Why The Presumption of Market Power In Patent Tying Cases Never Existed, and Won’t Much Longer

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February 16, 2006

I. Introduction ................................................................................................................ ...... 1
II. The Burden of Persuasion ............................................................................................... 6
III. Why The Presumption Never Existed............................................................................ 9
    A. The Period Of “Hostility.” ................................................................................ 10
    B. The Period Of “Uniqueness.” ........................................................................... 11
    C. The Period Of Market Power ........................................................................... 15
IV. Why the Presumption Will Be Rejected ...................................................................... 19
    A. The Consensus That The Presumption Is Unfounded Is Overwhelming ......................... 19
    B. The Consensus Remains “Virtually Unanimous” ........................................... 24
V. Conclusion .................................................................................................................. .... 34
I. Introduction

In 1912, the Supreme Court considered a case in which the owner of a patented mimeograph machine licensed its use only on the condition that the licensee also buy its ink for the machine from the patent holder. In his opinion for the Court in *Henry v. A.B. Dick*, Justice Lurton rejected the claim that such a “tying” arrangement was anticompetitive. Only five years later, however, the Supreme Court reversed itself (over a vigorous dissent by Justice Holmes), concluding that such a tie allowed a patent holder to use its patent on the “tying” product (the mimeograph) to stifle competition in the market for the “tied” product (the ink). When the Supreme Court hands down its decision this term in *Illinois Tool*, however, Justices Lurton and Holmes may — after nearly a century — have a measure of revenge.

A subsidiary of Illinois Tool Works sells a patented printhead for the application of barcodes to packages as they move on an assembly line, and it conditions its printhead license on the purchase of ink from Illinois Tool. A rival supplier of ink brought a complaint alleging claims for unlawful tying under Sections One for monopolization under Section Two of the Sherman Act. The District Court dismissed all of the antitrust claims because there was no allegation that Illinois Tool had market power in the sale of its patented “tying” product.

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1 224 U.S. 1 (1912).


In January 2005, however, the Federal Circuit reversed. While it agreed that the monopolization claims under Section Two failed for lack of market power, it held that, in a tying claim under Section One, “where the tying product is patented or copyrighted, market power may be presumed rather than proven.” 396 F.3d at 1348. The Federal Circuit did not argue that the presumption was defensible as a matter of fact or legal policy; only that it was dictated by prior Supreme Court precedent that the Federal Circuit was required to obey, most notably United States v. Loew’s, 371 U.S. 38 (1962). Id.

The reaction to the Federal Circuit’s decision among the antitrust and intellectual property bar was consternation. Since the Supreme Court made it clear in the late 70s and early 80s that tying arrangements would no longer be condemned without a showing of genuine market power in the tying product, there has been an overwhelming consensus that a presumption of market power in IP cases is both factually groundless and legally unwise. Thus, in 1984, Justice O’Connor described the presumption as a “common misconception” in her famous concurrence in Jefferson Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 37 n.7 (1984). In 1988, Congress amended the patent laws to ensure that there would be no presumption of market power when tying was raised as an equitable “misuse” defense to a claim of infringement.4 And in 1995, both federal enforcement agencies expressly rejected the presumption in their IP enforcement guidelines.5 The academic commentary throughout this period, moreover, was uniformly and scathingly critical of the presumption.6 There were, to be sure, a few lower courts that had embraced the presumption, but the leading Ninth Circuit case for the minority view had

been described by the Assistant Attorney General in his 1996 testimony before Congress as a “relic.”\(^7\) It is thus fair to say, as Professor Hovenkamp recently said, that prior to the Federal Circuit’s decision in *Illinois Tool*, “the presumption of market power for patented or copyrighted products had languished to the point that antitrust plaintiffs chose not to rely on it.”\(^8\)

The Federal Circuit’s decision was troubling for another reason. Many, and perhaps a majority, of “patent tying” claims will arise in patent cases over which the Federal Circuit has exclusive appellate jurisdiction. See 28 U.S.C. § 1295(a)(1). In addition, the Federal Circuit has taken the view that “Federal Circuit law governs all antitrust claims premised on the abuse of a patent right”\(^9\) and has warned that another Circuit hearing such a case would “risk disturbing Congress’s goal of ensuring patent-law uniformity by applying its own law.”\(^10\) Thus, the Federal Circuit’s ruling in *Illinois Tool* has the potential to do disproportionate harm to antitrust policy and incentives to innovate.

In response to these concerns, a variety of amici — including, in a rare appearance, the American Bar Association — urged the Supreme Court to grant certiorari and reject the presumption, even if it required the Court to overrule its early tying precedent.\(^11\) The Supreme

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\(^8\) Areeda & Hovenkamp, *Antitrust Law* ¶ 518 at 197-98 (2005 Supp.) (footnote omitted).


\(^10\) Id. at 1355 n.3.

\(^11\) The ABA has long advocated rejection of any presumption of market power:

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

Court accepted the case in June 2005, and the question presented is limited to “whether market power is presumed based solely on the existence of a patent on the . . . tying product.” Merits briefs supporting reversal of the Federal Circuit were filed by no fewer than ten amici, including the United States (in a brief joined by the DOJ, the FTC, and the PTO). The case was argued in November 2005 and, at this writing, awaits decision.

I have written on multiple occasions about the question presented in Illinois Tool. In addition to being the principal author of the two amicus briefs submitted by the ABA (the first in support of certiorari, the second on the merits), I wrote a piece for the ABA AntitrustSource entitled “There’s No Tying in Baseball.” There, I suggested that the only issue meriting serious discussion in Illinois Tool was the effect of stare decisis. Would the Court embrace a presumption of market power in patent cases, however baseless, for the same reasons that, in 1953 and 1972, it “reaffirmed” the equally baseless antitrust exemption for professional baseball? The Court could do so, I concluded, only by the same method it pursued in the baseball cases: that is, by engaging in a fundamental (and indefensible) reinterpretation of the “old” precedent which gave it a new rationale wholly absent from the original case. In Illinois Tool, the Court would have to redefine the presumption of Loew’s as one of actual market power in the modern sense of power over price – a proposition that the Loew’s opinion itself had expressly rejected.

My emphasis in that article on stare decisis derived, in part, from the complete absence of any serious argument (much less evidence) that a presumption of market power for patented goods has any basis in economic reality. Since the Supreme Court’s 1984 decision in Hyde, no

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by the ABA on this issue) (Mr. Baker’s statement is also available at http://www.abanet.org/intelprop/marketpower.pdf.  
court or commentator – at least none cited by the Respondent in *Illinois Tool* or the Federal Circuit – had defended the presumption. The minority of lower courts that adopted the presumption did so only on the grounds that they were bound to do so by the “vintage” decisions of the Supreme Court, such as *Loew’s*.

After certiorari was granted in *Illinois Tool*, however, some new lawyers joined the Respondent's legal team. These experienced appellate litigators have gamely attempted to challenge the overwhelming consensus against the presumption as a matter of empirical fact and theory. They were joined by four law professors who, in two amicus briefs, argued that at least some form of the presumption should survive.

Unfortunately for the Respondent, these arguments make up in certitude what they lack in substance. As I show below, the empirical evidence they cite not only fails to support but arguably undermines the presumption. And the theoretical argument—that the presumption is valid, but only for “requirements” ties that are used (1) with a complementary product, (2) as a metering device, (3) for purposes of price discrimination—is highly unpersuasive. Indeed, it is an attempt to convert the sweeping presumption for all patented tying goods that the Federal Circuit actually applied into a narrow and complex classification so specific—the proverbial, “strange, red-haired, bearded, one-eyed man with a limp”¹³—that no caselaw would even remotely support the Respondent's *stare decisis* argument. Respondent paid for that flaw during the oral argument when the Chief Justice leaned forward and asked: “Are you conceding that the presumption makes no sense outside of the requirements metering context?” (Tr. 35) After a roundabout answer that avoided saying “yes,” but could not possibly mean “no,” Justice Stevens

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¹³ *Belfiore v. The New York Times Co.*, 654 F. Supp. 842, 846 (D. Conn. 1986), aff’d 826 F.2d 177 (2d Cir. 1987). The “strange, red-haired” man is customarily invoked when an antitrust plaintiff attempts to define a relevant market so narrowly that it consists solely of the defendant’s own product.
was prompted to follow up: “I’m kind of curious what your answer is to the Chief Justice’s question.” Id. At that point, the transcript notes, there was “(Laughter).”

Ouch. This paper seeks to demonstrate, apart from the pure issue of *stare decisis*, why a presumption of market power in patent tying cases is so hard to defend as a matter of fact or legal policy. Why, that is, have the efforts of able counsel to do so proven, quite literally, risible? Much of the answer, as we shall see, lies in the empirical evidence, in economic theory, and in common sense. But a crucial part of the answer—the part that exposes the circular reasoning that make such defenses lampoonable—lies in the presumption’s history. When we trace the presumption to its (alleged) origin in search of an economic rationale that may “still” apply, we find that there is none. Instead, we find a candid acceptance of the modern view that intellectual property cannot be presumed to confer genuine market power. The reason is that a presumption of *market power* has, at least in the Supreme Court, never existed. Whether your argument in favor of the presumption is based upon *stare decisis* or economic reality, that is a bad fact.

II. The Burden of Persuasion

Those who favor a presumption of market power in “patent tying” cases face several obstacles. First, the accepted view of tying arrangements has evolved significantly in the nearly sixty years since Justice Frankfurter announced that “[t]ying agreements serve hardly any purpose beyond the suppression of competition.” *Standard Oil Co. v. United States*, 337 U.S. 293 (1949). That statement, which was repeated in every tying case to come before the Court until 1969 (including *Loew’s*), is plainly contrary to the Court’s current tying jurisprudence. See, e.g., *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977) (“Fortner II”) and *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984) (“Hyde”). Today, the Court
has recognized that tying arrangements “may have procompetitive justifications”\textsuperscript{14} and that “such packages can merely be an attempt to compete effectively—conduct that is entirely consistent with the Sherman Act.”\textsuperscript{15} As Judge Easterbrook noted in rejecting the presumption of market power twenty years ago, “[t]he Supreme Court emphasized in Hyde . . . and again in [NCAA] that tying may have competitive benefits.”\textsuperscript{16}

Justice Breyer, who was then a Circuit Judge, made the same point in \textit{Grappone, Inc. v. Subaru of New England, Inc.}, 858 F.2d 792 (1st Cir. 1988). There, he compared the recognition of tying benefits in \textit{Hyde} with this statement in \textit{International Salt}, one of the cases on which the Federal Circuit in \textit{Illinois Tool} expressly relied: “[T]he tendency of the [tying] arrangement to accomplishment of monopoly seems obvious.”\textsuperscript{17} To the contrary, observed Judge Breyer, “both the majority and minority opinion in [\textit{Hyde}] recognized that tying’s anticompetitive mechanism is not obvious.”\textsuperscript{18} In other words, the unblinking hostility toward tying of the cases from which the market power presumption derives, is, as the Areeda Treatise has noted, a thing of the past: “Today it seems quite clear that most tie-ins benefit competition, even when the defendant has tying product power.”\textsuperscript{19}

A second obstacle for the presumption is the established consensus that, in the \textit{absence} of market power in the tying product, “no tying arrangement can harm competition.”\textsuperscript{20} For Judge Posner this is a proposition of simple logic: “[H]ow can a firm with only 30 percent of a

\begin{footnotes}
\footnote{15} Hyde, 466 U.S. at 12.
\footnote{16} Will v. Comprehensive Accounting Corp., 776 F.2d 665, 673 (7th Cir. 1985) (citations omitted).
\footnote{17} Int’l Salt Co. v. United States, 332 U.S. 392, 396 (1947).
\footnote{18} Grappone, 858 F.2d at 794.
\footnote{19} 9 Phillip E. Areeda & Herbert Hovenkamp, \textit{Antitrust Law} ¶ 1720a, at 220 (2d ed. 2004) (footnote omitted).
\footnote{20} 10 Areeda & Hovenkamp, \textit{supra} ¶ 1734b3, at 39.
\end{footnotes}
market exclude competitors by tying two products together? A firm that wants to produce only one of these products will have no difficulty finding customers.”

The Supreme Court has thus stated clearly that antitrust’s concern with tying is limited to sellers with significant market power.

In applying this market power requirement, moreover, the Court has also been clear that it requires real market power—what the Court in Fortner II described as “market power in the sense of power over price.”

The Court has reaffirmed this definition numerous times, describing it for purposes of tying in Kodak as “the ability of a single seller to raise price and restrict output.”

Again, Justice Breyer’s analysis of Hyde in Grappone is instructive:

> The majority [in Hyde], for example, makes clear that by its requirement of “market power” it means significant market power—more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller’s many customers.

A third obstacle to the presumption is the growing awareness that antitrust law should not lightly embrace formalistic rules that divorce legal results from economic reality. The Court has expressly criticized “[l]egal presumptions that rest on formalistic distinctions rather than actual market realities.”

In considering the application of the set of assumptions underlying the *per se* rule, the Court has recently declared that

> there must be some indication that the court making the decision has properly identified the theoretical basis for the anticompetitive

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21 Richard A. Posner, *Antitrust Law*, at 265 (2d ed. 2001). Accord, *e.g.*, *Grappone*, 858 F.2d at 795 (“If the Seller does not have market power in respect to product A, it cannot force buyers to take a more expensive or less desirable Product B.”).


23 *Fortner II*, 429 U.S. at 620 n.13.

24 504 U.S. at 464 (internal quotation marks omitted).

25 *Grappone*, 858 F.2d at 796 (emphasis in original).

26 *Kodak*, 504 U.S. at 466.
effects and considered whether the effects actually are anticompetitive. Where, as here, the circumstances of the restriction are somewhat complex, assumption alone will not do.\textsuperscript{27}

This is a test that the presumption of market power in tying cases cannot meet. Given the current legal and economic view of both tying and patents, a presumption of market power makes no sense whatsoever unless it is valid, that is, demonstrably grounded in economic reality. For if the presumption is not valid, its application – however pleasing to plaintiffs seeking to minimize litigation expenses – tends only to deprive consumers of the benefits of efficient tying arrangements. If the courts are to avoid “an overly mechanical, and legally erroneous, application of the law prohibiting tying,”\textsuperscript{28} there should be a powerful consensus in favor of the presumption, not, as there is, an overwhelming consensus against it.

**III. Why The Presumption Never Existed.**

Tracing the origins of the presumption as the law of tying evolved in the Supreme Court has two benefits. First, it will make clear that the “presumption” that the Federal Circuit and others have discovered in *Loew’s* was never one of actual market power, and hence never thought to be supported by economic evidence of real power over price. Second, it will also demonstrate why those who would rely on the presumption cannot escape this stubborn dilemma: If, on the one hand, market power arises from the nature of a patent or copyright, why should there be a special rule for tying cases, as opposed to Section 2 cases or Section 1 cases under the rule of reason? If, on the other hand, market power is simply implied by the presence of a successful tying arrangement, then why should there be a special rule for tying arrangements involving *patented* goods? There are no adequate answers.

\textsuperscript{27} *Cal. Dental Ass’n v. FTC*, 526 U.S. 756, 775 n.12 (1999) (emphasis added).

\textsuperscript{28} *Grappone*, 858 F.2d at 793.
A. The Period Of “Hostility.”

The story begins nearly a century ago, as noted above, with the Supreme Court’s decision in Henry v. A.B. Dick Co., 224 U.S. 1 (1912). In that case, a patented mimeograph machine was licensed on the condition that the licensee purchase the ink from the patent holder. The patentee had defended the tying arrangement as a form of metering, by which the licensor “is merely insuring to himself a royalty based upon the output of the machine.” Id. at 65 (White, C.J., dissenting). In upholding the tie as consistent with the use of the patent right, the majority rejected the argument of Chief Justice White in dissent that the use of a tie allowed the patent holder “to bring within the claims of his patent things which are not embraced therein, thus . . . to multiply monopolies at the will of an interested party.” Id. at 53 (White, C.J., dissenting). This was an early and forceful articulation of what many have called the “patent leveraging fallacy” —the now discredited idea that a tying arrangement allowed a patentee to convert its patent “monopoly” into two monopolies.29

Five years later, however, in Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917), the views of Chief Justice White prevailed, and Henry v. A.B. Dick was overruled.30 Armed with the patent leveraging fallacy, the Court then embarked

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29 Ward S. Bowman, Jr., Patent and Antitrust Law: A Legal and Economic Appraisal, at 154 (U. Chi. Press 1973). Thanks to the tireless efforts of Professor Bowman and others, the patent leveraging theory has been abandoned in the Court’s modern decisions, see, e.g., Hyde, 466 U.S. at 36 (O’Connor, J., concurring) (“The existence of a tied product normally does not increase the profit that the seller with market power can extract from sales of the tying product.”) (emphasis omitted), and is routinely rejected by the commentators: “Tying cannot enable a patentee to attain a double monopoly profit by tying unpatented goods.” HJL Treatise, supra § 21.3b, at 21-20. See also Hyde, 466 U.S. at 36 (concurrence describing this view as “easily demonstrated and widely accepted”).

30 This time, Justice Holmes dissented:

The supposed contravention of public interest sometimes is stated as an attempt to extend the patent law to unpatented articles, which of course it is not, and more accurately as a possible domination to be established by such means. But the domination is one only to the extent of the desire for the [patented] teapot or film feeder, and if the owner prefers to keep the pot or the feeder unless you will buy his tea or films, I cannot see, in allowing him the right to do so, anything more than an ordinary incidence of ownership . . . .
on a period of self-described “hostility” to tying arrangements. See Loew’s, 371 U.S. at 46. That period culminated in the Court’s 1947 decision in International Salt Co. v. United States, 332 U.S. 392 (1947), where the tying product was patented, and its 1948 decision in United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948), where the tying product was copyrighted.

Given the reliance on these cases by the courts who accept the presumption, it is essential to note that neither International Salt nor Paramount Pictures addressed, or even discussed, any requirement of power in the tying product. Instead, those cases relied expressly on the patent leveraging theory as their rationale. In International Salt, moreover, the leveraging theory was not used as affirmative evidence that a tie involving a patent was anticompetitive. Rather, the patent leveraging theory was used to deny the defendant any “immunity” for having a patent when it entered into the tying agreement, which was deemed anticompetitive in all circumstances: “By [imposing the tie], International Salt has engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws.” 332 U.S. at 396. The International Salt opinion condemned the tie absolutely as long as the “volume of business” affected in the tied product was not “insignificant or insubstantial.” Id. International Salt, in other words, put the “per se” into the per se rule against tying.

B. The Period Of “Uniqueness.”

The first case to consider any concept of power in the tying market came six years later, in Times-Picayune Publishing Co. v. United States, 345 U.S. 594 (1953). There the Court

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243 U.S. at 520 (emphasis added). The Court’s decision in Motion Picture Patents may have been influenced by the passage of the Clayton Act in 1914, specifically outlawing tying arrangements that were found to injure competition. See Clayton Act § 3, 15 U.S.C. § 14.

31 Int’l Salt, 332 U.S. at 395-96 (“But the patents confer no right to restrain use of, or trade in, unpatented salt.”); Paramount Pictures, 334 U.S. at 158 (“Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other.”).
refused to condemn as an illegal tie a newspaper’s requirement that ads be run in both its morning and afternoon papers. The Court’s opinion described the Sherman Act’s prohibition on tying as confined to cases where “the seller enjoys a monopolistic position in the market for the ‘tying’ product.” *Id.* at 608. Because the defendant had no power in the relevant market for advertising, the tying claim was rejected.

In a series of subsequent decisions, however, the Court made clear that the definition of the “power” sufficient to satisfy this test was not actual market power in the modern sense of power over price, but something far broader. The first was *Northern Pacific Railway Co. v. United States*, 356 U.S. 1 (1958), in which Justice Black ensured that the suggestion in *Times-Picayune* that the defendant have a “monopolistic position” would not be taken literally:

> While there is some language in the *Times-Picayune* opinion which speaks of “monopoly power” or “dominance” over the tying product as a necessary precondition for application of the rule of *per se* unreasonableness to tying arrangements, we do not construe this general language as requiring anything more than sufficient economic power to impose an appreciable restraint on free competition in the tied product . . . .32

That power could be found in a tying case “regardless of the source from which the power is derived and whether the power takes the form of a monopoly or not.” *Id.* Indeed, that definition of power was so broad that it could be inferred from the very fact of the tying arrangement itself: “The very existence of this host of tying arrangements is itself compelling evidence of the defendant’s great power . . . .”33

Because the defendants in *Northern Pacific* were arguing—unsuccessfully—that market power was now the test, they tried to distinguish *International Salt*, which had not required proof

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32 356 U.S. at 11.

33 *Id.* at 7-8. As Ward Bowman has noted, this “[c]ircular but simple” reasoning bears no relation to the “proportion of … [the] relevant economic market these holdings composed.” *Bowman, supra.* n. 20 at 182.
of power, by asserting that market power was established solely by virtue of the patent. Justice Black disagreed:

> Of course it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight.34

Four years later, the critical decision in Loew’s continued the process of defining down the concept of “power” in the tying market. Justice Goldberg’s opinion in Loew’s contains the seminal sentence from which the presumption of market power has since been derived:

> The requisite economic power is presumed when the tying product is patented or copyrighted. International Salt Co. v. United States, 332 U.S. 392; United States v. Paramount Pictures, Inc., 334 U.S. 131. 371 U.S. at 45. There are two key points to note from this short passage. First, Justice Goldberg did not use the term “market power,” but rather “requisite economic power.” Second, he attributed the presumption to both International Salt (for patents) and Paramount Pictures (for copyrights), even though neither case discussed power in the tying product at all. These two points are connected, in my view, because whether his citation of those cases was defensible (and I think it was), depends on the meaning of the term “requisite economic power.”

And the Loew’s opinion made that meaning clear in the immediately preceding sentence:

> Market dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product’s desirability to consumers or from uniqueness in its attributes.35

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34 Id. at 10 n.8.
35 371 U.S. at 45 (footnote omitted) (emphasis added).
The Loew’s Court thus could not have been clearer that its definition of the “requisite economic power” was not “some power to control price,” and thus not actual market power in its modern sense. In fact, that same sentence ended with a footnote stating that a finding of “economic power . . . on the basis of either uniqueness or consumer appeal . . . does not necessitate a demonstration of market power in the sense of § 2 of the Sherman Act.”36 And for that reason, the Court continued, “it should seldom be necessary in a tie-in sale case to embark on a full-scale factual inquiry into the scope of the relevant market . . . [or compute] the seller’s percentage share in that market.”37

Thus, Justice Goldberg’s citation of International Salt and Paramount Pictures can be defended, not because those opinions discussed power in the tying product (they did not), but because their holdings fit so comfortably within the broad definition of the power that the Loew’s opinion deemed “requisite.” Indeed, once that power was defined as “uniqueness,” a presumption of such power based on the existence of intellectual property followed by definition, because “one of the objectives of the patent laws is to reward uniqueness.”38 International Salt fits the rule because a patent is awarded only to inventions that are both novel and not obvious,39 and thus distinctive by their very nature. Similarly, a copyrighted work, as Justice Holmes pointed out, “always contains something unique,”40 because the law protects only the original item itself. The holding of Paramount Pictures thus also met this simple test of “uniqueness,”

36 Id. at 45 n.4 (emphasis added).
37 Id.
38 Id. at 46.
40 Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 250 (1903) (Holmes, J.) (“Personality always contains something unique. . . . [Even] a very modest grade of art has in it something irreducible, which is one man’s alone. That something he may copyright. . . .”.

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because “[a] copyrighted feature film does not lose its legal or economic uniqueness because it is shown on a television rather than a movie screen.”

It cannot be overemphasized that *Loew’s* was the first and last case in which the Supreme Court applied a presumption of any kind to a tying product protected by intellectual property. Yet, *Loew’s* did not “make clear that, where the tying product is patented or copyrighted, *market power* may be presumed rather than proven,” as the Federal Circuit wrongly concluded. Rather, it held only that *uniqueness* may be (and arguably must be) presumed from a copyright or patent. As the *Loew’s* opinion repeatedly attempted to explain, that is a very different inquiry.

C. **The Period Of Market Power.**

The Court’s subsequent decisions in *Fortner II* (1977) and *Hyde* (1984) fundamentally altered the law of tying. In *Fortner II*, the Court reversed a finding of requisite power in the tying product market that was expressly based on a finding of uniqueness. The Court explained that “uniqueness” was relevant to the question of tying product power only to the extent that it reflected “whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market.”

The Court acknowledged that a commentator had “correctly analyzed the burden of proof” when he stated that “[it is] clear that market power in the sense of power over price must still exist.”

In this way, the definition of power for purposes of the “forcing” requirement in tying was changed fundamentally from the approach of *Northern Pacific* and *Loew’s*. Whereas in

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41 *Loew’s*, 371 U.S. at 48.
42 *Independent Ink*, 396 F.3d at 1348 (emphasis added).
43 429 U.S. at 620.
44 *Id.* at 620 n.13 (internal quotation marks omitted).
Loew’s true market power was simply one means of showing the requisite “uniqueness,” now “uniqueness” was relevant only as a means of showing real power over price. Even the Federal Circuit in Illinois Tool acknowledged that, after Fortner II, “[t]he requirement of demonstrating sufficient market power to raise prices was notably more onerous than the Northern Pacific requirement. . . .” 396 F.3d at 1347.

The requirement of actual market power was cemented by the decision in Hyde, where the Court rejected a tying claim because a 30-percent market share was too small to show market power, despite evidence that the surgical services involved were “unique” in other senses. Indeed, the Hyde Court unmistakably eschewed the underlying “uniqueness” rationale of Loew’s with these words: “While these factors may generate ‘market power’ in some abstract sense, they do not generate the kind of market power that justifies condemnation of tying.”45 The holdings in Fortner II and Hyde cannot be squared with the statement in Loew’s that “the mere presence of competing substitutes for the tying product” is insufficient to defeat a tying claim.46 On the contrary, Hyde turned on precisely the kind of “factual inquiry into the . . . seller’s percentage share” of the market that the Loew’s opinion said was unnecessary “in a tie-in sale case.”47

The necessary question after Hyde was what was to become of the “presumption” for intellectual property articulated in Loew’s. For, by redefining the “requisite economic power” in a tying case to mean true market power, Fortner II and Hyde had stripped the Loew’s presumption of its utility: a presumption of uniqueness does not mean much when uniqueness is

45 Hyde, 466 U.S. at 27 (footnote omitted).
46 Id. at 49. As noted above, decisions subsequent to Hyde have reaffirmed increasingly forceful terms that the power required in tying is genuine market power, defined as “the ability of a single seller to raise price and restrict output.” Kodak, 504 U.S. at 464 (internal quotation marks omitted).
47 Loew’s, 371 U.S. at 45 n.4.
no longer enough to show even a potentially harmful tie. At the same time, however, Justice Stevens’ majority opinion in *Hyde* contained this unfortunate dictum:

> For example, if the Government has granted the seller a patent . . . it is fair to presume that the inability to buy the product elsewhere gives the seller market power. *United States v. Loew’s, Inc.*, 371 U.S. at 45-47.

*Hyde*, 466 U.S. at 16. This statement was unfortunate indeed, because it was the first articulation of the *Loew’s* presumption ever to use the term “market power” -- even as it cited the very page in *Loew’s* that expressly distinguished the presumption of uniqueness from one of market power. 371 U.S. at 45 & n.4.

Having to choose between the actual holding of *Loew’s* or the dicta in *Hyde*, the lower courts have reacted in two principal ways, both of which are referenced in Judge Easterbrook’s pithy description of the law in this area: “The tying doctrine was linked to market power in *Hyde*, and although some lower courts missed the message and continued to hold that copyrights and patents are monopolies, most got on board.” 48 In fact, only three months after *Hyde*, the Ninth Circuit “missed the message” of market power altogether and applied the *Loew’s* presumption to copyrighted software. 49 Within two years, however, both the Sixth and Seventh Circuits had rejected that view, refusing to apply a presumption of real market power. 50 The majority of other courts have continued to reject the presumption, although the Federal Circuit’s


49 *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336 (9th Cir. 1984). *Hyde* was handed down on March 27, 1984. 466 U.S. at 2. The *Digidyne* opinion was issued on June 7, 1984. 734 F.2d at 1336.

50 *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985); *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986).
decision has done much to even the score, in light of its exclusive jurisdiction over patent cases.\(^{51}\)

The minority of courts that have applied the presumption have, knowingly or otherwise, redefined the “presumption” of \textit{Loew’s} to be a presumption of true market power rather than the “presumption of uniqueness” that it claimed to be. That step fundamentally alters the prior presumption, because, as we have seen, \textit{International Salt} provides no support for that definition, and \textit{Loew’s} literally rejected it.\(^ {52}\)

But that step also explains the inability of courts like the Federal Circuit to harmonize the presumption with the rest of antitrust law. As the Federal Circuit acknowledged, existing law provides that all \textit{other} antitrust claims based on the alleged abuse of a patent right must be supported by proof of actual market power. The Supreme Court expressly so held, for example, in \textit{Walker Process Equip., Inc., v. Food Mach. & Chem. Corp.}, 382 U.S. 172 (1965)—only three years after \textit{Loew’s}—with respect to monopolization claims involving fraudulently procured patents. Because the \textit{Loew’s} “presumption of uniqueness” was never intended to require real market power, however, it did not then conflict with \textit{Walker Process} or other antitrust doctrine in which patents were involved. Nor did \textit{Loew’s} conflict with other tying cases such as \textit{Northern Pacific Railway} because the requirement of tying product “power” then only required “distinctiveness,” which most forms of intellectual property have by definition.

All of that changed, however, when \textit{Fortner II} and \textit{Hyde} rejected uniqueness for real market power, effectively overruling \textit{Loew’s} by rendering its presumption of uniqueness meaningless. Later courts could thus (1) conclude, accurately, that \textit{Loew’s} did not require an

\(^{51}\) See 28 U.S.C. § 1295(a). As noted, the Federal Circuit has also stated that “Federal Circuit law governs all antitrust claims premised on the abuse of a patent right.” \textit{Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.}, 375 F.3d 1341, 1355 (Fed. Cir. 2004), reversed on other grounds, (No. 04-597 (January 23, 2006).

\(^{52}\) \textit{Loew’s}, 371 U.S. at 45 \& n.4.
inference of actual market power, or (2) resuscitate the Loew’s presumption, as the Federal Circuit did in Illinois Tool, by redefining it. Those who chose the latter course inevitably created a conflict with other antitrust principles that cannot be resolved.

IV. Why the Presumption Will Be Rejected

A. The Consensus That The Presumption Is Unfounded Is Overwhelming.

First and foremost, “whether a patent confers market power is a question of fact, not policy.” There is simply no empirical evidence that patents confer market power in every case (as the presumption holds), or even in any significant number of cases. In fact, the evidence available indicates that the vast majority of patents confer neither market power nor monetary profit to the patentee. The summary provided by the Petitioners in Illinois Tool is instructive:

Empirical data strongly support this broadly-held view, demonstrating that a large percentage of patents produce little or no economic value—the opposite of what would be true if a patent typically conferred market power upon the patent holder. One study found that “at any given time, over about 95 percent of patents are unlicensed and over about 97 percent of patents are unlicensed and over about 97 percent are generating no royalties.” [Samson]. Vermont, “The Economics of Patent Litigations,” in From Ideas to Assets: Investing Wisely in Intellectual Property, at 327, 332 (B. Berman, ed. 2002); see also Feldman, supra, at 437 (“eighty percent to ninety percent of patents never create any monetary return for the patent holder”); [Richard T.] Rapp & [Lauren J.] Stiroh, “Standard Setting and Market Power,” presented at Joint Hearing of the United States Department of Justice and the Federal Trade Commission, at 1 (April 18, 2002) (“Empirical research by Scherer, Pakes, Schankerman, Lanjouw and others has established and confirmed a useful generalization: that the distribution of patent values is skewed; most patents (and patent inventions) are worth very little and only a few have considerable value.”) (citing studies), available


54 See, e.g., Comments of F. M. Scherer, Panel Discussion, The Value of Patents and Other Legally Protected Commercial Rights, 53 Antitrust L.J. 535, 547 (1985) (“[s]tatistical studies suggest that the vast majority of all patents confer very little monopoly power—at least, they are not very profitable”).
In short, there is no actual data to contradict the emphatic conclusion on this question of Professor Areeda: “Patents, copyrights, trademarks, and other forms of intellectual property do not themselves confer any market power.” (The italics are his.)

What makes the consensus on this point particularly impressive is the number of public and private actors that have not only embraced the same conclusion, but have based important measures on it:

Congress. In 1988, Congress amended the patent laws to ensure that a claim of tying raised as a “misuse” defense to a patent enforcement action could not succeed without proof of market power in the tying product. Act of Nov. 19, 1988, Pub. L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(4), (5)). In commenting on the bill, Senator Leahy, noted that “elimination of the presumption of market power is intended to reduce the likelihood that antitrust claims will be brought against intellectual property owners who should not be subject to antitrust liability.” As some of the leading commentators have observed, Congress’s amendment effectively “abolish[ed] any presumption that a patent itself defines a market or implies market power.” Indeed, “it would also be irrational for Congress to immunize patent ties from Patent Act liability only to have them condemned under the Sherman or Clayton

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58 10 Phillip E. Areeda, Einer Elhauge & Herbert Hovenkamp, Antitrust Law § 1737c, at 83 (2d ed. 2004), citing 35 U.S.C. § 271(d), and noting: “While the Act does not define proof of illegal tying under the antitrust laws, it would be anomalous to equate patents with power for antitrust purposes but not for misuse purposes, for the patent misuse defense is either equivalent to the antitrust offense or more hostile to the tying defendant.”
Act . . . .”  

Whether this statute rises to the level of “implied repeal” of the antitrust laws, as some have argued, is an interesting question that I expect to be mentioned but left unresolved in *Illinois Tool*. My point here is that the very fact of the 1988 statute manifests a plain conclusion of Congress that the presumption is false.

**Enforcement Agencies.** In 1995, both the Department of Justice and the Federal Trade Commission adopted enforcement guidelines eschewing any presumption that “a patent, copyright, or trade secret necessarily confers market power upon its owner.”  

That conclusion, in turn, flowed expressly from the fact that “there will often be sufficient actual or potential close substitutes for [the patented] product . . . to prevent the exercise of market power.”  

Since then, the agencies have repeatedly and publicly reaffirmed their view that, “without a showing that the patent actually conveys market power, antitrust concerns do not arise.”  

In its brief to the Supreme Court in *Illinois Tool*, the United States confirmed — expressly on behalf of the DOJ, the FTC, and the Patent & Trademark Office — that “[t]here is neither a theoretical nor an empirical basis for presuming that sellers of patented products have market power within the meaning of the Sherman Act.”

**The Courts.** The statements in judicial opinions (such as those described above) recognizing that patents do not convey market power in fact are too numerous to cite here, but they invariably echo the simple logic that market power turns on the presence of effective market power.

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61 Id. at § 2.2.


substitutes: “When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise.”

What is noteworthy is the difference between those few opinions applying the presumption in tying cases and those opinions (sometimes from the same court) rejecting the presumption in all other antitrust contexts. In the latter cases, the courts generally point out that the presumption is factually baseless; in the former, they simply say (as did the Federal Circuit in *Illinois Tool*) that the Supreme Court’s early cases mandate the presumption.

To see how difficult it is to describe the law coherently if the presumption is redefined as market power, consider this summation of the relevance of a patent to market power offered by the Federal Circuit itself in October 2005, some nine months after it decided *Illinois Tool*:


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64 SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981).
This citation to Illinois Tool, which appears to contradict the topic sentence, exposes the presumption as an obvious anachronism within the framework of antitrust law.

**The Commentators.** Richard Posner, Phillip Areeda, Donald Turner, William Landes, Robert Bork, Herbert Hovenkamp, Ward Bowman, Frank Easterbrook, and a host of scholars oppose the presumption because it is untrue. Nor do they regard it as a close question. Instead, they describe the presumption as “irrational,” and “poorly grounded”; note that some courts “mistakenly assume” that it is valid, when its falsity is “readily apparent;” and they conclude emphatically that “most patents convey absolutely no market power on their owners.” The consensus is so broad that the Petitioners in Illinois Tool could accurately represent to the Supreme Court in August 2005 that they were “not aware of any significant authority on antitrust or intellectual property law who has defended the presumption in patent and copyright tying

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67 HJL Treatise, supra n. 59 ¶ 4.2e6, 4-36.

68 Id. at 4-34.


cases in the last twenty years.”72 Indeed, because of the “virtual unanimity” of commentators on
the point,73 neither the Federal Circuit in Illinois Tool nor the Respondent in its opposition to the
petition for certiorari cited a single economic or legal commentator who argued in favor of the
presumption.

B. The Consensus Remains “Virtually Unanimous”

Between its opposition to certiorari and its brief on the merits, the Respondent in Illinois
Tool received the support of four law professors in two amicus briefs: one by Professor Scherer,
the other by Professors Nalebuff, Ayres, and Sullivan.74 These professors recommend that the
presumption of market power should be retained, at least in a narrow class of patent tying cases.
One of the amici, Professor Scherer, advances a purportedly empirical argument from which he
concludes that all patents involved in litigation should be deemed to confer market power. All
four professors advance a theoretical argument that any tying arrangement (1) employed as a
“metering” device (2) for the purpose of price discrimination (3) where the tied product is a
“complementary” good, necessarily implies market power. As discussed below, the arguments
are unpersuasive and in all events insufficient to justify the presumption applied in Illinois Tool.
But even by their terms, these arguments unwittingly underscore the fundamental dilemma
presented by this “presumption”: the “empirical” argument (based on the nature of patents) has
nothing to do with tying, and the theoretical argument (based on the nature of tying) has nothing
to do with patents.

73 Id. at 14.
74 Brief of Professor F.M. Scherer as Amicus Curiae In Support of Respondent, Illinois Tool Works Inc. v.
Independent Ink, Inc., No. 04-1329 (S. Ct.) (September 28, 2005) (“Scherer Br.”); Brief of Professors Barry
Nalebuff, Ian Ayres, and Lawrence Sullivan as Amici Curiae In Support of Respondent, id. (September 28, 2005)
(“Nalebuff Br.”).
Even at the outset, however, the appearance of Professors Scherer and Sullivan as *amici* for Respondent is remarkable in one respect. For the prior statements of *both* were included by Petitioner and its *amici* as evidence of the consensus *against* the presumption.  

Indeed, Professor Scherer’s public position on the presumption was, at one time, clear and succinct:

Mr. Katsh: Mike, does the existence of a patent or copyright, in and of itself, mean anything to you, in terms of market power?

Mr. Scherer: No.  

Likewise, Professor Sullivan’s own treatise notes that “[f]rom a policy point of view, tie-in cases involving a patented tying product raise the same issues as those involving a nonpatented tying product,” and concludes that “[e]stablishing that a [tying] product possesses market power should require more than introducing evidence that a valid patent was issued.”  

Neither Professor’s brief acknowledges, much less explains away, these prior statements. Thus, it seems fair to conclude that Respondent’s attempt to refute the consensus by presenting professors whose own scholarly work *supports* the consensus underscores the paucity of significant dissent.  

**The “Empirical” Argument.** Professor Scherer’s brief is the only one to claim any empirical support for the proposition that patents, or at least patents subject to certain kinds of litigated challenges, are likely to “confer significant power to exclude.”  

He bases this conclusion on “[r]elatively recent publications” (*i.e.*, two articles that he co-authored) evaluating “a study of the German patent system.” From this study, he concludes that “patents involved in

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76 Comments of F.M. Scherer, supra n. 54, 53 Antitrust L.J. at 547.


78 Scherer Brief at 9.

79 *Id.* at 4.
litigation are among the most valuable of patents.” There are two problems with the conclusion. First, the study does not—and by its structure cannot—support it. Second, even that conclusion bears no necessary relationship to market power.

The study described was not designed to analyze all patents involved in litigation and to compare their values to non-litigated patents; it was designed to confirm how few patents of any kind have exceptionally high value, and to identify their characteristics. Thus, the study’s sample group was not all litigated patents, but a group of 1,431 “relatively valuable patents,” defined as those for whom German maintenance fees were paid for a full 18-year term. This group was further narrowed to the 772 that responded to the study questionnaire, because they were the only ones for which the authors had a basis to estimate value. This limitation is significant, because the data used eliminated by definition (1) all litigated patents that did not survive the challenge (and thus could not be renewed for full term), and (2) all litigated patents that did survive a challenge but were not renewed for full term due to other marketplace developments. Thus, the professor’s conclusion that “[p]atents successfully withstanding a challenge” were significantly “more valuable than patents with other similar characteristics” is based on a narrow subset of successfully litigated patents within his chosen set of highly valuable patents. Indeed, the study elsewhere demonstrates that the patents he excluded constitute a significant majority of litigated German patents. In the same group of German-filed

80 Id.
81 Id. at 4-5 n. 3. See Dietmar Harhoff, F.M. Scherer, and Katrin Vopel, Exploring the Tail of Patented Invention Value Distributions, in Economics, Law and Intellectual Property 279, 282 (Ove Granstrand, ed. 2003)(“Exploring the Tail”).
83 Scherer Brief at 5 (original emphasis).
patents from which the authors derived their sample of 1,431 full-term patents, over 60% of litigated patents (i.e., 691 out of 1,145) did not survive the litigation challenge. 84

Thus, the cited study does not, and cannot, support the professor’s conclusion that only valuable patents are litigated; it merely indicates that, among patents that he estimates to have the highest value, those that had been successful in litigation were more valuable than those that had not been litigated at all. It tells us nothing of the admittedly larger number of “less valuable” litigated patents (including the 60% that lost) that the study excludes by design. If anything, the study would appear to contradict the professor’s current conclusion by showing that the clear majority of litigated patents do not even fall into the category that the authors deemed most valuable.

But even if a different study showed that litigated patents “are among the most valuable,” 85 Professor Scherer’s further conclusion that such values also reflect “significant power to exclude,” flows from an elementary analytical mistake. If a patented product has very little value, as most do, it follows that the seller has not been enjoying the benefits of supracompetitive prices, and hence lacks market power. But the converse is not necessarily true. Because there are many highly valuable patented products in vigorously competitive markets, the professor’s argument “overlooks the undeniable reality that, even when a patented product is commercially viable, it is still often subject to competition from non-infringing substitutes.” 86

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84 Citations, supra n. 86 at 1354 (Table 4). In the German-filed sample of 11,471 patents granted in the one year studied (col. 3), 1145 were challenged (col. 4), and 454 or 39.7% survived (col. 5), leaving 691 or 60.3% that did not survive. Id. The table does not reveal what additional portion of the 454 survivors were not renewed for the full term due to changes in the marketplace, and thus were not included in the authors’ final 1,431.

Neither the articles nor the amicus brief address the significant differences between the German “opposition” procedure, to which there is no clear U.S. analogue, and U.S. patent litigation. Nor does the brief point out that even the study’s observations of relative value in its narrow sample did not hold for patents subjected to annulment procedures in the pharmaceutical industry. See Citations, supra n. 86 at 1359.

85 Scherer Brief at 4.

86 Brief For The United States, supra n. 57, at 15.
other words, while low value dictates a conclusion that market power is absent, high value does not dictate the opposite.\footnote{The same point is often made about evidence of market share. While very low market share nearly always precludes a finding of market power, a high market only raises further questions about barriers to entry and other factors that may or may not justify a finding of market power. This is true even though market share is a far better proxy for power than any vague measure of “value” derived from the survey described by Professor Scherer. As Judge Posner has observed, in response to the argument that market power could be inferred from a defendant’s “high rate of return”: “[T]here is not even a good economic theory that associates monopoly power with a high rate of return.” \textit{Blue Cross & Blue Shield United v. Marshfield Clinic}, 65 F.3d 1406, 1412 (7th Cir. 1995). Nor is there a theory that equates the admittedly “counter factual” estimates of value in the German study, \textit{see} Harhoff, Scherer, \& Vopel, \textit{Exploring the Tail}, at 283-84, with actual market power.}

In all events, the argument that a patent should be presumed to confer market power simply because it has been litigated should be chilling to an antitrust policy maker. To adopt Professor Scherer’s suggestion would leave it to the discretion of the antitrust plaintiff to invoke the market power presumption, potentially increasing the length and expense of any tying litigation even where, as in \textit{Illinois Tool}, the evidence of market power is weak. The potential for abuse by means of strategic antitrust litigation is obvious.\footnote{\textit{See}, e.g., William J. Baumol \& Janusz A. Ordover, \textit{Use of Antitrust to Subvert Competition}, 28 J.L. \& Econ. 247 (1985).}

Sufficiently obvious, in fact, that the same potential for abuse caused Professor Sullivan to conclude, despite his view that litigated patents might have market power more often than others, that the presumption should nonetheless be rejected:

\begin{quote}
Unless patent litigation is pursued for tactical reasons, the litigation itself tends to suggest that the patent possesses market power worth the fight. \textit{But tactical claims are not unusual in patent related litigation.} Establishing that a typing [sic] product possesses market power should require more than introducing evidence that a valid patent was issued.\footnote{E. Sullivan \& Grimes, \textit{supra} n. 71 at 429.}
\end{quote}

Professor Scherer likewise included the potential for “nuisance type suits associated with patents” as one reason to “require the plaintiff to show that the patent does, in fact, confer some
significant quantum of market power." The concern of both professors with abusive litigation was certainly legitimate and clearly supported their erstwhile rejection of the presumption. This important concern cannot be assuaged by ignoring it, as they do now.

**The Theoretical Argument.** Both *amicus* briefs argue that, where a tying arrangement requires the purchase of a complementary product (like ink) in order to “meter” the use of the tying product, and hence allows the seller to charge those who use the product less intensively a lower price, such “[p]rice discrimination via metering” must be taken as “direct evidence of market power.” They construct this argument by addressing two general propositions of antitrust law: (1) that price discrimination often indicates the presence of market power, and (2) that price discrimination even in the presence of market power (and especially by means of metering) is “nearly always procompetitive.” The professors reach their conclusion concerning metered ties by embracing the first proposition without qualification or exception, and then rejecting the second altogether. The argument is problematic, for several reasons.

First, it ignores a substantial and burgeoning body of economic and legal literature indicating that price discrimination does not necessarily reflect market power; to the contrary, price discrimination occurs in competitive markets so commonly as to be “ubiquitous.”

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90 Comments of F. M. Scherer, *supra*, n. 54, 53 Antitrust L.J. at 547.
91 Nalebuff Br. at 3; Scherer Br. at 3.
93 See, e.g., William J. Baumol & Daniel G. Swanson, *The New Economy and Ubiquitous Competitive Price Discrimination: Identifying Defensible Criteria of Market Power*, 70 Antitrust L.J. 661, 666 (2003) (“evidence of [discriminatory pricing] practices by itself is not enough to demonstrate market power, and in some cases may even establish a presumption of its absence”); Benjamin Klein & John S. Wiley, *Competitive Price Discrimination as an Antitrust Justification for Intellectual Property Refusals to Deal*, 70 Antitrust L.J. 599, 602 (2003) (firms that price discriminate “do not necessarily possess any antitrust market power at all * * * ”); Timothy J. Muris *Improving the Economic Foundations of Competition Policy* (January 15, 2003), available at http://www.ftc.gov/speeches/muris/improveconfoundatio.htm (“Most real world markets, even those for relatively ‘homogeneous’ products and a market structure inconsistent with significant market power, exhibit significant price variation. These price differences do not prove that the firms have market power.”); Einer Elhauge, *Why Above-
of these scholars have thus concluded, in the words of Professor Levine, that “price discrimination alone can never be taken as evidence of market power.”94 This conclusion applies to tying arrangements (“the existence of a tying arrangement [in Kodak] designed to segment customers’ use was neither inefficient nor evidence of market power on Kodak’s part”),95 as well as to intellectual property (in “intellectual property licensing, . . . price discrimination is ubiquitous and seldom indicates significant market power”).96

A second problem with the price discrimination argument is that it is belied by real world experience too obvious to ignore. Indeed, the articles just mentioned repeatedly reference daily examples of price discrimination in competitive markets. The proposition that price discrimination alone always reflects market power has not proven satisfactory to those who seek, for example, to “explain airline or hotel pricing.”97 Indeed, the professors’ argument in Illinois Tool cannot explain why, at restaurants with identical costs, “[l]unch is less expensive than dinner.”98 The argument in the Nalebuff brief is instructive. The section entitled “Metering Is Evidence of Market Power” cites only one source in support—an “Economics Paper” by Professor Nalebuff himself.99 That section attempts to distinguish only one of Professor Levine’s many examples in a footnote, and then concedes in closing that its “conclusion may seem at odds with such common practices as senior citizen discounts at movie theaters.”100 Indeed.

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95 Id. at 7 (describing the analysis of Benjamin Klein in Market Power In Antitrust; Economic Analysis After Kodak, 3 Sup. Ct. Econ. Rev. 44, 71-85 (1993)).
96 2A Areeda & Hovenkamp, supra ¶ 517c2, at 134.
97 Levine, supra n. 88, at 6.
98 Id. at 27.
99 Nalebuff Br. at 22-24.
100 Id. at 23.
The professors’ conclusion that “[w]here we do see price discrimination, we also observe firms with market power,"\textsuperscript{101} moreover, not only ignores the dozens of examples that other scholars have produced; it ignores the very Supreme Court precedent that the professors now seek to preserve. Consider, for example, \textit{International Salt Co. v. United States}, 332 U.S. 392 (1947), a case on which the Federal Circuit and respondents have expressly relied as a source of the presumption. As we have seen, \textit{International Salt} did not address the question of power in the tying product, even indirectly, and applied no presumption of any kind. But the point here is that there was no actual argument in \textit{International Salt} that the defendant had market power \textit{in fact} by virtue of its patented machine for processing salt. On the contrary, the evidence in the case demonstrated that “there were several firms selling roughly equivalent lixator machines,” a point which the Supreme Court deemed irrelevant.\textsuperscript{102}

Indeed, in subsequent opinions, the Supreme Court repeatedly acknowledged that, had real market power been at issue in \textit{International Salt}, it would not have been shown.\textsuperscript{103} In \textit{Northern Pacific Railway Company v. United States}, 356 U.S. 1 (1953), for example, Justice Black noted that it was “common knowledge that a patent does not always confer a monopoly,” and offered the decision in \textit{International Salt} as a case in point:

\begin{quote}
As a matter of fact the defendant in \textit{International Salt} offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (\textit{a fact the Government

\footnotesize{\textsuperscript{101} \textit{Id.} at 22.}

\footnotesize{\textsuperscript{102} HJL Treatise, \textit{supra} § 4.2e4, at 4-31; see \textit{id.} § 4.2e2 at 4-25. In fact, the Justices in \textit{International Salt} who dissented in part on the question of remedy were concerned that provisions of the decree setting a price for the patented lixator machines would hamper the defendant in competing with rival machine-makers. \textit{332 U.S.} at 403; \textit{id.} at 399.}

\footnotesize{\textsuperscript{103} \textit{Std. Oil}, 337 U.S. at 305 (“It was not established [in \textit{International Salt}] that equivalent machines were unobtainable, [nor] \ldots what proportion of the business of supplying such machines was controlled by defendant.”).}
did not controvert), but the Court regarded such proof as irrelevant.\textsuperscript{104}

*International Salt*, then, is an exceptionally bad example for the professors’ arguments. It involved a patent litigated all the way to the Supreme Court, and exactly the kind of metering tie of a complementary product that they single out. Yet, in the presence of such “price discrimination in practice,” we do not “observe firms with market power.”\textsuperscript{105}

Another poor example of market power “in practice” is the tie-in condemned in *Loew’s*, the crucial case for those who would impose the presumption. In *Loew’s* there was no indication that the defendants had market power in the tying product (“desirable” copyrighted moves), because “not only the defendants but presumably numerous rivals offered copyrighted motion pictures of equivalent quality and desirability.”\textsuperscript{106} To make the point, one need look no further than the co-defendants with Loew’s in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948), which included Paramount, Columbia, Universal, and United Artists. All of these sellers of copyrighted pictures competed directly with Loew’s, and all were found to have engaged in the same unlawful “tying” practice in *Paramount Pictures*. Paramount Pictures and Loew’s thus demonstrate that both copyrights and tying arrangements can co-exist without any indication of market power.

Finally, in the pending Supreme Court decision in *Illinois Tool*, there are not only other sellers of a non-infringing printhead (including new entrants), but there are other means of placing barcodes on a package.\textsuperscript{107} The Respondent in *Illinois Tool* now argues that it has demonstrated market power (an argument it appears to have waived), but the fact remains that it

\textsuperscript{104} *N. Pac. Ry.*, 356 U.S. at 10 n.8 (emphasis added).
\textsuperscript{105} Nalebuff Br. at 22.
\textsuperscript{106} HJL Treatise, *supra* § 4.2e4 at 4-31.
\textsuperscript{107} *Independent Ink*, 396 F.3d at 1352.
could not even allege sufficient facts demonstrating market power to survive a dispositive motion on its Section 2 claim. In sum, neither the facts of *Illinois Tool* nor those of the two Supreme Court decisions on which the respondent relies support the professors’ conclusion that the presumption is true.

In the end, the arguments of the Respondent and its *amici* do not make any measurable dent in the dramatically uniform consensus against the presumption. In point of fact, the professors’ express reliance on “recent publications”\(^{108}\) and “recent developments in economic theory”\(^{109}\) rings particularly hollow in support of a presumption that claims a pedigree of nearly six decades. The presumption for which the professors now argue, moreover, is far narrower than the presumption applied by the Federal Circuit, which applied to all patents and copyrights and to ties used for numerous other beneficial purposes, including quality assurance and customer preference. See, e.g. HJL Treatise, supra n.59 § 21.2 at 21-8 (describing competitive benefits of tying arrangements). And Respondent’s decision to limit the presumption only to litigated patents involved in “metering” tying arrangements has the further consequence of causing its *stare decisis* argument to collapse. That is because, under the current argument, the presumption that necessarily derives from a single case—*Loew’s*—would no longer apply to the facts of *Loew’s* itself. (*Loew's* was a copyright case involving "block booking." ) Given the weakness of the Respondent's empirical and theoretical arguments, I consider that choice a tactical error: a bad *stare decisis* argument is better than no argument at all.

\(^{108}\) Scherer Br. at 4.  
\(^{109}\) Nalebuff Br. at 2.
V. Conclusion

The presumption of market power in patent tying cases is difficult to defend most essentially because it is groundless in fact and in theory. For that reason, there is no good response to the emphatic conclusion of the United States, in its amicus brief signed by the Solicitor General, the DOJ, the FTC, and the PTO: “The presumption is an anomalous legal shortcut, encouraging meritless antitrust claims while discouraging innovation and efficiency-enhancing business practices.”110 Another reason that persuasive legal arguments in favor of the presumption remain elusive is that, as I have shown, a presumption of actual market power has never existed in the Supreme Court. My prediction is that its brief life in the Federal Circuit will soon be over.

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110 Brief For the United States, supra n. 63 at 6.