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HOUSE

| BILL | DATE | PAGE(S) |
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| H.R.4899 | SEP 16 '86 (121) | H6919-22 |

ACTION: AMENDED AND PASSED UNDER SUSPENSION OF THE RULES

Thomson West - Document Review

## PATENT EQUITY ACT

Mr. KASTENMEIER. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 4899) to amend title 35, United States Code, with respect to patented processes and the patent cooperation treaty, as amended.

The Clerk read as follows:

H.R. 4899

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE.

This Act may be cited as the "Patent Equity Act".

SEC. 2. REFERENCE TO TITLE 35, UNITED STATES CODE.

Whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of title 35, United States Code.

### TITLE I—PATENTED PROCESSES

SEC. 101. 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. 102. INFRINGEMENT FOR IMPORTATION OR SALE.

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 of a product unless there is no adequate remedy under this title for infringement on account of the importation or 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. 103. DAMAGES FOR INFRINGEMENT.

Section 287 is amended—

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

"(2) by adding at the end the following:

"(b)(1) No damages may be recovered for an infringement under section 271(g) of this title with respect to a product unless the infringer knew or was on notice that the product was made by a process patented in the United States. Damages may be recovered only for such infringement occurring after such knowledge or notice and, with respect to—

"(A) a product obtained before such knowledge or notice, or

"(B) a product which—

"(i) is purchased pursuant to a contract that is entered into before such knowledge or notice and that provides for the delivery of a fixed quantity of the product in a specified period of time, and

"(ii) is in the inventory of or in transit to the purchaser, or is received by the purchaser within 6 months after such knowledge or notice,

shall be limited to reasonable royalties therefor.

"(2) For purposes of paragraph (1), 'notice' means the receipt of facts set forth in writing which are sufficient to establish that there is a substantial likelihood that the product was made by an infringing process.".

SEC. 104 EFFECTIVE DATE.

The amendments made by this title apply to United States patents granted before, on, or after the date of the enactment of this Act, except that these amendments do not apply to any product imported into or made in the United States before such date.

SEC. 105. REPORTS TO CONGRESS.

(a) CONTENTS.—The Secretary of Commerce shall, not later than the end of each one-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 one-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 one-year periods which occur successively beginning on the date of the enactment of this Act and ending five years after that date.

### TITLE II—PATENT COOPERATION TREATY AUTHORIZATION

SEC. 201. DEFINITIONS.

(a) TREATY.—Section 351(a) is amended by striking ", excluding chapter II thereof".

(b) REGULATIONS.—Section 351(b) is amended by striking "excluding part C thereof".

(c) INTERNATIONAL SEARCHING AUTHORITY AND INTERNATIONAL PRELIMINARY EXAMINING AUTHORITY.—Section 351(g) is amended by striking "term 'International Searching Authority' means" and inserting "terms 'International Searching Authority' and 'International Preliminary Examining Authority' mean".

SEC. 202. TIME FOR FILING FEES.

Section 361(d) is amended to read as follows:

"(d) The international fee, and the transmittal and search fees prescribed under section 376(a) of this part, shall be paid either on filing of an international application or within such later time as the Commissioner may prescribe.".

SEC. 203. PATENT OFFICE AS INTERNATIONAL PRELIMINARY EXAMINING AUTHORITY.

(a) AUTHORITY OF PATENT OFFICE.—Section 362 is amended to read as follows:

"§ 362. International Searching Authority and International Preliminary Examining Authority

"(a) The Patent and Trademark Office may act as an International Searching Authority and an International Preliminary Examining Authority with respect to international applications in accordance with the terms and conditions of an agreement which may be concluded with the International Bureau, and may discharge all duties required of such Authorities, including the collection of handling fees and their transmittal to the International Bureau.

"(b) The handling fee, preliminary examination fee, and any additional fees due for international preliminary examination shall

be paid within such time as the Commissioner may prescribe.".

(b) CONFORMING AMENDMENT.—The item relating to section 362 in the table of sections for chapter 36 is amended to read as follows:

"362. International Searching Authority and International Preliminary Examining Authority.".

SEC. 204. INTERNATIONAL STAGE: PROCEDURE.

Section 364(a) is amended by striking "or International Searching Authority, or both," and inserting ", an International Searching Authority, or an International Preliminary Examining Authority,".

SEC. 205. SECRECY OF INTERNATIONAL APPLICATIONS.

Section 368(c) is amended by striking "or International Searching Authority, or both," and inserting ", an International Searching Authority, or an International Preliminary Examining Authority".

SEC. 206. COMMENCEMENT OF NATIONAL STAGE.

(a) RECEIPT OF DOCUMENTS FROM THE INTERNATIONAL BUREAU.—Subsection (a) of section 371 is amended to read as follows:

"(a) Receipt from the International Bureau of copies of international applications with any amendments to the claims, international search reports, and international preliminary examination reports (including any annexes thereto) may be required in the case of international applications designating or electing the United States.".

(b) TIME LIMIT FOR COMMENCEMENT OF NATIONAL STAGE.—Subsection (b) of section 371 is amended to read as follows:

"(b) Subject to subsection (f) of this section, the national stage shall commence with the expiration of the applicable time limit under article 22 (1) or (2) or under article 39(1)(a) of the treaty.".

(c) FILING OF ENGLISH TRANSLATION.—Subsection (c) of section 371 is amended—

(1) in paragraph (4) by striking the period and inserting "; and"; and

(2) by adding at the end the following:

"(5) a translation into the English language of any annexes to the international preliminary examination report, if such annexes were made in another language.".

(d) TIME PERIOD FOR SUBMISSION OF ANNEXES.—Subsection (d) of section 371 is amended by adding at the end the following new sentence: "The requirement set forth in subsection (c)(5) of this section shall be complied with at such time as the Commission may prescribe, and failure to do so shall be regarded as cancellation of the amendments made under article 34(2)(b) of the treaty.".

(e) TIME PERIOD FOR PRESENTATION OF AMENDMENTS.—Subsection (e) of section 371 is amended by inserting "or article 41" after "28".

SEC. 207. FEES.

(a) HANDLING AND PRELIMINARY EXAMINATION FEES.—Subsection (a) of section 376 is amended—

(1) by striking "fee, which amount is" and inserting "fee and the handling fee, which amounts are";

(2) by redesignating paragraph (5) as paragraph (6); and

(3) by inserting after paragraph (4) the following new paragraph:

"(5) A preliminary examination fee and any additional fees (see section 362(b)); and".

(b) PRESCRIPTION AND REFUNDABILITY OF FEES.—Subsection (b) of section 376 is amended—

(1) in the first sentence by inserting "and the handling fee" after "international fee"; and

(2) in the third sentence by inserting "the preliminary examination fee, and any additional fees," after "fee,".

SEC. 208. EFFECTIVE DATE.

The amendments made by this title—

(1) shall take effect on the same day as the effective date of entry into force with respect to the United States of chapter II of the Patent Cooperation Treaty, on account of the withdrawal of the declaration under article 64(1)(a) of the Patent Cooperation Treaty; and

(2) shall apply to all international applications pending on or filed on or after the date on which the amendments made by this title take effect.

The SPEAKER pro tempore. Pursuant to the rule, a second is not required on this motion.

The gentleman from Wisconsin [Mr. KASTENMEIER] will be recognized for 20 minutes and the gentleman from California [Mr. MOORHEAD] will be recognized for 20 minutes.

The Chair recognizes the gentleman from Wisconsin [Mr. KASTENMEIER].

Mr. KASTENMEIER. Mr. Speaker, I yield myself such time as I may consume.

(Mr. KASTENMEIER asked and was given permission to revise and extend his remarks.)

Mr. KASTENMEIER. Mr. 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

[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 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 desired 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 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 from 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 and importation, in exchange for lower 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.

The committee deleted the statutory presumption, certainly a move favored by retailer community and generic drug companies.

The amendment also changed the notice that patent owners are rquired to give before liability is triggered in a way more favorable to those two interest groups.

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

We have reviewed some amendments under consideration in the other body and have had to reject them. The view is based on concerns about the impact of such proposals on nonpharmaceutical industry process patent holders, workability and fairness to patent holders. It is my understanding that the administration, through the Secretary of Commerce, shares these views. It remains my hope, however, that our differences with the other body can be reconciled before adjournment.

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 in principle by the administration.[2]

[2] The administration has expressed two concerns: (1) The absence of a statutory presumption and (2) the presence of a limitation on damages for "innocent infringers." The House Report, 99-807, makes clear that we agree a presumption is appropriate in some cases. The "innocent infringement" provisions will no doubt be the subject of further negotiation and discussion.

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 authority to serve as an international examining officer with respect to international patent applications. This new responsibility is in addition to those under chaper I, which the PTO has already undertaken in accordance that it was enacted into law during the 94th 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 recently 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.

Mr. MOORHEAD. Mr. Speaker, I yield myself such time as I may consume.

(Mr. MOORHEAD asked and was given permission to revise and extend his remarks.)

Mr. MOORHEAD. Mr. Speaker, this legislation has the strong support of American corporations, both large and small. It has the support of inventors, the American Council on Education and the Association of American Universities. It has the support of the AFL-CIO. This legislation passed the House on suspension in October 1984, without a dissenting vote. I want to thank our subcommittee chairman, Mr. KASTENMEIER, for his continued leadership on this issue. He has kept this bill on track and kept it from getting lost in an otherwise busy schedule. I also want to thank our ranking member, Mr. FISH, for all of his support and help from the very beginning.

H.R. 4899 neither creates any new property rights nor does it extend the life of any patent. It would merely prevent somebody from going abroad and violating a U.S.-held process patent by manufacturing through the use of that process, certain products and then shipping those products back into the United States to compete with the U.S.-made product.

It is basically unfair to permit persons to use somebody else's invention and allow that person to import those products back into this country and compete with the person who actually invented the process. This legislation will in no way affect the consumer or the elderly except maybe to assure that he or she is receiving the real product sought and not a product produced by the use of a U.S.-patented process in a foreign country under less stringent standards.

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 upwards of 50,000 jobs.

All this legislation does is bring the law in line with existing law and practice in France, England, West Germany, Switzerland, and numerous other countries.

Title II of H.R. 4899 would authorize the Patent and Trademark Office to act as an International Preliminary Examining Authority and as an Elected Office under chapter II of the Patent Cooperation Treaty. When the United States ratified the treaty in November 1975, it did so with a declaration that it was not bound by the provisions of chapter II thereof. Experience gained with the operation of the treaty during the ensuing years, as well as major steps taken by other countries to harmonize international patent processing procedures, such as the coming into force of the European Patent Convention in 1978, have largely eliminated this reason. Accordingly, it would be in the interest of U.S. industry and independent inventors alike, if the United States withdrew its reservations regarding chapter II of the treaty. Because the treaty is not self-executing, adherence to chapter II requires implementing legislation, such as that proposed here.

The Senate Judiciary Committee has favorably reported a similar bill. I am not aware of any opposition to this legislation, and urge support for it.

Mr. FISH. Mr. Speaker, this is important legislation and I would like to commend the chairman of the subcommittee, Mr. KASTENMEIER and the ranking member of the subcommittee, Mr. MOORHEAD, for their continued support and leadership on this issue. Mr. MOORHEAD's diligence and willingness to compromise is the reason this bill has come as far as we have today.

This legislation makes a number of important changes in our patent law. They are changes that are important to U.S. corporations. They are changes that are important to U.S. patent owners and they are changes that are important to U.S. innovation. The idea of protecting a process patent has the support of the administration. We introduced legislation

last Congress and again early this Congress. This body passed a similar bill two years ago. Legislation is presently being worked on in the other body and with a little luck it may well become law this year.

Under the patent law inventors can get two kinds of patents: product patents and process patents. The first protects the product itself; the second protects the process by which a product is made, usually a complex chemical or industrial process.

Presently, the infringement of a product patent occurs if the patented invention is made, used or sold in the United States by someone other than the patent owner. A person cannot avoid infringement of a product patent by manufacturing the product overseas and then importing it into this country because use or sale of the patent in the United States would infringe the patent.

A process patent, however, only protects the method of making an article or product. Today, the holder of a U.S. process patent cannot use the patent law to prevent someone from practicing the patented process in a foreign country and importing those goods into the United States. H.R. 4899 would correct this problem. The importance of process patent protection to the national economy especially in such vital technical fields as industrial chemicals and pharmaceutical manufacturing, microbiology and solid state electronics, cannot be overstated.

Title II of this legislation would implement the Patent Cooperation Treaty and by its provision enable U.S. patent applicants to avail themselves of the advantages offered by the treaty which came into force, internationally in 1978. When the United States ratified the treaty it exercised its option not to be bound by chapter II of the treaty. This legislation would remove that reservation. In July 1984, President Reagan requested the Congress to withdraw its reservation against adherence to chapter II.

Mr. Speaker, I am not aware of any opposition to this legislation and urge a favorable vote on its passage.

Mr. BROOKS. Mr. Speaker, I support H.R. 4899, the Patent Equity Act, and hope that my colleagues will, too. This bill aims at securing the rights of American inventors and companies which have patents on methods of manufacturing—commonly referred to as process patents. Process patents have been recognized in American case law since the 1800's and by Federal statute since 1951. Process patents are critical to the development of our pharmaceutical industry, and American advances in solid state electronics, biotechnology, and amorphous metals.

Process patent holders' rights have not been adequately protected though because infringements occurring overseas cannot be stopped. When a product itself is patented, use by someone in the United States will constitute patent infringement and the patent holder may sue to protect his interests. However, in the case of a process that is patented, it can be violated in a foreign country and the product manufactured by that process can then be imported and sold in the United States without technically violating the patent laws.

H.R. 4899 would provide protection to the process patent holder by making the importation, sale or use of a product manufactured by a patented process an infringement under the patent law. To protect the innocent who may unknowingly import or sell a product which was made by a patented process, the bill provides that liability for damages in a process patent infringement suit will not be awarded unless the defendant knew or was notified that the product was manufactured by the patented process.

It is important that this legislation be enacted to insure that the rights of American patent holders on processes are protected. I urge my colleagues to support H.R. 4899.

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Mr. KASTENMEIER. Mr. Speaker, I have no further requests for time, and I yield back the balance of my time.

Mr. MOORHEAD. Mr. Speaker, I have no further requests for time, and I yield back the balance of my time.

The SPEAKER pro tempore (Mr. MONTGOMERY). The question is on the motion offered by the gentleman from Wisconsin [Mr. KASTENMEIER] that the House suspend the rules and pass the bill, H.R. 4899, as amended.

The question was taken; and (two-thirds having voted in favor thereof), the rules were suspended and the bill, as amended, was passed.

A motion to reconsider was laid on the table.