

## CHAPTER 5

### ANTITRUST ISSUES IN THE TYING AND BUNDLING OF INTELLECTUAL PROPERTY RIGHTS

#### I. INTRODUCTION

“Tying and bundling [are] so ubiquitous that we forget they are there . . . . Tying and bundling [are], roughly speaking, what the modern firm does. It’s the rationale. It puts things together and offers them in packages to consumers.”<sup>1</sup>

A tying arrangement occurs when, through a contractual or technological requirement, a seller conditions the sale or lease of one product or service on the customer’s agreement to take a second product or service.<sup>2</sup> The term “tying” is most often used by economists when the proportion in which the customer purchases the two products is not fixed or specified at the time of purchase, as in a “requirements tie-in” sale.<sup>3</sup> A bundled

sale typically refers to a sale in which the products are sold only in fixed proportions (e.g., one pair of shoes and one pair of shoe laces or a newspaper, which can be viewed as a bundle of sections, some of which may not be read at all by the customers). Bundling may also be referred to as a “package tie-in.”<sup>4</sup> Case law in the United States sometimes uses the terms “tying” and “bundling” interchangeably.<sup>5</sup>

In view of their potential efficiencies, many economists believe that, in general, tying and bundling are more likely to be procompetitive than anticompetitive.<sup>6</sup> Analysis of the

---

cartridges). Such tying allows the seller to charge customers different amounts depending on their product usage. *Id.* at 321-22.

<sup>4</sup> *Id.* “Pure bundling” occurs when consumers can purchase only the entire bundle (e.g., when customers are allowed to purchase only a fixed price meal that includes all courses). “Mixed bundling” occurs if the components also are sold separately, with a discount for purchasing the bundle (e.g., restaurant menus that include both à la carte items and complete meals). *See id.* at 324.

<sup>5</sup> *See, e.g., United States v. Loew’s, Inc.*, 371 U.S. 38 (1962) (analyzing the licensing of feature films only in blocks (or bundles) as tying).

<sup>6</sup> *See, e.g., David Evans & Michael Salinger, Why Do*

---

<sup>1</sup> Center for the New Europe, Edited Transcript of a CNE Market Insights Event: Tying and Bundling: From Economics to Competition Policy (Sept. 19, 2002) (Prof. Paul Seabright discussing tying and bundling), [http://www.cne.org/pub\\_pdf/2002\\_09\\_19\\_tying\\_bundling.htm](http://www.cne.org/pub_pdf/2002_09_19_tying_bundling.htm).

<sup>2</sup> DENNIS W. CARLTON & JEFFREY M. PERLOFF, *MODERN INDUSTRIAL ORGANIZATION* 319 (4th ed. 2005).

<sup>3</sup> A “requirements tie-in” sale occurs when a seller requires customers who purchase one product from the seller (e.g., a printer) also to make all their purchases of another product from the seller (e.g., ink

anticompetitive effects of tying and bundling by U.S. courts, by contrast, has evolved over time. Although courts long have expressed concern that tying or bundling might enable firms to use monopoly power in one market as leverage to curb competition, and thereby acquire monopoly power, in a second market,<sup>7</sup> judicial concern has eased as tying and bundling have become better understood. Once thought to be worthy of *per se* condemnation<sup>8</sup> without examination of any actual competitive effects, tying currently is deemed *per se* illegal under U.S. Supreme Court rulings only if specific conditions are met, including proof that the defendant has market power over the tying product.<sup>9</sup> Further, the Supreme Court has recently recognized that competitive markets and tying arrangements are not incompatible.<sup>10</sup> Indeed, some lower courts have required proof of likely or actual anticompetitive effects and

efficiencies in tying cases.<sup>11</sup>

At the Hearings, one panel discussed how the Agencies and the courts could best analyze tying and bundling when two or more products are tied or bundled together and at least one of the products is protected by intellectual property rights. Panelists discussed how to reach the right answers in particular cases and how to give private parties a reasonable ability to predict how their intellectual property licensing practices will be treated under the antitrust laws.<sup>12</sup> As discussed below, panelists generally doubted that tying and bundling involving intellectual property are likely enough to harm consumer welfare to justify *per se* treatment, and therefore advocated a rule of reason approach that would require proof of likely or actual

---

*Firms Bundle and Tie? Evidence from Competitive Markets and Implications for Tying Law*, 22 YALE J. ON REG. 37 (2005).

<sup>7</sup> See, e.g., *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958); *Int'l Salt Co. v. United States*, 332 U.S. 392, 396 (1947).

<sup>8</sup> Business practices merit treatment as *per se* illegal if “their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable.” *N. Pac. Ry.*, 356 U.S. at 5.

<sup>9</sup> *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 9, 16-18 (1984) (retaining *per se* treatment for “certain tying arrangements” but requiring consideration of market power); *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 126 S. Ct. 1281, 1292 (2006); *id.* at 1291 (stating that an allegation of illegal tying must be supported by proof of market power, rather than a presumption of market power based on a patent).

<sup>10</sup> *Ill. Tool*, 126 S. Ct. at 1292; see also *infra* note 21 and accompanying text.

---

<sup>11</sup> See *infra* notes 40-43 and accompanying text (discussing *United States v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001) (applying the rule of reason to the bundling of operating systems and applications software)).

<sup>12</sup> Panelists addressing this topic at the May 14, 2002 Hearing were: Joseph Farrell, Professor of Economics and Chair of the Competition Policy Center, University of California, Berkeley; Jonathan M. Jacobson, Partner, Akin, Gump, Strauss, Hauer & Feld, LLP; Abbott B. Lipsky, Jr., Partner, Latham & Watkins; David S. Sibley, John Michael Stuart Professor of Economics, University of Texas at Austin; J. Gregory Sidak, F. K. Weyerhaeuser Fellow in Law and Economics Emeritus, American Enterprise Institute; and Gregory Vistnes, Vice President, Charles River Associates. The session was moderated by Michael Katz, then-Deputy Assistant Attorney General, and David L. Scheffman, then-Director, Bureau of Economics, Federal Trade Commission. They were joined by C. Edward Polk, Jr., then-Associate Solicitor, U.S. Patent and Trademark Office. May 14, 2002 Hr’g Tr., Antitrust Analysis of Specific Intellectual Property Licensing Practices: Bundling, Grantbacks and Temporal Extensions (Morning Session), <http://www.ftc.gov/opp/intellect/020514trans.pdf> [hereinafter May 14 Tr.].

anticompetitive effects and allow consideration of the efficiencies that such arrangements may generate.<sup>13</sup>

## II. LEGAL ANALYSES OF TYING AND BUNDLING<sup>14</sup>

Ever since the late 1940s, when the Supreme Court stated in *International Salt Co. v. United States* that “it is unreasonable, *per se*, to foreclose competitors from any substantial market,”<sup>15</sup> and in *Standard Oil Co. v. United States* that “[t]ying agreements serve hardly any purpose beyond the suppression of competition,”<sup>16</sup> U.S. courts have found tying to be *per se* unlawful.<sup>17</sup> Although the Court’s 1984 *Jefferson Parish* opinion confirmed the continued role of a *per se* analysis,<sup>18</sup> it emphasized that market power in the tying product was a requirement for *per se* illegality.<sup>19</sup> Later

that same year, the Court explained that the application of the *per se* rule to tying had evolved to incorporate a market analysis:

[T]here is often no bright line separating *per se* from Rule of Reason analysis. *Per se* rules may require considerable inquiry into market conditions before the evidence justifies a presumption of anticompetitive conduct. For example, while the Court has spoken of a “*per se*” rule against tying arrangements, it has also recognized that tying may have procompetitive justifications that make it inappropriate to condemn without considerable market analysis.<sup>20</sup>

Consistent with this approach, the Supreme Court recently acknowledged that “[m]any tying arrangements . . . are fully consistent with a free, competitive market.”<sup>21</sup> Indeed, leading treatises have commented that the test lower courts use to determine whether to apply the *per se* rule to a particular alleged tie “increasingly resembles a rule of reason inquiry.”<sup>22</sup> Although the elements of a *per se* tying violation have been articulated differently, courts generally require that:

(1) two separate products or services are involved, (2) the sale

<sup>13</sup> Panelists stated that such tying and bundling do not meet the standard for *per se* analysis of always or almost always being harmful to competition. *Id.* at 35-44 (Jacobson, Farrell, Sidak, Sibley, and Lipsky).

<sup>14</sup> More complete summaries of basic tying law are found in ABA SECTION OF ANTITRUST LAW, ANTITRUST LAW DEVELOPMENTS 175-214 (5th ed. 2002) [hereinafter ANTITRUST LAW DEVELOPMENTS] and 1 HERBERT HOVENKAMP, MARK D. JANIS & MARK A. LEMLEY, IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW §§ 21.1, at 21-3 to -8, 21.5(d), at 21-113 to -16 (2002) [hereinafter 1 HOVENKAMP ET AL., IP AND ANTITRUST].

<sup>15</sup> 332 U.S. at 396.

<sup>16</sup> 337 U.S. 293, 305-06 (1949).

<sup>17</sup> ANTITRUST LAW DEVELOPMENTS at 177-79.

<sup>18</sup> “It is far too late in the history of our antitrust jurisprudence to question the proposition that certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable ‘*per se*.’” 466 U.S. at 9.

<sup>19</sup> *Id.* at 9-18.

<sup>20</sup> *Nat’l Collegiate Athletic Ass’n v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 104 n.26 (1984) (citation omitted).

<sup>21</sup> *Ill. Tool*, 126 S. Ct. at 1292.

<sup>22</sup> ANTITRUST LAW DEVELOPMENTS at 178; 1 HOVENKAMP ET AL., IP AND ANTITRUST § 21.5, at 21-113 to -15.

or agreement to sell one is conditioned on the purchase of the other, (3) the seller has sufficient economic power in the market for the tying product to enable it to restrain trade in the market for the tied product, and (4) a not insubstantial amount of interstate commerce in the tied product is affected.<sup>23</sup>

For other *per se* violations, such as naked agreements to fix price, plaintiffs are not required to define the relevant product markets or show that the defendant has market power in a relevant market. In addition, some courts have shown a willingness to consider business justifications for the alleged tie,<sup>24</sup> and some courts have required proof that the tie has anticompetitive effects.<sup>25</sup>

---

<sup>23</sup> ANTITRUST LAW DEVELOPMENTS at 179 & n.998 (citing cases).

<sup>24</sup> *United States v. Jerrold Elecs. Corp.*, 187 F. Supp. 545, 557-58 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961) (concluding that a tie was justified for a limited time in a new industry to assure effective functioning of complex equipment); *Mozart Co. v. Mercedes-Benz of N. Am., Inc.*, 833 F.2d 1342, 1348-51 (9th Cir. 1987) (upholding verdict for defendant because the tie may have been found to be the least expensive and most effective means of policing quality); *Dehydrating Process Co. v. A. O. Smith Corp.*, 292 F.2d 653, 655-57 (1st Cir. 1961) (affirming a judgment of a district court that directed a verdict in favor of the defendant because a tie was necessary to assure utility of two products when separate sales led to malfunctions and widespread customer dissatisfaction).

<sup>25</sup> *Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors*, 850 F.2d 803, 815 (1st Cir. 1988) ("The tying claim must fail absent any proof of anti-competitive effects in the market for the tied product."); *Fox Motors, Inc. v. Mazda Distribs. (Gulf), Inc.*, 806 F.2d 953, 958 (10th Cir. 1986) (declining to apply the *per se* rule to a tie that "simply does not imply a sufficiently great likelihood of anticompetitive effect").

Courts have sometimes analyzed bundling under the rubric of tying. In *United States v. Loew's, Inc.*,<sup>26</sup> for example, the Supreme Court found that the practice of licensing feature films to television stations only in blocks (or "bundles") containing films the stations did not want to license constituted unlawful tying in violation of section 1 of the Sherman Act.<sup>27</sup> Nonetheless, in explaining its tying analysis in *Jefferson Parish*, the Supreme Court noted the fact that "a purchaser is 'forced' to buy a product he would not have otherwise bought even from another seller" does not imply an "adverse impact on competition."<sup>28</sup> Thus, to prevail on an unlawful tying claim, a plaintiff would have to show an exclusionary effect on other sellers as a result of plaintiff's thwarted desire to purchase substitutes for one or more items in the bundle from other sources that harms competition.

### III. TYING AND BUNDLING INVOLVING INTELLECTUAL PROPERTY

Linking intellectual property with products or other intellectual property can take many forms, such as offering licenses that cover multiple patents or copyrighted materials or tying the sale of two patented goods or one unpatented and one patented good. Such linkages carry various labels, depending on whether the linked product embodies intellectual property, whether one price

---

<sup>26</sup> 371 U.S. 38 (1962).

<sup>27</sup> *Id.* at 41-43 (noting the blocks contained as many as 754 separate titles); *id.* at 44, 49-50 (treating block booking as tying).

<sup>28</sup> *Jefferson Parish*, 466 U.S. at 16.

or separate prices are charged, and whether the linkage is accomplished contractually or technologically. Classic “contractual” patent tying occurs when the tying product (such as a mimeograph machine) is patented, the tied product is an unpatented commodity used as an input for the tying product (such as ink or paper), and the sale of the patented product is conditioned on the purchase of the unpatented product. A “technological tie” may be defined as one in which “the tying and tied products are bundled together physically or produced in such a way that they are compatible only with each other.”<sup>29</sup> The government’s tying claim against Microsoft involved both the contractual and technological bundling of the Internet Explorer web browser (the tied product) with its Windows operating system (the tying product).<sup>30</sup>

Multiple intellectual property rights may themselves be combined into bundles or packages. Mandatory package licensing occurs when a patent owner refuses to license a particular patent unless a licensee accepts an entire package (or where the patent owner’s royalty scale has this effect).<sup>31</sup> It also includes “block booking” of motion pictures or television shows. Panelists

explored the economic, legal, and practical issues raised by these various practices, all of which involve intellectual property tying or bundling.

### A. The Economics of Bundling Involving Intellectual Property

Economists on the panel discussed features that may distinguish intellectual property from tangible property. One such feature is that the development and exploitation of intellectual property typically involves high fixed costs but low marginal costs, but the panel discussion did not make the relevance of this distinction to the analysis of bundling clear. One panelist suggested that predicting anticompetitive effects may be more difficult in cases involving intellectual property bundling than in cases involving the bundling of tangible property.<sup>32</sup> Another panelist stated that it is difficult to determine whether intellectual property bundling in a particular case is driven by efficiencies and, as a result, the analysis is ultimately fact-intensive.<sup>33</sup>

Two economists have considered the bundling of so-called information goods, such as copyrighted music, programming, and other online content on the Internet.<sup>34</sup> They observe that the

---

<sup>29</sup> 1 HOVENKAMP ET AL., IP AND ANTITRUST § 21.5b2, at 21-104 to -05. An example would be a razor and razor blade cartridge.

<sup>30</sup> *Microsoft*, 253 F.3d at 45; see also Complaint paras. 18, 20, 103-23, *Microsoft*, 87 F. Supp. 2d 30 (D.D.C. 2000) (No. 98-1232), *aff’d in part, rev’d in part*, 253 F.3d 34, available at <http://www.usdoj.gov/atr/cases/f1700/1763.pdf>.

<sup>31</sup> Richard Gilbert & Carl Shapiro, *Antitrust Issues in the Licensing of Intellectual Property: The Nine No-No’s Meet the Nineties*, 1997 BROOKINGS PAPERS ON ECON. ACTIVITY, MICROECONOMICS 283, 317.

---

<sup>32</sup> May 14 Tr. at 41-42 (Sidak). This panelist also cited Microsoft’s bundling of a browser with its operating system and suggested that the mechanism through which viable and independently-owned complementary products may facilitate competitive entry into each other’s markets is imperfectly understood and deserving of more careful economic analysis. *Id.* at 45-47.

<sup>33</sup> *Id.* at 24-25 (Vistnes).

<sup>34</sup> See Yannis Bakos & Eric Brynjolfsson, *Bundling and*

marginal cost of adding additional units of an information good to a bundle of other information goods typically is very low. They also observe that demand for bundles of goods across customers can be more homogeneous than the demand for the individual components. In such circumstances, it can be more profitable to offer such goods only in a bundle. In their analysis, competition between two firms that each offer sufficiently large bundles can make consumers better off,<sup>35</sup> and bundling by a firm facing no competition can increase total welfare but increase or decrease consumer welfare.<sup>36</sup>

Another distinction between intellectual and tangible property is that the validity of patents can be challenged. It is widely believed that intellectual property bundling “is apt to affect private incentives to challenge the IP”<sup>37</sup>—most likely decreasing incentives to challenge it. Some find it difficult to assess the likely welfare effects of this decrease, however, because the optimal level of incentive to challenge intellectual

---

*Competition on the Internet*, 19 *MARKETING SCI.* 63 (2000); Yannis Bakos & Eric Brynjolfsson, *Bundling Information Goods: Prices, Profits, and Efficiency*, 45 *MGMT. SCI.* 1613 (1999).

<sup>35</sup> Bakos & Brynjolfsson, 19 *MARKETING SCI.* at 71-74 (showing that customers are able to purchase goods from competing firms selling large enough bundles at a lower effective per unit price than the price they would pay for each good if all goods are sold separately).

<sup>36</sup> *Id.* at 72. The intuition behind this result is that bundling allows the monopolist to sell more units to customers which increases total welfare, but also allows the monopolist to charge higher average prices which extracts surplus from customers. Depending on the parameters of the model, the latter effect could be either greater or less than the former effect.

<sup>37</sup> May 14 Tr. at 89-90 (Farrell).

property rights is not clearly known.<sup>38</sup>

## B. Legal Issues Relevant to Intellectual Property Bundling

Courts have not taken a consistent analytical approach to tying and bundling cases involving intellectual property. In 1999, the U.S. Court of Appeals for the Eleventh Circuit applied the *per se* rule to a package license for television programming because the package at issue could not be distinguished from the block booking that the Supreme Court declared to be illegal *per se* in *Loew's*.<sup>39</sup>

By contrast, the U.S. Court of Appeals for the D.C. Circuit's 2001 decision in *United States v. Microsoft* rejected application of the *per se* rule to “platform software,”<sup>40</sup> thereby “carving

---

<sup>38</sup> *Id.* at 90, 220-27 (Farrell) (describing the complexity of determining the efficient incentives to challenge intellectual property, but expressing his belief that “private incentives to challenge intellectual property may be badly inadequate”); *id.* at 295-300 (Miller) (discussing ideas for increasing incentives assuming they are too low); *see also id.* at 158 (Katz) (“[E]ven in the case where it’s said that by having the package it’s either diminishing the incentives to invent around or diminishing the incentives to challenge validity or enforceability . . . , work I’ve done and others have done suggests [that assessment] actually is very delicate.”). For example, one panelist argued that a successful challenge both eliminates the mark-up attributable to intellectual property and also reduces potential innovators’ expectations of how much they might earn on the basis of intellectual property in the future. *Id.* at 91 (Farrell).

<sup>39</sup> *MCA Television Ltd. v. Pub. Interest Corp.*, 171 F.3d 1265, 1277-78 (11th Cir. 1999) (citing *Loew's*, 371 U.S. at 50).

<sup>40</sup> 253 F.3d at 95. In deciding a tying patent misuse claim, the U.S. Court of Appeals for the Federal Circuit recently rejected a *per se* approach and applied tying case law to find that a package license combining alleged “essential” with “nonessential” patents did not constitute patent misuse because there

out what might be called a ‘technology exception’ to that rule,”<sup>41</sup> as one submission suggested. The court reasoned that application of traditional *per se* analysis in the “pervasively innovative” platform software industry risks condemning ties that may be welfare-enhancing and procompetitive.<sup>42</sup> According to one panelist, however, “the rationale [that the court] articulated for abandoning *per se* condemnation applies well beyond just the software industry,” notwithstanding “the court’s protestations to the contrary.”<sup>43</sup> Although

---

was no separate demand for the “nonessential” patents, and, thus, no separate product market in which competition could have been foreclosed. *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179, 1193-97 (Fed. Cir. 2005). The court rejected a *per se* approach “[i]n light of the efficiencies of package patent licensing and the important differences between product-to-patent tying arrangements and arrangements involving group licensing of patents . . . .” *Id.* at 1193.

<sup>41</sup> Jonathan M. Jacobson & Abid Qureshi, *Did the Per Se Rule on Tying Survive ‘Microsoft’?* (May 14, 2002 Hr’g R.) at 1, <http://www.ftc.gov/opp/intellect/020514jacobson2.pdf> [hereinafter Jacobson Submission]; cf. Warren S. Grimes, *The Antitrust Tying Law Schism: A Critique of Microsoft III and a Response to Hylton and Salinger*, 70 ANTITRUST L.J. 199, 202 (2002) (“[C]iting the novelty of the issues and the possibility of procompetitive effects, [the D.C. Circuit] imposed a rule of reason to measure Microsoft’s software bundling practices.”); William J. Kolasky, *GE/Honeywell: Continuing the Transatlantic Dialogue*, 23 U. PA. J. INT’L ECON. L. 513, 532 & n.66 (2002) (citing *Microsoft*, 253 F.3d at 84-97, to support a statement that technological ties “are generally evaluated under the rule of reason”); Edward G. Biester III, *An Overview of the IP-Antitrust Intersection: Reevaluating the 1995 Antitrust Guidelines for the Licensing of Intellectual Property*, ANTITRUST, Summer 2002, at 8, 10 [hereinafter Biester, *An Overview of the IP-Antitrust Intersection*].

<sup>42</sup> 253 F.3d at 93.

<sup>43</sup> Jacobson Submission at 1; Herbert Hovenkamp, *IP Ties and Microsoft’s Rule of Reason*, 47 ANTITRUST BULL. 369, 413 (2002) (“[W]hile developing a rule of reason for OS/application is laudable, the court’s

in *Illinois Tool Works Inc. v. Independent Ink, Inc.* the Supreme Court recognized that many tying arrangements, “even those involving patents and requirements ties,” can be procompetitive,<sup>44</sup> that case did not present a vehicle for the Court to revisit its conclusion that some tying arrangements constitute *per se* violations.<sup>45</sup>

The Agencies’ rule of reason approach to intellectual property bundling is reflected in the Antitrust Guidelines for the Licensing of Intellectual Property (“Antitrust-IP Guidelines”). The Antitrust-IP Guidelines recognize that “[c]onditioning the ability of a licensee to license one or more items of intellectual property on the licensee’s purchase of another item of intellectual property or a good or a service has been held in some cases to constitute illegal tying,”<sup>46</sup> but also state that “[a]lthough tying arrangements may result in anticompetitive effects, such

---

rationale for distinguishing such ties from the general run of tying arrangements cannot be supported.”); see also Biester, *An Overview of the IP-Antitrust Intersection* at 10 (“Basic antitrust principles like the traditional *per se* rule against tying where there is market power in the tying product become complicated in markets that are difficult to define because of the moving target of constantly developing technology.”).

<sup>44</sup> *Ill. Tool*, 126 S. Ct. at 1292 (recognizing that price discrimination occurs in fully competitive markets); see also *supra* note 21 and accompanying text.

<sup>45</sup> See *Jefferson Parish*, 466 U.S. at 9 (acknowledging that certain tying arrangements are *per se* illegal).

<sup>46</sup> U.S. DEP’T OF JUSTICE & FEDERAL TRADE COMM’N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.3 & n.34 (1995), available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf> [hereinafter ANTITRUST-IP GUIDELINES] (citing *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-58 (1948) (copyrights); *Int’l Salt*, 332 U.S. 392 (patent and related product)).

arrangements can . . . result in significant efficiencies and procompetitive benefits.”<sup>47</sup> Pursuant to the Antitrust-IP Guidelines, the Agencies, as a matter of prosecutorial discretion, consider both the anticompetitive effects and the efficiencies attributable to a tie. The Agencies would be likely to challenge a tying arrangement if: “(1) the seller has market power in the tying product, [which the Agencies will not presume necessarily to be conferred by a patent, copyright, or trade secret]; (2) the arrangement has an adverse effect on competition in the relevant market for the tied product; and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects.”<sup>48</sup> If a package license constitutes tying,<sup>49</sup> the Agencies will evaluate it pursuant to the same rule of reason principles they use to analyze other tying arrangements.

Whether the legal analysis applied to intellectual property bundling is some form of the *per se* rule or the more searching rule of reason, a plaintiff will have to establish that a defendant has market power in the tying product. Recognizing 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,” the Supreme Court has held that “in all cases involving a tying arrangement, the plaintiff must prove that the defendant has market power in the tying product.”<sup>50</sup> Thus, market power should not be presumed merely from the existence of a patent.<sup>51</sup> As the Court explained:

[W]e conclude that tying arrangements involving patented products should be evaluated under the standards applied in cases like *Fortner II* and *Jefferson Parish Parish* rather than under the *per se* rule applied in *Morton Salt* and *Loew’s*. While some such arrangements are still unlawful, such as those that are the product of a true monopoly or a market wide conspiracy, that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption thereof.<sup>52</sup>

The Agencies, as a matter of sound economics, had chosen not to rely on such a presumption prior to *Illinois Tool*.<sup>53</sup> As

---

<sup>47</sup> *Id.* § 5.3.

<sup>48</sup> *Id.* (footnotes omitted); *see also id.* § 2.2 (“[The] Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.”).

<sup>49</sup> The Antitrust-IP Guidelines describe package licensing as “the licensing of multiple items of intellectual property in a single license or in a group of related licenses,” which “may be a form of tying . . . if the licensing of one product is conditioned upon the acceptance of a license for another, separate product.” *Id.* § 5.3.

---

<sup>50</sup> *Ill. Tool*, 126 S. Ct. at 1293.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 1291 (citations omitted).

<sup>53</sup> The Solicitor General filed an amicus brief in *Illinois Tool* asserting that the market power presumption was contrary to modern tying jurisprudence and sound economics. Brief for the United States as Amicus Curiae Supporting Petitioners, *Ill. Tool*, 126 S. Ct. 1281 (No. 04-1329), available at <http://www.usdoj.gov/osg/briefs/2005/3mer/1ami/2004-1329.mer.ami.pdf>. The Solicitor General noted that “[a]s a matter of longstanding antitrust policy, both the Department of Justice and the Federal Trade Commission have rejected the presumption that patents confer market

the Antitrust-IP Guidelines explain, the Agencies “will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property 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 . . . to prevent the exercise of market power.”<sup>54</sup> The Agencies therefore investigate the relevant market to determine whether the intellectual property at issue grants any market power in the economic sense. If such market power is found, the Agencies further investigate whether the business practice under scrutiny is likely to be anticompetitive on balance.

### C. Practical Issues Regarding Intellectual Property Bundling

Panelists addressed several issues that attorneys confront when counseling clients with regard to intellectual property bundling. One panelist noted that, in addition to the courts’ inconsistent treatment of cases involving intellectual property bundling, courts have also differed in ordinary tying cases as to whether: (1) a plaintiff must show harm to competition in the tied product market; and (2) a defendant’s evidence of business justification is admissible.<sup>55</sup> “The result of

---

power for the simple reason that the presumption is so demonstrably unsound.” *Id.* at 13. The Solicitor General observed that “the Patent and Trademark Office has issued scores of patents for such items as bottle openers, toothbrushes, and paper clips . . . [but] [i]t would be implausible to presume that the owner of such a patent possesses market power merely by virtue of the patent.” *Id.* at 12.

<sup>54</sup> ANTITRUST-IP GUIDELINES § 2.2.

<sup>55</sup> May 14 Tr. at 29-30 (Jacobson); *see also supra* notes

this is when the client asks you about what the rules are governing bundling of intellectual property . . . you cannot give a clear answer. [Lawyers have to give] the cautious advice . . . please, don’t do it; the risk [of litigation] is too great.”<sup>56</sup>

The panel also discussed the extent to which attorneys counseling their clients will consider the likelihood that an enforcement agency or private party will challenge intellectual property bundling.<sup>57</sup> Due in part to the rules on antitrust injury and standing, the probability of being sued may be small, but one panelist expressed the view that, “given the state of the law today you just can’t advise a client that has an intellectual property right that it’s okay to tie . . . . It’s just too dangerous.”<sup>58</sup> Counseling about potential antitrust liability also occurs when a client is about to bring an infringement suit, because such a suit may trigger an antitrust counterclaim even when an antitrust suit would otherwise be unlikely. One panelist expressed the view that “it’s per se malpractice to fail to advise a client who is considering an intellectual property infringement suit that he must be prepared to litigate any manner of crazy antitrust or misuse

---

22-25, 50-52 and accompanying text (discussing types of proof required by some courts in tying cases including market definition, business justifications, and anticompetitive effects).

<sup>56</sup> May 14 Tr. at 30-31 (Jacobson). Such results can harm consumers. *Cf.* Hovenkamp, 47 ANTITRUST BULL. at 382 ([Socially costly rules include] “the enormous compliance costs of those who are denied a more efficient method of doing business for fear of breaching a senseless antitrust rule.”).

<sup>57</sup> May 14 Tr. at 107-13 (Jacobson, Lipsky).

<sup>58</sup> *Id.* at 108 (Jacobson).

counterclaim – or misuse defense.”<sup>59</sup>

Another panelist observed that firms that have been advised by counsel will often offer alternatives to a package license. He suggested that “one way to [offer] package licenses and not get immediately hauled into [f]ederal [d]istrict [c]ourt is to make sure there’s an alternative available.”<sup>60</sup> When another panelist questioned the wisdom of advising clients “that they are essentially home free on bundling pricing where intellectual property is involved,”<sup>61</sup> the other replied that, although this practice does not provide a complete safety zone, “the difficulty of proving that the pricing bundle is sufficiently coercive . . . given the expense of bringing an antitrust case . . . gives you a measure of comfort . . .”<sup>62</sup>

Finally, one panelist argued that, although defendants in many cases could “devise ways of achieving the same efficiencies without tying,”<sup>63</sup> the *per se* rule creates “enormous cost in terms of

firms without market power and with intellectual property rights trying to figure out the best way to exploit those rights,” such as small firms trying to enter a market in which metering through tying may work best.<sup>64</sup> Another panelist suggested that “product combination decisions[,] like things that can be characterized as ties[,] ought to be presumptively lawful” and that the real problem with the *per se* rule against tying is that it is “potentially applicable to an enormous range of harmless commercial decisions which nevertheless tend to attract involvement with law enforcement and the civil justice system.”<sup>65</sup>

#### D. Suggested Approaches to Improving the Law on Intellectual Property Bundling

The panel explored ways to improve the law on tying in general and with regard to intellectual property bundling in particular. One panelist highlighted three approaches.<sup>66</sup> First, he suggested that the courts, instead of carving out exceptions to the *per se* rule against tying (as the D.C. Circuit did for “platform software” products in *Microsoft*<sup>67</sup>), should follow the approach taken by the U.S. Court of Appeals for the Seventh Circuit in *Khan v. State Oil Co.*,<sup>68</sup>

<sup>59</sup> *Id.* at 109 (Lipsky).

<sup>60</sup> *Id.* at 110-11 (Jacobson); *cf.* *Jefferson Parish*, 466 U.S. at 12 n.17 (quoting *N. Pac. Ry. Co.*, 356 U.S. at 6 n.4 (“Of course where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price.”)). Where, however, a firm offers products A (the tying product) and B at a bundled price but also offers product A separately, a court may determine whether an unbundled price for product A may be so high as to demonstrate that no real alternative to the bundle of products A and B is being offered. May 14 Tr. at 46-52 (Sidak) (noting that courts may face such questions in fashioning relief in instances in which liability for tying has been found).

<sup>61</sup> May 14 Tr. at 112 (Lipsky).

<sup>62</sup> *Id.* at 113 (Jacobson).

<sup>63</sup> *Id.* at 36 (Jacobson).

<sup>64</sup> *Id.* at 40-41 (Jacobson); *cf.* Hovenkamp, 47 ANTITRUST BULL. at 382.

<sup>65</sup> May 14 Tr. at 42-44 (Lipsky).

<sup>66</sup> See Jonathan M. Jacobson, *Counseling in Uncertainty: The Law of Tying & Intellectual Property* (May 14, 2002 Hr’g R.) (slides), <http://www.ftc.gov/opp/intellect/020514jacobson.pdf> [hereinafter Jacobson Presentation].

<sup>67</sup> 253 F.3d at 95-96.

<sup>68</sup> 93 F.3d 1358, 1362-64 (7th Cir. 1996).

which applied the *per se* rule against vertical maximum price-fixing while carefully explaining the shortcomings of the approach and inviting the Supreme Court to overturn it, as the Court ultimately did.<sup>69</sup> Second, testifying prior to *Illinois Tool*, he suggested that Congress should consider legislation mandating that there shall be no presumption of market power from the mere possession of a patent or copyright in antitrust cases.<sup>70</sup> Third, he suggested that the Agencies should advocate improvements in the law through amicus participation in cases involving intellectual property bundling, both in the district courts and courts of appeals, with the hope that the decisions of these courts may eventually be reviewed by the Supreme Court.<sup>71</sup>

<sup>69</sup> *State Oil Co. v. Khan*, 522 U.S. 3, 7 (1997); see also Hovenkamp, 47 ANTITRUST BULL. at 383 n.33 (noting with approval Judge Posner's invitation for reversal). Such invitations, however, are not always accepted. After this Hearing took place, Judge Posner took a similar approach in applying the *per se* rule against post-expiration royalties, based on *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964), while inviting the Supreme Court to reconsider the rule. *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1018-19 (7th Cir. 2002). The Court, however, denied certiorari. 537 U.S. 1109 (2003). By contrast, believing the court bound by Supreme Court precedent, Judge Dyk made a similar invitation in *Illinois Tool* which the Court accepted. *Indep. Ink, Inc. v. Ill. Tool Works, Inc.*, 396 F.3d 1342, 1351 (Fed. Cir. 2005), *rev'd*, 126 S. Ct. 1281 (2006).

<sup>70</sup> May 14 Tr. at 32-34 (Jacobson). Such legislation is now unnecessary in light of the Supreme Court's decision in *Illinois Tool* rejecting such a presumption. 126 S. Ct. 1281. Cf. Hovenkamp, 47 ANTITRUST BULL. at 373 ("We might be better off if Congress legislated prescriptions about the domain of intellectual property rights directly into the federal intellectual property statutes themselves and occasionally it has done so.").

<sup>71</sup> May 14 Tr. at 34-35 (Jacobson); Jacobson Presentation at 14. The Agencies have a long history of advising the courts on intellectual property issues relevant to competitive concerns. See, e.g., Brief for the United States as Amicus Curiae Supporting

Panelists acknowledged that conducting a rule of reason analysis of intellectual property bundling or other practices results in a very fact-intensive inquiry, the outcome of which will likely be difficult to predict.<sup>72</sup> An economist on

---

Respondent, *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) (No. 05-130), available at <http://www.usdoj.gov/osg/briefs/2005/3mer/1ami/2005-0130.mer.ami.pdf>; Brief for the United States as Amicus Curiae Supporting Petitioners, *Ill. Tool*, 126 S. Ct. 1281 (No. 04-1329); Brief for the United States as Amicus Curiae Supporting Respondent, *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998) (No. 97-1130), available at <http://www.usdoj.gov/atr/cases/f1800/1836.pdf>; Brief Amicus Curiae of the United States of America Urging Reversal in Support of Appellant Kanebridge Corp., *Southco, Inc. v. Kanebridge Corp. (Southco I)*, 258 F.3d 148 (3d Cir. 2001) (No. 00-1102), available at <http://www.usdoj.gov/atr/cases/f4900/4953.pdf>; Brief Amicus Curiae of the United States of America in Support of Appellee Kanebridge Corp., *Southco, Inc. v. Kanebridge Corp. (Southco II)*, 390 F.3d 276 (3d Cir. 2004) (en banc) (No. 02-1243), *cert. denied*, 126 S. Ct. 336 (2005), available at <http://www.usdoj.gov/atr/cases/f201000/201034.pdf>; Brief for Amicus Curiae United States of America in Support of Appellees, *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693 (2d Cir. 1998) (No. 97-7430), available at <http://www.usdoj.gov/atr/cases/f1100/1191.pdf>.

<sup>72</sup> One of the panelists discussed how, if the *per se* rule for tying is ultimately abandoned, courts can best deal with complex issues so as both to reach the right answers in individual cases and to provide some predictability as to how business practices will be analyzed. May 14 Tr. at 54-63 (Lipsky); Abbott B. Lipsky, *Amateurs in Black* (May 14, 2002 Hr'g R.) at 6-12, <http://www.ftc.gov/opp/intellect/020514abbottlipskyjr.pdf> [hereinafter Lipsky Submission]. Lipsky said that the Supreme Court, in a series of four cases beginning with *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), has mandated that the district courts assume the position of gatekeepers and make independent evaluations (subject to review for abuse of discretion) of the relevance, reliability, and fit of expert testimony. He suggested that this procedure has revolutionized the presentation of expert testimony and noted that in a number of antitrust cases expert testimony has been rejected. He maintained that, when courts evaluate particular patent licensing practices, they will need institutions superior to those currently available in order to generate improvements in the quality of economic analysis.

the panel suggested that, rather than attempting to categorize the conduct (e.g., as tying or not) or looking at cost standards, a better approach would be “to ask why are you doing this; what are the efficiencies, are there other ways to achieve the efficiencies; do you expect it to block competition[?]”<sup>73</sup>

the ubiquitous use of these arrangements by businesses lacking in market power and the efficiencies that such arrangements can often entail, these practices usually are not anticompetitive. When the Agencies do identify anticompetitive situations, however, they will pursue them.

#### IV. CONCLUSION

Legal and policy analysis of intellectual property bundling has evolved over time. Older case law, with its *per se* rule and presumption of market power, contends with the current analysis of the Agencies and some more recent lower court decisions that embody, in essence, a rule of reason approach. Moreover, the Supreme Court recently eliminated its rule presuming market power based on intellectual property. Panelists noted that, although intellectual property bundling may have anticompetitive potential in certain circumstances, there may also be significant efficiency justifications for such bundling in some cases. Thus, as a matter of their prosecutorial discretion, the Agencies will apply the rule of reason when evaluating intellectual property tying and bundling agreements.<sup>74</sup> Given

---

Possible approaches that he described include certification by an expert body, such as the National Academy of Sciences or American Economic Association, appointment by the court of an expert under rule 706(a) of the Federal Rules of Evidence, or use of a law clerk particularly skilled in economics. May 14 Tr. at 54-63 (Lipsky); *see also* Lipsky Submission at 7-12.

<sup>73</sup> May 14 Tr. at 103 (Farrell).

<sup>74</sup> ANTITRUST-IP GUIDELINES § 5.3 (stating that, in exercising their prosecutorial discretion, the Agencies “consider both the anticompetitive effects and the efficiencies attributable to a tie-in”).