NEWS & COMMENT

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Patent and Trademark Office

PETERSON TO BE NOMINATED AS DEPUTY COMMISSIONER OF PATENTS AND TRADEMARKS

On March 7th, President Reagan announced his intention to nominate Donald W. Peterson to be Deputy Commissioner of Patents and Trademarks.

Peterson, 57, has been working for Monsanto Company since 1953 and has been its associate general patent counsel since 1981. He graduated from Missouri School of Mines and Metallurgy (B.S., 1950) and St. Louis University Law School (J.D., 1957).

Peterson also served as trademark counsel for Monsanto and as patent counsel for Monsanto's Agricultural Products Company, its Commercial Products Company, and its Polymers and Petrochemicals Company.

Legislation

SENATE PANEL APPROVES BILLS ON PROCESS AND AGRICHEMICAL PATENTS

On March 11th, the Senate Subcommittee on Patents, Copyrights and Trademarks reported out legislation (S.1543 and S.1093) which would allow process patent holders to control infringing imports and would restore to agrichemical patent holders the period of their patent term lost to federal regulatory delay. While amendments in the nature of a substitute were offered for both bills, the changes are primarily refinements and leave the substance of the legislation in tact.

Background

Stronger protection for process patents was one of the few features of patent reform legislation (see H.R. 6286; 28 PTCJ 716, 737) that was not enacted into law (see P.L. 98-622; 29 PTCJ 38, 49) in the last Congress. The provision was siderailed at the last minute when the generic drug industry complained that the measure would make it more difficult to import certain chemical ingredients and, thus, would undermine one of the objectives of the earlier-passed "Drug Price Competition and Patent Term Restoration Act of 1984" (see P.L. 98-417; 28 PTCJ 576, 28 PTCJ 611), i.e., faster approval of generic equivalents of off-patent drugs.

On February 7th, Representative Carlos J. Moorhead (R-Calif.) introduced a bill (see H.R. 1069; 29 PTCJ 391) that would make unlawful the unauthorized use or sale within, or importation into, the U.S. of products made by means of a patented process. The bill provides the patentee with the benefit of a presumption that the imported product was produced via the patented process if certain circumstances exist. The bill would apply only to products produced or imported after the date of enactment.

Senator Charles McC. Mathias, Jr. (R-Md.) has also introduced process patent legislation (see S.1543; 30 PTCJ 331). His bill is similar to Moorhead's, with the exception that there is no express reference to a presumption that the accused product was made by means of a patented process. However, in introductory remarks, Mathias indicated that a committee report would make it clear that such a presumption should arise "in cases where it would be futile for the plaintiff to use the discovery procedures of the country where the foreign producer operated to demonstrate the process patent violation." S.1543 also differs from the House bill through its inclusion of a "grandfather clause" permitting the continued use, sale or importation of products "already in substantial and continuous commercial production on July 31, 1985, or for which substantial preparation for production was made before that date, to the extent equitable for the protection of investments made or business commenced before that date." This latter provision is intended to assuage the concerns of the generic drug industry.

The 98th Congress passed legislation that restored to the patent term of brand name drugs the period of time lost as a result of federal regulatory delay. See S.1538, now P.L. 98-417; 28 PTCJ 611, 28 PTCJ 576. Earlier versions of the legislation (see S.1306, 26 PTCJ 75, 87) also encompassed agricultural chemicals, such as pesticides and fertilizers. Patent term extension for agrichemicals was later made the subject of another bill (see H.R. 6034, 28 PTCJ 57, 65), which was approved by the House Judiciary Committee. See 28 PTCJ 441.

Last May, Senator Mathias introduced S.1093 (30 PTCJ 70, 96), which would add a new §158 to Title 35, extending the term of a patent on certain agricultural and chemical products in order to compensate for the time lost because of premarket regulatory review requirements, up to a maximum of five years. The Administration has expressed its strong support for the "principle" behind the bill, but has declined to endorse it as presently drafted. See 30 PTCJ 516.

Process Patent Protection

At the mark-up session, Senator Mathias offered an amendment in the nature of a substitute which retains the substance of S.1543 as introduced, but adds certain limitations on damages, notice requirements, and a presumption that the product was made by a patented process.

The damages provisions in the substitute for S.1543 are contained in a new section (b), and provide as follows:

- No damages would be available unless the infringer had notice of the infringement and continued to infringe thereafter.

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- Damages would be limited to a reasonable royalty per unit for infringements occurring after notice with respect to products acquired before notice.
- Damages would also be limited to a reasonable royalty per unit if the infringer: (1) purchased the product in good faith from a party in the United States who did not use the patented process; and (2) discloses to the patentee upon demand the identity and location of the party from whom the product was purchased.
- Full damages would be available against other infringers with respect to products received after notice of infringement.

A definition of "notice of infringement" was added to the bill, defining the term as "actual knowledge, or receipt of notification" that the product was made by an unauthorized use of a patented process. The notification in question must specify not only the patented process claimed, but also the reasons for believing that the patented process was used in producing the product. Filing an infringement action satisfies the notification requirement *if* the pleadings contain these specifications.

Finally, a section appears in the substitute embodying the presumption that was originally intended to appear in the legislative history. That section provides that, if a court finds (1) a substantial likelihood that the product was made by the patented process and (2) that the claimant made a reasonable effort to determine the process actually used but was unable to do so, the product is presumed to be produced by the patented process.

SENATE

Restoration for Agrichemical Patents

An amendment in the nature of a substitute was offered for S.1093 as well, in general responding to criticisms of the Patent and Trademark Office during a hearing last September before the subcommittee. The changes made to the legislation include the following:

- The provisions of the bill would be incorporated into a new §158 of Title 35.
- Provisions which distinguish treatment of patents claiming a conventional process and those claiming the use of recombinant DNA technology are deleted.
- Provisions precluding extension for later patents which disclose new uses for a previously approved product are deleted.
- The formula for calculating the term of the extension is simplified by counting the full regulatory review period.

PTCJ COMMENT: In a related development, compromise legislation is moving forward to enact a variety of reforms in the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA). Major chemical manufacturers have come to terms with environmental, labor and consumer groups, and consider their concessions on FIFRA reform necessary to generate support for patent term restoration.

Patents

TESTING OF INCOMPLETE INVENTION CONSTITUTED WILLFUL INFRINGEMENT

Talk about adding insult to injury: A company that was previously held liable for infringement for assembling and testing *less than a complete invention* will now have to pay treble damages on grounds its acts were willful. The defendant knew its own counsel regarded the whole prospect of assembling and testing the incomplete machine "as a lake coated with thin ice indeed," a majority of the U.S. Court of Appeals for the Federal Circuit notes, and yet failed to obtain specific approval for such tests. (Paper Converting Machine Co. v. Magna-Graphics Corp., 3/4/86)

Background

Paper Converting sued Magna-Graphics for infringement of a patent (Re. 28,353) covering a web-winding machine and method. The district court held the patent valid and willfully infringed (see 211 USPQ 788 (ED Wis. 1981), 526 PTCJ A-22), and the Seventh Circuit affirmed. See 680 F.2d 483 (CA7 1982). The judgment included an injunction against future manufacture and sale of the patented device. At this time, Magna-Graphics had in its plant a web-winding machine that was about 80% complete and being built under contract with a third party, Fort Howard Paper Co.

It was decided, with Fort Howard's acquiescence, to hold the machine unassembled pending expiration of the '353 patent. Certain tests were performed on the machine, however, after which it was delivered to Fort Howard unassembled, and remained unassembled during the remainder of the patent term.

On remand from the Seventh Circuit, the district court determined that because of the tests, the machine had become an "operable assembly," and, as such, an infringing article. The award of damages accordingly included the machine in the compensation base upon which treble damages were awarded.

The CAFC affirmed everything done below, not already affirmed by the Seventh Circuit, except the trebling of damages for the Fort Howard machine. While a majority of the court agreed that the machine infringed because of the tests, despite its unassembled state as delivered, it was "bothered" because the original determination of willfulness had been made before this infringement occurred. The case was therefore remanded for a new determination of willfulness as to the Fort Howard machine. See 745 F.2d 11, 223 USPQ 591 (CAFC 1984), 28 PTCJ 664.

The district court, after reopening the record, decided to reaffirm and reinstate its previous judgment. It noted that Magna-Graphics' patent attorney (Custin) expressed concern about the possible legal consequences of any testing of the Fort Howard machine and that both Magna-Graphics and Fort Howard were told not to make or test a *complete* assembly. The trial judge disbelieved testimony that the tests were discussed with Custin.

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has engaged in substantial advertising under the mark and has participated in many community events.

The evidence also supports a finding of likelihood of confusion, the court continues.

> [Text] While there was testimony that two deliverymen actually had confused the two businesses, these indications of actual confusion are not the strongest evidence supporting the plaintiff. More important is the facial similarity of the two names. * * * The defendant emphasized this similarity by printing "auto body specialists" on signs and business cards in the same style of lettering that the plaintiff used on its building, while displaying "Vallee's" in distinctly different lettering on a line above the principal phrase. Since the parties are in the same business, in the same geographical area, and use the same media of advertising to attract the same customers, the likelihood of confusion was clearly substantial. [End Text]

Legislation, Patents: On March 5th, Representative Robert W. Kastenmeier (D-Wis.) introducted H.R. 4316 to clarify the application of U.S. patent law to inventions developed in outer space.

Last June, Representative Kastenmeier introduced H.R. 2725 to create a new §105 in the Patent Act, providing that any invention "made or used in outer space on an aeronautical and space vehicle * * * under the jurisdiction or control of the United States shall be considered made or used within the United States for purposes of this title." After holding a hearing on the legislation, the House Subcommittee on Courts, Civil Liberties and the Administration of Justice reported H.R. 2725 with a proviso exempting from coverage those space vehicles specifically provided for by an international agreement to which the U.S. is a party.

H.R. 4316 is a clean bill embodying the amendments made to H.R. 2725 by the subcommittee.

Legislation, Section 337: On March 5th, Representative Bill Frenzel (R-Minn.) introduced legislation (H.R. 4312) to change §337 of the Tariff Act of 1930, as amended, 19 USC 1337, to relax the proofs required for intellectual property claims before the International Trade Commission.

Section 337 gives the U.S. International Trade Commission the general power to exclude imports that infringe U.S. intellectual property rights. A complaining party must prove that it is the victim of "unfair methods of competition," the effect of which is: (1) to destroy or substantially injure; (2) an efficient and economical industry; (3) operated in the U.S.; or (4) to prevent the establishment of such an industry; or (5) to restrain or monopolize trade and commerce in the U.S.

These provisions have been the subject of numerous reform proposals and legislative hearings. See S.1647, 30 PTCJ 507, 523; S.1860 and S.1869, 31 PTCJ 79, 90; H.R. 3776, 31 PTCJ 81; H.R. 3777, 31 PTCJ 80; and 31 PTCJ 331. In general, the reformers seek to ease the showing required of intellectual property owners by declaring that a showing of infringement alone is deemed to satisfy all or some of the elements of proof listed above.

Last November, the House Energy and Commerce Committee reported a far-reaching trade law reform bill (H.R. 3777), introduced by Representative John D. Dingell (D-Mich.). See 31 PTCJ 80. Among other things, H.R. 3777 would eliminate the need for intellectual property owners to prove injury and an efficiently operated industry once importation of an infringing article was established. Unlike other proposals (e.g., H.R. 3776 and S.1869), H.R. 3777 retains the required showing of a domestically operated industry.

Representative Frenzel's recently introduced H.R. 4312, containing only the provisions on §337 proposed in the more far-reaching H.R. 3777, amounts to a new, independent vehicle for these same reforms.

Copyright Royalty Tribunal, Cable Royalties: On March 10th, the Copyright Royalty Tribunal ordered the final distribution of cable royalty fees for the years 1979 through 1982. See 51 Fed. Reg. 8224, 3/10/86. The order comes after the Supreme Court refused to hear the last outstanding appeal over the fees for this period. See *The Christian Broadcasting Network v. Copyright Royalty Tribunal*, No. 85-926, 31 PTCJ 345.

For further information, contact Edward W. Ray, chairman Copyright Royalty Tribunal, 1111 20th Street, N.W., Washington, D.C. 20036. Telephone: (202) 653-5175.

Copyrights, Must Carry: The Federal Communications Commission, on March 11th, extended the period for comments on its proposed "must carry" rules for cable television.

Last summer, the U.S. Court of Appeals for the District of Columbia Circuit held that the Federal Communications Commission's "must carry" rules violated the First Amendment. See *Quincy Cable TV, Inc. v. FCC*, 768 F.2d 1434 (CADC 1985). The "must carry" rules required cable operators to transmit every over-the-air TV broadcast signal that is "significantly viewed" in a community or otherwise considered local.

On November 14th, the FCC initiated rulemaking procedures to resurrect the rules without constitutional defects. Under the proposed rules, the FCC would condition permission for a cable system to carry TV broadcasts — for purposes of §111(c) of the Copyright Act — upon the system's carriage of local TV signals as part of its minimum service "without discrimination or charge." See 50 Fed. Reg. 48232, 11/22/85; 31 PTCJ 129, 136. On February 27th, however, broadcasters and cable operators came to terms on a mutually acceptable formula for carriage of local signals, and agreed to be bound by that formula if it is adopted by the FCC. See 31 PTCJ 375.

On March 11th, the FCC agreed to extend the period for filing comments on its proposed "must carry" rules to March 21st in order to accept comments reflecting the industry compromise. See 51 Fed. Reg. 8339, 3/11/86.

Comments should refer to MM Docket No. 85-349 and be addressed to Federal Communications Commission, Washington, D.C. 20554. For further informa-

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