

United States v Glaxo Group LTD
U.S 52 Supreme Court 1973 (22 January, 1973)

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Summary

The Supreme Court of the United States found that in a suit involving illegal restraint of trade, the validity of a patent could be subject to challenge if the patent is directly involved in the anti-trust violation.

The facts

Imperial Chemical Industries Ltd (ICI) and Glaxo Ltd, two British Pharmaceutical Companies, had various patents over the dosage form of the anti-fungal drug *Griseofulvin*. Glaxo in addition had a patent over the manufacturing of the drug in bulk form. The two companies pooled their bulk and dosage form patents and sub-licensed firms in the United States to work their patents. The pooling agreement contained a clause which prohibited bulk sales and resale, and the sub-licensing agreement contained a covenant which prohibited bulk resale to third parties without the licensors' prior consent.

The United States filed a civil anti-trust suit with a district court, stating that the covenants as per the sublicensing and the pooling agreement were in violation of Section 1 of the Sherman Act (Anti-Trust Act). The district court held bulk sales restrictions were *per se* a violation of section 1 of the Sherman Act, but refused the government's request to order mandatory sales of the bulk-form of the drug and to give a reasonable royalty to ICI and Glaxo for the licensing of their patents. Also, the validity of the patent was challenged by the United States government. The District Court said that in an anti-trust suit, the validity of a patent cannot be challenged if the patent has not been used in defense. ICI had filed an affidavit disclaiming any desire to rely on its patent in defense of the anti-trust claims. The United States government aggrieved by this order filed for an appeal before the Supreme Court of the United States.

The legal issues

This case revolved around two legal issues:

1. Whether the government may challenge the validity of patents involved in illegal restraints of trade, when the defendants do not rely upon the patents in defense of their conduct; and
2. whether the district court erred in not granting the relief of mandatory sales as requested by the government.

On the first issue, the Supreme Court found that:

“Where patents are directly involved in antitrust violations and the Government presents a substantial case for relief in the form of restrictions on the patents, the Government may challenge the validity of the patents regardless of whether the owner relies on the patents in defending the antitrust action.”¹

The Supreme Court relied on case law precedent (*Edward Katzinger Co v/s Chicago Metallic Manufacturing Co 329 U.S 402*) stating that although a patent licensee is not entitled to question the validity of a patent, he may do so when he alleges conduct by the patentee that would be illegal under the anti-trust laws. Thus the licensees are given a chance to question the very validity of a patent in order to prevent the patentees from abusing their position of dominance in the market.

On the second issue, the Supreme Court found that bulk sales would create new competition in the market. As the appellees were aware of that, they decided to impose restrictions on bulk sales. The Court also expressed the view that, had other drug companies been given a chance to enter the market, there also would have been a substantial reduction in the wholesale prices of the drugs. This would become reality if the appellees were forced to sell their bulk form *Griseofulvin* to all their *bona fide* applicants. For that reason, the Supreme Court found that, unless other American companies are also allowed to manufacture *Griseofulvin*, competition in the United States would entirely depend on the appellees’ willingness to sell their product as and when they want in the market. This in other words would constitute an abuse of their dominant position. Hence the Supreme Court held, in order to cure the ill effects of the illegal conduct, it is mandatory that bulk sales of the drug be compulsorily allowed.

Points of significance

- This case illustrates the significance of anti-competitive behavior in the context of patent protection. The Supreme Court clarifies that a patent is not shielded from validity challenges by the government provided the latter is able to demonstrate anti-competitive conduct based on the patent.
- This even applies where the patent holder expressly refrains from referring to its exclusive patent rights in defense of its conduct. What is decisive is that a patent may provide its holder with the economic leverage to abuse a dominant market position.
- In a more recent case (*Federal Trade Commission v. Actavis Inc*, 2013), the US Supreme Court decided that actions taken by a patent holder to defend its patent against competitors, such as pay-for-delay settlement agreements, are not immune from anti-trust scrutiny.² In both cases (Glaxo and Actavis) the Supreme Court provides the government with considerable leeway to question the validity of a patent in the context of anti-trust proceedings.

Key words

Anti-trust, anti-competitive conduct, sale and resale restrictions, patent validity, restraints of trade.

Available at

<https://supreme.justia.com/cases/federal/us/410/52/> or

https://www.supremecourt.gov/pdfs/transcripts/1972/71-666_11-09-1972.pdf

¹ Decision of the court, p. 2.

² See the summary of *Federal Trade Commission v. Actavis Inc* in this database.