No. 04-1329

# In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
*Petitioners,*

v.

INDEPENDENT INK, INC.,
*Respondent.*

**On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit**

## BRIEF FOR THE PETITIONERS


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## QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or whether market power instead is presumed based solely on the existence of a patent on the invention embodied in the tying product.

## RULE 29.6 STATEMENT AND PARTIES TO THE PROCEEDING

Pursuant to this Court's Rule 29.6, petitioners state that Trident, Inc. was acquired by Illinois Tool Works Inc. ("ITW") on February 17, 1999. Thereafter, Trident, Inc. became a division of ITW, and is no longer a separate corporate entity. Illinois Tool Works Inc. is a publicly held corporation.

The parties to the proceeding in the court of appeals were Illinois Tool Works Inc., Trident, Inc., and Independent Ink, Inc.

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## BRIEF FOR THE PETITIONERS

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## OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-19a) is reported at 396 F.3d 1342. The order of the district court granting petitioners' motion for summary judgment on the antitrust claims (Pet. App. 20a-56a) is reported at 210 F. Supp. 2d 1155. The order of the district court entering final judgment (Pet. App. 57a) is unreported.

## JURISDICTION

The judgment of the court of appeals was entered on January 25, 2005. The petition for a writ of certiorari was filed on April 4, 2005, and was granted on June 20, 2005. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

## STATUTORY PROVISION INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal."

## STATEMENT

A tying arrangement is "'an agreement by a party to sell one product [the tying product] but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'" *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted). A plaintiff alleging that a defendant has engaged in tying in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) must prove, among other things, that the defendant exercised "'appreciable economic power' in the tying product market." *Ibid.*

In *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* at 45-46 (citing *International Salt Co. v. United States*, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)).

The question presented in this case is whether the Court should overturn the market power presumption announced in *Loew's*. That presumption conflicts sharply with the economic reasoning underlying the Court's contemporary tying decisions, and has been rejected by the federal antitrust enforcement agencies and the overwhelming weight of scholarly opinion.

Indeed, the court below recognized that "[later Supreme Court tying] cases not involving patents or copyrights" require proof of market power "notably more onerous than the [market power requirement in prior tying cases]." Pet. App. 6a-7a. It also observed that the presumption "has been subject to heavy criticism," including by Members of this Court (*id.* at 13a-14a). It nevertheless concluded that, as a lower court, it was bound to follow *Loew's* and *International Salt* even if those precedents "contain[ed] many 'infirmities' and rest[ed] upon 'wobbly, moth-eaten foundations.'" *Ibid.* (citing *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)).

This Court, however, is not so constrained. It should overturn the market power presumption and require that a plaintiff in a patent tying case — like plaintiffs in any other tying case — prove as part of its affirmative case that the defendant actually possesses the requisite market power.

### A. Trident's Business

Trident, Inc. ("Trident"), a division of Illinois Tool Works Inc. ("ITW"), designs, manufactures and markets printing systems made up of industrial piezoelectric impulse ink jet printheads and inks. It sells the systems to original equipment manufacturers ("OEMs") that incorporate them into printers for industrial applications — for example, bar coding and other carton labeling. Those printers, in turn, form a small part of the packaging assembly lines that the OEMs sell to their customers. See Pet. App. 20a.

Trident is the owner of, or the exclusive licensee under, a number of patents covering piezoelectric printing technologies. Even so, Trident competes with at least two other firms, Markem and Xaar, that also have developed their own patented ink jet printhead systems capable of printing barcodes on packaging material. Pet. App. 22a. In addition, all three manufacturers face competition from the method of attaching barcodes to packages with pre-printed labels, which "may even have advantages over [piezoelectric] printers in terms of quality and reliability." *Id.* at 22a, 36a.

Trident holds the patent involved in this litigation, U.S. Patent No. 5,343,226 ("the '226 patent") and other related patents and patent applications on an impulse ink jet system comprising the printhead, the bottle containing the printer ink, and the connection between them. Trident licenses its OEM customers under the '226 patent and its other related patents to "'manufacture, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident.'" *Id.* at 21a. Pursuant to this license requirement, the OEM customers must buy the Trident inks in patented containers along with the printheads for which they were designed and incorporate them into the units they sell to their end-user customers. The end-users can buy additional containers of ink from the OEMs, subject to a single-use license under the '226 patent. The single-use license prohibits refilling the containers. *Ibid.*

However, neither the '226 patent nor the single-use license prevents end-users from purchasing containers of ink from third-party manufacturers. Several firms have sought to design and sell containers of ink that do not infringe the '226 patent. Pet. App. 21a-22a. Some of these firms also refill Trident's containers with their own ink notwithstanding the single-use license. One such firm is respondent Independent Ink, Inc. ("Independent Ink"). *Id*. at 21a.

### B. The District Court Decision

On December 31, 1997, Trident filed an infringement action against Independent Ink in the United States District Court for the Southern District of Illinois based upon Independent Ink's refilling of Trident's patented single-use ink containers with its own ink. The suit, which Trident brought against four defendants in all, was dismissed as to Independent Ink and one other defendant for lack of personal jurisdiction. See *Trident, Inc. v. Applied Techs. Group, Inc.*, No. 3:97-cv-01047-GPM (S.D. Ill. Dec. 15, 1998).

Independent Ink commenced this action in August 1998 against Trident in the United States District Court for the Central District of California, seeking a declaratory judgment of non-infringement and invalidity. Independent Ink later added several other causes of action, including federal and state antitrust law claims.[1] In its Fourth Amended Complaint, Independent Ink's federal antitrust claim alleged "monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization," evidently in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2), based on, among other alleged conduct, the tying of the patented printheads and the ink. J.A. 2a.[2] Trident and ITW (which had been added as a defendant after it purchased Trident) moved for summary judgment on both the federal and state antitrust claims; Independent Ink moved for summary judgment only as to its Section 1 theory.

Independent Ink contended that Trident and ITW "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system." Pet. App. 23a. At the same time, though, Independent Ink acknowledged that "'the mere fact of having a patent does not create market power vis-à-vis the products with which the patented product competes.'" *Ibid.* (quoting Plaintiff's Reply Brief at 4). Independent Ink's summary judgment briefs did not resolve this fundamental inconsistency: they

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[1] Independent Ink's non-antitrust claims were state law claims for unfair competition, fraud, and negligent and intentional interference with prospective business advantage. The district court's jurisdiction was based on 28 U.S.C. § 1332(a)(1), 28 U.S.C. § 1337(a), and 28 U.S.C. § 1338(a).

[2] Independent Ink also included a claim under California state antitrust law. See Pet. App. 38a n.13.

"d[id] not discuss the products at issue, their substitutes, or the relevant markets." *Id.* at 24a. Indeed, Independent Ink itself admitted that its expert "'did not perform an antitrust analysis at all.'" *Ibid*. (quoting Plaintiff's Response to Defendants' Statement of Uncontroverted Facts at ¶ 10); J.A. 124a.

The district court denied Independent Ink's summary judgment motion and granted summary judgment for Trident on both claims. Pet. App. 38a, 49a. The court found that Independent Ink had "proffer[ed] no evidence that would establish Defendants' market power in the as yet undefined market for the tying product." *Id.* at 49a.

The district court rejected Independent Ink's contention that Trident's market power was presumed by virtue of its patent. "The weight of authority," the court observed, "is to the contrary," citing recent cases that did not apply the *International Salt-Loew's* presumption and noting the statement of the Department of Justice and Federal Trade Commission that, in analyzing patent-based tying, they "'will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.'" *Id.* at 30a-33a (quoting United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 5.3 (1995) (other citations omitted)).

The district court distinguished *International Salt* and *Loew's*, finding that "[t]he Court's language [in those cases] concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required"; in contrast, the court reasoned, "in [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2

(1984)], the Court began demanding real proof of such market power." Pet. App. 34a-35a n.10 (citing 10 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1737a (1996)). Concluding that Independent Ink had produced "no evidence from which a reasonable trier of fact could define the relevant product and geographic markets," and had failed to "proffer any evidence that [petitioners] possess market power by virtue of their market share or that the market for the tying product contains barriers to entry," the court entered summary judgment for ITW and Trident on the Section 1 theory. Pet. App. 49a.[3]

The district court also granted summary judgment for ITW and Trident on Independent Ink's Section 2 theory. The court found that Independent's "proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by [Independent Ink's] vice president in a few hours." *Id.* at 50a-51a. The court's review of the record revealed "numerous actual and potential suppliers of ink for Trident's system." *Id.* at 52a. Similarly, Independent Ink had "fail[ed] to proffer evidence or analysis concerning the relevant geographic market." *Ibid.* Without evidence to support

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[3] Because the state law antitrust claim was "predicated upon the same facts" as the Sherman Act claim, and Independent did "not address [the state law] claims independently," the district court disposed of that state law claim together with the Sherman Act theories. Pet. App. 38a n.13. The court of appeals did not address the state law antitrust claim.

The parties subsequently settled the non-antitrust claims, and the district court entered final judgment for petitioners on the antitrust claims. *Id.* at 57a.

relevant product and geographic markets, Independent could not establish either that petitioners possessed monopoly power in a relevant market, or that there existed a dangerous probability of achieving such monopoly power. *Id.* at 53a, 56a. Finally, the court held that Independent Ink had failed to "proffer any evidence of a conspiracy to monopolize any defined market." *Id.* at 56a. Accordingly, Independent Ink's theories of monopolization, attempted monopolization and conspiracy to monopolize all failed.

### C. The Federal Circuit's Decision

The court of appeals reversed the summary judgment in favor of Trident and ITW on the Section 1 theory. Relying on *International Salt* and *Loew's*, the Federal Circuit held that "patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." Pet. App. 9a. The court of appeals refused petitioners' invitation to hold that *International Salt* and *Loew's* are no longer good law. The court recognized that the two cases have "been subject to heavy criticism" (*id.* at 13a) and that "[t]he time may have come to abandon the doctrine" (*id.* at 14a) but deferred to their "continued validity * * * as binding authority" (*id.* at 9a), noting that "it remains the '[Supreme] Court's prerogative alone to overrule one of its precedents'" (*id.* at 14a (quoting *State Oil*, 522 U.S. at 20)).

The court of appeals went on to hold 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." Pet. App. 15a. Determining that petitioners' evidence of competition from the two rival printhead systems and barcode labeling had not overcome the market power presumption, the court reversed summary judgment for petitioners on Independent Ink's Section 1 theory and remanded the case "to permit [petitioners] an opportunity to supplement the summary judgment record with evidence that may rebut the presumption." *Id.* at 17a.

With respect to the Section 2 theory, however, the court of appeals affirmed the district court's grant of summary judgment for ITW and Trident. "In section 2 cases," the court stated, "the plaintiff bears the burden of defining the market and proving defendant's power in that market." Pet. App. 18a. It upheld the district court's determination that "plaintiff makes only the conclusory allegation of a geographic market without supporting economic evidence" and held that "[s]uch conclusory statements are not sufficient to define a relevant market." *Ibid.* Because Independent Ink failed to carry its burden, the district court properly granted summary judgment for petitioners. *Ibid*.

## SUMMARY OF ARGUMENT

Tying arrangements are *per se* unlawful under Section 1 of the Sherman Act, 15 U.S.C. § 1, only when a seller has sufficient market power over the tying product; in particular, the seller must be able to force a purchaser of the tying product to buy the tied product as well. The conclusion that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted" (*Loew's*, 371 U.S. at 45-46), is inconsistent with key elements of this Court's antitrust jurisprudence, wholly at odds with economic reality, and sweeps large categories of procompetitive conduct within the prohibition of the *per se* rule. The presumption should be eliminated by this Court.

*First*, the presumption rests on an extraordinarily weak foundation. This Court never analyzed the degree of economic power conveyed by a patent and decided that it always — or even often — equates to the market power required to establish unlawful tying. Rather, the Court established the presumption on the basis of equitable principles relating to patent misuse. Moreover, although the Court has mentioned the presumption in dicta since announcing it forty-two years ago in *Loew's*, the Court never actually applied the presumption in a single case during that period.

*Second*, the presumption is inconsistent with this Court's antitrust jurisprudence. The Court's recent tying decisions apply a stringent market power standard; the Court has never explained how the presumption comports with that standard. Outside the tying context, moreover, the Court has refused to presume market power based on the existence of a patent.

*Third*, the overwhelming weight of scholarly authority concludes that patents do not ordinarily convey market power. A patent confers exclusive rights only with respect to a particular invention. It does nothing to foreclose other inventions that serve the same purpose and compete as substitutes in the same market. A broad range of commentators have concluded that patented products typically do compete with other goods — patented and unpatented — and that a patent therefore ordinarily does *not* convey market power. Considerable empirical analysis supports this assessment.

*Fourth*, this Court has recognized that tying arrangements frequently are beneficial. A presumption that reduces, or effectively eliminates, the market power requirement inevitably will impose liability for these procompetitive activities, thereby chilling the very type of conduct that the antitrust laws are designed to promote. The presumption also encourages meritless litigation, allowing plaintiffs to survive a motion to dismiss without any proof of market power, and thereby increasing the pressure on innocent defendants to settle rather than absorb the burdens of discovery, jury trial, and potential treble damages liability.

*Fifth*, the federal antitrust enforcement agencies abandoned the presumption ten years ago and have emphasized the risk of inappropriately penalizing legitimate conduct. That determination is consistent with the unanimous modern view of economists and legal scholars with both liberal and conservative perspectives on antitrust policy.

Finally, respondent is wrong in asserting that this Court lacks the authority to overrule the presumption. Congress's inaction with respect to this issue plainly preserves the Court's authority to determine the appropriate antitrust rule.

This Court does not lightly overrule its precedents, but it has taken that step a number of times in the antitrust context "when the theoretical underpinnings of those decisions are called into serious question." *State Oil*, 522 U.S. at 21. That standard is plainly satisfied here. The market power presumption should be overturned by this Court.

## ARGUMENT

### MARKET POWER SHOULD NOT BE PRESUMED FROM THE EXISTENCE OF A PATENT ON THE TYING PRODUCT.

This Court has explained that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish*, 466 U.S. at 12. "Accordingly, [the Court has] condemned tying arrangements when the seller has some special ability — usually called 'market power' — to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful." *Id*. at 13-14 (footnote and citations omitted). This market power requirement, an unusual prerequisite for *per se* antitrust liability, thus serves the critical function of distinguishing potentially harmful tying from tying that provides procompetitive benefits or poses no potential anticompetitive harm.

The Court has cautioned against "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities" and emphasized that "[i]n determining the existence of market power" it is important to "examine[] closely the economic reality of the market at issue." *Kodak*, 504 U.S. at 466-67 (footnote omitted); see also *Basic, Inc. v. Levinson*, 485 U.S. 224, 246 (1988) (upholding presumption because it was supported by "common sense and probability"). The presumption that "[t]he requisite economic power [is present] when the tying product is patented or copyrighted" (*Loew's*, 371 U.S. at 45-46) is the very embodiment of a "formalistic" doctrine that is flatly inconsistent with market reality.

A patent confers only an exclusive right to manufacture, use, and sell a particular invention. See 35 U.S.C. § 154(a)(1). The patent does not preclude others from creating non-infringing alternatives that are substitutes for, and compete with, the patented invention. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) ("There may be effective substitutes for the device which do not infringe the patent."); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) ("the patented product * * * often * * * represents merely one of many products that effectively compete in a given product market"), *cert. denied*, 455 U.S. 1016 (1982). Indeed, "patent law encourages competitors to design or invent around existing patents." *WMS Gaming Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1355 (Fed. Cir. 1999).

As the authors of the leading treatise on antitrust and intellectual property law explain:

> [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.

1 H. Hovenkamp, M. Janis & A. Lemley, *IP and Antitrust* § 4.2, at 4-8 to 4-9 (2002). Commentators have concluded, with virtual unanimity, that patents only rarely confer significant market power. The available empirical evidence strongly supports that conclusion. See pages 25-26, *infra*.

This Court has never even inquired whether the market power presumption reflects economic reality, let alone determined that it does. The Court simply transported from patent law into antitrust law a rule developed in connection with the equitable defense of patent misuse. Moreover, in other antitrust contexts the Court has rejected the principle embodied in the presumption, refusing to presume market power from the mere existence of a patent. It is appropriate, therefore, to reconsider the market power presumption in this case.

We recognize that this Court approaches reconsideration of its decisions "with the utmost caution." *State Oil*, 522 U.S. at 20. In the antitrust context, however, the Court has explained that "there is a competing interest [to *stare decisis*], well represented in th[e] 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 also *Copperweld 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.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967)).

The very circumstances that led the Court to overturn these other antitrust precedents are present here as well. The market power presumption was transplanted into antitrust law on the basis of scant analysis; it is wholly inconsistent with this Court's modern antitrust jurisprudence; it has been abandoned by the federal antitrust enforcement agencies; and it is the subject of unusually unanimous scholarly criticism. Moreover, respondent's contention that Congress's failure to overturn the presumption somehow eliminated this Court's authority to do so is plainly wrong.

### A. The Presumption Does Not Rest On A Determination By This Court That A Patent Ordinarily Conveys The Market Power Necessary To Establish An Unlawful Tie.

The Court explained its decision to overrule the intra-enterprise conspiracy doctrine in *Copperweld* by observing that it had never before considered "the merits of the * * * doctrine in depth"; the doctrine had arisen "from a far narrower rule"; and, although the Court had "expressed approval of the doctrine on a number of occasions," that statement "was in all but perhaps one instance unnecessary to the result." 467 U.S. at 760. The presumption at issue here has a similarly undistinguished pedigree.

In fact, in the forty-two years since recognizing the presumption in *Loew's*, the Court has never applied it again. Although the Court repeated the presumption in several subsequent opinions addressing tying claims, none of those cases turned on the presumption, as none involved a tying product that was patented or copyrighted. See *Jefferson Parish*, 466 U.S. at 16; *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) ("*Fortner II*"); *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) ("*Fortner I*"); P. Areeda & H. Hovenkamp, *Antitrust Law*, ¶ 518, at 197 n.31 (2005 Supp.) ("the last Supreme Court decision to rely on the power presumption was *Loew's*").

**1. The Origins Of The Presumption**

*International Salt* is cited as the decision originating the presumption in the patent context (see *Loew's*, 371 U.S. at 46), although the Court did not expressly announce the presumption in its opinion in that case. The defendant there refused to lease its salt-dispensing machines unless the lessee also agreed to purchase from the defendant the salt used in the machines. The Court found an unlawful tie without discussing the defendant's market power or explaining why such analysis was unnecessary to establish the illegality of the tie.

Fifteen years later, the *Loew's* Court provided the reasoning for the decision in *International Salt*. It explained that the presumption of market power for patented or copyrighted products "grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." 371 U.S. at 46 (citing cases).

The Court then set forth its rationale for extending the rule of the patent misuse cases into antitrust law:

> Since 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 *International Salt*); see also *Paramount Pictures,* 334 U.S. at 158 (block licensing of motion pictures is unlawful under the antitrust laws because it "add[s] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses") (footnote omitted).

This rationale rests on several highly questionable premises. To begin with, the patent misuse cases themselves did not address whether a patent conveys the sort of market power that triggers antitrust concern. The issue in those cases was whether, as a matter of equity, a patent owner should be precluded from enforcing its patent rights because it had tied the patented good to a non-patented product. The Court was not concerned with the actual competitive effect of the tie. Rather, because the Court deemed the tie to have expanded the "scope" of the exclusionary rights conveyed by the patent beyond what was granted by the patent itself, the patent holder lost the ability to enforce the patent. See, *e.g.*, *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491-92 (1942); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 456 (1940); see also R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 410 (2003) (under the Court's holding in *Morton Salt*, "[a]n antitrust violation would not be necessary in order to prove patent misuse nor would antitrust analysis provide the proper test").[4]

The *Loew's* Court indicated that the "theory" of *International Salt* was that the existence of a patent by itself "establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences." 371 U.S. at 46. But as this Court made clear in subsequent decisions, that theory did not rest on analysis of International Salt's actual market power: "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." *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 10 n.8 (1958); see also *Standard Oil Co. of Cal.*

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[4] The Court referred in these cases to the patent holder's "monopoly," but those statements related to the patent holder's "exclusive right to make, use and vend the particular device described and claimed in the patent," not to monopoly power in the antitrust sense. *Morton Salt*, 314 U.S. at 491; see also *Ethyl Gasoline*, 309 U.S. at 456.

*v. United States*, 337 U.S. 293, 305 (1949) ("[i]t was not established that equivalent machines were unobtainable, it was not indicated what proportion of the business of supplying such machines was controlled by defendant, and it was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition").

It appears that the Court simply viewed the presumption as an inevitable consequence of the principle that "the patents confer no right to restrain use of, or trade in, unpatented salt." *International Salt*, 332 U.S. at 395-396 (citations omitted); see also *Paramount Pictures*, 334 U.S. at 156-159 (asserting that patent ties expand the scope of a "patent monopoly" and concluding, without any further elaboration, that the tying arrangement was also an illegal restraint of trade under Section 1).

The Court's reference in *Loew's* to "anticompetitive consequences" thus appears to be the product of a judicial determination about the appropriate limits on intellectual property rights and not the result of antitrust analysis. *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment) ("[In *Paramount Pictures*,] the Court did not analyze the arrangement with the schema of tying cases. Rather, the Court borrowed the patent law principle of 'patent misuse' * * *. The 'patent misuse' doctrine may have influenced the Court's willingness to strike down the arrangement at issue in *International Salt* as well * * *."); W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 374 (2003) ("courts in the early patent tie-in cases tended to confuse patent 'monopolies' with monopolies that have economic consequences grave enough to warrant the invocation of antitrust prohibitions”).

**2. The Evolution Of The Market Power Standard**

The Court’s analysis in *Loew’s* almost certainly was influenced by the fact that when *International Salt* and *Loew’s* were decided, tying arrangements, whether involving intellectual property or not, were viewed with much more suspicion than they are today. At that time, this Court’s assessment was that “[t]ying agreements serve hardly any purpose beyond the suppression of competition.” *Standard Oil*, 337 U.S. at 305; see also *Brown Shoe v. United States*, 370 U.S. 294, 330 (1962) (“the use of a tying device can rarely be harmonized with the strictures of the antitrust laws, which are intended primarily to preserve and stimulate competition”).

The Court accordingly had little reason to require a showing of significant market power; in fact, the market power requirement was minimal. In *Northern Pacific*, for example, the Court stated that market power could be inferred from the existence of the tying agreements themselves. See 356 U.S. at 7-8; see also 10 P. Areeda et al., *Antitrust Law*, ¶ 1733d4, at 21 (2d ed. 2004) (“[s]ome [market] power — in the sense of a departure from perfect competition—was clearly required” in *Northern Pacific* but “the Court demanded very little”).

More recently, however, the Court has recognized “that tying may have procompetitive justifications that make it inappropriate to condemn without considerable market analysis.” *NCAA v. Board of Regents*, 468 U.S. 85, 104 n.26 (1984); see also *Jefferson Parish*, 466 U.S. at 11-12 (“Buyers often find package sales attractive; a seller's decision to offer such packages can merely be an attempt to compete effectively — conduct that is entirely consistent with the Sherman Act."); *id.* at 35-42 (opinion concurring in the judgment) (explaining that tying harms competition only in limited circumstances and describing situations in which tying promotes efficiency and benefits consumers); see pages 27-30, *infra*.

In order "to screen out [a] class of harmless tie," the Court applied a much more stringent market power standard in its recent decisions in *Jefferson Parish* and *Kodak*. *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 796-97 (1st Cir. 1988) (Breyer, J.); see also 10 Areeda et al., *supra*, ¶ 1733a, at 13 (the market power requirement "was not taken seriously until the late 1970s. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power") (footnotes omitted); Pet. App. 6a-7a ("The requirement of demonstrating sufficient market power to raise prices [in modern cases] was notably more onerous than the *Northern Pacific* requirement").

*Jefferson Parish* held that the defendant's market power must be "significant," and that the mere fact that "prices can be raised above the levels that would be charged in a competitive market" is not sufficient to establish "the kind of market power that justifies condemnation of tying." 466 U.S. at 26, 27 & n.46; see also *Grappone, Inc.*, 858 F.2d at 796 ("[*Jefferson Parish*] makes clear that by its requirement of 'market power' it means *significant* market power — more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller's many customers.") (emphasis in original). In *Kodak*, the Court amplified this point, referring to the requirement of "appreciable economic power in the tying market," and defining "market power" as "'the ability of a single seller to raise price and restrict output.' The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market." 504 U.S. at 464 (citation omitted).

If *International Salt* and *Loew's* had never been decided, it is inconceivable that the Court today would accept the contention that market power should be presumed when a tying product is copyrighted or patented. Given the stringent market power standard that the Court applied in *Jefferson Parish* and *Kodak*, and the important role that standard plays in protecting procompetitive conduct, the Court would require — as the predicate for recognizing such a presumption — a broad consensus that a patent or copyright ordinarily in fact conveys the requisite market power. As we demonstrate below (at 24-26), however, the consensus is just the opposite: a patent by itself generally is a poor indicator of market power. Even if the presumption could be reconciled with the market power standard that the Court formerly applied in tying cases, therefore, the presumption is plainly inconsistent with the standard that the Court applies today.

In sum, the presumption has rarely been applied, was not based upon rigorous analysis of market power when it was adopted, and is plainly inconsistent with the Court's recent decisions. Far from supporting the presumption, this Court's precedents demonstrate why the presumption should now be eliminated.

**B. The Requisite Market Power Cannot Reasonably Be Presumed From The Existence Of A Patent.**

When considering whether to overrule an antitrust precedent, this Court has also looked to whether that precedent is consistent with the analysis underlying its other antitrust decisions. See, *e.g.*, *State Oil*, 522 U.S. at 15-18. Because the presumption is sharply inconsistent with the Court's decisions in cases not involving intellectual property tying, this factor too weighs heavily in favor of overturning the presumption.

As long ago as *Northern Pacific*, this Court 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." 356 U.S. at 10 n.8; see also *Walker Process*, 382 U.S. at 177-78 (noting that "[i]t may be that the device [that was the subject of the patent claim] * * * does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent").

The Court accordingly has refused to extend the presumption of market power from the mere existence of a patent or copyright. See *Walker Process*, 382 U.S. at 177 (refusing to presume market in attempted monopolization case: whether the patent holder had market power "is a matter of proof"); Areeda & Hovenkamp, *supra*, ¶ 518, at 195 (2005 Supp.); see also *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); *SCM Corp.*, 645 F.2d at 1203 ("When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise.").

There is no rational justification for treating intellectual property differently in tying cases. Nothing about tying changes the degree of power that inheres in an intellectual property right: if a patent owner lacks market power when it engages in exclusive dealing, there is no reason to conclude that market power has sprung up when it ties.

Certainly the available empirical evidence provides no basis for a presumption that a patent or copyright ordinarily confers significant market power. The existence of a patent should be considered in the market power analysis, just like any other relevant fact. But "[i]n determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." *Kodak*, 504 U.S. at 466-467 (footnote omitted).

Commentators with a wide variety of perspectives on antitrust law have concluded that the market power presumption is inconsistent with economic reality. The leading antitrust treatise states 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 Areeda et al., *supra*, ¶ 1737a, at 79 (footnote omitted).

Professor Lawrence Sullivan — in other contexts a supporter of generous interpretations of the antitrust laws — has concluded that "the relevant market may be much broader than a single patented product, in which case a patent-holder would have no significant inter-brand market power. * * * Establishing that a tying product possesses market power should require more than introducing evidence that a valid patent was issued." L. Sullivan & W. Grimes, *The Law of Antitrust* 429 (2000). Similarly, Judge Posner and Professor Landes have explained that the market power presumption resulted from confusion between an economic monopoly and a patent right: "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." Landes & Posner, *supra*, at 374; see also E. Singer, *Antitrust Economics and Legal Analysis* 112 (1981) ("[A]ll patents do not confer substantial or even significant market power.").

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 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, *supra*, at 437 ("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.

As Justice O'Connor explained, "[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power." *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., concurring in the judgment). While intellectual property ownership might "help to give market power to a seller, it is also possible that a seller 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." *Ibid.*

The amici in this case have provided additional support for Justice O'Connor's conclusion, demonstrating that is commonplace for patented products to compete with other patented products and non-patented products. See, *e.g.*, Pfizer Pet. Am. Br. 6[5]; American Intellectual Property Law Association ("AIPLA") Pet. Am. Br. 5; Intellectual Property Owners ("IPO") Pet. Am. Br. 11.[6]

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[5] "Pet. Am. Br." refers to the amicus brief filed at the petition stage.

[6] Respondent argues (Br. in Opp. 6-14 & 21-24) — contrary to all of the authority cited in the text — that patents and copyrights do ordinarily confer market power. But respondent's entire argument is based on the premise that if a customer purchases two products pursuant to a tie, but would not purchase the products if they were sold separately, it nec-

There simply is no reason for this Court to maintain a presumption that creates inconsistency in the Court's decisions and conflicts with market reality as well.

### C. The Presumption Penalizes Procompetitive Behavior And Encourages Unjustified Litigation.

In construing the Sherman Act, this Court takes account of the real-world implications of the legal rule under consideration, including whether the rule will produce a large number of "false positives" and thereby deter procompetitive behavior (*e.g.*, *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko*, 540 U.S. 398, 414 (2004)), or open the door to significant unjustified litigation (*e.g.*, *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 226-27 (1993)). Both factors weigh strongly in favor of eliminating the presumption.

#### 1. Most Tying Arrangements Are Economically Beneficial.

Tying arrangements "benefit[] society by protecting quality, lowering costs or increasing value, increasing

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essarily has made a "rationally disadvantageous decision" because of "the market power [obtained by the seller] as a result of the unique features of the patented product" (*id*. at 9). Thus, according to respondent, a tie could not be successful in the marketplace in the absence of market power in the tying product. That is the very approach taken by the Court in *Northern Pacific* and subsequently rejected in *Jefferson Parish* and *Kodak* based on the Court's determination that some ties succeed in the marketplace because they are *pro*competitive. See pages 20-22, *supra*. Respondent's theory is thus squarely inconsistent with this Court's tying jurisprudence.

price competition, [or] aiding entry." 9 Areeda et al., *supra*, ¶ 1703g, at 44 (2d ed. 2004); *Jefferson Parish*, 466 U.S. at 42 (O'Connor, J., concurring in the judgment) ("tying may make the provision of packages of goods and services more efficient"). Judge Bork observed that "tying arrangements used to achieve economies of scale, nondiscriminatory measurement of use, and efficient technological interdependence are valuable not merely to the firm but to consumers." R. Bork, *The Antitrust Paradox* 380-81 (2d ed. 1993); see also R. Posner, *Antitrust Law* 197 (2d ed. 2001) ("the tying arrangement" is "[a] practice long thought to epitomize the exclusionary practices but now recognized to be only rarely exclusionary").

Tying may "increase[] rivalry in the tied market" or "serve competition by promoting product quality and protecting the supplier's goodwill in the tying product." 9 Areeda et al., *supra*, ¶¶ 1714b3 & 1716a, at 137, 154. It may lead to product improvement or cost savings for customers, suppliers, or both. *Id.* ¶¶ 1716g, at 179-80, 1717a, 1717b, at 180, 182; see also D. Evans & M. Salinger, *Why Do Firms Bundle and Tie? Evidence from Competitive Markets and Implications For Tying Law*, 22 Yale J. on Reg. 37, 66-83, 84-86 (2005) (describing case studies of tying arrangements in the markets for over-the-counter cold remedies and pain relievers, foreign electrical adapters, and mid-size sedans and observing that cost savings provides the most plausible explanation for most of the ties).[7]

[7] Accord D. Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 Cal. L. Rev. 797, 805 & n.30 (1987) (legitimate purposes of tying arrangements in-

Patent ties can be procompetitive for these same reasons. Indeed, courts have long recognized that patent tying may create efficiencies in calculating license fees or in distributing the patented product. See, *e.g.*, *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 555-58 (E.D. Pa. 1960) (holding tying was not antitrust violation for entrant into new industry), *aff'd per curiam*, 365 U.S. 567 (1961); see also W. Bowman, *Patent and Antitrust Law* 55 (1973) ("[A] tie-in, like many other contractual restrictions upon use, is a means of measuring the value of the patent to the user.").

Commentators have described a host of other efficiencies from patent tying. Assistant Attorney General Pate pointed out that tying of patented and unpatented

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clude "tying a complementary product to insure high performance of the tying product; tying servicing to generate information leading to product improvement; cost savings from joint production or distribution; and the use of tying as a vehicle for indirect price competition in an oligopoly market"); W. Baxter, *The Viability of Vertical Restraints Doctrine*, 75 Cal. L. Rev. 933, 939 (1987) (a "tie may be the most efficient method for assuring the quality of the variable input and thus for assuring the performance of the tying capital item"); F. Easterbrook, *Vertical Arrangements and the Rule of Reason*, 53 Antitrust L.J. 135, 146 n.24 (1984) (discussing the scholarly literature on the potential procompetitive attributes of tying arrangements); J. Tirole, *The Analysis of Tying Cases: A Primer*, 1 Competition Pol'y Int'l 1, 14-15 (2005) (tying may improve efficiency by causing distribution cost savings, compatibility cost savings, "telling consumers that a complementary good functions adequately with the basic good," and protecting the functionality of intellectual property).

supplies "could minimize the risks associated with the uncertainty that a patent owner may have regarding the value of his/her patented technology." R. H. Pate, "Antitrust and Intellectual Property," at 7 (Jan. 24, 2003), *available at* http://www.usdoj.gov/atr/public/speeches/200701.pdf; W. Tom & J. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 Antitrust L.J. 167, 211-12 (1997) (intellectual property tying "may well be output enhancing").[8]

If the patent holder does not have significant market power, a patent tie can only *enhance* competition in the relevant market for the patented product. *Jefferson Parish*, 466 U.S. at 37 (O'Connor, J., concurring in the judgment) ("Absent [market] power tying cannot conceivably have any adverse impact in the tied-product market, and can be only pro-competitive in the tying

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[8] See also 9 Areeda et al., *supra*, ¶ 1703g5, at 46-47 (tying may be necessary to realize the value of a patent when the patent covers a "so-called combination of unpatented elements"); *id.* ¶ 1717f3, at 203 ("A package license of patents, especially those that are used in combination or as alternatives, highlights legitimate savings in transaction costs."); IPO Am. Br. 12 ("tying increases the availability of goods, especially with respect to digital information goods") (citations omitted).

Here, the record contains compelling evidence that Trident's inks are specially formulated to work with Trident's printheads, and that the use of third-party inks can jeopardize system performance and even damage the printhead. See J.A. 378a-379a, 457a, 459a-470a. Requiring OEMs to purchase only Trident replacement ink thus serves the procompetitive functions of protecting system performance and integrity and preserving the goodwill Trident has developed.

product market.”); see also 9 Areeda et al., *supra*, ¶ 1703a, at 30-31 (“diminished competition is not the object or effect of most litigated tie-ins, especially not of those foreclosing only a small share of a properly defined tied product market”).

A rigorous market power requirement thus protects a wide range of legitimate conduct from the broad net that the *per se* rule otherwise casts. By exaggerating the economic power inhering in intellectual property, the market power presumption negates this protection, reintroducing the danger that procompetitive tying arrangements will be penalized in antirust actions.[9]

This Court has noted on multiple occasions that “[m]istaken inferences and the resulting false condemnations ‘are especially costly, because they chill the very conduct the antitrust laws are designed to protect.’” *Trinko*, 540 U.S. at 414 (quoting *Matsushita Elec. Indus. Co.* v. *Zenith Radio Corp.*, 475 U. S. 574, 594 (1986)). Even the potential of “treble damage liability” is enough “‘to inhibit management’s exercise of its independent business judgment’” (*Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984) (internal quotation marks and citation omitted)). By increasing the likelihood that procompetitive ties will be mistakenly con-

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[9] The cost of the market power presumption is not limited to the loss from procompetitive tying arrangements that are inappropriately condemned. Also highly significant is the economic loss resulting from those procompetitive patent or copyright ties that are never even attempted because an intellectual property owner did not want to risk potential treble damages liability.

demned, the presumption creates a very substantial risk of these adverse consequences.[10]

### 2. The Market Power Presumption Encourages Meritless Litigation.

The presumption also promotes unjustified litigation. The Federal Circuit held that undisputed evidence of competing substitutes for the patent or patented product is not sufficient to rebut the presumption. Pet. App. 16a. Rather, "[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." *Ibid*.

A defendant thus must pay for a full-blown antitrust market analysis to counter even the sketchiest allegation of tying. Such an evaluation, which inevitably entails collection and analysis of massive amounts of data by

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[10] The rebuttable nature of the presumption does not safeguard procompetitive conduct against these adverse consequences. The Federal Circuit imposes a heavy burden on a defendant attempting to rebut the presumption, requiring "expert testimony or other credible economic evidence" regarding the cross-elasticity of demand or other indicia demonstrating the lack of market power. Pet. App. 16a. That burden heightens the danger that a procompetitive tying arrangement will be condemned mistakenly because proving a negative is difficult in general and especially in the complex field of economic analysis.

To the extent the presumption is irrebuttable, as respondent suggested in its brief in opposition (at 24 n.7), an even greater number of procompetitive tying arrangements would be condemned.

highly paid economic consultants, is an enormous burden to impose on intellectual property owners who wish to protect their investments in innovation.

By shifting to defendants the plaintiffs' burden on a fundamental element of a tying claim, the presumption increases the chances that deficient claims will survive motions to dismiss and for summary judgment. That in turn increases the odds that unjustified settlement payments will be extracted from innocent defendants confronted by the expense, and treble damages risk, of an antitrust trial.

This phenomenon is well illustrated by this case. The court of appeals upheld summary judgment in petitioners' favor on the Section 2 theory because Independent Ink made only conclusory allegations with respect to the relevant geographic market. Pet. App. 18a. But the court of appeals rejected the district court's determination that the very same flaws doomed the Section 1 theory, holding that the presumption allowed that theory to survive summary judgment. *Id.* at 17a. Respondent was permitted to rely on the presumption to establish what it clearly could not prove — that Trident possessed market power in a relevant market. If the presumption were upheld by this Court, petitioners would be forced to expend considerable time and money to rebut the presumption.

The presumption thus unjustifiably increases the costs of owning, disseminating and enforcing intellectual property through efficient contractual arrangements. These increased costs ultimately discourage firms from investing in the development of intellectual property in the first place. Given intellectual property's increasingly important role in our economy,[11] such a disincentive could cause substantial long-run harm to our economy — to innovators, manufacturers and consumers alike.

Indeed, because the presumption forces a full-blown antitrust market analysis in every case, even where the absence of market power is obvious, it almost certainly will increase litigation costs in the aggregate as well. If "the 'rebutting considerations' must be investigated in every case[,] * * * much of the savings that the presumption purported to create is ultimately lost as each party adversely affected by the presumption has both the incentive and the opportunity to invite the court to rebut it." C. Gillette, *Rules and Reversibility*, 72 Notre Dame L. Rev. 1415, 1433 (1997). Not only does the presumption increase the chance that the *per se* rule against tying will be imposed to penalize procompetitive conduct, it also lacks the countervailing benefit of aiding litigation efficiency. There simply is no reason to impose this burden on the development and utilization of intellectual property.

[11] As Deputy Assistant Attorney General Delrahim observed: "[I]ntellectual property-based exports — whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products — have become this country's number one export. As such, their creation and protection is critical to maintaining a vibrant economy." M. Delrahim, "International Antitrust and Intellectual Property: Challenges on the Road to Convergence," at 1 (May 21, 2004), *available at* http://www.usdoj.gov/atr/public/speeches/205629.pdf.

### D. The Federal Enforcement Agencies Rejected The Market Power Presumption A Decade Ago.

In determining whether it is appropriate to overrule an antitrust precedent, the Court also has assessed the role played by that precedent in the federal government's enforcement activities. *State Oil*, 522 U.S. at 19 (citing *Copperweld*, 467 U.S. at 777). For the last ten years — through two Administrations — the enforcement agencies have refused to apply the presumption.

Guidelines issued in 1995 state that the federal antitrust enforcement agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner," even in tying cases. United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* §§ 2.2 & 5.3 (1995). The agencies recognized that "[a]lthough the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *Id*. § 2.2 (emphasis in original).[12]

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[12] Commentators have observed that the agencies' position "effectively repudiate[s] the old approach" reflected in *International Salt* and *Loew's*. Tom & Newberg, *supra*, at 173-74; see also T. Hayslett III, *1995 Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. Intell. Prop. L. 375, 395 (1996) ("[t]he Guidelines retreat from the historic common law position and specifically embrace the scholars' arguments").

The leadership of the Antitrust Division has reiterated this same point more recently. Assistant Attorney General Pate stated that "[i]n the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question." R. H. Pate, "Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust," at 13 (June 3, 2005), *available at* http://www.usdoj.gov/atr/public/speeches/209359.pdf. As he explained:

> While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.

*Id.* at 12-13. "[W]ithout a showing that the patent actually conveys market power, antitrust concerns do not arise." R. H. Pate, "Antitrust and Intellectual Property," *supra*, at 7.

Deputy Assistant Attorney General Delrahim further explained that "[c]lose substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property." M. Delrahim, "Contemporary Issues at the Intersection of Intellectual Property and Antitrust," at 5-6 (Nov. 10, 2004) (footnote omitted), *available at* http://www.usdoj.gov/atr/public/speeches/206607.pdf.

This factor, too, thus weighs heavily in favor of overruling the Court's prior cases recognizing the market power presumption.

### E. The "Great Weight" Of Scholarly Opinion Is Sharply Critical Of The Market Power Presumption.

The Court also has pointed to the "'great weight' of scholarly criticism" as another factor relevant in determining whether to overrule a prior decision. *State Oil*, 522 U.S. at 21 (quoting *GTE Sylvania*, 433 U.S. at 47-48).

There is an overwhelming scholarly consensus — including distinguished commentators from every point on the antitrust spectrum — that the market power presumption should be abandoned. See, *e.g.*, H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust*, § 4.2e6, at 4-34 (2005 Supp.) ("a poorly grounded presumption"); 10 Areeda et al., *supra*, ¶ 1737c, at 82 ("[i]f [*International Salt*] really required power and inferred it from any patent, it erred"); Posner, *supra*, at 197-98 ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); Turner, *supra*, at 805 ("courts mistakenly assume the 'market power' predicate to be met where the tying product is patented or copyrighted or is distinctive from products offered by competitors"); J. Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 Vand. L. Rev. 283, 333 n. 179 (1980) ("The harsh mechanical treatment of tie-ins involving patented tying products is difficult to explain except perhaps on historical grounds."); see also K. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 249-50 (1994) ("[I]t is readily apparent that the right to exclude another from [the grant of a patent] may give no significant market power, even when the patent covers a product that is sold in the market. Indeed, without the benefit of empirical research, it is entirely plausible to conclude that in the great bulk of instances no significant market power is granted."); pages 24-26, *supra*.[13]

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[13] See generally Comments of F. M. Scherer, *Panel Discussion — The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) (discussing how even a rebuttable presumption of market power from a patent or copyright is unwise); Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 Colum. L. Rev. 1140, 1141 (1985) ("the presumption does not serve as an adequate proxy for evidence of actual economic power, is not consistent with current antitrust doctrine, and should be rejected"); J. D. 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, 66 (1987) ("A copyrighted or patented tying product should not be presumed to give its seller power over price."); R. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 644 (1965) ("If the teaching of *Loew's* is that the requisite market power is to be presumed from this kind of uniqueness or desirability, then there exists, indeed, a slender fulcrum to support the kind of lever we are led to believe is used in tying arrangements. This kind of desirability or uniqueness confers very little market power, or none at all.").

We are not aware of any significant authority on antitrust or intellectual property law who has defended the presumption of market power in patent and copyright tying cases in the last twenty years. This factor accordingly weighs in favor of abandoning the presumption as well.

**F. Congress's Inaction Did Not Override This Court's Authority To Reconsider And Overrule Its Prior Decisions.**

Respondent argues (Br. in Opp. 2-5) that this Court is precluded from reconsidering the market power presumption because the issue supposedly has been addressed by Congress. But Congress has neither codified the presumption nor enacted legislation in reliance on the presumption's existence. Respondent's entire argument rests on Congress's failure to enact legislation.

This Court has repeatedly cautioned that "'[a]s a general matter [congressional inaction] deserve[s] little weight in the interpretive process.'" *Alexander v. Sandoval*, 532 U.S. 275, 292 (2001) (citing *Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 187 (1994)). In the absence of a wholesale statutory revision, "it is impossible to assert with any degree of assurance that congressional failure to act represents affirmative congressional approval of the Court's statutory interpretation." *Alexander*, 532 U.S. at 292 (quoting *Patterson v. McLean Credit Union*, 491 U.S. 164, 175, n. 1 (1989)) (internal quotation marks omitted); see also *United States v. Craft*, 535 U.S. 274, 287 (2002) ("failed legislative proposals are 'a particularly dangerous ground on which to rest an interpretation of a prior statute,' * * * 'because several equally tenable inferences may be drawn from such [congressional] inaction, including the inference that the existing legislation already incorporated the offered change'") (citations omitted).

Reliance on congressional inaction is particularly inappropriate in the antitrust context for the same reason that *stare decisis* applies with less force: Congress in the Sherman Act conferred upon the courts a mandate to evolve antitrust law in a common law fashion (*State Oil*, 522 U.S. at 20-21) and a very clear expression of congressional intent therefore would be necessary to conclude that Congress has withdrawn the Court's authority with respect to a particular issue.[14] Respondent cannot point to any evidence that even comes close to satisfying this standard.

In 1988, Congress enacted the Patent Misuse Reform Act. See Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)), which requires proof of actual market power to establish a patent misuse defense based on patent tying. The Senate version of the bill contained an additional provision overruling the market power presumption. The legislative history states that because the

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[14] See, *e.g.*, *Flood v. Kuhn*, 407 U.S. 258, 281-82 (1972) (refusing to overrule *Federal Baseball Club v. National League*, 259 U.S. 200 (1922), because of *stare decisis* and congressional inaction); *Toolson v. New York Yankees, Inc.*, 346 U.S. 356 (1953) (per curiam) (same). *Flood* and *Toolson*, this Court has explained, represent "'an aberration * * * rest[ing] on a recognition and an acceptance of baseball's unique characteristics and needs.'" *State Oil*, 522 U.S. at 19 (citation omitted).

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. 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy). See generally Feldman, *supra*, at 420 (the Patent Misuse Reform Act was "a cloakroom compromise in the waning days of the 100th Congress").[15]

A bill eliminating the market power presumption was proposed in 1995 after the federal enforcement agencies issued the *Antitrust Guidelines for the Licensing of Intellectual Property* rejecting the presumption. Assistant Attorney General Joel Klein was asked whether Congress should enact a statute overruling the market power presumption in light of the enforcement agencies' position. See *Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Committee on the Judiciary, House of Representatives*, 104th Cong., 2d Sess. 11-12 (1996) ("*Hearings on 1995 Act*"). He recommended that Congress leave the issue to the courts:

> The virtual unanimity of scholars on this point, the analysis contained in the DOJ/FTC Intellectual

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[15] It is also possible that, despite the legislative compromise, some members of Congress believed that the Patent Misuse Reform Act eliminated the market power presumption in antitrust tying cases as well. See generally 10 Areeda et al., *supra*, ¶ 1737(c), at 83 & n.27 (observing that, although "Congress rejected a broader bill," it is possible to read "the Patent Act amendment [as] effectively abolish[ing] any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine").

> Property Guidelines, and the inexorable development and maturation of court decisions in this area of antitrust law, which all resolve the issue in accordance with the substance of this legislation [eliminating the market power presumption], bring into question whether legislative action is really necessary at this point. One of the great virtues of the antitrust laws is that they are general in nature. Adopting new antitrust legislation should be done only when the need for such legislation is great.

*Id.* at 16.

Assistant Attorney General Klein's testimony recognized that the Ninth Circuit had employed the market power presumption in *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). See *Hearings on 1995 Act* at 16. But he did not believe that this decision justified congressional intervention because "the law is at the point where, especially with our guidelines, the likelihood of seeing a recurrence of a *Digidyne*-type holding[] seems to me to be very small." *Id.* at 17. He explained that, "given the [Ninth Circuit's subsequent decision in *Mozart Co. v. Mercedes-Benz of North America*, 833 F.2d 1342 (9th Cir. 1987)], the uniform body of law review articles and case law subsequent to *Digidyne*, and now the Department of Justice and Federal Trade Commission Guidelines, * * * *Digidyne* is a relic, and, therefore, * * * the costs of this kind of relatively small change in the antitrust law outweigh the benefits." *Hearings on 1995 Act* at 18.[16] The 1995 bill never passed.

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[16] At another point in his testimony, Assistant Attorney General Klein explained:

Respondent quotes at length (Br. in Opp. 3) from Representative Boucher's statement during the hearing on a similar bill in 2001. However, Representative Boucher cited Assistant Attorney General Klein's prior testimony in explaining why legislative action was not required. *Hearing Before the Subcommittee on Courts, the Internet, and Intellectual Property of the Committee on the Judiciary, House of Representatives*, 107th Cong., 1st Sess. 17 (Nov. 8, 2001); see also *id*. at 10 (testimony of Charles Baker on behalf of the American Bar Association) ("[t]he only hesitation about this legislation that I have heard is from those who say that we should not as a matter of principle amend the 100-year-old antitrust laws").

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> The strength of Justice O'Connor's concurring opinion in *Jefferson Parish* and the weakness of the *Digidyne* analysis make it unsurprising that this Ninth Circuit opinion has been the lone decision since *Jefferson Parish* upholding the rule of *Loew's*. Rather, one Circuit Court of Appeals after another has rejected the idea that the mere existence of an intellectual property right alone could give rise to a market-power presumption. [Citing *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985); and several other decisions in a footnote.] This reflects, I think, the wisdom of allowing the Sherman Act to evolve through case law, in which repeated exposure to real-world market situations and developments in economic thinking give judges and advocates the chance to apply the law's general mandates with flexibility and circumspection.

*Id.* at 15-16.

In sum, Congress's inaction is much more consistent with a determination to leave the issue to the courts than with endorsement of the presumption. There simply is no basis for the Court to conclude that Congress has overturned the general rule that applies under the Sherman Act and withdrawn this Court's authority to reconsider and overrule the market power presumption.

* * * * *

The market power presumption is plainly wrong. Its origins lie in patent law and equity rather than antitrust law and economic analysis. It is inconsistent with economic scholarship and empirical analysis regarding the relationship between a patent and market power. The presumption has been abandoned by the federal enforcement agencies and criticized by a broad array of legal scholars. Moreover, the presumption is inconsistent with this Court's precedents — those relating to the market power standard in tying cases and addressing the treatment of intellectual property in other contexts. As it has in other circumstances in which antitrust precedents were similarly flawed, the Court should eliminate the presumption by overruling the cases in which it has been applied.

The court of appeals relied entirely upon the presumption in setting aside the district court's grant of summary judgment for petitioners on respondent's Section 1 patent tying theory. Pet App. 15a-17a. With respect to respondent's Section 2 claim, which was not affected by the presumption, the court of appeals upheld the district court's rejection of the Section 2 claim on the ground that respondent did not carry its burden of proving the relevant market, let alone the existence of market power within such a market. Pet. App. 18a. In the absence of a presumption, that same reasoning is dispositive of the Section 1 theory; indeed, respondent's arguments with respect to market definition were the same for both theories (see Resp. Ct. App. Br. 33-36). No further analysis of the record is necessary or appropriate. This Court should reverse the court of appeals' judgment, reinstating the district court's grant of summary judgment in favor of petitioners on the Section 1 theory.

## CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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