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Department of Justice

STATEMENT

OF

DOUGLAS H. GINSBURG
ASSISTANT ATTORNEY GENERAL
ANTITRUST DIVISION

BEFORE

THE

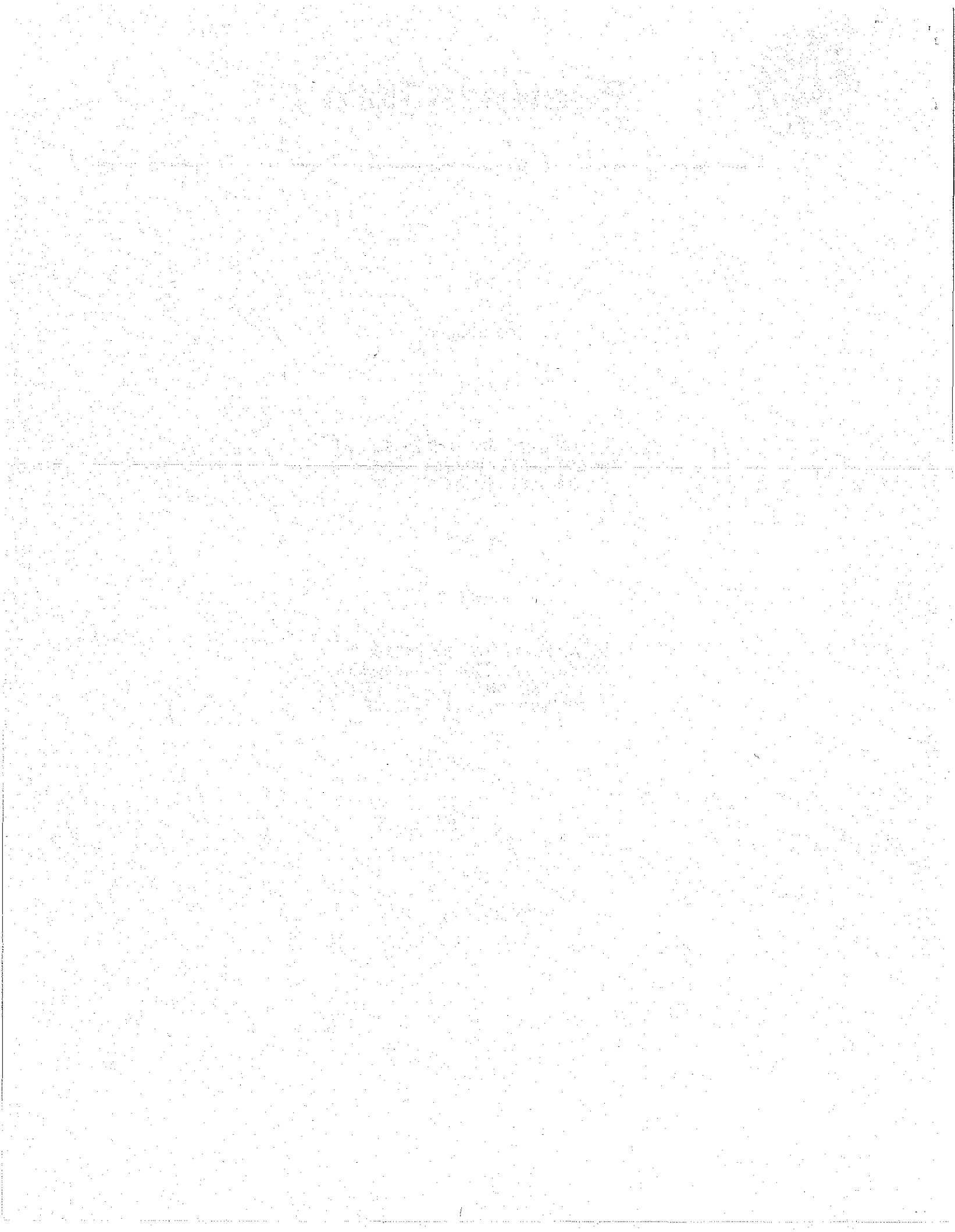
SUBCOMMITTEE ON PATENTS
COPYRIGHTS AND TRADEMARKS
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

CONCERNING

S. 1543

ON

OCTOBER 23, 1985



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present the Department's views on S. 1543, a bill that would protect the owners of United States process patents from the importation into the United States of goods made overseas by use of their patented processes. The Department strongly supports such legislation. We suggest certain amendments to this bill, which I will mention in a moment, but in general, we think that S. 1543 is conceptually and technically sound, and that passage of such legislation is long overdue. Indeed, on September 23, 1985, the President announced his commitment to work with Congress on legislation to protect intellectual property rights, including trade in articles that infringe U.S. process patents.

Adequate protection for patents and other intellectual property rights is of prime importance to research and development and thus to innovation and productivity. Without such protection, the incentives to engage in such activities are dulled, because others can freely appropriate much of the valuable technology produced thereby. This potential "free rider" problem is the basis for most of our intellectual property laws, including particularly our patent laws.

Because investment in research and development designed to create new processes--ways of creating new products or producing existing products more efficiently by using fewer of society's scarce resources--is so important, our patent laws must adequately protect inventions of this nature. Unfortunately, present patent law contains a troublesome loophole as far as process patents are concerned--a patentee cannot prevent the use abroad of its patented process and the subsequent importation and sale in the United States of products produced thereby. This loophole does not exist with respect to product patents, and it should be closed for process patents as well.

Under existing law, a patent is infringed only if the patented invention is made, used, or sold in the United States. Where a product patent is involved, a firm cannot avoid infringement by manufacturing the product overseas and then importing it into the United States because the use or sale of the product in the United States would infringe the patent. In the case of a process patent, however, there is no patent law that a patentee can use to stop a firm from practicing the process patent overseas and then selling the product made by that process in the United States. In such a case, technically, no one has made, used, or sold the patented process in the United States.

A patentee has two options to protect its patented process from such use overseas. First, it can seek to obtain a patent in as many overseas countries as possible and then sue for infringement of its foreign patents, in foreign courts, when the process is carried out in those countries. This option is inadequate because it is both expensive and difficult, if not impossible, to obtain adequate protection in all of the countries in which the process might be used.

The other option available to a patentee is to seek relief from the International Trade Commission for violation of 19 U.S.C. § 1337. 1/ Damages are not available to a patentee in a § 1337 proceeding, but the Commission can issue a cease and desist order against a particular firm if it finds that the firm is violating or there is reason to believe that it is violating § 1337. The Commission can also issue an exclusion

1/ Section 1337 provides that unfair methods of competition and unfair acts in the importation of articles into the United States, the effect or tendency of which is to destroy or substantially injure an industry efficiently and economically operated in the United States, or to prevent the establishment of such an industry, or to monopolize United States trade and commerce, are unlawful. Section 1337a provides that the importation of a product made under a patented process shall have the same status under § 1337 as the importation of a patented product. Since the case law has established the unauthorized importation of patented products as unfair acts under § 1337, § 1337a in effect means that the unauthorized importation of an unpatented product made by a patented process also may be unfair under § 1337.

order that would bar the importation of products made by the patented process if it finds that § 1337 has been violated. These options do not always adequately protect process patentees, however. In order to obtain a cease and desist order or an exclusion order, a patentee must show not only the importation of a product made by its patented process, but also that the effect or tendency of such importation is to destroy or substantially to injure a U.S. industry, or to restrain or monopolize U.S. trade and commerce. Moreover, cease and desist orders against particular firms may not be effective where importation of the offending product can easily find alternative channels. And enforcement of exclusion orders by customs officials can often be problematic because of the difficulty of differentiating products made by patented processes from those that were not. Thus, it can be difficult for a process patentee to obtain effective protection under § 1337 where its patented invention is practiced overseas and the resulting product is sold in the United States.

S. 1543 would help remedy this situation. It would make the unauthorized importation of products produced abroad by patented processes, as well as the use or sale of such products in the United States, an infringement of the patent, thus enabling process patentees to obtain injunctive and damage relief against such practices under the patent laws. At the

same time, it would protect innocent traders in such products by providing that damages for such an infringement may not be recovered from a person who did not actually use the patented process, except on proof that the infringer knew or was notified of the infringement, and continued to infringe thereafter. S. 1543 is thus an effective yet fair measure that should give process patentees important protection, thereby stimulating much needed research and development by American industry.

We do suggest two amendments to S. 1543. First, we think that the bill should establish in certain circumstances a rebuttable presumption that a product that could have been made by use of a patented process was in fact so made in infringement cases based upon importation, use, or sale. This presumption would address the great difficulties a patentee might otherwise have in proving that its patented process was actually used in the manufacture of the product in question where the foreign manufacturer is not subject to service of process in the United States. The burden of overcoming this presumption would be on the defendant in an infringement suit, regardless of whether it is a foreign manufacturer, an importer, or a subsequent purchaser. While the particular defendant might not necessarily have in its possession the means necessary to rebut the presumption, it would be likely to

be in a far better position than the patentee to obtain them. An importer, for example, because of its contractual and business relationship with the foreign manufacturer, would be able to exert influence on such manufacturer to produce the necessary information--at least if it would tend to establish a valid defense. A purchaser from an importer would, in turn, be able to exert a similar influence on that importer, which would be transmitted to the foreign manufacturer.

Presumptions of manufacture by a patented process, however, should not be established casually. An importer or subsequent purchaser might be unable to obtain the information needed to overcome such a presumption, even where the product in question was not in fact made by the patented process. At a minimum, the presumption would subject any party that uses, sells, or imports any product that might have been made by a patented process to increased litigation risks. Indeed, there is some risk that such a presumption might induce frivolous litigation intended only to discourage defendant firms from carrying products that compete with the patentee's product. To minimize these possibilities and avoid unfairness, we believe that two conditions should be satisfied before a product should be presumed to have been made by a patented process.

First, the patentee should demonstrate that there is at least a "substantial likelihood" that the product was made by the patented process. Evidence of this fact could include physical characteristics of the product itself, as well as expert testimony regarding known methods of production at costs that would justify sale of the product at the prices being charged. Exactly how much evidence would be needed in particular situations to satisfy the "substantial likelihood" condition would quickly develop in the case law. A patentee's burden obviously should be somewhat less than that of proving successfully at trial that a product in question was in fact made by his patented process. On the other hand, a patentee should have to establish more than a slight, even if reasonable, possibility that the product was so made.

Second, the patentee should show that it has made a reasonable effort, but failed, to determine what process in fact was used in the manufacture of the product in question. In other words, the patentee should have to make a good faith effort to prove this key element in its infringement case. A patentee should be expected to undertake discovery as well as other good-faith methods, as the court may deem appropriate. This burden should eliminate frivolous or unsound suits. We will be glad to supply the Subcommittee with draft statutory language that would establish the presumption I have discussed.

We also believe it may be appropriate to clarify that importation, use, or sale only of products directly produced by patented processes is to be considered infringement under the relevant provisions of Title 35 as they would be amended by S. 1543. A contrary interpretation, covering products produced with materials that were themselves produced by patented processes, could expand the scope of the legislation to an undesirable extent. We will be glad to work with the Subcommittee to determine the appropriate scope of protection.

Mr. Chairman, this concludes my prepared remarks. I would be glad to try to answer any questions you or the other members of the Subcommittee may have.