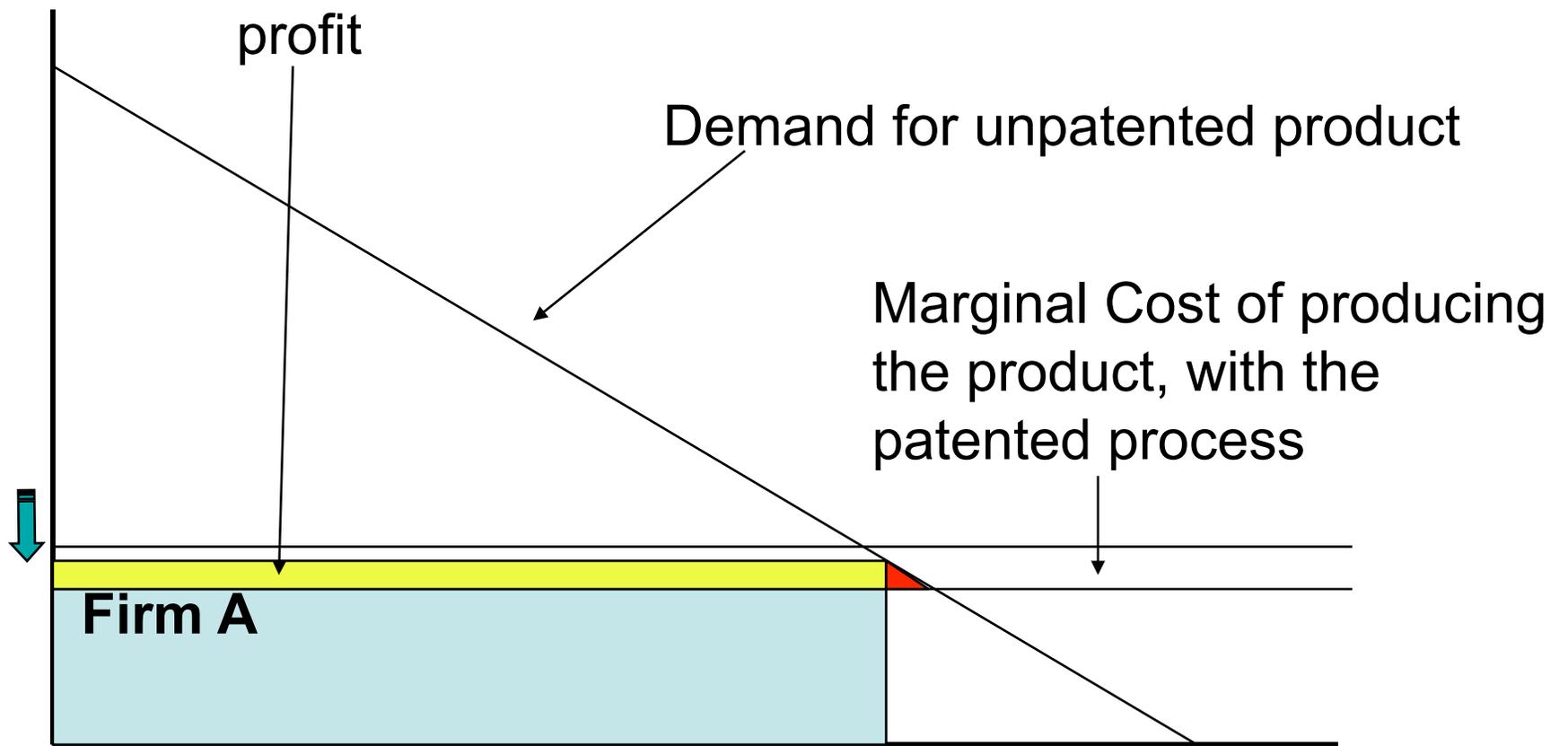




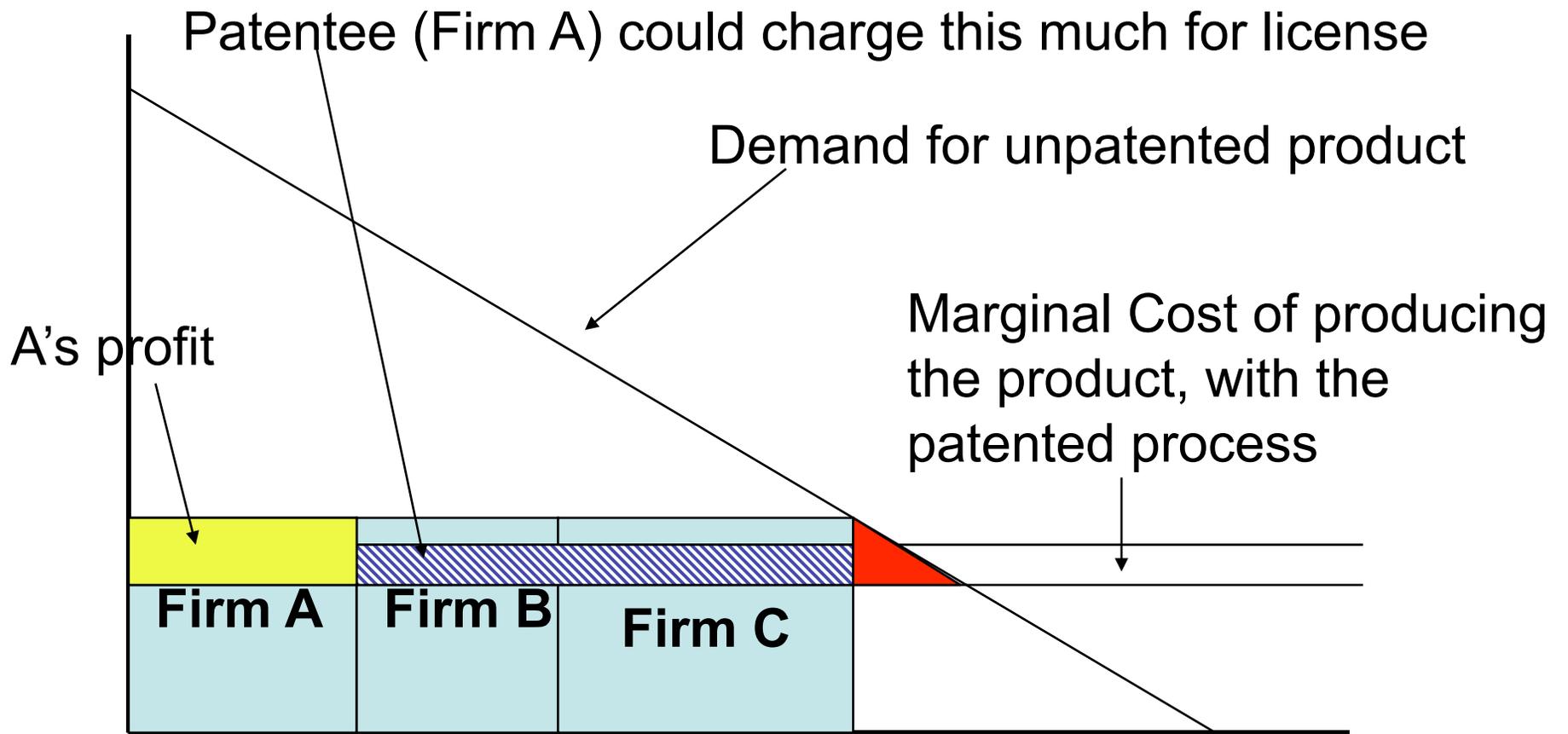




A could lower the price on the product and drive B & C out of business

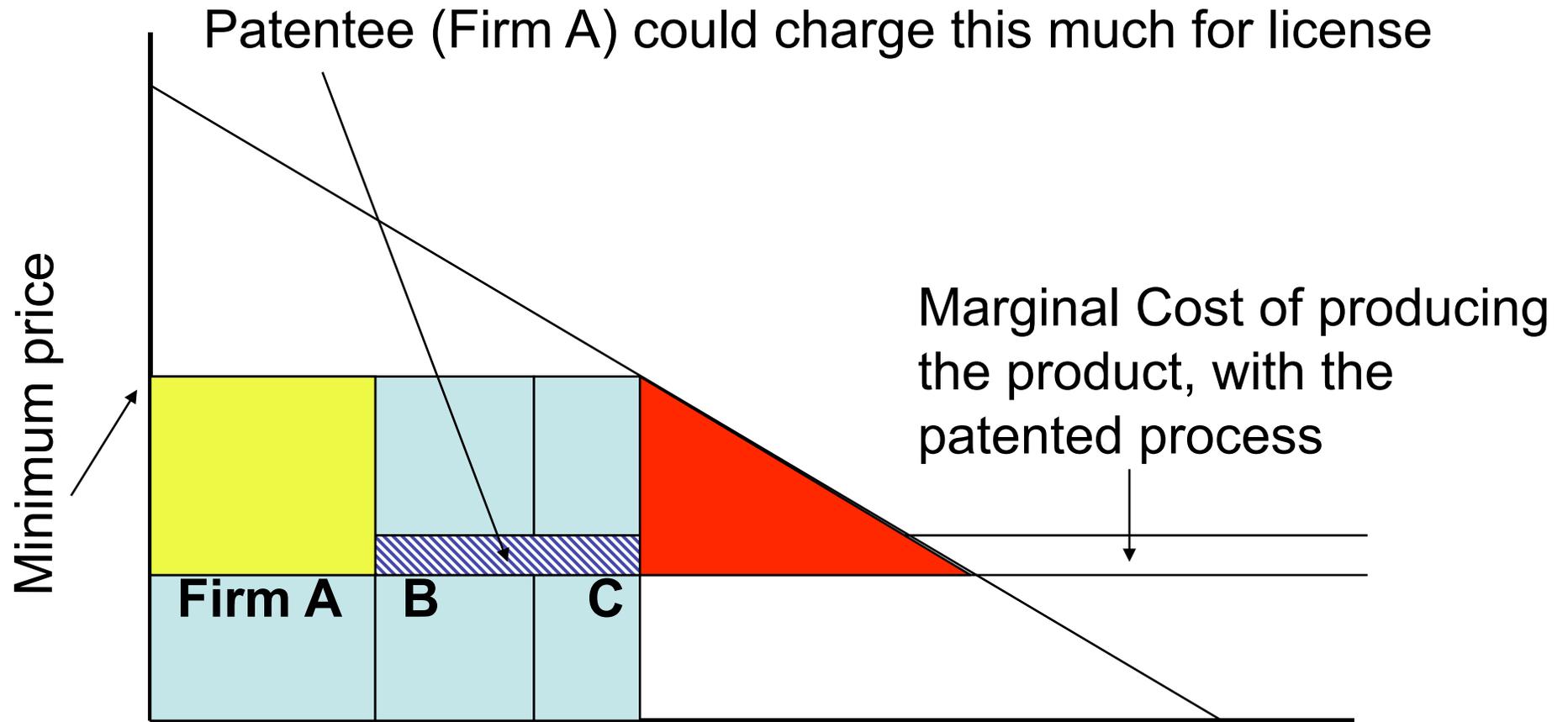


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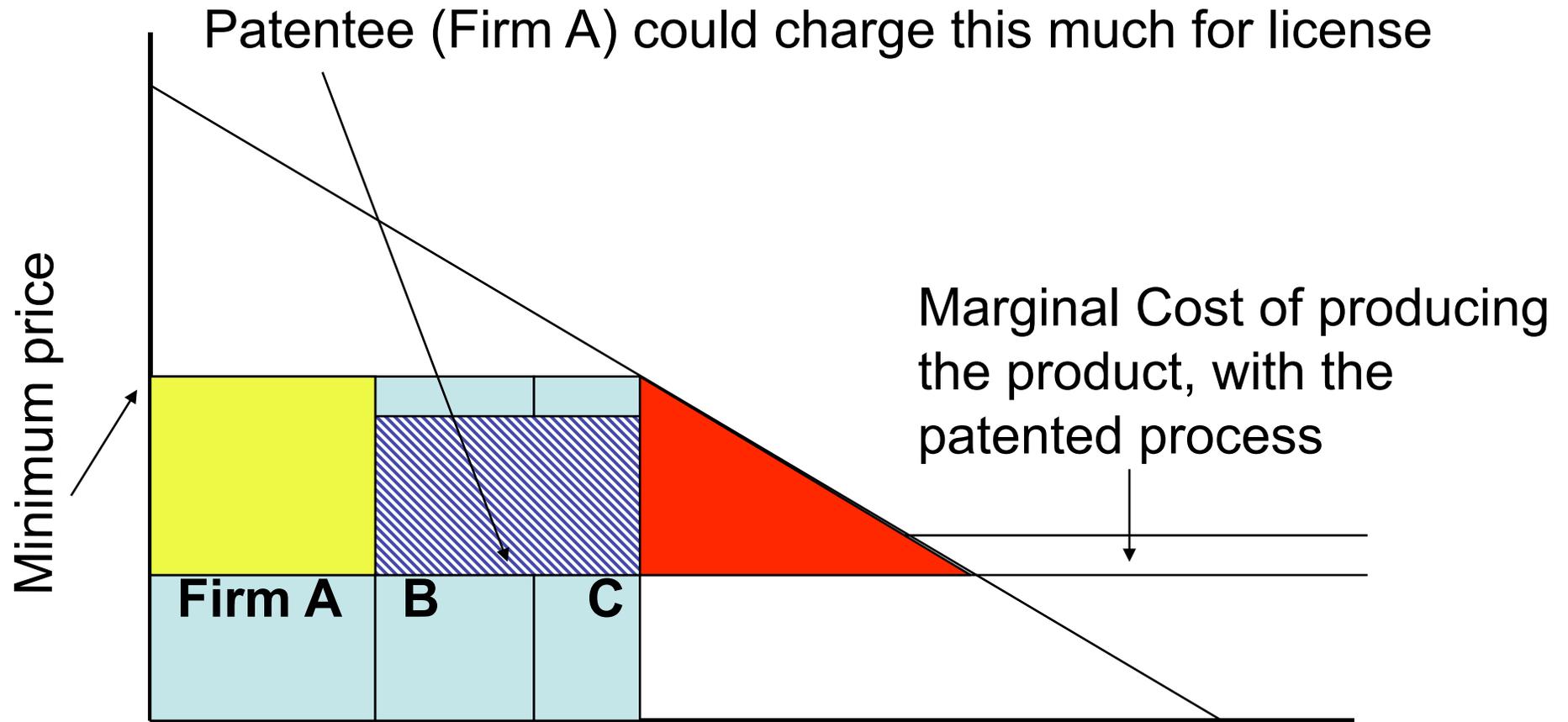
A could maintain price; license B & C to use the process

Price-restricted licenses

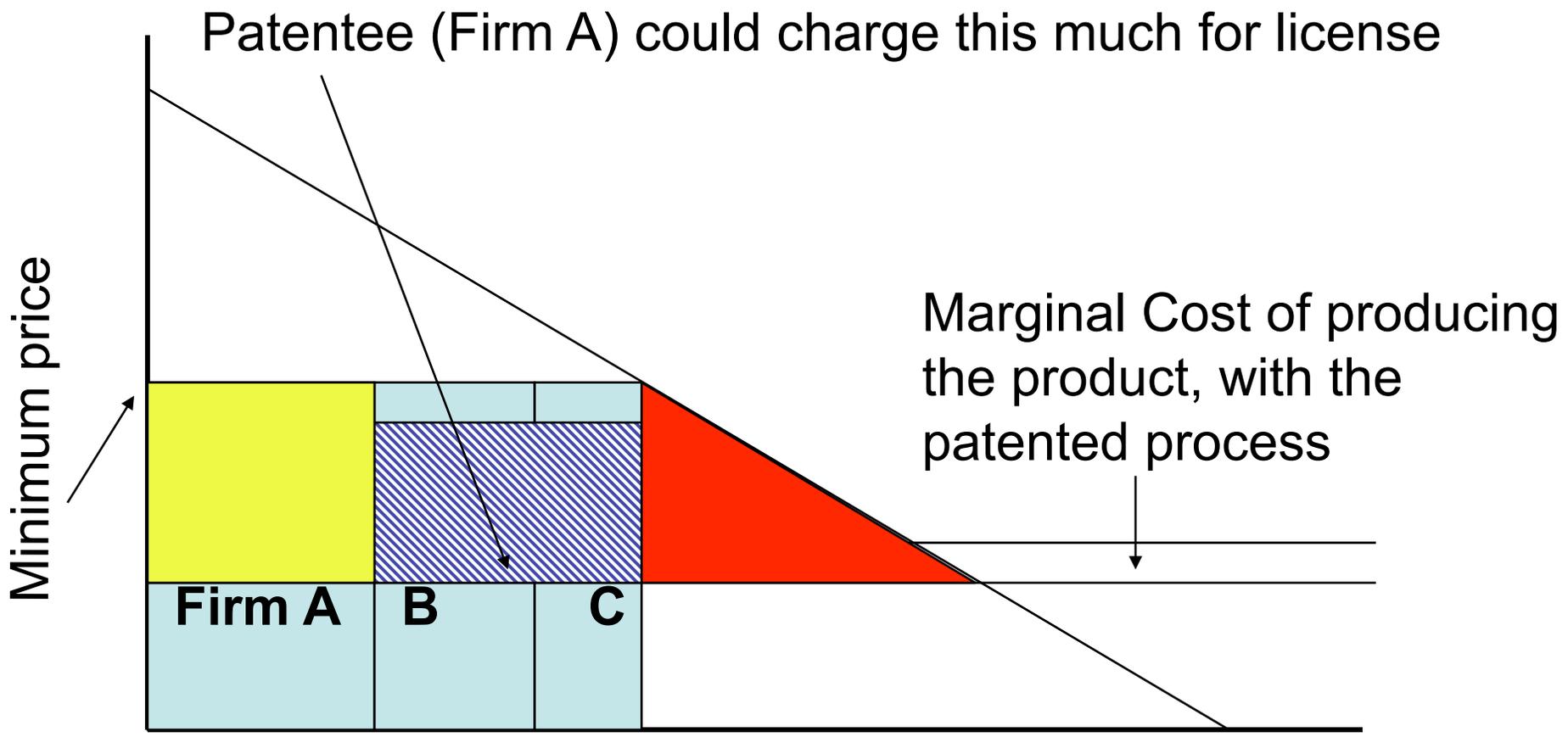


A could license B & C to use the process -- and require them to raise the price

Price-restricted licenses



A could license B & C to use the process -- and require them to raise the price



Patentee (Firm A) could charge this much for license

Marginal Cost of producing the product, with the patented process

Minimum price

Firm A

B

C

A could license B & C to use the process -- and charge high license fees

Price-Restricted Licenses

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Price-Restricted Licenses

What's the Purpose of the P-R License?

1) Protect Patentees' market (and associated profits) against erosion by competitors

Socially desirable

2) Facilitate cartelization

Socially undesirable

3) Maintain quality of repairs and service

Socially desirable

Price-Restricted Licenses

What's the Purpose of the P-R License?

1) Protect Patentees' market
(and associated profits)
against erosion by
competitors

Socially desirable
but unlikely

2) Facilitate cartelization

Socially undesirable
likely

3) Maintain quality of repairs
and service

Socially desirable
?

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Shrimp Peeling Machine

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- i) Nonmetered licenses [unless voluntary]
- j) Grantback licenses [Rule of Reason analysis]
- k) Label licenses