The FTC v. Xerox Litigation: Implications for the United States Patent System

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Today, the United States patent system accurately echoes the characterization of a patent jurist as one that is "often overlooked, misunderstood, maligned in some quarters and occasionally in distress." As if to render this statement unimpeachable, the Federal Trade Commission issued a complaint against Xerox Corporation on January 29, 1973, alleging violations of section 5 of the Federal Trade Commission Act. A proposed consent decree which would end the litigation has recently been submitted to the Commission. While the proposed decree, dealing primarily with issues of patent


2. Xerox Corp., [1970-1973 Transfer Binder] TRADE REG. REP. ¶ 20,164, at 22,151 (FTC, filed Jan. 31, 1973). Wherever possible, the complaint has been cited to the excerpt found in the CCH reporting service. Where the author has relied upon portions of the complaint which do not appear in the CCH excerpt, the official citation is given.


4. The consent decree, signed October 5, 1974, represents an agreement reached during pre-hearing negotiations between Xerox and counsel for the Commission. The parties to the agreement will apply to the Commission for the withdrawal of the case from adjudication pursuant to section 2.34(d) of the Commission's rules. If the Commission accepts the agreement, it will become part of the official record of the proceeding and will be placed on the public record for sixty days. The Commission may withdraw its acceptance after the sixty day period if within the subsequent thirty days comments submitted by the public disclose facts or considerations in light of which the proposed order is inadequate. At any time prior to final acceptance of the order the Commission may require hearings regarding the appropriateness of the proposed relief. The agreement states that it cannot be construed as an admission by Xerox that it has acted illegally. Consent order procedure is set out in 16 C.F.R. §§ 2.31-35 (1974).

The consent decree calls for less remedial action on the part of Xerox than the Notice of Contemplated Relief filed with the Commission's complaint. See Xerox Corp., No. 8909 (F.T.C., filed Jan. 31, 1973). Among the provisions of the proposed consent decree most relevant to the issues discussed in this article are:

First, Xerox must grant, upon written request, a nonexclusive license under any of its office copier patents. In a number of cases, the license may be royalty-free; where it is not, Xerox will be permitted to charge a royalty of \( \frac{1}{2} \% \) of the revenue realized
licensing, will, if adopted, settle the specific dispute between the Commission and Xerox, the complaint raises serious issues for patent and antitrust law which must, at some future date, be resolved. The complaint's allegations provide a convenient starting point for this analysis of several existing shortcomings of the patent system.

I. THE COMPLAINT

Among other things, Xerox has been charged with engaging in certain acts, practices and methods of competition relating to patents, with possessing monopoly power in the sale and lease of office copiers (the relevant market) and in the sale and lease of plain paper copiers (the relevant submarket). The ten broad allegations of patent misuse set forth in paragraph 14 from sale or lease of the product for each Xerox patent utilized in production, the total charge not to exceed 1½% of such revenue. There is provision for a three-year postponement of licensing under patents involved in the production of certain types of office copier equipment. Existing licensees will be able to take advantage of the provisions of the proposed order.

Second, for a reasonable charge, Xerox must provide a licensee with know-how, including written clarifications. Xerox may insist that its know-how be protected as a trade secret, and will be under no obligation to disclose after five years from the date of the final order.

Third, licensees of Xerox can be required to grant nonexclusive licenses to Xerox under their own office copier patents. Most licenses granted to Xerox will be subject to licensing upon request of any Xerox licensee or any person eligible to become a Xerox licensee.

Fourth, for a period of ten years following the date of the final order, Xerox will be barred from acquiring any patents or exclusive licenses on office copier products except in cases where it has participated in or sponsored research, and will be barred from acquiring companies that manufacture or develop office copiers.

For a more detailed explanation of the decree, see 199 BNA PAT., T.M. AND COPYRIGHT J. A-4 (Oct. 17, 1974). The complete text of the decree appears in id. at D-1.

5. The Commission charges in paragraph 13 of the complaint that Xerox has the power to inhibit, frustrate and hinder effective competition among firms participating in the relevant market. Xerox Corp., [1970-1973 Transfer Binder] TRADE REG. REP. ¶ 20,164, at 22,151-52 (FTC, filed Jan. 31, 1973). In paragraph fifteen, the corporation is alleged to have acquired a 51% interest in Rank Xerox, a United Kingdom corporation jointly organized by Rank Organization and Xerox Corporation for the purpose of manufacturing and distributing office copiers throughout the world except the United States, its territories and possessions, and Canada. In paragraph sixteen, the Commission charges that Xerox has engaged in such practices for the purposes of monopolizing the relevant market and submarket while preserving, maintaining and furthering a highly concentrated market structure with high barriers to entry while hindering, restraining, foreclosing and frustrating competition in the relevant market and submarket. Id. at 22,152.

6. Id. ¶ 14.

7. Id. ¶ 26, at 22,151. Figures which demonstrate this domination were cited in the FTC complaint, Xerox Corp., No. 8909 (F.T.C., filed Jan. 31, 1973). In 1971,
of the complaint, as well as the relief sought, form the subject matter of this article. The complaint is not a model of clarity as to these allegations, since they are couched in broad and conclusory language. Nor is it possible to

Xerox's total revenues were about $2 billion, its net income after taxes was approximately $213 million and its total assets were about $2.2 billion. Id. ¶ 3. In that same year, industry revenues from the sale and lease of office copiers were about $1.1 billion and total revenues from the sale and lease of office copiers and supplies were approximately $1.7 billion. Id. ¶ 9(a). Xerox accounted for more than 85% of the former and 60% of the latter. 1971 industry revenues from the sale and lease of plain paper copiers and supplies were about $1 billion, with Xerox accounting for approximately 95% of these revenues. Id. ¶ 19(a). Of the approximately twenty-five firms presently engaged in the office copier market, twenty-three sell or otherwise distribute plain paper copiers. Id. ¶ 9(b). After Xerox, the next largest firm in the office copier market accounted for only 10% of the 1971 revenues from the sale or lease of office copiers and the sale of supplies. Id. ¶ 9(b).

8. The ten patent misuse allegations in paragraph 14 of the complaint are:
   (a) monopolizing and attempting to monopolize patents applicable to office copiers,
   (b) maintaining a patent barrier to competition by attempting to recreate a patent structure which would be equivalent in scope to expired patents,
   (c) developing and maintaining a patent structure of great size, complexity, and with obscure boundaries,
   (d) using its patent position to obtain access to technology owned by actual or potential competitors,
   (e) entering into cross-license arrangements with actual or potential competitors,
   (f) including in licenses under United States Patent Number 3,121,006 provisions having the effect of limiting licensees to the manufacture and sale of only coated paper copiers,
   (g) offering patent licenses applicable to plain paper copiers with provisions which, in effect, limit the licensee to the manufacture or sale of low speed copiers,
   (h) including in patent licenses provisions having the effect of precluding the licensee from utilizing Xerox patents in the office copier market,
   (i) entering into and maintaining agreements with Battelle Memorial Institute, Inc. and Battelle Development Corporation . . . pursuant to which Battelle is required to convey to Xerox all patents, patent applications, and know-how coming into its possession relative to xerography,
   (j) preventing actual and potential competitors from developing plain paper copiers while permitting them to develop coated paper copiers.


9. Understandably, Xerox Corporation filed a motion for a more definite statement of the complaint in order to obtain the facts supporting the complaint's allegations. Xerox requested the Commission to enumerate the patents which it is accused of monopolizing and attempting to monopolize as well as the conduct alleged to amount to such monopolization and attempted monopolization. The Commission was also asked to explain how Xerox attempted to recreate a patent structure equivalent in scope to expired patents, to specify which patents are within the structure and which unexpired patents are involved, and, finally, to define the phrases "obscure boundaries" and "provisions which, in effect, limit," two phrases used in subparagraphs (c) and (g) respectively of paragraph 14 of the complaint. See note 8 supra.
fathom with any degree of certainty whether each of the patent misuses charged constitutes a separate violation of section 5, or if all the allegations, when coupled with the other allegations\textsuperscript{10} in the complaint, are charged as a single, aggregate violation.\textsuperscript{11} From what has already taken place, however, it does appear that at least certain of the patent misuse allegations,\textsuperscript{12} according to the Commission's theory, are separate section 5 violations.

It will also be of some interest to examine the nature of the relief sought in the way of compulsory patent licensing, especially since the Commission, for the first time, seeks to impose royalty-free licensing as a remedy.\textsuperscript{13} At a time when the value of the patent system has come under examination,\textsuperscript{14} and a variety of corrective legislation has been introduced in Congress\textsuperscript{15} to bring it in phase with modern conditions, the Xerox litigation has even more serious and far-reaching overtones with respect to the nature of the alleged patent misuses. It is important to recognize the root causes of the various challenged practices, for only in this way can the bases for misuse be purged and confidence in the patent system be restored in those who feel most threatened by the Commission's action.\textsuperscript{16}

II. THE CONTEMPLATED RELIEF

In the Notice of Contemplated Relief accompanying its complaint, the

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  \item \textsuperscript{11} The Federal Trade Commission has not yet made clear the direction in which it is headed. However, it has taken the position that Xerox has monopolized the market through many interrelated practices and that even if Xerox's market power does not reach monopoly proportions it has still created the maintenance of a highly concentrated market structure with high barriers to entry, see id. ¶ 16(b), at 22,152, and inhibited and frustrated competition, see id. ¶ 16(c).
  \item \textsuperscript{12} See id. ¶¶ 14(a), (b), (f) and (g), at 22,152.
  \item \textsuperscript{13} The Commission is seeking royalty-free licensing of trademarks in the cereal industry case. See Kellog Co., 3 TRADE REG. REP. ¶ 19,898, at 21,915 (FTC, filed April 26, 1972).
  \item \textsuperscript{14} See, e.g., WHITE HOUSE TASK FORCE REPORT ON ANTITRUST POLICY (NEAL REPORT), 115 CONG. REC. 1389 (1969); REPORT OF THE PRESIDENT'S COMMISSION ON THE PATENT SYSTEM, TO PROMOTE THE PROGRESS OF THE USEFUL ARTS, S. Doc. No. 5, 90th Cong., 1st Sess. (1967).
  \item \textsuperscript{16} The Chairman of Xerox's Board of Directors is reported to have said that he "can't help but regard this as an onslaught on the whole basis of America's free-enterprise system." \textit{Fortune}, Jan. 1973, at 28. The role played by patents, among other things, in bringing about the technological and market dominance in the general purpose digital computer industry is also under attack in United States v. IBM, No. 69 Civ. 200 (S.D.N.Y., filed Jan. 17, 1969).
\end{itemize}
Commission seeks two forms of compulsory licensing: reasonable royalty licensing for office copier patents obtained during a twenty year period following the date of the Commission's final order and royalty-free licensing for all of Xerox's existing office copier patents and pending applications.

A. Reasonable-Royalty Licensing

Although Congress' power to enact compulsory patent licensing legislation has come under question at various times on fifth amendment grounds, it is now well established that a court has the power to apply this sanction for violations of the antitrust laws as well as the power to withhold injunctive relief against infringement where the granting of such relief will be adverse to the public welfare. Sanctions in the form of compulsory licensing, though drastic, are not unknown for violations of the antitrust laws; indeed, such relief is often the basis of antitrust consent decrees.

The power of the Commission to order reasonable-royalty compulsory


licensing was established in *American Cyanamid Co. v. FTC*\(^2^3\) as a remedy for violations of section 5. Where antitrust violations are found, and this includes violations of the Federal Trade Commission Act which "may be construed in pari materia with the Sherman and Clayton Acts,"\(^2^4\) remedies aim to cure the consequences of unlawful conduct and restore effective competition.\(^2^5\) When patents are involved in these violations, reasonable-royalty compulsory licensing is appropriate even though the exclusive nature of the patent grant is destroyed.\(^2^6\)

Although the twenty year reasonable-royalty period sought in *Xerox* for all patents obtained during that time is unprecedented, an analogous sanction was applied against the defendant in *United States v. General Motors Corp.*,\(^2^7\) where General Motors was required to license any patents issued to it during the five years following the entry of final judgment on a royalty-free basis for the first five years following the date of issuance and at reasonable royalties thereafter, in addition to being required to license already-existing patents on a royalty-free basis for the duration of their term.\(^2^8\)

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23. 363 F.2d 757 (6th Cir. 1966).
24. *Id.* at 770.
26. *See id.* In a non-remedial sense, Congress has also seen fit to provide for limited compulsory licensing in the Atomic Energy Act of 1954, 42 U.S.C. § 2183 (1970), with respect to any patent declared to be "affected with the public interest" if it "is of primary importance in the production or utilization of special nuclear material or atomic energy," and also in the National Air Quality Standards Act of 1970, 42 U.S.C. § 1857h-6 (1970), with respect to any pollution-abating patent to which there are no reasonable alternative approaches.

It has been suggested that any form of compulsory licensing encourages parasitic copying of patented inventions in a world where few patents dominate a market in a manner which precludes competing products, patented or otherwise. *See, e.g.*, Sease, *Common Sense, Nonsense and the Compulsory License*, 55 J. PAT. OFF. SOC'Y 233, 251 (1973). According to this argument, this will in turn encourage the utilization of trade secrets, a result contrary to the goal of the patent system—to encourage the disclosure and public use of ideas. *See Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1258 (6th Cir. 1972).

27. 1965 Trade Cas. ¶ 71,624, V at 81,807-09 (I) (E.D. Mich).
28. *Id.* at 81,807. Compulsory licensing can also take the form of dedication of rights to the public, in which the patentee is permanently deprived of all rights in the patent. Such relief can be employed where requiring small competitors to pay merely reasonable royalties could serve to prevent them from competing in a market controlled by the patent owner. *See, e.g.*, United States v. Greyhound Corp., 1957 Trade Cas. ¶ 68,756, at 73,089 (S.D. Ill.); United States v. Magnaflux Corp., 1957 Trade Cas. ¶ 68,707, at 72,860 (N.D. Ill.). However, this form of compulsory licensing is more drastic than royalty-free licensing, where the patent owner retains title to the patent grant and at some later time may be able to obtain a modification of the decree such as a
There are, of course, inherent problems and administrative difficulties in ordering reasonable-royalty compulsory licensing. These problems include the difficulty of determining what a reasonable royalty is for the particular patent in the particular industry involved. Moreover, today's reasonable royalty is not necessarily tomorrow's reasonable royalty and, therefore, the parties may have to return for a modification of the decree. However, as a body with administrative expertise, the Commission is probably in a better position to oversee such a remedy than are the courts or the Department of Justice.

Inasmuch as there is no affirmative duty on the part of anyone to seek patent protection for an invention, the length of time during which Xerox will be compelled to license all competitors at reasonable royalties if the FTC is successful raises the problem that, where possible, Xerox will maintain proprietary rights in its inventions by seeking to keep them as trade secrets. If that occurs, neither the remedial purpose of the relief, nor the purpose of the patent system to encourage public disclosure and use of inventions will be realized.

B. Royalty-Free Licensing

The question of the Commission's power to order royalty-free compulsory licensing in Xerox is not so easily answered, especially since the Sixth Circuit in American Cyanamid specifically refrained from holding that the Commission could order compulsory licensing without payment of reasonable royalties. As a practical matter, however, the Commission could establish a royalty at so minimal a value as to amount to royalty-free compulsory licensing. From an administrative point of view, royalty-free licensing is certainly conducive to easier application by the Commission, the Justice Department and the courts since they are not then burdened with the determination of "reasonable" royalties. Putting aside a possible constitutional prohibition of royalty-free compulsory licensing, the Commission's power to order such relief where absolutely necessary to remedy unfair methods of competition would certainly be consonant with the wide discretion which it has exer-
cised and which the Supreme Court has recognized is necessary in choosing a remedy which bears a reasonable relationship to the practice sought to be corrected.\textsuperscript{82}

However, this form of remedy has been looked upon as penal rather than remedial,\textsuperscript{33} and the Supreme Court has avoided its use where less drastic measures such as reasonable royalty mandatory licensing will remedy antitrust violations.\textsuperscript{34} And while it may be true that royalty-free mandatory licensing is less severe than dedication of patent rights to the public, a reviewing court may find that the Commission exceeded its sound discretion in ordering royalty-free licensing of all of Xerox's existing patents\textsuperscript{35} unless it can be shown that even requiring Xerox's competitors to pay a reasonable royalty would serve to keep them from competing in the market dominated by Xerox.\textsuperscript{36} Considering that Xerox's competitors include IBM, RCA and Bell and Howell, and the magnitude of the confiscation of some 1,200 Xerox patents if royalty-free licensing were ordered, the Commission may find it a difficult burden to show a compelling need for this remedy.

At the same time, the wisdom of requiring even reasonable-royalty licensing of all of Xerox's future office copier patents for a twenty year period is also questionable, since this may actually put Xerox at a competitive disadvantage with a huge and well-financed competitor such as IBM. It could also have a chilling effect on Xerox's research and development efforts because the company would be forced to shoulder the cost of probable research and development failures while having to share its successes with competitors. Moreover, relief on such a grand scale might also provide Xerox with the incentive to adopt the trade secret route wherever possible and thus in the long run work contrary to the goal of the patent system.

Whatever the ultimate relief granted in Xerox, and whatever may be determined concerning the power of the Commission to order royalty-free compulsory licensing even in an appropriate situation, the allegations of patent


\textsuperscript{33} See ATTORNEY GENERAL'S REPORT 256.


misuse raised in paragraph 14 of the complaint present far more fundamental problems that currently affect the patent system and will remain unsolved by the ad hoc nature of the relief ordered, no matter how stringent. To be sure, Xerox could establish some severe anti-patent law and remedial action that could temporarily affect a number of enterprises chargeable with similar misuses, which might have the effect of “giving religion” to those who would seek to manipulate the patent system. But Xerox may yet be for the patent bar an even greater blessing in the form of another critical opportunity to observe the ways in which the patent system is malfunctioning and provide some safe, quick and effective cures for bringing about its recovery. It is to these particular problems that the remainder of this article is directed.

III. Patent Monopolization as an Outgrowth of the Administration of the Patent Laws

A. The Patent System’s Goal—Adding to the Sum of Useful Knowledge

Establishing the raison d’être for the patent system is the necessary starting point on the road to determining if and how the patent conduct alleged in Xerox to transgress section 5 of the Federal Trade Commission Act frustrates that purpose. The United States Constitution grants to the Congress the power

[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .

Although the constitutional clause is terse, its meaning, and the mode by which the progress of the useful arts is to be promoted, have given rise to much discussion over the years. In fairly recent times, the Supreme Court, in Graham v. John Deere Co., found the clause to be “both a grant of


power and a limitation” which had been written in light of earlier experiences in England where monopolies were granted in goods and businesses that had been in possession of the public, a practice which was later curtailed.\textsuperscript{41} The standard expressed in the Constitution requires that only things that add to the “sum of useful knowledge”\textsuperscript{42} are subject to exclusive rights but that not necessarily all desirable work in the useful arts is patentable.\textsuperscript{43}

**B. The Patent System's Incentive**

It requires no citation of economic authority to show that we live in a world completely different from that inhabited by the drafters of the Constitution. Our society is one in which technological capability seems to be exponentially increasing.\textsuperscript{44} As this rapid change has taken place it has also been generally acknowledged that the chief recipient of the patent system's benefits is no longer the independent inventor but the large enterprise having sophisticated and organized research and development departments.\textsuperscript{45} A concomitant is that corporations rather than independent inventors have taken the lead in affording themselves the ownership of patent properties,\textsuperscript{46} even though there

\begin{itemize}
\item \textsuperscript{41} Id. at 5.
\item \textsuperscript{42} Id. at 6.
\item \textsuperscript{43} See Clark, The Patent System Deserves Clean Hands, 1 AM. PAT. L. ASS’N Q.J. 9 (1972).
\item \textsuperscript{44} See, e.g., A. TOFFLER, FUTURE SHOCK (1972). If the last 50,000 years of man’s existence are divided into lifetimes of about sixty-two years each, then there have been 800 such lifetimes. Of these, the first 650 lifetimes were spent in caves. Only during the last seventy lifetimes has it been possible to do the communicating from one lifetime to another which writing made possible. Only during the last six lifetimes did man see the printed word. Only during the last four lifetimes has it been possible to measure time with any precision, and only in the last two lifetimes has anyone anywhere used an electric motor. The overwhelming majority of all material goods used today in daily life have been developed in the 800th lifetime. Id. at 13-14.
\item \textsuperscript{45} There are other ways of showing the accelerated rate of technological growth. For instance, the invention of the horse collar in the Middle Ages led to major changes in agricultural methods and was as much a technological advance as the invention of the Bessemer furnace centuries later. Id. at 25. 90% of all the scientists who ever lived are alive today. Id. at 27. Since the beginning of the twentieth century, more than 60% has been cut from the average time needed for a major scientific discovery to be transformed into a useful technological form. Id. at 28.
\item \textsuperscript{46} See President Richard M. Nixon, Message to the Congress Proposing Enactment of the Patent Modernization and Reform Act of 1973, 9 PRES. DOC. 1198 (1973).
\item \textsuperscript{47} A somewhat dated study of patent ownership confirms this fact. See Staff of the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary, 85th Cong., 1st Sess., Distribution of Patents Issued to Corporations, 1939-1955 (Comm. Print 1957). Of the total number of patents issued between 1939 and 1955, corporations accounted for over 58% and individuals 40%. Id. at 3. During that seventeen-year period, 394 corporations had 100 patents or more issued to each of them, and of these corporations, thirty-eight were issued over 1000 patents. Id.
is some empirical evidence that the patent system still works to the advantage of independent inventors.\textsuperscript{47}

The question concerning the developing role of the patent system becomes whether the incentive provided by the first patent law, which was directed at industrial inventors in small-scale enterprises, persists today in a technoeconomy comprised of large scale enterprises with organized research operations. If the incentive is not now the same, it is important at least to learn how it is different and if it deserves the same ambit of protection that was originally afforded to garret operations. This latter point is especially significant in light of the antitrust laws which surround the patent law in a seemingly ever-vigilant watch. One thing is clear from the changed circumstances. The existence of the patent system and the exclusive protection extended by the patent laws\textsuperscript{48} provide little or no incentive to creative activity by the engineer or scientist employed by a large corporation as a member of its research arm. For these people it is prestige, organizational status and research budgets that spur inventive work.\textsuperscript{49} It thus becomes readily apparent that if the patent system provides any incentive at all, the incentive is provided to a class of persons other than inventors.

In the case of the individual inventor or small company, the patent system obtains public disclosure of inventions by granting exclusive rights for limited periods of time.\textsuperscript{50} To the small manufacturer this may be extremely helpful in that he can increase sales of a product on the basis of patented improvements rather than price, thereby overcoming the handicap of small volume and high cost.\textsuperscript{51} Patent protection permits him to get back initial expenses before competitors start copying the article.\textsuperscript{52} In discussing this dichotomy of classes seeking the benefits of the patent system, a distinction must also be made between the terms “invention” and “innovation.” In simpler times


\textsuperscript{50} 35 U.S.C. § 154 (1970) provides for a patent term of seventeen years during which time the patentee, his heirs or assigns have the right to exclude others from making, using or selling the invention throughout the United States.


\textsuperscript{52} See id. at 30.
invention and innovation might have been nearly synonymous; but, as technology has grown more complex and products more sophisticated, a gap has developed between invention, in the form of conceiving an idea and showing it is workable, and innovation, as the task of bringing the invention into the marketplace. In today's world, it is the innovative step that makes measurable and significant contributions to increases in the gross national product (GNP) and it is the companies committed to innovative effort that have grown at a rate far in excess of that of the GNP.

In asserting that the goal of the patent system is to provide incentives to "invest, disclose, develop and invest risk capital" on research and development, the patent bar goes far beyond any incentive to invent or to disclose the invention to the public in return for exclusive rights. Such a broad-based incentive seeks also to include the entrepreneurs and others with risk capital to invest and the myriad of other corporate personnel in a well-developed organization who painstakingly produce a commercial product from a crude conception. When considered in this scope, the incentive provided by the patent system to these classes of personnel appears illusory and the need for technological innovation appears to be more realistically stimulated by the fear of product obsolescence in rapidly changing markets.

Yet patent lawyers continue to assume—as if there were absolutely no evidence to the contrary—that the patent system exists not merely to encourage inventive effort and make the results available to the public but also to encourage speculative investment in the first instance and continued investment in inventive effort in an established business that modern research and development.

53. As used in the patent law, the term "invention" means the conception of an idea and an actual or constructive reduction to practice, even though this reduction to practice does not necessarily result in a commercial product. See, e.g., Cody v. Aktiebolaget, 452 F.2d 1274, 1283 (D.C. Cir. 1971), cert. denied, 405 U.S. 990 (1972). Even when used in this sense, "invention" and "innovation" are not synonymous.

54. See PANEL ON INVENTION AND INNOVATION OF THE SECRETARY OF COMMERCE, TECHNOLOGICAL INNOVATION: ITS ENVIRONMENT AND MANAGEMENT 2 (1967) [hereinafter cited as PANEL ON INVENTION REPORT].

55. See id. at 3-5. During the period from 1945 to 1965, the average annual growth of the GNP was 2.5%. In the same period, Polaroid Corporation had an average annual net sales growth of 13.4%, IBM had a growth of 17.5% and Xerox Corporation had a growth of 22.5%. Industries involved with "displacement innovations," i.e., those which displace existing products or processes, do not have the dramatic results attained by a company such as Xerox. See id.


57. See A. TOFFLER, supra note 44, at 67. In the pharmaceutical and electronic fields, for example, the rate of product turnover is often as short as six months. Id. at 71-72.
development and product success supposedly demands. Although there is little, if any, economic support of either this or the contrary view, a common-sense approach to the matter dictates that decisions relating to the creation of inventions or the introduction of new or improved product lines are too speculative and risky to be affected significantly by future events such as the likelihood of success in obtaining meaningful patent protection or the ability to utilize a patent in an effective manner against competitors. Competition has traditionally involved rivalry among manufacturers of like products as well as the stimulating effect of innovators who introduce new products and reduce costs through new production and distribution methods. As these activities accelerate, the influence of innovation on competition becomes more pronounced and cannot be ignored as a major competitive factor in itself. While bringing new products, processes and services to market is thought to be a keystone to economic growth, research and development is but a small portion of the cost in successful innovation.

58. See Whale, Antitrust Encroachment on Patent Imperatives, 47 CHI.-KENT L. REV. 125, 128 (1970). That patent grant is assumed to bring an "entirely new dimension" to competition because of the "necessity for competitors to discover their own routes to successful products." Id.

While this assumption might have validity where one or a few patents dominate a market or a product, it is erroneous in a situation where monopolistic or oligopolistic enterprises have built up a patent portfolio covering not only the basic invention but also different approaches toward the same objective. In such case, the patent laws, via threats of infringement actions, actually deter potential competitors from gaining access to the market.


61. Innovation increasingly crosses industry lines. For instance, electrostatic copying came from outside the conventional office equipment system. See PANEL ON INVENTION REPORT 7.

62. See J. SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY (3d ed. 1950). No product is so unique that it creates an absolutely inelastic demand. There are always products sufficiently interchangeable so that if the price of something becomes too high, the purchasing segment of the public can avoid purchasing it by substituting alternative products. Id. at 84.

63. See PANEL ON INVENTION REPORT 8.

64. See id. at 9. An approximate cost distribution pattern in successful product innovation is thought to be as follows:

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<td>Basic Invention</td>
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<td>Engineering and Product Design</td>
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Thus, there must be a growing awareness of the fact that not only does the patent system provide incentives to create new products, processes and services but also to a number of other factors completely unrelated to the exclusive rights granted by the patent laws. Moreover, future innovation can in large part be expected to be generated by federal and local government in seeking solutions to a variety of environmental and energy problems.

C. The Role of the Rule of Reason

The above discussion demonstrates in a summary way that it is nearly impossible to attempt to separate fact from fiction concerning the patent system's incentives. The patent bar accepts as an article of faith that the patent system provides incentive to large corporations and small inventors alike and in modern times as it did in the agrarian economy of the constitutional authors. However, at least some doubt must be entertained concerning the importance of this incentive.

Notwithstanding this doubt, a judicious approach to the patent system under the "rule of reason" for adjudging behavior not specifically exempted
by the patent laws provides the necessary reconciliation between those who believe that the patent system was intended simply as an inducement to inventors to disclose their inventions to the public in exchange for exclusive rights for limited periods of time and the widely held view that the patent system provides incentive to research, development, and innovation. Adherents of the latter view believe this incentive function is accomplished in the following manner:

1. Providing an incentive to invent by offering the possibility of reward to the inventor and those who support him, thereby encouraging the expenditure of time and private risk capital in research and development efforts;
2. Stimulating the investment of additional capital needed for further development and marketing of the invention;
3. Encouraging early public disclosure of technological information, some of which might otherwise be kept secret; and
4. Promoting the beneficial exchange of products, services, and technological data across national boundaries by providing protection for the industrial property of foreign nationals.

Regardless of the number of incentives the patent system today provides, or their relative importance in inducing invention and innovation, the rule of reason gives ample latitude for the patentee to enjoy the fruits of the exclusive rights conferred by the patent grant. Thus, for those rights not specifically exempted from the operation of the antitrust laws by the patent laws, the rule of reason will look to the circumstances to determine whether the patentee is receiving a reward reasonable within the limits of the patent grant. Aside from per se violations, such a rule provides the independent inventor or garret operator with a greater ability to utilize the patent laws to promote competition than it does established companies such as Xerox.

D. Patent Monopolization and the Patent Office

Paragraph 14 of the Commission's complaint charges Xerox with monopolizing and attempting to monopolize patents applicable to office copiers. Ap-
parently, the Commission's theory is that a number of component misuses comprise the aggregate charge of monopolization and attempting to monopolize office copier patents. Several of these component charges are of particular interest because they derive directly from the current operation of the patent laws as administered by the Patent Office. Paragraph 14 includes a charge of creating a patent structure of improvement patents equivalent in scope to expired basic patents and a charge of creating a high risk of infringement of Xerox's existing patents. In essence, the Commission is attacking the large number of patents that Xerox has obtained over the years to protect its commercial office copier as well as its alternative technology.

1. An Overburdened Patent Office.—Despite the large size of the United States Patent Office, it is ill-equipped to determine with any certainty that the patents it issues are for inventions that are new, useful, and unobvious. A major reason for the Patent Office's inability to fulfill this mission can be attributed to the magnitude of patent applications filed annually. Even if an acceptable starting assumption were that the goal of the patent system is realized by granting patents on inventions which represent less than basic discoveries, it is difficult to believe that 100,000 patentable inventions are forthcoming each year through domestic and foreign research and development, even in today's technologically-oriented society. Yet, in fiscal 1972,

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73. Another, but less important charge insofar as this thesis is concerned is the failure by Xerox to cite pertinent prior art to the Patent Office during the prosecution of the applications and the filing of defective oaths caused by its failure to refer in Continuation-in-Part applications to applications filed more than twelve months before. See Complaint Counsel's Tentative Outline of the Types of Facts to be Proven in Support of the Complaint, Xerox Corp., No. 8909 (F.T.C., filed Feb. 20, 1973).
A Continuation-in-Part application is a patent application filed during the lifetime of an earlier application by the same applicant, repeating some substantial portion or all of the earlier disclosure and adding subject matter not disclosed in the earlier case. See PAT. OFFICE MANUAL OF EXAM. P. § 201.88, at 10 (rev. ed. 1974). 35 U.S.C. § 102(d) (1970) includes as prior art against Continuation-in-Part applications those inventions that were first patented in a foreign country prior to the date of filing of the Continuation-in-Part application or an application filed more than twelve months before the filing of the Continuation-in-Part application in the United States. While this allegation is not an insignificant problem, it is often a matter of oversight on the part of the applicants and their attorneys. Furthermore, it does not point up a fundamental deficiency in the operation of the patent laws.
74. In fiscal 1972 the Patent Office employed 2,836 personnel, including 1,276 professionals, and had a budget of $61.339 million. 1972 COMM'R OF PATENTS ANN. REP. 31-32.
76. See id.
the number of patent applications filed reached 102,663,\textsuperscript{78} an increase of almost fifty percent over the 1953 total.

Add to this the fact that during recent years corporations with far greater resources than individuals have been the chief participants in the patent system, and the seeds of patent accumulation have been planted. Not only does the mass of patent applications present practical problems relating to backlogs of pending applications\textsuperscript{79} and adequate examination of each application, but it permits corporations to build a portfolio of patents for "defensive" purposes, thereby creating a high concentration of patents in one owner. No particular problem is discerned by the act of an individual inventor or even a small company accumulating patents resulting from the fruits of the inventor's genius or the small company's internal research and development program.\textsuperscript{80} If anything, this would be the prime incentive of the patent system and the necessary shield to protect the rights of the inventor and the fledgling operations of a small company that might not yet be price competitive with other enterprises in the same market. Nor is the accumulation of patents through acquisition by the individual, small company or even a dominant company such as Xerox necessarily a violation of the antitrust laws.\textsuperscript{81}

Thus, the fact that Xerox purchases patented office copier technology from Battelle Memorial Institute and Battelle Development Corporation does not, in and of itself, violate the antitrust laws. However, a company with a market position like Xerox's will have its acquisition conduct scrutinized far more closely for the presence of other factors such as the nature and scope of the acquired patents, the effect of the acquisition on the purchaser's position in the industry, the extent of the patent rights acquired and whether the patent purchases were from a competitor or noncompetitor.\textsuperscript{82} The presence of these factors along with the patent purchases would most probably constitute an antitrust violation.

Thus, though the accumulation of patents in any amount by a person or
corporation has not been attacked as fundamentally improper, a careful distinction must be made between those patents acquired by internal research and development and those purchased from another. Though the former invite only the charge of monopoly rather than monopolization, the latter involve a purchaser who might achieve a monopoly position through a deliberate program of patent acquisition from the labors of others. Courts in the past have had no hesitancy in finding violations of the antitrust laws when such acquisitions are coupled with other anticompetitive activities.

2. Higher Fees to Discourage Patent Accumulation.—Great numbers of patents certainly increase the risk of infringement of one or more of the patents in the portfolio by a competitor. Recently, the Supreme Court has noted the high cost of patent infringement litigation to private parties. Especially for the small businessman, the cost of carrying on such litigation is unthinkable and thus raises a barrier to entry into markets such as that for office copiers. As a first step in reducing the number of accumulated patents held by corporations, a “negative incentive” must be provided for reducing the number of patent applications filed in the Patent Office.

The most simple and direct method for ending this deluge of applications would be the imposition of substantially higher filing fees to deter all but the most serious inventors from treading the road to the Patent Office and to give even large corporations some pause in undertaking mass filing programs on minor improvements and alternative technology. Of course, the filing

85. See Stedman, Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grantback, 12 ANTITRUST BULL. 199, 200 (1967).
88. The average cost of litigating a patent is believed to be about $50,000. See Blonder-Tongue Lab., Inc. v. University of Ill. Foundation, 402 U.S. 313, 335 (1971).
89. See id. at 334, citing Picard v. United Aircraft Corp., 128 F.2d 632, 641 (2d Cir. 1942) (concurrence of Frank, J.).
90. At present, the patent law provides for a $65 fee upon the filing of each application for an original patent, a $10 fee for each claim in independent form in excess of one, and a $2 fee for each claim (whether independent or dependent) in excess of ten. See 35 U.S.C. § 41 (1970). This, of course, is in addition to attorneys' fees incurred in the preparation of the application.
fees cannot be set so high that only a very few well-financed corporations could monopolize the benefits of the patent system to the exclusion of individuals and smaller companies who are willing to disclose significant inventions. But on the other hand, the loss of some worthwhile inventions by under-financed individuals or companies may have to be accepted as the price to be paid in adjusting the patent system.

The Patent Reform Act of 1973 (the Hart Bill), which is currently pending in Congress, proposes that the fees in connection with the filing of applications "shall be designed to effect an overall recovery on the range of 65 to 75 per centum of the cost of operation of the Patent Office." This has been criticized by the patent bar as being unduly expensive and burdensome to applicants. In concentrating on the individual applicant, this type of criticism overlooks the large number of patent applications being filed in light of the present fee structure. While the problem with this bill, as in the case of the other two pending patent revision bills, is overambition in attempting to revamp the patent laws, several areas are worthy of change and the area of filing fees is one of these.

3. A Lower Standard of Patentability.—The problems created by the large number of patent applications filed annually do not end with patent accumulation. Other consequences include poorer quality of examination and a lower standard of patentability when the Patent Office is faced with minor improvement inventions and inadequate prior art. The lower standard of patentability is evidenced by the large number of patents issued annually as compared to the number of applications filed. Though the primary responsibility for sifting out unpatentable inventions resides in the Patent Office, the success rate for litigated patents is unfavorable and renders the statutory presumption of the validity of patents issued by the Patent Office almost hollow.

Moreover, it is not prudent to expect that the patent examination system will or can be improved upon the initiative of the Patent Office since, in the

92. Id. § 41(b)(1).
95. In the United States about 70% of patent applications are eventually granted, while in Germany and Japan less than one-third of all applications result in patents. See Hummerstone, supra note 60, at 270.
97. From 1966 to 1971 federal courts of appeals invalidated 69% of the patents litigated before them. See Hummerstone, supra note 60, at 262-63.
first place, it has no control over the input of applications. The administrators in the Patent Office are "systems oriented" in that they seek greater efficiency of operation and are more concerned with managerial objectives.\footnote{99} Since both the individual inventor and large-scale enterprise will benefit from the grant of fewer but stronger patents, the patent community, especially the patent bar, bears a heavy responsibility in resuscitating the elderly patent system in a manner that will make issued patents more credible to the courts before which they are litigated.\footnote{100}

E. Raising the Standard of Patentability and Abolishing the Terminal Disclaimer

As part of Xerox's alleged patent accumulation activities, the Commission charged that a large number of patents have been generated containing trivial and overlapping claims, resulting in a web of patents so broad in scope and number that an entrant into the plain paper office copier market runs a high risk of an infringement suit. There seems no better starting solution to the elimination of this problem than a limitation upon the number of applications for patents, as well as a marked increase in the quality of examination of these applications.

A second step in dismantling patent structures like that alleged in \textit{Xerox}
would be the imposition of maintenance fees during the life of the patent. The efficacy of such fees is recognized even by the patent bar. Businessmen make decisions based in large part on cost and profitability. The old saw that "money talks" has validity in such matters as budgets for patent departments. Small businesses or individuals especially will only continue to pay maintenance fees on those patented inventions that pay for themselves. Given a fairly high fee during the latter term of a patent, even a dominant company such as Xerox would have a difficult business decision to make in maintaining a portfolio of patents having little or no commercial significance and, at the same time, subjecting them to antitrust risks. Once both the number of patent applications filed and patents in force decrease, assuming that significantly higher filing fees and maintenance fees proposed above are instituted, it is reasonable to expect the Patent Office to raise standards by which patents are granted, especially if opposition proceedings become a reality. With this can come the ability to refuse patents directed to minor improvements or trivial differences in claimed subject matter.

The problem of overlapping claims between different patent applications can only be solved by legislation, since the law generated by the Court of Customs and Patent Appeals permits an extension of exclusive rights in scope, if not in time, by allowing applicants to overcome double patenting objections with the filing of a terminal disclaimer. Miller v. Eagle Manufacturing Co. held that an inventor is precluded from obtaining two patents for the same invention. Interpreting what is the "same invention" is obviously difficult. The liberal approach of the Court of Customs and Patent Appeals, by no means the prevailing view, distinguishes between two types of cases.

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101. The Legislative Committee of the Rochester (New York) Patent Law Association has proposed low maintenance fees for the first eight to ten years of the patent and then steeply escalating fees to encourage the abandonment of all but the most commercially important patents. See 16 AM. PAT. L. ASS'N BULL. 253 (1973).

102. See note 100 supra.

103. See, e.g., In re Robeson, 331 F.2d 610 (C.C.P.A. 1964). Terminal disclaimer practice, statutorily sanctioned by 35 U.S.C. § 253 (1970), is the method by which double patenting objections are obviated. By the patent applicant's agreeing to permit the second patent to expire simultaneously with the first patent, the public's right to make full use of the original patented discovery at the end of the original seventeen year period will not be impaired and an unwarranted extension of the patent monopoly will be precluded. See In re Bowers, 359 F.2d 886 (C.C.P.A. 1966). Both patentees and their assignees may make use of terminal disclaimers. See id.

104. 151 U.S. 186 (1894).

of double patenting: where the claims of the reference patent or application and the rejected claims are drawn to the same invention, and where the reference claims and rejected claims are directed to obvious variations of the single invention. In the latter case, the Court of Customs and Patent Appeals would permit the filing of a terminal disclaimer to overcome a double patenting rejection because it does not view the expansion of the scope of exclusive rights as a substantial evil.

While the terminal disclaimer analysis of the Court of Customs and Patent Appeals may fit nicely into the theoretical model of the patent system which that court has constructed in reviewing actions of the Patent Office, there seems to be a wide gap between the model and the ability of well-financed corporations to expand their exclusive rights in scope by filing patent applications directed to obvious variations on the same theme and thwart the Patent Office by filing terminal disclaimers. These same corporations can extend their exclusive rights in time, too, for under the present system the Patent Office's preoccupation in dealing with the sheer number of patent applications, coupled with the failure to bring the best prior art to the Office's attention, results in a lower standard of patentability. As a result, minor improvement patents can presently be obtained without ever filing a terminal disclaimer.

Again, minor legislative changes would greatly improve the situation. Only three basic statutory sections would be needed, and these are present in one form or another in pending legislation. To assist the Patent Office in raising the standard of patentability, Congress should enact into law a provision that the patent applicant shall have the burden of establishing that the claim is patentable. The elimination of terminal disclaimer practice by applicants would then be greatly discouraged by providing that the term of the patent shall expire twenty years from the date of filing in the United States, or, if the benefit of the filing date of another application is claimed, from the earliest date. This would all but put an end to the argument that, absent terminal disclaimer practice, the public would be left with the undesirable alternative of delayed disclosure due to the filing of Continuation-in-Part applications containing the fruits of subsequent research.

107. See, e.g., In re Bowers, 359 F.2d 866 (C.C.P.A. 1966); In re Robeson, 331 F.2d 610 (C.C.P.A. 1964). See also Doherty, Double Patenting and Section 121-Multiply or Divide?, 54 J. PAT. OFF. SOC'Y 583 (1972).
109. See id. § 154(b).
110. See De Jonghe, Double Patenting and Terminal Disclaimers, 54 J. PAT. OFF. SOC'Y 627, 630 (1972).
Even more desirable would be enactment of a provision that a terminal disclaimer has no effect in the determination of the patentability or validity of the claims in patents which either have been or may be issued so as to expire at the same time by virtue of the terminal disclaimer. These rather simple statutory changes could have far-reaching consequences in restoring some vitality to the Patent Office.

IV. PATENT MONOPOLIZATION

A. A Glance at Some Other Allegedly Illegal Activities of Xerox

The other patent misuse allegations in the FTC's complaint relate to the use of issued patents with respect to competitors and potential competitors. As such, these activities are beyond the pale of the Patent Office's administration of the patent laws and, except for licensing activity specifically provided for by statute, are governed by the rule of reason. Some of the activities under attack by the Commission include failing to commercially exploit patented technology, obtaining exclusive licenses for related technology, purchasing patented technology, inserting grant-back provisions in licenses, entering into cross-licensing arrangements and refusing to grant licenses.

Field of use limitations are also being attacked by the Commission as a separate violation of section 5. None of the allegations when considered on its own in the past has been found to constitute an antitrust violation. When, however, some or all of these activities are combined, the rule of reason may lead a court to find Sherman Act violations or affirm a finding by the Commission of a section 5 violation.

1. Field-of-Use.—The Commission's allegation that Xerox's imposition of field-of-use limitations on low speed copiers as a separate section 5 violation forms a convenient crystallization point for the remaining discussion. Quite aside from the Commission's new look at this type of limitation, the Antitrust Division of the Justice Department has time and again singled out the field-of-use as a patent licensing abuse.

111. See S. 1321, 93d Cong., 1st Sess. § 203(c) (1973).
112. 35 U.S.C. § 261 (1970) provides that "[t]he applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."
114. See id.
The field-of-use limitation is simply one in which the patent owner licenses the manufacture, use or sale of the patented invention only with regard to a particular field. This would include limiting a licensee to the manufacture or sale of low speed copiers. The landmark case of General Talking Pictures Corp. v. Western Electric Co. upheld such restrictions even though they, along with territorial restrictions, are without statutory sanction. One reason advanced in behalf of such restrictions is that since the licensees are not competitors of the patent holder there is little substance to the charge of anticompetitive effect. Such a rationale would not be economically justifiable, however, where a licensor carves up his field-of-use to create artificial boundaries. Certainly manufacturers of plain paper copiers are competitors of manufacturers of coated paper copiers. Likewise, manufacturers of high speed copiers are competitors of manufacturers of low speed copiers. For this reason alone, there appears to be no justification for the field-of-use provisions imposed by Xerox.

Even under the best of circumstances, exclusive field-of-use provisions, where the licensor agrees to stay out of the licensee's field and to grant no additional licenses in the licensee's field, may in effect be viewed as a division of markets. Moreover, the Justice Department has taken the position that General Talking Pictures is built upon a shaky precedent, which itself is "ripe for overruling." The Justice Department's position is that at the very least a field-of-use limitation should be struck down unless there is proof of absolute economic necessity. An example of absolute economic necessity would be where the reservation of a field to the patent owner is deemed necessary to induce him to enter into a license when he himself operates in a particular field and will not license at all unless given some market protection. While an individual or small business might make a convincing showing in this regard, it is difficult to see how a company with a dominant market position could show economic necessity, absolute or otherwise.

There are, however, some possible advantages in employing field-of-use limitations in license agreements. Licensees can obtain a lower royalty rate in a field in which the patent owner is not competing. The licensee may

117. 305 U.S. 124 (1938).
121. Address by Roland W. Donnem, Director of Policy Planning, Department of Justice, Before the Michigan State Bar Convention, Sept. 25, 1969.
122. Id.
not otherwise want to commit himself in speculative fields in which he has little interest or is unable to make a satisfactory evaluation. Field-of-use limitations also provide flexibility in permitting varying royalty rates where a licensee is practicing under more than one field, and, where the license requires minimum royalties, the possibility of providing the licensee with the option of cancelling the license in an unsuccessful field. None of these advantages appear applicable, however, to the office copier market which involves no speculation at this time. The coated paper office copier or low speed office copier fields, as artificially created fields that do not maximize the patented invention’s potential, are not alternatives that the public desires. In such a situation the contention that a field-of-use restriction is “nothing more than permission to make, use or sell in a defined segment of technology” would be fatuous.

Nonetheless, the Commission should proceed carefully in attacking the mere presence of a field-of-use provision as a violation of section 5. There are advantages in its use in certain circumstances and its effect is not so pernicious that a violation of the antitrust laws occurs automatically without a further inquiry into its reasonableness. Should the Commission ultimately find this to be a per se section 5 violation, a reviewing court would be wise to scrutinize its reasoning carefully.

2. Grant-Backs.—Definitionally speaking, a grant-back is a provision which requires that a licensee, as a condition to receiving a patent license, grant back to the patent owner rights of varying scope in inventions that the licensee may make. Such a provision by itself was upheld in Transparent-Wrap Machine Co. v. Stokes & Smith Co. In attacking this type of restriction in concert with the other alleged practices of Xerox, the Commission does not appear to be pointing in a new direction since grant-back provisions have previously been found illegal when coupled with other restrictive practices.

Grant-back provisions have traditionally been of several types: non-exclusive rights in the licensee’s inventions; a license under the licensee’s invention which can be either non-assignable or granted with a right to sublicense; an assignment of the licensee’s rights in its invention; a limitation on “granted-back” inventions to only improvement patents; and a limitation on grant-backs to new inventions in defined fields. The only grant-back provision at which the Justice Department is apparently not aiming its ire is the

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123. See Whale, supra note 58.
124. Id. at 140.
non-exclusive type on improvements with reasonable royalties being paid to the improvement licensor.\textsuperscript{127} As to the others, however, many contend that they unduly expand the patent monopoly and stifle research and development efforts on the part of licensees. Thus, the ability to predict trouble by using this provision does not require "a legal Cassandra."\textsuperscript{128}

\section*{B. Incorporating the Rule of Reason into the Patent Act}

As is the case with most other patent licensing practices, the patent bar accepts as holy scripture that the legalization of exclusive rights manifested in the letters patent ordains that the antitrust law must give a wide path to the manner in which these exclusive rights are used in the market place.\textsuperscript{129} By now experience should have debunked this belief. While single and isolated practices such as grant-backs, cross-licensing, patent pools and field-of-use limitations may not be particularly objectionable in certain circumstances, in other circumstances, or when such practices are combined, a severe crippling of competition can occur.

The patent laws and antitrust laws have basically the same ends—promoting the progress of the useful arts through competition.\textsuperscript{130} Xerox may have fallen into the common pitfall of a company which has successfully pioneered a new product, in this case the office copier, acquired a strong market position with respect to the product, and then made the mistake of endeavoring to foreclose competitors through a variety of otherwise seemingly unobjectionable practices.\textsuperscript{131} It is here that the patentee must look to a rule of reason rather than using the patent grant as a club to swing in a wide circle to keep away would-be competitors. A patent holder in Xerox's position has a range of terms which he may include in varying forms in license agreements. The test should be one of over-all reasonableness,\textsuperscript{132} since in one context most licensing practices may be perfectly reasonable while in another context clearly unreasonable.\textsuperscript{133}

As long as there is a set of patent laws to contend with on one hand, and

\begin{itemize}
\item \textsuperscript{127} Donnem, \textit{supra} note 121.
\item \textsuperscript{129} See id. at 1025-26.
\item \textsuperscript{130} Address by Robert Bicks, Assistant Attorney General, Antitrust Division, before the Section of Patent, Trademark and Copyright Law of the American Bar Association in 41 J. Pat. Off. Soc'y 791 (1959).
\item \textsuperscript{132} See Address by Richard McLaren, Assistant Attorney General, Antitrust Division, before the Antitrust Section of the American Bar Association, July 14, 1971.
\item \textsuperscript{133} See id.
\end{itemize}
a set of antitrust laws on the other hand, there will be a continuum of different approaches toward the licensable nature of patents. This in turn leads to the confusion that caused the President's Commission on the Patent System to recommend that the rule of reason constitute the guideline for determining patent misuse. Faced constantly with this type of provision in the patent laws, patent lawyers will necessarily have to develop a cautious approach when formulating license agreements or advising corporate clients on a course of action concerning a patent portfolio. As the client becomes bigger and more dominant, that advice will have to become more conservative in avoiding breach of the antitrust laws. This is as it should be.

V. CONCLUSION

Despite the proposed consent order, some might foresee the Commission's action in attacking Xerox's patent practices as an ominous portent of things to come. A more enlightened view, however, would be that this scrutiny of the patent system will be, in the long run, beneficial to patentees, licensees, the patent bar and the public interest generally. For it is clear that the present state of the patent system pleases no one. Moreover, the mere fact that the Commission felt it necessary to file the Xerox complaint indicates that the current administration of the patent laws and the utilization of letters patent are out of phase with the underlying concepts of the patent system. In short, the patent system is overdue for reform.

The legislation currently pending in Congress make a worthwhile attempt to correct the patent system's faults. Unfortunately, they appear to be far too ambitious to expect passage in the near future and, indeed, have been stalled in Congress for over a year. In light of this regrettable situation, perhaps a more limited attempt at reform would be more successful. Much good would be accomplished if the number of applications filed annually could be reduced. Attainment of this goal would require only a significant increase in fees for patent filings. Placing the burden of establishing patentability on the applicant would reduce the number of issued patents and in-

134. The Honorable Simon H. Rifkind, co-chairman of the 1966 President's Commission on the Patent System, was quoted as saying: "The antitrust laws are invariably given an expansive reading, as expansive as the language will tolerate. The words of the patent statute, in contrast, to my reading, seem to be extruded through a pinhole gauge." Hummerstone, supra note 60, at 268.

135. The Report of the President's Commission on the Patent System, supra note 14, at 36-38 pointed out that "uncertainty exists as to the precise nature of the patent rights and there is no clear definition of the patent misuse rule. This has produced . . . a reluctance by the patent owners and others to enter into contracts or other arrangements pertaining to patents or related licenses."

136. See id., Recommendation XXII, at 36.
crease the quality of letters patent, especially if adversary proceedings become a reality. Elimination of the almost invisible line between the scope of two patented inventions by abolishing the present terminal disclaimer practice will go far in preventing undue extensions of exclusive patent rights.

On a more practical plane, patent lawyers called upon to advise clients on the licensable nature of patents can best be served by specifically providing in the patent laws that "reasonableness" is the applicable guideline. No specific exemption or magic formulas will be superior to the task of judging the appropriateness of licensing provisions in light of the specific facts of each case. Reforms such as these, though not as far-reaching as might be desired, would certainly improve the operation of the patent system, a goal beneficial to all involved.