Supreme Court Clarifies That A Patent Does Not Automatically Confer An Antitrust Monopoly

JAMES MORSCH
MINDY A. FINNIGAN

Consider this conflict: On the one hand, a free and competitive marketplace is a core value in American business. Antitrust laws serve to protect this freedom and to promote the competitive process by prohibiting attempts to monopolize. On the other hand, encouragement of progress and innovation in science and technology is crucial to maintaining and growing the economy. Patent protection provides this encouragement by ensuring that a patent holder enjoys a monopoly over his development for a prescribed period of time. Given this tension, the intersection of these two concepts has long been a thorn in the side of business. Today, as the value of intellectual property continues to grow, it has become even more important to resolve this tension in a manner that best enables and encourages companies to innovate and to develop patented products.

Industry, legal commentators, and even some courts have recognized that one way to achieve this goal is to abandon old presumptions about what constitutes an impermissible restraint on trade in the area of intellectual property. They have urged courts to reconsider the belief that agreements by which companies attempt to tie the sale or use of a patented product to the sale or use of other products manufactured or offered by the company, clash with antitrust laws. Traditionally, this type of arrangement, known as a tying arrangement, has been regarded as *per se* illegal under antitrust law. Recently, the Supreme Court reviewed this proposition and determined that *per se* treatment of tying arrangements involving patented products is no longer consistent with the realities and values of American law or business.

In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 126 S.Ct. 1281 (2006), the Court overruled the decades-old presumption that a tying arrangement involving a patented product automatically violates antitrust law because a patent confers on its holder an antitrust "monopoly."

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

The facts of *Illinois Tool Works* present a classic case of antitrust tying. Illinois Tool Works and its subsidiary, Trident, Inc., manufacture and sell printing systems including three components: (1) a patented print head; (2) a patented ink container that attaches to the print head; and (3) specially designed ink that is not patented. In connection with the sale of these products to OEM's, Illinois Tool Works required OEM's to purchase ink exclusively from Illinois Tool Works and required that neither they nor their customers would refill the containers with ink of any kind. Independent Ink, Inc. developed and sold ink with the same chemical make-up as that sold by Illinois Tool Works. The case arose when Independent filed suit against Illinois Tool Works seeking a judgment on the invalidity of Illinois Tool Works' patents and declaring that Illinois Tool Works was engaged in illegal tying and monopolization in violation of antitrust laws. The District Court granted Independent's motion for summary judgment, holding that because Illinois Tool Works held a patent over the print head system, it necessarily had market power and any tying arrangements were *per se* violations of antitrust laws. On appeal, the Court of Appeals for the Federal Circuit reversed, and the Supreme Court granted *certiorari*.

In its decision, the Supreme Court began with a discussion of the "historical distrust of tying arrangements." The Court explained that in previous cases, tying arrangements had been condemned as improper extensions of a patent monopoly under the patent misuse doctrine, unfair methods of competition under the Federal Trade Commission Act, and improper contracts under both the Clayton and Sherman Acts. The Court explained that in each of these circumstances the decision to condemn the practice at issue rested on either an assumption or on a showing that the defendant was using its market power to restrain competition. That is, courts had simply presumed that a patent confers market power on its holder and that the use of that power in tying arrangements would necessarily lead to "accomplishment of a monopoly." Thus, tying arrangements involving patented products developed as a category of *per se* violations of antitrust laws.

In the years since this presumption became a part of antitrust law, courts and Congress have recognized that this intersection of patent and antitrust laws was not without problems. When Congress amended the patent laws in 1988, for example, it included a provision requiring courts to look at the circumstances of each particular case in determining whether the patent holder had a "special market power" in the patented product. Similarly, the Antitrust Division's intellectual property licensing guidelines published in 1995 advised that prosecutors "will not presume that a patent, copyright or trade secret necessarily confers market power upon its owner."

Over time, even the Court's strong disapproval of tying arrangements diminished substantially. In *Illinois Tool Works*, the Court finally and clearly abolished the market-power presumption associated with tying arrangements. The Court found instead that tying arrangements involving patented products should be evaluated individually and supported by proof of power in the relevant market. In contrast to many of its prior declarations, the Court explicitly recognized that "[m]any tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market." For this reason, the Court held that "in all cases involving tying arrangements, the plaintiff must prove that the defendant has market power in the tying product."

Where does this decision leave tying arrangements?

Following the Court's decision in *Illinois Tool Works*, certainly some tying arrangements continue to be illegal. The Court, however, intentionally limited those situations to only the most egregious violations of antitrust law — "a true monopoly" or "a marketwide conspiracy." In addition, a court's finding of illegality now must always be supported by proof of the patent holder's power in the relevant market. Under the guidance of the cases cited by the Court, a seller has market power in a particular market when, because of a unique properties of its patented product that others cannot imitate, it is able to force buyers to do something they would not otherwise do in a competitive environment just to obtain the patented product. Courts will no longer invoke antitrust laws to strike down tying arrangements based simply on evidence that a seller requires two products to be sold together, even if the seller holds a patent over one of the products, and even if there is evidence that the seller enhanced the price of the patented product or of the tied product. Under this new high standard, proving that a tying arrangement involving a patented product is illegal under the antitrust laws will be difficult.

It is too early to say conclusively what effect *Illinois Tool Works* will have on companies and on the economy as a whole. Most telling about the probable effect of this decision, however, is the distance between the old belief that a patent gave its holder market power that necessarily invoked antitrust laws, and the new opinion that allowing patent holders to market their patented products in ways that make them most profitable can generally be "fully consistent with a free, competitive market." Thus, implicit in the Court's decision is support for the principle that other courts, lawmakers, and companies have recognized for some time: tying arrangements are a valid way to make companies' investment in innovation and the development of intellectual property economically feasible and desirable.

Illinois Tool Works opens the door to new opportunities to market patented products, including those that are not on their own profitable. Significantly, this decision also begins to smooth the line between antitrust and intellectual property law by recognizing that it is possible to encourage innovation and development of new products without in any way stifling companies' ability to freely compete with one another.

James Morsch is a partner and Mindy A. Finnigan is an associate with Butler Rubin Saltarelli & Boyd LLP, a Chicago litigation boutique. They specialize in complex commercial litigation including antitrust and other competition law matters. The views expressed in this article are personal to the authors.

BR BUTLER RUBIN
excellence in litigation℠