



Vol. 15 No. 6

March 11, 2005

## COURT FINDS PATENT CREATES PRESUMPTION OF MARKET POWER IN ANTITRUST TYING ACTIONS

by

Connie Robinson, Peter Boyle and Saadeh Al-Jurf

On January 25, 2005, the Federal Circuit held in *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, No. 04-1196, 2005 WL 147399 (Fed. Cir. Jan. 25, 2005), that, in the context of a “tying” claim under one of the primary provisions of the federal antitrust laws — Section 1 of the Sherman Act — a patentee’s intellectual property rights trigger a presumption that the patent owner has market power over the patented product.

Tying, or tie-in arrangements, refers to a common sales practice in which a seller conditions the sale of a highly-desired “tying” product on the buyer’s purchase of a second product. To establish a per se tying claim under Section 1 of the Sherman Act, a plaintiff must prove the following elements: 1) two distinct products — one “tying” product and one “tied” product; 2) conditioning — selling the desired tying product only if the purchaser also buys the tied product; 3) market power in the market for the tying product; and 4) the arrangement affects a “not insubstantial” amount of interstate commerce in the market for the tied product. Under *Independent Ink*, an antitrust defendant will be presumed to have the requisite degree of market power, thereby greatly facilitating establishment of the third element, if the tying product is subject to patent or copyright protection.

The Federal Circuit felt bound to follow often-criticized Supreme Court precedent, which conflicts with the more contemporary and widely held beliefs that intellectual property rights do not necessarily confer market power nor should they give rise to a presumption of market power, a belief previously expressed by the Federal Circuit in non-tying Sherman Act cases. Indeed, on other occasions, the Federal Circuit has expressly held that the “[m]ere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power.” *Schlafly v. Caro-Kann Corp.*, No. 98-1005, 1998 WL 205766, at \*7 (Fed. Cir. Apr. 28, 1998). In *Independent Ink*, however, the Federal Circuit acknowledged that although “[t]he time may have come to abandon the doctrine, . . . it is up to the Congress or the Supreme Court to make this judgment.” *Independent Ink, Inc.*, 2005 WL 147399, at \*7. With this decision, the Federal Circuit may have set the stage for the Supreme Court to align the law with modern thinking. In the meantime, intellectual property owners who offer their products in bundles or package arrangements face a greater risk of litigation and of those arrangements being found illegal.

***The Federal Circuit’s Decision.*** On the tying claim, the Federal Circuit reversed the district court’s decision, which granted summary judgment disposing of the claim because the antitrust claimant had not presented evidence of *Independent Ink*’s market power. The Federal Circuit’s analysis relied on two Supreme Court cases, *International Salt Co. v. United States*, 332 U.S. 392 (1947) and *United States v.*

---

Connie Robinson and Peter Boyle are partners, and Saadeh Al-Jurf is an associate, in the Washington, D.C. office of the Kilpatrick Stockton LLP, focusing on antitrust litigation and counseling.

*Loew's, Inc.*, 371 U.S. 38 (1962). The Federal Circuit read these decisions to hold that the possession of a patent or copyright over a tying product establishes a presumption of market power. The court also concluded that dictum from other Supreme Court tying cases, *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 619 (1977) (“*Fortner II*”) and *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16 (1984), neither of which involved products covered by intellectual property, reaffirmed the vitality of the presumption.

In reversing the lower court, the Federal Circuit rejected the Defendant’s three major arguments as to why the presumption no longer remains good law. First, the Defendant argued that *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) — a case holding that enforcing a patent procured by fraud could violate the antitrust laws — overturned the presumption. The Federal Circuit found *Walker Process* inapplicable, because it involved a Section 2 monopolization claim, rather than a tying claim under Sherman Act Section 1. Second, the Defendant asserted that language on which the district court relied from Justice O’Connor’s concurrence in *Jefferson Parish* and Justice White’s dissent from denial of certiorari in *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908, 908 (1985) (White, J., joined by Blackmun, J., dissenting from denial of certiorari), indicated that the presumption was no longer valid. Rejecting this argument as “nose-counting,” the Federal Circuit found nothing in the cited language from *Jefferson Parish* or *Data General* that would allow the Federal Circuit to repudiate the presumption. Finally, the Defendant argued that the presumption has been rejected by academics, the DOJ and the FTC, a Sixth Circuit case, and dictum from two Seventh Circuit cases. The basis for this rejection is that economic theory does not predict that a patent, by itself, confers market power over the tying product market, especially where adequate substitutes for the patented product exist or where it is relatively easy to design around the patent. This increased burden on intellectual property owners in the tying context conflicts with the prevailing view in cases analyzing other types of antitrust violations that the mere possession of a patent or copyright does not give rise to a presumption of market power. As a matter of economics, an intellectual property owner may lack actual market power because there are many available substitutes for the seller’s product, it may be easy for a prospective entrant to design around a patent, or because there may be little demand for the patented or copyrighted product. While acknowledging the heavy criticism leveled against the presumption, the Federal Circuit noted that none of these sources of criticism empower lower courts to overturn binding Supreme Court precedent. “Even where a Supreme Court precedent contains many ‘infirmities’ and rests upon ‘wobbly, moth-eaten foundations,’ it remains the ‘Court’s prerogative to overrule one of its precedents.’” *Independent Ink, Inc.*, 2005 WL 147399, at \*7 (quoting *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

After finding that the presumption remains good law, the Federal Circuit had to decide the scope of the rule. Relying on dictum from *Loew’s* and *Jefferson Parish*, and similar decisions from the Second and Ninth Circuits, the court found that the presumption was rebuttable. Under the specific rule fashioned by the Federal Circuit, “a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market.” *Independent Ink, Inc.*, 2005 WL 147399, at \*8. A defendant may rebut this presumption either by expert testimony or other credible economic evidence that it lacks market power.

**Conclusion.** *Independent Ink* will make it more difficult for intellectual property owners to defend against tying claims brought under Section 1 of the Sherman Act. By reaffirming a presumption that other courts and the antitrust agencies have deftly avoided in the modern era, the Federal Circuit has increased the risks to intellectual property owners who choose to pursue bundling or packaging strategies in their marketing or distribution programs. Although the presumption is rebuttable, it places a burden on intellectual property owners that finds little justification in economics — the bedrock of the antitrust laws. This may discourage patent and copyright owners from engaging in conduct that in many instances would otherwise be competitively innocuous or, perhaps in some circumstances, pro-competitive behavior.