

U.S. Supreme Court Explores the Intersection of Tying Claims and Patents

On March 1, 2006, the United States Supreme Court unanimously held that, in antitrust cases based on allegations of illegal tying, a patent does not create a presumption of market power on the part of the patentee. In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, No. 04-1329, the Court conformed its precedent to a 1988 change in the law governing patent misuse that eliminated the presumption in that context and to the prevailing view of antitrust experts and economists that such a presumption is not justified.

The case was initiated by Independent Ink, Inc., which alleged, among other claims, that Illinois Tool Work's subsidiary, Trident, was illegally tying sales of non-patented ink to the sales of their patented ink jet print head and patented ink container. The Central District Court of California trial court rejected Independent Ink's claim, finding that it had shown no evidence that Trident had any market power in the inkjet system market. In doing so, the court rejected Independent Ink's argument that such market power was presumed by virtue of the patents Trident held on the tying ink jet products.

The Federal Circuit reversed, holding that, in its view, Supreme Court precedents, including *Int'l Salt Co. v. United States* (1947) and *United States v. Loew's, Inc.* (1962) required lower courts to permit a presumption of market power if the tying product is patented and to find such tying impermissible *per se*.

The U.S. Supreme Court vacated the decision of the Federal Circuit and remanded the case for further proceedings. The Court concluded that the premise previously used to support a presumption of market power for patented

products in antitrust law – that market power was presumed outside the antitrust laws in patent misuse actions – no longer existed. In reaching this conclusion, the Supreme Court reviewed its prior precedents, noting two distinct lines of tying cases: tying of patented products and tying of non-patented products.

The presumption of market power in a patented product was incorporated from the patent misuse arena into antitrust jurisprudence in *Int'l Salt Co. v. United States* (1947) after the Supreme Court reviewed and adopted its reasoning and holdings in the patent misuse context, i.e., *Morton Salt Co. v. G.S. Suppiger Co.* (1942). In subsequent patented product tying cases, all more than forty years old, the Court reinforced the presumption of market power in a patented product. In more recent non-patented product tying cases, *U.S. Steel Corp. v. Fortner Enters, Inc.* (1977) (Fortner II) and *Jefferson Parish Hosp. Dist. No. 2 v. Hyde* (1984), however, the Court rejected its earlier assumption that “[t]ying arrangements serve hardly any purpose beyond the suppression of competition.” In these tying cases, where the historical use of the market power presumption in patent misuse cases was not pertinent, the Court held that proof of market power in the tying product market was required before the *per se* rule would apply to a tying claim.

In *Illinois Tool Works*, the Court noted that Congress removed the patent equals market power presumption for patent misuse in their 1988 amendments to the Patent Code. Congress did not consider the use of the presumption under the antitrust laws. Nevertheless, the Court concluded that it would be “absurd” to assume that Congress intended

that the presumption would be preserved in the tying context, which might give rise to felony antitrust charges and imprisonment, when Congress eliminated the presumption in the context of misuse, which involves a much less severe charge, namely, infringement.

The decision means that a plaintiff asserting a tying claim must prove that the defendant has actual market power in the tying product, whether or not the tying product is patented. As the Court observed, “Congress, the antitrust enforcement agencies, and most economists” have all reached the conclusion that a patent does not necessarily confer market power. Thus, the decision finally conforms the treatment of patented and non-patented products under tying law.

The Supreme Court has granted certiorari in a disproportionate number of patent cases this term compared to the recent past. *Illinois Tools*

Works is the first decision to be issued in these cases and might be emblematic of the Court’s desire, after several years of relative silence on major patent cases, to reconcile patent and antitrust law and to provide guidance to the Federal Circuit as to the Supreme Court’s view on how patent law should be developing. Along with *Illinois Tool Works*, the other patent cases pending, *eBay, Inc. v. MercExchange, L.L.C.*, 05-0130 (appropriateness of injunctions against infringers), *Lab. Co. of Am. v. Metabolite Labs*, 04-0607 (extent of patentability of natural phenomena in medicine) and *MedImmune, Inc. v. Genentech, Inc.*, 05-0608 (ability of licensee to file suit challenging validity of licensed patent), might well result in better-defined guidelines for practitioners. These decisions will also provide a more concrete backdrop for current Congressional efforts to reform the United States patent system.

For more information, please contact the following Jenner & Block attorneys:

Margaret J. Simpson

Partner

Tel: 312 923-2857

Email: msimpson@jenner.com

Marshall J. Schmitt

Partner

Tel: 312 923-2759

Email: mschmitt@jenner.com

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