In the Supreme Court of the United States

ILLINOISTOOL WORKSINC., ET AL., PETITIONERS

٧.

INDEPENDENTINK, INC.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING PETITIONERS

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QUESTION PRESENTED

To establish that a tying arrangement constitutes a per se

(I)

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BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING PETITIONERS

INTEREST OF THE UNITED STATES

The Department of Justice and the Federal Trade Commission have primary responsibility for enforcing the federal antitrust laws and accordingly have a strong interest in the correct application of those laws. They have issued guidelines specifically addressing the question presented in this case and rejecting as a matter of antitrust enforcement policy the presumption that patents confer market power. See Antitrust Guidelines for the Licensing of Intellectual Property, 4 Trade Reg. Rep. (CCH) ¶ 13,132 (1995).

STATEMENT

1. Petitioner Illinois Tool Works (ITW), through its Trident division, manufactures a patented piezoelectric ink jet printhead, a patented ink container, and non-patented ink specially formulated for use in Trident's printhead system.

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1 claim, Inde "rule of reas ("Plaintiff do ments violate son."). The summary jud for petitioner The distr per se tying market powe Pet. App. 28 Hyde, 466 U. ent's content alone and as a economic pov that "[t]he w 30a. The dist pendent's re cases," inclue

olely on a per se, rather than a ability. See Pet. App. 23a-24a at Defendants' tying arranget pursuant to the Rule of Reanied Independent's motion for ad, granted summary judgment I d. at 38a, 49a, 56a. d that Independent's Section 1 oof of four elements, including market for the tyi ı Parish Hosp. Dis The court rejected on the tying product, stablishes the requisite for the tying product, istothe contrary." Pet. persuaded otherwise by Ind eral vintage Supreme Court es v. Loew's, Inc., 371 U.S. 38 court accordingly granted summary judgment against Independent on its Section 1 theory. Ibid.¹

3. The court of appeals reversed the district court's grant of summary judgment on the Section 1 claim. Pet. App. 5a-17a. The court stated that "the Supreme Court's cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power." Pet. App. 9a. "Rather,

¹ The district court also concluded that petitioners were entitled to summary judgment on the Section 2 claim because Independent proffered no evidence concerning the relevant product or geographic markets and no relevant evidence of Trident's alleged monopoly power. Pet. App. 54a-56a. The Section 2 claim is not before this Court.

the summary judgment record with evidence that may rebut the presumption." I.d. at 17a.²

SUMMARY OF ARGUMENT

A. This Court's decisions under Section 1 of the Sherman Act restrict per se condemnation of tying arrangements to those situations in which the defendant has coercive economic power in the tying product market that it uses to impair competition in the tied product market. See, e.g., Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 462 (1992); Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12-18 (1984). The court of appeals' application of a presumption that patents confer market power is inconsistent with the rationale of those decisions, and it conflicts with the Court's teaching that per se rules are properly applied only to conduct that is almost always anticompetitive.

B. There is no economic basis for inferring market power from the mere fact that the defendant holds a patent. That view is shared by diverse members of the antitrust community—including scholars, enforcement agencies, and Congress. Such an inference would confound two quite distinct concepts: the legal right under intellectual property law to exclude a copyist's infringing products and the economic concept of market power. While a patent can provide significant protection from competition, only a small percentage of patents actually confer significant market power. Those relatively rare instances cannot support a sweeping presumption

² The court of appeals affirmed the district court's grant of summary judgment for petitioners on the Section 2 claim. It observed that "[t]he presumption of illegality in patent tying arises in section 1 cases" and that "[n]either International Salt nor Loew's dealt with section 2." Pet. App. 17a. The court concluded that the normal burdens of proof therefore apply, that "the plaintiff bears the burden of defining the market and proving defendant's power in that market," and that Independent failed to carry its burden in this case. Id. at 18a.

of market power whenever the tying product is patented. Instead, before invoking a rule of per se illegality, courts should always make a careful inquiry into the realities of the relevant market, whether or not the tying product is patented. The existence of a patent is relevant to the question of market power, and patentees may indeed possess such power in particular cases, but a court should consider evidence specific to the market at issue.

C. The court of appeals was mistaken in concluding that this Court's decisions require courts to apply a presumption that patents confer market power. The Court's decisions in United States v. Loew's, Inc., 371 U.S. 38 (1962), and International Salt Co. v. United States, 332 U.S. 392 (1947), rest on a congressionally repudiated view of the scope of patent rights, and they predate the Court's articulation of the market power requirement and accordingly reflect the now-outdated assumption that proof of significant market power is unnecessary to support a per se tying violation. See 10 Phillip E. Areeda et al., Antitrust Law

³ This case concerns only a patented product. But there is also no basis for the court of appeals' suggestion (Pet. App. 9a) that the presumption applies when the defendant holds a copyright in the tying product. There is even less reason to extend the presumption to copyrighted products because the protection afforded by a copyright (which extends only to the individual expression of an idea and not to the idea itself) is more circumscribed and because very few copyrighted works, as a theoretical or practical matter, could conceivably possess market power. See William M. Landes & Richard A. Posner, The Economic Structure of Intellectual Property Law 296 (2003); 1 Herbert Hovenkamp et al., IP and Antitrust § 4.2, at 4-9 (2002). At the same time, the absurdity of inferring market power from the intellectual property right to prevent copying in the copyright context only underscores that those are two distinct concepts that should not be confounded in the patent context.

uct are not per se illegal. The seller must have "the degree or the kind of market power" that enables him to deny purchasers of the tying product the ability to choose freely among suppliers of the tied product, id. at 17-18, and thereby "impair competition on the merits" in the market for the tied product and harm consumer welfare. Id. at 14. This "per se rule against tying" has been recognized by courts and scholars as distinct from the per se rule applied to naked horizontal restraints. See 9 Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 1730, at 351 (2d ed. 2004) ("The per se rule against tying is a peculiar one that differs dramatically from the usual per se rule against, for example, horizontal price fixing."); NCAA v. Board of Regents of the Univ. of Okla., 468 U.S. at 104 n.26.⁴

B. Possession Of A Patent On The Tying Product Does Not Establish Market Power

1. The Court's decision in Jefferson Parish indicates that the market power necessary to support a per se tying claim exists when "prices can be raised above the levels that would be charged in a competitive market." 466 U.S. at 27 n.46. It is certainly possible that a patent holder could possess market power sufficient to support a per se tying claim, and antitrust liability may be appropriate if a plaintiff provides evidence

⁴ Market power is a necessary, but not a sufficient condition for per se condemnation. See Eastman Kodak, 504 U.S. at 464. The tying arrangement also must involve economically distinct products. See Jefferson Parish, 466 U.S. at 21-22. And the arrangement must foreclose "a substantial volume of commerce" to rival suppliers of the tied product, because otherwise "the resultant impact on competition would not be sufficient to warrant the concern of antitrust law." I d. at 16.

433 U.S. at 49-50), however, that patentees necessarily possess market power. To the contrary, there is a broad consensus in the antitrust community that "there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right." 10 Antitrust Law ¶ 1737a, at 79. As Professors Hovenkamp, Janis, and Lemley explain, a "patent grant creates an antitrust 'monopoly' only if it succeeds in giving * * 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." 1 Herbert Hovenkamp et al., IP and Antitrust § 4.2, at 4-9 (2002).⁵

A presumption that a patent holder possesses market power sufficient to impair competition in the tied product market is unsound because it blurs the distinction between the legal right, based in intellectual property law, to exclude a copyist's infringing product and the economic concept of market power. "Neither ownership of [a] property right nor the power to exclude conveys monopoly power unless the property right in quest

⁵ Accord J. Dianne Brinson, Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product Is Patented or Copyrighted?, 48 La. L. Rev. 29 (1987); Russell Lombardy, The Myth of Market Power: Why Market Power Should Not Be Presumed When Applying Antitrust Principles to the Analysis of Tying Arrangements Involving Intellectual Property, 8 St. Thomas L. Rev. 449 (1996); William Montgomery, The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements, 85 Colum. L. Rev. 1140 (1985).

⁶ There is no merit to the suggestio

⁷ See generally F.M. Scherer, The Innovation Lottery

2. As a matter of longstanding antitrust policy, both the

Department of Justice and the Federal Trade Commissiona] rig Protech-12.8(tf9E3(p)s((H

⁹ See, e.g., J. Paul McGrath, Assistant Attorney Gen., Antitrust Div., DOJ, Patent Licensing: A Fresh Look at Antitrust Principles in a Changing Economic Environment 12 (Apr. 5, 1984) ("[The market power] presumption reflects the traditional, though ill-conceived, notion that the patent laws create 'monopolies' that are inherently in conflict with the competition policy underlying the antitrust laws. The truth is, however, that the exclusive rights to patents rarely give their owners anything approaching a monopoly."); Antitrust Enforcement Guidelines for International Operations-1988, 4 Trade Reg. Rep. (CCH) ¶ 13,109, § 3.6 (1995) ("[I]ntellectual property-even a patent-does not necessarily confer a monopoly or market power in any relevant market"); Intellectual Property Antitrust Protection Act of 1995: Hearing on H.R. 2674 Before the House Comm. on the Judiciary, 104th Cong., 2d Sess. 11 (1996) (testimony of Deputy Assistant Attorney General Joel Klein); Mary L. Azcuenaga, Commissioner, FTC, The Intersection of Antitrust and Intellectual Property: Adaptations, Aphorisms and Advancing the Debate (Jan. 25, 1996) < http://www.ftc.gov/speeches/azcuenaga/alis.htm>; Thomas B. Leary, Commissioner, FTC, The Patent-Antitrust Interface (May 3, 2001) < http://www.ftc.gov/speeches/leary/ipspeech.htm>.

termine whether a patent owner possesses market power by applying the same analysis that they apply to any other valuable asset, which requires the consideration of possible substitutes that might allow consumers to turn to other suppliers of a similar product or process. See id. § 2.1.¹⁰

Congress also has rejected, in the context of patent misuse, a presumption that a patent confers market power. As the district court explained:

Four years after the Supreme Court decided Jefferson Parish, Congress passed the Patent Misuse Reform Act of 1988, which provides that a tying arrangement does not constitute patent misuse in the absence of market power. 35 U.S.C. § 271(d)(5). If, as is clear, a patent is insufficient to establish market power in tying cases when con-

¹⁰ A number of for eign antitrust agencies have reached the same conclusion. See Commonwealth of Australia, Application of Trade Practices Act to Intellectual Property, Background Paper §4.6 (1991) < http://www.accc.gov.au/ content/index.phtml/iteml d/325546> ("[T]o determine the degree of power a corporation has in a market, one must first define the relevant market. * * * The existence of intellectual property rights enjoyed by a corporation is irrelevant to this market definition. The market is defined by the area of close competition between different sources of particular products and their substitutes."); Competition Bureau, Government of Canada, Intellectual Property Enforcement Guidelines §4.1 (2000) < http://www.strategis.ic.gc.ca/ pics/ct/ipege.pdf> ("[T]he right to exclude others from using the product or process does not necessarily grant the owner market power."); European Comm'n Notice, Guidelines on the Application of Article 81 of the EC Treaty to Technology Transfer Agreements, 2004 O.J. (C 101/2) ¶ 9 < http://www. europa.eu.int/eur-lex/pri/en/oj/dat/2004/c_101/c_10120040427en00020042.pdf> ("There is no presumption that intellectual property rights and license agreements as such give rise to competition concerns."); Taiwan Fair Trade Comm'n, Rules for Review of Technology Licensing Arrangement Cases, Rule 3 < http://www.ftc.gov.tw/indexEnglish.html> ("[T]he Commission does not presume that a licensor, as a result of owning a patent or know-how, has market power within a relevant market.").

sidering the "patent misuse defense," it would be anoma-

lous for the same patent to be sufficient to establis29assert assert,9ertsadient to p

¹¹ The court of appeals noted Congress's enactment of the Patent Misuse Reform Act, Pet. App. 10a n.7, but it suggested that an inference could be drawn from Congress's failure to adopt proposed statutory language for "affirmative patent tying claims" that Congress expected courts to apply a presumption in those cases. That inference is unsound. See State Oil Co., 522 U.S. at 19 ("[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [a precedent that the Court is reconsidering]"); Alexander v. Sandoval, 532 U.S. 275, 292 (2001) ("[i]t is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation") (citations and internal quotation marks omitted).

¹² Judicial decisions in the patent arena have recognized the importance of non-infringing substitutes. For example, if a patent holder brings a successful infringement action against a competing product, a factor in assessing damages is the extent to which the infringer's sales were drawn from non-infringing substitutes rather than the patented product. See Statel ndus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577-1578 (Fed. Cir. 1989), cert. denied, 493 U.S. 1022 (1990); BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc., 1 F.3d 1214,

^{1218-1219 (}Fed. Cir. 1993); Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978).

¹³ The presumption of market power is

3. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. * * * In determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." Eastman Kodak, 504 U.S. at 466-467. The issue of market power should not be determined bi4466-467.27 in antp, *dtysue."

ployed in tying has most of the disadvantages of the standard rule of reason without the advantages."). Since Jefferson Parish, the D.C. Circuit has declined to apply the per se rule to tying claims in software markets because of the "undue risks of error and of deterring welfare enhancing innovation." United States v. Microsoft Corp., 253 F.3d 34, 89-90 (D.C. Cir.) (en banc), cert. denied, 534 U.S. 952 (2001).

¹⁴ See Breaux Bros. Farms, Inc.

Despite the evolution in the Court's tying jurisprudence, the court of appeals looked back to the Court's 1947 decision in International Salt and its 1962 decision in Loew's for guidance in analyzing tying arrangements involving a patented tying product. The court of appeals understood those cases to create a presumption that patents confer market power. See Pet. App. 8a-10a. The court's understanding is highly questionable, because it is far from clear that those cases support "any presumption of market power." Jefferson Parish, 466 U.S. at 37 n.7 (O'Connor, J., concurring). An examination of those cases and their underpinnings reveals that they do not establish a controlling rule that patents confer market power, and they accordingly do not have "direct application" to the precise issue presented here. Pet. App. 14a (quoting Rodriquez de Quijas v. Shearson/American Express, I21n0.0233 hey accords Tjh11.2(47e6i 0eS Tj

¹⁵ Indeed, the court of appeals' conclusion in this case is difficult to square with its own past decisions. Panels of the Federal Circuit, including the panel in this case, have concluded, in the context of addressing claims under Section 2 of the Sherman Act, that a patent does not confer market power for purposes of the antitrust laws. See Pet. App. 17a-18a; Abbott Labs. v. Brennan, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not of itself establish a presumption of market power in the antitrust sense."), cert. denied, 505 U.S. 1205 (1992); C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1368 (Fed. Cir. 1998) ("It is not presumed that the patent-based right to exclude necessarily establishes market power in antitrust terms."), cert. denied, 526 U.S. 1130 (1999); American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350, 1367 (Fed. Cir.) ("patent rights are not legal monopolies in the antitrust sense of that word"), cert. denied, 469 U.S. 821 (1984).

market power (or lack thereof) in the salt machine market. See id. at 394-398. The Court's failure to discuss that factor suggests that the Court, at that time, considered the inquiry unnecessary to establish a Section 1 violation; it certainly does not suggest that the Court adopted sub silentio a rule that market power must generally be shown but is to be presumed from the existence of a patent. See 10 Antitrust Law ¶ 1733d, at 18-19.

The Court later confirmed in Northern Pacific, supra, that its decision in International Salt did not depend on whether the defendant had patented its machines. Northern Pacific involved a Section 1 challenge to a railroad's tying agreements in which it sold or leased land on condition that the recipients agree to use only the railroad's shipping facilities. See 356 U.S. at 7. The Court cited International Salt in invalidating the tying arrangements and rejected the railroad's argument that the latter decision was distinguishable because it involved a patented product. Stating that "we do not believe this distinction has, or should have, any significance," id. at 9, the Court explained that International Salt "placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful despite the fact that the tying item was patented, not because of it." I bid. Northern Pacific thus refutes the court of appeals' view that International Salt adopted a presumption that patents confer market power.

The Court's decision in Northern Pacific also explained cogently why the existence of a patent does not suffice to establish market power. The Court reasoned 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 privilege is slight. As a matter of fact the defendant in International Salt offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant.

356 U.S. at 10 n.8.

To be sure, the Court's subsequent decision in Loew's, which involved the block-booking of copyrighted films, does state that there is a presumption of market power for patented or copyrighted tying products. 371 U.S. at 45. But the decision does not convincingly explain the economic rationale for that observation (which was, in any event, dictum, at least as applied to patents). The Court cited International Salt, but it did not identify anything in that decision that called for recognition of such a presumption, nor did it attempt to reconcile its analysis with the passage from Northern Pacific, set out above, which expressed the understanding that a patent typically is not associated with market power. See id. at 45-46.¹⁶

The Loew's Court instead stated that the presumption it had identified "grew out of a long line of patent cases" applying the theory of patent misuse to bar patentees who employed tying arrangements from enforcing their patents. 371 U.S. at 46 (citing, inter alia, Mercoid Corp. v. Mid-Continent

¹⁶ Loew's also cited United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948), which also involved the block-booking of copyrighted films. See 371 U.S. at 45-46. Like International Salt, however, Paramount did not announce or apply a legal presumption respecting market power and did not even discuss whether the defendant had market power in the market for the tying product. See 334 U.S. at 156-159. Instead, Paramount, like Loew's, appeared to rely on principles drawn from the patent misuse doctrine. See id. at 157-158. See also pp. 21-22, infra.

Inv. Co., 320 U.S. 661 (1944)). The Court explained that those "cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." Ibid.; see generally id. at 46-48. Thus, the Loew's Court's reference to a presumption of market power was a reflection of the then-existing view that a patent grant was generally inconsistent with all forms of tying arrangements, regardless of whether the patent actually conferred market power. See United States v. Paramount Pictures, Inc., 334 U.S. 131, 157-158 (1948).

That limited view of the rights conferred by a patent is anachronistic under current law. As discussed above, Congress has legislatively broadened the scope of those rights by making clear that tying arrangements involving patented products do not constitute patent misuse—and thus do not prevent enforcement of the patent—in the absence of market power. 35 U.S.C. 271(d)(5). Whatever the merit of the Loew's analysis under prior law, therefore, that analysis leads to a different result under modern patent law, because the patentmisuse rationale can no longer justify any failure to require actual proof of market power.

The Court's more recent tying decisions in Eastman Kodak, Jefferson Parish, and Fortner II, which emphasize the crucial need to consider market power when analyzing tying arrangements, have further eclipsed the Court's earlier decisions in Loew's and International Salt, which predate the application of a more rigorous economic inquiry into antitrust issues. The Court's recent decisions expressly require that "any inquiry into the validity of a tying arrangement must focus on the market or markets in which the two products are sold." Jefferson Parish, 466 U.S. at 18. Thus, the existence of market power, "defined as 'the ability of a single seller to raise price and restrict output," is now a "necessary feature of an illegal tying arrangement." Eastman Kodak, 504 U.S. at 464 (quoting Fortner Enters. v. United States Steel Corp. 394 U.S. 495 (1969)). That instruction leaves no room "to infer power from a patent on the tying product," 10 Antitrust Law ¶ 1737a, at 82, and strongly suggests "that the power needed to trigger per se illegality cannot be inferred from a patent alone." Id. ¶ 1737a, at 80; see id. ¶ 1737c, at 82 ("[I]f Salt was essentially indifferent to power over the tying product, it has been overruled by the legal rule adopted in Fortner II and Jefferson Parish.").

The court of appeals observed (Pet. App. 9a) that Jefferson Parish and Fortner II contain dicta arguably supporting a market-power presumption for patented or copyrighted products. But such dicta plainly have no controlling force in this Court because neither case involved a patented or copyrighted tying product and "repeating dicta does not infuse it with life." Metropolitan Stevedore Co. v. Rambo, 515 U.S. 291, 300 (1995). See Lingle v. Chevron U.S.A. Inc., 125 S. Ct. 2074 (2005). Indeed, the Court's dictum in Jefferson Parish prompted immediate criticism from four Members of the Court. The majority observed that, "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that

the area of antitrust law, there is a competing interest, well represented in this Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." Id. at 20-21 (overruling Albrecht v. Herald Co., 390 U.S. 145 (1968)). See Copper weld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984) (overruling Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc., 340 U.S. 211 (1951)); Continental T.V., Inc. v. GTE Sylvania Inc., supra (overruling United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967)). Accordingly, the Court should squarely reject the presumption that patents confer market power, overruling, to the extent necessary, any contrary suggestion in International Salt and Loew's.

D. A Presumption That Patents Confer Market Power Would Conflict With The Procompetitive Policies Of The Antitrust Laws

The court of appeals' decision sets out an obviously anomalous rule. It directs district courts to assess market power in Section 1 patent tying cases under an artificial presumption inapplicable to tying claims involving non-patented products or to other types of antitrust claims involving patented products. Because that presumption lacks a sound foundation in fundamental principles of antitrust law and policy, it should be discarded.

1. Market power need not be proved to establish some per se violations of the antitrust laws, such as horizontal price fixing, where the conduct at issue is deemed unreasonable as a matter of law without regard to the market power of the participants. See Northern Pac. Ry., 356 U.S. at 5. If practices have no countervailing benefits and are unlikely to succeed or even be attempted in the absence of market power, such a rule makes sense. But most antitrust claims, including allegations of unlawful tying arrangements, involve practices that may be attempted and make economic sense in the absence of market power and thus depend critically on an assessment of market power. In those areas of antitrust law where market power matters, the Court has created no legal shortcut, comparable to the presumption in this case, for showing that the defendant has sufficient market power to satisfy the required element of the antitrust violation.¹⁸

The Court has recognized that there are different ways of proving market power. A court may consider direct evidence of a defendant's ability to raise prices to determine whether the defendant has the requisite economic power. See Eastman Kodak, 504 U.S. at 477. Or a court might look to evidence of market share in properly defined markets, taking into account evidence of barriers to market entry and other factors. See, e.g., United States v. Microsoft Corp., 253 F.3d 34, 54-56 (D.C. Cir.) (en banc), cert. denied, 534 U.S. 952 (2001). Patents (and other intellectual property rights) sometimes are important, and they may be relevant in determining whether entry would be unlikely to prevent a significant exercise of market power. See Fortner Enters. v. United States Steel Corp., 394 U.S. 495, 505 n.2 (1969) (Fortner I). But it is also commonly the case that, notwithstanding the existence of intellectual property rights, the evidence establishes that

¹⁸ As the court of appeals acknowledged, the market power presumption would be inapplicable to cases involving patented products brought under Section 2 of the Sherman Act. Pet. App. 17a; Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965) (requiring independent proof of market power despite existence of a patent). Thus, the creation or retention of the presumption could place courts in the position, as in this case, of reaching inconsistent conclusions in the same case respecting a seller's market power in a single market.



petitioners had not "create[d] a genuine issue of material fact on the issue" of market power, however, the court seemed to imply that rebuttal evidence on remand would send the issue to the jury. See Pet. App. 17a.¹⁹

3. A presumption of market power that lacks any basis in economic reality may have a negative effect on efficiency and innovation incentives. Perceived rewards from the efficient exploitation of intellectual property can induce intellectual property owners to invest in research and development, bringing new products to consumers.²⁰ But conversely, a market power presumption that undermines perceived rewards may constitute a drag on innovation or, at a minimum, cause firms with patents to forgo potentially efficient tying arrangements.²¹

¹⁹ The courts have not uniformly decided whether a defendant who rebuts an evidentiary presumption becomes entitled to a trial or to entry of judgment as a matter of law. See 2 John W. Strong, McCormick on Evidence § 344, at 461 (4th ed. 1992) ("The problem of the effect of a presumption when met by proof rebutting the presumed fact has literally plagued the courts and legal scholars."). "[D]ifferent presumptions will continue to be viewed as having different procedural effects." I.d. at 476.

²⁰ See, e.g., Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 480 (1974) ("The patent laws * * offe[r] a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby foster ed will have a positive effect on society through the introduction of new products and processes of manufacture into the economy."). See also, e.g., Mazer v. Stein, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"); Joseph A. Schumpeter, Capitalism, Socialism and Democracy 73-74 (1942) ("[s]pectacular prizes * * * are thrown to a small minority of winners," encouraging individuals to "do their utmost" to win "the big prizes before their eyes").

²¹ See Scherer, The Innovation Lottery 20 ("To the extent that investments in technological and artistic creation are motivated by the longshot hope of a

As this Court has long understood, the use of legal presumptions, as well as other procedures to facilitate litigation, can have real-world effects on firm behavior and innovation.²² The proposed market power presumption would predictably cause some intellectual property owners that do not possess market power to avoid tying, even in cases where the practice may be efficient. Reducing the patentee's options for efficient exploitation of its patent rights may, in turn, adversely impact the incentives to innovate. Moreover, it may deprive consumers of the benefits of efficiency-enhancing practices. See 1995 Antitrust-IP Licensing Guidelines § 5.3 ("Although tying arrangements may result in anticompetitive effects, such arrangements can also result in significant efficiencies and procompetitive benefits.").²³

very large reward, intellectual property policies should sustain and reinforce that incentive system, not undermine it.").

²² See, e.g., Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 439-441 (1984) (barring secondary liability based on a presumed intent to cause copyright infringement, noting the potential effect of that presumption on product innovation); Markman v. Westview Instruments, Inc., 517 U.S. 370, 390 (1996) (concluding that construction of patents by judges, rather than juries, promotes "the importance of uniformity in the treatment of a given patent" and, in turn, innovation); Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 739 (2002) (noting that "[f]undamental alterations in [the patent doctrine of equivalents and the rule of prosecution history estoppel] risk destroying the legitimate expectations of inventors in their property"); Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 593 (1986) (noting that the effect of allowing implausible inferences to survive summary judgment and require a jury trial "is often to deter procompetitive conduct").

²³ Package licenses and tie-ins can enhance consumer welfare in a variety of ways through, for example, economies of joint sales, quality assurance, protection of goodwill, and cheating on a cartel price. See Dennis W. Carlton & Jeffrey M. Perloff, Modern Industrial Organization 319-322 (4th ed. 2005). See also Marius Schwartz & Gregory J. Werden, A Quality-Signaling Rationale for Aftermarket Tying, 64 Antitrust L.J. 387 (1996); William F.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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AUGUST 2005

Baxter & Daniel P. Kessler, The Law and Economics of Tying Arrangements: Lessons for the Competition Policy Treatment of Intellectual Property, in Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy 137, 142-143 (Robert D. Anderson & Nancy T. Gallini eds., 1998) (beneficial effect of tying as a "metering" device).