In the

Supreme Court of the United States

UNITED STATES OF AMERICA,	)	
	)	
Appellant,	)	
	)	
v.	)	No. 71-666
	)	
GLAXO GROUP LIMITED, and IMPERIAL CHEMICAL INDUSTRIES, LIMITED,	)	
	)	
Appellees.	)	

Washington, D. C.
November 9, 1972

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v.	:	No. 71-666
GLAXO GROUP LIMITED, and IMPERIAL CHEMICAL INDUSTRIES, LIMITED, Appellees.	:	

Washington, D. C.,

Thursday, November 9, 1972.

The above-entitled matter came on for argument at 11:42 o'clock, a.m.

BEFORE:

WARREN E. BURGER, Chief Justice of the United States
WILLIAM O. DOUGLAS, Associate Justice
WILLIAM J. BRENNAN, JR., Associate Justice
POTTER STEWART, Associate Justice
BYRON R. WHITE, Associate Justice
THURGOOD MARSHALL, Associate Justice
HARRY A. BLACKMUN, Associate Justice
LEWIS F. POWELL, JR., Associate Justice
WILLIAM H. REHNQUIST, Associate Justice

APPEARANCES:

DANIEL M. FRIEDMAN, ESQ., Deputy Solicitor General, Department of Justice, Washington, D. C. 20530; for the Appellant.

HENRY P. SAILER, ESQ.,888 Sixteenth Street, N. W., Washington, D. C. 20006; for Appellee Glaxo Group.

SIGMUND TIMBERG, ESQ., 815 Fifteenth Street, N. W., Washington, D. C. 20005; for Appellee ICI.

C O N T E N T S

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P R O C E E D I N G S

MR. CHIEF JUSTICE BURGER: We will hear arguments next in 71-666, United States against Glaxo Group.

Mr. Friedman.

ORAL ARGUMENT OF DANIEL M. FRIEDMAN, ESQ.,

ON BEHALF OF THE APPELLANT

MR. FRIEDMAN: Mr. Chief Justice, and may it please the Court:

This is a government civil antitrust case here on direct appeal to the United States District Court for the District of Columbia, which presents two basically unrelated issues.

The first issue is whether, in a civil antitrust case, the government may challenge the validity of patents which, although not relied upon by the defendants as a defense to the antitrust charge are, nevertheless, involved in the antitrust violations in the case; and the second issue is whether the relief given by the district court in this case was inadequate.

The appellees, the Glaxo Group Limited, and Imperial Chemical Industries, Inc., which I shall refer to as ICI, are two British drug firms.

The drug involved in this case is an antibiotic called "griseofulvin". Griseofulvin itself is an old product and it's unpatented, and for many years it was used as a

fungicide in the treatment of fungus infections of plants.

In the 1950's, ICI discovered that if griseofulvin was taken internally it would be able to cure various fungus infections, such as ringworms, on the skin of people and animals. And, as a result of these discoveries, in 1959 ICI obtained a patent upon this new use of the drug.

The patent contained two basic claims. The first was a so-called method claim which consisted of a method of curing external fungus infections of animals and people by the administration of what theydescribed as an effective amount of griseofulvin. The second claimw as a so-called product claim, it was described as a pill, capsule, or container containing an effective amount of griseofulvin which would accomplish this objective.

And this is the basic patent, these two claims, which the government is here challenging.

In 1967, the other appellee, Glaxo, obtained a United States patent on an improved form of griseofulvin, the so-called microsize form of the drug, which is very much ground up into very small particles, which has proven to be much more effective than the original form, and which is the one now of principal commercial significance.

Between 1957 and 1960, the two appellees had extensive discussions, looking to a pooling of their patents and cross-licensing. And in 1960 they reached such an

agreement under which the patents on griseofulvin of the two companies were pooled, and they cross-licensed each other.

And in addition to that, in this agreement ICI agreed that it would use its best endeavors to make sure that its licensees did not sell griseofulvin in bulk to third persons without the consent of Glaxo.

In 1962, ICI appointed the American Home Products Corporation, an American firm, as its exclusive distributor of griseofulvin. It previously had appointed this firm as its exclusive distributor for other drugs. And in its license to American Home Products, it required an agreement that American Home Products, in turn, would not sell this drug in bulk to any third persons without the written permission of ICI.

Shortly before this, Glaxo had granted similar -- made a similar agreement with two other American firms, Schering Corporation and Johnson & Johnson, appointing them as distributors for the drug griseofulvin in the United States; and the agreements of Glaxo with these two licensees similarly provided that the licensees could not sell in bulk without the written approval of the licensor.

Each of these agreements gave the people cross-licenses under the patents. That is, Glaxo license under its own and ICI's patents; ICI license under its and the Glaxo

patents.

And each of these was in the form of a patent licensing agreement. That is, in addition to the bulk sales restriction, the basic agreement was they licensed them to manufacture and sell under the patents, and each of the licensees was required to pay a royalty to the licensor, based upon the total amount of the griseofulvin which they purchased from the English firm and sold.

Now, although the licenses permitted the American firms to manufacture, the fact is that throughout this entire period all three of the American licensees purchased all of their griseofulvin from the English firms.

During this entire period, neither Glaxo nor ICI made any bulk sales to anyone other than the three licensees, and the three licensees themselves made no bulk sales at all to anyone in the United States.

Shortly before this suit was filed, when the appellees were informed that the Justice Department was investigating the legality of these bulk sales restrictions, they cancelled them.

Since that time American Home Products Corporation has made a few sales of the griseofulvin, not in bulk but in the capsule form.

Now, when this government suit was filed in March 1968, the three licensees together had 100 percent of the

market. And at the time the record was closed, a couple of years later, they had 98.5 percent of the market.

The government suit alleged that the bulk sales limitations contained in the licenses and also in the ICI-Glaxo patent pooling arrangement violated Section 1 of the Sherman Act.

The government complaint also challenged the ICI patent on two grounds. We contended that the method patent was invalid because it did not disclose how to practice the invention, since it nowhere stated what was an effective amount of griseofulvin, and of course the patent, the idea that was patented was the administration of an effective amount necessary to cure these diseases. And we said that all it said was an effective amount, and that didn't sufficiently disclose the method of practice in the invention, so that when the patent ultimately expires this patented information will be available to the public.

QUESTION: This was in the complaint?

MR. FRIEDMAN: This was in the complaint, Mr. Justice.

QUESTION: And why, in the complaint, did the government challenge the validity of the patent?

MR. FRIEDMAN: Well, we didn't spell out in the complaint, but we said that these patents were invalid and the theme --

QUESTION: This was perhaps in anticipation of their

relying on the patent to justify the restriction, or what?

MR. FRIEDMAN: No, they had not relied on the patent. No, our basic theory, Mr. Justice, was that we have the right, in an antitrust case, where we allege and claim that the patents are involved in the violation, we have the right, as an incident to that antitrust suit, to challenge the violation.

Of course, here our allegation is that these bulk sales restrictions were invalid and these, of course, were part of the patent licensing agreement.

Now, we also challenged the so-called product claim on the ground that all this was was the new use of a well-known product, and that you couldn't get a product claim on that, that that could only be patented under the method claim.

There was not, in this case, a trial in the traditional sense. The case was decided on various motions for partial summary judgment. However, an extensive record was produced, it occupies better than 400 pages in this Court, and extensive facts were developed through affidavits, through depositions, through stipulations, through various documents.

The district court held that the ban upon the sales of bulk of the griseofulvin in both the patent licensing agreements and the cross-licensing agreements was a per se violation of Section 1 of the Sherman Act, because, under this Court's decision in the Schwinn case, in 388 U.S., it

was an impermissible restraint by the manufacturer upon alienation. That is, the manufactur parted with all his title and control over the property when he sold it to the American licensees, and he could not thereafter control the disposition made by the American licensees.

The district court, however, struck from the complaint the allegations with respect to the invalidity of the patents. The court said that the government had no standing to litigate this issue, and there were two grounds of its decision -- really, one ground. What it said was: as it interpreted the prior decisions of this Court, the government may challenge the validity of a patent only in two circumstances: one, where it is alleged that the patent has been obtained by fraud on the Patent Office -- and there was no such claim here; two, where the defendants rely upon the patent as a defense to the antitrust case. And since the defendants here had expressly -- at least one of them, ICI had disavowed the reliance on the patent; it concluded that the government had no standing.

And consistent with that decision, it also denied the government's motion to file an amended complaint which, among other things, would have also challenged the validity of the later Glaxo patent.

The judgment the district court entered in this case prohibits the appellees from participating in, adhering,

enforcing in any way any agreement prohibiting or limiting the resale in bulk of not only griseofulvin but of all drugs that it sells in the United STates.

The district court, however, refused to grant two other provisions which the government asserted was essential to dissipate the effects of this illegal conduct. That is, we said: in addition to that the court should order the appellees themselves to grant licenses in bulk as long as they sold in the United States on reasonable, non-discriminatory terms; and in addition we urged that they should be required to grant licenses under their patents at reasonable royalties.

And I will discuss the facts relating to the need for this relief when I come to discuss the relief portions of the case.

Now, under this Court's decision in the Gypsum case, there's no question that if the defendants rely upon a patent as a defense to an antitrust case involving patents, the government then has standing to challenge the patents.

In the Gypsum case, what happened was that the government alleged that an industrywide price-fixing system, resulting from a series of patent licenses, violated the Sherman Act.

The defendants in that case admitted that if their patents didn't provide a defense, their conduct was illegal, but they asserted that the patents did provide a defense.

At that point the government then moved to amend the complaint, to challenge the validity of the patents.

The district court refused to permit the government to do that, saying that if you permitted the government in an antitrust suit to challenge the validity of patents, that would involve a collateral attack upon the decision of the Commissioner of Patents granting a patent, and that the statutes do not permit such collateral attack.

When the case came to this Court on the government's appeal, the Court said it was actually unnecessary to decide that issue, because it concluded that what the defendants had done in that case could not be justified by their patents; but it said that because of the significance of the issue, it was unwise to leave that holding as a precedent, and therefore took pains to correct it.

And I would like to read to the Court the ground on which this Court held that the district court had erred in Gypsum in saying the government couldn't rely on the patents. It's in 333 U.S., at pages 387 to 388. The Court said: "In an antitrust suit instituted by a licensee against his licensor we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed" -- and now I stress these words -- "because of the public interest in free competition, even though the licensee has agreed in his license not to do so."

That is the public interest in free competition method, even though the licensee had said he wouldn't attack the patent; nevertheless he should be given the right to do so.

And the Court then concluded: "In a suit to vindicate the public interest by enjoining violations of the Sherman Act," -- that is a suit to vindicate the public interest as distinguished from the private interest involved in the private suit -- "the United States should have the same opportunity to show that the asserted shield of patentability does not exist."

Now, of course, as our opponents argue vigorously, this is a different case, because here they haven't relied upon the patents as a defense, but we think the basic rationale of that case, and the whole theory of all of this Court's decisions dealing with the interrelationship of patents and the antitrust laws calls for the same result in this case.

This Court, in recent years, has frequently recognized, as it said in Lear v. Adkins, the important public interest in permitting free and full competition in the use of ideas, which are in reality a part of the public domain, and the strong federal policy favoring that interest. And in Lear v. Adkins, it also referred to the public's interest in the elimination of specious patents.

This concept is nothing new. Eighty years ago, in a case called Pope Manufacturing v. Gormully, this Court stated, and I will quote, "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."

Now, in the patent laws, Congress has provided that inventors are to be rewarded with a monopoly for seventeen years. And this, of course, is designed to encourage invention, to see that people who make significant contributions get the financial rewards thereof.

However, Congress has provided rather explicit and specific conditions that have to be met before a patent can be granted. There are, of course, the standards of inventiveness, non-obviousness, the fact that the invention cannot be patentable if it was made public more than a year before the application is filed, and also certain things that are involved in this case as to what has to be disclosed in the patent application.

Now, if these requirements are not met, it's clearly, we think -- and this Court has recognized -- it's in the public interest that such a patent be invalidated.

The patent monopoly, of course, and for very valid reasons, is an exception to the basic principle of free competition that is reflected in the Sherman Act. The Court

itself so stated in the Lear case.

Therefore, in the light of that fact that it is an exception to the policy of free competition, we think it is important that the patent monopoly only exist when the specific terms Congress has provided for it in fact are satisfied.

The purpose of a government antitrust suit, of course, is to eliminate restraints upon competition. By definition, an invalid patent, one that has not met the standards Congress has provided, involves precisely an impermissible restraint of that type.

We therefore think it is appropriate that when the government brings an antitrust suit, in which the patents are involved, that it should be permitted in that suit also to challenge the patents. Because such a challenge furthers the basic principle of the lawsuit. That is, the purpose of the Attorney General in bringing a suit under the antitrust laws is to eliminate restraints on competition.

And where a patent is involved in an antitrust violation, that is a restraint also on competition and one which furthers and, in effect, strengthens the basic restraint arising under the antitrust laws.

QUESTION: Would it not follow, Mr. Friedman, that the government could bring a civil antitrust suit against any patentee, claiming that since his patent was invalid, then he was an illegal monopolist under the antitrust laws?

MR. FRIEDMAN: As a matter of logic, Mr. Justice, certainly; and in the court below we argued this case on alternative theories. We argued that general theory and we also argued, as we've explained in our reply brief, the narrower theory, that here the patents were involved in the antitrust violations. In this Court we have not abandoned the position maintained below, but we have brought the case to this Court on the narrow ground because we think in this case, we think that in this case here the patents were involved.

QUESTION: Well, they were not in issue in any sense of the word, they were not one of the issues to be determined in this litigation, the way the issues were framed by the ultimate pleadings, isn't that true?

MR. FRIEDMAN: Well, they were not in issue only because --

QUESTION: They were not relied upon by the defendants.

MR. FRIEDMAN: They were not relied upon by the defendants.

QUESTION: Therefore they were not one of the issues to be determined in the antitrust litigation.

MR. FRIEDMAN: Well, except, Mr. Justice, that we did make an allegation that the patents were invalid.

QUESTION: Well, as I say, then it would follow, it

would seem to me as a matter of logic that you could bring an antitrust suit against any patentee claiming that his patent was invalid and therefore his exercise of a monopoly violated the antitrust laws.

MR. FRIEDMAN: Well, it would not -- the mere fact, Mr. Justice, that the patent is invalid would not be enough to establish a violation of the antitrust laws. Because --

QUESTION: The patent confers upon the patentee or his assignee the right to exercise monopolistic rights, with respect to the patent, for the number of years.

MR. FRIEDMAN: Monopoly in the colloquial sense, Mr. Justice; but this Court held in the Walker Process case that that in itself was not enough to establish a violation of Section 2.

That is, the mere fact that you have an invalid patent and enforce it, if the patent is subsequently invalidated, that is not enough to establish a violation of Section 2. And therefore, in that kind of a case, in that kind of a case we would not be able to show that the patent was involved in an independent antitrust violation.

I concede that as a matter of logic the policy arguments I have made would point to the direction that we can challenge it in every case. But that's an issue that does not have to be faced in this case, we think, Mr. Justice, because in this case we think the patents are involved in the

antitrust violations.

And let me explain just briefly, if I may, why we think that is so. These patents basically, we think, were the foundation upon which the illegal bulk sales prohibition rested.

To begin with, the restriction is contained in the patent licensing agreements. The agreement between Glaxo and ICI or the original agreement which involved the pooling of patents and the cross-licensing itself was the first time in which Glaxo insisted that ICI should prevent its licensees from selling in bulk.

Now, the thing that --

QUESTION: Would you say, then, that what you've been arguing you would not argue in a treble-damage case?

MR. FRIEDMAN: We would not argue?

QUESTION: Yes. Did you say you would or wouldn't? I thought you said something about --

MR. FRIEDMAN: Well, I thought Mr. Justice Stewart's question did not relate --

QUESTION: Yes, but I was turning to a different one.

MR. FRIEDMAN: Pardon?

QUESTION: I was turning to a different one.

MR. FRIEDMAN: You're asking a different one?

QUESTION: Yes.

MR. FRIEDMAN: Well, I would think -- you mean if the government or a private party were bringing a treble-damage case?

QUESTION: A private party bringing --

MR. FRIEDMAN: No, I would not think that a private party would, Mr. Justice. I don't --

QUESTION: Why?

MR. FRIEDMAN: Because of the role the Attorney General has in this case.

QUESTION: Well, I know, but I thought -- I thought the theory of the treble-damage suit was private Attorney General.

QUESTION: Well, what if the licensee were sued by the patentee here to enforce the license agreement?

Do you think the licensee could answer and say, Well, by the way, you patent's invalid.

MR. FRIEDMAN: Oh, certainly; certainly, Mr. Justice, if --

QUESTION: Well, what if it were then?

MR. FRIEDMAN: That would be -- he could challenge.

QUESTION: And how about treble damages?

MR. FRIEDMAN: I would think that if -- well, the treble damages would have to be based on --

QUESTION: On an antitrust violation.

MR. FRIEDMAN: -- a violation of the antitrust laws.

QUESTION: Which is on the -- which you say appears on the face of the license agreement?

MR. FRIEDMAN: It's been so held, yes. The violation of the antitrust laws.

QUESTION: Yes.

MR. FRIEDMAN: But you would not be entitled to get treble damages on the basis of invalidating the patent. Treble damages could be obtained for the violations of the antitrust laws that were found.

[Whereupon, at 12:00 o'clock, noon, the Court was recessed, to reconvene at 1:00 o'clock, p.m., the same day.]

AFTERNOON SESSION

[1:00 p.m.]

MR. CHIEF JUSTICE BURGER: You may continue, Mr. Friedman.

MR. FRIEDMAN: Mr. Chief Justice, and may it please the Court:

When the Court rose, there was discussion about the relationship between this suit and private litigation, and I would just like to come back to that a minute if I may. Because we think it is somewhat anomalous that the government is denied the right to challenge patents in an antitrust suit that are involved in the violation, where it is asserting the public interest. Yet, it's well settled that in private suits, private parties in many situations have standing to challenge the validity of patents.

For example, if a patent licensee is sued for infringement or if a person is sued for infringement, or a patent licensee is sued for royalties, he always has the right to assert as a defense that the patent is invalid.

QUESTION: That isn't very historic, is it?

MR. FRIEDMAN: It's not historic, but it's a principle that this Court has long since recognized, Mr. Justice. And, indeed, it goes a little bit -- it goes beyond that, it seems to us. It goes beyond that because under the patent misuse doctrine the courts of equity will frequently deny

their processes to bar enforcement of a patent, not where there has been a violation of the antitrust laws as such, but even where the patentee has engaged in anticompetitive conduct. And we think that in the light of that subtle practice when dealing with the rights to challenge patents in private suits, certainly the government should have no lesser interest when it is suing to protect the public interest.

And in --

QUESTION: Well, is there any indication in these cases that without the condition against bulk sales there would have been no license? Or do you just infer that?

MR. FRIEDMAN: There's no such indication, but it does appear, Mr. Justice -- I mean, the limitation was a part of the patent licensing agreement.

QUESTION: Evidently it was, but it was negotiated --

MR. FRIEDMAN: Presumably. Presumably one of the conditions for the patent license is that they accepted this restriction. And, indeed, the fact that the appellees considered this restriction so important I think is shown by the fact that when they had their cross-licensing agreement they agreed that ICI would impose this restriction upon its licensee.

So that it seems to us that this whole thing was part of the single transaction. And I just may refer in this

connection, to point out that the position we are advocating here would fully accord with this Court's statement only last term in the Blonder-Tongue case, recognition that this Court's decisions do encourage authoritative testing of patent validity.

And there's one final point to make: in this particular situation, if the government is not permitted to challenge these patents, it's unlikely that anyone else will. And of course, in permitting challenges by licensees, this Court has stressed that frequently the licensee is the only one who has an interest in challenging.

Now, in this case, certainly the three licensees who have had the benefit of what I shall come to when I discuss the relief, of basically a non-competitive, highly concentrated market, there's no reason to think they would have any incentive to challenge the patents. And the people who are trying to get into this market are the small generic drug manufacturers who don't sell under brand names, they are small companies, the market itself is not an overwhelmingly large one, and they would have no interest to challenge it.

Now, what is the basic position that the appellees urge as to why we shouldn't have this power?

First of all, they tell us that, Well, you don't come within Gypsum because we have not relied on the patents as a defense.

Well, Gypsum, of course, merely held that where the government -- where the defendants do rely on the patents as a defense, the government can challenge the patents. It didn't at all deal with the question where, if the patents are not relied on as a defense, whether the government can challenge them nonetheless if they're involved in antitrust violations.

And then -- I will come to it in one minute, but I just want to say here at the outset that basically we don't think they make any convincing policy arguments as to why the government should not be able to do this. Their major argument, and, indeed, the principal reliance of the district court was on this Court's decision in the Bell Telephone case, 75 years ago.

The Bell Telephone case was a suit in which the government challenged certain of the Bell Telephone patents as having been obtained by fraud on the Patent Office, by alleged misrepresentations, and we brought a suit to cancel the patents.

The circuit court held that the government had not proven fraud, and dismissed the suit, and this Court affirmed the dismissal, saying that the whole theory of the government that these people had failed to move with sufficient dispatch before the Patent Office, that therefore they were extending the life of the patent and the protection of the patent. They said that is not fraud within the rule that permits the

government to challenge a patent -- to cancel a patent for fraud.

And then the Court went on and commented on a statement made in an earlier decision involving the Bell case, which, it suggested that the government could also perhaps challenge a patent for a mistake on the part of the patent official's bad judgment and so on.

What the Court said was that in making the statement in the earlier case it was not intending to suggest or state that -- and this is the quote -- the courts of the United States, sitting as courts of equity, could entertain jurisdiction of a suit by the United States to set aside a patent for an invention on the mere ground of error of judgment on the part of the patent officials. That would be an attempt on the part of the courts, in collateral attack, to exercise an appellate jurisdiction over the decisions of the Patent Office, although no appellate jurisdiction has been, by the statute, conferred.

Now, to begin with, the rationale that was announced in the Bell Telephone case, that permitting the government to maintain such a suit would amount to an impermissible collateral attack on the Patent Office, that is the identical theory upon which the district court in Gypsum refused to permit the government to challenge the patent, and one which we think this Court implicitly rejected in its Gypsum decision.

And of course, as a practical matter, patents are challenged, and the decisions of the Patent Commissioner are reviewed all the time in the courts of this country, because what happens is, whenever there's a patent suit and the patent is challenged, the district court, in determining whether the patent is valid or invalid, to that extent reviews the decision of the Commissioner of Patents.

QUESTION: And that's because without the patent the case, on one side or the other, falls?

MR. FRIEDMAN: Well, but I'm suggesting, Mr. Justice, that the fact that the court is in effect reviewing the decision of the Patent Commissioner --

QUESTION: No, but in this case whether or not the patent is valid doesn't determine your case, in terms of whether there's an antitrust violation. You don't need to hold the patent invalid to argue that there was a per se violation of the antitrust laws.

MR. FRIEDMAN: No. But we think this is an appropriate ancillary phase of the case.

QUESTION: So is the jurisdictional question, is it a pendent jurisdictional question -- is the issue just -- does the court have independent jurisdiction to consider this question, or is it pendent to the antitrust issue?

MR. FRIEDMAN: I think it's pendent to the antitrust. I think under Section 4of the Sherman Act, the jurisdiction.

The jurisdiction of the district court embraces anything that is ancillary and --

QUESTION: But absent a subsequent antitrust claim, would you say there is jurisdiction?

MR. FRIEDMAN: Perhaps under other sections, but not under -- I wouldn't think, under Section 4 of the Sherman Act. Under the other provisions dealing with the --

QUESTION: Well, logically your position would be that there was under the Sherman Act? Logically, you would say that there was an antitrust -- if there's an invalid patent being practiced?

MR. FRIEDMAN: We don't say that the mere practice of an invalid patent itself is a violation of the Sherman Act. What we do say is that there would have to be more than that to be a violation of the Sherman Act, and I assume your hypothetical was that all we had was just a naked suit challenging a patent. We wouldn't say that there's jurisdiction to deal with that under the Sherman Act.

QUESTION: And it's just -- just on the tip of your tongue, there's some other section, is there, that you just happened to think of?

MR. FRIEDMAN: Well, I suggest two sections, Mr. Justice.

QUESTION: An act regulating commerce, or what?

MR. FRIEDMAN: Well, one is 1338(a), original

jurisdiction of any civil action arising under any Act of Congress relating to patents; and also the section --

QUESTION: All right.

MR. FRIEDMAN: -- where the United States is the plaintiff in the suit.

QUESTION: And you say, Mr. Friedman, that substantively the question is not one of whether a patent may be collaterally attacked, since they are in other proceedings, but whether -- it's one of standing, whether the government has standing to collateral issues.

MR. FRIEDMAN: Well, the government has standing to challenge a patent involved in an antitrust violation, where there's no claim of fraud on the Patent Office, and where the patent is not relied on as a defense. That's the case that we put to the Court.

Now, of course, the other --

QUESTION: Didn't Gypsum implicitly decide that question against you?

MR. FRIEDMAN: We think not, Mr. Justice --

QUESTION: In Gypsum the Court said that where the patent is relied on, the government can attack the patent's validity. And it went on to say, in this case, at least, there was an antitrust violation, Gypsum, regardless of the patent's validity, and therefore we don't need to decide the patent's validity in this case.

MR. FRIEDMAN: But then they went on to say --

QUESTION: In other words, saying where reliance on the patent does not give immunity from the antitrust action, we don't need to decide it.

MR. FRIEDMAN: But then the Court went on and did decide it. The Court went on and --

QUESTION: The validity of the patents?

MR. FRIEDMAN: No, no. I'm sorry. I'm sorry. No. No.

QUESTION: Well, that's what we're talking about here.

MR. FRIEDMAN: But, of course, in the Gypsum case we were challenging the validity of the patent only because the defendants were relying on it. Whereas, in this case, they're not relying on it and we are challenging the patent as incidental to the antitrust violation.

Now, if I may come to two other respects in which the Bell case is quite different. First of all, the statement in the Bell case of course was not necessary to the decision in the case, because the actual holding in the case was that the government had not proved fraud.

Secondly, and more importantly, the Bell case was decided only seven years after the Sherman Act was passed. There's no reference in the opinion in the Bell case to the Sherman Act, and again the Bell case did not involve any challenge to a patent in connection with an antitrust suit.

It was a naked challenge to the patent, and the Court said that a naked challenge to the patent by the government, where the government challenges it for fraud and fact, that it cannot challenge it just on the ground of a mistake on the part of the Patent Office.

And we think that in the light of the more recent decisions of this Court dealing, giving broader rights to challenge patents, and the right of its repeated statements of the importance of permitting authoritative testing of patents, if Bell is read as precluding the government's challenge to the patent in this situation, we then suggest that Bell should be reexamined and rejected to that extent.

I'd now like to turn to the other phase of this case, which is the relief aspects, and what we think is the court's error in failing to grant us these two additional items of relief. That is, to require the appellees to sell in bulk, and to give reasonable patent license royalties.

This Court has many times specified the purposes of antitrust relief to cure the ill effects of the illegal conduct and protect the public from its continuation. It is said that the relief must be effective to restore competition, and in a much broader statement from the International Salt case, that it should pry open to competition a market that has been closed by the defendant's illegal restraints.

Now, of course, the district courts have broad

discretion in framing relief in antitrust cases, but this Court again has pointed out that it has never hesitated to step in in what is described as perhaps the most critical aspect of the antitrust case, to take whatever steps are necessary to insure that the relief is adequate.

Now, while the bulk sales prohibition was in effect, there were no sales of this product in bulk in the United States. The three licensees had all of the market, and, as would be expected in this kind of a situation, the prices were virtually identical. We have figures in the record showing the prices charged by the three licensees at wholesale to the druggists.

On the regular size of the capsule, the prices were identical of all three of the licensees, $10.40 for a bottle of 100 capsules of the most popular size. In the microsize type of drug, which, as I indicated, is the most popular at the moment, there were microsized variations in the prices. One of them charged $12.14, the other $12.10, and the third one $12.04.

Once again, substantially identical prices.

The three licensees are the major -- three of the major drug firms in this country, they sell drugs under well-known trademark names. They advertise extensively. They engage, as we all know, in very extensive promotions.

There are several small firms in the drug business,

who are so-called generic drug manufacturers. They sell the same product under the generic name or under their own name, which is not well advertised.

These firms compete on price, they do not have the big name brand but they are able to sell the drug cheaper, and many people are willing to accept the non-name brand for a lesser price.

And the evidence in this case is that for the generic distributor to be able to compete effectively with a brand name on a product like this griseofulvin, they have to sell at about two-thirds the price that the brand name charges.

There's also indication that several of these drug manufacturers are very interested in going into the griseofulvin business.

After the appellees had cancelled, shortly after the time the suit was brought, the restriction on bulk sales, American Home Products offered both bulk griseofulvin and the capsule form in this country. But the testimony is that they offered it at prices to these generic manufacturers at which the latter could not effective compete in the market.

For example, ICI charged its licensee, American Home, $78 a kilogram for bulk griseofulvin. ICI, in turn, offered the same bulk product to these generic firms at prices ranging from $118 to $141 a kilogram. And it's hardly surprising that the other firms besides the licensees were

not interested in purchasing and could not do so economically.

Now, American Home Products also offered capsules, and once again statements by two of the generic manufacturers stated that they couldn't compete effectively with American Home Products at the prices American Home was quoting to them, which presumably was the price at which American Home would make a profit.

Two of them did buy some capsules. One small firm bought a million capsules for distribution, an order that came to about $46,000, and after they had finished distributing, with all their marketing and distribution costs, they discovered that they were losing $2.30 on every bottle they sold. And when American Home Products refused to reduce the price, of course they stopped any broad-scale promotion of griseofulvin.

The $2.30 figure is contained in the statement at page 228 of the record.

Now, this evidence as to what happened after the parties terminated their bulk sales restrictions demonstrates to us that an order of the district court merely prohibiting the restraint on bulk sales isn't going to have any effect at all in restoring competition in this market. All that order would do would be to continue by judicial decree what the parties have been doing up till that time. There's no reason to think that if all we have in this case is an order

directing the appellees to stop prohibiting bulk sales that there's going to be any change in this market. Why should the appellees now decide to permit the various competitors to come into the market? There's no reason why, because this market has continued for ten or twelve years in a concentrated, non-competitive situation, and there's no reason on earth why, unless they're required to do something more than what has been done, that there's going to be any competition.

The appellees have been selling, one of them, Glaxo, at $60 a kilogram; ICI at $78 a kilogram for many years. There's no reason to think that they're not profiting on this business, and we see no reason why they shouldn't also be ordered to sell, to offer this product to the other people in the United States who want to enter the market. Now, we want to make it very clear in our proposed judgment, all that we're saying is that if they continue to sell in this country, if they continue to sell in this country at all, they have to offer the product to all on non-discriminatory -- at a non-discriminatory level.

And we think this is what is required in order to inject some competition into this market. And when I say inject some competition, frequently the relief is framed in terms of "to restore competition", to restore the status quo. In this case there's nothing to restore, because there's never been any competition in this market. This market started

in a non-competitive, concentrated basis, and that's the way it's continued.

We are also urging that there should be some compulsory licensing of patents at reasonable royalties. We covered that fully in our brief, and I would therefore like to reserve the balance of my time for rebuttal.

MR. CHIEF JUSTICE BURGER: Mr. Sailer.

ORAL ARGUMENT OF HENRY P. SAILER, ESQ.,

ON BEHALF OF APPELLEE GLAXO GROUP LIMITED

MR. SAILER: Mr. Chief Justice, and may it please the Court:

As Mr. Friedman has indicated, there are two appellees in this case, and I represent the appellee Glaxo Group Limited, and am speaking on behalf of Glaxo, although many of my points will apply to both the appellees.

I have found the government's position on what I call the basic issue in this case, the non-relief issue, to be quite elusive from the beginning, but I think I'm now -- I now understand what they are saying in this Court, and I would now like to state it as I understand it, and then direct my remarks to that, if I may.

I think their position is this: that when the Attorney General brings an ordinary antitrust case, to challenge ordinary antitrust restrictions, and somewhere in the picture there are patents -- and I will get back to this -- he should

have a right first to try the antitrust suit and then after that suit is determined and he's gotten an antitrust judgment, and gotten antitrust relief, go on and try a patent suit, a suit on the question of patent validity with no antitrust issues, with nothing but ordinary patent law issues; what I call issues arising under the patent code, inventions and the like.

Now, I understand that the government seeks that position even where, as in this case, the outcome of the antitrust suit doesn't depend in any way on the validity or invalidity of the patent. I think that's conceded here. And even where, as here, the government has won the antitrust suit and has gotten antitrust relief.

Now, the appellees think that there is no more or less reason for allowing a pure, what I call a pure, ordinary patent suit in this situation than there would be for allowing the Attorney General to bring an ordinary patent validity suit all by itself, whenever he saw fit to do so.

I don't understand appellant to press that right in this case, and I'll come to some observations about that question. But I think that I'm unable to distinguish between the two situations.

Now, appellant has made some broad, factual, as well as legal arguments in this case, but the adjudicated facts are very narrow indeed, and I'd like to emphasize

them for the Court's consideration.

This case involves restrictions on the resale, the resale, of griseofulvin. The appellees also had agreements that related to the sale by patent licensees of any griseofulvin that they might manufacture, but those agreements have not been challenged by the government in this case. They would have challenged them, they chose not to challenge them.

The government didn't charge any over-all conspiracy, it has three judgments on the merits and each one is directed to a written provision of a written contract. In each case, a provision that says you may not resell griseofulvin in bulk.

Now, there's no question but that those provisions can't be justified by patents, no attempt was made to justify them by patents. They're ordinary restraints on the resale of a purchased commodity.

The record shows that when Glaxo made these agreements it didn't have any doubt or question about its legality. Glaxo, the record shows, is an English company, still has no place of business in the United States. The provisions I'm talking about have long since been cancelled. The ICI provision, with its vendee, was cancelled more than five years ago. And the Glaxo provisions were cancelled more than four and a half years ago. And the

appellant has a judgment that expressly prohibits their revival, and that judgment is already currently effective.

Now, in the trial court, appellant made that challenge, and they also sought to challenge two patents on the pure question of ordinary patent validity.

The original complaint challenged an ICI patent relating to dosage form griseofulvin that had issued in 1959. Later, after some time, appellant sought to amend their complaint, to challenge the Glaxo patent on griseofulvin in a particular form, so-called microsize or ultra-fine form.

That patent hadn't even been issued until the fall of 1967, which was shortly before this suit was brought and very shortly before the restrictions, the only restrictions we're talking about, were terminated and cancelled. It hadn't existed at all at the time these agreements were entered into, or for years afterwards; not for years.

Now, I do think it's important to emphasize, although I think the Court now has been made aware that the patents weren't challenged on the ground they were invalid,because they had been misused, or because they had been used to accomplish illegal restraints or anything like that. They were challenged on the ground the Patent Office had made a mistake under the patent law in issuing them. That was the sole ground of the challenge.

And below, I understand appellant not to have

relied on the antitrust laws, and I invite the Court to examine the appellant's main brief on this subject below, which beings in the record at page 263. They there relied on a claimed inherent power of the Attorney General to bring suit to cancel invalid patents.

The trial court stated the issue, as it understood it, as, and I quote, "whether the United States can challenge a patent independent of any antitrust claims." That's the way the trial court formulated the issue that it decided, and the trial court held that it couldn't.

The appellant didn't petition for reconsideration, and it didn't suggest to the trial court that it misunderstood the issue it had ruled on before making the issue.

Now, the appellant hasn't appealed the question of the inherent power of the Attorney General to challenge patents. I don't think it could appeal that question to this Court under the Expediting Act. That's not a question, in my judgment, that arises under the antitrust laws.

Here they formulated a new issue, and I submit a different issue, which is -- they state it variously, but I'll -- whether they are patents that are involved in or essential to or the foundation of or the keystone of -- these are all terms that they used -- can be challenged under the antitrust jurisdiction in a pure, on pure patent law grounds, in an antitrust case even when that challenge is not necessary

to enable the government to reach the antitrust violation, the only antitrust violations alleged.

Now, in their reply brief in this Court, the government claims that they did present this question that they now seek to present, what I call the "patents involved in" question, to the trial court.

Well, as I read the record, this simply isn't correct. The only materials they cite in support of this proposition are at footnote 1 of their reply brief, and I submit that those questions don't raise the issue meaningfully as to ICI, and don't even raise it at all as to my client, Glaxo.

None of the government's papers below as to Glaxo ever mentioned any alleged involvement of Glaxo's patent with any antitrust violation. What the government says here, the question is one of law and therefore the court go ahead and decide the question, assuming that the patent was indeed involved in an antitrust violation.

I suggest, Your Honors, that whether Glaxo's patent was involved in the restrictions on resale we're talking about in any sense that's relevant here is not a question of law but a question of fact.

Appellant didn't show below and it didn't ask the court below to find, and the court below didn't find, that Glaxo's patent was an essential element in the original

agreements. Indeed, it couldn't possibly have found out, the patent didn't even issue until seven or eight years after the agreements we're talking about were made.

They didn't ask the court to find, the court didn't find, that the violations would have been any more effective, any different, if the Glaxo microsize patent, which issued seven years, eight years after the agreements were made, had never existed.

I suggest that there's an interesting contrast between the situation here and that that existed in the Ansul case, in 448 F. 2d, as cited in the appellant's reply brief, where the trial court was asked to make and did make very specific and detailed findings on the actual involvement of the patent that was in issue in an independent antitrust violation.

QUESTION: Mr. Sailer, --

MR. SAILER: Yes.

QUESTION: -- both you and Mr. Friedman have used the term "involved in". What do you conceive that to mean in the context you're using it?

MR. SAILER: Well, I invite you to ask Mr. Friedman that question, Your Honor; that I don't quite know what he does mean. But I suppose that my answer is that whatever it means, if it means anything relevant at all, it seems to me it must mean a sine qua non or a foundation or basis of

the agreement that was alleged to violate the law.

Otherwise, it -- it is there, there is such a patent, I concede that. But if it doesn't mean that, I don't know what possible relevance "involved", in any other sense, would have.

I dealt with this point at pages 15 and 16 of my brief, and I invite the Court's attention to it. I just don't think the factual predicate for the agreement -- for the issue they seek to raise, at least as to my client, is here.

But I don't need to rest on that narrow, although dispositive, ground as to my client.

Even if the Glaxo patent had been truly related to or involved in, in any sense, in the antitrust violation, I suggest that will be no reason to give the government a right to engraft on this ordinary antitrust case a straight patent validity suit, involving no antitrust issues, nothing but patent issues, unless, as in the Gypsum case, it was necessary to do so in order to reach a cure in antitrust violation; that's not claimed here.

The government doesn't claim that unless it's permitted to try to invalidate the patents it can't reach the antitrust violation or obtain antitrust relief. Indeed, the only antitrust violation has been abandoned five years ago, its revival has been enjoined.

Now, appellant concedes in its reply brief, and Mr. Friedman again conceded on oral argument, that they could not have invoked the Sherman Act jurisdiction, they say, solely to raise the patent validity issue. But at the same time they want to first try an antitrust case and, having tried it, now try an altogether separate and distinct patent validity case; and the logic of that simply escapes me.

It seems to me that they suggested no reason why the parties should now go through a pure patent litigation that wouldn't have equally existed if there had been any antitrust suit in the first place. The government does argue that invalid patents are burdens on commerce, like sunken logs in streams, and so forth; but that kind of argument simply proves too much here. That is an argument that would be equally out of --

QUESTION: Well, you might well argue that if an antitrust violation is achieved through the mechanisms of the patent, that it gave the patentee such leverage that he could achieve certain restraints of trade that he might not otherwise achieve, that they could argue, just as a matter of remedy, they ought to --

MR. SAILER: Yes. I want to make it perfectly clear, Mr. Justice White, that the government misstates our position in their -- I think misunderstands our position

in their reply brief. We don't take the slightest issue with the proposition in an appropriate case, the court in an antitrust case plainly has power to --

QUESTION: If you find in a license agreement a condition that you won't sell, a territorial restriction, or a customer restriction, and it's in a patent agreement, you wouldn't think -- it isn't so unreasonable to think that the licensee is agreeing to that limitation of his market only because he's on the hook, he wants that patent, the use of that patent.

MR. SAILER: Look, I can readily agree with you, arguendo, on that, Mr. Justice, and say at the same time that under those circumstances it might well be appropriate for a court to decree compulsory patent licensing, for example. But here we're talking about something --

QUESTION: But even there it wouldn't be wholly irrational to say that as a matter of remedy they ought to get rid of the power that was the fulcrum for this violation.

MR. SAILER: Well, I have a hard time seeing --

QUESTION: I agree with you that --

MR. SAILER: -- that an antitrust issue as a question -- I mean a patent suit as a remedy, if you will.

QUESTION: I agree with you that it would be a very arguable remedy, but, nevertheless, it's one step beyond the compulsory licensing.

MR. SAILER: Well, I would say it's one very, very long step.

QUESTION: Yes.

MR. SAILER: The government denigrates our position somewhat as relying on some old case that was decided a long time ago, that if I understand Mr. Friedman's argument.

Now, we don't simply say, Here's this case, don't pay any attention to whether it's right or not, there it is on the books, and therefore we want you to follow it. The Bell case was decided in 1897, 75 years ago, and from that day to this, the government has never claimed the power, until this case, that they're now asserting, the power to attack patents even when there is not necessary in order to serve antitrust ends, or to reach antitrust violations.

If that rule were changed, it would open up a whole new and different class of patent litigation. It would mean that the government could -- there are provisions in the patent code for judicial review at the instance of a disappointed would-be patentee. He may take the Patent Office to court.

Congress has not seen fit to turn that around and say that if somebody gets a patent that the government doesn't think should have been issued, that they can go to court. There is no such provision in the statute.

I suggest that what the Attorney General is really

asking for is an implied general appellate and revisory jurisdiction over the Patent Office.

Now, I want to talk about Gypsum for a minute, because there is a dispute between the parties as to whom Gypsum helps. And I enthusiastically agree with the implication of Mr. Justice Stewart's question, that Gypsum --

QUESTION: I got the idea from your brief.

MR. SAILER: It's nice of you to say so, Mr. Justice.

-- that very strongly cuts in our direction. In the Gypsum case, the government had sued and said, Here's some illegal restraints, and the defendant said, Those restraints would be illegal if we didn't have patents, but we do have patents.

The government wanted to amend their complaint, to challenge the patents, because, without doing so, they couldn't reach the underlying antitrust violation.

And under that narrow set of facts, this Court said: if it were necessary to challenge the patent in order to reach the antitrust violation, the government should be allowed to do it.

But I invite the Court's attention to what actually happened in that case. The Court found that the restraints were illegal whether or not the patents were valid or invalid, and made it perfectly clear that, in its view, that was the end of the matter. You didn't go on, even so, and have an

ordinary patent validity suit, which is what Mr. Friedman is suggesting here.

I want to --

QUESTION: And so the patent was untouched?

MR. SAILER: In the Gypsum case --

QUESTION: Yes.

MR. SAILER: -- they never had any litigation about the validity of the patents.

Now, I want to say one word and only a word about this anomaly argument of the government. They say it is anomalous to allow private parties to challenge patents and not allow the government to do so. That's not our position at all.

There are situations where both private parties and the government can challenge patents. And if the government is infringing a patent, and the patentee sues in the Court of Claims, which is his remedy, the government, like anybody else, can defend on the ground that the patent is invalid. The government could seek a declaratory judgment action that a patent was invalid if it wanted to use the patent.

So we're certainly not positing a situation where the government doesn't have the same rights as a private party, we're saying it has those rights and no other rights, unless Congress gives it to them.

The other situation mentioned was the misuse situation. I point out a very major difference between the misuse situation and what we're talking about here. When you adjudicate patent misuse you don't go and have a trial about whether the patent is valid or not, whether the patent should have been issued, whether there's invention, whether there is prior art, that sort of thing; it is misuse that bars you from asserting certain remedies for, under the patent, for a certain period of time.

But it has nothing to do with the validity or invalidity of the patent.

QUESTION: Well, does a misuse trial in effect concede the validity of the patent?

MR. SAILER: Well, in a misuse -- I guess the answer to that question -- where it concedes it arguendo, I suppose, Mr. Justice; it assumes it, I would suppose, because the question is implicitly assuming the patent is valid, how much will we limit, nevertheless, and for what period the enforcement of that patent by the patentee.

Now, I want to say one word on the second question in this case, this question of relief.

As I pointed out below, that the only restraint challenged, the only restraint found in this case was one on the power of vendees to resell. Now, those restraints had been terminated and their revival has been enjoined.

Now, Mr. Friedman talks about creating and restoring and so forth competition, that it seems to us that what the Court, in fashioning a remedy in this case, had his eye on was to create, as far as he could, a market structure of a kind that would likely have existed had these restraints on alienation never existed.

Now, the government has made a very revealing statement, I think, in the course of their argument. They say the termination of these restraints is not likely to create competition, because the individual economic interest of each of the vendees will cause those vendees not to sell bulk griseofulvin to their competitors so that their competitors can compete with them. I agree with that, and I suggest, for that reason, although none of us can know certainly that the government's own argument indicates strongly that there isn't any rational reason to believe that if these restraints which the record shows, at least as ICI, would routinely put into all its patent licenses, and distribution limits, that if these restraints had never existed, I suggest there is no evidence that Schering, Johnson & Johnson, and American Home Products, which were the three appellees and the only people bound by these restrictions, would have been enthusiastically selling bulk griseofulvin to their generic competitors so the generic competitors could in turn go in and undercut them in the marketplace.

And on this point I want to point to one item of evidence that is mentioned at page 29 of my brief, and that is that there is evidence about the bulk sales practices of all three of these licensees in this case, that there was testimony from Johnson & Johnson that it was not and never had been in the business of selling bulk drugs at all. There was testimony from Schering that at no time during the relevant period had it ever resold a purchased drug in bulk, never, as to any purchased drug. And I suggest that that is a rather strong indication that there be no reason to believe that they would have been out selling griseofulvin in bulk, absent this restriction.

And American Home Products, the third licensee, in the year '69, sold $8,000 worth of bulk drugs out of a total in corporate sales of $900 million. And I suggest that that indicates pretty clearly that none of these licensees would have been out selling bulk griseofulvin even if these restraints had never existed.

I do not want to exceed my half of the time, and therefore I would like to leave the question of relief, beyond what I have said, to my brief.

Thank you very much.

MR. CHIEF JUSTICE BURGER: Mr. Timberg.

ORAL ARGUMENT OF SIGMUND TIMBERG, ESQ.,

ON BEHALF OF APPELLEE IMPERIAL CHEMICAL INDUSTRIES

MR. TIMBERG: Mr. Chief Justice, and if the Court please:

I should like to open by describing the antitrust violation in this case as found by the Court below. Because I think it's crucial to both of the issues raised on this appeal.

My client, Imperial Chemical Industries, is a British company that was developed drugs in its U.K. laboratories, that it considered suitable for the U. S. market. These drugs were too few to justify it in developing its own organization in the United States.

So in 1958 it entered into an elaborate, exclusive distributorship agreement with a U. S. concern, AMHO, or American Home Products, under which ICI exported the drugs f.o.b. a U.K. port and AMHO took title to the drug which it processed and sold in dosage form on the U. S. market. That agreement has never been challenged in this litigation.

ICI's antitrust violation did consist of a single clause in a later, 1962, agreement dealing only with the antibiotic griseofulvin, which provided that AMHO, its distributor, not resell the griseofulvin in bulk without ICI's permission. This clause was a routine carryover from ICI's many international drug agreements, perhaps involving

a hundred countries. Its purpose was found by the Court to be to insure proper worldwide medical standards for the drug's use and preparation.

However, the district court found its effect to be to reserve in ICI the power to control the conditions under which the bulk drug might be resold.

Applying this Court's then recent decision in the Schwinn case, the district court held the clause to be an illegal restraint on alienation, violating Section 1 of the Sherman Act.

The government did not charge, and the court did not hold, that there was any monopolization under Section 2 of the Act.

The record shows that this inadvertent restraint on alienation was cancelled by ICI more than five years ago. Only four months after the Schwinn decision, which the district court characterized as unpredictable -- that's not my characterization -- and four months before the complaint in this case was filed.

Moreover, the restraint had no effect on competition in the marketplace, for ICI's reserve power was never exercised. No request was ever made to ICI or to AMHO for bulk griseofulvin for use on the U. S. commercial market.

Pages 14 and 15 of our brief set forth the situation.

In depositions taken by the government, the officers

of one large and one small drug firm testified that they considered the U. S. griseofulvin market too small, too competitive, and unattractive for entry.

That market, by the way, had shrunk by one-sixth during the two-year period, 1967 to 1969, from about $8 million of retail sales annually to $6.7 million.

By their own affidavits, none of the independents, who the government claims were denied access to bulk griseofulvin, showed any interest in the drug until one year after the restriction was cancelled.

Considering their limited operations a-d resources, these independents in fact could not have engaged in the expensive and extensive clinical and toxicological testing that was necessary to obtain Food and Drug Administration approval for the drug, which we describe on page 13 of our brief.

Nor could they have sustained the heavy laboratory, operating, and promotional expenses involved in launching the product on a national market with appropriate medical safeguards.

The record therefore, I submit to Your Honors, abundantly supports the district court's central finding on relief, which was that the evidence did not show that a current monopoly condition exists as a result of the bulk resale restriction. Absent such an effect or result, and

such a condition, there is, as we show in our brief, no legal basis for the compulsory sale, and compulsory patent licensing relief requested by the government.

Before leaving the rest of the subject of relief to our brief, because I do want to address myself to the second issue on this appeal, I should like to point out just one fact. A compulsory sale requirement in this case would involve ICI in a breach of its binding contractual relationship to its distributor, AMHO, a party not before this Court.

This is unfair, we think, to AMHO, whose large-scale expenditures and efforts, both in obtaining the Food and Drug Administration approval for the drug and launching it on the U. S. market, has built up such U. S. market as there is for ICI's two hundred to three hundred thousand dollars' worth of annual griseofulvin exports from the U.K.

If I may, I should like to address myself to the patent invalidity issue, and in this connection I wish to make two preliminary points:

First, the ICI patent is not a worthless and specious patent, it embodies, as we point out in our brief, at pages 12 and 13, a true invention. The efficacy of the drug was conceded by the government, and its novelty is attested to by the medical literature to which we refer in our brief.

It is not being attacked for lack of patentability, or for lack of novelty, or utility. It is being attacked

fro two alleged errors of judgment by the Patent Office in the allowance of patent claims, as Mr. friedman has described here.

The question is, is the possibility of correcting such errors sufficient justification for prolonging into an indefinite future an antitrust litigation, the antitrust aspects of which have been concluded after five painful years?

Second, the District Court held that neither ICI nor the Glaxo patent had been abused. Yet the Attorney General is asking for broader relief, the complete invalidation of the patent, than a private defendant in a patent infringement suit could obtain, where patent misuse had been abundantly demonstrated.

On pages 4 to 5 of the government's reply brief, they do refer to the Morton Salt and Ansul cases, which do establish a doctrine of patent misuse.

But I must, I should remind the Court that this Court has held that the defendant there is only entitled to a stay of the infringement suit until the improper practice has been abandoned -- whatever that might be in our case -- and the consequences of the misuse of the patent have been dissipated.

Now, Your Honors, you learned for the first time from the government's reply brief, and from Mr. Friedman's

colloquy, I believe it was with Mr. Justice White, that the government's position is that, in an antitrust controversy, pendent jurisdiction of a patent invalidity claim may be asserted.

This is my apology for bringing up a case which I have communicated to Mr. Friedman, it's the case of United Mine Workers v. Gibbs, 383 U.S. 715. This case teaches us that for pendent jurisdiction to apply, the main antitrust claim and the pendent patent invalidity claim must derive from a common nucleus of operative facts.

It is clear that the factual issues relevant to the alleged errors of the Patent Office, in its allowance of the ICI patent claim, which are set forth on page 25 of our brief, and to which I refer the Court to pages 437 to 450 of the Appendix, have nothing in common with the factual issues involved in the antitrust action.

Mr. Sailer has pointed out that the patent invalidity has no bearing, either on the issue of antitrust liability or on the issue of antitrust relief. On pages 30 to 31 of our brief, we indicate that compulsory patent licensing relief is available in antitrust cases, whenever the patent poses an illegal barrier to competition.

In fact, as far as this case is concerned, my client, by way of implementing its hands-off policy as far as the U.S. market is concerned, has made its patent

generally available for licensing, and has granted licenses to five independents on reasonable terms, two of which have already purchased griseofulvin from AMHO, its distributor, and AMHO, I should also point out, as the record shows, has offered to make bulk griseofulvin available on reasonable terms in at least fifteen different cases.

This was in a short period of time before the record in the case closed.

Furthermore, as stated in Gibbs, pendent jurisdiction is a doctrine of judicial discretion, justified by considerations of judicial economy, convenience, and fairness to the litigants.

The challenge of patent validity supported by the Attorney General flies in the face, we think, of these considerations. As this Court pointed out in Blonder-Tongue, it would needlessly promote, protract an expensive litigation. It would expand the already crowded dockets of the district courts.

Under the Expediting Act, this Court would have to review such extraneous patent law determinations directly from the district court without the helpful assistance of the Circuit Courts of Appeal.

Also, speaking from the patentee's standpoint, such challenges are unfair to the patentee. He is entitled to assume, until Congress has spoken to the contrary, that

the action of the Patent Office in granting the patent is not to be independently challenged by one or two lawyers in the Justice Department, however gifted their powers of analysis may be.

Finally, from the aspect of Sherman Act and antitrust enforcement, these challenges would be academic and purposeless exercises that would operate wastefully, to divert time, money, and resources from the more purposeful prosecutions.

A word about the legal issues in the case. We do, of course, think that public policy considerations do favor the affirmance of the district court's ruling; but the determinative issue is a legal one that goes to the heart of our constitutional system of separation of powers.

Has Congress in fact authorized the courts to entertain this kind of challenge of patent validity? As this Court said in Simpson v. Union Oil, "Congress ... is the arbiter of the public interest."

Thus, even where the more effective enforcement of the Sherman Act was at stake, this Court has been unwilling to confer on private parties a remedy that had not been prescribed by Congress.

That was the case of Kelly vs. Kosuga, cited in our brief.

Similarly, it has been unwilling to confer on the

Attorney General a remedy that has not been prescribed by Congress, and that is the Cooper case, referred to in our brief.

As this Court said in the Cooper case, It is not the function of the courts to engraft on a statute additions which they think the legislature logically might or should have made.

The rule of the Bell case has been stated, and we say only that it is more than a sound rule of decision. It reflects, to us, a constitutional imperative. For the courts to try issues of patent validity without congressional authorization involves the negation, we think, of two basic powers conferred by the Constitution on the Congress.

One of these is the plenary power of Congress to legislate on the subject of patents. The other is the exclusive congressional power to prescribe the jurisdiction of the federal courts, including the jurisdiction to review administrative decisions, such as those made by the Patent Office in this case.

Now, in the exercise of its patent power, Congress has paid particular and continuing attention to the administrative procedures, for examining and reviewing patents within the Patent Office and its predecessor agencies, and the judicial procedures for reviewing these administrative determinations.

We cite on page 36 of our brief twelve such cases where the Congress has amended the patent code. Despite this meticulous and specific supervision by the Congress, the patent code contains no provision conferring this authority on the Attorney General to initiate in the courts the kind of challenge of patent validity involved in this case.

We also refer, in footnote 42 of our brief, to several proposals that have been made, giving the Attorney General and other persons the right to challenge,collaterally challenge patent validity. None of these has ever been reported out of congressional committee, and it is significant that the impact of these proposals is that the challenger must sue to cancel or revoke the patent in the Patent Office first before seeking review in the courts. And it is submitted that perhaps this may be the logical method of procedure, rather than the procedure supported by the government.

QUESTION: Mr. Timberg, is the apparently established authority of a court to declare a patent invalid in a suit involving the licensee and the licensor; is that authorized by statute or is that --

MR. TIMBERG: It is, indeed, Mr. Justice Rehnquist. That has been in the statute, I think, since 1870. The right of a person sued for a patent infringement to defend the case. I think it's in the statute, yes, he may specifically defend

on the grounds of invalidity. I don't think that's been contested.

In fact, I don't think the government has pointed, for all of its analogies, to -- it's 35, my colleague informs me it's 35 USC, Section 282 that confers that right.

QUESTION: And more recently in a suit for royalties?

MR. TIMBERG: Yes, and that was along the same line of reasoning that led to the Gypsum case. In other words, if the royalties are predicated upon an illegal agreement, and it is --

QUESTION: Let's just assume a patentee sues his licensee for royalties, unpaid royalties, and the licensee says, Well, I don't need to pay you, the patent's invalid.

MR. TIMBERG: I assume, under Lear v. Adkins, if that's the case Your Honor is referring to, he would be able to challenge that portion.

QUESTION: There you say jurisdiction is predicated on some other --

MR. TIMBERG: it's predicated on something else, yes, Your Honor.

I'd like to -- as a matter of fact, I'd like to --

QUESTION: Mr. Timberg, --

MR. TIMBERG: Yes.

QUESTION: I thought that was the import of Justice Rehnquist's question. Now, is that last rule based in

statute or in judicial decision?

MR. TIMBERG: It's based ultimately on statute. If I may say a word, Mr. Justice Blackmun, on the question of Gypsum.

In our view Gypsum confirms the Bell case, and underscores the paramount authority of the Congress to prescribe the jurisdiction of the courts and the authority of the Attorney General; in enacting the Sherman Act Congress did confer jurisdiction on the federal courts to entertain anti-trust suits that were brought by the Attorney General. There was a possibility in Gypsum that the defendants would rely on patents as a defense to a charge of illegal price-fixing.

Hence, if the Attorney General were not given the opportunity to show patent invalidity, and that the asserted shield of patentability does not exist, the congressional grant of jurisdiction to enforce the Sherman Act would be frustrated. And this, I think, is the theme that I would suggest reconciles Gypsum with the questions that both of Your Honors have been asking.

We say that if the jurisdiction of the Sherman Act would be frustrated, and such a similar situation was involved in the Walker Processing Equipment case; yes, in those cases the court may reach to a patent invalidity defense.

But what the government is doing in this case is

that independently of raising it as a defense, they are collaterally, in their complaint, attacking patent invalidity in a situation that has nothing at all to do with the policy of the antitrust laws.

QUESTION: Well, what if the government says, and alleges there's been a tying -- there's a tying agreement here in existence, here it is right on the face of the paper, and the engine of this tying arrangement is the patent, the patent leverage, the economic power of the patent being used to secure and enforce this tying arrangement. And the government says, We think the patent is invalid and should be declared invalid, so as to eliminate this power.

MR. TIMBERG: If in fact that were alleged to be the leverage that made the restraint possible, then this would -- that might be so; but this is not that case, Your Honor. This is a situation where the leverage that might have made the restraint possible was the fact that two persons controlled the manufacture of this commodity, which is indeed an expensive commodity --

QUESTION: They also have patents.

MR. TIMBERG: They also have patents, may I say, and they also cross-license the patents. But the reason that they cross-license the patents to each other was that they were blocking patents. They couldn't even get going in the United Kingdom on the manufacture of the griseofulvin unless

they cross-licensed each other.

QUESTION: Was the pooling dissolved in this case?

MR. TIMBERG: The pool couldn't be dissolved. It was really a settlement of conflicting patent rights, because none of the three distributors in the United States could even have gotten on the market unless they had access to ICI's dosage patent, which, as Mr. Sailer has pointed out, was the only patent in the field until September 1967, when the Glaxo patent came in.

But the situation in England was much more complicated than that, and I would want Your Honors to bear in mind that the 1960 agreements, which the government has referred to, was an agreement that had worldwide implications. It was an agreement between two British companies. It wasn't specifically directed against the U. S. market, and the particular provision in the 1960 agreement, the good-faith provision that ICI impose this restriction on its distributor, was something that was found illegal only to the extent that it affected the U. S. vendees of ICI, which was just our exclusive distributor AMHO.

So that in -- unless this Court is going to say that it's never possible for people to have blocking patents, to cross-license each other under those patents, and that they must automatically license the world, this, the government's claim for licensing in this case is not, I think, one that

is warranted, though the patent was not used to -- was not used to stop anybody from selling griseofulvin in this country. The only antitrust violation was the restraint on alienation, which was cancelled.

In our case the patent license was --

QUESTION: Suppose it hadn't been.

MR. TIMBERG: Well, if it had not been cancelled, then there might be a possibility of the government urging that the dosage patent be made available on a royalty-free basis -- excuse me, on a reasonable royalty basis, to all applicants. Which is within the discretion of the district court.

QUESTION: That'sa question of remedy, then.

MR. TIMBERG: It is. It's a question of remedy, pure and simple, Your Honor.

QUESTION: All right. And so would it be a question of remedy if they said not only that, but we think the patent should be invalidated. You could say that's a bad remedy, but in terms of -- but it still is a remedy question.

MR. TIMBERG: it is a remedy question, but I get back to the reason why I cited Kelly v. Kosuga and the Cooper cases, it is, if you want to call it a remedy, you may, but it is a type of remedy which we believe should be authorized by the Congress, which has authorized all sorts of remedies in this situation.

That is our feeling with respect to this.

I don't think -- the only other ground that the government asserted was in connection with jurisdiction, was the inherent equity jurisdiction grounds, that was the only ground we thought they argued in the district court, and in our brief we've indicated the irrelevance of the five cases cited by the ATtorney General as supporting this inherent equity jurisdiction; none of them involve patents. Only one of them, decided in 1888, involved the judicial review of an administrative determination; and we agree with the result in that case, because we do believe that the district court does have the right to,inherently, to look into patents obtained by fraud.

We therefore conclude that the district court acted wisely and correctly, and urge that its judgment be affirmed.

MR. CHIEF JUSTICE BURGER: Thank you, Mr. Timberg.

Mr. Friedman, you have about three minutes left.

REBUTTAL ARGUMENT OF DANIEL M. FRIEDMAN, ESQ.,

ON BEHALF OF THE APPELLANT

MR. FRIEDMAN: Thank you.

Mr. Chief Justice, and may it please the Court:

We think that this patent, the leverage of this patent most assuredly was involved in these violations. We think the patent, in a very real sense, was the whole key to these violations, because without the power of the patents

these firms could not have been able to impose these bulk sales restrictions.

And when Mr. Timberg talks about the pooling arrangement, that this was just designed to correct a problem in the United Kingdom, where they had to cross-license, the fact is that in addition to the pooling of the patents, Glaxo saw fit and felt it necessary in that agreement to prohibit ICI from permitting its licensees to sell in bulk.

So, obviously, it was not just something that these people added, this bulk thing, as an afterthought. The patent license was all tied in with the bulk situation.

I'd like to invite the Court's attention to a document at page 86 of the record, in which a man from ICI was discussing with someone from Squibb, not one of the licensees, their interest in griseofulvin, and what this man said was: I gave Mr. Dahl, that is of ICI, some idea of the patent situation on griseofulvin in such form as will, I hope, have impressed upon him the impossibility of Squibb trading in griseofulvin without a license from Glaxo under the ICI and Glaxo patents.

In other words, this whole market was tied up, the whole market was kept free from any competition because of these patents. And that's why we think these patents are involved in the violation. The leverage of the patents, the power of the patents was an important element affecting the

violation.

Now, Mr. Sailer has said that our argument that the licensee's self-interest will lead them to continue the existing situation proves too much, because he says that proves that even had there not been these restraints, nevertheless, the licensees independently would have reached the same result.

Well, the self-interest we're talking about now is their self-interest in continuing the existing situation.

And with respect to the claim that the appellees have sold so little of -- I'm sorry, the licensees have, in effect, been de minimis in selling other drugs in bulk, and therefore it's a reasonable assumption they wouldn't have sold these drugs in bulk, Mr. Sailer referred to statistics showing that in 1969 ICI sold only, oh, eight to ten thousand dollars' worth of drugs.

The documents contained at pages 239 to 244 of the record, in earlier years, for example, in 1961, ICI sold better than two hundred thousand dollars' worth of the drug. And if you look through these particular things, in 1962, ICI sold $223,000 of this drug.

One other fact, there is also in the record a table at 243 to 244 which shows bulk sales by the Schering Corporation of other drugs, and in a period of ten years this firm sold approximately $11 million in bulk other than griseofulvin.

In the face of that, we think that it cannot be said that if it had not been for these restrictions in the bulk sales they nevertheless would have accomplished the same objective. We don't know. We do know that there were these restrictions. We do know that the market following these restrictions was non-competitive, and we think appropriate relief is to make it competitive for the first time.

Mr. Chief Justice, I misspoke myself at one point, where I said ICI and I meant American Home Products. Mr. Sailer has probably corrected me.

Thank you.

MR. CHIEF JUSTICE BURGER: Thank you, gentlemen.

The case is submitted.

[Whereupon, at 2:12 o'clock, p.m., the case in the above-entitled matter was submitted.]