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SENATE

BILL	DATE	PAGE(S)
H.R.4899	OCT 3 '86 (135)	S15049-52

ACTION:

Patent Equity Act: Senate passed H.R. 4899, to amend title 35, United States Code, with respect to patented processes and the patent cooperation treaty, after agreeing to an amendment proposed thereto, as follows:

Stevens (for Mathias) Amendment No. 3212, to protect patent owners from importation into the United States of goods made overseas by use of a United States patented process.

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Senate insisted on its amendment, requested a conference with the House thereon, and appointed as conferees Senators Mathias, Thurmond, Hatch, Leahy, and Metzenbaum.

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PATENTED PROCESSES AND THE PATENT COOPERATION TREATY

Mr. STEVENS. Mr. President, I ask unanimous consent the Senate now turn to the consideration of H.R. 4899, the process patents bill being held at the desk.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

A bill (H.R. 4899) to amend title 35, United States Code, with respect to patented processes and the patent cooperation treaty.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

There being no objection, the Senate proceeded to consider the bill.

AMENDMENT NO. 3212

(Purpose: To protect patent owners from importation into the United States of goods made overseas by use of a United States patented process)

Mr. STEVENS. Mr. President, I send an amendment to the desk on behalf of the Senator from Maryland [Mr. MATHIAS] and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from Alaska [Mr. STEVENS], for Mr. MATHIAS, proposes an amendment numbered 3212.

Mr. STEVENS. Mr. President, I ask unanimous consent that the amendment not be read.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

Strike out all of title I and insert in lieu thereof the following:

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 exceed 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 date 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 or 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 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 ocnstitute 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 section 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 a 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.".

Mr. MATHIAS. The Senate now has before it H.R. 4899, the Patent Equity Act, which passed the House last week and has been held at the desk here by unanimous consent.

The Patent Equity Act has two titles: The first would strengthen the U.S. patent laws protecting process patents, and the second would make changes in our patent law necessary for removing the U.S. reservation on chapter 2 of the Patent Cooperation Treaty, a step that will make it easier for U.S. inventors to obtain foreign patents and protect their inventions in other countries.

In accordance with the unanimous consent request I made last week, I propose to substitute for title I of H.R. 4899 the text of S. 1543 as approved by the Senate Judiciary Committee on September 19, and to leave title II on the Patent Cooperation Treaty intact.

The purpose of the process patent legislation is to close a serious loophole in our patent laws. Current law prohibits unauthorized parties from using a patented process in the United States, but fails to protect against use of the process in another country foi lowed by importation into and use or sale within the Untied States of the resulting products. Simply using the process in a foreign country where the U.S. inventor does not have a patent is perfectly legitimate; the measure we are considering prohibits only the subsequent importation, use and sale of the resulting products in this country, by declaring such acts to be an infringement of the U.S. patent on the process. The prohibition against importation, use or sale of such products applies not only to the foreign manufacturer who actually uses the process—and who may not be subject to the jurisdiction of the U.S. courts—but also to parties in the United States who purchase goods made by a patented process and import, use or sell them in this country. Under the bill, it will be incumbent on such purchasers to seek reliable, legitimate suppliers and to insist in their contracts that the supplier will come into the U.S. court if a process patent infringement action is brought, and prove that they made the goods by means of a noninfringing process. However, in order to protect purchasers in the United States who do not use the process, and who do not know the process by which the goods they purchase are made, the bill allows certain limitations on the remedies available against them under the patent law, provided they have acted in good faith in seeking to purchase legitimate, noninfringing goods.

Two classes of purchasers are eligible for these remedy limitations. Retailers who purchase from sources in the United States who do not use the patented process—so that the retailer is not in privity of contract with the party ultimately responsible for the infringement—are allowed a period of 18 months from the date of notice, during which they may sell inventory acquired or goods on order before notice with no liability for damages or injunctions. After this grace period, they would be fully liable for any acts of infringement under the bill. The second class of potential infringing purchasers consists of the importers, wholesalers, and distributors who deal directly or indirectly with the manufacturer who uses the patented process. Such purchasers are entitled under the bill to request a listing of

process patents from manufacturers in the United States of a product the requester intends to purchase from a foreign source. The lists would then be passed on to a foreign manufacturer/supplier to ensure that it does not use a patented process in making the product. Having taken these precautions, if the importer/wholesaler/distributor subsequently is given notice by a patent holder who believes his process was used in making this product, then there would be a 6-month grace period following notice in which the damages would be limited to reasonable royalties and no injunction would be available. If the patent holder that brings the suit had failed to disclose the process patent in question in response to the request for disclosure, then the grace period is extended to 18 months. After the grace period, the defendant is again fully liable for acts of infringement. In either case, the purpose is to give the innocent infringing importer/wholesaler time to shift to a legitimate, noninfringing source without disrupting its business. The whole predisclosure and grace period mechanism is available only once for a given product. And again, these remedy limitations are available only for good-faith infringers who neither use the patented process nor know that they are purchasing goods made by a patented process. The grace periods should not be construed as a compulsory license, which implies an ongoing right of the licensee to do business without permission from the patent owner. Such a right has no place in U.S. patent law, and no such right is contemplated in the pending bill.

Other protections for innocent infringers include a more stringent standard of notice than is ordinarily required in product patent infringement cases, and a grandfather clause exempting business arrangements already entered into or subsequently prepared for as of July 1, 1986. With these protections, the two major opponents of earlier versions of the bill, the chain drug stores and the generic pharmaceutical industry, support the version reported by the Senate Judiciary Committee.

Another important provision of the bill is the rebuttable presumption, shifting the burden of coming forward with evidence to the defendant if and when the plaintiff has made a reasonable but unsuccessful effort to ascertain the process used to make the product and has submitted adequate evidence to the court to establish a substantial likelihood that the product was made by his patented process.

This legislation is of enormous importance to American innovation and is supported by a wide range of American industries, including biotechnology, pharmaceuticals, industrial chemicals, and optical fibers. Let me mention here some of the Senators who deserve special credit for their efforts in developing the compromise that allowed us to move this legislation out of the Judiciary Committee: the chairman, Senator THURMOND; Senator LEAHY; Senator HATCH; and Senator DECONCINI. Let me also commend Senator LAUTENBERG, the original cosponsor of S. 1543, who testified in its favor before the committee last year, and who has contributed at every stage of our progress. Senator LAUTENBERG brings to our efforts the wisdom of first hand experience with the complex problems we are trying to address in the process patent area.

There are some differences between the process patent legislation approved by the Senate Judiciary Committee and the version adopted by the House in H.R. 4899. Senate passage of this bill with my amendment will make it possible to work with the House to pass the best possible legislative approach to this serious shortcoming in our patent laws.

Title II of H.R. 4899 is the implementing legislation necessary for the withdrawal of our country's reservation on chapter 2 of the Patent Cooperation Treaty. The Senate version, S. 1230, of the same bill was reported by the Judiciary Committee last December; in the interests of moving expeditiously to a consensus with the House, I propose that we pass the House language today. The purpose of removing the reservation is to give U.S. patent holders more options and conveniences in pursuing patent applications in other countries. We are aware of no opposition to the bill.

The Patent Cooperation Treaty itself is an international patent agreement aimed at harmonizing the patent application procedures in member countries around the world. The treaty was ratified by the President with the advice and consent of the Senate in 1973 and eventually went into effect for our country in 1978.

At the time of the Senate's consideration of the treaty in 1973, we placed a reservation on chapter 2 owing to a belief that the procedures in that chapter would place an undue burden on our Patent and Trademark Office because of differences between the patent systems of the various countries that would participate in the treaty. Since that time, however, there has been tremendous progress, partly as a result of the treaty, in making those systems more compatible, and consequently we are now in a position to take advantage of the benefits of chapter 2.

Accordingly, the President has asked for the advice and consent of the Senate to withdraw the reservation on chapter 2. That request, Treaty Document 98-293, was recently ordered favorably reported by the Senate Foreign Relations Committee.

The substantive portions of the treaty, chapters 1 and 2, allow investors to file preliminary international patent applications prior to committing the money and technical resources necessary to formulate a formal patent application under these chapters, inventors are given more lead time and informal assessments of the prospect of obtaining a patent on their inventions in other countries.

Under chapter 1, an inventor receives an international search report citing all prior art that might have a bearing on the patentability of the invention, and also is allowed 20 months before having to decide whether to submit a formal, full-scale patent application.

If the inventor enters the chapter 2 procedures, the lead period is extended by 10 months, and the applicant is provided with an international preliminary examination report. Such reports are prepared by the patent office in one of the member countries, assessing whether the invention is novel, nonobvious and useful—the three standard criteria around the world for patentability. The preliminary examination report is also circulated to the patent offices in all the member countries, for their possible use if the inventor decides to proceed with a patent application in those countries.

There is a solid consensus that withdrawing our reservation and submitting to chapter 2 of the treaty is in the interests of promoting innovation in our country. As it stands, U.S. inventors have been the largest users by far of chapter 1 of the treaty. Furthermore, it is now universally agreed that entering chapter 2 would not place undue burdens on the U.S. Patent and Trademark Office. The European Patent Office has agreed to assist the U.S. Patent and Trademark Office during the transition period after we withdraw our reservation.

Mr. President, H.R. 4899 as amended will offer two responsible solutions to two troubling weaknesses in the existing patent system. I urge adoption of the amendment and of the bill as amended.

Mr. HATCH. Mr. President, I would like to commend the chairman of the Subcommittee on Patents, Copyrights and Trademarks, Senator MATHIAS, and each member of the subcommittee for their fine efforts in promoting process patent legislation over the past 4 years. We have all been concerned over the current lack of adequate protection against foreign process patent infringers. This bill closes that loophole.

The benefits from this bill will be immediate. By protecting our domestic process patent holders more jobs will be created and more exports will result. Equally as important, we gain credibility with our trading partners, whom we have urged to protect process patents, but without protecting our own.

This bill creates a new cause of action for process patent infringement by importation, use or sale of products resulting from a patented process. Current patent laws provide process patent protection only against unau-

thorized use of the process. The new protection would apply regardless of whether the unauthorized use of the process occurred domestically or abroad.

In creating this new protection against abuse of process patents, this bill does not, however, overlook the plight of an innocent domestic retailer. An innocent retailer would be a domestic importer who learns only after purchasing products from a foreign manufacturer that his supplier has infringed a patent. In such an instance, the innocent party is allowed to mitigate his damages and is allowed a grace period to dispose of the inventory acquired before notice of the violation. This bill strikes an appropriate balance between the need to protect process patents and the plight of innocent purchasers of infringing products.

In the past, differences among a diverse group have been difficult to reconcile. Many of those whose patents demanded protection were wedded to unrealistic principles. Conversely, many of those for whom a bill was unnecessary opposed legislation which could adversely affect their interests. I would like to commend the representatives of this diverse group—the unions, the textile industry, the biotech, high technology, chemical and traditional industrial groups, the generic and name brand drug companies any many others—I commend them all, for their foresight and courage to lay aside their selective interests and negotiate, early and long, and unite with the committee behind this compromise bill.

Mr. LAUTENBERG. Mr. President, I rise to support the amendment and the underlying bill. The amendment embodies a revised version of S. 1543, the Process Patent Amendment of 1985, which I was pleased to develop and introduce with my colleague from Maryland [Mr. MATHIAS] last year.

The process patent amendments before the Senate will help protect American technology and spur investment in innovation. America's comparative advantage is its technology. We are leaders in the search for new ideal. But, we are not alone in that search.

To win the race for innovation, and to enjoy the fruits of victory, we must protect intellectual property, like patents. They reserve to the inventor, a chance to exploit his invention, to the exclusion of others. Without patent protection, people are free to steal an invention, avoid the risks of research and the frustrating failures that preceed success, but reap the harvest that the inventor sowed.

The legislation before us, would close a major gap in U.S. patent law dealing with patent of processes. Current law bars the unauthorized manufacture, use or sale of a patent in the United States. Where a product patent is at stake, and the product is copied abroad, infringement occurs when the product is actually used or sold in the United States. Where a process is at stake, and the U.S. process is copied abroad, there is no infringement of the process patent, even if the product made by the process is sold or used in the United States.

So, our current patent law does not reach the foreign pirating of our most innovative processes even when the products are shipped back to the United States. The bill before us would change that. It would make it a violation of U.S. patent law to import into, or to use or sell in the United States, a product made overseas using without permission, a U.S. patented process.

Japan, Britain, West Germany and France already have such protection for their inventors. Our legislation would bring American law in line.

Mr. President, my State is one of the Nation's centers for research and development. Billions of dollars are spent each year in the development of patented products and processes. Effective patent protection is critical to maintain that activity. It is important to the businesses that make the investments, and it is important to the people they employ. That's why both business and labor have called for process patent reform.

Mr. President, the pending amendment reflects a compromise between patent holders and those against whom these expanded rights would be enforced. Complaints were registered by retailers, importers, wholesalers, and distributors who would be infringers under the bill as we introduced it. They argued that their business would be impaired.

Retailers argued that they might innocently have purchased products, not knowing that they were made through the unauthorized use of a patented process. They argued that they should be able to sell off their inventory without penalty.

Importers of foreign ingredients used in U.S. manufacture, like generic drug manufacturers, argued that they would be in a poor position to ensure that their suppliers were not infringing. If their supplier were indeed infringing, they would need to find alternative suppliers and secure necessary regulatory approvals. All of that takes time.

Mr. President, the revised version of the bill addresses the concerns of these parties. It provides for the mitigation of damages, for prescribed periods. It provides a mechanism for parties to seek disclosure of patented processes, so that they might better avoid infringement.

Mr. President, I confess that I would have preferred the original version of our legislation. The compromise provides relief from damages that has no counterpart in our patent law. It is more accommodating than I think justified of parties, whether innocent or not, who are trading in stolen property, stolen intellectual property.

Nonetheless, on balance, the revised version still provides an important and significant expansion of rights to process patent holders. While I yet hold out hope that the bill may be improved further, the version before us would mark an important step in the enhancement of American intellectual property rights, the promotion of innovation and expansion of American jobs.

Mr. President, one final word. I would like to applaud the Senator from Maryland for his long and tireless efforts to move process patent reform. Senator MATHIAS will retire this year from the Senate and his post as chairman of the Subcommitttee on Patents, Copyrights and Trademarks. The enactment of process patent legislation would be one of many tributes we could pay to the Senator.

I urge adoption of the amendment and passage of the bill.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment (No. 3212) was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment of the amendment and third reading of the bill.

The amendment was ordered to be engrossed and the bill to be read a third time.

The bill was read the third time and passed.

Mr. STEVENS. Mr. President, I move to reconsider that action.

Mr. BYRD. Mr. President, I move to table the motion to reconsider.

The motion to lay on the table was agreed to.

Mr. STEVENS. Mr. President, I move that the Senate insist on its amendments and request a conference with the House on the disagreeing votes of the two Houses, and that the Chair be authorized to appoint conferees on the part of the Senate.

The motion was agreed to, and the Presiding Officer [Mr. EVANS] appointed Mr. MATHIAS, Mr. THURMOND, Mr. HATCH, Mr. LEAHY, and Mr. METZENBAUM conferees on the part of the Senate.

Mr. STEVENS. Mr. President, I move to reconsider.

Mr. BYRD. Mr. President, I move to table the motion to reconsider.

The motion to lay on the table was agreed to.

COMPUTE[illegible]D ABUSE

Mr. STEV[illegible]dent, I ask unanimous c[illegible]e Judiciary Committee b[illegible]om further consideration [illegible], the Computer Fraud [illegible], and I ask for its immed[illegible]ion.

Mr. BYRD[illegible]t, there is no objection [illegible]of the bill from the Ju[illegible]nittee and