



Supreme Court Rejects Presumption of Market Power for Patented Goods

On March 1, in its third antitrust decision of the term, the Supreme Court unanimously rejected the proposition that the plaintiff in a tying case is entitled to any presumption of market power—and thus a presumption that the tie is unlawful *per se*—because the tying product is patented. *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. ____ (2006). Instead, the Court held that a patent created no such presumption and that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.” Slip op. at 16. In so holding, the Court took a position consistent with that of the Federal Trade Commission and the Department of Justice in their joint *Antitrust Guidelines for the Licensing of Intellectual Property*.

BACKGROUND

The defendant, Illinois Tool Works, through its subsidiary Trident, sold patented print heads and ink containers to printer manufacturers (thus licensing the patents), but required customers to buy ink only from Trident. Independent Ink, a competing ink manufacturer, challenged the licensing agreement, arguing that it was an illegal tying arrangement under §1 of the Sherman Act and constituted monopolization under §2. The district court granted summary judgment to the defendants on the ground that the plaintiff had introduced no evidence that defendant had market power in the tying product, rejecting the argument that plaintiff was entitled to a presumption of market power where the tying product is patented. The Court of Appeals for the Federal Circuit reversed, acknowledging that the presumption of market power had been widely criticized, but explaining that the “fundamental error in all of defendants’ arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them,” even where those precedents rest upon “wobbly, moth-eaten foundations.”¹

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¹ *Independent Ink, Inc., v. Illinois Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir. 2005).

THE COURT'S DECISION

In reversing the Federal Circuit, the Supreme Court surveyed the evolution of its own approach to tying claims from its historical disapproval of all tying arrangements as *per se* violations of the antitrust laws in cases like *International Salt Co. v. United States*, 332 U.S. 392 (1947), to its modern recognition, as exemplified in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), that tying arrangements are often procompetitive. Describing the presumption that a patent confers market power as “a vestige of the Court’s historical distrust of tying arrangements,”² the Court explained that the presumption had since been undermined both by subsequent precedent and by Congressional action. In particular, the Court noted that in the 1988 amendments to the Patent Code Congress specifically provided that tying involving a patent license could not constitute patent misuse “unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.” 35 U.S.C. § 271(d)(5) (cited at Slip Op. at 12). Noting that a violation of § 1 of the Sherman Act can be punished as a felony, Justice Stevens’ opinion for the Court explained that it would be “absurd to assume that Congress intended to provide that the use of a patent that

merited punishment as a felony would not constitute ‘misuse.’”³

After rejecting any general presumption of market power from a patent, the Court also rejected plaintiff’s proposal that there be a rebuttable presumption whenever the patent tying arrangement requires the licensee to purchase unpatented goods over an extended period of time—a “requirements tie.” Plaintiff argued that the mere fact that the patent holder was able to secure agreement to the tie is some evidence of market power, and that a requirements tie could be used to impose differential prices on different classes of users—price discrimination—that is itself evidence of market power. The Court rejected both these suggestions, noting that both tying and price discrimination are commonly used in competitive as well as non-competitive markets and that their use—either separately or together—could not warrant a presumption of market power.

IMPLICATIONS

Because the presumption of market power from a patent was never irrebuttable, the decision in *Illinois Tool Works* should only change the result in cases where neither side puts on any evidence of the tying product’s market power. But the decision has important symbolic significance. It represents a firm break with decisions from the first one

hundred years of U.S. antitrust law treating conduct involving intellectual property as suspect. The Supreme Court’s decision vindicates the decision of the antitrust agencies to “apply the same general principles to conduct involving intellectual property that they apply to conduct involving any other form of tangible or intangible property.” *IP Guidelines* § 2.1.

The decision’s discussion of the interplay between § 271(d) of the Patent Act and the antitrust laws raises some interesting issues. Section 271(d) provides no patent holder “shall be denied relief or deemed guilty of misuse or illegal extension of the patent right” by reason of any of the conduct described in the section. While the Court’s decision notes that “§ 271(d) does not expressly refer to the antitrust laws,” Slip Op. at 12, the decision recognizes that it would be “absurd” for conduct to constitute a felony yet not misuse. Indeed, several lower court decisions have held that § 271(d) must be read to prohibit antitrust liability, as well as misuse.⁴ If the Court’s decision means that conduct permitted under § 271(d) cannot violate the antitrust laws, antitrust liability could not be premised upon bringing a patent infringement action (§ 271(d)(3)) or refusing to license or use rights under a patent (§ 271(d)(4)).⁵ The Court has already immunized non-sham infringement actions from

² Slip Op. at 8.

³ Slip Op. at 13.

antitrust challenge,⁶ but there is a circuit split on whether a refusal to license a patent can ever be the basis for antitrust liability.⁷ The Supreme Court's 2004 decision in *Trinko*⁸ significantly limited antitrust liability for *any* unilateral refusal to deal by a monopolist, but *Illinois Tool Works* may be the final nail in the coffin of antitrust claims based upon refusals to license intellectual property.

Although the Department of Justice has long since abandoned criminal prosecution of antitrust violations other than hard core price fixing, the Court nevertheless noted that it "would be unusual for the Judiciary

to replace the normal rule of lenity that is applied in criminal cases with a rule of severity for a special category of antitrust cases." Slip Op. at 16.⁹ The Court's application of the rule of lenity, which "resolv[es] ambiguity in a criminal statute as to apply it only to conduct clearly covered,"¹⁰ stands in stark contrast to its oft-cited admonition that "the antitrust laws ... are to be construed liberally, and that the exceptions from their application are to be construed strictly."¹¹ It thus remains to be seen whether defendants in antitrust cases will be able to use the rule of lenity to narrow the scope of conduct subject to antitrust challenge.

Finally, even though the Court recognizes that tying is often procompetitive, Slip Op. at 6-7, the decision does not expressly question the application of the *per se* rule against tying so long as market power in the tying product is proven. But that question was not presented in the petition for *certiorari*, and the Court's actual holding states only that market power is *necessary* for a tying arrangement to be unlawful, not that market power is *sufficient*.

The decision thus suggests that the Court might at some point revisit *per se* treatment of tying and require actual proof of anticompetitive effects even when the defendant has market power in the tying product. Cf. Slip Op. at 12-13 n.3 (noting that the Court may reconsider antitrust decisions "when the theoretical underpinnings of those decisions are called into serious question." (quoting *State Oil Co. v. Khan*, 522 U. S. 3, 20 (1997))).

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⁴ See *Carpet Seaming Tape Licensing Corp. v. Best Seam, Inc.*, 616 F.2d 1133, 1143 (9th Cir. 1980); *In re ISO Antitrust Litig.*, 989 F. Supp. 1131, 1135-36 (D. Kan. 1997) (citing principles of statutory interpretation and legislative history to conclude that § 271(d) applies to antitrust claims), *aff'd* 203 F.3d 1322 (Fed. Cir. 2000); *Polysius Corp. v. Fuller Co.*, 709 F. Supp. 560, 576 (E.D. Pa. 1989); *Rohm & Haas Co. v. Dawson Chem. Co.*, 557 F. Supp. 739, 835 (S.D. Tex.), *rev'd on other grounds sub nom. Rohm & Haas Co. v. Crystal Chem. Co.*, 722 F.2d 1556 (Fed. Cir. 1983).

⁵ The Supreme Court has already held that the efforts to prevent contributory infringement described in §§ 271(d)(1) and 2 do not violate the antitrust laws. See *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980).

⁶ *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993).

⁷ Compare *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000) (no antitrust liability for refusal to license patent), with *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997) (imposing antitrust liability).

⁸ *Verizon Communs. Inc. v. Trinko*, 540 U.S. 398 (2004).

⁹ See generally *Leocal v. Ashcroft*, 543 U.S. 1, 12 n.8 (2004) (applying rule of lenity in deportation case and holding: "Because we must interpret the statute consistently, whether we encounter its application in a criminal or noncriminal context, the rule of lenity applies.").

¹⁰ *U.S. v. Lanier*, 520 U.S. 259, 266 (1997).

¹¹ *Abbott Laboratories v. Portland Retail Druggists Assn., Inc.*, 425 U.S. 1, 11-12 (1976).