AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
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STATEMENT OF

THOMAS F. SMEGAL, JR., PRESIDENT

AMERICAN
INTELLECTUAL PROPERTY LAW
ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

OCTOBER 23, 1985

ON

S. 1543, A BILL TO REFORM
PROCESS PATENT LAWS

The American Intellectual Property Law Association (AIPLA) is a national society of more than 5000 lawyers engaged in the practice of patent, trademark, copyright, licensing, and related fields of law affecting intellectual property rights. AIPLA membership includes lawyers in private, corporate, and government practice; lawyers associated with universities, small business, and large business; and lawyers active in both the domestic and international transfer of technology.

We commend the Subcommittee for continuing to press forward the effort to correct a long standing defect in the legal rights of the process patent owners. In the last Congress, a measure nearly identical to S. 1543 was unanimously approved by the full Judiciary Committee but was not enacted into law. The AIPLA supports S. 1543 and supports the efforts of the Subcommittee to see that it is enacted in this Congress.

There are facts and impressive statistics know to the Members of this Subcommittee which demonstrate that U.S. technical superiority in the world is now threatened. We in AIPLA know from first-hand experience that competition in world markets in high technology products and goods produced by advanced technological methods and processes is growing stiffer for American business each year. This declining ability to compete is clearly having a serious impact on American exports and imports and is contributing to America's massive trade deficit.

Many U.S. patents cover processes for making a product. Under those patents, the patentee has the right to exclude others from using the patented process in the U.S. A process patent owner can benefit from his invention by using it himself to make and sell a product or by licensing others to do so.

To evade the process patent owner's rights, unscrupulous persons may now use the protected process outside of the U.S. and import the resulting product into this country. This practice unfairly undercuts American inventors' rights and promotes unfair foreign competition in domestic U.S. markets.

This activity now constitutes an unfair method of competition within the scope of the Tariff Act [19 U.S.C. §1337(a)]. However this cause of action before the International Trade Commission is of limited use to aggrieved process patent owners. Not only must patent infringement be proved, but also the Commission must determine that the importation tends to "destroy or substantially injure an industry. . . . in the United States" [19 U.S.C. §1337]. Also, an Executive Order of exclusion must be obtained. In addition, the patent owner can only obtain this order of exclusion, and cannot obtain damages for past infringement.

The patent laws of the other industrialized countries do not permit this type of evasion of process patent owner's rights. Foreign manufacturers are protected and American manufacturers are not.

In our view, the only question of substance to be debated here is whether importation into the United States of products made by the process patented in the United States should or should not be an essential element of the remedy provided. In the 98th Congress, the House of Representatives passed a process patent bill which did provide that importation was an essential element. On the other hand, S. 1543 would allow an action for patent infringement whether the products were produced abroad by the protected process and imported or produced in the United States.

Except for those who profit by the exploitation of this weak point in the law, all agree that what must be stopped is damage to U.S. industry from this form of unfair competition by importation. However, we understand that the United States Trade Representative would prefer the broader bill, such as S. 1543, to avoid any possibility that it could be said to be inconsistent with United States obligations under the General Agreement on Tariffs and Trade.

We have two comments to make. First, there is no need which relates to the rights of process patent owners to have the broader bill. Process patent owners can currently take direct legal action against those who infringe their rights in the U.S. However, if S. 1543 were enacted, we believe the practical effort on cases involving domestic infringements of process patents would be negligible. In this type of situation, the patent owner and infringer are making and attempting to sell identical products in competition with each other. It is difficult to forsee a circumstance in which the patent owner

would choose to mount a legal attack against his potential customers when the infringer/competitor and real source of the problem is with the jurisdiction of U.S. courts. Second, we fail to understand how this legislation could violate the GATT even if enacted in the narrowed form which relates only to imported products. The intended purpose and actual effect would be to provide protection to U.S. patent owners that which is currently provided to patent owners in virtually all of the industrialized countries of the world. In response to such GATT related complaints from foreign governments, we would suggest our Trade Representative explain that the U.S. Congress has only provided protection which they have already provided.

In closing, we quote to you an amended version of a familiar maxim: "necessity is the mother of invention and good legislation". The relief provided to inventors by S. 1543 was recommended by President Johnson's Commission on the Patent System in 1966, by President Carter's Domestic Policy Review on Industrial Innovation in 1979, and earlier this year by President Reagan's Commission on Industrial Competitiveness. In 1966, when America was the apparently unchallenged leader in the world of commercial technology, curing this defect in process patent owner rights may have only been a good idea. Today, we believe it has become a very necessary legislative step which should be taken now.

Thank you.