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STATEMENT OF

HARVEY E. BALE JR.

ASSISTANT UNITED STATES TRADE REPRESENTATIVE

FOR

TRADE POLICY DEVELOPMENT AND ANALYSIS

BEFORE THE

SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

OCTOBER 23, 1985

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you in support of S. 1543, the "Process Patent Amendment of 1985".

The Administration is fully committed to the changes in the law it embodies. We feel that the thrust of this bill would significantly improve the ability of Americans to protect their rights and the value of their process patents against foreign misappropriation. But we disagree with those who argue that that the bill would result in higher prices to Americans. This bill is important because it addresses a key issue for our future economic well

being, which is how to better protect our innovative and creative capacity.

Unlike the Agencies' of other witnesses appearing before this Subcommittee, the U.S. Trade Representative's Office has not had a long history of involvement with intellectual property issues.

While this is a relative new issue for us, it has quickly become one of the most important. Over the past two years we have had an ever-increasing number of complaints from U.S. industry about the trade related problems associated with inadequate intellectual property protection. Most of these problems are the consequence of the laws, or their absence, abroad.

Intellectual property protection is rapidly becoming one of the most critical trade and investment issues of this decade and beyond. U.S. services and industrial trade competitiveness are increasingly a function of innovation and know-how and we must safeguard these competitive factors. The Administration and our Office are hard at work, both domestically and internationally, to negotiate improvements in the system of protection of patents, copyrights, trademarks and other new technologies.

American industrial and services competitiveness is dependent our ability to enjoy the benefits our technological innovations. This requires adequate and effective protection for patents,

copyrights and trademarks. Unfortunately too many of our trading partners, both developed and developing countries, do not have adequate laws, fail to enforce them, or, the laws cannot prevent infringement of U.S. intellectual property rights. Thus, there is a need for vigorous efforts to increase the level of domestic and international protection.

For many countries, especially developing ones, the inadequacy of intellectual property protection often reflects these nation's misguided development strategies. In order to supplement the competitive edge of their products due to lower labor costs, they also adopt policies which attempt to make technology available within their economies at the lowest possible short-term price. Often this mean tolerating, or even condoning, the appropriation of foreigners' intellectual property rights, without adequate, prompt and effective compensation.

These policies cause three types of trade problems for Americans. First, U.S. companies can lose sales and the value of investment in the market where the American patent, trademark or copyright is appropriated without authorization. Alternatively, American can lose sales to third markets, when both the unauthorized product, and the legitimate one, are both sold. Finally, and most relevant for the bill you are considering, U.S. companies may lose sales in our own country to imports which are made using American know-how without adequate compensation.

For some time, the Administration has recognized the increasing problems associated with inadequate levels of protection of intellectual property internationally. In 1984, the Administration worked with Congress to develop new initiatives to enhance intellectual property protection through such legislation as the Trade and Tariff Act and the Semiconductor Chip Protection Act. We have also engaged in a series of consultations with foreign countries seeking to improve intellectual property protection, using the recently enacted legislation.

The Administration undertook two additional initiatives very recently in connection with the President's stepped up efforts in the area of international trade. First, the Administration has accelerated its international efforts both in terms of consultations, and in terms of actions under U.S. unfair trade practices laws. Last week, the President directed Ambassador Yeutter to initiate an investigation of the treatment of intellectual property by the Government of Korea under Section 301 of the Trade Act of 1974. Korea is just one country -- though a very important one -- where foreign holders of patents, copyrights and trademarks do not receive adequate protection. For examples, in 1984, sales by American chemical companies in Korea amounted to just \$29 million, while sales of products made through the unauthorized use of U.S. patents accounted for another \$70 million. Because these problems are not unique to Korea, other

countries may be subject to similar Section 301 investigations by the Administration in the future.

Second, the President stated on September 23, 1985 that he and the Administration would work with the Congress to enact legislation to help promote free and fair trade, including legislation to promote intellectual property, such as changes in the laws on process patents.

Currently our laws, unlike those of our major trading partners, give American holders of process patents very limited rights with respect to products made from the protected process. Under today's laws, U.S. process patent holders have two ways to protect themselves against imports made with the process without the patent owners' permission. These Americans can bring a case before the International Trade Commission under Section 337 of the 1930 Trade Act, or they can apply for patents abroad and seek to enforce them in foreign courts. Both remedies have a variety of shortcomings, which is why the Administration supports enactment of S.1543.

Let me focus on the problems associated with bringing an action under Section 337, because that is the procedure with which my Agency has the greatest experience. Under Section 337 the patent holder must establish that the product was made with the patented process. This is often impossible since information about

practices and production techniques are very difficult to obtain. This kind of discovery procedure is also very costly for the patent holder, thereby all but the largest companies are often precluded from using Section 337. In addition, the patent holder must be prepared to establish that importation will damage an established and efficiently operating domestic industry. This too is often difficult and costly. The patent holder must also establish that he is injured by the import. Finally, even if the ITC finds in favor of the patent holder, if the goods are already in U.S. commerce, he can get no relief since the ITC cannot award damages: the ITC's remedies are restricting future imports, or issuing a cease and desist order.

The other option available to Americans is equally ineffective. For instance, the patent-holder could try to obtain and enforce patents in a number of foreign countries. But this is both expensive, and often it will prove an empty victory since so many foreign countries do not effectively enforce their laws, or do not allow patenting of processes.

S. 1543 would provide effective protection to Americans against diminishment of their rights due to imports of products made through the unauthorized use of their patents. The Administration supports S.1543 because it would bring American practice into conformity with that of the other principal industrial nations. Our General Counsel's office has examined S. 1543, and the

proposed amendments, and their conclusion is that the bill's provisions are consistent with our obligations under the General Agreement on Tariffs and Trade.

This bill would provide U.S. process patent holders an additional avenue for protecting their rights, which could prove faster and more effective than under existing laws. But we believe the bill will prove ineffective unless it includes a provision shifting to the importer the burden of proving that the patented process was not used in making the challenged import. The Administration believes that this would not place an unreasonable burden on the importer since he is in a better position to establish whether or not the process was used, than the U.S. process patent holder. In addition such a provision would reduce the costs of discovery proceedings, thereby reducing the costs of protecting the rights granted by patents, making it possible for more companies to prevent foreign misappropriation of their rights.

In order to protect against abuse, the Administration supports requiring the American patent holder to establish certain facts and circumstances suggesting that his process was used, before the burden would shift to the importer. The elements which the plaintiff would have to establish are outlined in the Department of Justice testimony.

In addition, the Administration supports amending S. 1543 so it

applies only to products directly produced by the patented process. We recognize that there is a danger associated with this change: that some products may enter the United States which contain an important component made with the patented process, while the final product was not. We are prepared to work with your Committee to find an appropriate solution.

Mr. Chairman, the Administration supports the central thrust of S. 1543. Its adoption would bring U.S. law into conformity with those of the of the other industrial nations. But most importantly, it would improve the protection available to Americans against the actions of foreigners which severely diminish the value of their patents. The Trade Policy Review Group and the Economic Policy Council have reviewed the process patent issue, and, essentially, this is a bill which the Administration can support. The PTO and Justice have the technical expertise to work with you and your staff on substantive matters pertaining to your bill. For our part, we will continue to coordinate our efforts with both Agencies, to follow through on the Administration's trade policy commitments to Congress and the public.



Process Patent Protection in Group B Countries

Country	Process Patent protects its direct product	Importation constitutes infringement	Presumption in favor of process patentee
Austria <sup>1</sup>	yes		yes <sup>2</sup>
Belgium <sup>1</sup>	yes <sup>3,4</sup>	yes	
Canada	yes <sup>3,4</sup>		yes <sup>2,4</sup>
Cyprus <sup>5</sup>	yes	yes	
Denmark	yes	yes	
Finland	yes	yes	
France <sup>1</sup>	yes	yes	
Federal Republic of Germany <sup>1</sup>	yes		yes <sup>2</sup>
Great Britain <sup>1</sup>	yes	yes	
Greece	yes		yes <sup>2</sup>
Holy See <sup>6</sup>			
Iceland	yes	yes	
Ireland	unclear <sup>3,7</sup>		
Italy	yes		yes <sup>2</sup>
Japan	yes	yes	yes
Liechtenstein <sup>8</sup>	yes		yes
Luxembourg <sup>1,9</sup>	yes <sup>4</sup>		
Monaco <sup>6</sup>			
Netherlands <sup>1</sup>	yes		yes <sup>2</sup>
New Zealand	yes <sup>4</sup>		
Norway	yes	yes	
Portugal	yes	yes	
San Marino <sup>10</sup>	yes		yes <sup>2</sup>
South Africa	yes		yes
Spain	yes	yes <sup>4</sup>	
Sweden <sup>1</sup>	yes	yes	yes <sup>2</sup>
Switzerland <sup>1</sup>	yes		yes
Turkey <sup>9</sup>			
United States of America			

- 1 EPC member.
- 2 Applies to new substances only.
- 3 No clear statutory provision.
- 4 Apparently applies in at least some situations.
- 5 Registration in Cyprus of a United Kingdom patent confers the same rights in Cyprus.
- 6 No patent law.
- 7 Claims are permitted, but legal issues are apparently unsettled.
- 8 Liechtenstein and Switzerland constitute a single territory for patent purposes.
- 9 No copy of the national law was available.
- 10 Industrial property rights acquired in Italy are valid in San Marino and vice versa.

DENMARK

Section 3

(1) The exclusive right conferred by a patent shall imply that no one except the proprietor of the patent may without permission exploit the invention:

- (i) by making, offering, putting on the market or using a product which is the subject-matter of the patent, or by importing or stocking the product for these purposes;
- (ii) by using a process which is the subject-matter of the patent or by offering the process for use in this country if the person offering the process knows, or it is obvious in the circumstances, that the use of the process is prohibited without the consent of the proprietor of the patent;
- (iii) by offering, putting on the market or using a product obtained by a process which is the subject-matter of the patent or by importing or stocking the product for these purposes.

## FRANCE

### CHAPTER THREE

#### RIGHTS AND OBLIGATIONS ATTACHED TO THE PATENT

**Article 28. — 1.** The scope of protection conferred by a patent shall be determined by the terms of the claims. The description of the invention and the drawings, however, shall serve to construe the claims.

**2.** Where a patent relates to a process, the protection conferred by the patent shall extend to the products directly obtained by that process.

**Article 29. —** A patent confers the right to prohibit any other person, without the consent of the proprietor of the patent :

a) from making, offering, putting on the market, using, or importing or storing for such purposes the product to which the patent relates ;

b) from using a process to which the patent relates, or, where such other person knows, or where it is obvious in the

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circumstances, that the use of the process is prohibited without the consent of the proprietor of the patent, from offering the process for use within the French territory ;

c) from offering, putting on the market, using, or importing or storing for such purposes the product obtained directly by the process to which the patent relates.

# GREAT BRITAIN

## STATUTES, REGULATIONS, & TREATIES

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### *Patents Act 1977*

#### *Infringement*

**60.—(1)** Subject to the provisions of this section, a person infringes a patent for an invention if, but only if, while the patent is in force, he does any of the following things in the United Kingdom in relation to the invention without the consent of the proprietor of the patent, that is to say—

- (a) where the invention is a product, he makes, disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise;
- (b) where the invention is a process, he uses the process or he offers it for use in the United Kingdom when he knows, or it is obvious to a reasonable person in the circumstances, that its use there without the consent of the proprietor would be an infringement of the patent;
- (c) where the invention is a process, he disposes of, offers to dispose of, uses or imports any product obtained directly by means of that process or keeps any such product whether for disposal or otherwise.

#### § 5.

No-one may make an occupation of the following without the consent of the patentee:—1. Manufacturing, importing or offering for sale an article which is patented or prepared by a patented method; or 2. Using the patented method.—The following is however, permissible having no regard for a Patent:—a) The use of articles accompanying or connected with means of transport from other countries when these come to this country for limited periods, and b) The continued use of articles arrived by and belonging to means of transport which have been purchased abroad for Icelandic currency or for an Icelandic vessel which has broken down at sea and been repaired abroad.

## ITALY

**§ 2.-The patent concerning a new industrial method or process confers upon the patentee the exclusive use thereof.**

**The exclusive use includes also commercializing the product directly obtained by the new industrial method or process. If the product is a new one, every identical product is presumed to have been obtained, unless there is evidence to the contrary, by the method or process which is the subject of the patent.**

## JAPAN

3. "Working" in respect of an invention in this Law shall mean the following acts:

- (1) In an invention of a thing, acts of manufacturing, using, transferring, leasing, exhibiting for the purpose of transfer or lease, or importing the thing;
- (2) In an invention of a process, acts of using the process;
- (3) In an invention of a process of manufacturing a thing, acts of using, transferring, leasing, exhibiting for the purpose of transfer or lease, or importing the thing produced by the process in addition to those as mentioned in the preceding items.

## PORTUGAL

**ARTICLE 214.** A penalty of 500 to 10,000 escudos, to which may be added imprisonment for a period of from one to six months, will be imposed on those who, during the period of legal protection, should prejudice the owner of a patent in the exercise of his right in any of the following ways:

1. Manufacturing, without license from the title holder, the articles or products covered by the patent;

2. Employing, without the said license, the means and processes or

using new applications of means and processes forming the subject of the patent;

3. Importing, selling, offering for sale, putting in circulation or concealing, in bad faith, products obtained in any of the ways referred to.

## SWEDEN

### Section 3

The exclusive right conferred by a patent implies, with the exceptions stated below, that no one except the proprietor of the patent may, without the proprietor's consent, use the invention by

- 1) making, offering, putting on the market or using a product protected by the patent or importing or possessing such product for these purposes;
- 2) using a process which is protected by the patent or, while knowing, or it being obvious from the circumstances, that the use of the process is prohibited without the consent of the proprietor of the patent, offering the process for use in this country;

### STATUTES, REGULATIONS & TREATIES

- 3) offering, putting on the market, or using products made by a process protected by the patent or importing or possessing the product for these purposes.



## SWITZERLAND

<sup>1</sup> If the invention concerns a process, the effects of the patent shall extend to the immediate products of the process.

### Section 67

<sup>1</sup> If the invention concerns a process for the manufacture of a new product, every product of the same composition shall be presumed to have been made by the patented process until proof to the contrary has been adduced. B. Reversal of  
Ous of Proof

<sup>2</sup> Subsection 1 shall apply by analogy in the case of a process for the manufacture of a known product if the patentee shows *prima facie* evidence of infringement of the patent.

## WEST GERMANY

### PART NINE

#### Infringement of Patent

##### Article 47

- (1) A person who uses an invention contrary to the provisions of Articles 6, 7, and 8 may be sued by the injured party to enjoin such use.
- (2) A person making such use intentionally or negligently shall be liable for compensation to the injured party for the damage suffered therefrom. If the infringer has acted with only slight negligence, the court may fix, in lieu of compensation, an indemnity being between the damage to the injured party and the profit which has accrued to the infringer.
- (3) In the case of an invention whose subject matter is a process for the production of a new substance, any substance of the same nature shall, in the absence of proof to the contrary, be deemed to have been produced by the patented process.

##### Article 6

The effect of the patent shall be such that only the patentee is authorized to produce, put on the market, offer for sale, or use, the subject matter of the invention industrially, commercially or professionally. If the patent has been granted for a process, the effect shall also extend to the products obtained directly by means of such process.

**Convention  
on the Grant of European Patents  
(European Patent Convention)**

**Done at Munich on October 5, 1973**

*Article 64*

**Rights conferred by a European patent**

- (1) A European patent shall, subject to the provisions of paragraph 2, confer on its proprietor from the date of publication of the mention of its grant, in each Contracting State in respect of which it is granted, the same rights as would be conferred by a national patent granted in that State.**
- (2) 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.**
- (3) Any infringement of a European patent shall be dealt with by national law.**