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HOUSE

BILL	DATE	PAGE(S)
H.R.4899	OCT 16 '86 (143)	H10458-62

ACTION:

Patent Equity: House agreed, with an amendment, to the Senate amendment to H.R. 4899, to amend title 35, United States Code, with respect to patented processes and the patent cooperation treaty—returning the measure to the Senate.

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PATENT EQUITY ACT

Mr. KASTENMEIER. Madam Speaker, I ask unanimous consent to take from the Speaker's table the bill (H.R. 4899) to amend title 35, United States Code, with respect to patented processes and the patent cooperation treaty, with a Senate amendment thereto, and concur in the Senate amendment with an amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment and the House amendment to the Senate amendment as follows:

Senate amendment: Page 2, strike out all including line 1 over to and including line 25 on page 4 and insert:

TITLE I—PATENTED PROCESSES

SEC. 101. This title may be cited as the "Process Patent Amendments Act of 1986".

SEC. 102. (a) Section 154 of title 35, United States Code, is amended by inserting after "United States," the following: "and, if the invention is a process, of the right to exclude others, to the extent provided in section 271(a)(2), from using or selling products produced thereby throughout the United States, or importing products produced thereby into the United States,".

(b) Section 271 of title 35, United States Code, is amended by—

(1) inserting "(1)" after "(a)";

(2) adding at the end of subsection (a), the following:

"(2) If the patented invention is a process, whoever without authority uses or sells within, or imports into, the United States during the term of the patent therefor a product produced by such process, infringes the patent. A product will no longer be considered to have been produced by a patented process once it has been materially changed by subsequent steps or processes.".

(c) Section 287 of title 35, United States Code, is amended by—

(1) striking out "Limitation on damages" in the section heading and inserting in lieu thereof "Limitation on damages and other remedies";

(2) inserting "(a)" before "Patentees,"; and

(3) adding at the end thereof the following new subsection:

"(b)(1) An infringer under section 271(a)(2) shall be subject to all of the provisions relating to damages and injunctions set forth in this title except to the extent that those remedies are limited by this subsection or section 3. The limitations on remedies set forth in this subsection shall not be available to any party who—

"(A) engaged in the actual practice of the patented process;

"(B) is owned or controlled by the party who engaged in the actual practice of the patented process;

"(C) owns or controls the party who engaged in the actual practice of the patented process;

"(D) having made a request for disclosure as provided in subsection (b)(5), fails to notify its supplier of patents identified in response to the request and to instruct its supplier to refrain from infringement of such patents; or

"(E) had knowledge prior to the infringement that a patented process was used to produce the product whose importation, use, or sale constituted the infringement.

"(2) No damages shall be recovered by the patentee unless the infringer had notice of the infringement and continued to infringe thereafter. Damages may be recovered only for infringement that occurred after notice of infringement.

"(3) No remedy may be obtained during the eighteen months after the date of notice for retail sales of a normal volume of products in inventory or on order at the time of notice, obtained from a party in the United States who did not use the patented process, provided the retailer discloses to the patentee, within 30 days from notice, the identity and location of the party from whom the products were purchased. Normal quantity of products in inventory and on order shall be determined by previous business practices, and could include units of a product ordered prior to notice and received within a period not to extend eighteen months after notice.

"(4) The remedy for the importation, use, or sale of units of the infringing product ordered prior to notice and imported, used, or sold in a manner consistent with the normal business practices of the infringer during the six months after the date of notice shall be limited to a reasonable royalty. The limitation in this subparagraph shall not be

available to any party who failed to make a request for disclosure, as defined in subparagraph (5), of the party asserting infringement or its licensee.

"(5)(A) For purposes of this paragraph, a 'request for disclosure' means a written request made to a party then engaged in the manufacture of a product to identify all process patents owned by or licensed to that party as of the time of the request that could reasonably be asserted to be infringed under section 271(a)(2) if that product were imported into, or sold or used in, the United States by an unauthorized party. A request for disclosure is further limited to a request—

"(i) made by a party regularly engaged in the sale of the same type of products as the party to whom the request is directed, or a request which includes facts showing that the requester plans to engage in the sale of such products; and

"(ii) made prior to such party's first importation, use or sale of units of the product produced by an infringing process and prior to notice of infringement.

"(B) In any action where the infringer made a request for disclosure from the party asserting infringement and the infringed patent was not identified within 60 days, the remedy for the importation, use, or sale of units of the infringing product which are imported, used, or sold by the infringer in a manner consistent with the normal business practices of the infringer during the eighteen months after the data of notice shall be limited to a reasonable royalty.

"(C) For the purposes of the limitations on remedies in this subsection—

"(i) no party may make more than one request for disclosure of the same party for the identification of process patents for producing a particular product; and

"(ii) no party who has received the benefit of the limitations of this paragraph or paragraph (4) with respect to the infringement of one process patent shall be entitled to that benefit in the event of a subsequent infringement of any process patent for producing the same product owned by the same patentholder at the time of the first infringement.

"(6) For the purposes of the remedy limitations in subsection (b), notice of infringement means actual knowledge, or receipt of notification, that a product was produced by a patented process without authorization of the patentee. A notification shall constitute notice of infringement only if it is in writing an sets forth facts which are sufficient to establish that there is a substantial likelihood that the product was made by the infringing process. Filing an action for infringement shall constitute notice of infringement only if the pleadings or other papers filed in the action meet the requirements of a notification.".

(d) The table of sections for chapter 29 of title 35, United States Code, is amended by amending the item relating to section 287 to read as follows:

"287. Limitations on damages and other remedies; marking and notice.".

SEC. 103. (a) This title and the amendments made by this title shall apply only to products produced or imported after the date of enactment, and shall not abridge or affect the right of any persons or their successors in business to continue to use, sell or import any specific product already in substantial and continuous sale or use in the United States on July 1, 1986, or for which substantial preparation for such sale or use was made before such date, to the extent equitable for the protection of commercial investments made or business commenced in the United States before such date.

(b) This title and the amendments made by this title shall not deprive a patent owner of any other remedies available under seciton 271 of title 35, United States Code, section 337 of the Tariff Act of 1930, or any other provision of law.

SEC. 104. Beginning on the date one year after the date of enactment of this title and each year for 4 additional years thereafter, the Department of Commerce shall submit an annual report to the Congress on the effect of this title and the amendments made by this title, on the importation of ingredients to be used for manufacturing products in the United States in those domestic industries that submit formal complaints to the Department alleging that their legitimate sources of supply have been adversely affected.

SEC. 105. (a) Chapter 29 of title 35, United States Code, is amended by adding at the end thereof the following:

"§ 295. Presumption: product produced by patented process

"In actions alleging infringement of process patent based on use, sale, or importation of a product produced by the patented process, if the court finds (1) that a substantial likelihood exists that the product was produced by the patented process and (2) that the claimant has made a reasonable effort to determine the process actually used in the production of the product and was unable so to determine, the product shall be presumed to have been so produced, and the burden of establishing that the product was not produced by the process shall be on the party asserting that it was not so produced.".

(b) The table of sections for chapter 29 of title 35, United States Code, is amended by adding after the item relating to section 294 the following:

"295. Presumption: product produced by patented process.".

House Amendment to the Senate Amendment: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

TITLE I—PATENTED PROCESSES

SEC. 101. SHORT TITLE.

This title may be referred to as the "Process Patent Amendments Act of 1986".

SEC. 102. RIGHTS OF OWNERS OF PATENTED PROCESSES.

Section 154 is amended by inserting after "United States," the following: "and, if the invention is a process, of the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process,".

SEC. 103. INFRINGEMENT FOR IMPORTATION, SALE, OR USE.

Section 271 is amended by adding at the end the following new subsection:

"(g) Whoever without authority imports into the United States or sells or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—

"(1) it is materially changed by subsequent processes; or

"(2) it becomes a minor or nonessential component of another product.".

SEC. 104. DAMAGES FOR INFRINGEMENT.

(a) LIMITATIONS AND OTHER REMEDIES.—Section 287 is amended—

(1) in the section heading by striking "Limitation on damages" and inserting "Limitation on damages and other remedies";

(2) by inserting "(a)" before "Patentees"; and

(3) by adding at the end the following:

"(b)(1) An infringer under section 271(g) shall be subject to all the provisions of this title relating to damages and injunctions except to the extent those remedies are modified by this subsection or section 106 of the Process Patent Amendments Act of 1986. The modifications of remedies provided in this subsection shall not be available to any person who—

"(A) practiced the patented process;

"(B) owns or controls, or is owned or controlled by, the person who practiced the patented process; or

"(C) had knowledge before the infringement that a patented process was used to make the product the importation, use, or sale of which constitutes the infringement.

"(2) No remedies for infringement under section 271(g) of this title shall be available with respect to any product in the possession of, or in transit to, the infringer before the infringer had notice that the product was made by a process patented in the United States.

"(3) In an action brought for infringement under section 271(g), the court shall take into consideration the good faith and reasonable business practices demonstrated by the infringer and the need to restore the exclusive rights of the patentee.

"(4) For the purposes of this subsection, notice of infringement means actual knowledge, or receipt of notification, that a product was made by a patented process without authorization of the patentee. A notification shall constitute notice of infringement only if it is in writing and sets forth facts which are sufficient to establish that there is a substantial likelihood that the product was made by the infringing process. Filing an action for infringement shall constitute notice of infringement only if the pleadings or other papers filed in the action meet the requirements of a notification set forth in the preceding sentence. For the purposes of this subsection, a person who obtains a product made by a process patented in the United States in a quantity which is abnormally large in relation to the volume of business of such person or an efficient inventory level shall be rebuttably presumed to have actual knowledge that the product was made by such patented process.".

(b) TECHNICAL AMENDMENT.—The item relating to section 287 in the table of sections for chapter 29 is amended to read as follows:

"287. Limitations on damages and other remedies; marking and notice.".

SEC. 105. PRESUMPTION IN INFRINGEMENT ACTIONS.

(a) IN GENERAL.—Chapter 29 is amended by adding at the end the following:

"§ 295. Presumption: Product made by patented process

"In actions alleging infringement of a process patent based on the importation, sale, or use of a product which is made from a process patented in the United States, if the court finds—

"(1) that a substantial likelihood exists that the product was made by the patented process, and

"(2) that the claimant has made a reasonable effort to determine the process actually used in the production of the product and was unable so to determine,

the product shall be presumed to have been so made, and the burden of establishing that the product was not made by the process shall be on the party asserting that it was not so made.".

(b) CONFORMING AMENDMENT.—The table of sections for chapter 29 is amended by adding after the item relating to section 294 the following:

"295. Presumption: Product made by patented process.".

SEC. 106. EFFECTIVE DATE.

(a) IN GENERAL.—The amendments made by this title shall apply only to products made or imported after the date of the enactment of this Act, but shall not abridge or affect the right of any person or any successor in business of such person to continue to use, sell, or import any specific product already in substantial and continuous sale or use by such person in the United States on July 1, 1986, or for which substantial preparation by such person for such sale or use was made before such date, to the extent equitable for the protection of commercial investments made or business commenced in the United States before such date.

(b) RETENTION OF OTHER REMEDIES.—The amendments made by this title shall not deprive a patent owner of any remedies available under subsections (a) through (f) of section 271 of title 35, United States Code, under section 337 of the Tariff Act of 1930, or under any other provision of law.

SEC. 107. REPORTS TO CONGRESS.

(a) CONTENTS.—The Secretary of Commerce shall, not later than the end of each 1-year period described in subsection (b), report to the Congress on the effect of the amendments made by this title on the importation of ingredients to be used for manufacturing products in the United States in those domestic industries that submit complaints to the Department of Commerce, during that 1-year period, alleging that their legitimate sources of supply have been adversely affected by the amendments made by this title.

(b) WHEN SUBMITTED.—A report described in subsection (a) shall be submitted with respect to each of the five 1-year periods which occur successively beginning on the date of the enactment of this Act and ending five years after that date.

Mr. KASTENMEIER (during the reading). Madam Speaker, I ask unanimous consent that the amendments be considered as read and printed in the RECORD.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

The SPEAKER pro tempore. Is there objection to the initial request of the gentleman from Wisconsin?

Mr. MOORHEAD. Madam Speaker, reserving the right to object, I do so, so that I may yield to the gentleman from Wisconsin for an explanation as to the purpose of his unanimous consent request.

Mr. KASTENMEIER. Madam Speaker, will the gentleman yield?

Mr. MOORHEAD. I yield to the gentleman from Wisconsin.

Mr. KASTENMEIER. I thank the gentleman for yielding.

Madam Speaker, I will be pleased to explain.

Madam Speaker, this afternoon the House has before it the Patent Equity Act of 1986. This bill is a product of more than 4 years of work by the Committee on the Judiciary.

The bill contains two titles; title I relates to process patents and title II implements the Patent Cooperation Treaty.

In general terms, title I of the bill provides that it is an act of patent infringement, for a person to import, use or sell a product which has been made in violation of a U.S. process patent.[1]

Under current patent law, the manufacture and subsequent importation of the product of an item in violation of a process patent does not constitute an infringement of a U.S. patent. This bill remedies that omission.

Now, I want to particularly congratulate my colleague, Mr. MOORHEAD; it is his persistence and his interest in this legislation that has, I think, largely been responsible for getting this bill to the floor.

Two years ago a similar bill was passed by the House but was not enacted because of last minute opposition in the other body. Hopefully H.R. 4899 will meet a better fate this Congress.

American patent law has long recognized the validity of securing for inventors the right to exclude others from practicing an invention that consists of a method of making a product. Process patent protection has been a part of U.S. law since at least the 19th century. Process patents extend intellectual property protection for new and useful processes, art or methods of creating an object. Since 1952 there has been an explicit statutory acknowledgment of the availability of process patent protection. Process patents, however, have been granted only partial protection against acts of infringement. This is so because, unlike product patents, the use of a patented process outside the United States and a subsequent importation of the foreign product is not an act of patent infringement. The failure to fully protect American process patents harms American businesses, results in a loss of domestic jobs and is contrary to the public interest. Therefore, one of the positive factors about title I of H.R. 4899 is that it creates a level international playing field for American inventors contrary to the public interest. Many foreign countries adequately protect process patents, thus leaving American patent holders in a position to become the victims of unfair competition.

Process patent protection today is of central importance in the pharmaceutical industry, to the development of solid state electronics, for the manufacture of certain amorphous metals and, perhaps most significantly, for the biotechnology industry. For most biotech companies the best—and sometimes only—available protection of their intellectual property is a process patent. Such a patent is effective in securing for the inventor the right to prevent others from practicing that invention in the United States. Under current law a process patent is limited to the territory of the United States; it therefore is possible—if not likely—for a process patent holder to face domestic competition from persons who have used the patented process to create a product overseas and then ship it into the United States. In this situation the patent owner cannot sue for patent infringement; rather, the owner is relegated to the U.S. International Trade Commission (ITC) to seek limited nonmonetary relief.

There is no logical reason to exclude form the ambit of patent infringement acts associated with the abuse of a U.S. process patent as long as they occur within the reach of U.S. domestic law. Moreover, as the President's Commission on Industrial Competitiveness has found, the failure to extend such protection diminishes the economic value of U.S. process patents. Without domestic legal protection, competitors using the protected process may accept the limited risks of foreign production costs. There is no policy justification for encouraging such overseas production and concurrent violation of U.S. intellectual property rights.

The compelling nature of this deficiency in U.S. patent laws has been evident both in the Congress and to the executive branch. Reform in this area is a centerpiece in trade law reform.

The bill before us contains provisions which attempt to meet some other objections to the bill which have been heard from a variety of quarters.

[1] A product will be considered made by the patented process regardless of any subsequent changes if it would not be possible or commercially viable to make that product but for the use of the patented process. In judging the commercial viability, the courts shall use a flexible standard which is appropriate to the competitive circumstances. For example, where the patented process is to produce chemical X, and chemical X is an intermediate or precursor in the manufacture of imported product chemical Y, and it would not be possible or commercially viable to make imported product chemical Y but for the use of the patented process for the intermediate or precursor chemical X, the connection between the patented process for chemical X and the imported product chemical Y is not broken and the imported product Y is not materially changed for purposes of this section.

In the biotechnology field it is well known that naturally occurring organisms contain within them particular genetic sequences composed of unique structural characteristics. The patented process may be for the process of preparing a DNA molecule comprising a specific genetic sequence. A foreign manufacturer uses the patented process to prepare the DNA molecule which is the product of the patented process. The foreign manufacturer inserts the DNA molecule into a plasmid or other vector and the plasmid or other vector containing the DNA molecule is, in turn, inserted into a host organism; for example, a bacterium. The plasmid-containing host organism still containing the specific genetic sequence undergoes expression to produce the desire polypeptide. Even though a different organism was created by this biotech procedure, if it would not have been possible or commercially viable to make the different organism and product expressed therefrom but for the patented process, the product will be considered to have been made by the patented process.

The amendment at the desk—unlike the Senate amendment we called up on Tuesday—has the strong support of the administration. The amendment differs from both the House passed bill H.R. 4899 and the Senate amendment is that it defines the act of patent infringement to occur with respect to a product made in violation of a process patent only with respect to goods acquired after the alleged infringer knew or was on notice that the goods had been so produced. The amendment at the desk does not include any compulsory licenses. The bill protects against unscrupulous stockpiling of goods before notice to protect patent holders while also requiring that such intellectual property owners to exhaust their remedies against importers and others before obtaining relief against retailers. It is our hope that this limited bill will meet with favor in the other body.

In sum, these amendments go part of the way toward meeting the objections of the bill's opponents.

Title I will help address the U.S. trade deficit and inability to protect American intellectual property overseas. It is supported by much of American industry and by the administration.

Title II of H.R. 4899 amends our patent laws to authorize the U.S. Patent and Trademark Office to undertake the responsibilities outlined in chapter II of the Patent Cooperation Treaty. Basically, the PTO is granted statutory to serve as an international examining office with respect to international patent applications. This new responsibility is in addition to those under chapter I, which the PTO has already undertaken in accordance that it was enacted into law during the 98th Congress.

The Patent Cooperation Treaty is administered effectively and fairly by the World Intellectual Property Organization, located in Geneva, Switzerland. The significance of the treaty is underscored by an observation made by the WIPO Director General, Dr. Arpad Bogsch: "The PCT system has been revised over the years as is now an even more important instrument for filing patent application abroad."

Enactment of title II is supported by the administration and by numerous patent law associations and individuals, including most recent the American Bar Association.

By facilitating the obtaining of patent protection abroad, the legislation will promote exports from the United States. It further will simplify and render more economical the filing of patent applications on the same inventions in different countries and the receiving of patent coverage in those countries.

In conclusion, H.R. 4899 will improve patent protection not only in this country but also internationally. I urge your support for this important legislation.

THE DEPUTY SECRETARY OF COMMERCE,
Washington, DC, October 16, 1986.

Hon. ROBERT W. KASTENMEIER,
Chairman, Subcommittee on Courts, Civil Liberties and the Administration of Justice, Committee on the Judiciary, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Secretary and I were pleased to learn that you have developed a new proposal to stop the unauthorized importation, use or sale in this country of products made by a U.S. process patent. The bill you have crafted contains a fair approach for dealing with innocent infringers of U.S. process patents, while avoiding the compulsory licensing provisions that the Senate included in H.R. 4899. As I understand it, your new proposal achieves this goal by providing liability for products ordered after notice, while at the same time providing safeguards against stockpiling of infringing products.

If enacted, your approach would improve our patent laws. It would also enable our Government to continue its quest for improved intellectual property protection abroad without being undermined by the unfortunate provisions added to H.R. 4899 by the Senate. By extending protection to products of patented processes with the safeguards in your bill, Congress will strengthen the hand of the United States both in bilateral discussions with pirating nations as well as in its efforts to obtain strong intellectual property protection in the new round of multilateral trade negotiations.

On behalf of the Administration, I thank you for your tireless efforts to find acceptable process patent legislation which fairly protects innocent infringers. I also congratulate you on the balanced solution you have developed. I will actively support enactment of your compromise in these waning days of the 99th Congress with the hope that the owners of U.S. process patents will finally obtain the kind of protection to which they are entitled.

Sincerely,

CLARENCE J. BROWN.

Mr. MOORHEAD. Further reserving the right to object, I think this is an excellent piece of legislation, very much needed by our country.

Madam Speaker, most 17-year patents are obtained on products invented and if that patent is infringed by the manufacture, use, or sale either in this country or infringed abroad and brought back to this country, it can be stopped and damages awarded to the patent owner.

Now process patents are different; the patent is only on the method of making a certain product. For example, a new method of making gasoline or interferon, is patentable, the products themselves are not patentable. Now the present loophole in the law exists where products are made abroad using a U.S. patented process and the goods made by that process are then shipped into this country and compete with the local U.S. product; that is legal in this country. It's not legal in Japan, England, West Germany, France, Switzerland, and numerous other countries. That's the problem we are trying to correct with this legislation.

Commerce Department Objection: Presently there is no protection for U.S. process patents which are infringed abroad. This legislation provides 17 years of protection, however, the Senate compromise has an 18-month exception in certain cases to allow retailers who did not have notice of any infringement to sale off their inventory. So in that case, a patent owner would only have 15½ rather than 17 years of protection, that is, if the retailer took the full 18 months to dispose of the violating inventory. The U.S. patent owner today gets nothing. I would rather have my bill which doesn't have this 18-month exception in it, but it's a compromise which has the support of the Pharmaceutical Manufacturers Association, the retailers, the generics, the unions, but not the Department of Commerce. Their complaint is that this 18-month grace period is like a compulsory license; that is, a patent is being used without permission or consent for 18 months. Present law is, it can be used in the United States forever without the patent owner's permission or consent. And under the compromise, at least the U.S. patent owner will get 15½ years where now he gets nothing.

The Department of Commerce says that this is a compulsory license and will undermine their efforts to persuade Third World countries not to draft compulsory licenses in their law. This may be a valid concern but I believe our overriding public policy mandates that we try and help our local U.S. industries, and we can make clear to the Third World countries that this is not a compulsory license.

I would like to be very clear about this point and that is, this legislation contains no compulsory licensing scheme, nor was such ever intended, and if there was such, I would strongly oppose it. It merely sets up a mechanism to provide protection for U.S. process patents which they presently do not now have. There are circumstances, however, wherein for a limited period of time a patent holder does not have exclusive rights, but that is because we are trying to balance the interest of people who purchased a lot of goods without knowledge and without an intention to infringe someone's patent and for those who suggest this is a compulsory license. I want to make clear that it is not, and I believe our U.S. Trade Office will eventually agree with my position. However, this new compromise I understand has the strong support of the Department of Commerce and I hope the other parties will accept it when it goes back to the other body.

This sort of evasion of our patent law is costly, not only in actual revenue lost but also to the number of U.S. jobs that are actually lost to foreign manufacturers. For example, we have a letter in our file from the Glass Workers Union, which states that they believe this present practice has cost their industry alone upward of 50,000 jobs.

I urge support for this issue.

Mr. MOORHEAD. Madam Speaker, further reserving the right to object, I yield to the gentleman from Pennsylvania.

Mr. WALKER. I thank the gentleman for yielding.

Madam Speaker, as the one who objected the other day on behalf of the administration, I want to congratulate both the majority and the minority for working out the problem that was in the bill at that point from the administration's veiwpoint and bringing to us today a bill that could be unanimously approved.

I thank the gentleman for yielding.

Mr. MOORHEAD. Madam Speaker, further reserving my right to object, I wish to congratulate and thank the gentleman from Wisconsin for his tireless efforts in getting this legislation through the Congress. I introduced legislation on this subject earlier in the Congress. He has carefully moved it through our subcommittee, to the committee, and to this point.

There are issues that needed to be worked out. I believe they have been worked out. I wish to thank the gentleman for his efforts.

Madam Speaker, I withdraw my reservation of objection.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

A motion to reconsider was laid on the table.