

U.S. High Court Loosens Restrictions on Tying IP Products

E-blast, March 21, 2006

By John Mansfield

On March 1, 2006, the United States Supreme Court handed down its decision in *Illinois Tool Works Inc. v. Independent Ink, Inc.* This case addresses so-called "tying arrangements," which occur when a seller/licensor conditions the sale of its patented product, e.g., an ink-jet printer cartridge, on the buyer/licensee's purchase of a product not covered by the patent, e.g., ink. The Supreme Court's opinion in *Illinois Tool Works* effectively loosens the restrictions on tying arrangements, which is good news for sellers of products covered by intellectual property protection.

Because a patent grants a limited – but legal – monopoly, tying cases straddle the fence between patent and antitrust law. Since the mid-20th century, courts have disapproved of tying arrangements for two reasons. First, tying arrangements were thought to be a misuse of the patent monopoly, on the theory that ties gave patent-holders more rights than they were entitled to under the patent statute. Second, tying arrangements were considered to be an antitrust violation, as ties were thought to reduce competition in the market for the tied product. These cases relied on the presumption that a patent on a product would necessarily give the seller power in the market for that product. Thus, courts held that a tie to a patented product was both patent misuse and a per se antitrust violation without the need for any showing of market power.

In response to widespread criticism, Congress changed the patent law in 1988 to require a showing of market power in order to prove patent misuse. The Supreme Court's rule with respect to the law of antitrust, however, remained unchanged until *Illinois Tool Works*. In *Illinois Tool Works*, the Supreme Court unanimously held that there was no economic or other reason why different rules for tying arrangements should apply in the antitrust context and the patent misuse context:

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. [We] therefore hold that, in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”

In light of *Illinois Tool Works*, sellers/licensors of products covered by intellectual property should reevaluate whether their current sales and licensing practices incorporate the full legal value of their assets. Some consumers of patented products, on the other hand, may need to consider new licensing terms offered by vendors, especially relating to the tying of products.

Copyright 2006 and 2013, MansfieldLaw