



STATEMENT OF DONALD W. BANNER, PRESIDENT
INTELLECTUAL PROPERTY OWNERS, INC.
before
SENATE JUDICIARY SUBCOMMITTEE ON
PATENTS, COPYRIGHTS, AND TRADEMARKS

October 23, 1985

Mr. Chairman and members of the Subcommittee:

Thank you for this opportunity to discuss S. 1543, the Process Patent Amendment of 1985." We strongly support S. 1543. It should be enacted without delay to help stop the loss of manufacturing jobs from the United States.

IPO is a nonprofit association whose members own patents, trademarks, and copyrights. Our members include large corporations, small businesses, universities, and individuals.

IPO members are responsible for a large portion of the research conducted in the United States. We believe an effective patent system is very important in encouraging research and commercial development of new technology.

The United States can no longer afford to neglect matters which affect the climate for invention and innovation. The evidence is overwhelming that our industrial competitiveness is slipping.

In 1984, seven of the eleven corporations which received the largest numbers of U.S. patents were foreign-controlled. Ten years ago, only three of the top eleven were foreign-controlled.

In the late 1960's the percentage of U.S. patents going to foreign nationals was about 20 percent. Last year it was 41.7 percent. The share going to Japanese nationals alone has risen to 16 percent.

Statistics such as these probably were interesting only to patent lawyers at one time. Today, more and more people are beginning to realize that such trends have a correlation with the number of jobs in our country.

IPO believes the declining share of patents going to our own citizens can be attributed in part to weaknesses in the patent system which, in turn, have weakened the incentives for our citizens to make inventions. We must provide greater incentives

for American firms to invest in research, development and commercialization of technology.

Several studies, going back at least as far as the President's Commission Report of 1966, have recommended improvements in the functioning of the patent system. The 17-year exclusive patent right to manufacture, use, and sell inventions can give powerful incentives when the patent laws and procedures operate effectively.

A strong U.S. patent system is of greatest benefit to American companies because American companies still own a substantial majority of the patents issued in the United States -- about 70 percent of patents currently in force -- and because American companies are the ones with the best understanding of, and closest proximity to, U.S. markets.

U.S. patent law does not require patent owners to manufacture in this country. Neither do our trading partners, for the most part, require manufacturing in their countries when they grant patents to U.S. companies. U.S. patent law does, however, block competitors from manufacturing offshore and importing into the U.S., if the patent is a product patent. When U.S. patent owners are protected from offshore competition they are more likely to manufacture in the U.S. themselves, creating jobs in this country.

S. 1543 would eliminate a longstanding loophole in U.S. patent law which encourages manufacturing abroad using processes developed and patented in the United States. Under existing U.S. patent law, infringement of a patent occurs when someone (1) makes, uses, or sells a product in the United States covered by a product patent or (2) practices a process in the United States covered by a process patent. It is not an infringement of a U.S. process patent if a competitor uses a patented process outside the United States to manufacture a product and then imports that product into the United States.

S. 1543 broadens the definition of patent infringement to cover the acts of importing into the United States or using or selling in the United States a product produced in another country by a process patented in this country. This change would prevent competitors from avoiding a patent merely by moving offshore to do their manufacturing.

Offshore production using patented processes has long been in need of a remedy. Such a remedy was recommended by the 1966 President's Commission on the Patent System and, more recently, by the 1985 report of the President's Commission on Industrial Competitiveness.

Our major trading partners, including Japan, West Germany, France, and the United Kingdom, have provisions in their laws similar to S. 1543. The European Patent Convention, which has eleven member countries, reads as follows on this point:

If the subject-matter of the European patent is a process, the protection conferred by the patent shall extend to the products directly obtained by such process.

If our country is serious about preserving manufacturing jobs, certainly it should provide at least as much protection for manufacturing processes as other countries provide. If the owners of manufacturing processes covered by U.S. patents can be protected from free riders with no R&D expenses who manufacture offshore, many thousands of jobs can be protected in the United States.

Patented processes can be highly valuable. Allied-Signal Incorporated's patented amorphous metal alloys process technology, the subject of a recent U.S. International Trade Commission case, was found by the ITC to have a U.S. market value in excess of a billion dollars a year. A patent owned by Corning Glass Works covering a patented manufacturing process for optical fiber waveguides, also the subject of an ITC case, is a basic patent in a multi-billion dollar telecommunications industry.

Process patent legislation is especially important to the emerging biotechnology industry in America. In the biotechnology field, often the only protection available is a process patent.

Although owners of U.S. process patents sometimes can obtain relief from the ITC in the form of an exclusion order under section 337 of the Tariff Act, that remedy is inadequate for several reasons:

1. The patent owner cannot obtain damages from the ITC, but only exclusion orders preventing importation;
2. ITC proceedings are more expensive and uncertain for patent owners than patent infringement litigation in federal district courts, because of the need in ITC proceedings to prove injury to an efficiently and economically operated domestic industry;
3. Temporary relief is almost impossible to obtain from the ITC;
4. Attorney fees are unavailable from the ITC; and
5. Relief can be denied by the ITC or overruled by the President for "policy" reasons.

We are aware that S. 1647 has been introduced in the Senate recently to strengthen the relief available under section 337 of the Tariff Act for patent, trademark, and copyright owners. We are in favor of that kind of legislation, but it should not be regarded as a substitute for S. 1543. Even if all of the provisions of S. 1647 are enacted, section 337 relief -- by its nature -- will not be a complete remedy for patent owners. For example, monetary

damages would still be available only in patent infringement suits in the federal district courts.

S. 1543 is entirely consistent with the aims of the Drug Price Competition and Patent Term Restoration Act of 1984, which allows quicker marketing of generic drugs after patents expire, but also strengthens incentives provided by patents for companies and inventors to perform research and development. S. 1543 would strengthen incentives for R&D on manufacturing processes in the drug industry, and in all other industries, by preventing competitors from taking a free ride on the results of the patent owner's R&D expenditures until the patent expires.

Like existing patent law covering product patents, S. 1543 requires sellers and users to respect patent rights. Retailers, like everyone else, are legally responsible if they infringe patents or sell counterfeit merchandise. By and large, the retailers in this country have respected the rights of inventors and patent owners. Further, retailers almost always are protected by hold-harmless clauses, as well as by section 2-312(3) of the Uniform Commercial Code. The UCC provides that a seller normally warrants against claims of patent and trademark infringement by third parties, unless the seller and buyer agree otherwise.

Retailers are no more likely to be sued for infringement of process patents under S. 1543 than they are to be sued for product patent infringement today. Retailers usually are not in a position to judge for themselves whether a patent is being infringed. They must rely on their suppliers and manufacturers to make these judgments. S. 1543 provides specifically in section 2(c) that retailers and other purchasers are not liable unless they know of, or are notified of, infringement.

Once purchasers were notified of infringement of a process patent, S. 1543 would make them proceed at their peril. This is as it should be. Purchasers proceed at their peril today after they are notified of product patent infringement. There is no other way to insure respect for patent rights.

Although the purpose of S. 1543 is to protect patent owners from importation of goods made overseas by using a process patented in the United States, the wording of the bill is broad enough to make sellers and users of products made in this country by a patented process liable for infringement as well. As we understand it, the bill was drafted this way to allay fears expressed by some authorities that the bill otherwise might violate our country's obligation under the General Agreement on Tariffs and Trade (GATT) not to discriminate against foreign-made products.

We believe this issue is not of much practical consequence, because a patent owner invariably would elect to file suit against the manufacturer if the manufacturing was occurring in the United States. Nevertheless, we suggest that the Subcommittee should study whether the GATT in fact requires the bill to cover products

manufactured in this country by a patented process. If the GATT does not require coverage of products manufactured in this country, the bill could be limited to products manufactured abroad, because the remedy provided by the bill is needed only to protect against imports.

Another point on which the Subcommittee should consider refining the bill concerns the circumstances in which a presumption of infringement should arise when the patent owner is unable to obtain information about the process used to manufacture a product. It can be very difficult to obtain information about the process used to manufacture a product if jurisdiction cannot be obtained over the foreign manufacturer.

The U.S. International Trade Commission has recognized a presumption of infringement in certain situations under the Tariff Act. A similar presumption is essential in cases under the patent code if S. 1543 is to be effective.

The text of S. 1543 is silent on when such a presumption should arise. Some earlier bills have included a provision to the effect that the product shall be presumed to have been made by a patented process if the patent owner has tried without success to determine the process actually used and the court finds a substantial likelihood that the product was produced by the patented process.

We recognize that the sponsors of the legislation plan to make clear in the committee report that the committee intends for courts to apply a presumption in appropriate cases, but we believe the best way to ensure the intended result is to include a definition of the presumption in the bill itself.

Section 3 of S. 1543 is a "grandfather" clause which exempts certain existing supply arrangements from the coverage of the bill. We believe the exemption granted by this section is broader than necessary. The first sentence of the section correctly limits the effect of the bill to products produced or imported after the date of enactment. The second sentence, however, which exempts products "already in substantial and continuous commercial production", should be eliminated or at least narrowed.

Maximum incentives for patent owners to manufacture in the United States would be achieved by deleting the second sentence entirely. We see no compelling reason to allow foreign manufacturers who are currently taking a free ride on the R&D investments of U.S. process patent owners to be allowed to continue to do so. If the second sentence is retained, the phrase "commercial production" should be changed to "sale or use in the United States", and the reference later in the same sentence "to investments made or business commenced" should be limited to the United States.

We urge the subcommittee to approve S. 1543 at an early date. This kind of legislation has widespread support from innovative U.S. firms. The appendix to our statement lists 73 companies and 12 associations which have authorized us to state that they favor enactment of legislation on process patents.

We appreciate the opportunity to present our views.

October 17, 1985

SUPPORTERS OF PROCESS PATENT LEGISLATION

We, the organizations listed below, support legislation giving the owner of a process patented in the U.S. the right to bring a suit for patent infringement against a party who imports a product which is manufactured abroad by using the process.

This legislation will keep foreign manufacturers from taking a free ride on R&D expenditures of U.S. companies. It will preserve jobs of U.S. workers. The proposed legislation is similar to provisions already in the patent laws of most industrialized countries.

We urge Congress to enact this legislation at an early date. If we can be of any assistance, please do not hesitate to call on us.

COMPANIES

AMERICAN CYANAMID CO.
Wayne, NJ

AGRIGENETICS CORP.
Boulder, CO

AIR PRODUCTS AND CHEMICALS, INC.
Allentown, PA

ALLIED-SIGNAL INCORPORATED
Morristown,

ALUMINUM COMPANY OF AMERICA
Alcoa Center, PA

AMERICAN HOME PRODUCTS CORPORATION
New York, NY

AMGEN
Newbury Park, CA

AMOCO CORPORATION
Chicago, IL

ARMSTRONG WORLD INDUSTRIES, INC.
Lancaster, PA

ASHLAND PETROLEUM CO.
Ashland, KY

BATTELLE MEMORIAL INSTITUTE
Columbus, OH

BAXTER TRAVENOL LABROATORIES, INC.
Deerfield, IL

BECTON, DICKINSON AND COMPANY
Paramus, NJ

BIOTECHNICA INTERNATIONAL, INC.
Cambridge, MA

THE BLACK & DECKER CORP.
Towson, MD

THE BOC GROUP, INC.
Montvale, NJ

BMC INDUSTRIES, INC.
Saint Paul, MN

BORG-WARNER CORPORATION
Chicago, IL

BRUNSWICK CORP.
Skokie, IL

CALGENE, INC.
Donis, CA

CALIFORNIA BIOTECHNOLOGY INC.
Mountainview, CA

CATERPILLAR TRACTOR CO.
Peoria, IL

CETUS CORPORATION
Emeryville, CA

CHEVRON RESEARCH COMPANY
San Francisco, CA

CIBA-GEIGY CORPORATION
Ardsley, NY

COMBUSTION ENGINEERING
Stamford, CT

"APPENDIX"

Companies Continued
Page Two
October 17, 1985

CORNING GLASS WORKS
Corning, NY

CPC INTERNATIONAL, INC.
Englewood Cliffs, NJ

DAMON BIOTECH
Needham Hts., MA

DIAMOND SHAMROCK CHEMICALS CO.
Painesville, OH

DOW CHEMICAL CO.
Midland, MI

DOW CORNING CORPORATION
Midland, MI

DRESSER INDUSTRIES, INC.
Dallas, TX

DuPONT COMPANY
Wilmington, DE

ELI LILLY AND COMPANY
Indianapolis, IN

ENERGY CONVERSION DEVICES, INC.
Troy, MI

ENGLEHARD CORPORATION
Iselin, NJ

FMC CORPORATION
Philadelphia, PA

GENECOR, INC.
San Francisco, CA

GENERAL ELECTRIC COMPANY
Fairfield, CT

GENEX CORP.
Rockville, MD

GERBER SCIENTIFIC, INC.
South Widsor, CT

HOFFMANN-LA ROCHE
Nutley, NJ

ILLINOIS TOOL WORKS INC.
Chicago, IL

JOY MANUFACTURING COMPANY
Pittsburgh, PA

THE LUBRIZOL CORP.
Wickliffe, OH

MANVILLE CORPORATION
Dayton, OH

MERCK & COMPANY, INC.
Rahway, NJ

MILLIKEN RESEARCH CORPORATION
Spartanburg, SC

MONSANTO CO.
Saint Louis, MO

MORTON THIOKOL, INC.
Chicago, IL

MYCOGEN
San Diego, CA

PFIZER, INC.
New York, NY

PHILLIPS PETROLEUM COMPANY
Bartlesville, OK

POLAROID CORPORATION
Cambridge, MA

THE PROCTER & GAMBLE CO.
Cincinnati, OH

ROHM AND HAAS COMPANY
Philadelphia, PA

SCHERING-PLOUGH CORP.
Madison, WI

SHELL OIL COMPANY
Houston, TX

THE SINGER COMPANY
Fairfield, CT

SMITHKLINE BECKMAN CORP.
Philadelphia, PA

STANDARD OIL COMPANY OF OHIO
Cleveland, OH

"APPENDIX"

Companies Continued
Page Three of Four
October 17, 1985

STAUFFER CHEMICAL COMPANY
Westport, CT

SUN REFINING AND MARKETING COMPANY
Philadelphia, PA

TECHNION, INC.
Irvine, CA

TEXACO DEVELOPMENT CORPORATION
White Plains, NY

3M
Saint Paul, MN

TRW
Cleveland, OH

UNION CARBIDE CORPORATION
Danbury, CT

UNITED TECHNOLOGIES CORPORATION
Hartford, CT

THE UPJOHN COMPANY
Kalamazoo, MI

VARIAN ASSOCIATES, INC.
Palo Alto, CA

WESTINGHOUSE ELECTRIC CORPORATION
Pittsburgh, PA

Page Four of Four
October 17, 1985

ASSOCIATIONS

AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.
Washington, DC

CHEMICAL MANUFACTURERS ASSOCIATION
Washington, DC

ELECTRONIC INDUSTRIES ASSOCIATION
Washington, DC

INDUSTRIAL BIOTECHNOLOGY ASSOCIATION
Rockville, MD

INTELLECTUAL PROPERTY OWNERS, INC.
Washington, DC

NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION
Washington, DC

NATIONAL ASSOCIATION OF MANUFACTURERS
Washington, DC

NATIONAL SMALL BUSINESS ASSOCIATION
Washington, DC

PHARMACEUTICAL MANUFACTURERS ASSOCIATION
Washington, DC

SMALL BUSINESS LEGISLATIVE COUNCIL
Washington, DC

SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION
New York, NY

U.S. CHAMBER OF COMMERCE
Washington, DC

(Names of contact people in the organizations listed above may be obtained by calling (202)466-2396. Additional organizations will be added to the list shortly.)