Washington Law Review

Volume 57 | Number 4

11-1-1982

Antitrust Problems in International Technology Transfers—United States v. Westinghouse Electric Corp., 648 F.2d 642 (9th Cir. 2981)

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ANTITRUST PROBLEMS IN INTERNATIONAL TECHNOLOGY TRANSFERS—*United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981).

In 1970 the Department of Justice brought an antitrust action against Westinghouse Electric Corporation and two Japanese corporations, Mitsubishi Electric Corporation (MELCO) and Mitsubishi Heavy Industries Ltd. (MHI) (together Mitsubishi). The government alleged violations of section 1 of the Sherman Act.[1] Since 1923 the defendants or their predecessors had a series of technology-sharing agreements under which Westinghouse granted licenses of its Japanese patents to Mitsubishi. It excluded its counterpart patents in the United States and Canada from the agreements. The government contended that Mitsubishi had become so dependent on Westinghouse technology because of the technology-sharing agreements that it could not enter the United States or Canadian markets without the patent licenses. Thus the licensing agreements restrained competition. The government asked the court to terminate the agreements and to require Westinghouse to license Mitsubishi under its United States patents.[2]

The United States District Court for the Northern District of California granted the defendants' motion to dismiss in 1978.[3] In *United States v. Westinghouse Electric Corp.*,[4] the Court of Appeals for the Ninth Circuit affirmed the dismissal, concluding that the right to refuse to license a patent was the "untrammeled right"[5] of the patentee and that granting the relief requested would seriously undermine the patent system.[6]

This Note examines the conflicts between patent and antitrust laws and refers to a framework for resolving these conflicts using the legislative policies behind the laws. The Note concludes that the dismissal of the complaint was proper but suggests that in not providing an analytical basis for its decision, the court failed to clarify the law involving restrictions in patent-licensing agreements.

1. The *Westinghouse* case resulted from a period of activity by the Department of Justice's Antitrust Division concentrating on foreign technology licensing. *See* Wallace, *Overlooked Opportunities—Making the Most Out of United States Antitrust Limitations on International Licensing Agreements*, 10 INT'L LAW. 275, 276 (1976).

2. United States v. Westinghouse Elec. Corp., 471 F. Supp. 532, 535–36 (N.D. Cal. 1978), *aff'd in part and rev'd and remanded in part*, 648 F.2d 642 (9th Cir. 1981). Although the government presented this theory in its complaint, it relied chiefly on a conspiracy charge at trial.

3. *Id.* at 546. Under Fed. R. Civ. P. 41(b), after plaintiff has presented evidence, defendant may move for dismissal on the ground that upon the facts and the law the plaintiff has shown no right to relief.

4. 648 F.2d 642 (9th Cir. 1981).

5. *Id.* at 647.

6. *Id.* at 648.

I. BACKGROUND

A. *The Antitrust Laws*

Antitrust laws in general, and the Sherman Act in particular, are designed to promote the operation of free and unrestrained competition.[7] The major policy of the antitrust laws is efficient allocation of resources.[8] The antitrust laws are also designed to promote cost minimization and to provide incentives for innovation. As an economic tool they are used to distribute opportunities and to disperse economic power.[9]

Section 1 of the Sherman Act [10] prohibits contracts, combinations, or conspiracies in restraint of trade. Its prohibitions extend to restraints on commerce with foreign countries.[11] In determining whether agreements are prohibited by the Sherman Act, courts initially decide whether to apply a rule of reason[12] or a "per se" rule.[13] This determination is based on the kind of restraint involved.

A court will find an agreement "per se illegal" if it is so plainly anticompetitive in nature and effect that an elaborate study of the industry is unnecessary to establish its illegality.[14] The per se rule rests on the judgment that the condemned practice usually results in harm, that legitimate objectives are rarely present, and that the categorical prohibition dispenses with unnecessary litigation.[15] An important factor in making this preliminary assessment is whether the parties stand in a horizontal or a

7. *See, e.g.*, United States v. American Can Co., 230 F. 859, 902 (D. Md. 1916), *appeal dismissed*, 256 U.S. 706 (1921). The Supreme Court in United States v. Topco Assoc., 405 U.S. 596, 610 (1972), described the antitrust laws as the "Magna Carta of free enterprise."

8. *See* W. BOWMAN, PATENT AND ANTITRUST LAW 1–3 (1973). The economic rationale for condemning monopoly is that a competitive market allocates resources to those uses consumers value most highly. Under a monopoly, output is restricted and prices are raised so that consumers may turn to less desirable products. These products thus inefficiently absorb resources. *Id.*

9. P. AREEDA, ANTITRUST ANALYSIS 40 (3d ed. 1981). *See also* I P. AREEDA & D. TURNER, ANTITRUST LAW § 103 (1978).

10. 15 U.S.C. §§ 1–7 (1980).

11. "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal." *Id.* § 1.

12. *See generally* II P. AREEDA & D. TURNER, ANTITRUST LAW § 314 (1978).

13. "Articulated and rather firm presumptions—the so-called per se rules—constitute the most formal and self-conscious explications of the reasonableness standard." *Id.* at 47.

14. The Supreme Court, in National Soc'y of Professional Engineers v. United States, 435 U.S. 679 (1978), stated:

> the purpose of the analysis is to form a judgment about the competitive significance of the restraint; it is not to decide whether a policy favoring competition is in the public interest, or in the interest of the members of an industry. Subject to exceptions defined by statute, that policy decision has been made by the Congress.

Id. at 692.

15. II P. AREEDA & D. TURNER, *supra* note 12, § 314.

vertical relationship. For example, in *United States v. Topco Associates,*[16] the United States Supreme Court applied the per se rule to an arrangement that divided markets among competitors, i.e., parties in a horizontal relationship. In contrast, in *Continental TV v. GTE Sylvania*[17] the Court held that location restrictions imposed by a manufacturer on retailers, i.e., parties in a vertical relationship, were not per se illegal.

If a court finds that the restraint is not per se violative of the Sherman Act, it must apply the reasonableness standard. In *Chicago Board of Trade v. United States,*[18] Justice Brandeis listed factors that a court should consider in determining whether a restraint is unreasonably adverse to competition. These include facts peculiar to the business; its condition before and after the imposition of the restraint; the nature, history, and effect of the restraint; and the purpose for adopting it.[19] Good intention will not save an objectionable regulation, but a court may be better able to interpret facts if it knows the defendant's intent.

B. The Patent System

The United States Constitution grants legislative power "[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries . . . ."[20] Patents fall within the constitutional grant. An applicant may obtain a patent for "any new and useful process, machine, manufacture, or composition of matter . . . ."[21] A patent applicant must show that the invention is novel and not obvious. The patent code imposes these limitations on patentability to protect the public interest in freedom to use knowledge that is in the public domain.[22]

The patent code provides for a 17-year period of exclusive use in exchange for making the information public.[23] During this period the patentee has the options of practicing or not practicing the patent or of

16. 405 U.S. 596 (1972). Prior cases applying the per se rule to territorial restraints also involved other restraints. *See, e.g.,* United States v. Sealy, 388 U.S. 350 (1967) (fixing of resale prices); Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951) (price-fixing, cooperation to eliminate outside competition, participation in cartels to restrict exports and imports).

17. 433 U.S. 36 (1977).

18. 246 U.S. 231 (1918).

19. *Id.* at 238.

20. U.S. CONST. art. 1 § 8, cl. 8.

21. 35 U.S.C. § 101 (1970).

22. *See generally* Chisum, *Sources of Prior Art in Patent Law,* 52 WASH. L. REV. 1, 1–2 (1976).

23. Patent Code, 35 U.S.C. § 154 (1976): "Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States . . . ."

granting exclusive or nonexclusive licenses.[24] The patentee may bring an infringement action against others who use the invention during the statutory period.[25]

The Supreme Court has characterized the patent right as a "privilege which is conditioned by a public purpose."[26] The Court described the purposes of the patent system as the fostering of invention and the disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires.[27] The implicit assumption of the patent code is that desirable social activity is stimulated by monopoly rewards.[28] Unlike the antitrust laws, the patent code was not intended to be a regulator of economic power.[29]

The patent holder's legal monopoly is limited to the boundaries of the patent grant.[30] There are many ways the patent holder can overstep the boundaries of the patent grant. Therefore, courts have fashioned methods to control an overstepping patent holder. For example, under the patent misuse doctrine courts will not enforce the patent against infringers until the misuse has abated.[31] When a patent holder has violated the antitrust laws,[32] a court may order compulsory licensing.[33]

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24. *See, e.g.*, Bement v. Nat'l Harrow Co., 186 U.S. 70, 88 (1902).

25. The heart of the patentee's legal monopoly is "the right to invoke the State's power to prevent others from utilizing his discovery without his consent." Zenith Radio Corp. v. Hazeltine Research Inc., 395 U.S. 100, 135 (1969).

26. Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 666 (1944).

27. Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979).

28. "It is a premise of the patent laws that a company employing inventors must have substantial incentive to spend money that may lead to patentable inventions." SCM Corp. v. Xerox Corp., 463 F. Supp. 983, 1013 (D. Conn. 1978), *remanded on other grounds*, 645 F.2d 1195 (2d Cir. 1981).

The patent system has been criticized on the basis that the inventor rarely receives rewards; rather, they go to the one adding the "finishing touch." W. BOWMAN, *supra* note 8, at 28 (describing Knight's view). Nevertheless, economic analysis indicates that development of an idea is often more costly than the initial discovery. *See generally* F. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 416–19 (2d ed. 1980). Professor Baxter has observed that too many resources may already be devoted to innovation and that many commentators "accept as absolute truth the contrary assumption that additional encouragement of research, or at least the present amount of encouragement, is desirable." Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly, an Economic Analysis*, 76 YALE L.J. 267, 269 (1966). Baxter is now with the Department of Justice, as Assistant Attorney General in charge of Antitrust.

29. *See* note 9 and accompanying text *supra*.

30. *See* note 54 and accompanying text *infra*.

31. P. AREEDA, *supra* note 9, at 587–88.

32. For example, patents may function naturally as entry barriers to firms desiring to compete in a market by denying access to required technology. When access is blocked because of illegal activity, such as patent accumulation for monopolistic purposes, an antitrust violation exists.

33. For a discussion of compulsory licensing in antitrust cases, see R. NORDHAUS, PATENT-ANTITRUST LAW 104 (3d ed. 1977).

In United States v. United Shoe Mach. Corp., 110 F. Supp. 295 (D. Mass. 1953), *aff'd per curiam*, 347 U.S. 521 (1954), the court ordered compulsory licensing even though it found that the defendant had not engaged in abusive practices respecting patents. *Id.* at 351. In SCM Corp. v.

C. *Accommodating Patent and Antitrust Laws*

The potential for conflict between patent grants and antitrust laws creates complex legal problems. Some commentators believe that patent and antitrust laws are in harmony, sharing a common goal of efficient resource allocation.[34] Regardless of any economic congruency, judges treat the two sets of laws as distinct.[35]

1. *The "Reasonably Adapted" Test*

The United States Supreme Court has considered several cases in which a patent holder licensed a patent in connection with an agreement containing restrictive clauses that ordinarily would violate antitrust laws. In *Bement v. National Harrow Co.*,[36] the Court upheld a minimum price clause in a licensing agreement against a Sherman Act attack. The Court reasoned that requiring the licensee to sell at a set price was a lesser-included right of the right to prohibit others from using the patent.[37] Similarly, in *United States v. General Electric Co.*,[38] the Court upheld a

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Xerox Corp., the Second Circuit distinguished *United Shoe* on the ground that patents were not one of the principal factors enabling United Shoe to take market power. 645 F.2d 1195, 1205 (2d Cir. 1981). The court held that when patents had been lawfully acquired, subsequent conduct permissible under patent laws could not trigger antitrust liability. *Id.* at 1206.

Compulsory licensing legislation has received some attention from commentators. *See* Goldstein, *A Study of Compulsory Licensing*, in 2 THE LAW AND BUSINESS OF LICENSING 734.217 (M. Finnegan & R. Goldscheider ed. 1980 rev. ed.) (negative appraisal). A White House Task Force recommended legislation requiring patents that had been licensed to one person be available to all other qualified applicants on equivalent terms. *Report of President Johnson's White House Task Force on Antitrust Policy* (1968), *reprinted in* S. OPPENHEIM & G. WESTON, FEDERAL ANTITRUST LAWS 239, 241 (1975 supp. to 3d ed.). *See also* Baxter, *supra* note 28, at 347 (market subdivision through a system of patent licensing has potential for economic harm; the solution is to compel issuance of licenses to all qualified applicants when a license has previously been issued).

The issue of compulsory licensing takes on added complexity in the international context. The government in *Westinghouse* initially requested that both Westinghouse and Mitsubishi be required to license their respective patents. 471 F. Supp. at 536. An expert in Japanese antitrust law has observed that such a decree probably would not be enforceable in Japan. J. Haley, *United States Antitrust Beyond the Borders—The Japanese Experience*, 324 AUSTRALIAN INDUSTRIES DEV. BULL. 10 (1980).

34. *E.g.*, Bowman, *supra* note 8, at 1. *See also* Oppenheim, *The Patent-Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? or Antitrust Supremacy?*, 15 IDEA 1, 5 (1971) (patent and antitrust policy are not intrinsically in conflict; the paramount objective of both policies is maintaining private competitive enterprise).

35. "[T]here can be little doubt that these two sets of laws are juridically divergent." SCM Corp. v. Xerox Corp., 463 F. Supp. 983, 997 (D. Conn. 1978), *remanded on other grounds*, 645 F.2d 1195 (2d Cir. 1981).

36. 186 U.S. 70 (1902).

37. *Id.* at 93.

38. 272 U.S. 476 (1926).

price-fixing clause because dictating price was "normally and reasonably adapted to secure pecuniary reward for the [patent] monopoly."[39]

Although the price-fixing aspect of *General Electric* was later limited to cases involving a single licensee,[40] courts continue to use a "reasonably adapted" test to determine the validity of restraints in patent licenses.[41] Sometimes courts invoke this vague test without analyzing the effects of the restraint. This is especially true when territorial restraints are involved. For example, in *Brownell v. Ketcham Wire & Mfg. Co.*,[42] a Washington corporation secured a license under a United States patent from a European patent holder. The licensing agreement provided that the corporation could not export articles covered by the patent to any foreign country. The Ninth Circuit upheld the agreement on the grounds that section 261 of the patent code permits a patent holder to impose territorial restrictions.[43] The court did not analyze the effects of the restraint, although such an examination falls within the reasonably adapted test. Furthermore, section 261 validates only restrictions within the United States[44] and the patent grant does not necessarily justify agreements dividing world markets.[45]

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39. *Id.* at 490.

40. United States v. Line Material Co., 333 U.S. 287, 311 (1947). *See also* E. GELLHORN, ANTITRUST LAW AND ECONOMICS IN A NUTSHELL 359–61 (2d ed. 1981). Professor Gellhorn noted that the Supreme Court distinguished the *General Electric* rule of patent licensing containing price controls whenever possible.

41. The *Westinghouse* court, for example, used the standard. 648 F.2d at 647.

42. 211 F.2d 121 (9th Cir. 1954).

43. *Id.* at 128.

44. 35 U.S.C. § 261 provides in part:

> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

Section 261 applies only to grants of patent rights in the United States and "does not purport to authorize assignments of extra-territorial rights and agreements allocating foreign markets gain no immunity whatsoever by virtue of a domestic patent." L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 539 n.36 (1977).

45. The Attorney General's Committee questioned *Brownell* to the extent it approved an export restriction on a United States licensee. REPORT OF THE ATTORNEY GENERAL'S COMMITTEE TO STUDY THE ANTITRUST LAWS 237 n.55 (1955).

Scholars are questioning whether section 261 permits even domestic territorial restrictions in licensing agreements. *See, e.g.*, Baxter, *supra* note 28, at 349 ("Only by amateurish literalism or cynical distortion can it be argued that § 261 places a general imprimatur of legality on territorial restrictions."). Section 261 speaks of assignments, and the issue raised is whether it also applies to licenses. According to Professor Baxter, the distinction between an assignment and a license at the time the patent code was enacted was significant. An assignment conveyed a broad range of interests to the transferee, including the right to bring an infringement action. A licensee, by contrast, received only the right to practice the patent without risk of an infringement suit. *Id.* at 349–50. *See also* Gibbons, *Domestic Territorial Restrictions in Patent Transactions and the Antitrust Laws*, 34 GEO. WASH. L. REV. 893, 895–900 (1966) (section 261 should not govern the validity of restrictions

2. *International Territorial Restrictions*

A patent license may involve territorial restrictions. For example, it is possible to patent the same invention under the laws of more than one country, but the patent holder need not license all the patents. In the *Westinghouse* case, for example, Westinghouse, the patent holder, restricted Mitsubishi, the patentee, from its American market. It accomplished this by licensing its Japanese but not its American patents. The licensing agreement may also contain clauses prohibiting the licensee from selling or manufacturing the products in America.

An older line of cases addresses international cartelization schemes in which territorial restrictions play an important role.[46] The legal criteria for assessing the validity of the territorial restrictions are not clear because the cases involve an aggregation of abuses. An important factor is whether the products in the agreements were actually covered by patents or trademarks. In *United States v. Imperial Chemical Industries (ICI),*[47] the defendants engaged in patent and processes licensing agreements that masked an illegal arrangement to divide markets. The defendants used the licenses as a territorial assignment technique. In one ICI agreement a clause allowed each party to sell products within a competitor's territory if the products did not embody technology obtained from the competitor. The clause satisfied the criterion that products incorporate the licensed technology, but the United States District Court for the District of Columbia found that the parties ignored this clause.[48] The defendants were unsuccessful in their attempt to legitimize the territorial assignments.

In *Timken Roller Bearing Co. v. United States,*[49] the United States Supreme Court refused to validate a trademark licensing agreement that the defendant had used as a device to allocate territories. The licensing agreement provided for control of the manufacture and sale of products whether they carried the trademark or not.[50]

In both these cases the government proved conspiracies and that the defendants had engaged in other illegal activities, including price-fixing. Thus, although the existence of territorial restraints played a role in the determinations, the cases are not definitive in assessing the antitrust implications of territorial restraints in the absence of other illegal conduct.

challenged as antitrust violations); *contra,* Wheeler, *A Reexamination of Antitrust Law and the Exclusive Territorial Grants by Patentees,* 119 U. PA. L. REV. 642, 643–50 (1971).

46. In addition to the cases discussed in the text, see United States v. General Elec. Co., 82 F. Supp. 753 (D.N.J. 1949); United States v. General Elec. Co., 80 F. Supp. 989 (S.D.N.Y. 1948); United States v. Nat'l Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945) *aff'd,* 332 U.S. 319 (1947).

47. 100 F. Supp. 504 (S.D.N.Y. 1951).

48. *Id.* at 561.

49. 341 U.S. 593 (1951).

50. *Id.* at 598–99.

II. THE *WESTINGHOUSE* COURT'S REASONING

In *United States v. Westinghouse Electric Corp.*, the government presented several claims to the district court including conspiracy, patent abuse, and an illegal tying agreement in which Westinghouse forced Mitsubishi to accept unwanted products. The district court rejected all the claims.[51] Rather than appeal these claims, the government reverted to a theory it alleged in its complaint but did not rely on heavily at trial.[52]

The government argued that, by virtue of the long period of technology sharing, MELCO and MHI had become so wedded to Westinghouse technology that they could not compete in the United States without infringing on Westinghouse's patents. The two Mitsubishi companies are among the largest manufacturers of electrical products outside the United States and their entrance into the United States market would have increased competition in a heavily concentrated market. Thus Westinghouse, by failing to license MELCO and MHI, protected itself from competition and violated the Sherman Act.[53]

The Ninth Circuit noted the obvious tension between patent and antitrust laws. It observed that a patent holder could violate the antitrust laws by seeking to expand the patent monopoly through, among other things, fraud or tying agreements.[54] The court found that Westinghouse had done no more than license some of its patents and refuse to license others. Because this practice is authorized by patent laws, as opposed to being an expansion of the patent grant, Westinghouse did not violate the antitrust laws. The court relied on the "reasonably adapted" language of *General Electric*[55] to support its conclusion that licensing some patents but not others is within the patent grant.[56] The court further observed that the

51. The district court found that the Japanese firms' failure to enter the American market resulted from fear of patent infringement rather than from an agreement not to compete. 471 F. Supp. at 539–40. The district court dismissed the claims based on alleged tying arrangements because the government failed to present evidence concerning the substantiality of the restraint on commerce. *Id.* at 544. The patent abuse claim was predicated on the allegation that Westinghouse required MELCO and MHI to pay royalties on products not incorporating transferred patent technology. Because such an arrangement amounts to misuse only if coercion is involved, the district court also dismissed that claim. *Id.* at 545.

52. The court of appeals noted with surprise the "tergiversations" in the goverment's presentation of its claim for relief. 648 F.2d at 645.

53. *Id.* at 645–46.

54. Such instances include price-fixing, conditioning the license grant on the payment of royalties on unpatented products, and accumulating all patents relevant to an industry to achieve monopolistic control. *Id.* at 647.

55. United States v. General Electric Co., 272 U.S. at 490.

56. 648 F.2d at 647.

government's theory on appeal was without precedence in case law and would substantially reduce the scope of the patent monopoly.[57]

The court also considered the relationship of United States law to the foreign patents that Westinghouse licensed to Mitsubishi. The court quoted from *Dunlop Co. v. Kelsey-Hayes Co.*,[58] in which the Sixth Circuit held that because territorial restrictions in the United States were permitted by the patent code, "a patentee could do the same thing with foreign licenses without violating the antitrust laws of this country."[59]

The court next addressed the government's argument that the motive of the parties is immaterial if the effect of an agreement is to unreasonably limit competition. In essence, the government sought to apply the rule of reason to the agreements.[60] The court found this argument seriously flawed. The district court had concluded that the reason Mitsubishi did not compete in the United States was fear of infringing Westinghouse's patents. Therefore the lack of competition was caused by the protection afforded by the patents and not by the technology-sharing agreements. The government failed to show a causal link between the agreements and the injury to competition.[61]

III. ANALYSIS

As the court in *Westinghouse* noted, patent holders may run afoul of the antitrust laws by attempting to expand the patent monopoly by misuse, agreement, or accumulation. The novel feature of the government's theory is that it contends a patent holder could also violate the antitrust laws simply by licensing its foreign patents while not simultaneously licensing its corresponding United States patents.[62] The consequence of this course of conduct is to bar the foreign firm from the United States market because any attempt to manufacture, sell, or use the patented products there would result in an infringement suit. In rejecting the government's theory, the court simply labelled Westinghouse's activities as "reasonably adapted" to secure reward for the patent monopoly. It found that Westinghouse's activities did not overstep the bounds of the patent grant.

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57. *Id.* at 648.

58. 484 F.2d 407 (6th Cir. 1973).

59. *Id.* at 417. *Cf.* note 44 *supra* (discussing statutory authorization of territorial restrictions on patent licensing in the United States and foreign nations).

60. *See* note 18 and accompanying text *supra* (discussion of the rule of reason).

61. 648 F.2d at 648–49. The balance of the opinion deals with discovery sanctions.

62. The theory was articulated by Richard Stern, then chief of the Patent Unit of the Antitrust Division. *See* R. Stern, *The Antitrust Status of Territorial Limitations in International Licensing*, 14 IDEA 580 (1971).

The court's cursory analysis is troublesome because it gives little guidance to parties entering into international licensing agreements. The old international cartel cases, such as *ICI* and *Timken,* involved an aggregation of restraints on trade and left uncertainty in this area.[63] The narrow holding of *United States v. Westinghouse Electric Corp.* is that a patent licensing agreement without more does not violate the Sherman Act. Westinghouse and Mitsubishi engaged in cross-licensing[64] and their agreements covered present and future patents.[65] The court did not discuss these factors, which have raised antitrust concerns in previous cases.[66]

Furthermore, the court did not clarify the role of the patent code in the international arena. The court relied in part on section 261 of the patent code, which authorizes territorial restrictions within the United States, to uphold the agreements. It also emphasized the right of a patent holder not to license. Parties who want to incorporate territorial restrictions into their agreements, or who want to cross-license or engage in other practices, have no standard for assessing the legality of the restraints.

Professor Sullivan, a well-known antitrust commentator, described an analytical framework for resolving patent-antitrust conflicts that provides such a standard.[67] In essence, his analysis involves examining the policies behind the two laws in the factual settings at hand. If the policies of a statute are not truly engaged, the statute gives way. Application of this analysis to the facts of *Westinghouse* reveals that the court reached the correct result.[68]

A. The Patent Aspects

The Sherman Act prohibits agreements in restraint of trade. A *Westinghouse*-type licensing agreement, even if it relies on the patent laws for the restraining effect, is an agreement in restraint of trade because the licensee may not manufacture or sell patented goods in those countries in

63. Wallace, *supra* note 1, at 280.

64. 648 F.2d at 645. In cross-licensing two or more parties, each owning proprietary technology, assign geographic territories to each contracting party and then turn over technology to the parties for use in the specified territories. Adelman & Brooks, *Territorial Restraints in International Technology Agreements after* Topco, 17 ANTITRUST BULL 763, 769–70 (1972). A cross-license in itself is not illegal. W. FUGATE, FOREIGN COMMERCE AND THE ANTITRUST LAWS 289 (2d ed. 1973).

65. Brief for Appellant at 10, United States v. Westinghouse Elec. Corp., 648 F.2d 642 (9th Cir. 1981).

66. *See, e.g.*, United States v. Singer Mfg. Co., 374 U.S. 174, 190–92 (1963); United States v. Nat'l Lead Co., 63 F. Supp. 513, 523–24 (S.D.N.Y. 1945), *aff'd,* 332 U.S. 319 (1947).

67. L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 533–38 (1977).

68. The facts relevant to this analysis may not have been fully developed at the trial court level. Thus, this analysis may be incomplete.

which it has not been granted a patent. This literal reading of the antitrust laws fails to account for a peculiarity of the patent system: exclusion of others is inherent in the patent grant. As the *Westinghouse* court observed, a holding that a failure to license violates the Sherman Act would invalidate almost every patent licensing agreement.[69] To avoid this problem, the Department of Justice attempted to limit Sherman Act liability to longterm, multiproduct agreements involving a concentrated market like the Westinghouse-Mitsubishi agreements.[70] This limitation is inappropriate.

A probable result of adopting the government's argument would be to discourage licensing agreements. A patent holder often utilizes a patent in its home market and licenses the same patent to a foreign firm under the foreign patent code. The patent holder derives additional financial benefit from the foreign license while exploiting the patent at home. Manufacturers who are reluctant to face competition from their own technology may choose not to license at all rather than face the possibility of having to grant licenses in their home markets. To the extent that firms treat licensing royalties as a subsidy for research and development, the result would be a lessening of innovation. This result defeats the purpose of the patent system.

A paradoxical aspect of the *Westinghouse* case was the assertion that Mitsubishi's dependency on Westinghouse technology formed the grounds for a violation. A well-known danger in international technology transfer agreements, illustrated by the *ICI* and *Timken* cases, is that the parties may use the technology as a device to divide markets.[71] Valueless technology, or products not covered by technology, flag an agreement as a sham to allocate territories. The premise of the government's theory was that Mitsubishi acquired valuable technology—so valuable that Mitsubishi could not function without it. Therefore, the defendants were not using the licenses as a mere device to allocate markets.

Upholding the agreements furthers patent policies. One purpose of the patent system is to reward invention, and Westinghouse was seeking its reward through licensing. Unlike the defendants in the earlier cartel cases, Westinghouse was not abusing the system by deliberately including in the agreements products that were not covered by patents.

69. 648 F.2d at 648.

70. Reply Brief for the United States at 19, United States v. Westinghouse Elec. Corp., 648 F.2d 642 (9th Cir. 1981). The Westinghouse-Mitsubishi agreements had been in effect since 1923. The 1970 complaint indicated that the agreements covered such products as power circuit breakers, transformers, air conditioning, elevators, refrigerators, television receivers, x-ray equipment, and lighting equipment. W. FUGATE, *supra* note 64, at 293.

71. *See also* United States v. Singer Mfg. Co., 374 U.S. 174, 192 (1963) (purpose of cross-license agreement was to protect against Japanese competition).

B. The Antitrust Aspects

Antitrust policies also were implicated in *Westinghouse*. The agreements were longstanding, covered a multitude of products,[72] and affected the concentrated electrical equipment market. Furthermore, territorial restrictions among competitors are such a serious restraint that ordinarily they are per se illegal.[73]

A closer examination shows that certain factors lessen the importance of the antitrust policies implicated in *Westinghouse*. First, the *Westinghouse* court indicated that MELCO and MHI would probably not, on their own, have developed the technology to enable them to compete in the United States market.[74] If, absent the agreements, the firms would not have developed into potential competitors, the agreements had no effect on the competitive climate.

A second consideration is that the Westinghouse patents did not present insurmountable barriers to entry in the United States markets,[75] nor were MELCO and MHI the only potential entrants. The government indicated that two other Japanese firms, Toshiba and Hitachi, marketed heavy electrical equipment in the United States.[76]

Third, although the defendants engaged in cross-licensing, by 1967 Westinghouse could enter the Japanese market under its license with MHI.[77] Cross-licenses with bilateral territorial restrictions have frequently been central to cartelization schemes.[78] The Westinghouse-Mitsubishi licenses did not fit the pattern of the international cartel cases because the licensing agreements, at least by 1967, were not mutually exclusive.

Finally, the agreements did not contain clauses prohibiting Mitsubishi from entering the United States market. Rather, Westinghouse relied on the operation of patent law to bar Mitsubishi from selling in the American market. One might regard this distinction as theoretical because the effect

72. Although the number of products involved raises antitrust concerns, for purposes of applying patent policy, a significant consideration is whether all products incorporate patented technology.

73. United States v. Topco Assoc., 405 U.S. 596 (1972). Whether the restraints in Westinghouse would properly be characterized as horizontal is unclear. The defendants were in a valid licensor-licensee relationship involving exchanges of useful technology. The territorial restrictions could be thought of as vertical, as in the *GTE Sylvania* case, *see* note 17 and accompanying text *supra*, and subject to less peremptory antitrust condemnation.

74. 648 F.2d at 648. *See generally* Yamamura, *A Retrospect and Prospect on the Postwar Japanese Economy*, 3 EXPLORATIONS IN ECON RESEARCH 253, 254–56 (1976) (effect of availability of Western technology on the Japanese economy).

75. 471 F. Supp. at 541.

76. Brief for the United States of America at 7, United States v. Westinghouse Elec. Corp., 648 F.2d 642 (9th Cir. 1981).

77. 471 F. Supp. at 541.

78. Adelman & Brooks, *supra* note 64, at 770.

of the agreements was to allocate territories.[79] Nonetheless, only those products actually covered by patents were restricted. The district court's finding, that patent motivation rather than a tacit agreement inhibited Mitsubishi from competing in America, goes directly to this issue.

In sum, the antitrust concerns in *Westinghouse* were less strong than the patent policies. The government's claim that Mitsubishi was dependent on Westinghouse technology established the validity of the technology transfers. The district court's finding of patent motivation provides a further indication that the agreements were based on practices protected by the patent system.

IV. CONCLUSION

The usual response of courts to patent-antitrust conflicts involving territorial restrictions is to validate the restriction unless the parties are engaging in conduct not within the patent grant. This response eschews an examination of the policies behind the two bodies of law and does not question whether the policy of the favored law will be advanced.

In *United States v. Westinghouse Electric Corp.*, the court adhered to the established pattern. The court's holding settled a troublesome point of licensing law raised by the 1970 Department of Justice complaint. A restrictive reading of the decision would limit it to "pure" licensing agreements, but parties to technology transfer agreements may wish to do more than license some patents and refuse to license others. A policy analysis, such as that set out above, provides guidelines for assessing the possible antitrust consequences of the restrictive clauses.

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79. Stern, *supra* note 62, at 582 ("niceties in wording will not save what is otherwise an unlawful scheme.").