No. 04-1329

In the Supreme Court of the United States
October Term, 2004

ILLINOIS TOOL WORKS INC., *et al*., PETITIONERS,

v.

INDEPENDENT INK, INC., RESPONDENT.

On Writ Of Certiorari To The
United States Court Of Appeals
For The Federal Circuit

BRIEF OF
THE WASHINGTON LEGAL FOUNDATION
AS *AMICUS CURIAE* IN SUPPORT OF PETITIONERS

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August 4, 2005

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INTEREST OF *AMICUS*

The Washington Legal Foundation ("WLF") is a public interest law and policy center based in Washington, D.C., with supporters nationwide. While WLF engages in litigation and administrative proceedings in a variety of areas, WLF devotes a substantial portion of its resources to defending free enterprise, individual rights, and a limited and accountable government. To that end, WLF has frequently appeared as *amicus* in this and other federal courts to address the proper scope of the antitrust laws. *See*, *e.g.*, *Verizon Communs., Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004); *United States Tobacco Co. v. Conwood Co.*, *537 U.S. 1148 (2003)*; *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993); *In re Stock Exchs. Options Trading Antitrust Litig.*, 317 F.3d 134 (2d Cir. 2003).[1]

WLF is concerned that the decision below, if not reversed by this Court, would subject intellectual property owners to the potential of treble damages liability even though, as a factual matter, they lack the market power necessary to produce anticompetitive harm. Further, overcoming the market power presumption requires a considerable investment by the intellectual property owner in litigation, money which could be better invested in innovation. As a result of this presumption of market power, a patent owner, confronted with even the sketchiest allegation of tying, must pay for a full-blown antitrust market-definition analysis. This is an enormous burden to impose on intellectual property owners, and correspondingly, places a

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[1] In accordance with Supreme Court Rule 37.6, the Washington Legal Foundation states that this brief has not been authored in whole or in part by counsel for a party and that no person or entity, other than *amicus*, its members or its counsel, has made a monetary contribution to the preparation or submission of this brief. The Washington Legal Foundation has no interest in any party to this litigation or stake in the outcome of this case. *Amicus* has lodged with the Clerk of the Court letters from all parties consenting to the filing of this brief.

drain on our economy and our judicial resources. The presumption is without justification in economics or at law, and the holding of the Federal Circuit should be reversed.

SUMMARY OF ARGUMENT

The presumption that an owner of intellectual property automatically has market power is not mandated by Congress and is solely a creature of the lower courts misinterpreting precedent. The presence of legally differentiated property in a case fails to either define the relevant market for the product or provide a means to measure market power, and as such, a presumption to the contrary is without merit. Presumptions should only exist where the facts which are to be proven, such as market power, are known to consistently follow from a proven fact, such as the ownership of intellectual property, to the degree that it would be a waste of judicial resources and an unfair burden to require the proponent of the fact to prove its existence. The presumption that the ownership of intellectual property defines the relevant market and indicates the existence of market power fails this test.

This Court has clearly held that in tie-in cases not involving intellectual property there must be proof of market power or "forcing" which results in an "actual adverse effect on competition" in the relevant market, and that intellectual property does not represent an equivalent to "market power." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde,* 466 U.S. 2, 29-31, 37 n.7 (1984). As such, the fact that a case involves intellectual property should not give rise to a presumption that the owner possesses market power, as to hold otherwise results in inconsistency.

Intellectual property possesses no inherent characteristics that justify shifting the burden of proving the absence of market power to the owner of that property. The standards applied for determining whether an article is patentable should not be considered the equivalent of the antitrust standards for determining the level of economic power necessary to establish anticompetitive conduct in the relevant marketplace. The fact that a product involved in a tying arrangement has apparently met the patent requirements of novelty, usefulness, and non-obviousness necessary to acquire a patent does not justify a presumption of market power for a patented tying product. These criteria are related to patents, and are wholly unrelated to modern antitrust theory and its economic underpinnings. Because the characteristics which are possessed by intellectual property fail to serve as accurate proxies for identifying the relevant market, or for measuring market power within the relevant market, plaintiffs should have the same burden of proving market power in tie-in cases involving intellectual property as they have in cases involving any other type of property.

The existence of the presumption that intellectual property indicates market power only serves to encourage frivolous nuisance suits, since it makes the likelihood of a plaintiff surviving a motion to dismiss or for summary judgment much less difficult, even where the patented or copyrighted product possesses no market power whatsoever. Faced with the threat of a full-blown antitrust trial, with its accompanying expense and the threat of treble damages, the owners of intellectual property will be under enormous pressure to settle such cases. Furthermore, the presumption encourages defendants in infringement actions to bring antitrust counterclaims in order to circumvent the requirements of the patent misuse defense created by Congress under 35 U.S.C. § 271(d)(5). This defense requires a showing of market power by the alleged infringer. The presumption therefore poses a significant risk to patent owners simply trying to enforce their rights under their patents.

As a result, the presumption of market power undermines the incentives that the patent laws were intended to provide. The incentive to innovate is severely handicapped if the innovator is subject to an increased risk of frivolous and nuisance suits. As noted, the presumption increases the risk of litigation being filed, and of ultimate liability with its corresponding threat of treble damages. These costs necessarily reduce the potential return on investment, and so correspondingly reduce the value of intellectual property. A rule which reduces intellectual property's value and prevents its proper exploitation imposes substantial costs on society, and is the antithesis of both antitrust and patent principles. For these reasons, the presumption of market power should be abolished.

ARGUMENT

I. INTRODUCTION

"[T]he aims and objectives of patent and antitrust laws may seem, at first glance, wholly at odds. However, the two bodies of law are actually complementary, as both are aimed at encouraging innovation, industry and competition." *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990). Notwithstanding this observation, the Federal Circuit's opinion below does precisely the opposite, and must be reversed. The Federal Circuit stated that it was compelled by the precedents set forth in *International Salt Co. v. United States,* 332 U.S. 392 (1947) and *United States v. Loews, Inc.*, 371 U.S. 38 (1962) to find a presumption of market power in tying cases where the tying product is legally differentiated by the existence of a patent.

Specifically, the Federal Circuit held that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power … and consequent illegality that arises from patent tying." Pet. App. 15a. A careful reading of this statement reveals that the opinion in fact contains two presumptions which, taken together, define the market and establish power within it. First, the existence of a patent establishes a presumption that there is a nationwide market for the object of the patent, and second, that the existence of a patent establishes a presumption of power within that presumed nationwide market. Both of these presumptions are economically unsound, and to the extent that the utilization of such presumptions is compelled by precedent, those precedents should be overturned.

This Court has noted that in the antitrust context "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." *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997). While it is important that stability and consistency be maintained in the law, in the area of antitrust, "this 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)).

It is beyond dispute that the theoretical underpinnings of the market power presumption have been called into disrepute, in the academic community, in the antitrust enforcement community, and in the courts. These critics consistently point out that the existence of a patent or copyright is a poor predictor of market power, and without such economic power, the possibility of anticompetitive forcing is unlikely. The presumption, therefore, represents "an antitrust policy divorced from market considerations . . . [and therefore] lack[ing] any objective benchmarks." *Continental T.V.,* 433 U.S. at 53 n.21. In *Eastman Kodak,* this Court stated that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law." *Eastman Kodak Co. v. Image Technical Servs*., 504 U.S. 451, 466-467 (1992). Implausible presumptions, like implausible inferences, "deter procompetitive conduct." *Matsushita Elec. Indus. Co. v. Zenith Radio Corp*., 475 U.S. 574, 593 (1986) (citation omitted); particularly where the threat of treble damages is likely to "inhibit management's exercise of its independent business judgment." *Monsanto Co. v. Spray-Rite Serv. Corp*., 465 U.S. 752, 764 (1984).

As the Chairman of the ABA explained:

> Because such presumptions are arbitrary, ignoring real world facts, they have no proper basis from the point of view of either intellectual property or antitrust law, and they lower incentives created by intellectual property law to invest in new jobs and new industrial facilities based on technical advances.

Market Power and Intellectual Property Litigation: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 107th Cong. 2 (Nov. 8, 2001) (statement of Charles P. Baker, Chair, ABA Section of Intellectual Property Law)[2]

The presumption that intellectual property serves as an adequate substitute for market definition and market power falls squarely into this category.

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[2] Available for download at *http://judiciary.house.gov/legacy/baker_11801.pdf*.

II. THE PRESUMPTION PRESERVES AN UNWARRANTED DISTINCTION IN TYING CASES.

A tying arrangement is a two-product sale where the seller will sell one of the products (the "tying product") only if the buyer purchases the other product (the "tied product"). *See Eastman Kodak*, 504 U.S. at 461 (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)) ("A tying arrangement is an 'agreement by a party to sell one 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.'"). As is the case with most package sales, the two products are more often than not related in use and, in theory, therefore more appealing to the buyer. This Court has recognized that tying is not necessarily *per se* unlawful. *See, e.g., Times Picayune Publ'g Co. v. United States,* 345 U.S. 594 (1953); *Jefferson Parish,* 466 U.S. at 16-18. In tying cases not involving patents or other forms of intellectual property, a plaintiff must define the market of the products at issue, and demonstrate that the seller has appreciable market power within that market. "[I]f the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market," the tying will be found to violate Section 1 of the Sherman Act (15 U.S.C. § 1). *Eastman Kodak*, 504 U.S. at 462 (citation omitted).

Establishing the existence of market power is the centerpiece of the modern jurisprudence laid down by this Court regarding the illegality of tying arrangements. "[T]he 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). Similarly, in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620 (1977), the Court defined market power as "whether the seller has the power, within the market for the tying product, to raise prices or to accept burdensome terms that could not be exacted in a completely competitive market." *See also id*. at 620 n. 13 ("'market power in the sense of power over price must … exist. If the price could have been raised but the tie-in was demanded in lieu of the higher price, then - and presumably only then – would the requisite economic power exist.'") (quoting K. Dam, Fortner Enterprises v. United States Steel: *"Neither a Borrower Nor a Lender Be,"* 1969 Sup. Ct. Rev. 16, 25-26 (1969)).

The Rule of Reason has become the preferred method for assessing the potential for harm to competition in antitrust cases over the last thirty years. *See, e.g., Continental T.V.,* 433 U.S. at 49; *State Oil Co.,* 522 U.S. at 10. The Rule of Reason affords the necessary flexibility to distinguish those practices which pose no threat to competition, or which actually enhance competition, from those which do pose a threat to competition. Only in the limited circumstances where a seller has been shown to have market power in the relevant marked for the tying product has this Court departed from the Rule of Reason and applied a *per se* rule. *See, e.g. Eastman Kodak,* 504 U.S. at 464-78. As noted above, the antitrust plaintiff in such a case must define the relevant market, and establish that the defendant has appreciable market power within that market. *See Jefferson Parish*, 466 U.S. at 18; *Eastman Kodak,* 504 U.S. at 462 (explaining that "'appreciable economic power' in the tying product market" must be shown for a violation of Sherman Act § 1).

In addition, this Court has consistently moved toward fact-based inquiry into market power, and market definition. *Walker Process Equip., Inc. v. Food Machinery Chem. Corp.*, 382 U.S. 172, 177 (1965) ("Without a definition of that market there is no way to measure [the tying seller's] ability to lessen or destroy competition."); *see also Verizon Communs. Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398 (2004); *State Oil Co.*, 522 U.S. at 3; *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209 (1993); *Spectrum Sports v. McQuillan*, 506 U.S. 447 (1993). According to the Federal Circuit's opinion below, however, where the tying product at issue is subject to a patent, the market area is automatically defined as nationwide, and market power is presumed. Pet. App. 15a. However, it has long been recognized that the existence of a patent or other form of protected intellectual property does not define a relevant product market or convey market power.

III. A PATENT DOES NOT DEFINE THE RELEVANT MARKET.

A patent does not define the relevant product market, and certainly does not establish, or even reasonably suggest, that the market for the subject of a patent is nationwide. At its most basic, a product market consists of a group of products or services that are reasonably interchangeable with each other. *United States v. E. I. Du Pont de Nemours & Co.*, 351 U.S. 377, 394-95 (1956); *Eastman Kodak*, 504 U.S. at 469 n.15. Usually, a patented product is only one out of many reasonably interchangeable products which make up the market of products within which it competes. *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981). The existence of non-infringing substitutes renders the market broader in terms of product definition than that defined by the patent. *See Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires … market power in a defined relevant market (which may be broader than that defined by the patent) ….”); *Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962) (“The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it.”). Furthermore, while a patent owner has the right to exclude others from making, using or vending the subject of the patent nationwide, that power to exclude is not synonymous with the product market or the boundaries of the geographic market within which the actual article competes with acceptable substitutes. In short, the existence of a patent on an ergonomic snow shovel does not contribute to the creation of a market for snow shovels, either ergonomic or acceptable substitutes, in the Florida Keys.

IV. A PATENT DOES NOT ESTABLISH MARKET POWER.

A. The Patent Monopoly Is Not Synonymous With Antitrust Monopoly.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.,* 210 U.S. 405 (1908) this Court held that in issuing a patent the government did not confer on the patentee the right to make, use or vend his own invention, as that right arose under the common law and not the Federal Patent Laws. The Court further held that it was not within the grant of power to Congress to enact patent laws granting such privileges and that therefore, they would not be implied. The Court further held that all the government conferred by the patent was the right to exclude others from making, using, or vending the patentee’s invention.

Thus, the holder of a patent, copyright or trademark is granted a right to exclude, and is not granted a monopoly in the antitrust sense. In fact, the use of the term “the monopoly of the patent” is frowned on by the Federal Circuit. *Schenck v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983); *see*

United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933) (noting that a patent "is not, accurately speaking, a monopoly.") Intellectual property is precisely that: property, and, like any other form of property, cannot by itself be a proxy for market power. As Deputy Assistant Attorney General Delrahim recently explained:

> While an intellectual property right does confer the right to exclude others with respect to the work or invention within the scope of that right, it does not immediately confer upon the holder the ability to seek a monopoly rent. Close 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, and therefore, the Department applies the same general antitrust principles when assessing the market power held by an intellectual property owner as it would if the asset at issue were any other form of tangible or intangible property.

Makan Delrahim, "Contemporary Issues at the Intersection of Intellectual Property and Antitrust," at 5-6 (Nov. 10, 2004).[3]

As Mr. Delrahim correctly pointed out, a patent holder possesses exclusionary rights to control the production and sale of his product, and nothing more. It is in this respect identical to the fee simple owner of a piece of land who has the legal right to control the sale of his land. And while the patent holder has control over the rights to his product – just as the owner of a piece of land has control over the disposition of the land – he does not necessarily have a

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[3] Available for download at *http://www.usdoj.gov/atr/public/speeches/206607.pdf.*

market-wide monopoly or the ability to impose a anticompetitive tie-in. The existence of non-infringing substitutes renders that unlikely. As a result, it is erroneous to equate the patent's "statutory monopoly," with a market-wide monopoly[4] or even with market power. Assistant Attorney General for Antitrust R. Hewitt Pate recently made this clear when he explained that:

> 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.

R. Hewitt Pate, "Competition and Intellectual Property in the U.S. *Licensing Freedom and the Limits of Antitrust,"* at 13-14 (June 3, 2005).[5]

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[4] *Cf. United States v. Dubilier Condenser Corp.,* 289 U.S. 178 (1933) in which the Court stated that a patent "is not, accurately speaking, a monopoly." *Id*. at 186. The Court continued, noting that a monopoly takes something from the people, whereas a patentee takes nothing from the people, but instead, in expiration of the patent, gives his knowledge to the people. *Id.*

[5] Available for download at *http://www.usdoj.gov/atr/public/speeches/209359.pdf*.

B. Mere Issuance Of A Patent Cannot Confer Market Power.

As noted above, tie-ins are only condemned when "power in the market for the tying product is used to create *additional* market power in the market for the *tied* product." *Jefferson Parish,* 466 U.S. at 37 *(*footnote omitted). In such a case, the theory is that economic power in the tying product can be used to force buyers into purchases they would not have made absent the tie. However, a particular tying arrangement may have pro-competitive justifications, and it is thus inappropriate to condemn such an arrangement without considerable market analysis*. National Collegiate Athletic Ass'n. v. Board of Regents*, 468 U.S. 85, 104, n. 26 (1984); *Jefferson Parish*, 466 U.S. at 11-14. Anticompetitive forcing only exists if consumers are forced to buy a tied product as a result of the seller's market power, not simply because of the desirability of the package. *Jefferson Parish*, 466 U.S. at 24-25. Only in those cases where anticompetitive forcing is likely should *per se* condemnation of a tie-in arrangement be made without an inquiry into actual market conditions. Such a conclusion, however, cannot be drawn from the simple fact that a product is patented or copyrighted.

1. The presence of a patent or copyright does not equate to the desirability of a product in the market.

No product can provide a basis for market power if it is not desirable to consumers. That a tying product is patented or copyrighted does not serve as an indicator that there is any demand for the product in the marketplace. Product desirability is not a requirement for the grant of a patent or the establishment of a copyright. Nor is the likelihood of commercial success a requirement. Thus, a patented or copyrighted product may or may not be desirable, just as any non-legally differentiated product may or may not be desirable. As a result, the fact that a product is patented or copyrighted cannot be said to create a demand for the product. In fact, the majority of patents and copyrights enjoy little or no demand, and thus little or no monopoly power. The reason for this is simple. "Absent demand for a product . . . there can be no commercial success. No patent can itself create market demand. A patent on the unwanted is worthless." *Nickola v. Peterson,* 580 F.2d 898, 914 (6th Cir. 1978).

Even where there is a demand for a product type, competition among acceptable substitutes eliminates the possibility of forcing, just as it does among non-legally differentiated products. A seller of a legally differentiated tying product lacks the power to permanently foreclose tied product competition where he has no potential to generate a supernormal profit on separate sales of the tying product. Competition eliminates this potential. Only if both buyer and seller anticipate benefit will a sale occur. Buyers will not pay more than the value of the product to them. Sellers of legally differentiated products therefore compete for a portion of the total market for that general product type. Because the products are legally differentiated, buyers have a basis for preference among the variants and buyers and sellers will be paired according to these preferences. Thus, this is not perfect competition. Because of these consumer preferences, sellers can raise the price of their goods without losing every buyer, as individual preferences may outweigh the disincentive of the higher price. Nevertheless, neither differentiation nor the pairing process establishes *per se* the existence of, or the potential for, supernormal profits.

The existence and continual introduction of competing variations of the product reduces the demand for any one variation. Because each variant approximates the function of other variants in the market, price competition by each substitute severely reduces the ability of any one seller to exact a high price for his particular variation, even though it may be the preferred variant. As a result, no seller has the potential to make excess profits. Because competitors will continue to introduce competing products, the market for the general product type becomes saturated with acceptable substitutes, and this saturation drives the price down until it no longer covers total costs. Thus, the long-run equilibrium of the market does not contain the possibility for market wide supernormal profits.

In any market, barriers to entry may exist which restrict the ability of competitors to introduce acceptable variants of the product type. Further, differences between competitors as to costs and unequal consumer preferences may result in a wide range of profitability among competing firms. Nevertheless, this divergence cannot be said to exist as a result of the fact that a product variant is covered by a patent or copyright. The barrier to entry is the inability of competitors to introduce acceptable, cost effective product variants. It is not because of the prohibition against unauthorized use or duplication of one particular product variant. In this respect there is no difference between legally differentiated and non-legally differentiated products. What the conditions are within any particular market is a question which cannot be resolved by an overly inclusive presumption. The possibility of supernormal profits in a particular market calls for a factual study, not a presumption of law.

The situation becomes even more complicated where two products which are tied together are considered. Obviously, the demand of a tying product is diminished where buyers have no interest in the tied product or prefer to purchase the tied product elsewhere. As a result, the seller must discount the price of the tying arrangement sufficiently to prevent the loss of these buyers. The seller’s compensation lies in the increase sales of the tied product.

Where the seller lacks the ability to extract supernormal profits on separate sales of the tying product, it is next to impossible to impose an anticompetitive tie as it will not be accepted by purchasers. Even when a seller of a desirable patented product seeks to exact a higher price for that product in the form of a tie-in, buyers in the market will switch to a competitors unencumbered product. In part, consumer price sensitivity is determined by the availability of suitable substitutes. The presence of acceptable substitutes necessarily results in a reduced demand for the tying product as a result of the tying arrangement. Some buyers, because of a strong preference, will be willing to pay more than the seller's profit-maximizing price, and thus a seller might be able to impose an anticompetitive tie on those purchasers. Nevertheless, the seller must discount the price or else face the loss of those buyers of the tying product whose preference is not so strong. Further, this discounting must be extended to all tying product purchasers to prevent arbitrage. If the seller fails to discount his price, the ultimate result will be that demand for his tying product will drop below the optimum output for that product, at which point average total cost will exceed price. The bottom line is that, whether the product is legally differentiated or not, in the absence of the potential for supernormal profits in the tying product, a seller cannot use a tie to increase the sales of a tied product without price-discounting.

As the above explains, the mere fact that a seller's tying product is patented or copyrighted does not prove the availability of an extension of supernormal monopoly profits. As a result, concern over extension of monopoly profits cannot be used to justify condemnation of all tying involving patented or copyrighted tying products. The conditions of the relevant market determine the existence of market power, not the status of the tying product as protected intellectual property. As the above analysis demonstrates, the existence of a patent or copyright provides little, if any, evidence of the existence of or potential for supernormal profits, or the existence of barriers to entry,[6] the nature of consumer preferences, or the absence of adequate substitutes. Therefore, because its existence does not adequately reflect these market features, it cannot stand as a substitute for an analysis of them in answering the question of whether a product has market power.

In sum, because the use of a patent or copyright as a tying product is uninformative as to the market conditions in operation in a given case, the law cannot justify condemning all tying cases involving patented or copyrighted products as the only or least socially burdensome means available to prevent the extension of monopoly profits. This presumption requires the acceptance of a fiction of economic power, while it dispenses with the requirement that anti-competitive effects be demonstrated before liability will attach. Because the presence of a patent or copyright cannot serve as a reliable indicator of market power, the presumption is unjustifiably overly inclusive.

2. The presence of a patent or copyright does not protect the owner from competition from substitutes for the tying seller's product.

The presumption that a legally differentiated tying product has market power also exaggerates the real level of protection granted to the owner of intellectual property. The owner of intellectual property is confronted with multiple impediments in his attempt to exclude others, including but not limited to confronting narrowly drafted claims, persons

[6] *See* 2 Phillip E. Areeda & Donald F. Turner, *Antitrust Law* 300 (1978) ("[P]atents . . . are not insurmountable entry barriers. Unlike direct entry controls, which block entry even through the would-be entrant can match or beat the costs of [the] existing firm, patents offer no protection against the entrant who develops and offsetting or comparable but non-infringing innovation.").

inventing around the patent, non-infringing alternatives, difficulty in obtaining preliminary injunctions, widespread disrespect for the patent, inadequate means to mount an attack on infringers, the high cost of litigation, the impact of litigation on the return on investment and possible adverse impacts on company stock, not to mention the legal impediments to enforcement. *See* Robert H. Hoerner, *Selected Articles from "The Cutting Edge Of Antitrust: Market Power": The Antitrust Significance of a Patent's Exclusionary Power,* 60 Antitrust L.J. 867 (1992/1992).

The presumption of market power only stands to reason if the exclusionary rights afforded by patent or copyright protection actually prevented the tying seller's competitors from marketing acceptable substitute products to consumers in the relevant market. However, the exclusionary rights afforded to patented or copyrighted property is not that expansive. Thus the question to be asked in determining the existence of market power is not the patent infringement question of whether the patent at issue operates as a barrier which prevents competitors from offering a substitute for performing the operation in the same manner as does the patented product. Rather, the proper tying case inquiry is whether the competitors of the seller of a tying arrangement are, by virtue of the patent, prevented from offering non-infringing yet functionally equivalent products.

A patent does not function to protect the patentee from competition by functionally equivalent products. For example, there are a number of computer printers on the market, all of which are patented. Plainly, the patents involved do not protect the patentees against competitor's sales of functionally equivalent products. Further, competitors are free to "invent around" a patent, and, in the case of a desirable tying product, would have an economic incentive to do so. Thus, while a patent can prevent competitors from producing a product which performs a task in the same way as the patented product, it cannot prevent suitable non-infringing substitutes from entering the market. This point was recognized by Justice Black, writing for the majority in *Northern Pacific*, when he pointed out that "the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n. 8. Similarly, Justice O'Connor noted in *Jefferson Parish* that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." 466 U.S. at 37 n. 7.

An accurate analysis of market power in a relevant market is critical for determining its existence before attaching liability. Only rarely should limitations on the *per se* rule be compromised. *See Continental T.V.,* 433 U.S. at 58-59 (explaining that any "departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing"); *Northern Pacific*., 356 U.S. at 5 (explaining that *per se* analysis is appropriate only for practices that have a "pernicious effect on competition and lack of redeeming virtue."). The market power presumption as applied by the Federal Circuit below does not meet this standard.

V. THE PRESUMPTION HAS BEEN SEVERELY CRITICIZED BY SCHOLARS, ENFORCERS, AND THE COURTS.

The notion that legally differentiated property conveys market power has been called into question repeatedly in the opinions of the courts. In *Northern Pacific*, this Court observed 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 in the context of a Section 2 case that "[i]t may be that the [patented] device . . . does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent.").

The Courts below have in turn recognized that the presence of intellectual property does not automatically equate to the presence of market power. *See e.g., In re Independent Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *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. The virtually unlimited variety and scope of patented inventions and market situations militate against per se rules in these complex areas.") (citation omitted); *Virginia Panel Corp*, 133 F.3d at 869 ("[I]n the absence of market power, even a tying arrangement does not constitute patent misuse."); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) ("A patent does not itself establish a presumption of market power in the antitrust sense. The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist.") (citations omitted); *Loctite Corp. v. Ultraseal, Ltd.,* 781 F.2d 861, 875 n. 9 (Fed. Cir. 1985) ("[N]ot every patent confers market power."); *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1367 (Fed. Cir. 1984) ("[P]atent rights are not legal monopolies in the antitrust sense of that word."); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981) (dicta) ("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."); *see also Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 459, 466 n. 10 (E.D. Mich. 1998) (granting partial summary judgment on tying claim because, notwithstanding defendant's copyrights, plaintiff had not set forth any evidence that defendant had "significant market power"); *Rockbit Indus. U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 n.3 (S.D. Tex. 1991) ("recent case law has rejected the presumption of market power from the possession of patents or unique products") (citations omitted); *Allen-Myland, Inc. v.*

International Business Machines Corp., 693 F. Supp. 262, 281 & n. 42 (E.D. Pa. 1988) (rejecting argument that patents establish sufficient economic power as a matter of law; following Justice O'Connor's concurrence in *Jefferson Parish*), *rev'd* on other grounds, 33 F.3d 194 (3d Cir. 1994), *cert. denied*, 513 U.S. 1066 (1994); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (holding that software developer failed to establish likelihood of success on tying claim due to inability to show market power (and other reasons), despite existence of copyright and trade secrets); *Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1329 (D. Md. 1986) (granting summary judgment against tying claim because, notwithstanding defendants' patents, "there are readily available substitutes, available from many people"), *aff'd*, 831 F.2d 537 (4th Cir. 1987), *cert. denied*, 487 U.S. 1226 (1988); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984) ("the fact that some of B/4's software is copyrighted does not establish that defendants possessed economic power"); *R & G Affiliates, Inc. v. Knoll Int'l, Inc.*, 587 F. Supp. 1395, 1404 (S.D.N.Y. 1984) ("it is not clear that the furniture that is patented actually is sufficiently distinctive to confer the required market power"); *see also Universal Bus. Computing Co. v. Comprehensive Accounting Corp.*, No. 82-C-3028, 1985 WL 1955, at *6 (N.D. Ill, June 24, 1985) (rejecting argument that copyright establishes sufficient market power as a matter of law); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d at 1325-26 ("A patent alone does not demonstrate market power."); *Virginia Panel Corp.*, 133 F.3d at 872 ("Violation of the antitrust laws always requires … market power in a defined relevant market (which may be broader than that defined by the patent) …."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n. 4 (7th Cir. 1985); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 511 ("[O]f course, not every patent confers market power …."); *Schlafly v. Pub. Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug. 29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations omitted), *aff'd*, 155 F.3d 565, 570 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *F.B. Leopold Co. v. Roberts Filter Mfg. Co.*, 882 F. Supp. 433, 454 (W.D. Pa. 1995) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Prods, Inc.*, No. CV 92-1523 LBG (SX), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), *aff'd*, 19 F.3d 41 (Fed. Cir. 1994).

Similarly, the federal agencies specifically charged by Congress with the duty to enforce the country's antitrust laws reject the notion that intellectual property ownership confers market power. The United States Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property note that "although 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 process, or work to prevent the exercise of market power." *Id*. at § 2.2 (emphasis in original). As a result, even in tying cases, the guidelines state that the agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." *Id*. at § 5.3.

VI. THE PRESUMPTION CREATES A DIRECT CONFLICT BETWEEN TYING CASES AND THE PATENT MISUSE STATUTE.

A tying antitrust claim without the presumption of market power necessarily requires both sides to explore market issues. However, the presumption of market power shifts the bulk of the costs of the antitrust litigation to the patent owner. The presumption thus unfairly handicaps the patent owner by easing the burden for the antitrust plaintiff, thereby increasing the risk to the patent owner. Moreover, the presumption may provide an incentive to circumvent the limitations Congress has imposed on the use of the patent misuse defense, encouraging plaintiffs to repackage it as an antitrust claim. In fact, Congress has made its intent clear that such a burden not be placed upon the owners of intellectual property.

The patent misuse defense set forth in 35 U.S.C. § 271(d)(5) was amended in 1988. Act of Nov. 19, 1988, Pub. L. No. 100-703 § 201, 102 Stat. 4674, 4676. In order for an accused infringer to establish the defense of patent misuse, the accused infringer must now demonstrate that the patentee has market power in the tying product. *See In re Independent Serv. Orgs. Antitrust Litig.,* 203 F.3d at 1325-26, and *In re Recombinant DNA Technology Patent & Contract Litig.*, 850 F. Supp. 769, 775-77 (S.D. Ind. 1994) (indicating that no presumption of market power would suffice to establish misuse under § 271(d)(5)). The statute proscribes in relevant part that:

> No owner of a patent otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief **or deemed guilty of** misuse or **illegal extension of the patent right** by reason of his having done one or more of the following . . . 5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

(emphasis added). Obviously, when confronted with a choice between two rules, one which requires an expensive showing of market power and one which offers a free presumption of its existence, the cost conscious and power sensitive litigant will choose the rule carrying the presumption. The question is whether the language of § 271(d)(5) acts to prohibit the operation of the presumption of market power in antitrust tying cases.

This question is of particular importance because, "[a]s the Supreme Court has said, the patentee's act may constitute patent misuse without rising to the level of an antitrust violation." *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 668 (Fed. Cir. 1986) (citing *Zenith Radio Corp. v. Hazeltine Research,* 395 U.S. 100, 140 (1969). The Federal Circuit's holding below turns this upside down. Furthermore, "where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." *SCM Corp.,* 645 F.2d at 1206. In fact, the Federal Circuit itself has held that conduct involving intellectual property that does not amount to patent misuse cannot be an antitrust violation. *Virginia Panel Corp.,* 133 F.3d at 872. The decision below in the case *sub judice* is in direct conflict with these holdings. It is also in direct conflict with the Congressional intent behind § 271(d)(5). In fact, because infringers will now file antitrust counterclaims in order to take advantage of the presumption, the holding of the Federal Circuit renders § 271(d)(5) a nullity, a construction the Court cannot allow. It is an "elementary canon of construction that a statute should be interpreted so as not to render one part inoperative." *Mountain States Tel. & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985).

Some courts below have held that § 271(d)(5) impacts the application of the antitrust laws, *see e.g., Polysius v. Fuller,* 709 F. Supp. 560, 575-76 (E.D. Pa. 1989) (Under

271(d), absent market power, a party "cannot be guilty of either antitrust violations or patent misuse ….") *aff'd mem.,* 889 F.2d 1100 (Fed. Cir. 1989); *see also Intergraph Corp. v. Intel Corp.,* 195 F.3d 1346, 1362-63 (Fed. Cir. 1999); *Data Gen. Corp. v. Grumman Sys. Support Corp.,* 36 F.3d 1147, 1187 (1st Cir. 1994), while others have held that it does not. *See e.g., Grid Sys. Corp. v. Texas Instrs., Inc.,* 771 F. Supp. 1033, 1037 (N.D. Cal. 1991) ("Section 271(d) relates only to the defense of patent misuse as a defense to an infringement claim." *Accord, e.g. Image Tech. Servs. v. Eastman Kodak,* 125 F.3d 1195, 1214-15 n.7 (9th Cir. 1997). The plain language of the statute that a patent holder shall not be "deemed guilty of misuse or illegal extension of the patent right," indicates it applies to antitrust actions.

The assertion that the failure of Congress to also modify the antitrust laws indicates that any Congressional intent not to abolish the presumption is without merit. The plain language of the statue indicates that it applies to claims in addition to claims of patent misuse. It is not necessary that Congress also amend the antitrust statutes, as the plain language makes the intention clear. Furthermore, "in the absence of any persuasive circumstances evidencing a clear design that congressional inaction be taken as acceptance of [*International Salt* and *Loew's*], the mere silence of Congress is not a sufficient reason for refusing to reconsider the decision[s]." *Boys Mkts, Inc. v. Retail Clerks Union,* 398 U.S. 235, 242 (1970); *see also 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 [the Court's decisions]."). Having amended the misuse statute to apply to claims in addition to misuse, there is no necessity for Congress to also amend all affected judicial interpretations of other statutes.

VII. THE PRESUMPTION RESULTS IN UNJUSTIFIED SOCIAL COSTS.

The fact that the need to show market power where intellectual property is at issue is treated differently in Section 1 actions than it is in Section 2 and patent misuse actions demonstrates that there is no innate characteristic possessed by intellectual property which results in automatic market power. The unjustifiable outcomes that result from the presumption are well illustrated by this case. The Federal Circuit upheld summary judgment in petitioners' favor on the Section 2 theory because respondent made only conclusory allegations with respect to geographic market. Yet this inability to demonstrate market power failed to dispose of the Section 1 theory. The plaintiff was allowed to rely on the presumption of market power, even though it could not show that any market power existed in support of its Section 2 claim. The fact is, there is no functional reason for the existence of the presumption. It is merely an anachronistic legal incongruity.

The presumption imposes unjustified costs on the nation's economy. The presumption places infringers and others in a position to exact settlement payments from patent holders now facing the expense and the risk of treble damages inherent to antitrust trial. It does so by encouraging the filing of meritless lawsuits by plaintiffs hoping that the presumption will enable their claims to survive motions to dismiss or summary judgment. As a result, the presumption has the effect of unjustifiably increasing the cost of owning, disseminating and enforcing intellectual property rights. These increased costs ultimately discourage firms from investing in the development of intellectual property. thereby causing substantial harm to our economy. In light of the increasingly important role intellectual property plays as a driver of economic growth, this result is particularly harmful.

Baseless antitrust claims will deter patent owners from attempting to properly protect their patents from infringers. Similarly, the presumption invites infringers to circumvent Congressional intent as to the patent laws and to file meritless Section 1 counterclaims in infringement actions where the infringer cannot demonstrate market power, rendering § 271(d)(5) a nullity. A clear harmful effect in the practical application of the presumption is that it provides an incentive to patent infringement defendants to bring Sherman Act counterclaims against patentees who are only enforcing their patent rights by bringing infringement suits. Forcing the burden of proof onto the patentee to rebut a presumed market power element raises the likelihood antitrust claims that are meritless will survive motions to dismiss or for summary judgment. The patentee's infringement case diluted, as the patentee is forced to settle the infringement action to avoid the risk of treble damages and the expense of a full blown antitrust trial. This result is unjust and counter to the goals of both patent and antitrust law. Consistency in this area is needed and long overdue. The presumption of market power should be rejected.

CONCLUSION

For the foregoing reasons, this Court should reverse and vacate the judgment of the court of appeals.

Respectfully submitted,

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August 4, 2005