SIMPSON
THACHER

Two Supreme Court Antitrust Decisions In Two Days

March 2, 2006

Within the last week, the Supreme Court handed down two widely anticipated opinions that provide clarification to the application of the antitrust laws in two areas of significant practical importance. In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, the Court reversed its prior precedents and held that a patent does not presumptively confer market power under the antitrust laws, thus providing much-needed clarification to businesses that rely heavily on patented or copyrighted works. Further, in *Texaco, Inc. v. Dagher*, the Court held that participants in lawful joint ventures are not subject to *per se* liability under Section 1 of the Sherman Act for setting uniform prices for their joint venture related products.

ILLINOIS TOOL WORKS V. INDEPENDENT INK, INC.: PATENT PROTECTION DOES NOT EQUAL MARKET POWER

It is increasingly common for businesses to have products and services that are covered as intellectual property. But what happens when the company markets a bundle of products or services where some are protected by intellectual property? Under well-accepted antitrust precedents, such marketing typically would raise antitrust issues as a "tying" arrangement only where there are at least two "separate products" and the company has market power over one of the products and requires that customers buy one or more additional products as part of the bundle. The question in *Independent Ink* was whether having patent rights over a product confers market power such that the sale of the bundle could be an unlawful tying arrangement. Although antitrust enforcement agencies, economists and academics have long concluded that, as a commercial reality, patents do not necessarily provide the holder with market power in the economic sense, Supreme Court decisions suggested otherwise, creating confusion among the lower courts faced with this issue. In *Independent Ink*, the Court reversed and clarified a line of cases and held that patents do not necessarily confer market power upon their holders. Thus, plaintiffs asserting patent (and other intellectual property) tying claims must establish all of the traditional elements of a tying violation including defining a relevant market in which to evaluate the tie and that the defendant has market power in that market.

Background

Trident, Inc., a subsidiary of Petitioner Illinois Tool Works, manufactures patented printheads and ink containers, which are used as component parts by printer manufacturers. The end users of those printers are typically businesses which use the printers to place bar codes on cartons. Trident also manufactures non-patented ink for use with its printheads. In its licensing agreements with product manufacturers, Trident conditions the sale of its patented printheads and containers on the purchase of its unpatented ink.

Respondent Independent Ink, a rival ink manufacturer, alleged that Trident's tying arrangement violated Section 1 of the Sherman Act and introduced no proof as to Trident's market power; it argued that the "monopoly" conferred by the patents themselves were sufficient proof of market power. The district court granted summary judgment for the patent holder because Independent Ink failed to produce evidence of market power over the patented tying product. The Federal Circuit, stating that it was constrained by Supreme Court precedent, reversed, holding that a rebuttable presumption of market power arises from the possession of a patent over a tying product. The Federal Circuit noted, however, that "[t]he time may have come to abandon the [market power presumption] doctrine, but it is up to the Congress or the Supreme Court to make this judgment."

Summary of the Decision

Even before *Illinois Tool Works*, academics, economists, and practitioners had called into question the proposition that market power may be presumed from the existence of a patent or copyright. In fact, for at least the last decade, the antitrust enforcement agencies have expressly taken the position that intellectual property is more or less like any other property and does not necessarily confer market power. In its decision, the Supreme Court noted these developments and added that Congress amended the Patent Code to eliminate the patent-equals-market-power presumption in patent infringement cases, thus clarifying that it did not intend the mere existence of a patent to constitute market power. The Court stated that Congress' clear abolition of the presumption in the context of patent infringement law "invites a reappraisal of the *per se* rule" that a patent equals market power in patent tying cases. Accordingly, the Court held that "in all cases involving a tying arrangement, the plaintiff must [now] prove that the defendant has market power in the tying product."

Implications

This ruling effectively changes the landscape of antitrust litigation involving products protected by intellectual property by squarely placing the burden of proof to properly define the market in which a tie must be analyzed and to prove, without the benefit of any presumptions, that the defendant has market power in the tying market. Typically, that requires proof that the defendant has a share of at least 30 percent in the tying market or other proof of market power. Before *Illinois Tool Works*, plaintiffs needed only to show a valid patent on the tying product to establish a presumption that the defendant had market power. Further, the decision is not limited to patents, but would apply equally to copyrights. As a result, businesses that rely heavily on patents and copyrights will still need to identify the efficiencies that are created by a tie or a bundle but will benefit from this ruling, which provides comfort to holders of intellectual property who bundle products together to serve customer needs.

TEXACO, INC. V. DAGHER: PARTICIPANTS OF A VALID JOINT VENTURE ARE NOT SUBJECT TO _PER SE_ LIABILITY

Whereas *Illinois Tool Works* provided express clarification, the Supreme Court's opinion in *Texaco, Inc. v. Dagher* merely reaffirms the commonly accepted proposition that joint activity is not *per se* unlawful if it is conduct necessary to a lawful joint venture or collaborative arrangement. Cooperative arrangements between firms that are otherwise competitors have become an increasingly common corporate structure. In 2000, the enforcement agencies issued guidelines for these cooperative arrangements noting that "In order to compete in modern markets, competitors sometimes need to collaborate." *Antitrust Guidelines For Cooperation Among Competitors.* The practical concern with such joint ventures and other cooperative arrangements is that any coordination among competitors creates the risk that the arrangement could be challenged under the antitrust laws as being an unlawful restraint of competition. Thus, the threshold issue typically is whether the collaboration is a valid joint activity that integrates assets and creates efficiencies or can instead be characterized as a sham to effectuate unlawful collusion.

In *Dagher*, the Court addressed the issue of whether it is *per se* illegal under Section 1 of the Sherman Act for the participants of a lawful joint venture to set the prices at which they sell the joint venture's output. In a widely anticipated decision, the justices held unanimously that such conduct will not be subject to the strict *per se* rule, which typically applies to price fixing among competitors, where the conduct is pursuant to the operations of a valid joint venture.

The case centered on a joint venture, Equilon Enterprises, which Texaco and Shell Oil formed in order to refine and sell gasoline in the western United States. Through the joint venture, the companies agreed to combine their operations in refining crude oil into gasoline. The operations for the marketing of the gasoline to downstream purchasers were folded into the joint venture entity as well, although the Texaco and Shell brands were maintained by the joint venture as separate marketing brands. The joint venture set a uniform price for the Texaco and Shell brands. None of the federal and state enforcement agencies which reviewed the formation of the joint venture objected to this collaborative arrangement, and the plaintiffs, classes of Texaco and Shell service station owners, did not challenge the lawfulness of the joint venture itself.

The gas service station owners brought suit under Section 1, arguing that the joint venture's uniform price setting constituted a *per se* violation of the prohibition on price fixing. Plaintiffs conceded, however, that if the joint venture had not maintained two separate brand names, the uniform pricing by the joint venture would be lawful.

The district court granted summary judgment for Texaco and Shell, holding that the rule of reason, rather than a *per se* rule or quick-look approach, governed the station owners' claims. The Ninth Circuit reversed and characterized Texaco's and Shell's position as a request for an exception to the *per se* rule.

In reversing the Ninth Circuit, the Supreme Court noted that, although price fixing among competitors is *per se* unlawful, this case did not present such a scenario because the gas companies did not compete with one another in the relevant market but, instead, participated jointly only through the valid joint venture, Equilon. The Court correctly attributed no significance to the fact that the brands had formerly been separate, competing brands and concluded that the joint venture activity was simply price setting by a single entity.

Implications

The threshold and determinative principle in *Dagher* was that the joint venture was itself lawful. Based upon that assumption, the venture necessarily had to price its product and the Court's opinion is therefore straightforward.

Although joint ventures among competitors raise complex antitrust questions, this fact pattern does not. In the course of its opinion, the Court reaffirms the trend in antitrust law away from *per se* rules and toward the application of economic analysis. In doing so, it recognizes that collaboration among competitors can often create efficiencies and benefits for the consumers. As a result of *Dagher*, defendants in joint venture cases will need to emphasize the efficiencies of their partnerships and, of course, show that they were lawfully entered into.

For further information about these decisions, please feel free to contact members of the Firm's Antitrust Practice Group, including:

New York City:

Kevin Arquit (212-455-7680, karquit@stblaw.com)
Chuck Koob (212-455-2970, ckoob@stblaw.com)
Ken Logan (212-455-2650, klogan@stblaw.com)
Joe Tringali (212-455-3840, jtringali@stblaw.com)
Aimee Goldstein (212-455-7681, agoldstein@stblaw.com)

Washington, D.C.:

Peter Thomas (202-220-7735, pthomas@stblaw.com)
Arman Oruc (202-220-7799, aoruc@stblaw.com)

London

David Vann (011-44-20-7275-6550, dvann@stblaw.com)