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Antitrust Effect of Patent on Tying Product: Illinois Tool Works Inc. v. Independent Ink, Inc.

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Abstract. It has continued to be assumed, since the doctrine of patent misuse was imported into antitrust jurisprudence in International Salt Co. v. U.S. (332 U.S. 392 (1947)), that because a patent gives the owner a monopoly on the commercial exploitation of the patented product, it also creates the presumption of sufficient market power to allow the owner to force a tie between the patented product and some, unpatented product. Congress eliminated that presumption in the patent area when it amended the Patent Act in 1988; in Illinois Tool Works Inc. v. Independent Ink, Inc. (547 U.S. ___, No. 04-1329, decided March 1, 2006), the Court eliminated the presumption in antitrust law.

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Summary

Antitrust law generally disfavors tying arrangements—those in which a vendor conditions the sale of a desired product on the purchase of another (possibly not-so-desired) product. Not only have tying arrangements been considered unlawful as violations of Section 1 of the Sherman Act (15 U.S.C. § 1), they were determined to be *per se* (automatically) unlawful. It was assumed, until at least the late-1970s, first, that such arrangements were only possible because the seller possessed sufficient market power in the tying product to allow him to create the tie; and second, that they served no purpose other than the suppression of competition in the market for the tied (unwanted) product. Then, in *U.S. Steel Corp. v. Fortner Enterprises, Inc.* (429 U.S. 610 (1977), *Fortner II*), the Supreme Court recognized that there might be a reason other than a seller's ability to "force" a buyer to accept the tie, i.e., that the fact of buyer acceptance was not necessarily an indication that the seller possessed market power in the tying product. However, it has continued to be assumed, since the doctrine of patent misuse was imported into antitrust jurisprudence in *International Salt Co. v. U.S.* (332 U.S. 392 (1947)), that because a patent gives the owner a monopoly on the commercial exploitation of the patented product, it also creates the presumption of sufficient market power to allow the owner to force a tie between the patented product and some, unpatented product. Congress eliminated that presumption in the patent area when it amended the Patent Act in 1988; in *Illinois Tool Works Inc. v. Independent Ink, Inc.* (547 U.S. ____, No. 04-1329, decided March 1, 2006), the Court eliminated the presumption in antitrust law: "Today ... we hold that, in *all* cases involving a tying arrangement, *the plaintiff must prove* that the defendant has market power in the tying product." (Slip opinion at 16, emphasis added.)

Background

Conditioning the purchase of a product (tying product) on the simultaneous purchase of some other product (tied product) has long been considered unlawful under the antitrust laws as a *per se* (automatic) violation of Section 1 of the Sherman Act. Similarly, an agreement not to purchase any future requirements for the tied product from any source other than the original vendor is considered an unlawful tie.[1] Either may also be considered a violation of Section 3 of the Clayton Act,[2] which prohibits so-called "tie-outs"—conditioning purchases on agreements not to use the goods or services of a competitor of the tying product's vendor. Both varieties of tying arrangement are considered to skew the market and harm competition:

> Where [product ties] are successfully exacted competition on the merits with respect to the tied product is inevitably curbed. Indeed 'tying agreements serve hardly any purpose beyond the suppression of competition.' Standard Oil Co. of California and Standard Stations v. United States, 337 U.S. 293, 305-306 .... They deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products.
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> [Moreover, we think that *per se* treatment is appropriate because] the vice of tying arrangements lies in the use of economic power in one market to restrict competition on the merits in another, regardless of the source from which the power is derived and whether the power takes the form of a monopoly or not.[3]

Courts have traditionally required, however, in order to find that a tie is, in fact, unlawful, that the seller possess market power[4] in the tying product *and* that more than a *de minimus* amount of commerce in the tied product be affected. The tie, therefore, would be the "guilty behavior" that rendered an otherwise lawful monopolist guilty of

[1] 15 U.S.C. § 1. Although Section 1 prohibits "combinations, contracts, or conspiracies" in restraint of trade (conduct that is not normally unilateral), the United States Court of Appeals for the Tenth Circuit relied on Supreme Court reasoning to note that "[t]he essence of section 1's contract, combination, or conspiracy requirement in the tying context is the agreement, *however reluctant*, of a buyer to purchase from a seller a tied product or service along with a tying product or service. To hold otherwise would be to read the words "contract" and "combination" out of section 1." Systemcare, Inc. v. Wang Laboratories Corp., 117 F.3d 1137, 1142-3 (10th Cir. 1997) (emphasis added).

[2] 15 U.S.C. § 14.

[3] Northern Pacific Railway v. United States, 356 U.S. 1, 6, 11 (1958).

[4] I.e., control over the market in which his product competes. A defendant facing a charge of unlawful tying, as in any other (attempted) monopolization allegation, would prefer to have the relevant product market and/or the relevant geographic market defined broadly. If he can include several interchangeable substitutes for his product, its (and therefore, his) proportion of that product market will be calculated differently than if the product market is confined to only his product, or his product and merely a few alternatives. Similarly, the more expansive the definition of the geographic market within which the alleged monopolist is operating, the less likely it is that he will be seen to control a sufficiently large portion of it to justify a determination of "monopolist" or a finding of "(attempted) monopolization."

monopolization, which is prohibited under various provisions of the antitrust laws.[5] Possession of the market power that would enable a seller to "force" the tie has, at least in the antitrust arena, and increasingly in the past several years, been one of the elements that a plaintiff challenging the arrangement has generally been required to prove. By contrast, in the patent area, there had been a presumption that the existence of a patent monopoly creates sufficient market power to enable a patentee to enforce a tie that constitutes patent misuse.[6] Where a patented product was the "tying" product, the presumption continued in Court decisions for more than 60 years, but was specifically rejected by Congress when it amended the Patent Act in 1988.[7] Whether such a presumption remains reasonable in antitrust jurisprudence when the tying product is patented was answered in the negative by the Court in *Illinois Tool Works*.[8]

Illinois Tool Works Inc. v. Independent Ink, Inc.

The case involved a challenge by a small manufacturer of ink used in printing systems (Independent Ink) to the practice of Trident (a subsidiary of Illinois Tool Works) of selling its patented printing systems (consisting of patented ink jet printheads and patented ink containers) to manufacturers of printers[9] only on the condition that the manufacturer-buyers agree to purchase their ink exclusively from Trident. Although the ink is specially designed to work with the patented components, it is not itself patented. Independent Ink, which produced an ink capable of being used in Trident's printheads, was not, therefore, able to sell its product to Trident's purchasers—even after the initial

[5] Most usually, monopolization offenses are prosecuted under Section 2 of the Sherman Act (15 U.S.C. § 2), which prohibits monopolization or attempts to monopolize in restraint of trade; depending on the behavior being challenged, however, Section 7 of the Clayton Act (15 U.S.C. § 18), which prohibits mergers or acquisitions that may "tend to" lessen competition or create a monopoly, or, as noted, *supra*, note 2, Section 1 of the Sherman Act may also be utilized. For a more detailed discussion of monopoly and monopolization, *see* CRS Report RS20241, "Monopoly and Monopolization—Fundamental But Separate Concepts in U.S. Antitrust Law."

[6] The doctrine of patent misuse—at least in the context of a tying arrangement—is similar to the antitrust offense of monopolization. The doctrine holds that the patentee seeks to extend his lawful monopoly into an adjacent market. It has been summarized by noting that "[t]he key inquiry in patent misuse cases is whether the patentee has impermissibly broadened the scope of his patent with anticompetitive effect." Roger E. Schechter & John R. Thomas, INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS, § 21.3 (2003).

[7] The presumption that market power is conferred by a patent originated in Motion Picture Patents Co. v. Universal Film Mfg. Co. (243 U.S. 502 (1917)), and continued unabated through the decision in Dawson Chemical Co. v. Rohm & Haas Co. (448 U.S. 176 (1980)). Congress ended the presumption entirely in 1988: 35 U.S.C. § 271(d)(5) (Section 201(i) of P.L. 100-670; Section 201 of P.L. 100-703) now requires, in order for a patentee to be found guilty of patent misuse on account of a "tie," a specific finding that "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."

[8] "The question presented to us today is whether the presumption of market power in a patented product should survive as a matter of antitrust law despite its demise in patent law. We conclude that the mere fact that a tying product is patented does not support such a presumption." Slip opinion at 1.

[9] The printers are used to print barcodes on cartons and packaging materials.

purchase. Trident's practice, it alleged in the U.S. District Court for Central California, was unlawful under the antitrust laws as a tying arrangement.

Independent Ink did not prevail at the district court level; that court rejected the assertion that Trident "necessarily ha[d] market power in the market for the tying product [printheads] as a matter of law";[10] and found that there had been affirmative evidence neither of the relevant market nor of Trident's position in it.[11]

The U. S. Court of Appeals for the Federal Circuit reversed, emphasizing that it had a "duty ... to follow the precedents of the Supreme Court until the Court itself chooses to *expressly* overrule them,"[12] notwithstanding the Court's own dicta[13] and academic criticism of the presumption.

The Court did just that in its *Illinois Tool Works* decision. After noting that "American courts first encountered tying arrangements in the course of patent infringement litigation,"[14] the Court examined its own precedents reaffirming a presumption of market power in antitrust tying cases. During that exercise, it observed that "[o]ver the years, however, this Court's strong disapproval of tying arrangements has substantially diminished."[15] The Court seemed to place particular emphasis on the dissent in *Fortner Enterprises, Inc. v. United States Steel Corp. (Fortner I)*, in which the challenged practice of tying the availability of very favorable credit terms to the purchase of the seller's prefabricated homes was described as: "a sale of a *single* product with the incidental provision of financing."[16] The case was remanded for trial. When it again reached the Court, as *Fortner II*, the unanimous decision found that although the challenged practice did, in fact, involve the two products necessary to find a tying arrangement, the arrangement was not an unlawful one. The evidence to support the unlawful tying allegation had not only *not* shown market power in the tying product, the Court saw "nothing more than a willingness to provide cheap financing in order to sell expensive homes."[17] The *Illinois Tool Works* Court noted, after recounting *Fortner's* judicial journey, that:

> The assumption that '[t]ying arrangements serve hardly any purpose beyond the suppression of competition,' rejected in *Fortner II*, has not been endorsed in any

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[10] Independent Ink, Inc. v. Trident, Inc. 210 F. Supp.2d 1155, 1163-1166 (C.D. Cal. 2002).

[11] *Id*. at 1167-68. Defining the market within which an antitrust monopolization/tying defendant operates is crucial to determining whether he has sufficient power in that market to effect his alleged antitrust-violative scheme.

[12] Independent Ink, Inc. v. Illinois Tool Works Inc., 396 F.3d 1342, 1351 (emphasis added), *quoted* at 547 U.S. ____ (slip opinion at 3).

[13] In, e.g., Fortner II (see page 1).

[14] 547 U.S. ____ (slip opinion at 3).

[15] *Id*. at ____ (slip opinion at 5).

[16] 394 U.S. 495, 522 (1969), dissent of Mr. Justice Fortas. Among the attributes of a true tying arrangement is the existence of *two, separate* products; a finding that an alleged tie involved only a single product, therefore, would foreclose an "unlawful" determination.

[17] 429 U.S. 610, 622 (1977).

> opinion since. Instead, it was again rejected just seven years later in Jefferson Parish [Hospital Dist. No. 2 v. Hyde, 466 U.S. 2, 13-16 (1984)].[18]

All of the cited and quoted cases involved unpatented tying products, and the Court noted that it continued to endorse the presumption of market power arising from the existence of a patent.[19] The validity of that presumption, however, was specifically questioned in Justice O'Connor's concurrence in *Jefferson Parish*. She wrote:

> 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.[20]

In its *Illinois Tool Works* decision, the Court has again—this time with respect to the presumptive grant of market power conferred on a patentee who chooses to tie the purchase of his patented product to an unpatented one—adopted the antitrust, tying reasoning of a Justice whose opinion in a prior case was not the Court's own. The fact that Congress has chosen to eliminate the presumption for purposes of considering patent misuse clearly served to solidify the Court's conviction that the presumption is no longer justified in the antitrust context.

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[18] 547 U.S. at ____ (slip opinion at 6). In *Jefferson Parish,* a hospital's alleged tying of anesthesia services to hospital services generally was upheld because the Court found no proof of "sufficient market power in the tying product market to restrain competition in the market for the tied product." Slip opinion at 7.

[19] E.g., *Jefferson Parish* included dicta 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." 466 U.S. at 16.

[20] 466 U.S. at 437-438, note 7.