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Patents & Antitrust: Does a Patent Confer Market Power - A Look at the Upcoming Supreme Court Case: Illinois Tool Works v. Independent Ink

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NOTE

PATENTS & ANTITRUST: DOES A PATENT CONFER MARKET POWER? A LOOK AT THE UPCOMING SUPREME COURT CASE: *ILLINOIS TOOL WORKS V. INDEPENDENT INK*

*Sarah Knight**

I. INTRODUCTION

One company is "hooked" to financial inducements that amount to "cocaine."[1] Another company must resort to hiding its relationship with a party and labeling its brochures "secret and confidential."[2] A third company was beaten into "guacamole" in retaliation for its relationship with this same party.[3] A fourth company "had a gun to his head" and must stop buying from this same party.[4] What would bring out such outrageous allegations? The answer is Advanced Micro Devices' antitrust claim against Intel for product bundling and alleged coercive practices.[5] In regards to the bundling allegations, the treatment of the antitrust analysis can differ depending on whether the bundling, or tying, behavior involves only patented products or a combination of patented and non-patented products. This Note explores the treatment of patents in antitrust cases, and proposes that having a patent on a product should not presume to confer market power, a key element in establishing an illegal monopoly under the Sherman Act.[6] Specifically, this Note addresses the possible implications on patent to non-patent tying agreements after the U.S. Supreme Court

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1. Advanced Micro Devices' Complaint at 16, Advanced Micro Devices v. Intel Corp., No. 05-441 (D. Del. filed June 27, 2005), *available at* http://www.amd.com/us-en/assets/content_type/DownloadableAssets/AMD-Intel_Full_Complaint.pdf (last visited Feb. 23, 2006).

2. *Id.* at 18.

3. *Id.* at 19.

4. *Id.* at 27. Of course, the conduct alleged by these statements has been denied, and claims have been made of lack of information or belief to admit or deny any statement or representation of the state of mind of these third parties. *See* Intel's Answer at 22-36, Advanced Micro Devices v. Intel Corp., No. 05-441 (D. Del. filed Sept. 1, 2005), *available at* http://www.amd.com/us-en/assets/content_type/DownloadableAssets/ Intel_Answer.pdf (last visited Feb. 24, 2006).

5. *See* Advanced Micro Devices' Complaint, *supra* note 1; Laurie J. Flynn, *Media: Advertising; Hi. We're A.M.D. Please Listen*, N.Y. TIMES, July 8, 2005, at C5.

6. Sherman Act, 15 U.S.C. §§ 1-2 (2004).

hears *Illinois Tool Works v. Independent Ink*,[7] and suggests that the antitrust market power analysis should mirror the patent misuse market power analysis.[8]

II. BACKGROUND

The tension between intellectual property and antitrust law continues to create uncertainty where the two laws intersect. The Sherman and Clayton Acts are the central legislation governing United States antitrust policy.[9] The Sherman Act, enacted in 1890, proscribes illegal acts of combining or conspiring to restrain trade.[10] In 1914, partly in response to a decision by the Supreme Court enforcing a patent tying arrangement, Congress enacted section 3 of chapter 323 of the Clayton Act,[11] which makes it unlawful "to lease or make a sale or contract for sale of goods, . . . whether patented or unpatented" on the condition that the purchaser shall not use the goods of a competitor where the condition may "substantially lessen competition or tend to create a monopoly."[12] Congress intended this provision of the Clayton Act to "strengthen the Sherman Antitrust Act."[13] In contrast to the apparent distrust of

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7. Ill. Tool Works, Inc. v. Indep. Ink, Inc., *cert. granted*, 125 S. Ct. 2937 (U.S. June 20, 2005) (No. 04-1329).

8. It is noteworthy that nothing in the patent laws "shall be deemed to convey to any person immunity from civil or criminal liability, or to create any defenses to actions, under any antitrust law." 35 U.S.C. § 211 (added Dec. 12, 1980, Pub. L. No. 96-517, § 6(a), 94 Stat. 3027).

9. *See* Sherman Act, 15 U.S.C. §§ 1-2 (2004); Clayton Act, 15 U.S.C. § 12 (2002).

10. *See generally* Sherman Act, 15 U.S.C. §§ 1-7 (2004).

11. Clayton Act, 15 U.S.C. § 14 (1914).

12. *Id.*; Brief for Respondent at 12-13, Ill. Tool Works, Inc. v. Indep. Ink, Inc., No. 04-1329 (U.S. filed Sept. 28, 2005) (citing 15 U.S.C. § 14 (2002)); *see* 3 THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 2129-30 (Earl W. Kintner ed., 1978) [hereinafter LEGISLATIVE HISTORY] (statement of Sen. Walsh) (introducing legislation in order to prevent the imposition of tying arrangements like the one upheld in Henry v. A.B. Dick Co., 224 U.S. 1, 35 (1912) (involving a license on a patented mimeograph machine for use only with paper, ink, and other supplies sold by the patent holder)).

13. Brief for Respondent, *supra* note 12, at 12-13 (citing LEGISLATIVE HISTORY, *supra* note 12, at 2129-30) (statement of Sen. Reed)); *see id.* at 12 n.4 (quoting *Henry*, 224 U.S. at 35).

> [N]oting that, while using a patent to impose a tying arrangement "will at first strike us as being plainly in violation of the Sherman Antitrust Act," the Court had held that "'Congress alone has the power to determine what restraints [on patent holders] shall be imposed,'" and therefore if patent tying arrangements are not prohibited by "legislative act[,] the evil will go unchecked."

Id.

concentrated economic power behind Congress's enactment of the Sherman Act, Congress acted on its power to "promote the Progress of Science and useful Arts"[14] by establishing limited duration monopolies.[15]

To prove a violation of section 1 of the Sherman Act, which states: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal," three elements must be shown.[16] Specifically, a plaintiff must show that the defendant: 1) entered into a contract, 2) which was in restraint of trade or commerce, and 3) plaintiff was damaged by the violation.[17] There are two categories of section 1 violations: per se violations and "rule of reason" violations.[18] The four elements considered under a "rule of reason" analysis are:

> (1) a relevant market existed that was affected by the challenged restraint; (2) the defendant possessed 'market power' within the relevant market; (3) there was an anticompetitive effect in the intrabrand or interbrand market; and (4) the negative effects on competition are not outweighed by the positive effects on competition.[19]

The per se analysis does not look into the reasonableness of the action.[20] Rather, a per se treatment of an action is used "[o]nce experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it."[21] A tying arrangement is particularly likely to be given per se treatment in the courts,[22] but the U.S. Department of Justice and the Federal Trade Commission do not usually challenge tying arrangements as anticompetitive unless: "(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3)

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14. U.S. CONST. art. I, § 8, cl. 8.

15. 35 U.S.C. § 154 (2002). The U.S. Patent and Trademark Office was established by 35 U.S.C. § 1(a) (2000).

16. Sherman Act, 15 U.S.C. § 1 (2004); Spanish Broad. Sys., Inc. v. Clear Channel Commc'ns, Inc., 242 F. Supp. 2d 1350, 1356 (S.D. Fla. 2003), *aff'd*, 376 F.3d 1065 (11th Cir. 2004).

17. *Spanish Broad.*, 242 F. Supp. 2d at 1356 (citing Moeker v. Honeywell Int'l, Inc., 144 F. Supp. 2d 1291, 1300 (M.D. Fla. 2001)).

18. *Id.* (citing *Moeker*, 144 F. Supp. 2d at 1301-02).

19. *Id.* at 1357 (citing Godix Equip. Exp. Corp. v. Caterpillar, Inc., 948 F. Supp. 1570, 1579 (S.D. Fla. 1996)).

20. *See* Arizona v. Maricopa County Med. Soc'y, 457 U.S. 332, 344 (1982).

21. State Oil Co. v. Khan, 522 U.S. 3, 10 (1997) (citing *Maricopa*, 457 U.S. at 344).

22. *See, e.g.*, N. Pac. Ry. Co. v. United States, 356 U.S. 1, 9 (1958).

efficiency justifications for the arrangement do not outweigh the anticompetitive effects."[23]

A tying arrangement within the prohibition of section 1 of the Sherman Act has been defined as "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different . . . product."[24] In essence, the monopoly granted by a patent of one invention cannot be enlarged for the exploitation of a monopoly granted by another patent, for the exploitation of an unpatented article, or for the exploitation or promotion of a business not specified or brought by the patent.[25] The Court in *International Salt Co. v. United States* reiterated this view by explaining that "patents confer no right to restrain use of, or trade in, unpatented salt," and that "[b]y contracting to close this market for salt against competition, International has engaged in a restraint of trade for which its patents afford no immunity from the anti-trust laws."[26]

In 1958, the Court in *Northern Pacific Railway Co. v. United States*[27] held that a tying arrangement violates the Sherman Act due to the "sufficient economic power to impose an appreciable restraint on free competition in the tied product."[28] Under the test in *Northern Pacific*, "market power could be inferred from [the defendant] having 'unique economic advantages' of some kind."[29] Subsequent cases refined the test for determining whether a tying arrangement violated section 1 of the Sherman Act as to whether a defendant has "'market power' in the market for the tying product."[30] In particular, the Court in *United States v. Loew's* specified that market power can be presumed when the tying product is patented.[31] This presumption was expressly restated by the U.S. Supreme Court in *U.S. Steel Corp. v. Fortner Enterprises, Inc.*[32]

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23. Antitrust Guidelines for the Licensing of Intellectual Property issued by the Department of Justice and Federal Trade Commission (Apr. 6, 1995), *reprinted in* 4 TRADE REG. REP. (CCH) ¶ 13,132 (1995); § 5.3, 4 TRADE REG. REP. (CCH) ¶ 20,743-3, *available at* http://www.usdoj.gov/atr/public/guidelines/0558.htm (last visited Feb. 24, 2006).

24. *N. Pac. Ry. Co.*, 356 U.S. at 5; *see also* Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 461 (1992).

25. Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456-58 (1940).

26. Int'l Salt Co. v. United States, 332 U.S. 392, 395-96 (1947); *see also* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944); Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).

27. *N. Pac. Ry. Co.*, 356 U.S. at 1.

28. *Id.* at 11; *see also* Indep. Ink, Inc. v. Ill. Tool Works, Inc., 396 F.3d 1342, 1347 (Fed. Cir. 2005) (quoting *N. Pac. Ry. Co.*, 356 U.S. at 11).

29. *Indep. Ink*, 396 F.3d at 1347 n.6.

30. *Id.* at 1347.

31. United States v. Loew's, Inc., 371 U.S. 38, 45 (1962).

32. U.S. Steel Corp. v. Fortner Enters., Inc., 429 U.S. 610, 619 (1977) (Fortner II); *see Indep. Ink*, 396 F.3d at 1348. The Court in *Independent Ink* elaborated, quoting *Fortner II*, 429 U.S. at

III. THE CASE OF *INDEPENDENT INK V. ILLINOIS TOOL WORKS*

By granting certiorari for the case of *Illinois Tool Works v. Independent Ink*,[33] the U.S. Supreme Court has "agreed to consider overturning a 43-year-old precedent that has been interpreted to make it easy for competitors to sue patent holders for antitrust violations."[34] This forty-three year old precedent, which the U.S. Court of Appeals for the Federal Circuit followed in *Independent Ink v. Illinois Tool Works*,[35] comes from the 1962 ruling in *United States v. Loew's*.[36]

In *Loew's*, the United States brought antitrust actions against six major distributors of copyrighted motion picture feature films for their engagement in block-booking.[37] Specifically, the United States alleged that the defendants conditioned the license or sale of one or more feature films upon the acceptance by a television station of a package, or block, containing one or more unwanted or inferior films.[38] At issue was whether the specific tying arrangements violated section 1 of the Sherman Act.[39] The Court in *Loew's* held that the film distributors' block-booking added to the monopoly of the feature films' copyrights and constituted a violation of section 1 of the Sherman Act.[40] Reasoning that tying agreements only suppress competition by forcing buyers to give up purchasing substitutes for the tied product, and by destroying the free access of competing suppliers of the tied product to the consuming market, the Court in *Loew's* concluded that a tying agreement is illegal where the seller has market dominance.[41] The Court further explained that market dominance can be inferred from a tying product's uniqueness in its attributes. In particular,

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619, "[T]he statutory grant of a patent monopoly in [International Salt] . . . represented tying products . . . sufficiently unique to give rise to a presumption of economic power." *Indep. Ink*, 396 F.3d at 1348 (alteration in original).

33. Ill. Tool Works, Inc. v. Indep. Ink, Inc., *cert. granted*, 125 S. Ct. 2937 (June 20, 2005) (No. 04-1329).

34. Tony Mauro, *High Court to Re-evaluate Precedent Affecting Antitrust Law*, 129 RECORDER (San Francisco), June 21, 2005, at 119.

35. *Indep. Ink*, 396 F.3d at 1342.

36. *Loew's*, 371 U.S. at 38. This case is a consolidation of a number of civil antitrust actions instituted by the U.S. government against six defendants, five of which appealed. *Id.* at 40, 44.

37. *Id.* at 40. The six major distributors consisted of C&C Super Corp., Loew's, Screen Gems, Associated Artists Productions, National Telefilm Associates (which did not appeal), and United Artists Corp. *See id.* at 41-44.

38. *Id.* at 40.

39. *Id.* at 44.

40. *Id.* at 47, 50-51.

41. *Loew's*, 371 U.S. at 44-45.

the Court in *Loew's* noted that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted."[42]

Consequently, *Loew's* stands for the notion that a patent on a product creates a presumption of power over the marketplace such that a defendant tying to a patented product is guilty of illegal tying under the Sherman Act.[43]

Similarly, *Independent Ink v. Illinois Tool Works* relates to an antitrust claim for tying arrangements.[44] In particular, Independent Ink, Inc. (Independent Ink) manufactures ink for inkjet printers.[45] Independent Ink brought suit against printhead system manufacturer, Illinois Tool Works, Inc. and its wholly-owned subsidiary, Trident, Inc. (Trident).[46] Trident manufactures printheads and owns U.S. Patent No. 5,343,226, which covers Trident's printhead technology.[47] In addition to manufacturing printheads, Trident manufactures ink for use with its patented printheads.[48] Trident licenses the use of its patented printheads to manufacturers of printers.[49] The manufacturers of printers who sign Trident's standard form licensing agreement for the use of Trident's patented printheads agree to purchase their ink exclusively from Trident.[50] Trident's licensing agreement specifically "grants the right to 'manufacture, use and sell . . . ink jet printing devices supplied by Trident' only 'when used in combination with ink and ink supply systems supplied by Trident.'"[51]

Based on the tying agreement conditioning the sale of Trident's printheads with Trident manufactured ink, Independent Ink alleged in its complaint that Trident "was engaged in illegal tying and monopolization in violation of sections 1 and 2 of the Sherman Act, 15 U.S.C. § 1 et

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42. *Id.* at 45. The Court also explained that

> [s]ince one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.

Id. at 46 (citing Int'l Salt Co. v. United States, 332 U.S. 392 (1947)).

43. *Id.* at 45; *see* Mauro, *supra* note 34.

44. Indep. Ink, Inc. v. Ill. Tool Works, Inc., 396 F.3d 1342 (Fed. Cir. 2005).

45. *Id.* at 1345.

46. *Id.* at 1344.

47. *Id.*

48. *Id.* at 1345.

49. *Indep. Ink*, 396 F.3d at 1344, 1345.

50. *Id.* at 1345.

51. *Id.*

seq."[52] Both Independent Ink and Trident moved for summary judgment as to the section 1 claim of the Sherman Act, and Trident moved for summary judgment as to the section 2 claim of the Sherman Act.[53] The United States District Court for the Central District of California held that the plaintiff must affirmatively prove market power in order for patent tying to constitute a violation of section 1 and section 2 of the Sherman Act.[54] Accordingly, the district court granted summary judgment in favor of Trident for both the section 1 and the section 2 claims.[55]

Independent Ink appealed the judgment of the district court to the Court of Appeals for the Federal Circuit.[56] At issue was whether patent tying is illegal per se under the Sherman Act, or whether the plaintiff must prove that the patent confers market power in the relevant market for the tying product.[57]

The District Court of Appeals for the Federal Circuit, basing its decision on the *Loew's* precedent and the *Fortner II* dictum, held that 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.[58] In addition, once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power.[59]

IV. ANALYSIS OF THE ASSERTION THAT A PATENT CREATES A PRESUMPTION OF MARKET POWER

The Court in *Loew's* stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted."[60] However, patents rarely confer significant market power.[61] The strength of a patent

52. *Id.*

53. *Id.*

54. *Indep. Ink*, 396 F.3d at 1345 (citing Indep. Ink, Inc. v. Trident, Inc., 210 F. Supp. 2d 1155, 1162 (C.D. Cal. 2002)).

55. *Trident*, 210 F. Supp. 2d at 1177.

56. *Indep. Ink*, 396 F.3d at 1344.

57. *Id.* at 1346.

58. *Id.* at 1352.

59. *Id.*

60. United States v. Loew's, Inc., 371 U.S. 38, 45-46 (1962) (citing Int'l Salt Co. v. United States, 332 U.S. 392 (1947); United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948)).

61. *See* Brief for Petitioner at 14, Ill. Tool Works, Inc. v. Indep. Ink, Inc., No. 04-1329 (U.S. filed Aug. 4, 2005). The Brief for Petitioner stated:

> Empirical data strongly support this broadly-held view, demonstrating that a large percentage of patents produce little or no economic value — the opposite of what

rests on the scope of its claims. A patent may be granted on narrow improvements as long as those improvements are new, useful, and non-obvious.[62] A single patented product, whether "[a]n article of manufacture, machine, or composition of matter may embody hundreds or conceivably thousands of patented inventions."[63]

In addition, in areas of heavily developed technology, many competitors hold patents.[64] Often these patents cover incremental improvements on similar products.[65] In order to actually sell the product, competitors must cross-license their patents.[66] For example, in the automotive industry there are several competitors, each with a large number of patents covering hundreds or thousands of aspects of an automobile.[67] In order to avoid infringing each others' patents, they must cross-license. Accordingly, it would be difficult to assume that one of the competitors has market power solely by the existence of a single patent.[68]

A patent does confer an owner of a patent the right to exclude others from making, using, and offering for sale a particular invention.[69] This right does not preclude others from creating effective, non-infringing

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> would be true if a patent typically conferred market power upon the patent holder. One study found that "at any given time, over about 95 percent of patents are unlicensed and over about 97 percent are generating no royalties." S. Vermont, "The Economics of Patent Litigation," in *From Ideas to Assets: Investing Wisely in Intellectual Property* 327, 332 (B. Berman, ed. 2002); *see also* Feldman [*The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 437 (2003)] ("eighty percent to ninety percent of patents never create any monetary return for the patent holder"); R. Rapp & L. Stiroh, "Standard Setting and Market Power," presented at Joint Hearings of the United States Department of Justice and the Federal Trade Commission, at 1 (April 18, 2002) ("Empirical research by Scherer, Pakes, Schankerman, Lanjouw and others has established and confirmed a useful generalization: that the distribution of patent values is skewed; most patents (and patented inventions) are worth very little and only a very few have considerable value.") (citing studies), *available at* http://www.ftc.gov/os/comments/intelpropertycomments/nera.pdf.

Id. at 25-26. In addition, market power in the relevant market for a patent is determined in view of the circumstances. *See* 35 U.S.C. § 271 (2003).

62. *See* 35 U.S.C. § 101 (1952), § 102 (2002), § 103 (2004).

63. Brief of Amici Curiae Intellectual Property Law Association of Chicago in Support of Petitioners at 9, Ill. Tool Works, Inc. v. Indep. Ink, Inc., No. 04-1329 (U.S. filed July 26, 2005).

64. *Id.*

65. *Id.*

66. *Id.*

67. *Id.* at 9-10.

68. *See* Amici Curiae, *supra* note 63, at 10.

69. 35 U.S.C. § 154(a)(1) (2002).

substitutes, which can compete with the patented invention.[70] Rather, "the patent law encourages competitors to design or invent around existing patents."[71] Consequently, as articulated by Hovenkamp, Janis, and Lemley:

> [I]f I have a patent on an easy-opening soft drink can, no one else during the life of the patent can duplicate this precise can in a way that would constitute patent infringement. However, (1) there may be alternative easy-opening cans, whether patented or unpatented, that are as good as or superior to mine; or (2) easy-opening cans may not be all that valuable to consumers, who would just as soon have the traditional cans or who would buy their soft drinks in bottles in response to any price increase in cans . . . . My patent grant creates an antitrust 'monopoly' only if it succeeds in giving me the exclusive right to make something for which there are not adequate market alternatives, and for which consumers would be willing to pay a monopoly price.[72]

Accordingly, a patent looked at in a vacuum without any market analysis, is not a good indicator of monopoly power in a market.

In contrast, those arguing for maintaining the presumption, claim that close available substitutes of a patented product usually infringe on the patent. For example, counsel for Independent Ink stated that "close available substitutes usually infringe on the patent because a patent extends to all products that include the principles of the invention . . . . A substitute that works for one buyer may not work for another buyer; however, the patented product covers the needs of multiple buyers."[73] Unfortunately, this is a myopic view of a substitute product. Although equivalent products may infringe a patent,[74] the cases found in registers from the U.S. Supreme Court to the district courts are full of examples of

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70. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177-78 (1965); *see* SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981) ("the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market"), *cert. denied,* 455 U.S. 1016 (1982); *see also* Brief for Petitioner, *supra* note 61, at 13.

71. WMS Gaming, Inc. v. Int'l Game Tech., 184 F.3d 1339, 1355 (Fed. Cir. 1999); *see also* Westvaco Corp. v. Int'l Paper Co., 991 F.2d 735, 745 (Fed. Cir. 1993); State Indus., Inc. v. A.O. Smith Corp., 751 F.2d 1226, 1235-36 (Fed. Cir. 1985).

72. H. HOVENKAMP ET AL., IP AND ANTITRUST § 4.2, at 4-8 to 4-9 (2006); *see also* Brief for Petitioner, *supra* note 61, at 13-14.

73. Edward O'Connor, *Possible Implications of Independent Ink's Supreme Court Hearing, available at* http://www. rechargermag.com/news.asp?id=200509052 (last visited Feb. 24, 2006).

74. *See, e.g.*, 35 U.S.C. § 271 (2003).

simple design-arounds that do not infringe a very similar patented product.[75]

It is true that "[t]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the [patented] product."[76] However, even the U.S. Supreme Court has noted that "it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight."[77]

In addition, the market itself can affect the power of a particular patent. A patent confers a monopoly for a period of twenty years from the effective filing date of the patent application.[78] Within those years, the patent may become outmoded or obsolete.[79] The market power of a patent is related to the relationship of the patent to the technology still in existence in the marketplace.[80] For example, a patent covering the technology of a 3.5 inch floppy diskette for portable data storage for computers "does not, standing alone, indicate that the patent owner has market power in the removable data storage device field."[81] In fact, today, many laptop computers are sold without a floppy diskette reader and instead have readable or writable optical disks and USB ports for

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75. Not to mention the great doctrine of prosecution history estoppel, which can be quite limiting for protected equivalents. *See* Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 304 F.3d 1289 (Fed. Cir. 2002).

76. Indep. Ink, Inc. v. Ill. Tool Works, 396 F.3d 1342, 1352 (Fed. Cir. 2005) (citing Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336, 1345 (9th Cir. 1984) (quoting United States v. Loew's, Inc., 371 U.S. 38, 49 (1962))).

77. N. Pac. Ry. Co. v. United States, 356 U.S. 1, 10 n.8 (1958).

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffice to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 37 n.7 (1984) (O'Connor, J., concurring); *see* Brief for Petitioner, *supra* note 61, at 26; *see generally* William M. Landes & Richard A. Posner, *Market Power in Antitrust Cases*, 94 HARV. L. REV 937 (1981).

78. 35 U.S.C § 154 (2002).

79. *See* Amici Curiae, *supra* note 63, at 10.

80. *Id.*

81. *Id.*

connecting to portable memory sticks.[82] Therefore, it is unreasonable to presume that a patent creates market power.

The market power presumption most likely "resulted from confusion between an economic monopoly and a patent right."[83] As Judge Posner and Professor Landes explain, "One does not say that the owner of a parcel of land had a monopoly because he has the right to exclude others from using the land. But a patent or copyright is a monopoly in the same sense."[84] Moreover, if it is established that a patent holder does not have significant market power, a patent tie can only enhance competition in the relevant market for the patented product.[85]

However, the question still remains as to who gets to compete in the relevant market. In certain markets, a small number of companies control and dominate, effectively excluding smaller companies from entering into competition.[86] Each individual company does not have significant market power, but together they can edge out smaller, less established companies. Although some small companies may suffer, as long as the dominating companies do not act together in a way that violates the Sherman Act, the capitalist system will work.[87]

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82. *Id.*

83. Brief for Petitioner, *supra* note 61, at 25. It should be noted that market power analysis for a section 2 claim of the Sherman Act is treated differently than a section 1 claim. Section 2 of the Sherman Act states: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony." Sherman Act, 15 U.S.C. § 2 (2004). An extension of the monopoly granted by a patent to unpatented articles beyond the scope of the legal monopoly conferred by the patent is a violation of section 2 of the Sherman Act. Allen v. Ideal Prods., Inc., 300 F. Supp. 349, 354 (W.D. Pa. 1969). "To establish a monopolization claim under section 2 of the Sherman Act, there must be monopoly power in the relevant market and the willful acquisition or maintenance of that power." Indep. Ink v. Ill. Tool Works, 396 F.3d 1342, 1353 (Fed. Cir. 2005) (citing Verizon Commc'ns, Inc. v. Law Offices of Curtis v. Trinko, LLP, 540 U.S. 398 (2004)). In contrast to the presumption of market power in a section 1 case, "[i]n section 2 cases, the plaintiff bears the burden of defining the market and proving defendant's power in that market." *Indep. Ink*, 396 F.3d at 1353.

84. WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 374 (2003); *see also* Brief for Petitioner, *supra* note 61, at 25; EUGENE SINGER, ANTITRUST ECONOMICS AND LEGAL ANALYSIS 112 (1981).

85. *See* Brief for Petitioner, *supra* note 61, at 30-31 (quoting Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 37 (1984) (O'Connor, J., concurring) ("Absent [market] power tying cannot conceivably have any adverse impact in the tied-product market, and can be only pro-competitive in the tying product market.")).

86. *See also* O'Connor, *supra* note 73.

87. *But cf. id.*

> It is almost a guarantee that if the doctrine is reversed and patentees are able to legally tie their patented products to their non-patented products multiple

Independent Ink claims that the patents used in tying arrangements that are targeted by antitrust claims are most likely highly valuable patents, and that highly valuable patents are likely to confer market power.[88] In addition, it claims that "[o]nly a highly valuable patent can be used to force customers to buy a distinct product that they otherwise would not purchase, especially at a price they do not want to pay."[89] Its main policy argument for maintaining the presumption that a patent confers market power is that small businesses and consumers with limited resources will be able to "bring meritorious tying claims without incurring the prohibitive cost of . . . market share analysis."[90] In essence, the patent holder can more efficiently determine its own market share.[91] Moreover, because the patent tying presumption affects only the market power element of a tying claim, a plaintiff still has the burden of proving the other elements of a tying claim, and defendants still retain their affirmative defenses.[92] Therefore, when a tying arrangement is genuinely pro-competitive, the other elements of a tying claim and the affirmative defenses should be able to screen out liability.[93]

As a consequence, the patent holder will have to bear a financial burden in overcoming the presumption of market power.[94] In particular, "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power."[95] Illinois Tool Works argues that "the presumption [on the defendant of market power] increases the chances that deficient claims will survive motions to dismiss and [motions] for summary judgment."[96] It believes that the survival of deficient claims based on the presumption of market

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> industries will be affected and go out of business overnight. And there will be absolutely nothing that anyone can do to prevent this because it is impossible to prove monopoly power from an independent company that is part of an oligopoly.

Id.

88. Brief for Respondent, *supra* note 13, at 9.
89. *Id.*
90. *Id.*
91. *Id.*
92. *Id.*
93. Brief for Respondent, *supra* note 13, at 12.
94. *See* Brief for Petitioner, *supra* note 61, at 32-33.
95. Indep. Ink, Inc. v. Ill. Tool Works, 396 F.3d 1342, 1352 (Fed. Cir. 2005); *see also* Tanaka v. Univ. of S. Cal., 252 F.3d 1059, 1063 (9th Cir. 2001); Forro Precision, Inc. v. Int'l Bus. Machs. Corp., 673 F.2d 1045, 1052 (9th Cir. 1982).
96. Brief for Petitioner, *supra* note 61, at 33.

power increases the odds of unjustified settlement payments from innocent defendants confronted by the high expense of an antitrust trial.[97]

Although Congress has remained silent on the standard of determining market power for section 1 violations, in 1988, Congress enacted the Patent Misuse Reform Act.[98] The Act requires proof of actual market power to establish a patent misuse defense based on patent tying.[99]

Patent misuse is a defense to a claim of patent infringement.[100] The seminal case introducing the concept of patent misuse is *Morton Salt v. G.S. Suppiger*.[101] At issue in *Morton Salt* was not whether Morton Salt violated the Clayton Act, but whether a court of equity should protect Morton Salt's patent monopoly when Morton Salt was using its patent monopoly as the effective means of restraining competition in the sale of an unpatented article.[102] The Court in *Morton Salt* held that a court in equity should not protect a patent from infringement until the actions restraining competition with the patentee's sale of an unpatented product have been abandoned and "that the consequences of the misuse of the

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97. *Id.*

98. *See* Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674 (codified at 35 U.S.C. § 271(d)(5) (2003)).

99. *Id.* In addition, the Senate version of the bill contained an additional provision overruling the market power presumption. Moreover, the legislative history of the Patent Misuse Reform Act states that "because the measure was considered at the end of the congressional session, 'the House did not have time to consider and approve th[e] measure' eliminating the presumption in antitrust tying cases." Brief for Petitioner, *supra* note 61, at 40-41 (quoting 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy)); *see generally* Robin Cooper Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse,* 55 HASTINGS L.J. 399, 420 (2003) (the Patent Misuse Reform Act was "a cloakroom compromise in the waning days of the 100th Congress").

> Although section 271(d)(5) does not define the scope of the defense of patent misuse, but merely provides a safe harbor against the charge of patent misuse for certain kinds of conduct by patentees, the statute makes clear that the defense of patent misuse differs from traditional antitrust law principles in an important respect, as applied to tying arrangements involving patent rights. In the case of an antitrust claim based on a tying arrangement involving patent rights, [the Court of Appeals for the Federal District] has held that ownership of a patent on the tying good is presumed to give the patentee monopoly power. . . . Section 271(d)(5) makes clear, however, that such a presumption does not apply in the case of patent misuse. To establish the defense of patent misuse, the accused infringer must show that the patentee has power in the market for the tying product.

U.S. Philips Corp. v. Int'l Trade Comm'n, 424 F.3d 1179, 1186 (Fed. Cir. 2005) (citations omitted).

100. *See* 35 U.S.C. § 271 (2003).

101. Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942).

102. *Id.* at 490.

patent have been dissipated."[103] The policy behind the Court's holding was:

> The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States, 'to promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right . . . .' to their 'new and useful' inventions. But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.[104]

The policy behind granting a "monopoly" to a patent holder does not change because we are looking at an antitrust action rather than an infringement claim. Congress, in its enactment of the Patent Misuse Reform Act, saw it fit to not require a patent owner to have the burden of proving that he did not have market power in the relevant market for the patent.[105]

Because of the similarities between a section 1 violation and actions considered to be patent misuse, a patent owner should not be presumed to have market power in the relevant market. In particular, conduct that can be considered a section 1 violation very often can be considered patent misuse. Because of the weight of anticompetitive effects in shaping the defense of patent misuse, the analysis of tying arrangements in the context of patent misuse is closely related to the analysis of tying arrangements in the context of antitrust law.[106] In addition,

> certain specific practices have been identified as constituting per se patent misuse, "including so-called 'tying' arrangements in which a patentee conditions a license under the patent on the purchase of a separable, staple good, and arrangements in which a patentee

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103. *Id.* at 493.

104. *Id.* at 492 (citing U.S. CONST. art. I, § 8; 35 U.S.C. § 31 (2002)) (alteration in original) (internal citations omitted).

105. 35 U.S.C. § 271(d)(5) (2003).

106. U.S. Philips Corp. v. Int'l Trade Comm'n, 424 F.3d 1179, 1185 (Fed. Cir. 2005); *see also* Va. Panel Corp. v. MAC Panel Co., 133 F.3d 860, 868-69 (Fed. Cir. 1997). It should be noted that Congress has specified that certain practices, which would be subject to scrutiny under antitrust law, do not constitute patent misuse. *See* 35 U.S.C. § 271(d) (2003).

> effectively extends the term of its patent by requiring post-expiration royalties."[107]

In *U.S. Philips Corp. v. International Trade Commission*,[108] the Federal Circuit found it entirely rational for a patent owner to charge what the market will bear for an essential patent in one market and offer non-essential patents in a second market for free.[109] This would make a patent-to-patent tying arrangement not per se unlawful because in order to show that a tying arrangement is *per se* unlawful, a plaintiff must show that the tying arrangement links two separate products and has an anticompetitive effect in the second product's market.[110] Accordingly, this concept appears very similar to a tying arrangement under the Sherman Act.

In a novel approach, in the realm of medical drugs and devices, companies may have a ready defense against claims of illegally tying products.[111] For example, Pfizer plans to sell a new heart treatment drug, Torcetrapib, only in combination with its cholesterol drug, Lipitor, whose active ingredient is atorvastatin.[112] Currently, Lipitor is the world's top selling cholesterol medicine, with sales of almost $11 billion in 2004.[113] The combination pill of Lipitor and Torcetrapib may protect Lipitor from generic competition after Pfizer's Lipitor patent expires in 2010.[114]

Pfizer's critics, including prominent cardiologists, believe that Pfizer should offer Torcetrapib as a stand-alone pill so that patients can take Torcetrapib with other cholesterol drugs rather than only Pfizer's Lipitor.[115] In addition, when the generic versions of Lipitor can enter the market, the problem will be that although patients will be able to purchase generic versions of Lipitor, anyone who wants to take Torcetrapib along with atorvastatin would only be able to purchase it from Pfizer.[116] It would appear that Pfizer's plan violates antitrust law, specifically the prohibition of tying products together, or refusing to sell one product unless customers buy another.[117] However, "antitrust lawyers said the company's plans were

107. *U.S. Philips Corp.*, 424 F.3d at 1185 (quoting *Va. Panel Corp.*, 133 F.3d at 869).

108. *Id.* at 1179.

109. *Id.* at 1191.

110. *Id.* at 1193-94.

111. Alex Berenson, *Pfizer Seeks to Link Heart Medicines Critics Want New Drug to Be Available as Stand-Alone Pill*, INT'L HERALD TRIB., Mar. 8, 2005, at 15.

112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.*

116. Berenson, *supra* note 111, at 15.

117. *Id.*

legal, as long as the FDA approved the drugs in combination."[118] In fact, Pfizer has been working closely with the FDA to design its clinical tests examining "whether the [T]orcetrapib-Lipitor combination reduces heart disease more effectively than Lipitor alone."[119] Herb Hovenkamp, a law professor at the University of Iowa, explained, "It's the FDA that's doing the tying," and "[a]ssuming the FDA accepts Pfizer's test results and certifies this drug only when it's taken in conjunction with Lipitor, then that would then become the government's restraint, not Pfizer's restraint."[120] Accordingly, it appears that a company could get away with a tying arrangement based on its New Drug Approval request.[121]

Here, Pfizer is only testing and seeking FDA approval for the drug combination, and not for Torcetrapib alone.[122] Unless Pfizer decides to not test Torcetrapib in combination with Lipitor and then request FDA approval, Torcetrapib will not be available to the public. Moreover, the FDA is not in a position to approve Torcetrapib unless testing has been done.

V. CONCLUSION

The most recent conflict in antitrust law is the effect of patent ownership on the determination of whether a tying, or bundling, agreement is anti-competitive and creates an illegal monopoly. A patent grants the owner a limited duration monopoly on the specific technology claimed in the patent. This monopoly does not automatically indicate that the owner has market power for the technology. Instead, the monopoly just keeps others from making or using a specific claimed technology. Moreover, a patent owner is not even required to use or market the patented technology. Accordingly, an analysis of alternative technologies should be made before determining market power in the relevant market. The relevant market should not be the specifically claimed technology and its equivalents, but the larger general purpose of the specifically claimed technology and needs met by that specifically claimed technology.

In addition, the burden of proving market power should rest on the plaintiff bringing an antitrust suit. This burden shift would place the patent holder in the same position as in a patent infringement suit where the

118. *Id.*

119. *Id.*

120. *Id.*

121. *See* Gordon Schnell, *Pfizer's Cholesterol Gambit: Dodging the Antitrust Laws?*, 234 N.Y.L.J. 4 (2005).

122. *Id.*

alleged infringer has the burden of proving market power when using the affirmative defense of patent misuse by the patent owner. The presumption that a patent confers market power unjustifiably increases the cost of owning, licensing, and enforcing intellectual property. The divergence in treatment of antitrust and patent misuse on the issue of patent tying needs to be remedied. The first step in aligning these laws would be a ruling from the U.S. Supreme Court reversing the holding in *Independent Ink* in order to remove the presumption of market power in a patent tying case. In the event that the U.S. Supreme Court affirms the presumption of market power, a pharmaceutical loophole may be exploited. However, the ultimate burden on aligning these laws rests with Congress, which has the power to codify the burden of the plaintiff when alleging a defendant is conducting an illegal tying arrangement. Accordingly, Congress should amend the Sherman Act to include a statement requiring a plaintiff bringing an action under section 1 of the Sherman Act to prove that a patent owner has market power in the relevant market for the patented product on which a license or sale is conditioned.

VI. AUTHOR'S ADDENDUM

The Supreme Court has ruled on this case since the writing of this Note.[123] I am pleased to note that the Court held that just because a tying product is patented, it does not necessarily support a presumption of market power.[124] The Court appeared to agree with the arguments of the respondent and the various Amici Curiae in Support of respondent by stating that

> Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.[125]

This ruling should clarify the role of having a patent on the presumption of market power in antitrust cases. However, it would still be beneficial to have Congress codify that a patent does not automatically confer market power.

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123. *See* Illinois Tool Works, Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281 (2006).

124. *Id.* at 1284.

125. *Id.* at 1293.