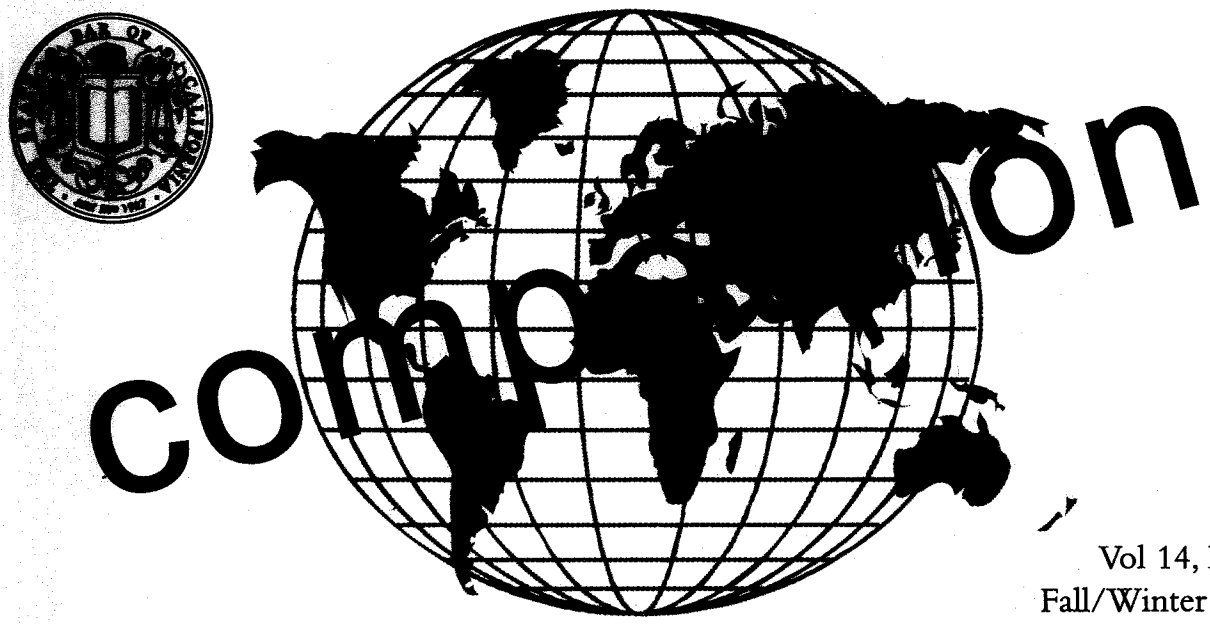

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Articles

FEARING AND REVERING INTELLECTUAL PROPERTY: MISPLACED RELIANCE ON PRESUMPTIONS IN THE FEDERAL CIRCUIT'S *INDEPENDENT INK*

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I. INTRODUCTION

Recent decisions from the courts of appeal—most significantly *Independent Ink Inc. v. Illinois Tool Works Inc., and Trident, Inc.*—reflect the continuing struggle courts have with the role of intellectual property in antitrust analysis.[2] As a result, the antitrust and intellectual property law nexus remains unsettled on a fundamental issue: whether patents presumptively confer market power and, correspondingly, whether a presumption of exclusion ought to apply against alleged infringers.

To address the analytical disarray, the Supreme Court has intervened. On June 20, 2005, the Court granted certiorari in *Independent Ink*[3] to answer fundamental questions at the heart of the antitrust/IP intersection: whether a patentee presumptively has "market power" in tying cases simply because of the patent. In *Independent Ink*, the United States Court of Appeals for the Federal Circuit held that the existence of a patent establishes a rebuttable presumption of market power in a tying case brought under Section 1 of the Sherman Act.[4] The ruling put the Federal Circuit at odds with several lower courts, the Department of Justice, and the Federal Trade Commission, all of which contend that patent rights do not necessarily confer market power on the patent holder.[5]

The decision has created a substantial stir among scholars and government officials in the antitrust community. Most have criticized the decision as mischaracterizing the exclusionary nature of intellectual property.[6] According to *Independent Ink* opponents, the decision represents a misunderstanding of the nature of a patent grant. Although a patent grant provides a "limited monopoly" over a particular invention, it does not necessarily provide the patentee economic power in a "relevant product market."[7] *Independent Ink* fails

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2 *Independent Ink, Inc. v. Illinois Tool Works Inc.* (Fed. Cir. 2005) 396 F.3d 1342 ("*Independent Ink*").

3 *Illinois Tool Works Inc. v. Independent Ink, Inc.* (2005) 125 U.S. 2937.

4 *Independent Ink, supra*, 396 F.3d at 1344.

5 *See, e.g.*, United States Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995) 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 2.2 (rejecting the presumption); *see also USM Corp. v. SPST Technologies, Inc.* (7th Cir.1982) 694 F.2d 505; *SCM Corp. v. Xerox Corp.* (2d Cir.1981) 645 F.2d 1195.

6 *See, e.g.*, R. Hewitt Pate, "Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust," at 13 (June 3, 2005) <http:// www.usdoj.gov/atr/public/speeches/209359.pdf> (as of Oct. 27, 2005). There is general agreement that the market power presumption should be abandoned. *See, e.g.*, 1 H. Hovenkamp, M. Janis & M. Lemley (2002) IP and Antitrust, § 4.2e6, at 4-34 to 4-35 ("a poorly grounded presumption").

7 R. Hewitt Pate, Acting Assistant Attorney General of Antitrust Division of United States Department of Justice, Address to American Intellectual Property Law Association (Jan. 24, 2003) p. 7.

to take into account the realities of the market—namely, that notwithstanding the patent grant in a particular field of use, competitors have the ability to develop substitutes that do not infringe the patent by working around the intellectual property.[8]

The authors believe the decision is symptomatic of a larger analytical failure. The essential problem with the Federal Circuit decision is its reliance on anachronistic "formalisms" in dealing with intellectual property. Notwithstanding the wealth of literature on antitrust and intellectual property and the legal profession's evolving understanding of IP in antitrust analysis, we believe that courts too often either "fear" or "revere" IP, rather than treat it like other tangible or intangible property.

Courts like the Federal Circuit in *Independent Ink* inappropriately conflate the patent grant with actual monopoly power, without exploring whether the patent truly creates market power. The problem is not limited to the "fear" that intellectual property confers antitrust market power, thus subjecting it to harsher antitrust scrutiny. At the other end of the spectrum, court decisions unnecessarily create formalistic presumptions that shield intellectual property from the antitrust laws—in other words, cases that unnecessarily "revere" the patent grant.

At the time this article went to press, the Supreme Court had received a petition for a writ of certiorari from the Federal Trade Commission seeking review of a recent decision of the Court of Appeals for the Eleventh Circuit, *FTC v. Schering-Plough*.[9] According to the FTC, that decision inappropriately applied formalistic presumptions to protect a patentee from the antitrust laws.[10] In *Schering-Plough*, the Eleventh Circuit concluded that a patent not only should be afforded a presumption of *validity*, but also should presumptively enable the patentee to *exclude* others, simply by alleging infringement, without analyzing whether the right to exclude extended to the alleged infringing products.[11] This presumption, however, runs counter to the established analysis for infringement, in which the party alleging infringement bears the burden of showing the defendant infringed the patent.[12] In addition, one could argue that the Eleventh Circuit made the same mistake as the Federal Circuit: by assuming infringement, the Eleventh Circuit also assumed that a patent conferred market power to the patentee.

For whatever reason, courts continue to treat intellectual property differently other forms of tangible and intangible property when analyzing whether the use of IP results in antitrust liability, creating confusion in the law. In this article, we focus primarily on the decision facing the Supreme Court this term—the question presented in the *Independent Ink* case—whether patents presumptively create market power in tying analyses. Below, we describe the decision of the Federal Circuit, outline the law of tying, explain the arguments in favor of and against the presumption, and conclude by explaining how "presumptions" distort the power of intellectual property and IP holders in antitrust analysis. We believe the courts must move away from presumptions and formalisms and analyze intellectual property rights just as they analyze markets involving other tangible and intangible goods.

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8 *Independent Ink, supra*, 396 F.3d 1342.

9 *Schering-Plough Corp. v. FTC* (11th Cir. 2005) 402 F.3d 1056 ("*Schering-Plough*").

10 Petition for a Writ of Certiorari in *FTC v. Schering-Plough Corp.*, (Aug. 2005).

11 *Schering-Plough, supra*, 402 F.3d at 1066-1067.

12 *See, e.g., Kegel Co., Inc. v. AMF Bowling, Inc.* (Fed. Cir. 1997) 127 F.3d 1420, 1425; *Wolverine World Wide, Inc. v. Nike Inc.* (Fed. Cir. 1994) 38 F.3d 1192, 1196.

II. THE DECISION OF THE FEDERAL CIRCUIT IN *INDEPENDENT INK*

Trident, Inc. ("Trident"), a division of Illinois Tool Works Inc. ("ITW"), designs, manufactures and markets printing systems made up of industrial ink jet printheads and inks.[13] It sells the printhead and ink systems to original equipment manufacturers ("OEMs") which, in turn, incorporate them in printers in industrial applications.[14]

Trident owned or licensed several patents covering printing technologies, and licensed its OEM customers the right to "'manufacture, use and sell equipment employing and including ink jet printing devices supplied by Trident when . . . used in combination with ink and ink supply systems supplied by Trident.'"[15] Under this license, customers were also required to buy Trident inks in patented containers along with the printheads and incorporate them in the units they sold to end-users.[16]

Independent Ink contended that Trident "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system."[17] The district court granted Trident's motion for summary judgment, holding that, to make out a violation of the antitrust laws under Section 1 or 2 of the Sherman Act, a plaintiff must affirmatively prove market power in the tying product.[18] The court reasoned that merely alleging that a product is protected by patent was insufficient by itself to make a claim of market power. More was needed, including allegations about the competitive dynamics of the relevant market: "Any presumption of market power must be based upon a discussion of the products at issue, their substitutes, and the relevant markets. . . ."[19]

The court of appeals reversed. The Federal Circuit relied on two Supreme Court decisions—*International Salt Co. v. United States*[20] and *United States v. Loew's, Inc.*[21]—and held that patent and copyright tying, unlike other tying claims, do not require plaintiffs to prove market power in the tying product. Instead, "*International Salt* and *Loew's* make clear that the necessary market power to establish a Section 1 violation is presumed." The court rejected the claim that *International Salt* and *Loew's* were no longer good law, concluding that, despite perceived inadequacies of the two cases, it "remains the '[Supreme] Court's prerogative alone to overrule one of its precedents.'"[22]

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13 *Independent Ink, Inc. v. Trident, Inc.* (C.D.Cal. 2002) 210 F.Supp.2d 1155, 1158.

14 *Ibid.*

15 *Ibid.*

16 *Ibid.*

17 *Id.* at 1159.

18 *Id.* at 1073.

19 *Id.* at 1165.

20 *International Salt Co., Inc. v. United States* (1947) 332 U.S. 392 ("*International Salt*").

21 *United States v. Loew's, Inc.*, (1962) 371 U.S. 38 ("*Loew's*").

22 *Independent Ink, supra,* 396 F.3d at 1348-1349.

III. THE LAW OF TYING

Although bundling multiple products is a common business practice and can be procompetitive, the practice is regulated by the antitrust laws and may violate Section 1 of the Sherman Act where it diminishes competition in the sale of a bundled product by tying the sale of one product to the purchase of the other.[23] Tying that diminishes competition is illegal where the bundler has market power in one product (the "tying product") and conditions its purchase on the purchase of a separate, unwanted product (the "tied product").[24]

Under the traditional law of tying set forth in *Jefferson Parish,* a plaintiff can establish a violation of Section 1 if it can show: (1) the existence of two separate products; (2) that the defendant conditions the sale of the desired (tying) product on the sale of a second (tied) product; (3) that the arrangement affects a substantial volume of interstate commerce; and (4) that the defendant has market power in the market for the tying product.[25] Traditionally, tying is a per se offense; if the plaintiff can show the elements of a prima facie case, there is no need to analyze whether the defendant's practice harmed the market or whether the defendant had legitimate procompetitive justifications for its bundle.[26]

The Supreme Court explained that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms."[27] "Accordingly, condemned tying arrangements [occur only] when the seller has some special ability—usually called 'market power'—to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful."[28] This market power requirement distinguishes potentially harmful tying from tying that will not harm consumer welfare.

In *Jefferson Parish, supra,* the Court held that the defendant's market power must be "significant," and the mere fact that "prices can be raised above the levels that would be charged in a competitive market," is not evidence sufficient to establish "the kind of market power that justifies condemnation of tying."[29] In *Eastman Kodak Co. v. Image Technical Services, Inc.,*[30] the Court made its point even clearer, concluding that a defendant must have "appreciable economic power in the tying market," defining "market power" as "'the ability of a single seller to raise price and restrict output.' The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market."[31]

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23 *Jefferson Parish Hospital Dist. No. 2 v. Hyde* (1984) 466 U.S. 2, 11-12 ("*Jefferson Parish*").

24 *Id.* at 12-14.

25 *See ibid.*

26 *See id.* at 9-11.

27 *Id.* at 12.

28 *Id.* at 13-14 (footnote and citation omitted).

29 *Id.* at 26, 27 n.46.

30 (1992) 504 U.S. 451 ("*Kodak*").

31 *Id. at* 464 (citation omitted).

The decision in *Independent Ink* is critical for patent holders who seek to bundle their patent with related products.[32] Because under tying law a practice is per se illegal if the defendant has market power in the tying product, *any tie* of a patent to technology is presumptively illegal under *Independent Ink*, because patents, according to that decision, confer market power. That holding is critical to companies in California, where intellectual property is the lifeblood of many industries.

IV. ARGUMENTS FAVORING THE PRESUMPTION: REWARDING UNIQUENESS

Many contend that *International Salt, supra,* originated the presumption of market power in the patent context, although the Supreme Court did not expressly announce such a presumption in that case. There, the defendant refused to lease its salt-dispensing machines unless the lessee also agreed to buy from the defendant the salt used in the machines.[33] After the defendant admitted to this tying arrangement in its answer, the government prevailed on summary judgment.[34] On review, the Supreme Court upheld the grant of summary judgment and found an unlawful tie without discussing the defendant's market power or explaining why such analysis was unnecessary to establish the illegality of the tie.[35]

Fifteen years later, *Loew's, supra,* gave substance to the rule in *International Salt* and expressly set forth the presumption that patents confer market power.[36] In *Loew's*, the Supreme Court explained the presumption of market power for patented or copyrighted products. It said:

> [It] grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products.[37]

In its decision, the Court emphasized that a patentee is "protected as to his invention, but may not use his patent rights to exact tribute for other articles."[38]

The Supreme Court thus inserted into antitrust law its longstanding concern that patentees not reap profits beyond the subject matter of their patents. In its eagerness to condemn patent misuse, the Court held that the existence of a valid patent on a tying product, by itself and without any examination of market realities, establishes a distinctiveness sufficient to conclude that any tying arrangement involving it would have anticompetitive consequences.[39]

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32 *Independent Ink, supra,* 396 F.3d 1342.

33 *United States v. International Salt Co.* (S.D.N.Y. 1946) 6 F.R.D. 302, 305.

34 *See id.* at 306.

35 *International Salt, supra,* 332 U.S. 392.

36 *Loew's, supra,* 371 U.S. at 45-46.

37 *Id.* at 46 (citations omitted).

38 *Ibid.*

39 *Ibid.* (citing *International Salt, supra,* 332 U.S. 392).

Since 1949, the Court has explicitly recognized this patent tying presumption, although it was not until *Loew's* that the doctrine was clearly articulated.[40] Less than two years after *International Salt*, for example, in considering whether the presumption recognized in that case applies to requirements contracts, the Court observed that "[a] patent . . . although in fact there may be many competing substitutes for the patented article, is at least prima facie evidence of [market] control."[41] The Court repeated this observation in cases over the next decade.[42]

Indeed, it was not until 1984 that the Court ever questioned the patent tying presumption, and even then a majority of the Court expressly endorsed and reiterated the presumption: "if the government has granted the seller a patent or similar monopoly over a product," the majority reasoned "it is fair to presume that the inability to buy the product elsewhere gives the seller market power."[43]

In *Loew's*, the Court concluded that the "existence of a valid patent on a tying product," is sufficient to show "anticompetitive consequences" (and therefore market power, which is needed to affect the market). The Court concluded this is so because patent laws seek to "reward uniqueness."[44] In *Independent Ink*, the respondent argues that this finding reflects the practical realities of patent tying litigation: Patents are intended to confer market power on patent holders and, even though many patents have little or no value, other patents are valuable and likely to convey market power.[45] It follows that because patents involved in tying arrangements in litigation are likely to be highly valuable, they are likely to confer market power. In other words, because the patent tying presumption applies only in tying cases, the relevant pool is not all patents; it is only those patents used in tying arrangements and involved in litigation. In addition, the respondent in *Independent Ink* maintains that the presumption of market power is judicially efficient because the presumption is more likely to give small antitrust plaintiffs their day in court, because it ensures that valid patent tying claims will not be dropped due to the cost of expert testimony that might be needed to establish a relevant market.[46]

V. ARGUMENTS AGAINST THE PRESUMPTION

Independent Ink, holding that a patent creates a presumption of economic power, is out of step with recent antitrust jurisprudence. At the behest of the Supreme Court, courts presented with antitrust claims have moved away from "[l]egal presumptions" because such "presumptions . . . rest on formalistic distinctions rather than actual market realities" and do

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40 *See Standard Oil Co. of Cal. v. United States* (1949) 337 U.S. 293, 303-307 ("*Standard Oil*").

41 *Id.* at 307.

42 *See, e.g., Northern Pacific Railway Co. v. United States* (1958) 356 U.S. 1, 18 (Harlan, J., dissenting) (noting that *International Salt* "simply treated a patent as the equivalent of proof of market control"); *U.S. Steel Corp. v. Fortner Enterprises, Inc.* (1977) 429 U.S. 610, 619 (noting that the "statutory grant of a patent monopoly . . . give[s] rise to a presumption of economic power"); *Jefferson Parish, supra*, 466 U.S. at 16 (noting that it is "fair to presume" that a seller imposing a patent tying arrangement has market power).

43 *Jefferson Parish, supra*, 466 U.S. at 37 n.7 (O'Connor, J., concurring); *Id.* at 16.

44 *Loew's, supra*, 371 U.S. at 46.

45 Brief for Respondent in opposition to Petition for a Writ of Certiorari in *Illinois Tool Works Inc. v. Independent Ink, Inc.* (Sept. 28, 2005) No. 04-1329, pp. 23-26.

46 *Id.* at 30-33.

not appropriately reflect market conditions.[47] The Supreme Court has emphasized that "[i]n determining the existence of market power" it is important to "examine[] closely the economic reality of the market at issue."[48]

Judicially created presumptions are reserved for situations where experience with a practice justifies "tipping the balance" to favor one party, forcing the disfavored party to demonstrate clearly that the default assumption is misplaced. As explained below, the notion that patent rights confer market power rests on a tenuous foundation of economic theory and antitrust precedent, suggesting that the Supreme Court has little reason to continue to recognize the existence of the presumption. As a result, we anticipate that the Supreme Court will use this opportunity to clarify the law and reverse the Federal Court's decision.

Formalistic presumptions involving intellectual property threaten to impose liability—or shield parties from liability—without engaging in the rigorous market analysis the Supreme Court requires. Where *Independent Ink* represents a decision where formalisms unduly restrict a patentee's ability to exploit its patent lawfully, there are cases that rely on formalistic approaches that appear to do exactly the opposite. As discussed below, the Eleventh Circuit's decision in *Schering Plough* is a perfect example of a court presuming too much about the patent grant, without examining market realities to support or rebut that presumption.[49]

To avoid these anachronistic presumptions, the Antitrust Division of the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") have declared that the antitrust laws should not treat intellectual property in a manner fundamentally different than other property.[50] According to the Joint DOJ and FTC 1995 Antitrust Guidelines for the Licensing of Intellectual Property, "for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property" and, as a result, much like other property "the Agencies do not presume that intellectual property creates market power in the antitrust context."[51] Instead, to determine whether intellectual property creates market power, the agencies will conduct a full market power analysis.[52]

The leadership of the DOJ has reiterated this same point more recently. Former Assistant Attorney General R. Hewitt Pate stated that "[i]n the view of the Department of Justice and the Federal Trade Commission, the idea that IP rights cannot be presumed to create market power is a settled question."[53] "[W]ithout a showing that the patent actually conveys market power, antitrust concerns do not arise."[54] Pate further explained:

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47 *Kodak, supra*, 504 U.S. at 466-467.

48 *Ibid.*

49 *See Schering-Plough, supra*, 402 F.3d 1056.

50 United States Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995) 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 2.1.

51 *Id.* at § 2.0.

52 *See id.* at § 2.2.

53 R. Hewitt Pate, "Competition and Intellectual Property in the U.S.: Licensing Freedom and the Limits of Antitrust," at 13 (June 3, 2005) <http://www.usdoj.gov/atr/public/speeches/209359.pdf> (as of Oct. 27, 2005); see also 1 H. Hovenkamp, M. Janis & M. Lemley (2005) IP and Antitrust, § 4.2e6, at 4-34 to 4-35.

54 R. Hewitt Pate, Acting Assistant Attorney General of Antitrust Division of United States Department of Justice, Address to American Intellectual Property Law Association (Jan. 24, 2003) p. 7.

> While intellectual property grants exclusive rights, these rights are not monopolies in the economic sense: they do not necessarily provide a large share of any commercial market and they do not necessarily lead to the ability to raise prices in a market. A single patent, for example, may have dozens of close substitutes. The mere presence of an intellectual property right does not permit an antitrust enforcer to skip the crucial steps of market definition and determining market effects.[55]

Below, we discuss the reasons why many argue the presumption of market power should not apply in tying analyses involving intellectual property.

A. Distinguishing Patent Infringement from Market Foreclosure.

At the most basic level, a presumption of market power improperly attributes to a patent owner a greater level of exclusionary rights than is granted by statute. A patent confers only an exclusive right to manufacture, use, and sell a particular invention.[56] It does not, however, preclude others from creating non-infringing alternatives that are substitutes for, and compete with, the patented invention.[57] Indeed, there is nothing inherent in the standards for issuing a patent that ensures that the patented product or process will be commercially viable or differentiated from the preferred alternatives of rivals already in the market. To the contrary, competitive markets often are replete with products based on unique patented (and unpatented) technologies—a common scenario given that patent law encourages rivals "to design or invent around existing patents."[58] For this reason, the presumption that patented products necessarily have market power goes too far, dismissing as irrelevant factors crucial to establish market power, such as: (1) the absence of adequate substitutes in the market; (2) the willingness of consumers to pay a monopoly price for the patented good; and (3) the low probability that potential rivals will enter the market quickly if prices are raised.[59]

As explained in one of the leading treatises on antitrust and intellectual property law:

> [I]f I have a patent on an easy-opening soft drink can, no one else during the life of the patent can duplicate this precise can in a way that would constitute patent infringement. However, (1) there may be alternative easy-opening cans, whether patented or unpatented that are as good as or superior to mine; or (2) easy-opening cans may not be all that valuable to consumers, who would just as soon have the traditional cans or who would buy their soft drinks in bottles in response to any price increase in cans. . . . My patent grant creates an antitrust 'monopoly' only if it succeeds in giving me the exclusive right to make something for which there are not adequate market alternatives, and for which consumers would be willing to pay a monopoly price.[60]

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55 *Id.* at 12-13.

56 *See* 35 U.S.C. § 154(a)(1) (2005).

57 *See Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.* (1965) 382 U.S. 172, 177-178.

58 *WMS Gaming, Inc. v. International Game Technologies* (Fed. Cir. 1999) 184 F.3d 1339, 1355.

59 *See* 1 H. Hovenkamp, M. Janis & M. Lemley (2002) IP and Antitrust, *supra*, § 4.2, at 4-8 to 4-9.

60 *Ibid.*

In other words, it is necessary to conduct a market analysis before concluding that any patent confers market power. Anything less fails to take into account the realities of market dynamics.

B. The Rationale Underlying the Market Power Presumption is Invalid.

The presumption of patent market power is largely the product of older antitrust cases operating on economic theories that have been discredited. In short, the policy concerns giving rise to the presumption no longer exist.[61] When the Court first examined the legality of tying arrangements, whether involving intellectual property or not, the Court was of the view that "[t]ying agreements serve hardly any purpose beyond the suppression of competition,"[62] and "can rarely be harmonized with the strictures of the antitrust laws, which are intended primarily to preserve and stimulate competition."[63] The Court had little reason to require a showing of significant market power, nor was it concerned that a relaxed standard could result in over-deterrence. More recently, however, the Court has recognized "that tying may have procompetitive justifications that make it inappropriate to condemn without considerable market analysis."[64]

1. A Complete inquiry into market power is required

As a practical matter, antitrust law relies primarily on proof of market power to distinguish between tying arrangements that are likely to harm competition and those that are neutral or beneficial.[65] Both *Jefferson Parish* and *Kodak* reveal that, compared to older decisions, the Court now requires a more stringent market power standard "to screen out [a] class of harmless tie."[66] Rather than ignore market dynamics, the Court increasingly has advocated the need to apply rigorous economic analysis to tying arrangements.[67] For example, *Jefferson Parish* held that the defendant must have "significant" market power, which means more than that "prices can be raised above the levels that would be charged in a competitive market."[68] The Court further explained the appropriate standard of review in *Kodak*, referring to the requirement of "appreciable economic power in the tying market," and defining "market power" as "the ability of a single seller to raise price and restrict output. The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market."[69] Patents do not ensure market success and, as a result, doe not warrant a presumption of market power.

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61 *See, e.g., International Salt, supra,* 332 U.S. 392; *Loew's, supra,* 371 U.S. 38 (setting forth old rationale as to why tying is anticompetitive); *but see Jefferson Parish, supra,* 466 U.S. at 41-42 (O'Connor, J., concurring) (explaining how tying can be procompetitive).

62 *Standard Oil, supra,* 337 U.S. at 305.

63 *Brown Shoe Co. v. United States* (1962) 370 U.S. 294, 330.

64 *NCAA v. Board of Regents of the University of Okla.* (1984) 468 U.S. 85, 104 n.26; *see also Jefferson Parish, supra,* 466 U.S. at 11-12.

65 *See Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.* (1979) 441 U.S. 1, 37.

66 *Grappone, Inc. v. Subaru of New England, Inc.* (1st Cir. 1988) 858 F.2d 792, 796-797.

67 *Kodak, supra,* 504 U.S. at 46-47.

68 *Jefferson Parish, supra,* 466 U.S. at 26, 27 & n.46.

69 *Kodak, supra,* 504 U.S. at 464 (citation omitted).

2. The presumption of market power is inconsistent with other facets of antitrust law

The presumption of market power expressed in *Independent Ink* applies only to tying cases, and does not apply in other antitrust contexts involving intellectual property. Notably, the DOJ and the FTC have rejected the presumption, finding that it has no intellectual basis.[70] Over a decade ago, the DOJ and the FTC jointly issued guidance explaining that they do "not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner" because, "[a]lthough [a patent] right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power."[71] The government consistently has adhered to that enforcement position for more than twenty years.[72] Instead of presuming market power, the antitrust agencies determine whether a patent owner possesses market power by applying the same analysis they apply to any other valuable asset. That analysis requires the consideration of possible substitutes that might allow consumers to turn to other suppliers of a similar product or process.[73] Similarly, the government has also declined to use the presumption of market power when analyzing the likely competitive effects of mergers involving significant patent positions.[74]

Congress also has rejected, in the context of patent misuse, a presumption that a patent confers market power. Four years after the Supreme Court decided *Jefferson Parish*, Congress passed the Patent Misuse Reform Act of 1988, which provides that a tying arrangement does not constitute patent misuse in the absence of market power.[75] If, as is clear, a patent is insufficient to establish market power in tying cases when considering the "patent misuse defense," it would be anomalous for the same patent to be sufficient to establish market power in the same case in a tying a counterclaim under the Sherman Act.

VI. THE COUNTER-EXAMPLE OF *SCHERING-PLOUGH*

The presumption in *Independent Ink* leads to a rule that unnecessarily restricts the ability of patent holders to bundle intellectual property. On the other hand, in *FTC v. Schering-Plough*,[76] the Eleventh Circuit may have applied a presumption that unnecessarily and unrealistically expands the exclusionary scope of a patent without requiring an antitrust plaintiff to show that rivals actually infringed their patent. The case likewise has created controversy, and both sides continue to debate whether and what presumptions should

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70 *See* United States Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property (Apr. 6, 1995) 4 Trade Reg. Rep. (CCH) ¶ 13,132, § 2.2.

71 *Ibid.*

72 *See ibid.*

73 *See id.* § 2.1.

74 *See* United States Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines (Apr. 2, 1992) 57 Fed. Reg. 41,552, § 2, revised 4 Trade Reg. Rep. (CCH) ¶ 13,104 (Apr. 8, 1997).

75 35 U.S.C. § 271(d)(5) (2005).

76 *Schering-Plough, supra*, 402 F.3d 1056.

attach to a patent in the context of the settlement of an infringement dispute.[77] Although *Schering-Plough* raises a number of issues, this article focuses only on the debate whether courts should presume that a patentee's infringement claim should be presumptively valid against all potential infringers.

In 1995, two generic drug makers, ESI Lederle Inc. ("ESI") and Upsher-Smith Laboratories, Inc. ("Upsher"), filed abbreviated new drug applications ("ANDAs") for approval of generic versions of a drug marketed by Schering-Plough Corporation ("Schering").[78] The ANDAs in *Schering-Plough* contained certifications (as legally required) that they did not infringe Schering's patent.[79] Schering brought separate patent actions against ESI and Upsher, alleging that ESI and Upsher could not enter because their products infringed Schering's patent. Schering ultimately settled with both generic competitors, agreeing to pay both substantial sums not to market any generic version of Schering's product for an extended period of time.[80]

The Eleventh Circuit made sweeping conclusions about the presumptions of the "exclusionary potential of the patent."[81] The court based its reasoning on the congressionally mandated presumption of patent validity[82] extending that presumption to the patent infringement issues. The court ruled that the "exclusionary power" of the patent encompassed a right to exclude both Upsher and ESI from the market "until they proved either that the [Schering] patent was invalid or that their products . . . did not infringe Schering's patent."[83]

A. Arguments Opposing The Presumption Of Infringement.

Those who believe the Eleventh Circuit erred contend that the decision stands on its head traditional patent law as to who bears what burdens in a patent lawsuit.[84] Opponents argue the Eleventh Circuit's decision was steeped in inaccurate legal presumptions regarding infringement and validity. The Eleventh Circuit, most problematically, was wrong as to who has the burden of proving infringement and validity. As to infringement—the central issue in both of the patent litigations—it is black letter law that the patentee, not the challenger, bears the burden of proof at all stages of the litigation.[85]

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77 For several excellent explanations of both sides of the debate, *see, e.g.*, Carl Shapiro, *Antitrust Limits to Patent Settlements* (Summer 2003) RAND Journal of Economics Vol. 34, No. 2, pp. 391-411; Kevin McDonald, *Hatch-Waxman Patent Settlements and Antitrust: On "Probabilistic" Patent Rights and False Positives* (Spring 2003) 17-SPG Antitrust 68, 70-73; Herbert Hovenkamp, Mark Janir and Mark Lemley, *Anticompetitive Settlement of Intellectual Property Disputes* (June 2003) 87 MINN. L. REV. 1719, 1721-1728 (*Hovenkamp, Janir and Lemley*).

78 *See Schering-Plough, supra,* 402 F.3d at 1060.

79 *See id.* at 1060 n.5.

80 *See id.* at 1060-1061.

81 *Id.* at 1066.

82 *See id.* at 1065-1066, 1068; see generally 35 U.S.C. § 282 (2005).

83 *Schering-Plough, supra,* 402 F.3d at 1066-1067.

84 The Federal Circuit has consistently held that the patent holder has the burden of proving infringement by a preponderance of the evidence. *See, e.g., Kegel Co., Inc. v. AMF Bowling, Inc.* (Fed. Cir. 1997) 127 F.3d 1420, 1425; *Wolverine World Wide, Inc. v. Nike Inc.* (Fed. Cir. 1994) 38 F.3d 1192, 1196. For two excellent articles on the subject, *see Hovenkamp, Janir and Lemley, supra,* 87 MINN. L. REV. 1719; Carl Shapiro, *Antitrust Analysis of Patent Settlements Between Rivals* (Summer 2003) RAND Journal of Economics Vol. 34, No. 2.

85 *See Centricut, LLC v. Esab Group, Inc.* (Fed. Cir. 2004) 390 F.3d 1361, 1367.

Although the court appeared to acknowledge that the presumption it relied on could be overcome by "evidence to the contrary,"[86] the only circumstance in which it indicated the parties would exceed the exclusionary potential of the patent was "sham" infringement claims.[87] Thus, the presumption of infringement the Eleventh Circuit established strongly supports the patentee, and elevates the patent to near-monopoly status.

Regardless of who bears what burden, however, the Eleventh Circuit's more fundamental problem, according to critics, was reliance on a legal presumption rather than an economic analysis of marketplace realities.[88] Those who oppose the *Schering-Plough* presumption maintain that the rebuttable presumption of validity that guided the Eleventh Circuit's analysis should be one small piece of a larger analysis of actual market conditions.[89] Regardless of whether it was correct, the FTC's economic analysis used the correct analytical structure: a move away from presumptions, toward a complete analysis into the functioning of the market to determine (1) whether the patent confers market power, and (2) whether it actually excluded competitors. This makes all the more sense when one considers the "real" meaning of a patent grant, rather than the other-worldly status afforded it by the Eleventh Circuit. As summarized in the Public Patent Foundation's brief supporting the FTC's petition for certiorari in *Schering-Plough,* patents are not deserving of so much protection, for their exclusionary scope is not so great:

> People unfamiliar with the patent system, including specifically the Court of Appeals in this case, tend to give patents entirely too much credit. Rather than being rock-solid undeniable fortresses of legal dominance over a segment of technology, patents today give their owner nothing more than, at best, a fifty-fifty chance of having any exclusionary power at all.[90]

By failing to do any market-based analysis into the patents in question, the Eleventh Circuit in *Schering-Plough* and the Federal Circuit in *Independent Ink* ignored market realities when considering whether the patents had the power to exclude rivals. Instead the courts relied on presumptions that do not take into account whether the patent functioned as it was "presumed" to have done. As economists and legal scholars have remarked, "a patent is not a right to exclude, but rather a right *to try* to exclude."[91] Presumptions that allow courts to draw conclusions to the contrary do not guide the appropriate economic analysis into the conduct of the patentee. Quite the contrary, such presumptions instead erect barriers that make it more difficult to conduct economic analyses, and ultimately undercut antitrust's inquiry into whether a practice harms consumer welfare.

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86 *Schering-Plough, supra,* 402 F.3d at 1068.

87 *See ibid.*

88 *See Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.* (1993) 509 U.S. 209, 242.

89 *See, e.g., Hovenkamp, Janis and Lemley, supra,* 87 MINN. L. REV. at 1728-1738; Carl Shapiro, *Antitrust Analysis of Patent Settlements* (Summer 2003) RAND Journal of Economics Vol. 34, No. 2, pp. 395-403.

90 Motion of the Public Patent Foundation For Leave to File Brief as Amicus Curiae in Support of Petitioner in *FTC v. Schering-Plough Corp.*, No. 05-273, p. 4 (Sept. 30, 2005).

91 *Hovenkamp, Janis, and Lemley, supra,* 87 MINN. L. REV. at 1761.

B. Arguments Supporting the Presumption of Infringement.

Critics have deplored the Eleventh Circuit's decision to presume that, for purposes of antitrust review of patent settlements, the underlying patent is valid and infringed.[92] Essentially this results in a larger presumption that all patent settlements are pro-competitive. With such accommodating presumptions of legality, critics argue, the reach of antitrust law has been reduced significantly and unnecessarily to a level that renders it incapable of safeguarding consumer welfare and the competitive process. Nonetheless, the Eleventh Circuit does not stand alone in its view, as there are policy and legal arguments to be made in favor of such a paradigm.[93] According to those who support the presumption in *Schering-Plough*, it is necessary to maintain the procompetitive benefits of settling litigation, and the overall presumption established was narrow.

1. The presumption is rebuttable

The presumption of infringement expressed in *Schering-Plough* is just that—a default position that can be overcome with a strong factual showing to the contrary. As a practical matter, that the burden of proof must be assigned to one party, and in the context of an antitrust challenge, the Eleventh Circuit determined that it should rest initially with the plaintiff on this key element.[94]

2. The Presumption is narrow in application

The implications of the *Schering-Plough* decision for continued antitrust enforcement are not nearly as far reaching as many critics have implied. Notably, a patent-friendly presumption does not apply—even under *Schering-Plough*—where the plaintiff's antitrust claim is premised on fraud on the patent office or is objectively baseless (*i.e.*, sham) infringement claims—two claims that constitute independent causes of action.[95] Second, patent settlements made in the context of the Hatch-Waxman Act often relate to disputes over the active ingredient of a pharmaceutical product, without which a drug cannot be approved by the FDA under the ANDA process.[96] In this situation, the plaintiff has essentially conceded infringement, making the application of a presumption harmless (and justified); and reducing the antitrust inquiry to the patent's validity, which according to the Patent Act, must be presumed. Thus, the implications of *Schering-Plough* for antitrust are limited to those close cases in which the settling parties have legitimate claims as to validity and infringement, meaning both parties face substantial risk going forward to trial in lieu of settlement.[97]

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92 *See, e.g., ibid.*

93 *See* Kevin McDonald, *Hatch-Waxman Patent Settlements and Antitrust: On "Probabilistic" Patent Rights and False Positives* (Spring 2003) 17-SPG Antitrust 68, 68-70, 72-76.

94 *See Schering-Plough, supra,* 402 F.3d at 1065-1067.

95 *See id.* at 1068.

96 Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified at 21 U.S.C. §§ 301-397 (2001)) (the "Hatch-Waxman Act").

97 *See, e.g., Asahi Glass Co., Ltd. v. Pentech Pharmaceuticals, Inc.* (N.D.Ill. 2003) 289 F.Supp.2d 986.

3. The Presumption supports a policy in favor of settlements

The presumption of infringement is intended to reconcile valid antitrust concerns with the courts' larger policy of promoting settlements—that are generally procompetitive.[98] As the theory goes, without giving the settling parties the benefit of the doubt as to patent validity and infringement, they are left vulnerable to follow-on litigation from customers, competitors, and government bodies, forcing them to re-litigate the same patent claims they had hoped to avoid, and destroying the benefit of an early and certain resolution.[99]

4. Patent settlements remain subject to antitrust enforcement

The implications of *Schering-Plough* for antitrust enforcement must be balanced against the continuing oversight of the antitrust authorities. Notice of all significant settlements of patent claims brought under to the Hatch-Waxman Act must be given to the Federal Trade Commission and the Department of Justice, providing an opportunity for them to challenge them *ex ante*.[100] Unquestionably, the antitrust agencies have sufficient incentive and resources to challenge the scope and validity of the underlying patents, and work through the initial presumptions, should they believe that a settlement agreement is likely to harm consumers. In that instance, the agencies or private plaintiffs simply need to produce evidence of infringement to overcome the presumption.

VII. CONCLUSION

The Supreme Court has cautioned that "[m]istaken inferences and the resulting false condemnations 'are especially costly, because they chill the very conduct the antitrust laws are designed to protect.'"[101] The decision in *Independent Ink*, however, enables mistaken inferences and will stifle legitimate competition by patent holders, and unnecessarily attracts lawsuits that attack a patent holder's bundling decisions. Without undertaking the in-depth market analysis the Supreme Court demands and antitrust agencies urge, courts are foregoing the opportunity to understand whether or to what extent intellectual property actually excludes competitors from markets.

The same is true in *Schering-Plough*. By presuming infringement, the Eleventh Circuit short-circuited the analysis of whether a patent actually excluded a competitor from the market, and simply presumed that the patent did. Under the Eleventh Circuit's analysis, courts must assume infringement absent a showing that the settlement reached between generic and name-branded pharmaceutical was a sham. Although the arguments favoring a presumption are strong (that they ensure stability and predictability and foster an environment friendly to the settlement of litigation) the decision to presume infringement,

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98 *See id.* at 991 ("[T]he general policy of the law is to favor the settlement of the litigation, and the policy extends to the settlement of patent infringement suits.").

99 *See id.* at 994 ("A ban on reverse-payment settlements would reduce the incentive to challenge patents by reducing the challenger's settlement options should he be sued for infringement, and so might well be thought anticompetitive.").

100 Medicare Prescription, Improvement and Modernization of 2003, Pub. L. No. 108-173, 117 Stat. 2066, secs. 1112-1116 (Dec. 8, 2003) (requiring brand-name and generic drug manufacturers to file certain settlement agreements with the antitrust agencies within ten days of execution).

101 (2004) 540 U.S. 398, 414 (quoting Matsushita Electrical Industrial Co. v. Zenith Radio Corp. (1986) 475 U.S. 574, 594).

like the decision to presume market power in the tying analysis has its drawbacks, and may not be anchored in sound economic analysis. In a world where patents often do not confer monopolies on patentees and do not provide the holder with true market power, presuming infringement puts the patent on a pedestal not afforded other property interests.

The Supreme Court has entered this debate by accepting certiorari in Independent Ink. The Court, no doubt, will weigh the benefits and drawbacks of the presumption of affording intellectual property market power not only in tying analysis, but also in antitrust law more generally. How the Court characterizes intellectual property in the market analysis will go a long way to resolving many of the concerns raised in this article.