IN RE: **PROPOSED AGREEMENT BETWEEN WESTINGHOUSE ELECTRIC MANUFACTURING COMPANY OF PITTSBURGH, PENNSYLVANIA, AND SUPERIOR ELECTRIC PRODUCTS CORPORATION OF SAINT LOUIS, MISSOURI, TO THE ANTI-TRUST LAWS OF MISSOURI.**

9/2

September 1, 1933.

FILED
89
42.

Superior Electric Products Corporation
1300-1310 South Thirteenth Street
Saint Louis, Missouri.

Gentlemen:

Replying to your letter of August 31, beg to say this department construes your letter of the 31st to mean that Westinghouse Company controls the patent on all thermostatic controls you use and that was the point of the inquiry we made with reference to Article II, paragraph (a).

This department assumes from the correspondence the fact to be that in all your transactions with the Westinghouse Electric Company, you are acting as a manufacturing licensee.

The law is, that while a patentee may not fix the price at which the vendee shall sell the article he has sold him, yet it is a very different question when fixing the sale price where there is a grant of a license under the patent to manufacture an article and sell it when manufactured. Where a patentee grants a license under the patent to manufacture an article, the patentee may fix the price at which the article under the said license shall be sold by the said licensee. The object of these laws is monopoly and the rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee, and agreed to by the licensee for the right to manufacture and use or sell the articles will be upheld by the courts. The fact that the conditions of the contract keep up the monopoly or fix prices does not render them illegal.

The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent

111

may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee charge a certain amount for such article. (Bement v. National Harrow Company, 186 U. S. page 70; 46 Law Ed. page 1058).

Upon the facts stated in the above cited case, it is still the law and it has not been in that respect overruled. It will be found frequently cited but not where the facts involved are identical with those in the Bement case. (Thornton on Combinations to Restrain Trade, Section 544, page 894.) There is an unbroken line of authorities in this country supporting the above legal proposition.

The authorities cited above gives you ample power to legally enter into the proposed contract, a copy of which you have submitted to this department insofar as the manufacture and sale of the said article by yourself, in accordance with schedules "A" and "B" attached to said contract, are concerned.

With respect to your Article IV, relating to price maintenance, this department desires to say that if Article IV is used simply for the purpose of a price maintenance as between your company and the owners of the patent, the Westinghouse Electric Manufacturing Company, then said Article IV is legal and is not a violation of either the Federal or the State Anti-Trust Laws. The question as to whether or not you may enter into contracts for maintenance of price with other manufacturers licensed by the Westinghouse Company to use the same patent as your company in accordance with schedules prepared by the Westinghouse Company, under the proposed agreement you have submitted, is one which must be answered with qualifications.

The law, as this department understands it is, agreements which transcend what is necessary to protect the use of the patent and restrain trade amount to a violation of the Missouri Anti-Trust Law; and if the operations under such agreement are carried on between different States or with a foreign country, then the Federal (Sherman) Anti-Trust Law is violated.

This was so decided in the case of Standard Sanitary Manufacturing Company v. United States, 226 U. S. page 20. In that case there was involved an agreement of all the parties thereto to use one certain patent which covered the manufacture of Standard Sanitary Manufacturing Company's products of enameled iron ware such as bath-tubs, wash-bowls, drinking fountains, etc., and the signers of the

agreement produced more than fifty per cent of that class of commodities in this country. The defense was set up that under the patent, the validity of which was in question, such combination was legal but the court held otherwise and decided the contract between the manufacturers was a violation of the Sherman or Federal Anti-Trust Law. This opinion, insofar as this department has been able to ascertain, has never been overruled nor has the effect thereof been legally narrowed by any subsequent decisions.

In the case of United States v. Pacific and Arctic Company, 228 U. S. page 87, Steamship Companies and Railway Companies combined to control transportation rates between Seattle in the State of Washington and Skagewa, Alaska, one of the defenses set up among others was that the agreement amounted to nothing more than fixing of a through rate and that under the Interstate Commerce Law, the defendants had a right to do that. The facts in the case developed, however, showed that for all carriers, not signatories to the agreement, there was a higher rate charged than that paid by the signers of the contract. The Federal Supreme Court held that this contract was in violation of the Federal Anti-Trust Law.

In a recent case, decided in March of 1931, the soundness of the two above cited cases was affirmed. The case we refer to is Carbice Corporation of America, v. American Patents Development Company and Dry Ice Corporation of America, 283 U. S. page 27; 75 Law Ed. page 819; and in this case, the court said:

> "The present attempt is analogous to the use of a patent as an instrument for restraining commerce which was condemned under the Sherman Anti-Trust Law in the Standard Sanitary Manufacturing Company v. United States, in 286 U. S. page 30."

Your correspondence gives no idea of the extent of the business of the Westinghouse Manufacturing Company

and all we can say to you is that if agreements are made by you with other licensees of the Westinghouse Company as to maintenance of price, such action would be a violation of the Missouri Anti-Trust Statutes, unless the agreements are such as Federal Supreme Court decisions sanction. This department is not prepared to say, considering the above cited cases in the Federal Supreme Court and considering our own Missouri Anti-Trust decisions, that your company would be legally authorized to make agreements with any other licensee of the Westinghouse Company for maintenance of price of the patented articles which you and such other companies or corporations may manufacture under the same license from the Westinghouse Company.

It is true that, in Rubber Tire Wheel Company v. Milwaukee Rubber Works, 154 Fed. page 358, decided April 16, 1907, in the Circuit Court of Appeals of the United States for the Seventh Circuit, that court held:

> "That it require in a license contract that a licensee joins other licensees in a combination or pool to control the price and output of a patented article was not in violation of the Sherman Anti-Trust Act (Federal Anti-Trust Law)",

and the court held in that case that patented articles, unless and until they are released by the owners of the patent from the dominion of a monopoly, were not articles of trade or commerce among the several states within the meaning of such act because they are not articles in which the people are entitled to freedom of trade; and the same court, on the same day held in Indiana Manufacturing Company v. J. I. Case Threshing Machine Company that where the owners of a number of patents, relating to straw stackers, licensed manufacturers of threshing machines giving said companies the right to use all inventions covered by such patents and authorized them to sell the straw stackers at a certain price and to pay royalty on each stacker so made and sold, also giving such threshing machine companies the right to use inventions covered by any other patents relating to the art which should thereafter be acquired by the owner of the patent, and the owner did afterwards acquire the ownership of all patents relating to said stackers, the court held that such contracts were not in restraint of competition and in vidation of the Sherman Anti-Trust Act. Both of these cases were taken on appeal to the Federal Supreme Court but both were dismissed on stipulations by the parties before being

argued and submitted to the court and so far as we can ascertain those cases were never passed on by any other court except the United States Circuit Court of Appeals. As to the stacker case, the one last mentioned, that case might be upheld on the theory that it did not go beyond what was necessary to protect the rights of the owner of the patent. As to the other case, in the United States Circuit Court of Appeals, it could only be sustained on the theory that it did not go beyond what was necessary to protect the rights of the patentee; but, in view of the Standard Sanitary Manufacturing Company's case, and the United States v. Pacific and Arctic Company, and the Carbice cases, heretofore cited, it is the opinion of this department that it is very doubtful if the Rubber Tire Wheel Company v. Milwaukee Rubber Works case in the United States Circuit Court of Appeals would be sustained by the Federal Supreme Court.

In the recent case of the Standard Oil Company v. United States, 283 U. S. page 163; 75 Law Ed. page 937, the Federal Supreme Court held:

> "Where domination of an industry exists, a pooling of competing process patents, or an exchange of licenses for the purpose of curtailing the manufacture and supply of an unpatented product is beyond the privileges conferred by the patents and constitutes a violation of the Federal Anti-Trust Act."
>
> "While manufacture is not interstate commerce, agreements concerning it which tend to limit the supply or fix the price of goods entering into interstate commerce, or which have been executed for that purpose are within the prohibitions of the Federal Anti-Trust Act."

The principle behind the federal decisions holding owner nor licensee of patent cannot, in guise of furthering use of the patent, make agreements restraining commerce is that the patent privilege given patentee to control price of his patented article when he licenses manufacturer to make same does not authorize a license contract restraining trade.

The proposed contract, unless it is protected by virtue of being a patent, is a clear violation of the Missouri Anti-Trust Statutes. If the contract is within the protection extended by the decisions of the United States courts to owners of patents, the State could not legally hold it invalid for the reason the subject of patents is within the control of the Federal Government and the rights under patents flow from a Federal Statute.

Therefore, this department has in this investigation kept steadily in mind the opinions of the Federal Supreme Court on what contracts are valid or invalid when made between patentee and licensee for manufacturing and sale under a patent.

Respectfully submitted,

EDWARD C. CROW
Assistant Attorney General.

APPROVED:

ROY McKITTRICK
Attorney-General.

ECC/AJ