Keywords: **Antitrust, Sherman Act, Licensing, Patent Validity, Mandatory Sales, Compulsive Licensing**

General: **In order to "pry open to competition" in a market closed by antitrust violations, an order for mandatory, nondiscriminatory sales (in the form of reasonable-royalty licensing) to all *bona fide* applicants may be appropriate relief.**

United States v. Glaxo Group Ltd.
410 U.S. 52, 176 U.S.P.Q. 289 (1973)
Decided January 22, 1973

I. Facts

Appellees, Imperial Chemical Industries Ltd. (ICI) and Glaxo Group Ltd. (Glaxo), were British drug companies engaged in the manufacture and sale of griseofulvin. Griseofulvin is an antibiotic compound that may be cut with inert ingredients and administered orally in the form of capsules or tablets to humans or animals for the treatment of external fungus infections. There was no substitute for dosage-form griseofulvin in combating certain infections. Griseofulvin itself was unpatented and unpatentable. ICI owned various patents on the dosage form of the drug. Glaxo owned various patents (no U.S. patent) on a method for manufacturing the drug in bulk form, as well as a U.S. patent on the finely-ground, "microsize" dosage form of the drug.

On April 26, 1960, ICI and Glaxo entered into a formal agreement pooling their griseofulvin patents. Pursuant to the agreement, ICI acquired the right to manufacture bulk-form griseofulvin under Glaxo's patents, to sell bulk-form griseofulvin, and to sublicense under Glaxo's patents. Glaxo was authorized to manufacture dosage-form griseofulvin and to sublicense under ICI's patents. As part of the agreement, ICI undertook "not to sell and to use its best endeavors to prevent its subsidiaries and associates from selling any griseofulvin in bulk to any independent third party without Glaxo's express consent in writing."

Subsequent to the pooling of the griseofulvin patents, ICI granted a sublicense to its exclusive distributor in the United States, agreeing to sell bulk-form griseofulvin to the distributor. Glaxo had previously entered into similar sublicensing agreements with two United States companies. The agreements contained covenants on the part of the licensees not to sell or to permit its affiliates to sell any griseofulvin in bulk without the licensor's express consent.

On March 4, 1968, the United States filed a civil antitrust suit against ICI and Glaxo, pursuant to § 1 of the Sherman Act. The Government charged that the restrictions on the sale and resale of bulk-form griseofulvin, contained in the 1960 ICI-Glaxo agreement and the various sublicensing agreements, were unreasonable restraints of trade. The Government also challenged the validity of ICI's dosage-form patent and Glaxo's micro-size dosage patent.

The district court held that the bulk-sales restrictions contained in the agreements were *per se* violations of § 1 of the Sherman Act. The court struck the claims of patent invalidity from the Government's complaint, ruling that the Government could not challenge the patents when they were not relied upon as a defense to the antitrust claims. The court enjoined future use of the bulk-sales restrictions, but refused the Government's request to order mandatory, nondiscriminatory sales of the bulk form of the drug and reasonable-royalty licensing of the ICI/Glaxo patents as part of the relief. The United States appealed.

II. Issues

1. Did the district court err is not allowing the Government to challenge the validity the patents involved in this antitrust action (because the defendants did not rely on the patents as a defense)?

2. Did the district court err in not ordering mandatory, nondiscriminatory sales and reasonable royalties for bulk-form sales of griseofulvin by Glaxo (and ICI) to all *bona fide* applicants?

III. Discussion

1. Yes. The Court agreed with the United States that the Government could challenge the validity of a patent in an antitrust action – even if the patent is not relied upon as a defense. In reviewing the controlling cases, the Court noted that, because of the public interest in free competition, it had repeatedly held that the private licensee-plaintiff in an antitrust suit may attack the validity of the patent under which he is licensed even though he has agreed not to do so in his license. Although a patent licensee was normally foreclosed from questioning the validity of a patent he is privileged to use, the bar is removed when he alleges conduct by the patentee that would be illegal under the antitrust laws, absent the patent. It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.

The Court thought the case law provided sufficient authority for permitting the Government to raise and litigate the validity of the ICI-Glaxo patents in this antitrust case. Appellees had issued licenses under their patents that unreasonably restrained trade by prohibiting the licensees from selling or reselling bulk-form griseofulvin and had included in the pooling agreement a covenant to impose such restrictions on licensees. As concluded by the district court, the covenant and the patent license provisions were *per se* restraints of trade in the griseofulvin product market.

The district court was then faced with the Government's attack on the pertinent patents as well as its demand for additional relief. In this context, where the court would necessarily be dealing with the future enforceability of the patents with regard to substantial further relief (i.e., mandatory sales and reasonable royalties), the court should have also entertained the Government's challenge to the validity of those patents.

In arriving at this conclusion, the Court noted that they did not recognize unlimited authority in the Government to attack a patent by basing an antitrust claim on the simple assertion that the patent is invalid. Nor did they invest the Attorney General with a roving commission to question the validity of any patent lurking in the background of an antitrust case. But the district courts have jurisdiction to entertain and decide antitrust suits brought by the Government and, where a violation is found, to fashion effective relief. The Supreme Court perceived no good reason, either in terms of the patent system or of judicial administration, for refusing to hear and decide validity of patents involved. The Court held the district court, on remand, should consider the validity of the ICI and Glaxo patents.

2. Yes. The district court was faced with the Government's demand for mandatory sales and reasonable-royalty licensing, which were well-established forms of relief when necessary to an effective remedy, particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated. Appellees opposed mandatory sales and compulsory licensing, asserting that the Government would "deny defendants an essential ingredient of their rights under the patent system," and that there was no warrant for "such a drastic forfeiture of their rights." However, again, the district courts have jurisdiction to entertain and decide antitrust suits brought by the Government and, where a violation is found, to fashion effective relief. This often involves a substantial question as to whether it is necessary to limit the rights normally vested in the owners of patents, which in itself can be a complex and difficult issue. The Court thought the United States presented a substantial case (wholly aside from the question of patent validity) for additional relief (i.e., mandatory sales and compulsory licensing).

In the first place, the ICI dosage-form patent, along with other ICI and Glaxo patents, gave the appellees the economic leverage with which to insist upon and enforce the bulk-sales restrictions imposed on the licensees. Glaxo apparently considered the bulk-sales restriction to be a prerequisite to the granting of a sublicenses (either by Glaxo or ICI), and also wanted to limit the number of sublicenses for bulk-form manufacture and sale. The source of the patent-pooling agreement pursuant to which such licenses were permitted and which contained the bulk-sales restriction was simple: Glaxo needed the ICI dosage-form patent to assure its licensees the right to use the patent and sell in dosage form. Pooling permitted ICI to engage in bulk manufacture, and, in exchange, ICI imposed the bulk-sales restrictions upon its licensees. There can be little question that the patents involved here were intimately

associated with and contributed to effectuating the conduct that the district court held to be a *per se* restraint of trade in griseofulvin.

Secondly, the Court thought that ICI and Glaxo should have been required to sell bulk-form griseofulvin on reasonable and nondiscriminatory terms and to grant patent licenses at reasonable-royalty rates to all *bona fide* applicants in order to pry open to competition the griseofulvin market that has been closed by defendants' illegal restraints. The United States griseofulvin market consisted of three wholesalers, all licensees of appellees, that accounted for nearly 100% of United States sales. In practice, the licensees have not manufactured griseofulvin under the bulk-form patents, preferring instead to purchase in bulk form from ICI and Glaxo. The licensees sold the drug in dosage and microsize form to retail outlets at virtually identical prices. The effect of appellees' refusal to sell in bulk and prohibition of such sales by the licensees was that bulk griseofulvin had not been available to any but appellees' three licensees and that these three were the only sources of dosage-form griseofulvin in the United States.

There was little reason to think that the appellees or their licensees, with the bulk-sales restrictions declared illegal by the district court, would begin selling in bulk. It was in their economic self-interest to maintain control of the bulk form of the drug in order to keep the dosage-form, wholesale market competition-free. Bulk sales would create new competition. Competitors would have charged substantially lower wholesale prices for the dosage and microsize forms of the drug. Only by requiring the appellees to sell bulk-form griseofulvin on nondiscriminatory terms to all *bona fide* applicants would the dosage-form, wholesale market become competitive.

Relief in the form of compulsory sales would not, however, alone insure a competitive market. Glaxo and ICI could have chosen to discontinue bulk-form manufacturing or the sale of griseofulvin in bulk form. The patent licensees might then begin to practice the bulk-form manufacturing patents pursuant to the patent licenses to fill their needs for the bulk drug. The licensees, of course, were not parties to this action, and a mandatory-sales order would not affect them. They would not be required to make the economically less advantageous bulk sales. The bulk form of the drug would be controlled by the licensees, and the appellees, because they would be required under the Government's proposed relief to sell to all applicants only so long as they sell to any United States purchasers, could have easily avoided the mandatory-sales requirement. Unless other American firms were licensed to manufacture griseofulvin, competition in the United States market would have depended entirely upon appellees' willingness to continue to supply their present licensees with the bulk form of the drug.

Only by requiring the appellees to sell bulk-form griseofulvin on nondiscriminatory terms to all *bona fide* applicants would the dosage-form, wholesale market become competitive. The purpose of relief in an antitrust case is, so far as practicable, to cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Mandatory selling on specified terms and compulsory patent licensing at reasonable charges are recognized antitrust remedies. The district court should have ordered those remedies in this case.

IV. Conclusion

In order to "pry open to competition" the market closed by the antitrust violations in this case, an order for mandatory, nondiscriminatory sales to all *bona fide* applicants is appropriate relief, and where, as in this case, the manufacturer may choose not to make bulk-form sales, and the licensees are not bound by the court's order for mandatory sales, further relief in the form of reasonable-royalty licensing of the patents is also proper.