Antitrust Client Advisory

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Independent Ink: Supreme Court Lowers Antitrust Barriers to IP Tying and Bundling Arrangements

In a rare foray into the complicated intersection between antitrust and intellectual property law, the Supreme Court has reconsidered its prior thinking on the competitive impact of patents. In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 126 S. Ct. 1281 (2006), the Court decisively rejected the presumption in antitrust tying cases that a patent confers market power. This substantial shifting of the evidentiary burden can be expected to reduce, if not completely eliminate, the routine filing of antitrust tying claims as a counter to allegations of patent infringement.

EXECUTIVE SUMMARY

The *Independent Ink* decision places the Court squarely in the antitrust mainstream, as the presumption of market power has come under increasing criticism from legal commentators, economists, and a substantial number of lower courts. Although the decision does not preclude the possibility that a plaintiff could successfully argue that a patent holder violated the antitrust laws by conditioning the purchase of a patented "tying" product on the purchase of a separate, unpatented "tied" product, the bar has been raised considerably. In the future, such a plaintiff will be required to:

(1) define a relevant market for the tying product; and

(2) prove that the patent holder possessed market power within that market, rather than simply relying on the presumption.

The principal implications of this shifting of the burden are that:

- alleged patent infringers will be less likely to rely on antitrust tying as a strategic counterclaim;
- intellectual property holders will have greater leeway to experiment with potentially procompetitive tying and bundling arrangements; and
- given the breadth of the Court's favorable assessment of such arrangements generally, even tying and bundling arrangements that do not involve intellectual property may experience something of a renaissance.

BACKGROUND: TYING ARRANGEMENTS INVOLVING PATENTS

Tying arrangements, in which the purchase of a more desirable "tying" product is conditioned on the purchase of a less desirable "tied" product, have long been a source of antitrust concern. Over time, they have been subject to a number of different legal rules, but the underlying logic has remained the same. Where such arrangements have been condemned, the theory of competitive harm is that the defendant has used its position of power in the market for the tying product to restrain trade in the market for the tied product. This analysis is complicated, or simplified, depending on one's perspective, by the existence of a patent on the tying product. Some litigants and commentators have reasoned that a patent holder's lawful monopoly on the right to make, use, or sell the patented product necessarily confers market power in the market for that product. Although this view has come under increasing criticism, it has been adopted by many courts and came to be embodied in a legal presumption that in antitrust tying cases, a patent on the tying product confers market power.

This historical background suggests that it was the timing of the *Independent Ink* case, rather than the uniqueness of the claims at issue, that brought the matter to the Supreme Court's attention. The case arose in the context of patent infringement litigation involving specialized technology for placing bar codes on cartons. Illinois Tool Works and its subsidiary, Trident, manufacture and sell printing systems incorporating a patented printhead and ink container. Trident's licensing agreements provide that, as a condition of access to its patented technology, the licensee may only use the company's own, non-patented ink in conjunction therewith. When Trident learned that a competitor, Independent Ink, was marketing its own, chemically identical ink for use with Trident's printers, the company promptly filed a patent infringement suit. In response to that suit, Independent Ink alleged that Trident's licensing arrangement constituted both unlawful tying and monopolization in violation of §§ 1 and 2 of the Sherman Act.

LOWER COURT PROCEEDINGS

At the district court level, Trident successfully moved for summary judgment on Independent Ink's antitrust claims. In granting Trident's motion, the Central District of California held that Independent Ink had submitted no affirmative evidence defining the relevant market or establishing Trident's market power within it.[1] The parties subsequently settled all other claims, and Independent Ink appealed solely on the antitrust issue.

To the surprise of many antitrust commentators, the court of appeals reversed, albeit reluctantly. The Federal Circuit acknowledged that the presumption of market power in patent tying cases has been highly criticized and appeared to question the need for the doctrine itself. However, the court also recognized the "long history" of Supreme Court precedent in this area and concluded that the district court had erred by not adhering to the presumption as interpreted by the high court. The Federal Circuit was uncharacteristically blunt about the fact that it regarded its own hands as tied, and perhaps signaled how it thought the case should ultimately be decided, noting that "even where a Supreme Court precedent contains many 'infirmities' and rests upon 'wobbly, moth-eaten foundations,' it remains the 'Court's prerogative alone to overrule one of its precedents.'"[2] Accepting the Federal Circuit's challenge, numerous *amici* filed briefs before the Supreme Court advocating reversal, including Kelley Drye Collier Shannon. The Court ultimately adopted much of the reasoning set forth in the Collier Shannon brief.

THE SUPREME COURT DECISION

The Supreme Court's decision rejecting the presumption of market power is surprisingly frank in its efforts to identify, describe, and ultimately correct the Court's own missteps in this area of law. Rather than attempting to create the impression that divergent precedents tell a consistent story, the Court openly acknowledges that it is changing course. The Court concedes that, as recently as 1984 in its *Jefferson Parish* decision, it unambiguously stated that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power."[3] It then traces the market power presumption to its roots, the 1947 *International Salt* case, in which the Court imported the concept from a series of patent misuse decisions into the similar, but not directly analogous, area of antitrust tying case law. [4]

1 210 F. Supp. 2d 1155, 1167 (C.D. Cal. 2003).

2 396 F.3d 1342, 1346 (Fed. Cir. 2005).

The Court cites two principal reasons for its change in course, the first of which has its roots in intellectual property law. The Court explains that, although the market power presumption was originally drawn from patent misuse law, subsequent developments in this area of law led to its rejection. Specifically, the Court notes that four years after the *Jefferson Parish* decision Congress expressly amended the Patent Act to eliminate the presumption in the patent misuse context. Although the amendment did not mention the antitrust laws, the Court acknowledges that some re-thinking was in order, as "[a] rule denying a patentee the right to enjoin an infringer is significantly less severe than a rule than makes the conduct at issue a federal crime punishable by up to 10 years in prison."[5] As the Court further explains, "[i]t 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.'"[6]

The second reason for the Court's change in course is, unsurprisingly, rooted in antitrust law. Just as subsequent developments in patent misuse law undermined the validity of the market power presumption, subsequent developments in antitrust law eroded its foundations as well. The Court cites, in particular, a "virtual consensus among economists" that the mere existence of the patent does not necessarily confer market power.[7] The Court further observes that this consensus has long been reflected in the *Antitrust Guidelines for the Licensing of Intellectual Property.* Those Guidelines, jointly issued by the Department of Justice (DOJ) and the Federal Trade Commission (FTC) in 1995, state that the enforcement agencies, in exercising their prosecutorial discretion, "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner."[8] Although the Court noted that the judiciary is not bound by the Guidelines, it nevertheless acknowledged that the judgment of expert agencies is entitled to deference and that, regardless of official deference, it would be unusual for the Court to contradict such a well-supported agency position in the absence of a stronger record.

IMPACT OF THE DECISION

In many ways, the *Independent Ink* decision merely represents the Supreme Court's ratification of a pre-existing, and relatively widespread, consensus. The fact that the case was decided unanimously, although only 8-0, with Justice Alito not participating, likewise suggests that the deliberations were not contentious. Given the intervening reforms to the Patent Act, as well as the clarifications embodied in the DOJ/FTC Guidelines, most patent holders and antitrust practitioners, while still regarding the market power presumption as a problem, regard it as problem of diminishing significance. Nevertheless, even discredited rules can continue to bedevil antitrust counseling efforts, as well as complicate litigation strategy. Because it brings clarity to this area of the law, the Supreme Court's decision has a number of important implications, including the following:

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[3] *Jefferson Parish Hospital Dist., No. 2 v. Hyde,* 466 U.S. 2, 16 (1984).
[4] *International Salt Co. v. United States,* 332 U.S. 392 (1947).
[5] *Independent Ink,* 126 S. Ct. at 1291.
[6] *Id.*
[7] *Id.* at 1292.
[8] U.S. Dept. of Justice and FTC, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.2 (1995), *at* http://www.usdoj.gov/atr/public/guidelines/0558.pdf.

- **Diminishes the attractiveness of antitrust tying claims as a counter to allegations of patent infringement**. In this respect, more than any other, the decision is a victory for intellectual property holders. Prior to the *Independent Ink* decision, firms accused of patent infringement frequently resorted to tying claims as a readily available and relatively inexpensive counter-attack. These antitrust counterclaims were costly for patent holders to defend, and often created pressure to reach an overall settlement with alleged infringers.

- **Reduces the antitrust risk associated with potentially procompetitive patent licensing arrangements.** By reducing the antitrust risk associated with tying and bundling arrangements, the *Independent Ink* decision opens the door to greater experimentation with such arrangements as an efficient, procompetitive, intellectual property licensing strategy. One example of such a strategy is the specific "metering" strategy at issue in the case. By tying the use of its patented printheads to its unpatented ink, Illinois Tool Works ensured that those licensees that made the greatest use of its printhead technology (*i.e.*, those who used the most ink) would, in essence, be required to pay a proportionately larger licensing fee.

- **Reflects the Supreme Court's preference for fact-based antitrust enforcement**. Notably, the Court did *not* hold that a tying arrangement involving a patented tying product can never violate the antitrust laws. Rather, the Court held that plaintiffs challenging such arrangements are required to define a market and provide evidence of market power, just as they would be if the alleged tie did not involve a patented product. This approach reflects a preference for deciding antitrust cases based on factually-supported competitive effects, even where such an approach may place a significantly greater burden on litigants and courts than the application of easily-administrable presumptions. Although it remains to be seen whether this approach represents an emerging trend at the Supreme Court level, it is consistent with current agency practice. For example, both the DOJ and the FTC have recently expressed a preference for fact-intensive economic analyses, rather than disproportionate reliance on market share figures and concentrations score in merger review.

- **Reflects the Supreme Court's preference for economics-based antitrust rules.** With refreshing candor, the Court acknowledged that it was rejecting much of its own prior thinking on exclusionary power of patents, largely on the grounds that this thinking was grounded in outdated economic theory. The Court thereby expressed a reassuring willingness to incorporate current economic research and scholarship into its thinking, rather than relying exclusively on rigid legal rules. It is perhaps less reassuring that the wheels of justice turn so slowly. While Congress acknowledged the scholarly consensus that a patent does not necessarily create market power by amending the Patent Act in 1988, the Supreme Court did not do so until nearly twenty years later. [9]

- **Potentially opens the door to**

broader antitrust acceptance of all tying and bundling arrangements. The *Independent Ink* decision reflects not only the Court's increasing respect for intellectual property rights, but its increasing skepticism that tying arrangements – that is, *all* tying arrangements, not merely those involving a patented tying product – pose a serious threat to competition. For example, the decision notes that "[o]ver the years . . . this Court's disapproval of tying arrangements has substantially diminished."[10] It further explains that the presumption that a patented tying product creates market power is "a vestige of the Court's historical distrust of tying arrangements" that must at long last be corrected. Although mere dicta, these statements suggest that antitrust plaintiffs advancing tying theories of any kind will face an increasingly difficult task.

ABOUT KELLEY DRYE COLLIER SHANNON'S ANTITRUST PRACTICE GROUP

Kelley Drye Collier Shannon is a premiere antitrust and trade regulation firm. Our national reputation stems from our proven track record of successfully representing clients in complex competition issues arising under federal and state antitrust laws. Our professionals include officials from the American Bar Association (ABA) Antitrust Section and former officials of the DOJ Antitrust Division and the FTC. Our firm is also supported by Georgetown Economic Services, our economic consulting firm.

FOR MORE INFORMATION

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[9] Future developments may occur slightly more quickly. *Independent Ink* was one of three antitrust decisions handed down by the Roberts Court this term – *see also Texaco, Inc. v. Dagher,* 126 S. Ct. 1276 (2006) (addressing pricing fixing allegations in the joint venture context); *Volvo Trucks North America, Inc. v. Reeder-Simco GMC, Inc.,* 126 S. Ct. 860 (2006) (addressing price discrimination allegations in the manufacturer/dealer context) – perhaps indicating a renewed interest in the area.

[10] *Independent Ink,* 126 S. Ct. at 1286.

[11] *Id.* at 1288.