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Commentary

Tipping the Balance Back Toward Patent Owners

U.S. Supreme Court ruling likely to reduce antitrust claims

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Innovation is the life blood of business, and patents are the most powerful tool available to protect innovation. While patent law provides the inventor/innovator with the power to exclude competition, antitrust laws are designed to promote competition, creating a conflict between the objectives of these legal constructs.

Thus, when a patent owner asserts his rights, a defendant frequently counters with antitrust claims. The Supreme Court's March 1 decision in *Illinois Tool Works Inc. v. Independent Ink Inc.,* No. 04–13, tips the balance back toward the patent owner.

For 59 years before the unanimous ruling, the patent holder was *presumed* as a matter of law to possess the relevant market power necessary for antitrust violation of the Sherman Act. This presumption applied, in particular, when a seller conditioned its sale of a patented product on the purchase of another product. Such was the case in *Illinois Tool Works*.

Illinois Tool Works manufactured and marketed a patented print head and ink container. The sale of its patented components was conditioned on the customer's agreement to purchase unpatented ink exclusively from Illinois Tool Works. The defendant, Independent Ink, developed ink with the same chemical composition as Illinois Tool Works' ink that could be used with the patented components. Independent Ink alleged illegal "tying" and monopolization in violation of §§ 1 and 2 of the Sherman Act.

Before the ruling in *Illinois Tool Works*, a contract to sell a patented product on condition that the purchaser buy unpatented goods exclusively from the patentee was a per se violation of the Sherman Act, created in *International Salt Co. v. United States*, 332 U. S. 392 (1947). There, the Supreme Court held that a lease of a patented machine that required the lessee to use a commodity product purchased from the patentee amounted to a per se antitrust violation under §1.

Reversing *International Salt*, the Supreme Court concluded in *Illinois Tool Works* that "Congress, the antitrust enforcement agencies, and most economists have all reached the conclusion that a patent does not necessarily confer market power upon the patentee. Today, we reach the same conclusion, and therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product."

The U.S. Supreme Court has now fundamentally acknowledged that patents do not inherently define a relevant market. Patent claims define a discovery asset, not a market. Hence, those who would assert a claim against a patent owner under the antitrust laws will now bear the considerable burden of demonstrating market power, a fact-specific inquiry requiring extensive analysis and expert testimony.

This burden will no doubt substantially reduce claims brought by potential infringers under the Sherman Act, which prohibits contracts, combinations and conspiracies that result in the unreasonable restraint of trade or commerce, and under the Clayton Act (15 USC §15), which provides relief to any antitrust violation in the form of injunction, treble damages and attorneys' fees.

Indeed, the threat of treble damages and the impending costs of defending these lawsuits has been a significant impediment to New Jersey's research-intensive industries otherwise seeking to leverage discovery assets and enforce patent rights.

Now that the Supreme Court has removed the threat of per se violation of antitrust laws that could apply to patent tying arrangements, patent holders can more readily pursue reasonable strategies to leverage patented assets that benefit the consumer. Since the decision more closely resembles economic reality — for years it was known that most patents simply do not confer market power — this could have far-reaching consequences in many markets. Commentators, for example, have attacked formulations of specific active pharmaceutical ingredient (API) combinations, where one of the ingredients is patent protected, as tying arrangements that should be judicially scrutinized under the antitrust statutes.

After *Illinois Tool,* patent owners may offer API formulations that provide uniquely advantageous opportunities to purchasers without subjecting the patent owner to the risk of per se antitrust violation. ■

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