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Comment

I. INTRODUCTION

It is increasingly common for businesses to sell products that are protected by a patent. But what happens when the company markets a bundle of products where some products are protected by patents, but others are not? Under well-settled antitrust jurisprudence, such marketing typically would raise antitrust concerns as a tying arrangement only where there are at least two separate products, the company has market power over one of the products, and the company requires that customers buy one or more additional products as part of a bundle.¹

In *Illinois Tool Works Inc. v. Independent Ink, Inc.*,² the United States Supreme Court grappled with the issue of whether the existence of patent protection over one product created market power in that product market such that the presence of market power is presumed for patent

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tying arrangements.\(^3\) Antitrust enforcement agencies, economists, and academics have long concluded that the mere presence of a patent does not automatically provide economic market power.\(^4\) However, a long line of cases by the Supreme Court have suggested otherwise, creating confusion among the lower courts facing this issue.

In *Illinois Tool Works*, the Supreme Court reversed the long-standing per se presumption of illegality under § 1 of the Sherman Antitrust Act\(^5\) for patent tying arrangements on the basis that the approach was flawed from the beginning and required reversal.\(^6\) This presumption originated over sixty years ago in *International Salt Co. v. United States*,\(^7\) which incorporated the patent misuse doctrine into antitrust law.\(^8\) However, this presumption has faced increasing criticism over the last twenty years due to congressional revisions to the patent misuse doctrine, which have eroded the foundation for the presumption.\(^9\) The decision in *Illinois Tool Works* brings the treatment of patent tying arrangements into alignment with the law regarding tying arrangements in general, which requires proof of market power in the tying product market prior to finding that a tying arrangement violates antitrust law.\(^10\) Therefore, plaintiffs asserting patent tying claims must establish all of the

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3. *Id.* at 1284.
4. *Id.* at 1293.
5. 15 U.S.C. § 1 (2000). The current version of § 1 reads in full as follows:

   Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.

   *Id.*
8. *Id.* at 395-96.

   (d) No patent owner 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 . . . (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.

   *Id.* § 271(d).
elements of a tying violation under § 1, including defining a market to evaluate the tying arrangement and showing that the defendant has market power in that market.11

This Comment explores the recent decision of Illinois Tool Works and how that decision reversed the rule of per se illegality for patent tying arrangements in antitrust law. Parts II and III outline the evolution of the per se rule for patent tying arrangements and the problems associated with the per se approach. Part IV examines the Illinois Tool Works history and the facts that led to the Supreme Court's rejection of the per se rule in favor of a rule of reason approach for patent tying arrangements. Finally, Part V discusses the positive and negative implications that may result from the adoption of the rule of reason approach.

II. EVOLUTION OF THE PER SE RULE FOR PATENT TYING ARRANGEMENTS

A. The Ostensible Tension Between Antitrust and Patent Law

In 1789 the Constitution endowed Congress with the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."12 For almost one hundred years, no laws conflicted with the granting of what can be characterized as limited duration monopolies. In 1890, however, Congress passed the Sherman Antitrust Act,13 which established American antitrust laws and created the apparent inconsistency in Congress's treatment of "monopolies." In 1914 the tension became even clearer when Congress enacted § 3 of chapter 323 of the Clayton Act.14 The Clayton Act makes it unlawful


The current version of § 14 reads in full as follows:

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the
“to lease or make a sale or contract for sale of goods, . . . whether patented or unpatented” by placing a condition on the purchaser not to use goods of a competitor where the condition may “substantially lessen competition or tend to create a monopoly.”

The tension between the doctrines of patent and antitrust law appears wholly irreconcilable at first glance. Patent law, after all, allows for exclusion, while antitrust law is designed to require entry. However, antitrust and patent law share complementary objectives such as “promoting innovation and enhancing consumer welfare.” Antitrust law incorporates these goals by ensuring that companies do not use market power to exploit consumers, force competitors out of the market, or prevent competitors from entering the market. Without antitrust law, companies would be able to take advantage of market power in a manner that is anticompetitive. Innovation and creativity suffer because those with market power can prevent the entry of new players. Patent law strives to achieve these common goals by granting creators of novel products or works a limited monopoly to control the use of that work or invention. Without patent protection, inventors struggle to obtain the benefit of their inventions.

While some observers argue that the two disciplines work together to accomplish consumer benefit, other critics contend that the approaches are so diverse that the common goals do little to reconcile the approaches. In order to optimize productivity and promote creativity, a careful balance must be struck between antitrust law and patent law. Antitrust law cannot be construed so broadly that it strips away property rights to the frustration of inventors, and patent law cannot be construed so broadly that it allows patentees to stifle competition.

As antitrust law developed, it tended to surround patent law, restricting patent rights in two ways. First, the Sherman Act barred activities that placed an unreasonable restraint on trade or tended to create monopolies, which were actions specifically granted through

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Second, antitrust law borrowed the concept of patent misuse from patent law but significantly increased the consequences associated with an act of patent misuse. Under patent law, a party found guilty of patent misuse was prevented from enforcing the patent until the misuse was corrected, whereas the same act subjected the patentee to treble damages under antitrust law. Used either as a claim or a defense, patent misuse is a vehicle by which a party may assert a theory of competitive harm that is akin to an antitrust claim.

Establishing a violation of § 1 of the Sherman Act requires proof that a defendant entered into a contract that restrained trade or commerce and that a plaintiff was damaged by the violation. Over time, two distinct types of inquiry into the legality of agreements under § 1 have evolved: rule of reason and per se illegality. The rule of reason is essentially a balancing test between the procompetitive and the anticompetitive effects of an agreement. If the procompetitive effects are greater than or equal to the anticompetitive effects, then the practice is lawful. If the procompetitive effects are less than the anticompetitive effects, then the practice is unlawful. The rule of reason approach requires proof of four elements: (1) existence of a relevant market that was affected by the restraint; (2) possession of market power by the defendant within that market; (3) an anticompetitive effect in the intrabrand or interbrand market; and (4) negative effects on competition that are not outweighed by the positive effects on competition.

The per se illegality concept bypasses the rule of reason balancing test and outlaws certain agreements categorically, without consideration of whether they are, in fact, anticompetitive or procompetitive. The per se analysis presumes the existence of market power and does not look into the reasonableness of the action. The per se analysis is typically used "[o]nce experience with a particular kind of restraint enables the Court to predict with confidence that the rule of reason will condemn it." Thus, a per se illegality approach lessens the burden for plaintiffs.

22. Id.
28. See id.
29. Id.
to prove an antitrust violation and should only be used in cases where the circumstances justify application of such a presumption.

B. History of Patent Tying

1. Patent Tying Arrangements as Patent Misuse. A tying arrangement is a restraint on trade within the meaning of the Sherman Act.\footnote{See 10 Phillip E. Areeda et al., Antitrust Law: An Analysis of Antitrust Principles and Their Application para. 1730, at 406-14 (1996).} Tying arrangements are agreements that require the purchase of products (tied items) as a precondition to the purchase of other products (tying items).\footnote{N. Pac. Ry. Co., 356 U.S. at 5-6.} For example, a tying arrangement exists when a consumer purchases a printer from a printer manufacturer and is also required to purchase the ink from the printer manufacturer as a condition of the printer purchase. The printer is the tying item and the ink is the tied item. The printer manufacturer is trying to extend its market power from the printer market into the ink market.

A tying arrangement is particularly likely to be given per se illegality treatment in the courts,\footnote{See, e.g., id. at 9.} but the United States Department of Justice and the Federal Trade Commission do not usually challenge tying arrangements as anticompetitive unless: “(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.”\footnote{IP Guidelines, supra note 16, at § 5.3.} Tying arrangements that involve a patented item as the tying product have historically been found to be per se illegal because “[t]he requisite economic power is presumed when the tying product is patented.”\footnote{United States v. Loew's, Inc., 371 U.S. 38, 45 (1962).} This assumption arose from hostility to patent tying arrangements, which were viewed as an attempt by patent owners to extend their limited monopoly from the patented items into markets that reach beyond the patent.\footnote{Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 305-06 (1949).} As a result, patent tying arrangements have been subjected to a per se rule of illegality that is inconsistent with other areas of antitrust law.

A patent tying arrangement is simply a tying arrangement in which the tying item is patented. The sale of a tying item (the patented product) is conditioned upon the sale of a tied item (the unpatented product), and the patent holder has sufficient economic power in the
tying item's market to force the sale of the tied item.\textsuperscript{36} In the printer example, the arrangement would be a patent tying arrangement if the printer was patented, but the ink was not. The printer manufacturer would be using its printer market power to gain an advantage in the unpatented ink market.

The concern over patent tying emerged because patentees were using their exclusive rights in the patented market to create a restraint on competition in the tied product market. This concern, that the patentee should not be able to extend its limited monopoly to other markets, is commonly referred to as patent misuse.\textsuperscript{37} The patent misuse doctrine arose before there was any significant body of federal antitrust law and has been described as an equitable concept designed to prevent use of patents in a way that violates public policy.\textsuperscript{38} Patent misuse, in the tying context, is an equitable defense for an infringing user against a patent holder who inappropriately uses his legally granted patent rights to gain control over the market for nonpatented goods.\textsuperscript{39}

2. Early Decisions Precipitated the Need for the Patent Misuse Doctrine. The patent misuse doctrine was created in response to a line of cases that had expanded patent owner rights in the context of contributory infringement, such as *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*\textsuperscript{40} and *Henry v. A.B. Dick Co.*\textsuperscript{41} Contributory infringement enables a patent owner to enforce his patent against a party that intentionally contributed to infringement by selling a necessary, but unpatented, element of the patented invention to the infringer.\textsuperscript{42} In these infringement cases, patentees were given broad rights, not just over their patented products, but over products used in conjunction with the patents.

In *Heaton-Peninsular* the tying item was a patented machine that attached buttons to shoes using unpatented fasteners, the tied items. A label attached to the patented machines conditioned the sale of the machine on the buyer's promise to purchase the unpatented fasteners from the patentee. The patentee sued a competing fastener manufacturer who sold fasteners to owners of the patented machines. The defendant claimed that the tying arrangement was void because of

\begin{itemize}
\item [40] 77 F. 288 (6th Cir. 1896).
\item [41] 224 U.S. 1 (1912).
\item [42] Wallace v. Holmes, 29 F. Cas. 74, 80 (C.C.D. Conn. 1871) (No. 17, 100).
\end{itemize}
public policy that forbids extending the patent "monopoly" into the unpatented market.\textsuperscript{43} The Sixth Circuit upheld the tying provision on the basis that the quantity of fasteners sold by the patentee depended on the sale of the patented machine.\textsuperscript{44} Specifically, the court stated that the control the patentee held over the fastener market was "an incident from," and a "legitimate result of the patentee's control" over, the patented machine.\textsuperscript{45}

The United States Supreme Court reached the same conclusion in \textit{Henry}, where a patented mimeograph machine was licensed with the restriction that it was to be used only in conjunction with the patentee company's "stencil paper, ink and other supplies."\textsuperscript{46} The defendant substituted another ink for the patentee's ink in the mimeograph machine, and the patentee sued for infringement.\textsuperscript{47} The Court held that the arrangement did not violate antitrust laws or public policy because the buyer did not suffer any harm from the arrangement,\textsuperscript{48} which required the buyer to purchase paper and ink from the patentee as a condition of the sale of the patented machine.\textsuperscript{49}

\textbf{3. Section 3 of the Clayton Act was Adopted to Limit These Decisions and the Power of Patentees.} The broad judicial protection offered to patentees did not enjoy an extended life. In 1914 Congress passed § 3 of the Clayton Act,\textsuperscript{50} which was intended to invalidate the sale of patented items that included a condition requiring buyers to purchase all unpatented accessories from the patentee.\textsuperscript{51} One of Congress's main objectives in adopting § 3 was to overturn the Supreme Court's decision in \textit{Henry}.\textsuperscript{52} Congress overturned this decision out of its concern that similarly-situated sellers would gain a competitive advantage in the tying product market without achieving a competitive efficiency in that market, as required by antitrust law policy.\textsuperscript{53} In

\begin{flushleft}
\textsuperscript{43} Heaton-Peninsular, 77 F. at 289-90.
\textsuperscript{44} Id. at 296.
\textsuperscript{45} Id.
\textsuperscript{46} Henry, 224 U.S. at 11.
\textsuperscript{47} Id. at 12.
\textsuperscript{48} Id. at 32.
\textsuperscript{49} Id. at 12.
\textsuperscript{52} IBM Corp. v. United States, 298 U.S. 131, 137 (1936).
\textsuperscript{53} Id.
\end{flushleft}
several subsequent cases, the Supreme Court has acknowledged that the Clayton Act effectively superseded its decision in Henry.\textsuperscript{54}

4. Patent Misuse Decisions Following the Adoption of Section 3 of the Clayton Act. In light of the passage of § 3, which was intended to reach patent tying arrangements, the United States Supreme Court decided \textit{Motion Picture Patents Co. v. Universal Film Manufacturing Co.}\textsuperscript{55} This case marked the beginning of the patent misuse doctrine, although the doctrine would not be referred to by that name for another twenty-five years. Following the policy underlying § 3, the Court reversed Henry\textsuperscript{56} and signaled a complete retreat from earlier decisions giving broad rights to patent holders.\textsuperscript{57}

In \textit{Motion Picture Patents}, the patentee licensed the use of a motion picture projection film feeder on the condition that the licensee would only show films leased from persons authorized by the patent owner.\textsuperscript{58} Although the Second Circuit held that the conduct violated § 3, the Supreme Court did not reach that issue.\textsuperscript{59} Instead, the Court affirmed the Second Circuit’s decision on the basis that the arrangement violated public policy.\textsuperscript{60} The Court reasoned that imposing a condition on the licensee to show only films authorized by the patentee allowed the patentee to derive monopoly profits from a market that extended beyond the scope of the patent.\textsuperscript{61} The Court viewed such an arrangement as creating a monopoly in the unpatented motion picture film industry.\textsuperscript{62} While the Court determined that it was unnecessary to apply § 3 to resolve the issue, the Court recognized that § 3 was a persuasive source of public policy that influenced the Court’s decision.\textsuperscript{63}

The Court’s determination to decide the matter through public policy clearly ignored the language of the statute, which condemns patent tying arrangements only when the “effect of such... sale... may be to substantially lessen competition or tend to create a monopoly in any line


\textsuperscript{55} 243 U.S. 502 (1917).

\textsuperscript{56} \textit{Id.} at 518.

\textsuperscript{57} See, e.g., Heaton-Peninsular, 77 F. at 296; Henry, 224 U.S. at 32.

\textsuperscript{58} \textit{Motion Picture Patents}, 243 U.S. at 506.

\textsuperscript{59} \textit{Id.} at 517-18.

\textsuperscript{60} \textit{Id.}

\textsuperscript{61} \textit{Id.} at 513.

\textsuperscript{62} \textit{Id.} at 515.

\textsuperscript{63} \textit{Id.} at 517-18.
of commerce. The language of the statute suggests that the courts must conduct an economic analysis to determine whether the arrangement substantially lessens competition. However, the Court did not perform such an analysis. Rather, the Court sidestepped § 3 by creating a judicial policy to reach the patent tying arrangement.

Twenty-five years later, the Supreme Court coined the term “patent misuse” for inappropriate patent tying arrangements. In *Morton Salt Co. v. G. S. Suppiger Co.*, the Court affirmed the judicial rule created in *Motion Picture Patents*. Again, the Court bypassed the issue of whether § 3 applied. Rather, the Court used judicial equitable power to invalidate a patent tying arrangement where the patentee used the arrangement to restrain competition in the unpatented market.

In that case, the patentee was a canning company that operated a wholly-owned subsidiary devoted to making and leasing patented tablet depositing machines and to making and selling salt tablets. The patentee’s profits were primarily derived from the sale of the salt tablets, and the lease of the machines was a means to obtain salt tablet sales. The lease agreements with commercial canners of vegetables required the canners to purchase salt tablets exclusively from the patentee. The defendant, a commercial canner, was also in the business of mining, processing, and selling salt. In addition to selling competing salt tablets, the defendant also made and leased its own unpatented salt tablet dispensing machines to canners. The patentee alleged that the defendant’s machines infringed its patent.

The Supreme Court created a per se application of the misuse doctrine, which meant that parties alleging patent misuse were not required to prove the existence of actual market power. Rather, market power was presumed from the presence of the patent on the tying item. The Court held that because the patentee conditioned the lease of patented machines on the sale of unpatented accessories, the patentee could not restrain the defendant from selling like materials as

64. 15 U.S.C. § 14 (emphasis added).
65. See id.
67. Id.
70. Id. at 493.
71. Id. at 490.
72. Id. at 491.
73. G. S. Suppiger Co. v. Morton Salt Co., 117 F.2d 968, 969 (7th Cir. 1941).
a contributory infringer.\textsuperscript{75} The Court stated that this rule applied “regardless of whether the particular defendant . . . suffered from . . . misuse of the patent.”\textsuperscript{76} The per se rule was designed to discourage patentees from making use of a patent monopoly to restrain competition in the marketing of unpatented articles.\textsuperscript{77} In light of the difficulty in proving the necessary anticompetitive effect required under § 3, the Court again chose to follow the judicially-created rule in \textit{Motion Picture Patents} to reject the Seventh Circuit’s analysis of § 3.\textsuperscript{78} The Court ignored the antitrust question and decided the case on public policy grounds.\textsuperscript{79}

Although most courts treated patent tying arrangements as examples of patent misuse, the Seventh Circuit in \textit{USM Corp. v. SPS Technologies, Inc.}\textsuperscript{80} noted in dicta that \textit{Heaton-Peninsular} and \textit{Henry} are better reasoned than \textit{Motion Picture Patents} and its progeny because of the competitive effects of patent tying arrangements.\textsuperscript{81} The court stated that the tying arrangement was, in effect, a form of price discrimination.\textsuperscript{82} Because there is no principle that forbids price discrimination for patent owners, the court stated that “it is unclear why one form of discrimination, the tie-in, alone is forbidden.”\textsuperscript{83}

Despite congressional intent to invalidate patent tying arrangements under § 3 only when there is evidence of substantial lessening of competition, \textit{Motion Picture Patents} created a judicial rule that has effectively precluded application of § 3 to all patent tying arrangements. The preclusion is the result of a consistent approach that presumes patent misuse occurs even when the restraint on competition in the tied market is not severe enough to trigger application of the Clayton or Sherman Acts.

5. Migration of Patent Misuse Presumption into Antitrust Law—Creation of the Per Se Rule. In 1947 the judicially-created rule of per se illegality began its transformation from patent law into antitrust law via \textit{International Salt Co. v. United States}\textsuperscript{84} and its progeny. In \textit{International Salt}, the patentee held patents on two salting

\begin{footnotes}
\item 75. \textit{Id.} at 493-94.
\item 76. \textit{Id.} at 494.
\item 77. \textit{Id.} at 492.
\item 78. \textit{Id.} at 494.
\item 79. \textit{Id.}
\item 80. 694 F.2d 505 (7th Cir, 1982).
\item 81. \textit{Id.} at 510-11.
\item 82. \textit{Id.} at 511.
\item 83. \textit{Id.}
\item 84. 332 U.S. 392 (1947).
\end{footnotes}
machines, which it leased to canning processes on the condition that the lessees purchase salt for the machines exclusively from the patentee. The Supreme Court held that the patent tying arrangement was an illegal restraint on trade, which violated § 1 of the Sherman Act.

The Court did not explain why patent tying arrangements were illegal. However, the Court did cite to recently decided patent misuse decisions as apparent justification for the new rule in antitrust cases. While the patent misuse cases had created a per se application of the misuse doctrine when a patent tying arrangement was present, none had gone so far as to pronounce the arrangements per se invalid. Although the Court gave no explicit basis for holding that patent tying arrangements were illegal under § 1 of the Sherman Act, the Court has consistently cited International Salt as justification for the per se rule throughout the doctrine’s history. After stating that the arrangement was illegal, the Court in International Salt went on to analyze the patentee’s market power as an attempt to bolster its holding in light of its weak legal foundation. However, this analysis established a precedent whereby courts would deem tying arrangements per se illegal only after performing a similar market analysis.

Further transformation of patent misuse into antitrust law occurred in United States v. Paramount Pictures, in which the Court extended the doctrine and applied the per se rule to tying arrangements when the tying product is copyrighted. In Paramount Pictures, film distributors were block-booking copyrighted films when licensing them to exhibitors. As in International Salt, the Court cited to patent misuse cases for the proposition that copyright tying arrangements are per se illegal by virtue of the copyright.

85. Id. at 394.
86. Id. at 395-96.
87. Id. at 396 (citing Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Morton Salt, 314 U.S. 488).
89. Ill. Tool Works, 126 S. Ct. at 1289.
92. 334 U.S. 131 (1948).
93. Id. at 157.
94. Id. at 140-41. Block-booking is defined as licensing, or offering to license, one film or a group of films on condition that the licensee also license another film or group of films from the same distributor. Id. at 156.
95. Id. at 157.
Eventually, the Supreme Court invoked the patent misuse rationale in antitrust law to invalidate tying arrangements in which no intellectual property rights were present in any form. In *Times-Picayune Publishing Co. v. United States*, the Supreme Court established that tying arrangements are per se illegal when the seller holds a "monopolistic position" in the tying product market and is involved in "a substantial volume of commerce" in the tied product market. The Court relied on an analogy between a patent and a general product monopoly to justify the extension of the rule of per se illegality. However, the Court did not presume the presence of market power in the tying product market and conducted an actual inquiry into whether the tying arrangement created an unreasonable restraint on competition in the tied product market. Therefore, the Court applied a rule of reason approach to analyze the legality of nonpatent tying arrangements because there was no basis upon which to presume the presence of market power.

Following *Times-Picayune*, the Court further relaxed the standard required to invalidate nonpatent tying arrangements. In *Northern Pacific Railway v. United States*, the Supreme Court held that tying arrangements were per se illegal when the seller holds sufficient power in the tying product market to "appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected." In *Northern Pacific*, the railroad sold and leased land under agreements that required the lessee to use the railroad's lines to ship all commodities produced or manufactured on the land, so long as its rates were equal to competing carriers' rates. Under *Northern Pacific*, a tying arrangement violated antitrust laws when the seller merely possessed an amount of power that acted as a not insubstantial restraint on trade. The Court justified application of the per se standard on the basis that "tying agreements serve hardly any purpose beyond the suppression of competition."

To reach this outcome, the Court appears to have misconstrued the rationale behind the *International Salt* decision. Specifically, the Court stated that its decision in *International Salt* "placed no reliance on the

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96. 345 U.S. 594 (1953).
97. *Id.* at 608-09.
98. *See id.*
99. *See id.* at 611-27.
100. 356 U.S. 1 (1958).
101. *Id.* at 6.
102. *Id.* at 3.
103. *Id.* at 11.
104. *Id.* at 6 (quoting *Standard Oil*, 337 U.S. at 305-06).
fact that a patent was involved . . . . If anything, the Court held the
challenged tying arrangements unlawful despite the fact that the tying
item was patented, not because of it."105 While market power can be
shown in ways other than a patent grant, the Court in International Salt
did, in fact, rely predominantly on the patent misuse doctrine and
conducted a weak form of market power analysis as an afterthought.106
Therefore, the statement that the Court in International Salt placed no
reliance on the presence of a patent is inconsistent with the per se
analysis conducted by the Court to reach its conclusion. As a result,
International Salt does not provide support for the decision reached in
Northern Pacific that a tying arrangement is per se illegal based on an
analysis of the extent of the restraint on competition in the tying and
tied product markets.

6. Creation of the Presumption of Market Power in Patent
Tying Arrangements. Once again, the Supreme Court broadened the
application of the per se illegality rule in United States v. Loew's,
Inc.107 Similar to the facts in Paramount Pictures, the United States
brought antitrust actions against distributors of copyrighted motion
picture feature films for their engagement in block-booking. Specifically,
the defendants were attempting to condition the license or sale of one or
more feature films upon the acceptance by a television station of a block,
which contained one or more unwanted or inferior films.108 The Court
held that the arrangement was illegal because the difference in product
prices for the entire package was not based on cost.109 As a result, the
defendant was able to acquire a noncost-driven premium on a coerced
license of the film block.110 The Court further reduced the market
power requirement by stating that the seller must demonstrate market
power in the tying product market through a showing of (1) "some power
to control price and to exclude competition," (2) the "product's desirabili-
ty to consumers," or (3) "uniqueness in its attributes."111

Loew's represents the first case in which the Supreme Court refers to
a presumption of market power in a patent tying arrangement as the
basis for holding that the arrangement is per se illegal. While the Court
cited International Salt as the source of this rule,112 International Salt

105. Id. at 9.
108. Id. at 40.
109. Id. at 49, 54.
110. Id.
111. Id. at 45.
112. See id. at 45-46.
did not actually mention any form of presumptions at all. Rather, *Loew's* was the first decision to ever refer to applying a presumption to a tying product subject to patent rights. *Loew's* represents the high water mark of the Court's unfavorable treatment of patent tying arrangements. While *Loew's* remained good law until *Illinois Tool Works*, lower courts were split on whether to apply a presumption of market power to patent tying arrangements. Some courts followed *Loew's* and held that market power is presumed in patent tying arrangements. Other courts treated the presumption as rebuttable and allowed the patentee to demonstrate that market power did not exist in the patented market. Still, other jurisdictions chose to apply a rule of reason approach to patent tying arrangements, which established an approach that preceded the *Illinois Tool Works* decision. Those courts applied a rule of reason approach to both patent and nonpatent tying arrangements because the assumption that a patent automatically confers market power on the patentee lacked factual support.

7. Incorporation of Market Power Analysis Within the Per Se Rule. Following the decision in *Loew's*, the Supreme Court reversed course in *United States Steel Corp. v. Fortner Enterprises, Inc.* ("*Fortner II*"), a follow-up decision to *Fortner Enterprises, Inc. v. United States Steel Corp.* ("*Fortner I*"), *Fortner II* represents the Court's first true application of a market power analysis to a tying arrangement, as opposed to the trend of applying presumptions of market power and illegality to such arrangements. The *Fortner* cases involved a tying arrangement in which the defendant offered to provide financing for a development in return for the exclusive right to provide the manufactured homes for the development. In *Fortner I*, the Court concluded that the question of whether the defendant had sufficient market power in the tying market to render the tying arrangement illegal was a triable issue of fact. In *Fortner II*, the Court resolved the issue of whether

114. See, e.g., Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336 (9th Cir. 1984).
115. See, e.g., USM Corp., 694 F.2d at 511.
120. *Id.* at 509-10.
the defendant's market power was sufficient to cause the agreement to violate antitrust laws.\textsuperscript{121}

In \textit{Fortner I}, the Court followed the precedent of earlier Supreme Court decisions, which applied a presumption of market power when the product is "unique."\textsuperscript{122} However, unlike the \textit{Loew}'s approach, which focused on the uniqueness of the product, the Court in \textit{Fortner I} analyzed the "unique advantages" that the seller had in the market.\textsuperscript{123} As a result, a seller who retains significant market power in the tying product market may create an illegal tying arrangement, even when the product itself is not unique.\textsuperscript{124}

In contrast, the Supreme Court in \textit{Fortner II} held that the defendant's market power must be proven through a rule of reason analysis because there was no evidence that the defendant had unique advantages in the market to justify a presumption of market power.\textsuperscript{125} In analyzing the actual market conditions of the financing arrangement, the Court stated that the financing arrangement appeared to be unique only because the defendant was willing to accept a lesser profit and incur greater risks than other financiers.\textsuperscript{126} The Court held that those characteristics were insufficient to justify equating the financing arrangement to a "unique" product.\textsuperscript{127} Without other proof of market power in the tying product market, there was no basis for declaring the tying arrangement illegal.\textsuperscript{128}

8. \textbf{Laying the Groundwork for the Rejection of the Per Se Rule.} Following the decision in \textit{Fortner II}, the Supreme Court affirmed that market power must be proven as an element of an illegal tying arrangement in \textit{Jefferson Parish Hospital District No. 2 v. Hyde}.\textsuperscript{129} In that case, the hospital entered into a contract that provided that all anesthesiology services would be performed exclusively by members of an outside anesthesiology group. An independent anesthesiologist who was denied a staff position with the hospital claimed that the agreement was an illegal tying arrangement because every surgery patient at the hospital was forced to use the services of the outside anesthesiology

\begin{itemize}
\item \textsuperscript{121} \textit{Fortner II}, 429 U.S. at 612-13.
\item \textsuperscript{122} \textit{Fortner I}, 394 U.S. at 503.
\item \textsuperscript{123} Montgomery, \textit{supra} note 88, at 1147.
\item \textsuperscript{124} \textit{See Fortner I}, 394 U.S. at 509.
\item \textsuperscript{125} \textit{Fortner II}, 429 U.S. at 622.
\item \textsuperscript{126} Id. at 621-22.
\item \textsuperscript{127} Id. at 622.
\item \textsuperscript{128} Id.
\item \textsuperscript{129} 466 U.S. 2 (1984).
\end{itemize}
The Court reasoned that tying arrangements that do not force buyers to purchase unwanted items along with the desired items should not be condemned based on the presence of the tying arrangement alone. The concern is whether the two product markets are being affected by the arrangement. In the case of surgery patients, the Court held that it would be safe to assume that surgery patients are not being forced to take an unwanted product (anesthesiology services) in order to obtain the desired product (surgery). Also, there was no evidence that either the hospital market or the anesthesiologist market had been adversely affected by the arrangement. Based on these facts, the Court held that the agreement did not violate antitrust laws.

Although the Court refused to apply the per se rule against tying arrangements in the nonpatent tying context, the majority suggested that the per se rule should still apply to patent tying arrangements. The Court utilized a two-tier approach to analyze the legitimacy of the tying arrangement in Jefferson Parrish. Initially, the Court concluded that the per se rule should not be applied because there was no evidence that the buyers were forced to purchase the tied service. Next, the Court inquired into the actual effect of the tying arrangement on competition in the market for the tied service. It is this second level of analysis, the inquiry into the actual effects on competition, that the Court suggested would not be necessary in patent tying arrangements.

One significant aspect of Jefferson Parish involves Justice O'Connor's concurring opinion. While the majority continued to endorse a per se approach for patent tying arrangements, Justice O'Connor provided the foundation that led to the Court's recent decision in Illinois Tool Works to abandon the per se approach for patent tying arrangements. Justice O'Connor sharply questioned the legitimacy of the presumption

130. Id. at 5-6.
131. Id. at 25.
132. Id. at 27-28.
133. Id. at 28.
134. Id. at 31.
135. Id.
136. Id. at 16.
137. Id. at 16-17.
138. Id. at 28-29.
139. Id. at 29-31.
140. Id. at 17.
141. See Ill. Tool Works, 126 S. Ct. at 1288.
of market power in the case of patented products. Most notably, Justice O'Connor pointed out that the Court's strict per se approach always included some form of market power analysis, which resulted in invalidating patent tying arrangements only when the seller had substantial market power to the point of market control.

In Justice O'Connor's concurrence, the proper inquiry for all tying arrangements should be an economic analysis of the market situation involved in the arrangement, including consideration of both the positive and negative competitive effects of the tie-in. Under the market analysis approach, the tying arrangement doctrine would be more consistent with the antitrust goal of encouraging competition. Further, Justice O'Connor argued that the presumption of illegality for patent tying arrangements should be rebuttable. The mere presence of a patent does not automatically guarantee that the patent holder has market power.

Rather, Justice O'Connor asserted that such rare extensions of market power are unlikely or pose no threat of economic harm, except when the two markets involved and the nature of the two products tied satisfy three threshold criteria: (1) the seller has power in the tying product market; (2) there is a substantial threat that the seller will acquire market power in the tied-product market; and (3) there is a coherent economic basis for treating the tying and tied products as distinct.

As to the first criteria, Justice O'Connor argued that it is a misconception that the grant of a patent bestows market power on the patent holder. It is possible that the patent owner will have no market power when close substitutes exist for the patented item. In the absence of such power, a tying arrangement will not have any adverse impact in the tied-product market and can encourage competition in the tying-product market. Regarding the second criteria, Justice O'Connor asserted that no such threat exists if either the tied-product market is occupied by many stable sellers or if entry barriers in the tied-product market are low.

143. Id. at 34.
144. Id. at 35.
145. Id.
146. Id. at 37 n.7.
147. Id.
148. Id. at 37-39.
149. Id. at 37 n.7.
150. Id.
151. Id. at 37.
152. Id. at 38.
III. PROBLEMS WITH THE PER SE RULE FOR PATENT TYING ARRANGEMENTS

The treatment of tying arrangements has undergone an evolution under antitrust law. The courts' treatment has canvassed a range of views, including an explicit rule of reason approach, strict per se illegality, and a truncated per se approach that is still referred to as per se illegality. The purpose of per se illegality is to incorporate conduct that lacks competitive justification. This per se presumption should not apply to tying arrangements, which carry the potential to produce efficiencies for both the selling firm and the end users, thereby outweighing alleged anticompetitive effects.

A. Per Se Approach Fails to Consider the Benefits of Tying Arrangements

Patent tying arrangements have traditionally been viewed as providing no economic benefit to anyone except the patent holder. However, buyers of tied products may receive the benefits of these arrangements where the seller passes on the cost savings obtained from the arrangement. Such cost savings may result from a reduction in marketing costs for the tied product, the savings obtained by bundling the products into one sale, and the ability to streamline their operation.

While concern over tying arrangements that prohibit competition in the tied product market remains valid, the potential benefits consumers may receive should also be given consideration before the arrangement is considered illegal. A per se approach does not allow such beneficial consideration, while a rule of reason approach does permit the court to take these aspects into consideration. Notably, tying arrangements have the effect of motivating competitors to lower prices of close substitutes and to develop alternative inventions, which promotes the

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153. Compare IBM Corp. v. United States, 298 U.S. 131 (1936) (applying a rule of reason approach to invalidate a tying clause that required purchasers to use IBM's perforated cards when similar cards were available from other manufacturers), with Fortner Enters., Inc. v. U.S. Steel Corp., 394 U.S. 495 (1969) (holding that tying arrangements involving loans and pre-fabricated home purchases were per se illegal).


157. AREEDA, supra note 30, at para. 1703g.
progress of science and provides additional substitutes in those markets.\textsuperscript{158}

\textbf{B. Per Se Approach Driven by Fear of Monopolies}

One of the major forces behind the adoption of a per se approach to patent tying arrangements was fear of monopoly extension into a second, unpatented market, also known as the "leverage theory."\textsuperscript{159} This theory was the basis for the Court's holding in \textit{International Salt Co. v. United States}\textsuperscript{160} and \textit{Times-Picayune Publishing Co. v. United States},\textsuperscript{161} that patent tying arrangements were per se illegal. In effect, the Court merged the monopolization claim, which would have been subject to a rule of reason analysis, into the tying claim, which was decided under the per se doctrine. However, rather than incorporating the monopoly concerns into a patent tying claim, the Court should have required the plaintiffs to bring a separate monopolization claim. As a result, the Court eased the plaintiff's burden to show monopolization in the case of patent tying arrangements, which was consistent with the Court's approach to reign in the power of patent holders.

\textbf{C. Per Se Approach is Inconsistent with Other Areas of Antitrust Law}

A presumption of true market power in patent tying cases is wholly inconsistent with other aspects of antitrust law. Other areas of antitrust law require proof of market power in some form, including monopolization claims under § 2 of the Sherman Act\textsuperscript{162} and non-tying claims under § 1,\textsuperscript{163} which are evaluated under the rule of reason approach. This inconsistency is highlighted when one considers whether the presumption in patent tying arrangements should be rebuttable. If the presumption is considered rebuttable, as the Federal Circuit stated in \textit{Independent Ink, Inc. v. Illinois Tool Works Inc.},\textsuperscript{164} then questions are raised as to why the presumption was not rebuttable in \textit{United States v. Loew's, Inc.}\textsuperscript{165} and why the defendant has the burden in this particular instance.

\textsuperscript{158} Id.
\textsuperscript{159} Pugh v. Mobil Oil Corp., 533 F. Supp. 169, 174-75 (S.D. Tex. 1982).
\textsuperscript{160} 332 U.S. 392 (1947).
\textsuperscript{161} 345 U.S. 594 (1953).
\textsuperscript{164} 396 F.3d 1342, 1352 (Fed. Cir. 2005).
\textsuperscript{165} 371 U.S. 38 (1962).
D. Per Se Approach Improperly Assumes that Patents Convey Market Power

In *Loew's* the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." However, patents rarely confer significant market power. Most often, a patent is granted on narrow improvements to existing inventions. A single patented product "may embody hundreds or conceivably thousands of patented inventions." Furthermore, many competitors hold patents in areas of heavily developed technology, which represent minor improvements on similar products. To avoid infringement claims, the competitors are forced to cross-license their patents. As a result, the assumption that a patent automatically conveys market power to the patent holder does not reflect reality.

Further evidence that this presumption lacks support is found in the fact that there has not been "any significant authority on antitrust or intellectual property law who has defended the presumption in the patent and copyright tying cases in the last twenty years." Scholars have long noted that the presumption is inherently flawed because it originated without any requirement of a true market power analysis. In essence, legal precedent was the only basis for the per se presumption since its creation.

Another factor that cuts against the presumption is the length of a patent grant, which extends twenty years from the date of the patent application. The possibility that the item will retain the same level of power in the market for the duration of its patent is unlikely. An actual survey of the technology in the marketplace must be coupled with the existence of a patent to determine the retained viability of the patented item. Without considering the actual market conditions associated with a patented item, the mere presence of a patent is not a good predictor of market power.

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168. *Id.*
169. *Id.*
174. *See id.*
E. Per Se Approach No Longer Has Support From the Patent Misuse Doctrine

Although Congress has remained silent on the standard for determining market power in antitrust violations, Congress did eliminate the presumption of market power for patent tying arrangements in the patent misuse context through the Patent Misuse Reform Act of 1988 ("Act"). The Act requires proof of actual market power to establish a patent misuse defense based on patent tying. The Act was passed four years after the Supreme Court affirmed the per se illegality approach for patent tying arrangements in the antitrust context in Jefferson Parish Hospital District No. 2 v. Hyde. While the Act is limited to patent law, the language indicates that Congress did not intend for a patent tying arrangement to be automatically condemned without the presence of market power.

The analysis of tying arrangements in the context of patent misuse is closely related to the analysis of tying arrangements in the context of antitrust law because of the weight of anticompetitive effects in shaping the defense of patent misuse. Because of the similarities between a § 1 antitrust violation and actions considered to be patent misuse, market power should be proven in the same way for each type of violation. In particular, conduct that may be considered a § 1 violation very often is considered patent misuse. Consequently, the analysis of market power for both antitrust violations and patent misuse claims should be consistent.

F. Per Se Approach No Longer Has Support from Federal Enforcement Agencies

Following decades of hostility toward patent tying arrangements and adherence to the per se rule by the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC"), these agencies moved away from the per se rule in 1995 with the passage of the Antitrust Guidelines for the Licensing of Intellectual Property. In these guidelines, the DOJ and the FTC began to require a showing of market power in the tying

176. Id. § 271(d).
178. AREEDA, supra note 30, at para. 1737c.
180. Id.
181. Id.
182. IP Guidelines, supra note 16, at § 2.2.
product market in order for a plaintiff to prove a violation of antitrust laws. These guidelines have remained the policy of these agencies for over ten years. By enacting these rules, the DOJ and the FTC have embraced a true rule of reason analysis “in the exercise of prosecutorial discretion.” To find a violation of antitrust law, the agencies, through these guidelines, consider both the presence of market power and the competitive effects on the market where the patent holder has the power.

The DOJ and the FTC conclude that patents do not create economic monopolies, even though the granting of a patent creates a legal monopoly. Under the guidelines, a patent tying arrangement is analyzed as if the patent were any other form of property, which is in line with other forms of antitrust doctrine. One important consideration for the DOJ and FTC is the presence of substitutions in the patented product market. When substitutions are present, the patent holder probably does not have the power to raise prices in the market because the substitutions provide alternative choices to consumers. Only in rare circumstances will a patented product be so novel and innovative that no substitutes exist within the market.

IV. **ILLINOIS TOOL WORKS INC. V. INDEPENDENT INK, INC.: INTRODUCTION OF THE RULE OF REASON FOR PATENT TYING ARRANGEMENTS**

**A. Lower Courts’ Decisions**

Several lower courts rejected the per se illegality presumption for patent tying arrangements, but this approach had not been affirmed by the Supreme Court until *Illinois Tool Works Inc. v. Independent Ink, Inc.* In that case, Illinois Tool Works’s wholly-owned subsidiary, Trident, Inc., manufactured patented ink jet printheads and patented ink containers for use in the printheads and nonpatented inks which

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183. *Id.*
184. *Id.*
185. *Ill. Tool Works*, 126 S. Ct. at 1292.
187. *Id.* at § 2.2.
188. *Id.*
189. *Id.*
190. *Id.*
191. *See id.*
were specially formulated for use in the printheads. Illinois Tool Works licensed the equipment as a package to manufacturers to be installed as components in printer equipment used to print bar codes on corrugated materials and kraft paper. As part of the licensing agreement, the printer manufacturers and the end users were required to purchase all of the ink from Trident. Independent Ink developed an identical ink to compete with the ink produced by Illinois Tool Works for use in the patented printheads. Independent Ink then sued Illinois Tool Works on the basis that the licensing agreement constituted an illegal patent tying arrangement under § 1 of the Sherman Act.

The district court followed the path taken by other lower courts of rejecting the per se illegality presumption for patent tying arrangements. Specifically, the district court held that a plaintiff must prove that a patentee has market power and has used the arrangement as an anticompetitive restraint on trade as a prerequisite to finding that a patent tying arrangement violates antitrust law. Because there was no proof of Illinois Tool Works's market power, the district court held that the arrangement could not be per se illegal even though the tying product was patented. The district court based its decision on the dissent in Data General Corp. v. Digidyne Corp., which followed Justice O'Connor's concurrence in Jefferson Parish Hospital District No. 2 v. Hyde. The dissent in Data General argued that the per se presumption of illegality needed to be reexamined. In addition, the district court relied on numerous lower court opinions which had refused to treat patent tying arrangements as automatically creating an irrebuttable presumption of market power.

The Federal Circuit reversed the district court and held that patent tying arrangements were subject to a per se presumption of illegality. The court based its decision on United States v. Loew's, Inc. and United States Steel Corp. v. Fortner Enterprises, Inc. However,
the Federal Circuit did not follow those cases, instead holding that the presumption is rebuttable and shifts the burden to the patentee to show lack of market power.\textsuperscript{207} In light of this holding, the case was remanded to the district court to allow Illinois Tool Works to present evidence to rebut the presumption of market power.\textsuperscript{208}

B. The Supreme Court Decision in Illinois Tool Works

By granting certiorari, the Supreme Court agreed to consider overturning the forty-three year old precedent from \textit{Loew's}\textsuperscript{209} that tended to ease the burden for competitors to sue patent holders for antitrust violations.\textsuperscript{210} In March 2006 the Supreme Court unanimously affirmed the district court's approach and held that the presence of a patent on the tying product does not create a presumption of market power in the hands of the patent owner.\textsuperscript{211} Rather, the Court held that the plaintiff bore the burden of proving that the patentee has such market power in the tying product market.\textsuperscript{212}

The Court reasoned that the Patent Misuse Reform Act of 1988\textsuperscript{213} had "substantially undermined" the dictum statement in \textit{Jefferson Parish} that patents and similar monopolies create presumptive market power.\textsuperscript{214} The Supreme Court viewed Congress's amendment to patent law as an invitation to incorporate those changes to antitrust law.\textsuperscript{215} Specifically, the Court held a patent tying arrangement does not violate antitrust laws unless the patentee has market power in the patented product market.\textsuperscript{216} To justify incorporating the change in presumption for patent tying arrangements into antitrust law, the Court emphasized that the patent misuse doctrine was the very foundation for the per se presumption in antitrust law.\textsuperscript{217} Because the presumption of market power had been statutorily changed, the Court reasoned that it would be illogical to continue to apply the per se presumption in antitrust law.\textsuperscript{218}

\textsuperscript{207} Indep. Ink, 396 F.3d at 1352.
\textsuperscript{208} Id. at 1353-54.
\textsuperscript{209} Loew's, 371 U.S. at 45.
\textsuperscript{210} See Ill. Tool Works, 126 S. Ct. at 1284.
\textsuperscript{211} Id.
\textsuperscript{212} Id. at 1293.
\textsuperscript{214} \textit{Ill. Tool Works}, 126 S. Ct. at 1284.
\textsuperscript{215} Id. at 1290-91.
\textsuperscript{216} Id. at 1290.
\textsuperscript{217} Id. at 1291.
\textsuperscript{218} Id.
In attempting to trace the origins of the unsubstantiated assumption in *International Salt Co. v. United States* that patent ties tend to accomplish monopolies, the Court looked to the Government's brief in *International Salt*. The brief, taking its reasoning from the *Morton Salt Co. v. G. S. Suppiger Co.* patent misuse decision, stated that even though the Court in *Morton Salt* made its decision on patent grounds and not on antitrust grounds, the rationale behind the *Morton Salt* decision was identical to the rationale of the Sherman Antitrust Act. Therefore, the Court concluded that it was compelled to reach the same result in *International Salt* as it reached in *Morton Salt*. Furthermore, the Court adopted the Government's interpretation “that this type of restraint is unlawful on its face under the Sherman Act,” and held that the tying arrangement was a per se violation of antitrust laws.

The Court also justified its holding by harmonizing patent and antitrust law and noted that the per se presumption in antitrust law for patent tying arrangements created dramatically different consequences for the patentee under patent and antitrust law. The Reform Act imposed a higher burden of proof for the patent misuse defense in the context of civil liability. In contrast, antitrust law required a much lower burden of proof because of the per se presumption, but a finding of guilt subjects the patentee to a criminal sentence of up to ten years in prison. This inconsistency of having a lower burden of proof for criminal liability while requiring a much higher burden of proof for civil liability provides additional support for the decision to abandon the per se rule for patent tying arrangements in antitrust law.

Finally, the Court recognized that its “strong disapproval of tying arrangements has substantially diminished” and that the Court has recently begun to require a showing of market power in the tying product. As a result, a patent tying arrangement violates antitrust law only when the plaintiff affirmatively proves that the patentee has market power in the patented product market.

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221. 314 U.S. 488 (1942).
223. *Id.*
224. *Id.*
225. *Id.* at 1291.
228. *Ill. Tool Works*, 126 S. Ct. at 1291.
229. *Id.* at 1286.
V. RULE OF REASON APPROACH RESONATES FAR BEYOND PATENT TYING ARRANGEMENTS

A. Why the Rule of Reason is the Right Analysis

The Supreme Court’s decision to adopt a rule of reason approach for patent tying arrangements is supported by legal and economic principles. Prior to the Supreme Court’s reversal of the per se rule in Illinois Tool Works Inc. v. Independent Ink, Inc., lower courts had recognized that the rule was too harsh on businesses.\(^{230}\) As a result, those courts developed various mechanisms to circumvent the rule, such as allowing the defendant businesses to show business justifications or to demonstrate the absence of market power in the tying market.\(^{231}\) A rule of reason analysis requires the plaintiff to affirmatively prove the patentee’s market power in the tying product market, rather than shifting the burden to the patentee to show the absence of such market power in the case of a rebuttable per se presumption.

One justification for the lower courts’ approach is that tying arrangements are not categorically harmful to competition and that business justifications may compel the use of such arrangements. While the lower courts embraced some of the economic analysis relevant to determining the effects of the patent tying arrangement, a full balancing of procompetitive and anticompetitive effects had not been adopted. Economists, who recognized the potential efficiency of certain tying arrangements, have long urged the courts to abandon the per se approach and adopt a full rule of reason analysis.\(^{232}\) These economists believe that the per se approach should be reserved for conduct that has no possible legal or economic justification, such as division of market territories among competitors.\(^{233}\) However, some questions remain as to whether tying arrangements generate efficiencies whose benefits exceed the potential harm to competition. Under a rule of reason approach, judges will be given an opportunity to ascertain the procompetitive and anticompetitive effects of tying arrangements on a case-by-case basis, which will increase the courts’ competence in analyzing tying arrangements. The rule of reason approach broadly examines all of the

\(^{231}\) Indep. Ink, Inc. v. Trident, Inc., 210 F. Supp. 2d 1155, 1163-64 (C.D. Cal. 2002) (citing numerous district court and circuit court opinions for the proposition that market power is not presumed in patent tying arrangements).
\(^{232}\) Id.
\(^{233}\) See Ill. Tool Works, 126 S. Ct. at 1293.
business and market factors that bear upon whether a particular practice is "unreasonably restrictive of competitive conditions."\

B. Immediate Implications for Patent Tying Arrangements

Illinois Tool Works made it clear that a plaintiff challenging a tying arrangement under the Sherman Act has the burden of proof to properly define the market in which a tie must be analyzed and to prove, without the benefit of any presumptions, that the patentee has market power in the tying market. As a result, the Court's holding further limits the type of conduct that is deemed per se illegal under antitrust law.

While tying arrangements can still be per se illegal under current antitrust precedent if a party with market power enters into such an arrangement, the Court's opinion raises the burden for plaintiffs seeking to establish liability by requiring actual proof of the defendant's market power. Courts cannot presume this power from the existence of the patent or from the mere fact that the tying arrangement provides a means to price-discriminate among different purchasers. Proof of the defendant's market power will probably require economic evidence analogous to the evidence required to prove market power in rule of reason cases under the Sherman Act, which normally requires proof that the defendant has a share of at least thirty percent in the tying market or some other proof of market power.

Further, while the decision explicitly refers to patent tying arrangements, the holding should easily extend by analogy to apply equally to copyrights. As a result, businesses that rely heavily on patents and copyrights will still need to identify the efficiencies that are created by a patent tying arrangement. However, those businesses will benefit from this ruling, which provides some protection to sellers who tend to bundle unprotected products with the sale of patented or copyrighted items.

C. Harmonization Between Antitrust and Patent Law

Illinois Tool Works contributes to further harmonization at the intersection of antitrust and patent law. A certain tension has always existed between these two bodies of law. Patent law does sometimes enable a patent owner to exercise market power when no good substi-
tutes exist for a patented product. On some occasions, patent statutes appear to grant a degree of immunity from antitrust liability. The Patent Act, for example, explicitly permits a patent owner to license its patent using territorial restraints that might otherwise be illegal under antitrust law. In contrast, an overly aggressive antitrust policy may undermine the incentive structure behind the patent laws by reducing the expected payoff from the creation of innovative new products. Furthermore, patent law, through the patent misuse doctrine, appears to take the position that the potential long-run gains from patent protection are outweighed by other potential short- or long-run costs, such as costs resulting from an excessive reduction in competition.

This decision brings antitrust principles of patent tying arrangements in line with the stated views of the federal antitrust enforcement agencies and most economists. The Supreme Court noted that Congress no longer intended mere ownership of a patent to provide its owner with market power. Reflecting that penalties were more severe for violations of antitrust laws than patent laws, the Court concluded that it would "be absurd to assume that Congress intended to provide that the use of a patent that merited punishment as a felony would not constitute 'misuse.'" The Department of Justice and the Federal Trade Commission's Antitrust Guidelines for the Licensing of Intellectual Property already state that the enforcement agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner."

D. Broader Implications for After-Market Industry and Consumers

Furthermore, the decision is an almost certain death knell to the after-market product industry. For example, printer manufacturers will now be able to condition the sale of their printers on agreements by purchasers to buy branded inks. This would virtually eliminate the market for recycling, recharging, and remanufacturing inkjet cartridges. Exclusion of cost-reducing competition in the after-market industry will allow brand manufacturers to raise prices. Ultimately, consumers will pay the price for the elimination of after-market competition.

240. Ill. Tool Works, 126 S. Ct. at 1290.
241. Id. at 1291.
E. Small Businesses Will Lose a Powerful Weapon Against Big Corporations

Smaller companies that are bringing claims against larger companies who tie patented and unpatented products now have a more difficult burden at trial and will lose the leverage they held to push for out-of-court settlements. This decision further cements the antitrust policy that has created a systemic bias against small business. This bias is created by the presence of large companies, the imbalance of power in transactions between large companies and small businesses, and large companies' strategic use of power against small businesses in the form of increased costs or forcing the acceptance of unfavorable terms.

Due to the presence of antitrust laws, large companies today lack pure monopoly power that existed at the time the Sherman Act was passed. Typically, these companies are in markets that are dominated by at least two of these giant organizations. In addition to large size, these companies typically possess significant market power. In many situations, these companies will use their power against small businesses that lack significant market power. As a result, small businesses are the targets of antitrust abuse when they act as purchasers, sellers, or competitors to large companies. These small companies are disadvantaged because they lack the leverage to check the market power of the large companies.

One type of bias against small businesses is that the small business seller may not be able to sell at the same prices as larger organizations. This practice is commonly known as price discrimination. For example, consider a small potato chip distributor that markets its chips in direct competition with Frito Lay or Tostito's. Because of their strong brand image and market power, the large companies can demand a higher price from buyers. In contrast, the local chip manufacturer does not possess enough market power to demand similar pricing as the major chip manufacturers.

Companies with significant market power can only be checked if small businesses are able to compete in the market and provide direct competition that will incorporate new ideas and energy. Furthermore, these small businesses function as a natural class of antitrust enforcers. As frequent victims of antitrust abuse, these small companies have the incentive and information to bring successful antitrust challenges in court. While it is important to provide threshold barriers to opportunistic suits, the screening rules must not bar meritorious claims. If the threshold is too high, the small companies lose their competitive advantage, and antitrust competition goals suffer as a result.
F. Bias Against Small Business is a Boon for Competition

While large organizations are the primary beneficiaries of market power, antitrust policy should not be entirely against large companies. Large companies reach their size because it is part of the natural, competitive economy and is a necessary evolution to survive in a global market. As such, an antitrust policy that strictly favors small businesses would not contribute to the long-term health of our economy. Rather, the goal of competition policy should be to promote and preserve competition on its merits while maintaining a neutral attitude toward the size of the company. While larger size can lead to market power that is exercised at the expense of small businesses, larger corporations also possess the ability to produce items at a more efficient cost. To justify allowing large companies to maintain some level of market power, there must be some basis to show that the procompetitive result cannot be obtained by a less anticompetitive method. Otherwise, the anticompetitive conduct, which may involve monopolization or tying arrangements, should be prohibited by antitrust law.

The strongest area to justify the toleration of large businesses' anticompetitive tactics may be found in price discrimination. All sellers desire to find a means to charge higher prices to buyers that can afford it, while charging lower prices to buyers who cannot afford premium prices. One argument against policing price discrimination is that it may remove one of the natural factors that enable buyers to force lower prices. If the large sellers knew that they could not charge higher prices to those who lack market power, then those same sellers will resist lowering prices to those who have market power. Such a policy may force sellers to band together and fix prices in a particular market where those higher prices would be passed on to the consumers and would ultimately undermine the goal of encouraging competition. However, cost savings produced from bulk purchasing that are passed along to the buyer in the form of reduced pricing is not considered price discrimination and would be unaffected by any price discrimination regulation.

Furthermore, even true price discrimination may be tolerated if the method is unlikely to result in anticompetitive effects. In essence, large companies must be allowed to exert some of their market power against small businesses to ultimately provide society with the benefit of such competition. But, the paradox of this logic is that allowing such exertion makes it more difficult for the small business to survive.
G. Balancing the Harm to Small Business with the Benefit to Competition

To ensure their survival, small businesses have some options to readjust the balance of market power: (1) consolidate and become one of the giants; (2) form collective buying or selling associations; or (3) resort to antitrust remedies against the large companies. While small businesses have some latitude to merge with one another under current antitrust law, many companies prefer to remain independent and consider the second and third options to be more attractive and realistic.

As to the option of forming cooperative agreements, antitrust law is not particularly tolerant of sellers' agreements under § 1 of the Sherman Act. In numerous instances, the Supreme Court has invalidated sellers' agreements by stating that these agreements violate a per se rule under § 1. However, the Court may be more accepting of buyers' agreements. This hostile attitude toward these agreements among small businesses places these companies at a competitive disadvantage. Consequently, antitrust law should allow small businesses to engage in collective bargaining agreements so long as the market share does not exceed the limits of the current merger enforcement policy.

As to the option of bringing antitrust claims, the current trend in antitrust law has been to increase the difficulty of bringing claims by small businesses. The trend began in the 1970's when economists began to believe that the overreaching antitrust protection was undermining the goals of competition. As a result, courts have created rules that have limited access to the courts and have made it more difficult for plaintiffs to prove an antitrust violation. The most recent decision by the Supreme Court in *Illinois Tool Works* is another brick in the wall that serves as a hurdle to prevent small businesses from bringing antitrust claims against large companies.

VI. Conclusion

There is an inherent tension between the disciplines of antitrust and patent law. The use of a presumption of market power based on the ownership of a patent in the antitrust analysis shifted the balance too

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far in favor of antitrust law. The per se rule was based on a misconcep-
tion of the effects of the legal exclusionary rights conferred to patentees.

In light of the present flaws and the eradication of the legal precedent
supporting the presumption, the Supreme Court's decision in Illinois
Tool Works to eliminate the per se rule and adopt a rule of reason
approach for patent tying arrangements was a step in the right direction
to harmonize these two doctrines. By reversing the per se presumption,
the Court brought the jurisprudence of patent tying arrangements into
alignment with the rest of modern antitrust and economic views. The
rule of reason approach allows courts to look at the actual effects of the
patent tying arrangements on the economy, consumers, and the owners
of such property. Consideration of actual market conditions prior to
condemnation of a tying arrangement preserves the rights of patent
owners, except in situations that truly warrant invalidation of the
arrangements.

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