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FOREIGN TRADE-MARK LICENSING AND AMERICAN ANTI-TRUST LAWS: SOME OBSERVATIONS ON THE TIMKEN CASE

by

JEROME A. BARRON*

As American investment abroad steadily increases, it is no longer rare for American businessmen to find themselves concerned with problems presented by more than one legal system. American business expansion in foreign countries is frequently spearheaded by the use of one or another famous trade-mark. This paper concerns itself with the legal problems which are raised when manufacturing is done abroad under an American trade-mark. The problems presented and their solutions are on an over-all scale typical of any manufacturing done under an American trade-mark in western Europe or Latin America.

The Problem

The most troublesome problem presently in the licensing of American trade-marks abroad revolves around drafting a licensing agreement which will comply with the anti-trust laws of the United States.¹ The problems in this area usually develop when the licensor and the licensee wish to include a division of territory in their agreement. A provision is then inserted in the agreement stipulating that the foreign licensee will not sell the product bearing the licensor’s trade-mark in the United States. The licensor in turn promises that he will not sell his American manufactured product in the foreign country concerned. The only difficulty with this satisfactory reciprocity is that it may very well be illegal.

The pall that has been cast on international trade-mark licensing agreements was put there by the decision of the United States Supreme Court in United States v. Timken Roller Bearing Company.² In Timken

¹ Even the representatives of the foreign licensees are vitally concerned with the repercussions the United States anti-trust laws may have on the licensing contracts they hold with American licensors. See Richard Moser v. Filseck, Some Observations on the Licensing of Foreign Trade-Marks, 46 TRADE MARK REP. 735.
² 341 U.S. 593 (1950).
the Court wrestled for the first time with the problems resulting from the long-awaited clash between the anti-trust laws and trade-marks. The Court held that American Timken conspired with British Timken and French Timken to eliminate competition in the manufacture and sale of antifriction bearings in the world market.4 The Court found no difficulty in concluding that the Sherman Act had extra-territorial effect if American interstate commerce was at all affected.4 The Court in Timken accepted the district court’s findings that the three parties in the agreement had (1) allocated trade territories among themselves; (2) fixed prices on products sold by any part in the territory of the other; (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.5 American Timken defended in the Supreme Court on the ground that the restraints of trade complained of were ancillary to the main purpose of the agreement. American Timken argued that there were two purposes central to the agreements under attack: (1) a “joint venture” between American Timken and British Timken and (2) a trade-mark licensing agreement.

What Restraints Are Ancillary to a Trade-Mark License?

The Court’s reaction to the defense that the restrictions were ancillary to a licensing agreement has stimulated enormous speculation. One eminent commentator sees territorial limitations in trade-mark licensing agreements valid as long as they are ancillary to a main purpose which is legitimate, i.e. a licensor’s desire to license his trade-mark (and nothing more).6 Actually there is very little precedent to justify the optimism implicit in this position. The theory is apparently based on a doctrine

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4 Ibid.

5 The rationale for this position was well represented by United States v. Aluminum Company of America. [148 F. 2d 416 at 443 (2d Cir. 1945)]. Judge Learned Hand commented that Congress does not intend the Sherman Act to “punish all whom its courts can catch, for conduct which has no consequences in the United States.” This was a proposition set down by the Court in American Banana Company v. United States. [213 U.S. 347 (1909)]. Judge Hand then went on to say, however, that as a general conflict of laws rule any state may impose liabilities “even upon persons not within its allegiance” if the conduct of these persons has consequences within its borders. Note that Hand does not rely on the Sherman Act for this but on the law of conflicts. The Sherman Act, Hand suggests, reinforces the right of American courts to take jurisdiction. The only limitation on the application of the Sherman Act by federal courts to international combines is that there must be a showing that the combine actually affected United States imports or exports. The Government must show the performance of the wrong. Mere intent to affect United States imports or exports is not sufficient to warrant a federal court to take jurisdiction.


originating in the field of patent-licensing. The doctrine has been availed of unsuccessfully in international patent licensing cases. Where the argument that a territorial restriction is ancillary to a patent license has been made, the agreement has always contained many other restrictions. Consequently, the courts have found that the restrictions taken cumulatively declare the agreement as one unmistakably motivated by monopolistic and anti-competition objectives. Therefore, as the patent licensing cases do nothing to clarify that which will constitute a permissible patent licensing restriction, they are of very little help in indicating what will be a permissible trade-mark licensing restriction.

The majority opinion of the Court in Timken has little in it to tell us when a territorial restriction will be ancillary to a trade-mark license and therefore valid. It does, however, do much to tell us in what circumstances territorial division will not be considered ancillary to a trade-mark license. The Court held that where the division of territory was the central purpose of the agreement the territorial division will be held invalid. In other words, where the licensing of a trade-mark is not the real aim of an agreement, but division of a world market in a product is, the Sherman Act will invalidate the agreement.

The crucial factor in Timken was that the agreement covered more than a license of a trade-mark. The agreement as Mr. Justice Black pointed out for the majority covered "control and manufacture and sale of antifriction bearings whether carrying the mark or not". The fact that markets were apportioned for the sale of bearings whether or not they bore the mark indicates that trade-mark licensing was not the paramount purpose of the agreement but that cartelization was.

The recent case of United States v. Bayer indicates that the district courts are adopting this approach in construing agreements which license

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7 United States v. Addyston Pipe & Steel Co., 85 F. 271 at 282 (C.A. 6th, 1898). There Taft, C. J., enunciated the limits of the doctrine rather fully: "... the contract must be one in which there is a main purpose, to which the covenant in restraint of trade is merely ancillary. The covenant is inserted only to protect one of the parties from the injuries, which in the execution of the contract, or execution of its fruits, he may suffer from the unrestrained competition of the other... But where the sole object of both parties in making the contract as expressed therein is merely to restrain competition, and enhance or maintain prices, it would seem that there was nothing to justify the restraint, that it would necessarily have a tendency to monopoly, and therefore would be void:"


10 Ibid.


trademarks internationally. A facet of the Bayer case involved an agreement by I. G. Farben not to contest Bayer's title to the "Bayer" trade-mark in Cuba and also allowed Bayer to register in Cuba all future trade-marks registered by I. G. Farben in other parts of the world. The court declared that the agreement "went far beyond any protection required for the trademarks." The Bayer case was decided according to the reasoning of Timken. Like Timken it involved much more than a division of territory incidental to a trade-mark licensing agreement. The question presented by the dissents in Timken now arises. The Timken and Bayer situations illustrate that a cumulation of restrictions such as territorial division and price fixing will be regarded as illegal per se. Justice Frankfurter in his dissent, however, argued that the rule of reason applied in domestic anti-trust cases should be applied in cases where the complexities of foreign trade warrant the application of different standards to agreements concerning foreign trade:

"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."

A rule of reason construction would take into consideration a factor such as the unwillingness of an American manufacturer to license his trade-mark along with the know-how associated with the manufacture of the trade-marked product without a promise from the recipient not to sell in the United States. The adherence to the concept that territorial

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13 Ibid. at 70. Cf. United States v. National Lead Co., 63 F. Supp. 513 at 523-524 (S.D.N.Y. 1955) (where patents not yet in existence were yielded). The court reasoned therefore that the territorial restrictions involved were not ancillary at all but that allocation of trade territories was the heart of the agreement. The extensiveness of the provisions of the agreement convinced the court of a basic monopolistic intent.

14 I. G. Farben agreed not to license the trade-mark "Bayer" or "Bayer Cross" in the United States, Canada and Cuba because rights in those countries were granted to Bayer. Bayer in turn conveyed its trade-marks and patents in all remaining countries to Farben. There was an exception: Bayer and Farben gave patent and trade-mark rights to a new company, Bayer Products Limited, to which was allocated the United Kingdom, South Africa, Australia and New Zealand. The court in United States v. Bayer, supra note 12, said: "Mutual recognition and transfer of trade-mark rights were incidental to that major objective (division of the world market among the participants) and were clearly intended to secure the more effective enforcement of the division of territories and their exploitation." Here again the cartel dog was found to be hopefully waving a trade-mark tail. The defense that the territorial divisions were ancillary to an agreement "to settle trade-mark disputes" was completely rejected.

15 See note 11 supra at 605.

16 Nitschke, Antitrust Laws in Foreign Commerce, 53 Mich. L. Rev. 1059 at 1063 (1955). Economic realities in the international trade area make territorial allocation quite as necessary for the foreign licensee as for the American licensor: "Similarly, the foreign
division is illegal \textit{per se} prevents the court from inquiring into whether the territorial restraint is just a protective device limited in area or whether it is indeed an anti-competitive scheme whereby the entire world market in a product is controlled under the guise of trade-mark licensing.

\textbf{What Restraints Are Ancillary to a Joint Venture?}

The other defense made in the \textit{Timken} case was that the restrictions the government sought to invalidate were ancillary to a "joint venture." This defense crumbled as completely as did the defense that the restrictions were ancillary to the licensing of trade-marks. The theory of counsel for defendant in the \textit{Timken} case was that if common ownership of American Timken with the foreign Timken concerns could be shown, they would be freed from the constraints of the Sherman Act. The parties to a Sherman Act "conspiracy", the theory ran, must be independent. Where there is only one party in a situation, there cannot be a conspiracy. The majority did not accept this argument. Relying on domestic anti-trust cases the Court held that intracorporate relationships were not crucial to the applicability of the Sherman Act.\textsuperscript{17} This portion of the majority opinion was what Justice Jackson took bitterest exception to in his dissent, particularly the application of "conspiracy" doctrine to parents acting with their subsidiaries.\textsuperscript{18} Justice Jackson urged what amounts to a rule of reason approach to the use of subsidiaries in international trade.\textsuperscript{19}

\textsuperscript{17} For domestic anti-trust cases holding that a parent and a subsidiary need not be treated as a single unit in deciding whether the "conspiracy" section of the Sherman Act is applicable, see \textit{The Lorain Journal Co. v. United States}, 342 U.S. 143 (1951); \textit{Kiefer Stewart Co. v. Seagram & Sons}, 340 U.S. 211 (1951); \textit{Schine Chain Theatres Inc. v. United States}, 334 U.S. 110 (1948); \textit{United States v. Yellow Cab Co.}, 332 U.S. 318 (1947).

\textsuperscript{18} Sigmund Timberg, anti-trust counsel for the Department of Justice, has argued, on the other hand, that British Timken was not a subsidiary of American Timken at all. American Timken owned only 30\% of the stock of British Timken. American and British Timken owned French Timken on a 50-50 basis. The half ownership accorded to British Timken in French Timken convinced Timberg that British Timken was an independent unit rather than a mere subsidiary.

Even if Mr. Justice Jackson's point that parents and subsidiaries should not be treated as separable is accepted in the international trade scene, Professor Timberg argues that Timken would still be in violation of the anti-trust laws because the Sherman Act prohibits any contracts or combination in restraint of trade and not just conspiracy. See, \textit{Timberg, Competition—A Philosophy for Export and for Defense Production}, 21 GEO. WASH. L. REV. 680 (1953). The answer to this is that a further extension of the rule of reason construction might find a restraint of trade absent in an international situation although in a domestic setting the same criteria would find it present.

\textsuperscript{19} See note 11 \textit{supra} at 607.
"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 commerce of many kinds."

Jackson argued that division of the United States domestic market between a parent and its subsidiary is a quite distinct matter inviting a completely different set of considerations than when the relationship is between an American parent and a foreign subsidiary.

The Nature of the Penalties

We have now to consider what penalties actually ensue if a trade-mark licensing agreement is found to violate the anti-trust laws. In *Timken*, the district court ordered American Timken to divest itself of its holdings in British and French Timken. The Supreme Court believed that divestiture should not have been ordered and modified the district court's order accordingly. The remainder of the district court order was affirmed. It provided for the termination of the agreements involved and the defendants were enjoined from the enforcement or the performance of any of the provisions of the agreement. The Court also ordered American Timken to take measures to allow the free export from and import into the United States of Timken roller bearings.

Another available penalty although it was not actually utilized in *Timken* is a court order making either the United States a party or one of the foreign parties to the agreement adopt an additional trade-mark. A court order compelling a party to select an additional or an even entirely different trade-mark for its old mark presents very grave problems. Sometimes the mark is machine inserted directly into the product. When the substituted mark is ordered to be used only in areas of competition, the marking of the goods will be dependent on their ultimate destination although at time of manufacture the ultimate destination may be unknown.

Finally there is still another penalty that may be (someday) relied upon where anti-trust violation is found in an agreement licensing trade-

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21 See note 11 supra at 600.
22 Professor Derenberg says this was the trade-mark relief the government was really after in the Timken case. Ultimately of course it contented itself with a court order binding the parties to insure that British and French Timken would be allowed to sell their trade-marks in the United States. The device of ordering an additional trade-mark has the same objective. See note 6 at 434.
23 Stedman, *Elimination of Trade Barriers Based Upon Trade-Marks*, 10 Fed. B. J. 162 (1950). Because of the difficulties in directing the use of a substituted mark, Stedman suggests as an alternative an order to both parties to sell under the same mark in the same area. This of course was the solution adopted in Timken.

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marks: the loss of the trade-mark itself. Section 33 (b) (7) of the Lanham Act provides that a trade-mark is incontestable unless the trade-mark has been or is being used to violate the United States anti-trust laws.\textsuperscript{24} It is a moot question whether Section 33 (b) (7) has lessened or increased the rights of a trade-mark owner who may be open to charges of anti-trust violation. Professor Handler has written that he cannot agree with those who limit the effect of an anti-trust violation merely to the loss of incontestability. Drawing an analogy to some patent cases, Professor Handler asserts that use of a trade-mark which falls afoul of the anti-trust laws forfeits all right to protection of that mark in the courts.\textsuperscript{25} Professor Handler, however, relies on general equity principles in support of his view rather than on Section 33 (b) (7) directly. Handler's view then is that a trade-mark owner who had misused his trade-mark could not maintain an infringement suit because he would be subject to a clean hands defense.

The possibility that an anti-trust violation may deprive a party of his trade-mark is of some consequence internationally. For example, if an American trade-mark registered in a Latin-American country such as Brazil is deemed deprived of judicial protection in the United States, a party in the United States may bring a cancellation proceeding to remove it from the Principal Register since the mark (because of anti-trust misuse) would no longer be incontestable under Section 33 (b) (7). Consequently, the rights of the foreign licensee would be in jeopardy because his Brazilian registration is dependent on registration in the United States. If that registration is cancelled, there would be nothing on which to support his Brazilian registration.

Professor Derenberg has declared that courts will be very reluctant to rule that misuse of a trade-mark in an international cartel will result in dedication of the trade-mark. Dedication, Professor Derenberg urges, will result only in confusion to the public and in the loss of "invaluable goodwill built up within the United States."\textsuperscript{26}

The anti-trust division of the Justice Department has never sought to deprive a party of its trade-mark because of an anti-trust violation. Nevertheless Mr. Timberg has written of the Timken case that the "non-competitive conduct of defendant had divided and diluted the significance of the Timken name as far as a purchaser of bearings was concerned since he became somewhat confused as to which he might be purchasing

\textsuperscript{25} Handler, Trade-Marks and Antitrust, 38 TRADE-MARK REP. 387 (1948).
\textsuperscript{26} See Derenberg, supra note 6 at 446.
from."27 A competitive policy, on the other hand, by American Timken would have protected its foreign trade-mark rights and shielded it from an attack in the United States that it had abandoned the use of the trade-mark.28

When Professors Handler and Derenberg published their differing interpretations of Section 33 (b) (7), there were no cases on point. When *Cott Beverage Corporation v. Canada Dry Ginger Ale*29 was decided, at least some of the speculation was put to rest. The district court held that Section 33 (b) (7) deprived a misuser of a trade-mark of certain evidentiary advantages (incontestability) but did not strip him of his trade-mark. Plaintiff, Cott Beverage Corporation, wanted a declaratory judgment that it could use defendant’s famous trade-mark on its products without fear of infringement because defendant was violating the anti-trust laws. The court refused to grant the declaratory judgment relying on the *Timken* case where no cancellation of the registration or declaration that the mark was dedicated to the public was granted. The *Cott* case supported Professor Derenberg rather than Professor Handler. It did not resolve the issue of whether cancellation of a misused trade-mark would be forthcoming when it was the government rather than a competitor seeking to take the trade-mark from its owner when it is misused. However, the government has up to this writing not asked for relief as Draconian as this.30

Thus, in summary, the penalties for anti-trust violation are in order of the likelihood that courts will utilize them: (1) termination of the agreement involved; (2) injunction prohibiting the enforcement or performance of any of the provisions of the agreement; (3) an order directing that the parties take measures to insure the free export from and import into the United States of the trade-marked product previously allocated to just one of the parties; (4) divestiture; (5) an order directing the use of substituted or additional trade-mark in areas of competition; and (6) a declaratory judgment by the court that defendant’s misuse of its trade has deprived it of judicial protection (this relief has not yet been granted either in domestic or cartel cases).

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27 See Timberg note 18 at 680. Mr. Timberg at the outset of his article declares that the opinions expressed are his own and not those of the antitrust division of the Department of Justice.
28 Ibid.
30 See Derenberg, note 6 at 440.
Conclusion

Our discussion has centered on the problems raised by two questions: (1) Will a territorial allocation, without more, incident to the foreign licensing of a trade-mark comply with the anti-trust laws? (2) Will the licensing of a foreign subsidiary or a licensing arrangement incident to a "joint venture" be a factor evidencing "conspiracy" under the Sherman Act?

As to whether a territorial allocation can be upheld on an argument that it is a necessary incident to an agreement whose chief purpose is the foreign licensing of a trade-mark, the tentative answer (in the absence of judicial decision) would appear to be in the affirmative. The main purpose of the agreement is the standard by which ancillary restraints are judged. One construction that has been persuasively presented is that the combinations which Timken condemned are those where the objective was to raise or set the market price because the Court has held price-fixing illegal per se. In the ordinary foreign licensing situation, the parties to the agreement will not dominate the industry. Consequently, price-fixing will not be a factor. The implication then would be that an agreement would have to combine price-fixing with territorial allocation to violate the anti-trust laws. However, in United States v. E. I. du Pont de Nemours & Company the Court held that it was not inconsistent to apply the rule of reason simultaneously with an illegality per se theory. The Court declared that division of territory or maintenance of prices was in itself a violation of the Sherman Act. The Court cited Timken as its authority for this proposition.

The answer to the du Pont reasoning is that it is restricted to circumstances where (1) there is a world-wide combine and (2) the parties to the agreement dominate the world market as in Timken. If these two factors are absent, our conclusion is that foreign licensing of a trade-mark for an unpatented product is not unlawful even though it contains a territorial division.

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31 Oppenheim, Foreign Commerce Under the Sherman Act—Points and Implications of the Timken Case, 42 TRADE MARK REP. 3.
32 Nathanson, Licensing Your Trade-Mark, 46 TRADE MARK REPORTS 133, 147.
33 Ibid.
34 351 U.S. 377 at 387 (1956).
35 A trade-mark license agreement on a product protected by a United States patent may include a provision prohibiting the licensee from selling or manufacturing outside the United States at least for the life of the duration of the patent. Where the license agreement covers territory not protected by the United States patent we are back of course once more to the issue of ancillary restraint v. illegal main purpose. See Derenberg, supra note 30 at 442.
Now the question arises: when an American trade-mark is licensed abroad what is the safest foreign business unit to select in order to avoid violation of the anti-trust laws? It is clear that the establishment of a branch factory abroad which does its own production and distribution would escape even the broadest application of the *Timken* case. However, what are the consequences if the American corporation establishes a foreign subsidiary and licenses it to manufacture under its trade-mark? If the cartel features are absent (Justice Jackson's fears in *Timken* aside), the foreign subsidiary unit is just as lawful and useful a business device for foreign licenses of trade-marks as it was before *Timken*. Suppose the American company does not establish its own subsidiary but acquires a foreign subsidiary? In that case, if the foreign subsidiary had been engaged in exporting to the United States before its acquisition as a competitor of its new parent, or the converse, it is believed that Section 7 of the Clayton Act might apply.

The acquisition of a foreign subsidiary is very close to the joint venture business form which is the basis on which many American businessmen operate abroad. It will be remembered that the marketing allocation and price-fixing restrictions in *Timken* were defended as valid on the ground that they were ancillary to a joint venture. The cases where territorial restrictions have been defended as ancillary to a joint venture make it apparent that there is nothing unlawful in a joint venture between an American company and a foreign concern in itself. When an American company joins forces with an already established foreign concern to start a new company which will manufacture for the foreign market under the American trade-mark, the fact that it is a joint venture

37 See Oppenheim, supra note 31 at 7; see also Nitschke, supra note 16 at 1059. Nitschke reviews the REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE ON THE ANTITRUST LAWS and comments that the REPORT views the cases as holding "that concerted action between the parent and its subsidiary or subsidiaries, which restrains no trade of outsiders but solely that between the parent and its subsidiary does not violate Sec. 1 (of the Sherman Act). The Committee rejects any implication to the contrary which might be construed from some of Justice Jackson's dissenting language in the *Timken* case".
39 See Oppenheim, supra note 31 at 14. See United States v. Minnesota Mining & Mfg. Co., 92 F. Supp. 947 (D. Mass. 1949); United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945). In both these cases, the defendants argued that the territorial divisions complained of were merely ancillary to a joint venture. In both cases, the defense failed because the joint venture was viewed not as the primary purpose of the agreement but only as a device whereby practically the entire world was divided up by the parties to the agreement into exclusive trade territories. In other words, just as in the trade-mark licensing agreement, intent of the parties was not incidentally protective but aggressively monopolistic.
will not immunize it from anti-trust charges if a certain cartel objective is the real purpose of the agreement. In other words, the American owner of a trade-mark who is fearful of licensing his mark with a provision that the licensee cannot manufacture or sell in the United States is not better advised to frame his territorial restriction as part of a joint venture agreement rather than as a trade-mark licensing agreement.⁴⁰

In conclusion, the Timken case did not say that granting a trade-mark license to a foreign subsidiary with each party reserving to itself its own market was a violation of the anti-trust laws. Nor did Timken say that joint venture arrangements between American and foreign concerns for the purpose of manufacturing under American trade-marks abroad was a violation of the anti-trust laws if the new company operating abroad makes a reciprocal pledge with the American company not to manufacture or sell in the territory of the other. The agreements which come within Timken are those where the division of world markets is a bit too complete, where price-fixing is incorporated into the agreement itself, and where permission to sell in the exclusive territory of one of the parties to the agreement is granted when a competitor appears. Only in such circumstances are the indicia of the international cartel manifest and hence are the anti-trust laws violated. To extend Timken to lesser restraints could only have the effect of prohibiting foreign trade entirely.

⁴⁰Sanib Corp. v. United Fruit Co., 135 F. Supp. 764 (D.C.N.Y. 1955). In Sanib the district court held that a common ownership would not insulate the defendants from a “conspiracy” charge under the anti-trust laws for acts committed in Honduras against plaintiff so long as these acts had some effect on interstate commerce in the United States.