CHAPTER XVI

THE INTERNATIONAL LICENSING OF TECHNOLOGY AND ASSOCIATED ANTITRUST ISSUES

A. THE STANDARD PATTERN

The *Griffin* case (*see* Chapter XV, *supra* at [redacted]) demonstrates a standard procedure for exploitation of international property rights. The inventing firm obtains patent coverage in several markets and may then license the patent rights in a specific state to another entity or to its own subsidiary or affiliate. Under the principle of *Griffin*, the firm is free to protect its home market from competition by the foreign affiliate. And, in general, this is legitimate under the antitrust laws, for it is a normal incident of the patent structure–even though a contract to accomplish the same thing would sometimes violate the antitrust laws.

QUESTIONS

1. Is there any sense to the distinction between passive use of the patent laws to divide territories (as in *Griffin*) and active agreement to divide territories? Is a distinction of this type unavoidable in light of the fundamental tension between the patent law authorization of a monopoly and the antitrust law prohibition of monopoly?

2. Suppose the territorial division were based upon the license of a *process* patent, in which the license restricted transnational sale of the goods made with the process. Would that be permissible? *See United States v. Studiengesellschaft Kohle*, 670 F.2d 1122 (D.C. Cir. 1981) (finding no violation).

3. What about the parallel trademark issue? *See* the case discussed in *Bell & Howell, supra* at [redacted], *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), whose force is limited by the fact that the Department of Justice moved for vacation during appeal.

B. DEVELOPING NATION CONCERNS

When a developing state, or "less developed country" (LDC) firm acquires technology from the developing world, a frequent pattern is for the license holder to be a subsidiary of the developed country (DC) firm that invented the concept. Through the patent, the subsidiary gains a monopoly in the LDC, and can perhaps–depending on the availability of substitutes–price accordingly. It can then take its profits out in a number of forms–sometimes disguised: actual dividends paid by the subsidiary to the parent, royalties for the technology, fees for management and training contracts, or artificial pricing of the components or intermediate materials transferred between parent and subsidiary. And in the face of all this, the LDC subsidiary is frequently unable to export to the DC market, which is protected by the *Keystone Mushroom* doctrine.

In response to these problems, LDCs have undertaken a major legal effort to control these terms of technology transfer. Japan did this during the l950s and 1960s, clearly with enormous success. Its Ministry of International Trade and Investment reviewed all technology licenses and often rejected them (or provided bargaining backbone to the Japanese licensee) on grounds that the technology was too expensive or available elsewhere cheaper or that unwise export restrictions were included. *See* Layton, *Japan and the Introduction of Foreign Technology: A Blueprint for Less Developed Countries*, 18 STAN. J. INT'L L. 171(1982). Latin America looked at this approach, and the Andean Pact, a regional economic group, accepted it in Decision 24 of 1970 (Selected Documents Supplement). The concept remained part of the Andean Pact's intellectual core, although in practice the member nations of the Andean Group imposed less stringent requirements than stated in the Decision. The concept also become part of the global United Nations Conference on Trade and Development (UNCTAD) agenda, albeit a part on which agreement appears unlikely.

It is in great part the United States that has been responsible for this failure of agreement. The United States emphasized the idea that development depends on private investor access to the LDCs–and thus argues that any limitation on patent rights would be counterproductive. It would hurt more by deterring private investment than it would help by improving the terms for the developing nation of the investment that occurred. And some in Europe have also taken a very doctrinaire natural law approach to intellectual property rights that leaves them unwilling to compromise on the issue.

The following materials, which include an early empirical analysis supporting the Andean position, provide a good sample of the issues involved in the debate. They could be read together with Articles 18-26 of Decision 24.

THE JUNTA DEL ACUERDO DE CARTAGENA, TRANSFER OF TECHNOLOGY–POLICIES RELATING TO TECHNOLOGY OF THE COUNTRIES OF THE ANDEAN PACT: THEIR FOUNDATIONS

Chapter 2, Item 19 of the Provisional Agenda, United Nations Conference on Trade and Development (3d Sess.), Santiago, Chile, April 13, 1972

Empirical Results and Their Interpretation

14. In order to understand the terms of the commercialization of technology, diverse studies were undertaken on the subject in the Andean countries between 1968 and 1971, These studies included an evaluation of contracts for the purchase of know-how, an investigation of the structure and implications of the present patent system and a financial analysis of the price effects of technology embodying imported intermediate products. The results, in summary form, of these studies are presented below:

A. Analysis of Contracts For The Commercialization of Technology

15. In the five Andean countries 451 contracts belonging to various sectors were evaluated. The country breakdown was as follows:

Country	*Nº of contracts*	*Nº of* sectors *of economy*
Bolivia	35	4 including “others”
Colombia	140	4
Chile	175	13
Ecuador	12	5
Peru	89	2 including “others”

16. The clauses analysed in these contracts raise important economic and legal issues about the extent to which private contracting (*Contratacion privada*) reaches into areas where private economic benefits derived by some or all of the parties involved are in conflict with the overall economic and social interests of the country where they operate. Some answers to this type of questions have long been provided in the industrialized world through antimonopoly and antitrust legislation as well as through the establishment of public regulatory agencies. Many developing countries have still to demonstrate an awareness of these issues and their implications for their private and public economic interests. Furthermore, the terms and conditions to be discussed below raise questions about the concept of liberty or sovereignty to contract among unequals. In a bargaining structure with very unequal participants, with limited information and imperfect overall market conditions the sovereignty of the “technology consumers” becomes a concept of very limited applicability.

B. Export Restrictive Clauses

17. One of the most frequent clauses encountered in contracts for the commercialization of technology is one prohibiting export. Such restrictive practices generally limit the production and sale of goods produced through the use of foreign technology solely to the territory of the receiving country. Some allow exports to specific neighbouring countries only. Of the total of 451 contracts analysed by the secretariat of the Andean Pact, 409 contained information about exports which is summarised in the table below:

Country	*Total number of contracts*	*Total prohibition of exports*	*Exports permitted only in certain areas*	*Exports permitted to the rest of the world*
Bolivia	35	27	2	6
Colombia	117	90	2	25
Ecuador	12	9	--	3
Peru	83	74	8	1
TOTAL	247	200	12	35

18. In Chile out of 162 contracts about which information was available, 117 prohibited any form of exportation altogether. Of the remaining 45, the majority limited exports to certain countries. The exact number of these partial exports permits could not

be estimated from the data provided by Chile. Thus, in the four countries for which precise figures were available about 81 per cent of the contracts prohibited exports altogether and 86 per cent had some restrictive clause on exports. In Chile about 73 per cent of the contracts prohibited exports altogether.

19. An analysis of the above data indicates that no significant differences exist among the stipulations in contracts for the commercialization of technology entered into by firms in the countries considered here. For example, contracts with complete prohibition of exports as a percentage of the total number of contracts about which information was available were as follows:

Bolivia	77%
Colombia	77%
Chile	73%
Ecuador	75%
Peru	89%

20. With the exception of contracts entered into by firms in Peru, where figures were high owing to the large number of contracts relating to the pharmaceutical sector in the sample taken, the rest indicate similar percentages. In terms of sectorial comparisons the following figures were noted with regard to the various forms of export restrictions:

Textiles	88%
Pharmaceuticals	89%
Chemicals	78%
Food and Beverages	73%
Others	91%

21. Restrictive clauses affecting exports are stipulated on the basis of relative bargaining power, in the light of market conditions relating to alternative sources of supply of technology. Despite the different sizes and relative strengths of firms in the Andean countries, the concessions obtained by these firms in their negotiations with foreign transnational corporations that sell industrial technology do not differ greatly. The bargaining power of a relatively large firm in Medellin, Colombia, in dealing with a transnational corporation does not seem to differ very much from a smaller firm in Cochabamba, Bolivia. There appears to be a "critical" level of bargaining power, and this will depend, in part, on government policies.

22. An analysis according to ownership indicated that 92 per cent of the contracts prohibited the exportation of goods produced with foreign technology in the cases where the technology purchasing firms were locally owned. And this occurred at a time when the Andean nations, with the establishment of their common market, were trying to integrate economies by increasing intra-regional trade. Agreements reached between

governments are, in the case of the commercialization of technology, greatly influenced by the terms reached among private firms whose relative bargaining power is totally unequal. Also, efforts by UNCTAD and individual governments to achieve preferential treatment for the exports of manufacturing goods from developing countries have to be considered within a market structure which does not permit such exports through explicit restrictive clauses. Technology, an indispensable input in industrial development, becomes, through its present form of commercialization, a major factor limiting such development.

23. The absence of such export-prohibiting clauses will riot, of course, lead necessarily to actual exports. Everything depends on the productive and marketing capacities of the firms, their relative competitive position in external markets, their export horizon, etc. Yet, contractually assumed export possibilities, even if they do not constitute a sufficient condition, nevertheless constitute a necessary condition for such export capabilities. What is more, such clauses can severely inhibit the long process necessary for firms to develop export orientation and capacities.

C. Tie-in Clauses Relating to Intermediate Products And Price Effects

24. A large percentage of the contracts for the commercialization of technology include obligatory terms requiring intermediate and capital goods to be purchased from the same source as that of know-how. For example, more than two-thirds of the contracts about which information was available in Bolivia, Colombia, Ecuador and Peru had such tie-in clauses.

25. Even in the absence of such explicit terms, control through ownership or technological requirements and specifications, stemming from the nature of the know-how sold, could determine quite uniquely the source of intermediate products. Thus, as in the case of tie-in arrangements in loans, benefits for the supplier and costs for the purchaser are not limited only to the payments expressly stipulated such as royalties or interest. They also include implicit charges through the various forms of margins in the concomitant or tied sale of other goods and services. Furthermore, at the aggregate level, flows of technology among countries determine the associated flow of intermediates, equipment and capital.

26. This structure of the market for intermediates and other inputs which are tied to the sources of technology and/or capital, has significant repercussions on the strategy of import substitution pursued by the majority of developing countries. Such a strategy has, in fact, implied an increasing dependence on imports of capital goods and intermediate products. Only a few countries well ahead in their development process, like Argentina. Mexico and Brazil, have achieved in certain sectors significant "backward linkages" in domestic production. Others, however, find that inputs account for an increasing share in their total import bill as industrialization advances.

27. For example, in Colombia two-thirds of the total import hill in 1968 comprised imports of materials, machinery arid equipment for the industrial sector, while the other one-third was accounted for by final products for consumption and intermediate goods for the agricultural sector. A similar dependence and a similar structure of imports are to be expected for Chile and Peru and other countries at a comparable stage of industrial development.

28. For the whole of Latin America it has been estimated that during the period 1960-65 about $1,870 million were spent annually for the importation of machinery and equipment. These imports amounted to 31 per cent of the total import bill of the area. They also constituted about 45 per cent of the total amount spent by Latin America on capital goods during the same period. For individual countries this relationship

amounted to 28 per cent for Argentina, 35 per cent for Brazil, 61 per cent for Colombia, and 80 per cent for Chile.

29. As far as intermediates are concerned, industry samples in Colombia have indicated that imported materials represented in 1968 between 52 and 80 per cent of total materials used by firms in parts of the chemical industry. In the case of rubber products the corresponding ratio was 57.5 per cent and in the pharmaceutical industry 76.7 per cent. It was only in textiles that the ratio of imported intermediates to total materials used felt to 25 per cent. Similar figures were reported for Chile. For example, imported intermediate products amounted to more than 80 per cent of total materials used in the pharmaceutical industry and between 35 and 50 per cent of total sales of the Chilean firms involved. This heavy dependence on imports of intermediates and capital goods has important repercussions on the recipient countries if one considers the fact that the bulk of such imports is either exchanged between affiliated firms and/or tied to the purchase of technology. For example, it has been estimated that about one-third of the total imports of machinery and equipment in Latin America are made by foreign-owned subsidiaries. If one defines as "overpricing" the following ratio:

$$\frac{100 \times (\text{FOB prices on imports in Andean countries} - \text{FOB prices in different world markets})}{(\text{FOB prices in different world markets})}$$

the results for the countries members of the Andean Pact presented the following indicators:

In the Colombian pharmaceutical industry a sample taken indicated that the weighted average overpricing of products imported by foreign-owned subsidiaries amounted to 155 per cent while that of national firms was 19 per cent. The absolute amount of overpricing in the case of the foreign firms studied was equivalent to six times the royalties and twenty-four times the declared profits. For national firms the absolute amount of overpricing did not exceed one fifth of the declared profits. Smaller samples taken in the same industry in Chile indicated an overpricing of imported products in excess of 500 per cent while for the majority of them the range was between 30 and 500 per cent. Similarly, in Peru samples in the same industry presented overpricing that in most cases ranged between 20 and 300 per cent while in the case of some products overpricing exceeded 300 per cent. In all three countries the overpricing noted in the imports of foreign-owned firms was considerably higher than that of nationally-owned ones. Evidently foreign technology and capital suppliers have indicated in these cases a preference for realizing their returns in an implicit form through transfer pricing rather than explicitly through royalty payment and/or profit remittances.

NOTES AND QUESTIONS

1. If you were the responsible minister in a developing nation, would you favor adoption of a patent law at all? Would it encourage innovation? *See generally* Haar, *Revision of the Paris Convention: A Realignment of Private and Public Interests in the International Patent System*, 8 BROOKLYN J. INT'L L. 77(1982); Note, *The United States Position on Revising the Paris Convention: Quid Pro Quo or Denunciation*? 5 FORDHAM INT'L L.J. 411(1982).

2 .Are the LDCs asking for more than a reasonable global view of antitrust law would give them? What are the situations permitted under antitrust law that appear likely to

have been prohibited under Decision 24?

3. What bargaining chips do the LDCs have, in the individual case or in the global negotiation, to open the DC market past patent and trademark barriers?

4. The U.S. executive adamantly resisted the UNCTAD technology transfer approach, and Congress said in the 1984 Trade and Tariff Act that the United States should "encourage developing countries . . . to provide effective means under which foreign nationals may secure, exercise, and enforce exclusive intellectual property rights," (§ 501(b)). What reasons can you give for this U.S. concern? Which U.S. interests are helped or hurt by the absence of a strong foreign intellectual property system?

5. Would you have expected Decision 24 to help or hurt Andean economic development? It is said that European firms, more used to government intervention and review, were less deterred than U.S. ones. For general discussion, see Armstrong, *Political Components and Practical Effects of the Andean Foreign Investment Code*, 27 STAN. L. REV. 1597 (1975).

6. Suppose that the Andean Pact had hired you as a consultant. As you know, goods manufactured by Andean technology licensees were often barred from export to the United States by U.S. patents, even though the U.S.-owned Andean counterpart patents had been licensed to the Andean companies. The Andean leaders are considering a recommendation to the Andean nations that laws be passed that would extraterritorially prohibit U.S. firms from using U.S. patents to bar U.S. import of goods produced in the Andean area when these goods have been produced pursuant to licenses of counterpart local patents wanted by the same or a parent firm. How would you have advised them on the wisdom and effectiveness of such laws–or on any alternative courses of action that might help them?

7. Rather than develop a more refined and modernized approach to patent protection and other intellectual property issues, contemporary treaty practice has relied upon a selective incorporation of the Paris Convention.[1] Thus, certain basic principles of the revised Paris Convention are pervasive throughout the international legal system, surfacing in multilateral, regional and bilateral treaty contexts.

a. *Multilateral Context: The TRIPS*. The Agreement on Trade-Related Aspects of Intellectual Property Rights (Annex 1C of the WTO Agreement, known as "TRIPS") establishes the minimum levels of intellectual property protection required of WTO members, while allowing them individually to adopt "more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions" of the TRIPS. TRIPS, art. 1, ¶ 1.

i. *Scope of the TRIPS*. A member state's nationals are eligible for protection under the TRIPS to the extent that they would meet the eligibility criteria under Paris Convention (1967), among other agreements, as if "all Members of the WTO [were] members of th[at] convention[]." TRIPS, art. 1, ¶ 3. The TRIPS makes it explicit that it does not supersede or otherwise preempt obligations under the Paris Convention. *Id*. art. 2. To the contrary, the TRIPS Article 3 national treatment obligation is expressly subject to "the exceptions already provided in . . . the Paris Convention (1967)," among others. TRIPS, art. 3, ¶ 1.

ii. *Trademark Protection under the TRIPS*. Despite the TRIPS obligation to provide trademark protection, member states are permitted to deny trademark regis-

1. Paris Convention for the Protection of Industrial Property, as revised at Stockholm on July 14, 1967, 21 U.S.T. 1583, 1629, 24 UST 2140, T.I.A.S. No. 6923, 7727, 828 U.N.T.S. 305. For selections from the Paris Convention, see Chapter XV, *supra* at [redacted].

tration, “provided that they do not derogate from the provisions of the Paris Convention (1967).” TRIPS, art. 15, ¶ 2. The trademark rights conferred under the TRIPS explicitly incorporate Article 6*bis* of the Paris Convention. TRIPS, art. 16, ¶¶ 2-3.

iii. *Protection of Geographical Indications under the TRIPS*. The TRIPS requires member states to provide the legal means for interested parties to prevent the use of geographical indications[2] that would constitute an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention. TRIPS, art. 22, ¶ 2(b). “Undisclosed information”–*e.g.*, trade secrets–must be protected “[i]n the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention.” TRIPS, art. 39, ¶ 1.

iv. *Service Marks under the TRIPS*. The TRIPS explicitly provides that Article 4 of the Paris Convention applies *mutatis mutandis* to service marks. TRIPS, art. 62, ¶ 3.

b. *Regional Context: NAFTA*. Since the negotiated text of the NAFTA[3] served as a template for the WTO texts, it should not be surprising that the same pattern of selective incorporation of the Paris Convention is reflected in the NAFTA Chapter 17 provisions governing intellectual property.

i. *Scope of NAFTA Chapter Seventeen*. NAFTA requires each state party to “provide in its territory to the nationals of another Party adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade.” NAFTA, art. 1701, ¶ 1. At a minimum, state parties are required to “give effect . . . to the substantive provisions of . . . the Paris Convention for the Protection of Industrial Property, 1967.” NAFTA, art. 1701, ¶ 2(c).

ii. *Trademark Protection under NAFTA*. Article 6*bis* of the Paris Convention explicitly applies, “with such modifications as may be necessary,” to services. NAFTA, art. 1708, ¶ 6.

iii. *Protection of Geographical Indications under NAFTA*. NAFTA requires state parties to provide the legal means for interested parties to prevent the use of geographical indications that would constitute an act of unfair competition within the meaning of Article 10*bis* of the Paris Convention. NAFTA, art. 1712, ¶ 1(b).

c. *Bilateral Context: Two Examples*. Selective incorporation of the Paris Convention into bilateral intellectual property treaties and undertakings is a consistent feature of U.S. treaty practice. The following examples, from the U.S.-Jordan Free Trade Agreement and the U.S.-PRC Memorandum of Understanding on the Protection of Intellectual Property (predating the PRC’s entry into the WTO) are typical of this treaty practice. How do these undertakings compare with the corresponding provisions of the TRIPS and the NAFTA?

AGREEMENT BETWEEN THE UNITED STATES OF AMERICA AND THE HASHEMITE KINGDOM OF JORDAN ON THE ESTABLISHMENT OF A FREE TRADE AREA

October 24, 2000, *reprinted in* 41 Int’l Legal Mat. 63 (2002)

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2. The term “geographical indications” is defined for these purposes to mean “indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.” TRIPS, art. 22, ¶ 1.

3. On the NAFTA, see generally Chapter III, *supra* at [redacted].

Article 4: Intellectual Property Rights . . .

8. Article 6*bis* of the Paris Convention for the Protection of Industrial Property (1967) ("Paris Convention") shall apply, *mutatis mutandis*, to goods or services which are not similar to those identified by a well-known trademark, whether registered or not, provided that use of that trademark in relation to those goods or services would indicate a connection between those goods or services and the owner of the trademark and provided that the interests of the owner of the trademark are likely to be damaged by such use. . . .

20. Neither Party shall permit the use of the subject matter of a patent without the authorization of the right holder except in the following circumstances:

(a) to remedy a practice determined after judicial or administrative process to be anti-competitive;

(b) in cases of public non-commercial use or in the case of a national emergency or other circumstances of extreme urgency, provided that such use is limited to use by government entities or legal entities acting under the authority of a government; or

(c) on the ground of failure to meet working requirements, provided that importation shall constitute working.

Where the law of a Party allows for such use pursuant to sub-paragraphs (a), (b) or (c), the Party shall respect the provisions of Article 31 of TRIPS and Article 5A(4) of the Paris Convention.

MEMORANDUM OF UNDERSTANDING BETWEEN THE PEOPLE'S REPUBLIC OF CHINA AND THE UNITED STATES OF AMERICA ON THE PROTECTION OF INTELLECTUAL PROPERTY

January 17, 1992, *reprinted in* 34 INT'L LEGAL MAT. 676 (1995)

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Article 1 . . .

3.Both Governments reaffirm their commitments to each other under the Paris Convention for the Protection of Industrial Property (Stockholm 1967) and their continued commitment to observe the principle of national treatment with respect to providing patent protection for the natural and legal persons of the other Party. . . .

Article 2

Both Governments reaffirm that the principle of territoriality and independence of patents with regard to protection of patents as provided in the Paris Convention for the Protection of Industrial Property should be respected. . . .

Article 4

1. For the purpose of ensuring effective protection against unfair competition as provided for in Article 10bis of the Paris Convention for the Protection of Industrial Property, the Chinese Government will prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of the trade secret owner in a manner contrary to honest commercial practices including the acquisition, use or disclosure of trade secrets by third parties who knew, or had reasonable grounds to know, that such practices were involved in their acquisition of such information.

C. TERRITORIAL DIVISION AND ANTITRUST ENFORCEMENT PROBLEMS

The same territorial character of the patent monopoly that helps restrict LDC exports can also be used, as noted above, to create a pattern of market division. In essence, two firms can use patent rights to give each other a monopoly in half the world market, rather than to compete in the entire world. Although the patent rules may help avoid antitrust liability, too elaborate and explicit a use of such patents may, at some point, amount to an antitrust violation, Drawing this patent-antitrust line intelligibly is not easy.

It is not surprising, then, that the two leading U.S. cases on this concept, *Timkin* and *ICI*, *infra*, both raise difficult substantive antitrust questions. In *Timkin*, the antitrust violation was, in essence, an agreement among a number of affiliates to divide markets through trademark restrictions exactly parallel to the patent restrictions we have just seen. In *ICI*, the violation lay in an agreement between duPont and ICI to divide markets for a series of products through the territorial exclusion capabilities of patents. Beyond these technical policy questions, the cases also raise significant enforcement questions, emphasized in the following excerpts. (Note that the intra-corporate conspiracy aspects of the first case may be significantly affected by *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984).)[1]

TIMKEN ROLLER BEARING CO. v. UNITED STATES

341 US. 593 (1951)

MR. JUSTICE BLACK delivered the opinion of the Court.

The United States brought this civil action to prevent and restrain violations of the Sherman Act by appellant, Timken Roller Bearing Co., an Ohio corporation, The complaint charged that appellant, in violation of §§ 1 and 3 of the Act, combined, conspired and acted with British Timken. Ltd. (British Timken), and Societe Anonyme Française Timken (French Timken) to restrain interstate and foreign commerce by eliminating competition in the manufacture and sale of antifriction bearings in the markets of the world. After a trial of more than a month the District Court made detailed findings of fact which may be summarized as follows:

As early as 1909 appellant and British Timken's predecessor had made comprehensive agreements providing for a territorial division of the world markets for antifriction bearings. These arrangements were somewhat modifled and extended in 1920, 1924 and 1925. Again in 1927 the agreements were substantially renewed in connection with a transaction by which appellant and one Dewar, an English businessman, cooperated in purchasing all the stock of' British Timken. Later some British Tiniken stock was sold to the public with the result that appellant now holds about 30% of the outstanding shares while Dewar owns about 24%. In 1928 appellant and Dewar organized French Timken and since that date have together owned all the stock in the French company. Beginning in that year, appellant, British Timken and French Timken have continuously kept operative "business agreements" regulating the manufacture and sale of antifriction. bearings by the three companies and providing for the use by the British and French

1. *See infra* at [redacted] (examining implications of *Copperweld* and subsequent cases).

corporations of the trademark “Timken.” Under these agreements the contracting parties have (1) allocated trade territories among themselves; (2) fixed prices on products of one sold in the territory of the others; (3) cooperated to protect each other’s markets and to eliminate outside competition; and (4) participated in cartels to restrict imports to, and exports from, the United States.

On these findings, the District Court concluded that appellant had violated the Sherman Act as charged, and entered a comprehensive decree designed to bar future violations. . . . The case is before us on appellant’s direct appeal under 15 U.S.C. § 29. . . .

Appellant . . . contends that the restraints of trade so clearly revealed by the District Court’s findings can be justified as “reasonable,” and therefore not in violation of the Sherman Act, because they are “ancillary” to allegedly “legal main transactions,” namely, (1) a ‘joint venture” between appellant and Dewar, and (2) an exercise of appellant’s right to license the trademark “Timken.”

We cannot accept the ‘joint venture” contention. . . .

Nor can the restraints of trade be justified as reasonable steps taken to implement a valid trademark licensing system, even if we assume with appellant that it is the owner of the trademark “Timken” in the trade areas allocated to the British and French corporations. Appellant’s premise that the trade restraints are only incidental to the trademark contracts is refuted by the District Court’s finding that the “trade mark provisions [in the agreements] were subsidiary and secondary to the central purpose of allocating trade territories.” Furthermore, while a trademark merely affords protection to a name, the agreements in the present case went far beyond protection of the name “Timken” and provided for control of the manufacture and sale of antifriction bearings whether carrying the mark or not. A trademark cannot be legally used as a device for Sherman Act violation. Indeed, the Trade Mark Act of 1946 itself penalizes use of a mark “to violate the antitrust laws of the United States.”

We also reject the suggestion that the Sherman Act should not be enforced in this case because what appellant has done is reasonable in view of current foreign trade conditions. The argument in this regard seems to be that tariffs, quota restrictions and the like are now such that the export and import of antifriction bearings can no longer be expected as a practical matter; that appellant cannot successfully sell its American-made goods abroad; and that the only way it can profit from business in England, France and other countries is through the ownership of stock in companies organized and manufacturing there. This position ignores the fact that the provisions in the Sherman Act against restraints of foreign trade are based on the assumption, and reflect the policy, that export and import trade in commodities is both possible and desirable. Those provisions of the Act are wholly inconsistent with appellant’s argument that American business must he left free to participate in international cartels, that free foreign commerce in goods must be sacrificed in order to foster export of American dollars for investment in foreign factories which sell abroad. Acceptance of appellant’s view would make the Sherman Act a dead letter insofar as it prohibits contracts and conspiracies in restraint of foreign trade. If such a drastic change is to be made in the statute, Congress is the one to do it. . . .

MR. JUSTICE DOUGLAS, MR. JUSTICE MINTON and I believe that the decree properly ordered divestiture. Our views on this point are as follows: Appellant’s interests in the British and French companies were obtained as part of a plan to promote the illegal trade restraints. If not severed, the intercompany relationships will provide in the future, as they have in the past, the temptation and means to engage in the prohibited conduct.

These considerations alone should be enough to support the divestiture order. . . .

Nevertheless, a majority of this Court, for reasons set forth in other opinions filed in this case, believe that divestiture should not have been ordered by the District Court. . . . As so modified, the judgment of the District Court is affirmed.

MR. JUSTICE BURTON and MR. JUSTICE CLARK took no part in the consideration or decision of this case.

MR. JUSTICE REED, with whom THE CHIEF JUSTICE joins, concurring.

It seems to me there can be no valid objection to that part of the opinion which approves the finding of the District Court that the Timken Roller Bearing Company has violated §§ l and 3 of the Sherman Act. It may seem strange to have a conspiracy for the division of territory for marketing between one corporation and another in which it has a large or even a major interest, but any other conclusion would open wide the doors for violation of the Sherman Act at home and in foreign fields. My disagreement with the opinion is based on the suggested requirement that American Timken divest itself of all interest in British Timken and French Timken as required by paragraph VIII of the decree. . . . My reasons for this disagreement follow.

There are no specific statutory provisions authorizing courts to employ the harsh remedy of divestiture in civil proceedings to restrain violations of the Sherman Act. Fines and imprisonment may follow criminal convictions, 15 U.S.C. § 1, and divestiture of property has been used in decrees, not as punishment, but to assure effective enforcement of the laws against restraint of trade.

Since divestiture is a remedy to restore competition and not to punish those who restrain trade, it is not to be used indiscriminately, without regard to the type of violation or whether other effective methods, less harsh, are available. That judicial restraint should follow such lines is exemplified by our recent rulings in *United States v. National Lead Co.*, 332 U.S. 319, where we approved divestiture of some properties belonging to the conspirators and denied it as to others, pp. 348-353. While the decree here does not call for confiscation, it does call for divestiture. I think that requirement is unnecessary. . . .

MR. JUSTICE FRANKFURTER, dissenting.

The force of the reasoning against divestiture in this case fortifies the doubts which I felt about the Government's position at the close of argument and persuades me to associate myself, in substance, with the dissenting views expressed by MR. JUSTICE JACKSON. Even "cartel" is not a talismanic word, so as to displace the rule of reason by which breaches of the Sherman Law are determined. Nor is "division of territory" so self-operating a category of Sherman Law violations as to dispense with analysis of the practical consequences of what on paper is a geographic division of territory. . . .

Of course, it is not for this Court to formulate economic policy as to foreign commerce. But the conditions controlling foreign commerce may be relevant here. When as a matter of cold fact the legal, financial, and governmental policies deny opportunities for exportation from this country and importation into it, arrangements that afford such opportunities to American enterprise may not fall under the ban of a fair construction of the Sherman Law because comparable arrangements regarding domestic commerce come within its condemnation.

MR. JUSTICE JACKSON, dissenting.

I doubt that it should be regarded as an unreasonable restraint of trade for an American industrial concern to organize foreign subsidiaries, each limited to serving a particular market area. If so, it seems to preclude the only practical means of reaching foreign markets by many American industries. . . .

The philosophy of the Government, adopted by the Court, is that Timken's conduct is conspiracy to restrain trade solely because the venture made use of subsidiaries. It is forbidden thus to deal with and utilize subsidiaries to exploit foreign territories, because "parent and subsidiary corporations must accept the consequences of maintaining separate corporate entities," and that consequence is conspiracy to restrain trade. But not all agreements are conspiracies and not all restraints of trade are unlawful. In a world of tariffs, trade barriers, empire or domestic preferences, and various forms of parochialism from which we are by no means free, I think a rule that it is restraint of trade to enter a foreign market through a separate subsidiary of limited scope is virtually to foreclose foreign commerce of many kinds. It is one thing for competitors or a parent and its subsidiaries to divide the United States domestic market which is an economic and legal unit; it is another for an industry to recognize that foreign markets consist of many legal and economic units and to go after each through separate means. I think this decision will restrain more trade than it will make free.

NOTES AND QUESTIONS

1. After *Timken*, the firm moved to coalesce all its operations into a single corporate operation with the assent of the Department of Justice. Even the British minority shareholders were bought out. (*See* Markley, *How Timken Coordinates Its Worldwide Manufacturing and Marketing*, EXPORT TRADE, Apr. 25, 1960, p.10.)

2. The following is an excerpt from a domestic antitrust case that may, arguably have implications for the continuing viability of *Timken*, although on its own terms it clearly does not seek to overrule or otherwise detract from *Timken*.

COPPERWELD CORP. v. INDEPENDENCE TUBE CORP.

467 U.S. 752 (1984)

CHIEF JUSTICE BURGER delivered the opinion of the Court.

[A tubing company sued another tubing company and its parent corporation, as well as a tubing mill manufacturer and others, alleging a Sherman Act conspiracy. The District Court found that the parent and subsidiary had conspired to violate Sherman section 1 and awarded treble damages. The Seventh Circuit affirmed. On certiorari, the Supreme Court reversed, holding that the parent corporation and its wholly owned subsidiary were not legally capable of conspiring with each other under section 1 of the Sherman Act.]

I

A

The predecessor to petitioner Regal Tube Co. was established in Chicago in 1955 to manufacture structural steel tubing used in heavy equipment, cargo vehicles, and construction. From 1955 to 1968 it remained a wholly owned subsidiary of C.E. Robinson Co. In 1968 Lear Siegler, Inc., purchased Regal Tube Co. and operated it as an unincorporated division. David Grohne, who had previously served as vice president and general manager of Regal, became president of the division after the acquisition.

In 1972 petitioner Copperweld Corp. purchased the Regal division from Lear Siegler; the sale agreement bound Lear Siegler and its subsidiaries not to compete with Regal in the United States for five years. Copperweld then transferred Regal's assets to a newly formed, wholly owned Pennsylvania corporation, petitioner Regal Tube Co. The new subsidiary continued to conduct its manufacturing operations in Chicago but shared Copperweld's corporate headquarters in Pittsburgh.

Shortly before Copperweld acquired Regal, David Grohne accepted a job as a corporate officer of Lear Siegler. After the acquisition, while continuing to work for Lear Siegler, Grohne set out to establish his own steel tubing business to compete in the same market as Regal. In May 1972 he formed respondent Independence Tube Corp., which soon secured an offer from the Yoder Co. to supply a tubing mill. In December 1972 respondent gave Yoder a purchase order to have a mill ready by the end of December 1973.

When executives at Regal and Copperweld learned of Grohne's plans, they initially hoped that Lear Siegler's noncompetition agreement would thwart the new competitor. Although their lawyer advised them that Grohne was not bound by the agreement, he did suggest that petitioners might obtain an injunction against Grohne's activities if he made use of any technical information or trade secrets belonging to Regal. The legal opinion was given to Regal and Copperweld along with a letter to be sent to anyone with whom Grohne attempted to deal. The letter warned that Copperweld would be "greatly concerned if [Grohne] contemplates entering the structural tube market ... in competition with Regal Tube" and promised to take "any and all steps which are necessary to protect our rights under the terms of our purchase agreement and to protect the know-how, trade secrets, etc., which we purchased from Lear Siegler." Petitioners later asserted that the letter was intended only to prevent third parties from developing reliance interests that might later make a court reluctant to enjoin Grohne's operations.

When Yoder accepted respondent's order for a tubing mill on February 19, 1973, Copperweld sent Yoder one of these letters; two days later Yoder voided its acceptance. After respondent's efforts to resurrect the deal failed, respondent arranged to have a mill supplied by another company, which performed its agreement even though it too received a warning letter from Copperweld. Respondent began operations on September 13, 1974, nine months later than it could have if Yoder had supplied the mill when originally agreed.

Although the letter to Yoder was petitioners' most successful effort to discourage those contemplating doing business with respondent, it was not their only one. Copperweld repeatedly contacted banks that were considering financing respondent's operations. One or both petitioners also approached real estate firms that were considering providing plant space to respondent and contacted prospective suppliers and customers of the new company.

B

In 1976 respondent filed this action in the District Court against petitioners and Yoder. The jury found that Copperweld and Regal had conspired to violate § 1 of the Sherman Act, 26 Stat. 209, as amended, 15 U.S.C. § 1, but that Yoder was not part of the conspiracy. It also found that Copperweld, but not Regal, had interfered with respondent's contractual relationship with Yoder; that Regal, but not Copperweld, had interfered with respondent's contractual relationship with a potential customer of respondent, Deere Plow & Planter Works, and had slandered respondent to Deere; and that Yoder had breached its contract to supply a tubing mill. . . .

II

Review of this case calls directly into question whether the coordinated acts of a parent and its wholly owned subsidiary can, in the legal sense contemplated by § 1 of the Sherman Act, constitute a combination or conspiracy. The so-called "intra-enterprise conspiracy" doctrine provides that § 1 liability is not foreclosed merely because a parent and its subsidiary are subject to common ownership. The doctrine derives from declarations in several of this Court's opinions.

In no case has the Court considered the merits of the intra-enterprise conspiracy doctrine in depth. Indeed, the concept arose from a far narrower rule. Although the Court has expressed approval of the doctrine on a number of occasions, a finding of intra-enterprise conspiracy was in all but perhaps one instance unnecessary to the result. . . .

. . . It has long been clear that a pattern of acquisitions may itself create a combination illegal under § 1, especially when an original anti-competitive purpose is evident from the affiliated corporations' subsequent conduct. . . .

As we shall see, *infra*, . . . it is the intra-enterprise conspiracy doctrine itself that "makes but an artificial distinction" at the expense of substance.

Later cases invoking the intra-enterprise conspiracy doctrine do little more than cite *Yellow Cab* or *Kiefer-Stewart*, and in none of the cases was the doctrine necessary to the result reached. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951), involved restrictive horizontal agreements between an American corporation and two foreign corporations in which it owned 30 and 50 percent interests respectively. The *Timken* Court cited *Kiefer-Stewart* to show that "[t]he fact that there is common ownership or control of the contracting corporations does not liberate them from the impact of the antitrust laws." 341 U.S., at 598. But the relevance of this statement is unclear. The American defendant in *Timken* did not own a majority interest in either of the foreign corporate conspirators and, as the District Court found, it did not control them. Moreover, . . . there was evidence that the stock acquisitions were themselves designed to effectuate restrictive practices.[11] The Court's reliance on the intra-enterprise conspiracy doctrine was in no way necessary to the result. . . .

In short, while this Court has previously seemed to acquiesce in the intra-enterprise conspiracy doctrine, it has never explored or analyzed in detail the justifications for such a rule; the doctrine has played only a relatively minor role in the Court's Sherman Act holdings.

III

Petitioners, joined by the United States as amicus curiae, urge us to repudiate the intra-enterprise conspiracy doctrine. The central criticism is that the doctrine gives undue significance to the fact that a subsidiary is separately incorporated and thereby treats as the concerted activity of two entities what is really unilateral behavior flowing from decisions of a single enterprise.

We limit our inquiry to the narrow issue squarely presented: whether a parent and its wholly owned subsidiary are capable of conspiring in violation of § 1 of the Sherman Act. We do not consider under what circumstances, if any, a parent may be liable for conspiring with an affiliated corporation it does not completely own.

A

The Sherman Act contains a "basic distinction between concerted and independent action." Monsanto Co. v. Spray-Rite Service Corp., 465 U.S. 752, 761 (1984). The

11. For almost 20 years before they became affiliated by stock ownership, two of the corporations had been party to the sort of restrictive agreements the *Timken* Court condemned. Three Justices upholding antitrust liability were of the view that Timken's "interests in the [foreign] companies were obtained as part of a plan to promote the illegal trade restraints" and that the "intercorporate relationship" was "the core of the conspiracy." *Id.*, at 600-601. Because two Justices found no antitrust violation at all, *see id.*, at 605 (Frankfurter, J., dissenting); *id*., at 606 (Jackson, J., dissenting), and two Justices did not take part, apparently only Chief Justice Vinson and Justice Reed were prepared to hold that there was a violation even if the initial acquisition itself was not illegal. *See id.*, at 601-602 (Reed, J., joined by Vinson, C.J., concurring).

conduct of a single firm is governed by § 2 alone and is unlawful only when it threatens actual monopolization. It is not enough that a single firm appears to "restrain trade" unreasonably, for even a vigorous competitor may leave that impression. For instance, an efficient firm may capture unsatisfied customers from an inefficient rival, whose own ability to compete may suffer as a result. This is the rule of the marketplace and is precisely the sort of competition that promotes the consumer interests that the Sherman Act aims to foster. In part because it is sometimes difficult to distinguish robust competition from conduct with long-run anti-competitive effects, Congress authorized Sherman Act scrutiny of single firms only when they pose a danger of monopolization. Judging unilateral conduct in this manner reduces the risk that the antitrust laws will dampen the competitive zeal of a single aggressive entrepreneur.

Section 1 of the Sherman Act, in contrast, reaches unreasonable restraints of trade effected by a "contract, combination ... or conspiracy" between separate entities. It does not reach conduct that is "wholly unilateral." *Albrecht v. Herald Co.*, 390 U.S. 145, 149 (1968); *accord, Monsanto Co. v. Spray-Rite Corp., supra*, at 761. Concerted activity subject to § 1 is judged more sternly than unilateral activity under § 2. Certain agreements, such as horizontal price fixing and market allocation, are thought so inherently anticompetitive that each is illegal per se without inquiry into the harm it has actually caused. *See generally Northern Pacific R. Co. v. United States*, 356 U.S. 1, 5 (1958). Other combinations, such as mergers, joint ventures, and various vertical agreements, hold the promise of increasing a firm's efficiency and enabling it to compete more effectively. Accordingly, such combinations are judged under a rule of reason, an inquiry into market power and market structure designed to assess the combination's actual effect. *See, e.g., Continental T.V., Inc. v. GTE Sylvania Inc*., 433 U.S. 36 (1977); *Chicago Board of Trade v. United States*, 246 U.S. 231 (1918). Whatever form the inquiry takes, however, it is not necessary to prove that concerted activity threatens monopolization.

The reason Congress treated concerted behavior more strictly than unilateral behavior is readily appreciated. Concerted activity inherently is fraught with anticompetitive risk. It deprives the marketplace of the independent centers of decisionmaking that competition assumes and demands. In any conspiracy, two or more entities that previously pursued their own interests separately are combining to act as one for their common benefit. This not only reduces the diverse directions in which economic power is aimed but suddenly increases the economic power moving in one particular direction. Of course, such mergings of resources may well lead to efficiencies that benefit consumers, but their anticompetitive potential is sufficient to warrant scrutiny even in the absence of incipient monopoly.

B

The distinction between unilateral and concerted conduct is necessary for a proper understanding of the terms "contract, combination ... or conspiracy" in § 1. Nothing in the literal meaning of those terms excludes coordinated conduct among officers or employees of the same company. But it is perfectly plain that an internal "agreement" to implement a single, unitary firm's policies does not raise the antitrust dangers that § 1 was designed to police. The officers of a single firm are not separate economic actors pursuing separate economic interests, so agreements among them do not suddenly bring together economic power that was previously pursuing divergent goals. Coordination within a firm is as likely to result from an effort to compete as from an effort to stifle competition. In the marketplace, such coordination may be necessary if a business enterprise is to compete effectively. For these reasons, officers or employees of the same firm do not provide the plurality of actors imperative for a § 1 conspiracy.

There is also general agreement that § 1 is not violated by the internally coordinated conduct of a corporation and one of its unincorporated divisions. Although this Court has not previously addressed the question, there can be little doubt that the operations of a corporate enterprise organized into divisions must be judged as the conduct of a single actor. The existence of an unincorporated division reflects no more than a firm's decision to adopt an organizational division of labor. A division within a corporate structure pursues the common interests of the whole rather than interests separate from those of the corporation itself; a business enterprise establishes divisions to further its own interests in the most efficient manner. Because coordination between a corporation and its division does not represent a sudden joining of two independent sources of economic power previously pursuing separate interests, it is not an activity that warrants § 1 scrutiny.

Indeed, a rule that punished coordinated conduct simply because a corporation delegated certain responsibilities to autonomous units might well discourage corporations from creating divisions with their presumed benefits. This would serve no useful antitrust purpose but could well deprive consumers of the efficiencies that decentralized management may bring.

C

For similar reasons, the coordinated activity of a parent and its wholly owned subsidiary must be viewed as that of a single enterprise for purposes of § 1 of the Sherman Act. A parent and its wholly owned subsidiary have a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one. They are not unlike a multiple team of horses drawing a vehicle under the control of a single driver. With or without a formal "agreement," the subsidiary acts for the benefit of the parent, its sole shareholder. If a parent and a wholly owned subsidiary do "agree" to a course of action, there is no sudden joining of economic resources that had previously served different interests, and there is no justification for § 1 scrutiny.

Indeed, the very notion of an "agreement" in Sherman Act terms between a parent and a wholly owned subsidiary lacks meaning. A § 1 agreement may be found when "the conspirators had a unity of purpose or a common design and understanding, or a meeting of minds in an unlawful arrangement." *American Tobacco Co. v. United States,* 328 U.S. 781, 810 (1946). But in reality a parent and a wholly owned subsidiary always have a "unity of purpose or a common design." They share a common purpose whether or not the parent keeps a tight rein over the subsidiary; the parent may assert full control at any moment if the subsidiary fails to act in the parent's best interests.

The intra-enterprise conspiracy doctrine looks to the form of an enterprise's structure and ignores the reality. Antitrust liability should not depend on whether a corporate subunit is organized as an unincorporated division or a wholly owned subsidiary. A corporation has complete power to maintain a wholly owned subsidiary in either form. The economic, legal, or other considerations that lead corporate management to choose one structure over the other are not relevant to whether the enterprise's conduct seriously threatens competition. Rather, a corporation may adopt the subsidiary form of organization for valid management and related purposes. Separate incorporation may improve management, avoid special tax problems arising from multistate operations, or serve other legitimate interests.[20] Especially in view of the increasing complexity of corporate operations, a business enterprise should be free to structure itself in ways that serve efficiency of control, economy of operations, and other factors dictated by business judgment without increasing its exposure to antitrust liability. Because there is nothing inherently anticompetitive about a corporation's decision to create a subsidiary, the intra-enterprise conspiracy doctrine "impose[s] grave legal consequences upon organizational distinctions that are of de minimis meaning and effect." *Sunkist Growers, Inc. v. Winckler & Smith Citrus Products Co.*, 370 U.S. 19, 29 (1962).

If antitrust liability turned on the garb in which a corporate subunit was clothed, parent corporations would be encouraged to convert subsidiaries into unincorporated divisions. Indeed, this is precisely what the Seagram company did after this Court's decision in *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc*., 340 U.S. 211 (1951). Such an incentive serves no valid antitrust goals but merely deprives consumers and producers of the benefits that the subsidiary form may yield.

The error of treating a corporate division differently from a wholly owned subsidiary is readily seen from the facts of this case. Regal was operated as an unincorporated division of Lear Siegler for four years before it became a wholly owned subsidiary of Copperweld. Nothing in this record indicates any meaningful difference between Regal's operations as a division and its later operations as a separate corporation. Certainly nothing suggests that Regal was a greater threat to competition as a subsidiary of Copperweld than as a division of Lear Siegler. Under either arrangement, Regal might have acted to bar a new competitor from entering the market. In one case it could have relied on economic power from other quarters of the Lear Siegler corporation; instead it drew on the strength of its separately incorporated parent, Copperweld. From the standpoint of the antitrust laws, there is no reason to treat one more harshly than the other. As Chief Justice Hughes cautioned, "[r]ealities must dominate the judgment." *Appalachian Coals, Inc. v. United States*, 288 U.S., at 360.

D

Any reading of the Sherman Act that remains true to the Act's distinction between unilateral and concerted conduct will necessarily disappoint those who find that distinction arbitrary. It cannot be denied that § 1's focus on concerted behavior leaves a "gap" in the Act's proscription against unreasonable restraints of trade. . . . An unreasonable restraint of trade may be effected not only by two independent firms acting in concert; a single firm may restrain trade to precisely the same extent if it alone possesses the combined market power of those same two firms. Because the Sherman Act does not prohibit unreasonable restraints of trade as such--but only restraints effected by a contract, combination, or conspiracy--it leaves untouched a single firm's anticompetitive conduct (short of threatened monopolization) that may be indistinguishable in economic effect from the conduct of two firms subject to § 1 liability. . . .

The appropriate inquiry in this case, therefore, is not whether the coordinated conduct of a parent and its wholly owned subsidiary may ever have anticompetitive effects. . . . Nor is it whether the term "conspiracy" will bear a literal construction that includes parent corporations and their wholly owned subsidiaries. For if these were the proper inquiries, a single firm's conduct would be subject to § 1 scrutiny whenever the

20. For example, "[s]eparate incorporation may reduce federal or state taxes or facilitate compliance with regulatory or reporting laws. Local incorporation may also improve local identification. Investors or lenders may prefer to specialize in a particular aspect of a conglomerate's business. Different parts of the business may require different pension or profit-sharing plans or different accounting practices." Areeda, 97 Harv.L.Rev., at 453.

coordination of two employees was involved. Such a rule would obliterate the Act's distinction between unilateral and concerted conduct, contrary to the clear intent of Congress as interpreted by the weight of judicial authority. . . . Rather, the appropriate inquiry requires us to explain the logic underlying Congress' decision to exempt unilateral conduct from § 1 scrutiny, and to assess whether that logic similarly excludes the conduct of a parent and its wholly owned subsidiary. Unless we second-guess the judgment of Congress to limit § 1 to concerted conduct, we can only conclude that the coordinated behavior of a parent and its wholly owned subsidiary falls outside the reach of that provision.

Although we recognize that any "gap" the Sherman Act leaves is the sensible result of a purposeful policy decision by Congress, we also note that the size of any such gap is open to serious question. Any anticompetitive activities of corporations and their wholly owned subsidiaries meriting antitrust remedies may be policed adequately without resort to an intra-enterprise conspiracy doctrine. A corporation's initial acquisition of control will always be subject to scrutiny under § 1 of the Sherman Act and § 7 of the Clayton Act, 38 Stat. 731, 15 U.S.C. § 18. Thereafter, the enterprise is fully subject to § 2 of the Sherman Act and § 5 of the Federal Trade Commission Act, 38 Stat. 719, 15 U.S.C.§ 45. That these statutes are adequate to control dangerous anticompetitive conduct is suggested by the fact that not a single holding of antitrust liability by this Court would today be different in the absence of an intra-enterprise conspiracy doctrine. It is further suggested by the fact that the Federal Government, in its administration of the antitrust laws, no longer accepts the concept that a corporation and its wholly owned subsidiaries can "combine" or "conspire" under § 1. Elimination of the intra-enterprise conspiracy doctrine with respect to corporations and their wholly owned subsidiaries will therefore not cripple antitrust enforcement. It will simply eliminate treble damages from private state tort suits masquerading as antitrust actions. . . .

JUSTICE STEVENS, with whom JUSTICE BRENNAN and JUSTICE MARSHALL join, dissenting.

It is safe to assume that corporate affiliates do not vigorously compete with one another. A price-fixing or market-allocation agreement between two or more such corporate entities does not, therefore, eliminate any competition that would otherwise exist. It makes no difference whether such an agreement is labeled a "contract," a "conspiracy," or merely a policy decision, because it surely does not unreasonably restrain competition within the meaning of the Sherman Act. The Rule of Reason has always given the courts adequate latitude to examine the substance rather than the form of an arrangement when answering the question whether collective action has restrained competition within the meaning of § 1. . . .

I . . .

A construction of the statute that reaches agreements between corporate parents and subsidiaries was . . . embraced by the Court in *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951). . . . The majority only notes that there might have been other grounds for decision available . . . , but again it cannot deny that its new rule is inconsistent with what the Court actually did write in th[at] case[]. . . .

NOTES AND QUESTIONS

1. The majority insists that *Timken* did not depend upon the intra-enterprise conspiracy doctrine for its actual holding and decision. The dissent counters that the

Copperweld decision is inconsistent with the actual language of *Timken* (and a long line of cases). Who is it right? Does it make any difference to the viability of *Timken* in the context of transborder patent protection?

2. Recall note 20 and the accompanying text in Part III.C. of the Court's opinion. Would a host state, particularly an LDC, be at all comforted by the fact that "Separate incorporation [of, say, the host state operations of a U.S. corporation] may improve management, avoid special tax problems arising from multistate operations, or serve other legitimate interests"? By implication, the Court's language suggests a quite benign view of the modern multinational, operating through a web of subsidiaries and affiliates simply to serve its "legitimate interests." We shall have occasion to review host state attitudes with respect to multinationals in Chapter XIX, § B.1., *infra*.

3. *Copperweld* has itself been the subject of criticism and distinguishing (or avoidance) in the years since it was decided. The following two cases–one a federal decision, the other a state court decision on state law grounds–illustrate the ways in which lower courts have contained the implications of *Copperweld*. How would the *Copperweld* Court have responded, if at all, to the situations considered by these cases?

SCANDINAVIAN SATELLITE SYSTEM, AS v. PRIME TV LIMITED

291 F.3d 839 (D.C.Cir. 2002)

HARRY T. EDWARDS, CIRCUIT JUDGE:

[A satellite company sued a company that it claimed to be its former wholly-owned subsidiary, alleging that it had violated the company's copyright by broadcasting certain television programing in United States. The District Court dismissed the action, but the D.C. Circuit reversed and remanded, holding *inter alia* that the District Court could not conclude that the company was barred from suing the purported former subsidiary without the court first determining the actual relationship between them.]

Appellant Scandinavian Satellite System ("SSS") claims rights under an exclusive copyright license to broadcast programming created by Pakistan Television Corporation ("PTV"), a government-owned enterprise based in Pakistan that produces news and entertainment programs. On May 25, 1998, PTV granted Sports Star International ("SSI"), a Pakistani company, an exclusive license to broadcast PTV programming. On July 1, 1998, SSI, in turn, granted SSS, a Norwegian company, the exclusive rights to broadcast PTV programming outside of Pakistan. SSS intended to use Prime TV Limited ("Prime TV"), a British company, to broadcast PTV programming in Europe. Finally, on February 17, 1999, SSS executed a Joint Venture Agreement with SSI, authorizing SSI to assume control over Prime TV, which previously had been a wholly owned subsidiary of SSS, and transferring the exclusive license to broadcast PTV programming from SSS to Prime TV.

SSS now sues Prime TV and two individual defendants for copyright infringement, claiming that Prime TV violated SSS's copyright by broadcasting, or preparing to broadcast, PTV programming in the United States. SSS also contends that the SSS/SSI Joint Venture Agreement is null and void because it was executed under duress. In answer to SSS's complaint, Prime TV moved to dismiss the case on three grounds: lack of personal jurisdiction; principles of international comity arising from related lawsuits in Pakistan; and the existence of forum selection clauses in the disputed SSS/SSI contracts that required the parties to resolve their disputes pursuant to arbitration in

Pakistan.

SSS's action is based on a claim of copyright infringement under 17 U.S.C. §§ 106 and 602. The District Court, however, saw the case differently. The District Court ruled that, because the "Joint Venture Agreement is at the core of this action," . . . the action is principally one for contract rescission, not copyright infringement. The trial court also held that, even if the Joint Venture Agreement were voided–"which is necessary for SSS to maintain a copyright action–SSS would have no cause to seek relief under the copyright laws, since Prime [TV] would be its wholly owned subsidiary." . . . The District Court therefore held that it had no subject matter jurisdiction to decide the case, because the matter did not arise under an act of Congress relating to copyrights. *See* 28 U.S.C. § 1338(a) (federal courts have subject matter jurisdiction over matters "arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks").

. . . [W]e reject the District Court's holding that SSS has no cause to seek relief from Prime TV, because Prime TV is purportedly SSS's wholly owned subsidiary. The mere claim of a parent-subsidiary relationship is not enough to decide this issue, for the court must first determine whether SSS does in fact control Prime TV. Indeed, in this case, Prime TV claims to be controlled by SSI, not SSS.

Because the District Court erred in dismissing the case solely on the basis of subject matter jurisdiction and, thus, failed to rule on appellees' numerous other arguments for dismissal, we reverse and remand for further proceedings. . . .

II. Discussion . . .

The District Court justified its dismissal of appellant's case on an alternative ground: the trial court held that if the Joint Venture Agreement is found not to bar SSS's lawsuit, SSS still would have no claim under the copyright laws, because SSS (the parent company) could not sue Prime TV (its wholly owned subsidiary). The District Court assumed that "a parent company cannot sue its wholly-owned subsidiary for infringement without violating basic principles of corporate and copyright law." . . . We disagree.

"Corporations may bring actions against each other, even if ... one corporation is the parent or subsidiary of the other." 9 VICTORIA A. BRAUCHER, et al., FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS § 4229 (1999). It is true that the law sometimes disregards the separate corporate forms of parent and subsidiary corporations to hold one accountable for the actions of another, especially when a failure to do so "would work fraud or injustice." *Taylor v. Standard Gas & Elec. Co.*, 306 U.S. 307, 322 (1939); *see also First Nat'l City Bank v. Banco Para El Comercio Exterior de Cuba*, 462 U.S. 611, 632 (1983) (declining "to adhere blindly to the corporate form where doing so would cause such an injustice"). However, before it can be found that a parent and subsidiary are one entity in the eyes of the law, it must first be determined whether the subsidiary is in fact controlled by the parent. *See, e.g., NLRB v. Deena Artware, Inc.*, 361 U.S. 398, 403 (1960).

In this case, Prime TV claims to be controlled by SSI, not SSS; and, belatedly, SSS claims that Hussain, not SSS, owns Prime TV. The District Court, at a minimum, must determine the actual relationship between SSS and Prime TV, including whether the extent of control exercised by SSS over Prime TV rises to the level necessary to disregard their separate corporate identities. Without any such analysis, the District Court had no basis upon which to conclude that SSS was precluded from suing Prime TV.

The appellees cite *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752

(1984), for the proposition that a parent and its wholly owned subsidiary have a "complete unity of interest," and, therefore, must be viewed as one. *Id*. at 771. *Copperweld*, however, addressed the limited issue of whether a parent corporation and its wholly owned subsidiary are legally capable of conspiring with one another under § 1 of the Sherman Act, 15 U.S.C. § 1. *Id*. at 777. That inquiry focused on "Congress' decision to exempt unilateral conduct from § 1 scrutiny," not the extent of control exercised by every parent company over a subsidiary. *Id.* at 776. Because *Copperweld* does not purport to answer the question now facing this court, it is not dispositive. Instead, we are guided by the basic principle that "ownership, alone, of capital stock in one corporation by another, does not create an identity of corporate interest between the two companies." *Chicago, Milwaukee & St. Paul Ry. Co. v. Minneapolis Civic & Commerce Ass'n*, 247 U.S. 490, 500 (1918). The unity of interest cannot be determined without an examination of the control exercised by the parent over the subsidiary. ...

VALORES CORPORATIVOS, S.A. de C.V. v. McLANE COMPANY, INC.

945 S.W.2d 160 (Tex. Ct. App. 1997)

DUNCAN, JUSTICE.

[A Mexican corporation sued a U.S. corporation and its wholly owned U.S. subsidiary, alleging breach of an agreement between the Mexican corporation and the subsidiary to organize a joint venture or partnership for distribution of groceries in northern Mexico, and against the U.S. corporation for interference with contractual relations. The U.S. parent and subsidiary moved for summary judgment. The District Court granted the motion. On appeal, the Texas Court of Appeals reversed and remanded, holding that material issues of fact precluding summary judgment existed concerning a letter from an officer of the subsidiary, corroborated by deposition testimony of an officer of the Mexican corporation, that might establish existence of the contract. The Court of Appeals also held, arguably contrary to the *Copperweld* principle, that the U.S. parent corporation could be liable for tortious interference with the contract.]

Valores Corporativos, S.A. de C.V., Casa Chapa, S.A. de C.V., and Chapa Trading Co., Inc. (collectively, "Valores")[2] appeal the summary judgment against them in their suit against McLane Company, Inc. and Wal-Mart Stores, Inc. We hold the summary judgment proof does not conclusively establish the absence of an enforceable agreement between Valores and McLane Co., and Texas law does not preclude holding Wal-Mart liable for tortiously interfering with the contractual relations of its wholly-owned subsidiary, McLane Co. Accordingly, we reverse the judgment and remand the case to the trial court for further proceedings consistent with this opinion. . . .

Factual Background . . .

In November 1990, Valores, a Mexican corporation, and McLane Co., a Texas corporation (and, as of December 10, 1990, a wholly-owned subsidiary of Wal-Mart), began exploring a joint venture for the wholesale distribution of groceries in Mexico. During the negotiations that followed, Valores was represented by its chairman, Jose Chapa, and its chief executive officer, Gilberto De Hoyos, while McLane Co. was

2. Valores is a holding company. Casa Chapa is a wholly-owned subsidiary of Valores, and Chapa Trading is a wholly-owned subsidiary of Casa Chapa. For convenience, we refer to all three entities as "Valores."

represented by its chief executive officer, Drayton McLane, and its vice president for international affairs, Robert Hudspeth.

On September 26, 1991, after ten months of meetings, analyses, and projections, a meeting was held in Monterrey. According to De Hoyos, this meeting was for the purpose of reaching, and resulted in, a final agreement on all essential terms, as reflected in Drayton McLane's shaking hands with Chapa and De Hoyos and saying they had a deal, as well as media coverage and various correspondence, including Hudspeth's September 27, 1991 letter to Valores "re Agreements and Understandings"; Hudspeth's September 27 letter to De Hoyos congratulating him "for the leadership and vision of creating Chapa/McLane...."; Drayton McLane's September 30 letter to Chapa stating that McLane Co. was "truly honored to be your partner ...."; and Drayton McLane's October 24 letter to Chapa stating that "[o]ur agreement in principle is all we really need, but as soon as the contract is completed, I look forward to coming to Monterrey to have a formal signing of this important document." De Hoyos further testified that he was authorized to bind Valores, and Drayton McLane was authorized to bind McLane Co., to their agreement.

The essential terms of the parties' agreement, according to De Hoyos and as substantially reflected in Drayton McLane's September 27 letter to De Hoyos, were:

- The name of the joint venture would be "Chapa/McLane."
- Chapa/McLane's business purpose would be the wholesale distribution of groceries and the continuation of Valores' home delivery service near Monterrey in northeastern Mexico.
- Valores would contribute its "know-who," while McLane Co. would contribute its "know-how."
- Chapa/McLane would "be owned and capitalized equally by Valores and McLane." "Financing methods [would] be evaluated by Valores and recommendations made as to [the] best methods for [the] benefit of [the] joint venture."
- The "[t]otal capital investment requirements [were] estimated at 10- 12,000,000.00 U.S.D."
- Chapa/McLane's "Board of Directors [would] consist of six members–three from each company with chairman from Valores. Alfonso Cordero [would] serve as General Manager of Chapa/McLane."
- Valores would close its existing distribution centers, and Chapa/McLane would "reimburse [Valores] up to [a] maximum of 2,000,000 U.S.D. over five years for losses incurred as [a] result of facility closings. This 2,000,000.00 U.S.D. would be generated from operating profits and could be paid in a time frame shorter than five years at the discretion of McLane Company or longer if [the] profits generate[d] [were] not adequate to fund reimbursement."
- "In depth [d]ata [s]ystems analysis," "transportation analysis," and "[t]raining orientation schedules" were to begin and be completed and finalized "as soon as practical." "Alfonso Cordero [would] spend [a] minimum of four months at McLane divisions. David Chapa [would] receive extensive training in [the] McLane CPL Program."
- Preliminary, capital expenditure, operating, and cash flow budgets were "to be completed."
- A first draft of a written agreement was to be prepared by Valores and "forwarded to McLane."
- The "[t]arget date for operation start-up" was "August 1992." . . .

On November 1, 1991, Valores and McLane Co. issued joint press releases announcing their "agreement in principle." This press release, unlike that issued earlier to announce Wal-Mart's acquisition of McLane Co., did not state that the agreement was subject to legal documentation. After the November 1 press release, the parties began performing their agreement. For instance, David Chapa moved to Temple for management training; the "in depth systems analysis" and "transportation analysis" were begun; drafts of the written agreement were prepared, edited, and exchanged; and a site was selected for the Chapa/McLane distribution center, plans were drawn, and a groundbreaking date was set for July 1992. By the end of May 1992, McLane Co. knew virtually every aspect of Valores' wholesale grocery distribution business in Mexico--from its customer profiles and detailed customer lists to the size and number of particular items it warehoused and distributed.

Meanwhile, however, a conflict was brewing. On July 9, 1991, Wal-Mart had issued a press release announcing that it, in partnership with Direción Corporativa CIFRA, S.A. de C.V., would develop the equivalent of Wal-Mart's Sam's Clubs in Mexico. In light of this partnership, on November 11, Rob Walton, Wal-Mart's vice chairman, sent a copy of the November 1 Chapa/McLane press release to CIFRA. CIFRA wrote back, stating that Chapa/McLane was an "unexpected surprise" and "raised some doubts as to how your new venture in Mexico might affect our present business relationship." McLane Co. assured Wal-Mart, however, that no conflict existed; Wal-Mart and CIFRA were retailers, while Chapa/McLane would be a wholesale grocery distributor. Therefore, although Hudspeth mentioned CIFRA's objection to De Hoyos, Hudspeth also indicated it was Wal-Mart's problem and would be worked out by Wal-Mart and CIFRA. Unknown to Valores, however, McLane Co.'s general counsel had been instructed to "slow play" the documents intended to memorialize the Chapa/McLane agreement. At no point, however, did anyone involved identify any "deal breakers." Nonetheless, according to De Hoyos, Drayton McLane admitted to him following a late May 1992 meeting that the conflict with CIFRA was probably affecting McLane Co.'s ongoing performance of its agreement with Valores. On May 29, 1992, Wal-Mart issued a press release announcing an expanded agreement with CIFRA. Under this expanded agreement, Wal-Mart committed McLane Co. to do business in Mexico exclusively with CIFRA.

On June 3, the top executives of Valores, McLane Co., and Wal-Mart met in Dallas. At that meeting, Drayton McLane apologized for the "embarrassing situation" and explained that when he began negotiations with Valores, he owned and controlled McLane Co. But, although Wal-Mart had approved the November 1 press release announcing their agreement in principle, Wal-Mart had decided there would be no Chapa/McLane. When the Valores representatives demanded that McLane Co. honor its agreement, Wal-Mart's president, David Glass, stated that, although "this is not the way Wal-Mart does business," "this is the way it is going to be." In a subsequent letter, McLane Co.'s general counsel admitted to Valores' attorney that "the Wal-Mart/CIFRA relationship has become the controlling force."

Breach of Contract

In their first motion for summary judgment, McLane Co. and Wal-Mart contended their summary judgment proof conclusively established that McLane Co. and Valores never entered a binding contract because (1) a signed, written agreement was a precondition to the formation of an enforceable contract and (2) the purported agreement failed for indefiniteness. For convenience, we assume without deciding that McLane Co.'s and Wal-Mart's motion and proof were legally sufficient to shift the burden to Valores to raise genuine issues of material fact on each ground. We hold, however, that Valores met this burden. . . .

Tortious Interference . . .

. . . Wal-Mart asserted that it was entitled to summary judgment on Valores' tortious interference claim because Wal-Mart was incapable of tortiously interfering with the contractual relations of its wholly-owned subsidiary, McLane Co. We disagree.

The Texas Supreme Court has not yet confronted the issue of whether a parent corporation is capable of tortiously interfering with the contractual relations of its wholly-owned subsidiary. Two of Texas' fourteen courts of appeals have dealt with the issue, and they agreed with McLane Co. and Wal-Mart. *See H.S.M. Acquisitions, Ins. v. West,* 917 S.W.2d 872, 882-83 (Tex.App.–Corpus Christi 1996, writ denied); American Medical Int'l v. Giurintano, 821 S.W.2d 331, 336-37 (Tex.App.–Houston [14th Dist.] 1991, no writ) (impossible for parent to interfere with wholly-owned subsidiary's contracts). The federal courts interpreting Texas law, on the other hand, have treated the issue as one of privilege, not capacity, but they have disagreed as to the extent of the privilege. *See Deauville Corp. v. Federated Dept. Stores, Inc.,* 756 F.2d 1183, 1196 (5th Cir.1985) (applying Texas law) (as a matter of law, parent privileged to interfere with wholly-owned subsidiary's contracts because of superior financial interest arising out of stock ownership), *cited in Holloway v. Skinner,* 898 S.W.2d 793, 794 (Tex.1995); *see also In re ContiCommodity Serv., Inc. Securities Litigation,* 733 F.Supp. 1555, 1568 (N.D.Ill.1990) (applying Texas law) (parent that is not alter ego of wholly-owned subsidiary capable of tortiously interfering with subsidiary's contracts but interference may be privileged if in good faith and without malice), *rev'd in part on other grounds sub nom. Brown v. United States,* 976 F.2d 1104 (7th Cir.1992) *and aff'd in part on other grounds sub nom. ContiCommodity Servs. Inc. v. Ragan,* 63 F.3d 438 (5th Cir.1995), *cert. denied,* 517 U.S. 1104 (1996).[5] Other jurisdictions have held that, while a parent corporation is legally capable of tortiously interfering with its subsidiary's contracts, its interference may be privileged; they have disagreed, however, on the extent of the privilege and the placement of the burden of proof. *See, e.g., Green v. Interstate United Mgmt. Serv. Corp.,* 748 F.2d 827, 831 (3rd Cir.1984) (applying Pennsylvania law); *Phil Crowley Steel Corp. v. Sharon Steel Corp.,* 782 F.2d 781, 783 (8th Cir.1986) (applying Missouri law); *Oxford Furniture v. Drexel Heritage Furnishings,* 984 F.2d 1118, 1126 (11th Cir.1993) (applying Alabama law); *Eckholt v. American Business Info., Inc.,* 873 F.Supp. 526, 532-33 (D.Kan.1994) (applying Kansas law); *Shearin v. E.F. Hutton Group, Inc.,* 652 A.2d 578, 589-91 (Del.Ch.1994); *Sunamerica Financial v. 260 Peachtree Street,* 202 Ga.App. 790, 415 S.E.2d 677, 684, *cert. denied,* 202 Ga.App. 907 (1992); *GHK Associates v. Mayer Group, Inc.,* 224 Cal.App.3d 856, 883, 274 Cal.Rptr. 168 (Cal.App.1990); *T.P. Leasing Corp. v. Baker Leasing Corp.,* 293 Ark. 166, 732 S.W.2d 480, 483 (1987); *Bendix Corp. v. Adams,* 610 P.2d 24, 29-31 (Alaska 1980); *Felsen v. Sol Cafe Mfg. Corp.,* 24 N.Y.2d 682, 301 N.Y.S.2d 610, 249 N.E.2d 459, 461 (1969).

We believe our resolution of this issue should be guided by our supreme court's recent decision in *Holloway,* in which the issue presented was whether Holloway, the corporation's president, director, and largest shareholder, was liable for tortiously interfering with the corporation's contract with Skinner. *Holloway,* 898 S.W.2d at 794. Ultimately, the court held that he was not liable on "no evidence grounds." *Id.* at 794. En route to its judgment, however, the court reasoned that, "to preserve the logically necessary rule that a party cannot tortiously interfere with its own contract," "the alleged

5. Neither the Fifth Circuit opinion nor the Seventh Circuit opinion deals with the claims against the parent corporation for tortiously interfering with its wholly-owned subsidiary's contracts.

act of interference must be performed in furtherance of the defendant's personal interests." *Id.* at 796. Accordingly, the court held that a corporate officer will not be treated as a "stranger to the contract" unless the plaintiff shows, as a part of its *prima facie* case, "the defendant acted in a fashion so contrary to the corporation's best interests that his actions could only have been motivated by personal interests." *Id.* In so holding, the court expressly rejected the argument that this burden should be imposed on the defendant, *id.*, as well as the notion that a corporate officer could not be held liable for tortiously interfering with the corporation's contracts if the officer was acting within the scope of his corporate authority. *Id.* at 797.

The supreme court's holding in *Holloway* recognizes and gives meaning to two principles that apply equally in the corporation-officer and parent-subsidiary contexts. First, the supreme court's holding is consistent with the legal principle that a corporation is a legal entity separate and distinct from its officers. The same is true for a parent corporation and its subsidiaries. *E.g., Gentry v. Credit Plan Corp.*, 528 S.W.2d 571, 573 (Tex.1975). Second, the supreme court's holding in *Holloway* acknowledges, as a matter of fact, that, while a corporate officer's personal interests may well be coterminous with those of the corporation, circumstances may arise in which the corporate officer pursues his personal interests to the detriment of those of the corporation. These same principles provide the foundation for the rule adopted in the jurisdictions cited above in the parent-subsidiary context–that is, a parent corporation is privileged to interfere with its subsidiary's contractual relations "when the contract threatens a present economic interest of its wholly owned subsidiary," and the parent does not "employ[ ] wrongful means or act[ ] with an improper purpose." *T.P. Leasing Corp.*, 732 S.W.2d at 483; *see also Phil Crowley Steel Corp.*, 782 F.2d at 783; Sunamerica Financial, 415 S.E.2d at 684; *GHK Assoc.*, 224 Cal.App.3d at 883, 274 Cal.Rptr. 168. These jurisdictions recognize that, while the financial interests of a parent corporation and its subsidiary are identical, so that a parent's interference with its subsidiary's contractual relations is usually justified, circumstances may arise in which the financial interests of neither motivate the interference.

For these reasons, we believe the supreme court's reasoning in *Holloway* also applies in the parent-subsidiary context and decline to follow our sister courts. Instead, we hold that a parent corporation is legally capable of tortiously interfering with its wholly-owned subsidiary's contractual relations.[6] The trial court thus erred in granting a summary judgment against Valores on its tortious interference claim on this ground. Valores' first point of error is sustained. . . .

NOTES AND QUESTIONS

1. The duPont-ICI sequence that follows began with the agreement, described in the

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6. We note that our holding on this issue, while inconsistent with the Supreme Court's opinion in *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984), is consistent with our earlier holding that a parent corporation is capable of conspiring with its wholly-owned subsidiary for purposes of common law torts. *See Metropolitan Life Ins. Co. v. La Mansion Hotels*, 762 S.W.2d 646, 651-52 (Tex.App.–San Antonio 1988, writ dism'd) (recognizing that *Copperweld* limited to conspiracy claims under section 1 of the Sherman Antitrust Act and holding that corporation and wholly-owned subsidiary are separate legal entities for purposes of common law tort actions); *accord Atlantic Richfield Co. v. Long Trusts*, 860 S.W.2d 439, 447 (Tex.App.–Texarkana 1993, writ denied).

We also recognize our holding leaves the scope of the privilege open, as well as whether Texas law will impose this burden on Valores, as a part of its *prima facie* case, as it was in *Holloway*, or on Wal-Mart, as an affirmative defense of privilege or justification. We do not decide these issues in this case because Wal-Mart did not move for summary judgment on either ground. *See, e.g., McConnell v. Southside Indep. Sch. Dist.*, 858 S.W.2d 337, 341 (Tex.1993).

first of the excerpts, to exchange U.S. and British patent rights on related products in such a way, roughly, that duPont could protect itself from ICI competition in the United States, and ICI could protect itself from duPont competition in Great Britain. Whether such a use of patents should be regarded as an antitrust violation is clearly the central antitrust policy issue in the sequence.

2. Enforcement of the U.S. decision was complicated by the fact that ICI had transferred its patent rights to British Nylon Spinners (BNS), a British firm, in which it held a 50% interest and over which the United States courts lacked *in personam* jurisdiction. Thus, the stage was set for the problem that is the focus of the later excerpts. How could the U.S. court fashion an equitable decree when certain of the patent rights were thus beyond its reach? What should or could the British courts do in response? What ultimate competitive benefits could a decree bring, and should the U.S. court try to keep the two firms' obligations under the decree symmetrical?

UNITED STATES v. IMPERIAL CHEMICAL INDUSTRIES, LTD. (I)

105 F. Supp. 215 (S.D.N.Y. 1952)

RYAN, J. . . .

We have found that the patents and processes agreements "did, in operation, result in restraints of United States trade." DuPont agreed to restrict its use of United States patents by undertaking not to ship products manufactured under these patents to the territory assigned exclusively to ICI. To make this restriction effective, duPont was also required to impose like limitations on the shipments of anyone whom it might license under its United States patents. Insofar as shipments to Great Britain were concerned, the restrictions imposed by agreement were further implemented by the granting to 1CI of exclusive licenses under the British counterparts of the United States patents. Thus, the exclusionary right under the British patents was applied against imports from the United States, and the basic understanding by which ICI recognized the United States as the exclusive territory of duPont was in turn observed by the granting of an exclusive license to duPont in the United States. This kept the patented products manufactured in the United States out of the market of Great Britain, and the like products manufactured in Great Britain out of the United States.

The agreement between ICI and duPont also brought about a situation by which the United States patents of both were placed in the hands of duPont. This was a pooling of patents for a purpose in restraint of foreign trade. This use of patent rights was condemned in *United States v Line Material Co.*, 333 U.S. 287, 311 (1948), when employed as a means to effect price fixing arrangements. *Line Material* was, like the instant suit, brought under Section 1 and neither monopoly nor domination was charged. We have held that when patents are pooled to carry out a division of territories, it is equally as unlawful as when they are unified to effect price fixing.

The remedy of compulsory licensing is not to be restricted to monopoly situations. An effect of compulsory licensing is to grant to the public a right to use the patented invention and thus remove an impediment to competition. The wrong it is designed to correct arises from the misuse of lawful patent rights pursuant to an unlawful agreement. Such misuse creates an extension of the patent monopoly. Here, we have had proof of a wrong–unlawful restraints on our trade–accomplished by agreement between IC] and duPont. It was made possible of performance by the voluntary abstention from trade by one in the exclusive territory of the other, arid the restrictive provisions in patent licenses and in technology exchanged. We may hope to compel an abandonment of limitations in the exchange of patents and technology which are used to violate the anti-trust laws only by decreeing that ICI and duPont grant to all others what they have heretofore granted to each other. It may be that the decree will permit them to make better and more profitable terms for the additional grants than they have heretofore demanded *inter sese*. . . .

. . . We are also concerned with increasing the possibility of competition between ICI, duPont and others who might desire to enter the field. The unquestionable right of ICI to determine whether or not it will manufacture under its American patents, to select its licensees, and to determine whether licenses granted shall be exclusive or non-exclusive, has been exercised to implement the allotment of territories. Compulsory licensing will he a cure and not a punishment for this.

It has been contended on duPont's behalf that compulsory licensing should not he decreed because it would not "cause duPont to export and would not affect in any way the result of past failure on the part of duPont to export." Perhaps this is so, and it leads us to observe that neither would a simple injunctive provision in the decree produce this result. But compulsory licensing will enable others to manufacture and put them in a position where they will he able to export. The application of this remedy might serve as an impetus to a sincere desire on duPont's part to enter the export field on an active and competitive basis.

To us, it seems that an effective method to establish competitive conditions is to decree compulsory licensing of all patents which were licensed among the conspirators and which were put to use in the production of products which were common to some, if not to all. It has rightly been observed that "as long as the patentee is free to grant or withhold a patent license at his pleasure, the striking down of one set of restrictive conditions attached to a patent license may lead only to the adoption of another set of conditions which achieve the same eflèct." Compulsory Patent Licensing, 56 YALE LAW JOURNAL, 1946, p. 82.

With the compulsory licensing provisions with respect to patents, there must follow similar licensing provisions with respect to know-how affecting these patents and the products made under them. This must be so because it has been found that the exchange of know-how–as well as that of patents–served as a direct means for the accomplishment of the unlawful restraints; and because the supplying of such know-how and technology is necessary to the efficient use of the licensed patents and to the production by the licensee of products comparable in quality and cost of production to that of the licensor. The Government has asked that the compulsory licensing of know-how and technology be extended to include all "usable" processes–those processes now being used and applied and those which have been found to be of possible use but which are not currently being applied. The objection to the inclusion of "usable" processes because of difficulties in ferreting out those processes which have been tried only to be abandoned, and those known to be possible but never used, seems to us more fanciful than real. We have been impressed by the evidence throughout that the defendants function as extremely efficient and competently managed industrial organizations. The records of these "usable" processes will be available to them for disclosure; and it will be so decreed. . . . .

The provisions for fixation of reasonable royalties will follow substantially the provisions in anti-trust suits in which similar relief has been decreed. . . . The royalties are to be determined by the court, when agreement has not been privately reached, on petition from the applicant and on proof submitted by the applicant and the defendant involved.

The Government does not seek a decree directing ICI to grant compulsory licenses of its British patents. The Government requests that ICI be required to grant immunity under its foreign patents which correspond to the United States patents which we have made subject to compulsory licensing. . . . We have had testimony offered on behalf of ICI by an expert in British law that a provision for granting immunities is contrary to British public policy and that a British court will not enforce such a provision in the judgment of a court of a foreign jurisdiction. As to this, we observe that, acting on the basis of our jurisdiction in personam, we are merely directing ICI to refrain from asserting rights which it may have in Britain, since the enforcement of those rights will serve to continue the effects of wrongful acts it has committed within the United States affecting the foreign trade of the United States.

We are not unmindful that under British law there are restrictions upon exports from the United States by reason of the existence of the British patents owned by ICI. The exclusion of unlicensed imports and the prohibition of unlicensed sales is enforceable because of the legal rights which attach to a British patent.

We accept as correct the statements in the brief of ICI that: "Under United States law if a product is patented, sale into the United States of that product constitutes clear infringement of the rights of the American patentee. Such sale will therefore subject the vendor to a suit for infringement even though his acquisition of the patented article abroad (arid his use and sale of it there) may be wholly lawful, *Boesch v. Graff*, 133 U.S. 697 (1890). This is true even though the vendor may hold the foreign patent on the article in question. . . .

We accept as correct the statements in the brief of ICI:

> In the British Empire the law is even more stringent. The owner of a British patent may bar the importation of any product patented in Great Britain and also any product made by any process where the process is patented under British law. It is clear that a patent on a process essential to the production of a product is infringed by sale of an imported product made abroad by that process. *Von Heyden v. Neustadt*, 1880, 14 Ch. U 230; *United Horse Nail Co. v. Stewart and Co.*, 1885, 2 R.P.C. 122, 133-134; *Saccharin Corp., Ltd. v. Anglo-Continental Chemical Works, Ltd.*, 1900, 17 R.P.C. 307, 318-319; Terrell, *The Law and Practice Relating to Letters Patent for Inventions* (London, 1934), pp.173-177.
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> There is no requirement under American law which required duPont to license ICI under its United States patents or 1C1 to license duPont under its British patents. To the extent that each retained the right under the laws of its respective country to assert patents against imports, this resulted in no limitation upon such imports which in any way exceeded the limitation that would have existed had there been no agreement at all.

But as we have heretofore observed these lawful rights were employed as means to accomplish the unlawful purpose of their underlying agreement.

While it is true that these rights exist independent of any provision in the patents and processes agreements, they were granted to ICI by the disclosure or assignment of inventions by duPon.t pursuant to the terms of these agreements. Inventions were also licensed by ICI to duPont for its exclusive use and exploitation in the United States in accordance with the agreements. In the first instance the patents were employed to restrain duPont's exports to Great Britain, in plain violation of American anti-trust laws; in the second instance, the patents were used as a means to prevent ICI exports to the United States and placed a restraint upon the foreign trade of Great Britain, in violation of her declared policy, if not her laws. It does not seem presumptious for this court to make a direction to a foreign defendant corporation over which it has jurisdiction to take steps to remedy and correct a situation, which is unlawful both here and in the foreign jurisdiction in which it is domiciled. Two evils have resulted from the one understanding of ICI and duPont–restraints upon the foreign trade and commerce of the United States as well as on that of Great Britain. It is not an intrusion on the authority of a foreign sovereign for this court to direct that steps be taken to remove the harmful effects on the trade of the United States.

We recognize that substantial legal questions may be raised with respect to our power to decree as to duPont's foreign patents as well as those issued to ICI. Here, we deal with the regulation of the exercise of rights granted by a foreign sovereign to a domestic corporate defendant and to a foreign corporate defendant. Our power so to regulate is limited and depends upon jurisdiction *in personam;* the effectiveness of the exercise of that power depends upon the recognition which will be given to our judgment as a matter of comity by the courts of the foreign sovereign which has granted the patents in question.

Where we have required ICI to grant immunity under British patents which are the counterpart of duPont's United States patents, the payment of reasonable royalty upon imports of articles manufactured under them into Great Britain shall he paid to ICI.

Full recognition is hereby given to the inherent property rights granted by the British patent to exclude from Great Britain merchandise covered by the patent. Since a license under the corresponding United States patent conveys no right to ship into Great Britain articles manufactured in the United States under the patent, no royalty shall be collectible by duPont upon such items as are destined for export to Great Britain.

The history of the basic British nylon patents reveals a studied and continued purpose on the part of ICI and duPont to remove these patents from within the scope of any decree which might ultimately be made by this court. . . . These British patents were issued to duPont. By the agreement of March 30, 1939, ICI received an exclusive license under them; in January, 1940, ICI granted irrevocable and exclusive rights to make nylon yarn from nylon polymer (which is manufactured by ICI) to British Nylon Spinners. Ltd. (BNS). ICI has a stock interest of 50% in BNS, the remaining 50% is held by Courtaulds, Inc. BNS is in the business of manufacturing and distributing nylon yarn. Not content with this arrangement and with the deliberate purpose to "materially reduce the risk of any loss of rights" as a result of this suit . . . , duPont pursuant to the nylon agreement of 1916 assigned the basic British nylon patents to ICI. It is now urged that we may not decree with reference to these British patents so as to direct ICI to remove restrictions on imports into Great Britain of nylon polymer or nylon yarn from the United States. It is argued that the sum total of all these agreements is riot to create by itself any restrictions against American imports, and that those which exist arise from the right to be free from competition which is inherent in the British patents and cannot possibly be repugnant to the American anti-trust laws.

BNS is not before this court; although they were knowing participants in acts designed to thwart the granting of full relief, we may not direct our decree to them. The lack of majority stock ownership in ICI likewise prevents control of the future acts of BNS by this means; however, we are not without some remedy still available.

Objection is raised by ICI that we are without power to decree that the British nylon patents may not be asserted to prevent the importation of nylon polymer and nylon yarn into Great Britain because BNS has rights which exist independent of those possessed by ICI. This overlooks the circumstances under which BNS acquired its rights to these patents by licenses from ICI.

Throughout all these negotiations it appears that BNS was advised of the dealings between LCI and duPont concerning the British nylon patents. Both ICI and duPont are parties to the instant suit; they were advised in fact and realized that the further use and control of the rights pertaining to the British nylon patents were subject to a decree of this court to be entered in this suit. We find that in fact Courtaulds and BNS were also fully advised of this situation. The first, or "manufacturing sub-license" which BNS received granted to it no greater rights than had been acquired by ICI; it was subject to the same infirmities as existed against ICI. The second license granted after the assignment of the patents to LCI did not come to BNS as an innocent party. BNS, again, knew exactly what it was receiving; its rights are wholly subject to the inherent vices of the agreements through which they were acquired. We have found them to be tainted with the illegality of the unlawful conspiracy; of this probability BNS was informed. The circumstances surrounding the execution of the assignment to IC1 in December, 1946, makes this clear. . . . It is also recorded that on October 17,1946, "Courtaulds appreciated the difficulty in which all parties were placed consequent upon the American litigation and were, therefore, willing to accede to a modification of the duPont/I,C.I. Nylon License Agreement." . . . On October 28, 1946, Courtaulds undertook to "take all steps in their power to secure that British Nylon Spinners also raise no objection to the conclusion by ICI of the new agreement. . . ."

We do not hesitate therefore to decree that the British nylon patents may not be asserted by ICI to prevent the importation of nylon polymer arid of nylon yarn into Great Britain. What credit may be given to such an injunctive provision by the courts of Great Britain in a suit brought by BNS to restrain such importations we do not venture to predict. We feel that the possibility that the English courts in an equity suit will not give effect to such a provision in our decree should not deter us from including it.

In any event it appears that BNS would have the right under Section 63 of the Patents Act of 1949, as the exclusive licensee to bring suit for infringement against an importer of yarn and staple fiber. There would then be a speedy determination of the effectiveness of the immunity provision of the decree with reference to these products. If the British courts were not to give credit to this provision, no injury would have been done; if the holding of the British courts were to the contrary, a remedy available would not have been needlessly abandoned.

NOTE

Judge Ryan's opinion was received with no small interest by an English court. BNS brought suit in England to enjoin ICI's compliance with the U.S. court's order. Of particular interest to the English court was the possible issue of extraterritoriality raised in the U.S. decision. BNS obtained an interlocutory injunction against ICI's compliance. The following is the text of the British Court of Appeals' decision denying ICI's appeal for dismissal of the injunction. At a later trial on the merits, the court ruled that ICI was bound by British law to perform its contract. *See British Nylon Spinners, Ltd. v. Imperial Chem. Indus., Ltd.*, [1954] All ER, 88 (Ch.).

BRITISH NYLON SPINNERS, LTD. v. IMPERIAL CHEMICAL INDUSTRIES, LTD.

[1952] 2 AE.R.. 780

SIR RAYMOND EVERSHED, M.R.

The agreement of December 31, 1946, *was* an agreement whereby the defendant company acquired outright from du Pont de Nemours the patents (among others) which are specified in the schedule to the order, and one of the terms of the final judgment of the district judge, was that this agreement was thereby cancelled and terminated. That, however, was not all, for in a later part of the same judgment, Imperial Chemical Industries, Ltd. (the defendant company) was forbidden to make, among other things, "any disposition of foreign patents" (*i.e*., patents foreign to the United States of America and including the patents now in suit) unless it required, as a condition of the grant, that the grantee agreed in writing to hold its licence subject to certain rights of immunity, *viz*., the rights of American manufacturers of these nylon products freely to import and vend in the United Kingdom articles manufactured in accordance with the patents or with comparable patents. The effect of any such condition, if insisted on, would, obviously, be to derogate in a most serious way from the value of the exclusive licences which the defendant company was under contract to grant to the plaintiff company. Further, if the defendant company were to re-assign these various patents to du Pont de Nemours, as directed by the judgment of the district judge. it would, in fact, disable itself altogether thenceforward from granting licences in the terms which it had contracted to grant. The present proceedings have, therefore, been brought by the plaintiff company, in effect, to enforce what it claims to be its contractual rights under the contract of March, 1947, and by way of interim relief (seeing that the ninety days specified in the order of the district judge, are about to expire) the plaintiff company seeks to restrain the defendant company from executing an assignment in obedience to that order. Upjohn. J., granted an injunction, pending the trial, restraining the defendant company from so doing.

This is an interlocutory matter, and, therefore, it is inappropriate for the court to say more about the case or its merits than is necessary to make clear the grounds of the conclusion which it reaches. It is plain from what I have said that there is here a question of what is sometimes called the comity which subsists between civilised nations. In other words, it involves the extent to which the courts of one country will pay regard and give effect to the decisions and orders of another country. I certainly should be the last to indicate any lack of respect for any decision of the district courts of the United States, but I think that in this case there is raised a somewhat serious question whether the order, in the form that it takes, does not assert an extraterritorial jurisdiction which the courts of this country cannot recognise, notwithstanding any such comity. Applied conversely, I conceive that the American courts would likewise be slow (to say the least) to recognise an assertion on the part of the British courts of jurisdiction extending, in effect, to the business affairs of persons and corporations in the United States. in a judgment which the district judge delivered in May, 1952 (the second of his opinions in the proceedings to which I have referred), it is plain that the learned judge carefully considered this matter, and, indeed, as Upjohn, J., pointed out, expressed his own doubts whether, in giving effect, as he felt it his duty to do, to the implications of the Sherman Act, he might not be going beyond the normally recognised limits of territorial jurisdiction. But he said: "It is not an intrusion on the authority of a foreign sovereign for this court to direct that steps be taken to remove the harmful effects on the trade of the United States."

If by that passage the learned judge intended to say (as it seems to me that he did) that it was not an intrusion on the authority of a foreign sovereign to make directions addressed to that foreign sovereign, or to its courts, or to nationals of that foreign power, effective to remove (as he says) "harmful effects on the trade of the United States", I am bound to say that, as at present advised, I find myself unable to agree with it. Questions affecting the trade of one country may well be matters proper to be considered by the government of another country. Tariffs are sometimes imposed by one country which obviously affect the trade of another country, and the imposition of such tariffs as it seems to me, is a matter for the government of the particular country which imposes them. And if that observation of the learned judge were conversely applied to directions designed to remove harmful effects on the trade, say, of Great Britain or British nationals in America, I should be surprised to find that it was accepted as not being an intrusion on the rights and sovereign authority of the United States. On the other hand, there is no doubt that it is competent for the courts of a particular country, in a suit between persons who are either nationals or subjects of that country or are otherwise subject to its jurisdiction, to make orders in personam against one such party, directing it, for example, to do something or to refrain from doing something in another country affecting the other party to the action. As a general proposition, that would not be open to doubt, but the plaintiff in this case is neither a subject nor a national of the United States, nor (unlike the defendant company) was it a party to the proceedings before the district judge, nor is it otherwise subject to his jurisdiction. What the precise relationship, commercially or otherwise, is between the plaintiff company and the defendant company we have not at this stage of the proceedings considered, and I proceed on the assumption (and I am not to be taken as hinting that the contrary is the fact) that the plaintiff is an independent trade corporation and entitled to be treated as independent of the defendant company. Being so independent, it has beyond question, according to the laws of England, certain rights, certain choses in action, by virtue of the contract of 1947, which the courts of this country, in exercise of the laws which they claim to be entitled to administer, will in this country protect and enforce. Broadly speaking, the contract of March, 1947, being an English contract, made between English nationals and to be performed in England, the right which the plaintiff company has may be described as its right, under the contract, to have it performed and, if necessary, to have an order made by the courts of this country for its specific performance. That is a right, or, in other words, a species of property (seeing, particularly, that it is related to patents) which is English in character and is subject to the jurisdiction of the English courts, and it seems to me that the plaintiff company has, at least, established a prima facie case for saying that it is not competent for the courts of the United States, or of any other country, to interfere with those rights or to make orders, the observance of which by our courts would require that our courts should not exercise the jurisdiction which they have and which it is their duty to exercise in regard to those rights.

I think, however, that the matter goes somewhat further. I have said that the subject-matter of the contract of December, 1946, is a number of English and Commonwealth patents. An English patent is a species of English property of the nature of a chose in action and peculiar in character. By English law it confers on its proprietor certain monopoly rights, exercisable in England. A person who has an enforceable right to a licence under an English patent appears, therefore, to me to have, at least, some kind of proprietary interest which it is the duty of our courts to protect. And, certainly, so far as the English patents are concerned, it seems to me, with all deference to the judgment of the district judge, to be an assertion of an extra-territorial jurisdiction which we do not recognise for the American courts to make orders which would destroy or qualify those statutory rights belonging to an English national who is not subject to the jurisdiction of the American courts.

As regards the patents other than the English patents, *viz*., Australian, Indian, New Zealand, South African, Irish or other patents, a possible distinction can, of course, be drawn, since the patents in those countries are a species of property in those countries, and an effective right to use those patents would, if necessary, have to be asserted in those countries. But no special point has been made before us as regards the Australian and other non-English patents, and, for present purposes, I do not understand that it is suggested, if the injunction goes as regards the English patents, that it should not go to the full extent of the patents specified in the schedule to the order of Upjohn, J. We must, in the absence of some evidence to the contrary, assume that the law in these other countries is the same as it is here, and, apart from what I might call the particular rights quoad the particular non-English patents, there remains the general contractual right which relates to all the patents and is derived from the English contract of March, 1947.

I think it undesirable that I should say more, except to re-affirm the proposition that the courts of this country will, in the natural course, pay great respect and attention to the superior courts of the United States of America. but I conceive that it is none the less the proper province of English courts, when their jurisdiction is invoked, not to refrain from exercising that jurisdiction if they think that it is their duty so to do for the protection of rights which are peculiarly subject to their protection. In so saying, I do not conceive that I am offending in any way against the principles of comity which apply between the two countries, and, like Upjohn, J., I take some comfort from the doubts which the district judge himself entertained about the extent to which his order might go, if carried to its logical conclusion.

DENNING, L.J.

I agree. It would be a serious matter if there was a conflict between the orders of the courts of the United States and the orders of the courts of this country. The writ of the United States does not run in this country, and, if due regard is had to the comity of nations, it will not seek to run here. But, as I read this judgment of the United States court, there is a saving clause which prevents any conflict, because, although the defendant company has been ordered to do certain acts by the United States court, nevertheless there is a provision which says that nothing in the judgment shall operate against the company for action taken in complying with the law of any foreign government or instrumentality thereof to which the defendant company is for the time being subject. In view of that saving clause I hope that there will be no conflict between the orders. I agree that the appeal should be dismissed.

R0MER, L.J.: I also agree.

Appeal dismissed.

NOTE

Finally, ICI petitioned in the U.S. courts for a grant of immunity under the duPont nylon patents. In the following decision Judge Ryan denied the petition.

UNITED STATES V. IMPERIAL CHEMICAL

INDUSTRIES, LTD. (II)
1954 Trade Cases (CCH) ¶67,739

RYAN, J.

ICI moves for an order directing duPont to grant to ICI pursuant to the provisions of Article IX-4 of the judgment entered herein "an unrestricted nonexclusive, royalty-free immunity under any existing nylon patent . . . to import into the United States of America, . . . nylon filaments and bristles and nylon flakes and molding powders, which shall have been lawfully manufactured outside the United States."

By Article IX-4 of the judgment, it was decreed that "to the extent they have the legal right to do so, duPont and ICI shall: (b) grant to any person (including ICI and duPont) making written request therefor, in consideration of a reasonable royalty, an unrestricted, non-exclusive immunity under any existing or new patent to import into the United States any common chemical product lawfully manufactured outside the United States; . . ."

DuPont has refused to grant the request of ICI for immunities on the first two groups of the nylon products so scheduled. It has predicated this refusal upon the fact that ICI, by reason of its prior assignment to BNS of British nylon patents covering nylon yarn (group 3 of the scheduled nylon products) is presently unable to grant like immunities to duPont for the importation of nylon yarn into Great Britain.

DuPont urges in support of its refusal that the immunities grant directed by Article IX-4 is intended to be reciprocal and indivisible with respect to the three groups of products flowing from the several basic nylon patents. It contends that since it has not obtained immunities from ICI on all three groups of nylon common chemical products in their entirety, it should not he directed to grant to ICI immunities on the first two groups. Its position is that the immunities contemplated by the judgment were intended to embrace "whole patents" rather than "products."

On the other hand, ICI urges that the provision for immunities was intended to apply to the separate common chemical products rather than to "whole patents" or all the products produced under a given basic patent. It contends, therefore, that it rightly requested and should receive immunities from duPont on the first two groups only, and it points out that it has made this limited request since it may grant reciprocal immunities to duPont only on these two groups. ICI argues that to interpret Article IX-4 as providing for the grant of immunities only if the recipient itself has the legal right to grant complete immunities under a particular patent (as duPont would read it). is to take all meaning from the phrase "to the extent that it has the legal right to do so.."

ICI Supported by the Government

The Government's position is substantially in accord with that taken by ICI. The Government contends that since a purpose of the judgment was to remove obstacles to free trade between the United States and Great Britain, opportunity is here presented to encourage such trade as to some nylon products, although not as to all, and that the present disability of ICI to grant immunities with respect to one group of nylon products–yarn–only, should not result in the continuance of restrictions on United States' commerce in the nylon products embraced in the other groups. It agrees with ICI that the request now made by the latter is consistent with the provisions of Article IX-4.

Purpose of Judgment to Facilitate Trade

A purpose of the judgment was to encourage and facilitate trade between Great Britain and the United States. The provisions of the article in question dealing with the importation and exportation of various products flowing from the several basic nylon patents were intended to accomplish this end. The grants were intended, however, to be reciprocal and to embrace immunities on patents and their use in their entirety and not on products produced under a particular patent. Unless duPont is as free to export to Great Britain as ICI is to export to the United States, the granting of royalty-free immunities to ICI to export to this country without such a corresponding grant to duPont with respect to Great Britain would not be carrying out the broad purpose of the judgment; such a result was not contemplated or intended by Article IX or any article of the judgment.

It is no answer to say that nevertheless obstacles to free trade between these two countries would be removed by the granting of immunities on some of the nylon products. This does not justify splitting up and dividing products based on the same patents–a step which would he neither just nor equitable, nor in conformity with the purpose of the Article.

It is possible, as ICI and the Government point out, that BNS may by enforcing its claim under the assignment of British nylon patents from ICI forever foreclose ICI from granting duPont immunities on nylon yarn. Such a course of action, if pursued by BNS, would permanently bar the exchange of reciprocal immunities on all nylon products, thus limiting the coverage of the immunity provisions and narrowing the original, broad purpose of Article IX-4 of the judgment. That this regrettable situation might develop was not entirely unforeseen at the time of the drafting of these provisions of the judgment. It was with this in mind that reassignment of the British nylon patents to duPont by ICI was decreed by an *in personam* direction, revoking an assignment which it was found had been made in 1946 with a purpose on the part of both duPont and ICI, and in which BNS participated, to thwart any adverse judgment which might be entered.

Immunity Applies to All Nylon Groups

The fact that now ICI finds itself able, and that it is willing, to grant duPont reciprocal immunities on two groups of nylon products is without significance in view of the interpretation here given to the immunities provisions of Article IX. The broad immunity covering all nylon common chemical products under basic nylon patents in their entirety contemplated by the judgment will not now be read so as to apply to some and not all of these products. Until ICI can grant duPont complete reciprocal immunities on all three groups of nylon products, it may not require immunities to be granted by duPont on these two groups.

Application for Immunities Denied

The application of ICI for the granting of immunities on nylon products exclusive of yarn is at the present time denied without prejudice to a renewal when and if ICI finds itself in a position to grant reciprocal immunities to duPont as to all nylon products.

NOTES AND QUESTIONS

1. If the various components of the Timkin Company had been genuinely separate but had each held the trademark rights for specific nations as in the real case, would they have been entitled to protect their markets against imports from one another?

2. Was competition increased as a result of the ultimate decision? Assuming there was an antitrust violation, was there any practical alternative to divestiture in this case? In other words, is not the Supreme Court responsible for the failure of enforcement?

3. Could Judge Ryan have logically issued a decree very different from that which he actually chose?

4. Did ICI want to win the suit brought against it by Courtaulds?

5. Suppose the patent rights had not been transferred to Courtaulds. Do you think that ICI would have granted admission to U.S. products? What if it had resisted to the point that the Justice Department had to use contempt procedures? Would the U.K. courts have helped Justice?

6. Was Judge Ryan right in his 1954 decision?

7. Can this enforcement problem be avoided?

8. Suppose executives are careless in talking about the market division obtainable through patent procedures (while the corporate lawyers, of course, are careful to emphasize that this market division is only an indirect effect of legitimate patent licensing procedures). Is there an antitrust violation? *See United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981).

D. OTHER INTERNATIONAL ANTITRUST–INTELLECTUAL PROPERTY ISSUES

A new generation of technology issues is emerging with the growing interest of many nations in encouraging and controlling their own high-technology industries. Although there are not yet many relevant cases, or even directly relevant legislation, traditional legislation and regulation are being applied in patterns like the following:

> 1. Subsidization of one's own high-technology industry–and countervailing against other's subsidies;
> 2. Protection of one's own market to give one's high-technology firms a chance to work down the learning curve faster than foreign firms–and diplomacy to break down similar foreign barriers;
> 3. Direct restrictions on technology flow and on the benefits of research in order to give one's own firms a competitive advantage;
> 4. Encouragement of cooperative research ventures; and,
> 5. Domestic content requirements for high-technology areas.

NOTES AND QUESTIONS

1. Most of the issues identified above today have to be analyzed by traditional means. For more information, see John H. Barton, *Technology Trade*, 77 PROC. AM. SOC. INT'L L. 130 (1983); John H. Barton, *Coping with Technological Protectionism*, 62 HARV. BUS. REV. 91 (1984).

2. In June 2005, Assistant Attorney General R. Hewitt Pate, Chief of the Justice Department's Antitrust Division, delivered a paper on core U.S. principles of intellectual property and competition policy during the European Union's Competition Policy Workshop in Florence, Italy. As you review the excerpts from his paper, consider the following questions:

> a. What is the current U.S. policy with respect to the anticompetitive effects of intellectual property (IP) rights? How about specific issues like (i) unilateral refusals to license technology; (ii) "excessive" royalties; (iii) compulsory licensing; (iv) "excessive patenting" and patent enforceability; and, (v) IP rights and market power?
> b. Are U.S. and EU approaches to IP and competition policy similar? Consistent?
> c. Does Mr. Pate see any trend towards international convergence with respect to IP and competition policy? Would such convergence be desirable or not?
> d. Does the Antitrust Division view intellectual property as just another form of

property, or does it recognize anything distinctive about IP in relation to competition policy?

e. What about the problem, mentioned at several points in this chapter, that IP rights seem to allow for market division and other restrictive practices that would be inconsistent with competition policy if such practices were established by contract between competing firms? Does the Antitrust Division view this as a "problem"?

R. HEWITT PATE, COMPETITION AND INTELLECTUAL PROPERTY IN THE U.S.: LICENSING FREEDOM AND THE LIMITS OF ANTITRUST

2005 EU Competition Workshop, Florence, Italy (June 3, 2005)
available at http://www.usdoj.gov/atr/public/speeches/209359.htm

I. Introduction

Defining the relationship of intellectual property rights and competition law is an important economic issue in Europe and the United States. This paper attempts to outline some bedrock principles of intellectual property and antitrust policy in the United States, then discuss how they explain, and in some cases require, the current U.S. approach to a series of specific licensing practices. The basic U.S. approach, reflected in the *1995 DOJ/FTC Guidelines for the Licensing of Intellectual Property,* calls for flexible application of economic analysis to licensing practices. And the recent trend has been one of increasing convergence in U.S. and European approaches to IP licensing questions, as seen in the new revisions to the Technology Transfer Block Exemption and accompanying guidelines.

The opening question for this workshop asks whether intellectual property is like other property. This question has been discussed to death many times over in recent years, without much improvement on the answer given ten years ago in the *1995 Guidelines*. In short, for competition law purposes, intellectual property should be treated in essentially the same way as other forms of property, though this does not mean that it is in all respects the same as other forms of property. "Intellectual property is thus neither particularly free from scrutiny under the antitrust laws, nor particularly suspect under them."[7]

This answer means rejection of the hostility toward intellectual property that held sway in the U.S. during the 1970's. During this era, the Antitrust Division had a section devoted to attacking IP licensing practices that we routinely applaud today. This was the era . . . during which we applied *per se* rules of illegality to many licensing practices. The contention that IP should be treated essentially like other forms of property at that time was meant as a call to curtail hostility toward IP rights, a call for the end of disfavored status for IP.

Today, in contrast, our policy is animated by the recognition that IP licensing is generally procompetitive. But the modern answer to the question whether IP is like other forms of property also requires rejection of extreme claims of privilege on the part of IP owners. . . . The mere presence of an IP right that somehow figures in a course of otherwise anticompetitive conduct does not act as a talisman that wards off all antitrust enforcement. The classic statement on this point is contained in *United States v.*

7. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (April 6, 1995), *at* http://www.usdoj.gov/atr/public/guidelines/ipguide.pdf.

Microsoft Corp., 253 F.3d 34 (D.C. Cir. 2001) ("Microsoft's primary copyright argument borders upon the frivolous. The company claims an absolute and unfettered right to use its intellectual property as it wishes. . . . That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability.").

II. First Principles of U.S. Intellectual Property Law and Antitrust

Sound antitrust enforcement condemns anticompetitive conduct. It does not attempt to regulate the amount of competition in a general sense or address vague questions of fairness. It does not attempt to create an affirmative incentive for procompetitive conduct, by promising any specific reward or legal recognition for competitors who play by the rules. It focuses on specific anticompetitive actions, as judged by their effects on markets and consumer welfare. Although this narrow focus is a limitation, at the same time it is a great strength—it makes possible objectivity, predictability, and transparency.

Intellectual property laws, by contrast, provide a complex system of affirmative rewards for an important type of procompetitive behavior–innovation. They take consumer welfare into account, but in different ways than does antitrust. First, they reward innovators with exclusive rights that serve as an incentive to bring new and improved goods and services to market. The hope is that such innovations will lead to increased competition and increased consumer welfare in the long term. Second, they strike a balance between these rights and certain types of public access, such as fair use under copyright law[8] or the disclosure requirement and the limited term of patents.[9] They also include a fail-safe procedure under which a rival or a customer can sue to declare an intellectual property right noninfringed or unenforceable for a number of reasons. So the legislature, via the IP laws, has struck a balance between the rights of IP owners, the rights of consumers, and concerns for a competitive marketplace. This may or may not be the correct balance; nevertheless, it is the one the legislature has chosen.

It is important to understand precisely what reward is offered by the IP laws. Each type of IP right provides "exclusivity" for its owner. What does this exclusivity mean? It does not mean a right to commercialize any invention or creation. The owner of an improvement patent, for example, may find itself blocked from practicing its own patent if it cannot secure permission from the original patentee. Instead, what IP rights provide is the right to exclude others. The right to exclude is not simply *one* of the rights provided by intellectual property, it is the *fundamental* right, the foundation upon which the entire IP system is built.

III. Specific Practices and the Freedom to License . . .

• Unilateral Refusals to License Technology

The subject of unilateral refusals to license intellectual property is one in which the premise that IP is essentially like other forms of property has sometimes been stretched beyond sensible limits. Because, outside the area of IP, antitrust law holds out the possibility of rare exceptions to the principle that parties are free unilaterally to refuse to deal with others, the argument is that there must therefore be *some* circumstance in which the unilateral, unconditional refusal to license a patent must constitute an antitrust violation. With a single much-criticized exception, this is an argument that has never found support in any U.S. legal decision. At this point in the development of U.S. law,

8. 17 U.S.C. § 107.
9. 35 U.S.C. § 271(e)(1).

it is safe to say that this argument is without merit.

A unilateral, unconditional refusal to license a valid patent cannot, by itself, result in antitrust liability under U.S. law. It is instructive that the very notion of such liability was not even discussed in the *1995 Guidelines*. Instead, the *Guidelines* unequivocally state that, even in the case of IP that conveys market or monopoly power, that power does not "impose on the intellectual property owner an obligation to license the use of that property to others."[10] This is hardly surprising, as the right to choose whether the license has long been recognized by the U.S. Supreme Court as the core of the patent right.[11] Although the Supreme Court decisions are not directly on point, lower courts have correctly held that the unilateral, unconditional refusal to license a valid patent does not give rise to liability as an improper refusal to deal under Section 2 of the Sherman Act.[12] But of course, while an intellectual property owner has the right to decide not to license its technology, the owner does not have the right to impose conditions on licensees that would effectively extend an intellectual property right beyond the limits of the Patent Act.[13]

The clarity of U.S. law on unilateral refusals was enhanced by last year's Supreme Court decision in *Verizon Communications Inc.* v. Law Offices of Curtis V. Trinko, LLP.[14] In *Trinko*, the Supreme Court found that private plaintiffs did not state an antitrust claim when they alleged a failure by a communications provider, Verizon, to provide adequate assistance to its rivals. The Court showed great skepticism about expanding liability for the refusal to deal because such liability "may lessen the incentive for the monopolist, the rival, or both to invest in . . . economically beneficial facilities" and "also requires antitrust courts to act as central planners . . . a role for which they are ill-suited."[15] The Court posed the question as being whether the narrow list of exceptions to the general rule against liability should be expanded.[16] Although *Trinko* was not an intellectual property case–the rights in that case were governed by the Telecommunications Act–the Supreme Court would apply similar logic under the Patent Act. Given the many cases indicating that the right to exclude is a fundamental right embodied in the patent grant, it is safe to say that liability for the unilateral, unconditional refusal to license a valid patent is not going to be added to the narrow list of exceptions the Court mentioned.

When analyzing the effects of a unilateral refusal to deal, one cannot merely consider the effect on a rival that is refused a license; one must also consider the alternative world

10. *Guidelines* Section 2.2.

11. *See, e.g.*, *Bement v. National Harrow Co.*, 186 U.S. 70, 90 (1902) ("[The patentee's] title is excleusive, and so clearly within the constitutional provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it."); *United States v. United Shoe Mach. Co.*, 247 U. 32, 57 (1918) (reasoning that the exercise of "the right to exclude others from the use of the invention . . . is not an offense against the Anti-Trust Act."); *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432 (1945) ("A patent owner is not in the position of quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others."); *Simpson v. Union Oil Co.*, 377 U.S. 13, 24 (1964) ("[t]he patent laws[,] which give a 17-year monopoly on 'making, using, or selling the invention[,]' are *in pari materia* with the antitrust laws and modify them *pro tanto*").

12. *See, e.g.*, *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-28 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1143 (2001); *Miller Instituform of N. Am., Inc.*, 830 F.2d 606, 609 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1204-07 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982); *but cf. Image Tech. Servs., Inc., v. Eastman Kodak Co.*, 125 F.3d 1195, 1219 (9th Cir. 1997) (permitting antitrust liability if refusal to license is "pretextual"), *cert. denied*, 523 U.S. 1094 (1998).

13. *See Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 666 (1944) ("The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.").

14. 540 U.S. 398 (2004).

15. *Id.* at 407, 414-15.

16. *Id.* at 408.

in which the IP owner would have had less of an incentive to innovate because he could not be assured of the right to refuse to license. Would that IP owner have chosen to innovate less? If so, would competition or consumer welfare have been better off with the present state of affairs, including the right to refuse? In the *short* term, it will always be more efficient to disregard the IP right and allow duplication. The IP system rests on the idea of *long*-term innovation incentives, so we must think about the long-term effects of a rule imposing liability in this context. That is entirely consistent with antitrust policy related to exclusionary conduct, which also focuses on dynamic competition and long-term effects. Where we cannot reliably predict the effects of enforcement decisions, false positives are likely, and the increased uncertainty itself will raise costs to businesses and enforcers.

It is useful to remember that the creation of intellectual property tends to add to consumer choices, rather than to reduce them. The development of intellectual property for new technological solutions usually does not cause older solutions to be withdrawn from a marketplace; instead, it increases competition, which tends to erode the prices of the old solutions over time, increasing choice and consumer welfare. Of course, a patent sometimes issues for an obvious or previously-known solution to a problem, but such a patent should be invalidated, and the proper remedy is to seek invalidation under the patent laws.

Does this mean that the policy on unilateral refusals conflicts with EU law as stated in *IMS Health*?[17] At this time, that it is difficult to tell. The European Court of Justice decision, issued a year ago, began by stating that a refusal to license a copyright "cannot in itself" constitute an abuse of a dominant position. That seems to match the U.S. view on unilateral refusals to license. But the court added that liability might occur if: (1) the refusal prevents the emergence of a new product for which consumer demand exists; (2) the refusal is not justified by any objective considerations; and (3) the refusal excludes competition in a "secondary market." It is not clear how these three factors will be interpreted, or whether the same reasoning would apply to other contexts such as a refusal to license a patent. (Some have observed that the IP right asserted in *IMS* was relatively weak, and that the lack of a unified European system of IP rights may explain differing attitudes toward antitrust liability in this context.) It will be interesting to see how the *IMS Health* decision is applied, for example in the *Microsoft* appeal. While the Justice Department required Microsoft to make certain IP available to its competitors as part of the agreed *remedy* for antitrust violations, the European Commission imposed *liability* for the failure to make IP available. It will be up to the Court of First Instance to determine whether this was permissible under EU law.

• "Excessive" Royalties in Standard Setting and Beyond

The Antitrust Division sometimes hears complaints about demands for large royalties. Most frequently, although not always, the complaints arise in the context of a technical standard. According to the complainants, one or more patent holders can "hold up" licensees by waiting until participants are locked into the standard, then charging an allegedly "excessive" royalty for patents that cover the standard. The U.S. Federal Trade Commission has brought antitrust enforcement actions related to this issue in two recent cases, *Rambus* and *Unocal*. Both cases are ongoing.

Bringing a complaint to the Antitrust Division about "excessive" royalties, without

17. *See IMS Health GmbH & Co. OHG*, Case C-418/01 (April 29, 2004) at ¶¶ 34, 38, 53, *at* http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=en&numdoc=62001J0418.

more, is a losing strategy. Antitrust enforcers are not in the business of price control. We protect a competitive process, not a particular result, and particularly not a specific price. In fact, if a monopoly is lawfully obtained, whether derived from IP rights or otherwise, we do not even object to setting a monopoly price. A high patent royalty rate, after all, might just reflect that the Patent Act is functioning correctly and the market is rewarding an inventor for a pioneering invention. When a complainant begins a presentation by telling the Antitrust Division that a royalty rate is "excessive," the staff responds that the complainant is putting the cart before the horse. A complaining party must first identify some anticompetitive conduct beyond a mere unilateral refusal to license and beyond the mere attempt to charge, where a lawful monopoly exists, a monopoly price.

Many situations of standard setting "hold up" can be mitigated by disclosure in the ex ante phase, before the standard is set. For example, if all participants are required to disclose their financial interest in any version of the standard–including any patents they own or are seeking on the technology–other participants can adjust their behavior accordingly. If a participant agrees to disclose but then fails to do so, it can be liable for breach of contract or fraud. Such liability would hinge on a pattern of breaches, frauds, or other unlawful conduct. If antitrust liability is also contemplated, it would require, in addition, proof of market effects.

Increasingly, standards development organizations are requiring "reasonable and non-discriminatory" (RAND) licensing, which is a partial solution. A difficulty of RAND, however, is that the parties tend to disagree later about what level of royalty rate is "reasonable." It would be useful to clarify the legal status of ex ante negotiations over price. Some standards development organizations have reported to the Department of Justice that they currently avoid any discussion of actual royalty rates, due in part to fear of antitrust liability.[18] It would be a strange result if antitrust policy is being used to prevent price competition. There is a possibility of anticompetitive effects from ex ante license fee negotiations, but it seems only reasonable to balance that concern against the inefficiencies of ex post negotiations and licensing hold up. It is interesting to note that the EU licensing guidelines already address this point: in their Paragraph 225, the guidelines state that firms normally should be allowed to negotiate royalty rates before a standard setting effort, as well as after a standard is set.

Barriers to discussing licensing rates may not be entirely law-related. Some standard setting participants do not want the distraction of considering licensing terms. Engineers and other technical contributors may prefer to leave the lawyers at home and limit discussions to technical issues alone. So there may be powerful incentives to keep the status quo. If that is the case, this may be yet another area where the outcomes can be imperfect but antitrust does not provide a solution.

• Compulsory Licensing

Compulsory licensing is another place where enforcers need to be fully aware of antitrust's limitations.[19] Licensing can be an effective remedy in some contexts; for example, for merger cases, it can serve as a less drastic alternative to a divestiture. But

18. Standards development organizations have identified *Sony Electronics, Inc. v. Soundview Technologies, Inc.*, 157 F. Supp. 2d 180 (D. Conn. 2001), as a case that raises the possibility of antitrust liability for ex ante negotiations. In that decision, a district court refused to dismiss an antitrust claim based on the allegation that standards-setters made a group decision, after a standard had been adopted, to refuse to license a patent and to sue to have the patent invalidated. Although the court refused to dismiss the antitrust claim in an initial pretrial ruling, it later dismissed the claim when the patent was found to be invalid.

19. *See* Makan Delrahim, *Forcing Firms to Share the Sandbox: Compulsory Licensing of Intellectual Property Rights and Antitrust*, address before the British Institute of International and Comparative Law (May 10, 2004), *at* http://www.usdoj.gov/ atr/public/speeches/203627.pdf.

in the first instance, there must be conduct that warrants a remedy–licensing is only a remedy, not a liability theory. And there are practical reasons to tread carefully when considering compulsory licensing: designing and enforcing such licenses is complex and can be an invitation to endless ancillary compliance litigation. As explained in the *Trinko* case, an enforcement agency should not impose a duty to deal that it cannot reasonably supervise, since this risks assuming the day-to-day controls characteristic of a regulatory agency. For these and other reasons, compulsory licensing of intellectual property as an antitrust remedy should be a rare beast.

•"Excessive Patenting" and Patent Enforceability

There has been much talk in recent years, and perhaps worldwide, about whether there is a problem of "excessive patenting," meaning patents being granted too easily or in too great a number. Of course, it is the job of the U.S. Patent and Trademark Office in the Department of Commerce–not the Department of Justice–to make and regulate awards of patent rights. The PTO has mechanisms for reconsidering specific patents and hearing complaints about the patent system as a whole, and it employs untold hundreds of patent experts. The Federal Trade Commission, an independent agency, has issued a useful report on possible improvements to the patent system.[20] The National Academies have also issued a report.[21]

It is open to question whether antitrust analysis, which is specific and effects-based, can be applied to a question as broad as "excessive patenting." To know whether patenting is excessive, we would first have to make a conclusion about the "but-for" world. If fewer patents were granted, would innovation have decreased? Would firms have reduced their research and development in areas that currently are covered by patents, and would the result have been fewer benefits for consumers? Antitrust enforcement is not well suited to answering such questions. These questions should be directed, instead, to the patent authorities or to legislators.

Of course, this point must not be overstated. Part of the patent system is court review of patent enforceability.[22] In the appropriate case the Antitrust Division will examine enforceability and, if necessary, challenge the validity or scope of a patent as part of an antitrust claim. This is not necessary where a patent-related practice will be lawful (or at least, does not violate the antitrust laws) or unlawful regardless of the patent's enforceability. But if the conduct would have violated the antitrust laws in the absence of patent rights, is difficult to address fundamental questions about the but-for world–here, meaning the world that would have existed without the allegedly anticompetitive patent-related practice–unless one knows whether the patent owner could have won an infringement claim. If the patent is valid, all entry before its expiration is a competitive "gift," but if it is invalid, any delay in entry due to threatened patent enforcement is a competitive harm. Just three months ago, an appellate court asserted this need to examine the but-for world in a case involving the antitrust analysis of a patent settlement. According to the court, it is impossible to measure a patent settlement's effect on competition unless one first makes a conclusion about the validity and en-

20. FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), *at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf.

21. NATIONAL ACADEMY OF SCIENCES, A PATENT SYSTEM FOR THE 21ST CENTURY (2004), *at* http://books.nap.edu/catalog/ 10976.html.

22. Although the terms are often used interchangeably, "enforceability" is a broader concept than "patent validity." Patents may be unenforceable against a particular alleged infringer for many reasons, including lack of validity, lack of infringement, fraud in the procurement of the patent, misuse, and other inequitable conduct.

forceability of the patent.[23] A petition for rehearing in that case is pending.

• IP Rights and Market Power

Last on my list of specific issues is the concept of market power. Intellectual property cannot be *presumed* to establish market power. While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

In the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question. Interestingly, however, there is still some debate in courts that decide private party antitrust claims. In the January 2005 case *Independent Ink*,[24] the Federal Circuit–which handles all direct patent appeals in the United States–held that Supreme Court precedent[25] compelled it to conclude that a patent *does* raise a presumption of market power in an IP tying case. But even the Federal Circuit disagreed with the presumption; in fact, the Federal Circuit's opinion invited the Supreme Court to reverse. The patentees in this case filed a petition for Supreme Court review. If the Supreme Court agrees to take the case, it would provide a good opportunity to settle the question once and for all.

Many other IP issues arise at the competition law interface. With respect to patent pools, the Antitrust Division has issued several "Business Review Letters" analyzing proposed licensing arrangements.[26] Package licensing, bundling, and tying all receive some coverage in our *Guidelines*. Our general approach is to avoid rigid tests and instead rely on a review of the likely economic effects to the marketplace as a whole, both in the short term and over the long term, factoring in incentives for procompetitive innovation. Both IP law and competition law seek to maintain dynamic, robustly innovative markets far into the future, and to that end they properly are willing to tolerate–or rather, offer the inducement of–a degree of private reward and market power in the present day.

IV. Conclusion

We have made great strides in the United States in bringing sound economics to the antitrust analysis of intellectual property. Europe is doing the same with the newly revised Technology Transfer Block Exemption and its accompanying licensing guidelines, both of which embrace an effects-based analysis for licensing transactions.[27] We have experienced significant international convergence in this area and we have every reason to expect more of the same. While some differences remain between the U.S., the EU, and our other important trading partners, the general trend toward convergence is continuing.

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23. *See Schering-Plough Corp. v. Federal Trade Commission*, 402 F.3d 1056 (11th Cir. 2005).

24. *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 396 F.3d 1342 (Fed. Cir. 2005).

25. *See, e.g.*, *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 16 (1984); *International Salt Co. v. U.S.*, 332 U.S. 392 (1947).

26. Letter from Joel I. Klein, Assistant Attorney General, U.S. Dep't of Justice, to Carey R. Ramos, Esq. (June 10, 1999), *at* http://www.usdoj.gov/atr/public/busreview/2485.pdf; Letter from Joel I. Klein, Assistant Attorney General, U.S. Dep't of Justice, to Garrard R. Beeney, Esq. (Dec. 16, 1998), *at* http://www.usdoj.gov/atr/public/busreview/2121.wpd; Letter from Joel I. Klein, Acting Assistant Attorney General, U.S. Dep't of Justice, to G[a]rrard R. Beeney, Esq. (June 26, 1997), *at* http://www.usdoj.gov/atr/public/busreview/1170.wpd.

27. *See* Commission publications regarding the TTBE and guidelines at http://europa.eu.int/comm/competition/antitrust/legislation/entente3_en.html#technology.

QUESTIONS

1. Assume that France, without disapproval by European Union authorities, has sought to give strong research and development support to one of its recently nationalized firms, a (mythical) biotechnology firm, DNA, S.A. which has long sold yeasts and fermentation equipment worldwide. Under what appears to be French policy, this firm is given special R & D funds (in spite of the fact that it has not been making a profit), and French purchasers are informally encouraged to deal with it rather than with competitors. Moreover, the firm itself, which has a French monopoly on certain key winemaking components, has begun to discourage members of the French wine industry from dealing with others. Your client, Yeastco, has been developing processes for genetic manipulation of wine yeast, and has research laboratories in both California and France. The client has just told you, however, that the French research laboratory is facing difficulties, which the client suspects derive from actions of DNA. Key employees are leaving, and it has suddenly become impossible to obtain sample research materials from French vineyards. This problem is serious, because Yeastco was hoping to build components of French yeasts into its yeast used for markets in other nations. What actions would you advise? Suppose that so far it is only your firm's sales in France and ability to do research for world-wide markets that have been hurt.

2. A number of developed states have a breeders' rights system, and the seed industries of these states will accordingly not release their seeds for use without appropriate compensation. Does it follow that states (typically LDCs) that are the source of wild varieties should not permit export of these varieties without compensation? Should developing states enact a breeders' rights system? *See* John H. Barton, *The International Breeder's Rights System and Crop Plant Innovation*, 216 SCIENCE 1071 (1982).

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