

In the Supreme Court of the United States

ILLINOIS TOOL WORKS INC., ET AL., PETITIONERS

v.

INDEPENDENT INK, INC.

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

**BRIEF FOR THE UNITED STATES
AS AMICUS CURIAE SUPPORTING PETITIONERS**

WILLIAM BLUMENTHAL
*General Counsel
Federal Trade Commission
Washington, D.C. 20580*

JAMES A. TOUPIN
General Counsel

JOHN M. WHEALAN
Solicitor

CYNTHIA C. LYNCH

THOMAS KRAUSE
*Associate Solicitors
Patent and Trademark
Office
Alexandria, Virginia 22313*

PAUL D. CLEMENT
*Solicitor General
Counsel of Record*

THOMAS O. BARNETT
*Acting Assistant Attorney
General*

THOMAS G. HUNGAR
Deputy Solicitor General

JEFFREY P. MINEAR
*Assistant to the Solicitor
General*

CATHERINE G. O'SULLIVAN

STEVEN J. MINTZ

FRANCES MARSHALL

JENNIFER M. DIXTON

*Attorneys
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217*

QUESTION PRESENTED

To establish that a tying arrangement constitutes a per se violation of Section 1 of the Sherman Act, 15 U.S.C. 1, an antitrust plaintiff must prove that the defendant has “appreciable economic power” in the tying product market. See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992). The question presented in this case is whether the courts should recognize a special exception for patented products, in the form of a rebuttable presumption of market power.

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INTEREST OF THE UNITED STATES

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

STATEMENT

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

(1)

Pet. App. 20a. Printing equipment manufacturers (the original equipment manufacturers or OEMs) incorporate Trident's system into printers that are used to print bar codes on product cartons. *Ibid.* OEMs are also able to obtain comparable technology from other sources. At least two other companies have developed printheads capable of printing bar codes on cartons. *Id.* at 22a. Product manufacturers also use labeling systems to print bar-coded labels that can be affixed to cartons. *Ibid.* Those other companies and systems compete with Trident's printhead system. *Ibid.*

Trident licenses its patented products to OEMs as a package. Pet. App. 21a. Petitioners do not dispute that Trident's licenses require OEMs to use only ink supplied by Trident in single-use containers or that those licenses also prohibit both OEMs and end users from re-filling Trident ink containers. See *ibid.* Petitioners assert, however, that the OEM licenses do not prevent end users from using ink containers and ink from third-party manufacturers. *Ibid.*

2. Respondent Independent Ink, Inc. (Independent) is a distributor and supplier of printer ink and ink products. Pet. App. 20a. Independent brought this action to obtain a declaratory judgment of non-infringement and invalidity with respect to two of Trident's patents. *Id.* at 22a. Independent later amended its complaint to allege, among other things, that petitioners engaged in unlawful tying in violation of Section 1 of the Sherman Act, 15 U.S.C. 1. Pet. App. 22a-23a. Independent also alleged that petitioners monopolized, attempted to monopolize, and conspired to monopolize the market for ink used in Trident's printhead system, in violation of Section 2 of the Sherman Act, 15 U.S.C. 2. Pet. App. 23a.

Petitioners and Independent filed cross-motions for summary judgment on Independent's Section 1 tying claim, and petitioners also moved for summary judgment on Independent's Section 2 monopolization claim. In asserting its Section

1 claim, Independent relied solely on a per se, rather than a “rule of reason,” theory of liability. See Pet. App. 23a-24a (“Plaintiff does not argue that Defendants’ tying arrangements violate the Sherman Act pursuant to the Rule of Reason.”). The district court denied Independent’s motion for summary judgment and, instead, granted summary judgment for petitioners on both claims. *Id.* at 38a, 49a, 56a.

The district court observed that Independent’s Section 1 per se tying claim required proof of four elements, including market power in the relevant market for the tying product. Pet. App. 28a. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 12-18 (1984). The court rejected Independent’s contention that a patent on the tying product, standing alone and as a matter of law, establishes the requisite coercive economic power in the market for the tying product, finding that “[t]he weight of authority is to the contrary.” Pet. App. 30a. The district court was not persuaded otherwise by Independent’s recitation of “several vintage Supreme Court cases,” including *United States v. Loew’s, Inc.*, 371 U.S. 38 (1962), and *International Salt Co. v. United States*, 332 U.S. 392 (1947). Pet. App. 34a n.10.

The district court determined that those decisions were not controlling because “[t]he Court’s language concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required.” Pet. App. 34a n.10 (citing 10 Phillip E. Areeda et al., *Antitrust Law* ¶ 1737a (1996)). The court noted that, in this case, Independent produced “no evidence from which a reasonable trier of fact could define the relevant product and geographic markets” and failed to “proffer any evidence that Defendants possess market power by virtue of their market share or that the market for the tying product contains barriers to entry.” *Id.* at 49a. The

court accordingly granted summary judgment against Independent on its Section 1 theory. *Ibid.*¹

3. The court of appeals reversed the district court's grant of summary judgment on the Section 1 claim. Pet. App. 5a-17a. The court stated that "the Supreme Court's cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power." Pet. App. 9a. "Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." *Ibid.* The court of appeals acknowledged that "the Supreme Court precedent in this area has been subject to heavy criticism" and that other courts of appeals have reached a different result, *id.* at 12a-13a, but it concluded that it was bound by *International Salt* and *Loew's* to recognize that "there is a presumption of market power in patent tying cases," *id.* at 14a. The court observed that "[t]he time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment." *Ibid.*

The court of appeals determined that Trident's patents established only a rebuttable presumption of market power, Pet. App. 14a-15a, but the court concluded that petitioners' evidence of competition from two rival printhead systems and from bar code labeling systems was insufficient as a matter of law to overcome that presumption, *id.* at 16a-17a. The court of appeals therefore reversed the district court's grant of summary judgment on the Section 1 claim, but it remanded the case "to permit [petitioners] an opportunity to supplement

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

the summary judgment record with evidence that may rebut the presumption.” *Id.* at 17a.²

SUMMARY OF ARGUMENT

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

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

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

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

C. The court of appeals was mistaken in concluding that this Court's decisions require courts to apply a presumption that patents confer market power. The Court's decisions in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), and *International Salt Co. v. United States*, 332 U.S. 392 (1947), rest on a congressionally repudiated view of the scope of patent rights, and they predate the Court's articulation of the market power requirement and accordingly reflect the now-outdated assumption that proof of significant market power is unnecessary to support a per se tying violation. See 10 Phillip E. Areeda et al., *Antitrust Law* ¶ 1737a-1737c, at 80-83 (2d ed. 2004) (*Antitrust Law*). If, contrary to the government's view, that assumption has somehow survived this Court's decisions in *Eastman Kodak*, *Jefferson Parish*, and other similar cases, the Court should now expressly reject it as inconsistent with mature principles of antitrust law. See, e.g., *State Oil Co. v. Khan*, 522 U.S. 3, 21 (1997).

D. Because the court of appeals misread this Court's decisions to require the presumption that patents confer market power, it noted but gave no weight to the mismatch between the presumption and the procompetitive policies of antitrust law. The presumption is an anomalous legal shortcut, encouraging meritless antitrust claims while discouraging innovation and efficiency-enhancing business practices. Those considerations confirm that the presumption should be rejected.

