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CONGRESSIONAL RECORD

PROCEEDINGS AND DEBATES OF THE 100TH CONGRESS

HOUSE

BILL	DATE	PAGE(S)
H.Res.597 F/W HR4972	Oct 20, 1988 150	H10646-49

ACTION: SUSPENSION OF RULES

Patent and Trademark Office authorization Agreed to H Res 597, providing for agreeing, with an amendment, to the Senate amendment to H R 4972, to authorize appropriations for the Patent and Trademark Office in the Department of Commerce—returning H R. 4972 to the Senate,

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CONCURRING IN SENATE AMENDMENT TO H R. 4972 PATENT AND TRADEMARK OFFICE AUTHORIZATION, WITH AN AMENDMENT

Mr KASTENMEIER Mr Speaker, I move to suspend the rules and agree to the resolution (H Res 597) to take from the Speaker's table the bill, H.R 4972, Patent and Trademark Office Authorization, with the Senate amendment thereto, and concur in the Senate amendment to the text with an amendment

The Clerk read as follows

H RES 597

In lieu of the Senate amendment to H R 4972 insert the following

Strike out all after the enacting clause and insert the following

TITLE I—PATENT AND TRADEMARK OFFICE AUTHORIZATIONS

SEC. 101 AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $117,504,000 for fiscal year 1989, $125,210,000 for fiscal year 1990, and $111,984,000 for fiscal year 1991, and

(2) such additional amounts as may be necessasry for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law

SEC. 102. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U S C 1051 and following) may remain available until expended.

SEC. 103 OVERSIGHT OF AND ADJUSTMENTS TO TRADEMARK AND PATENT FEES.

(a) TRADEMARK FEES —The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 31 of the Trademark Act of 1946 (15 U S C 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner also may not establish additional fees under such section during such fiscal years

(b) PATENT FEES —The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner also may not establish additional fees under such section during such fiscal years

(c) REPORT TO CONGRESS —The Secretary of Commerce shall, on the day on which the President submits the annual budget to the Congress, provide to the Committees on the Judiciary of the Senate and the House of Representatives—

(1) a list of patent and trademark fee collections by the Patent and Trademark Office during the preceding fiscal year,

(2) a list of activities of the Patent and Trademark Office during the preceding fiscal year which were reported by patent fee expenditures, trademark fee expenditures, and appropriations,

(3) budget plans for significant programs, projects, and activities of the Office, including out-year funding estimates,

(4) any proposed disposition of surplus fees by the Office, and

(5) such other information as the committees consider necessary

SEC. 104 PUBLIC ACCESS TO PATENT AND TRADEMARK OFFICE INFORMATION

(a) REPEAL.—Section 4 of Public Law 99-607 (35 U S.C 41 note) is repealed

(b) MAINTENANCE OF COLLECTIONS —The Commissioner of Patents and Trademarks shall maintain, for use by the public, paper or microform collections of United States patents, foreign documents, and United States trademark registrations arranged to permit search for and retrieval of information. The Commissioner may not impose fees for use of such collections, or for use of public patent or trademark search rooms or libraries Funds appropriated to the Patent and Trademark Office shall be used to maintain such collections, search rooms, and libraries

(c) FEES FOR ACCESS TO SEARCH SYSTEMS — Subject to section 105(a), the Commissioner of Patents and Trademarks may establish reasonable fees for access by the public to automated search systems of the Patent and Trademark Office in accordance with section 41 of title 35, United States Code, and section 31 of the Trademark Act of 1946 (15 U S C 1113) If such fees are established, a limited amount of free access shall be made available to all users of the systems for purposes of education and training The Commissioner may waive the payment by an individual of fees authorized by this subsection upon a showing of need or hardship, and if such waiver is in the public interest

SEC 105 FUNDING OF AUTOMATED DATA PROCESSING RESOURCES

(a) ALLOCATIONS —Of amounts available to the Patent and Trademark Office for automatic data processing resources for fiscal years 1989 1990, and 1991, not more than 30 percent of such amounts in each such fiscal year may be from fees collected under section 31 of the Trademark Act of 1946 (15 U S C 1113) and section 41 of title 35, United States Code The Commissioner of Patents and Trademarks shall notify the Committees on the Judiciary of the Senate and the House of Representatives of any proposed reprogrammings which would increase or decrease the amount of appropriations expended for automatic data processing resources

(b) USE OF REVENUES BY PATENT AND TRADEMARK OFFICE.—Except as otherwise specifically provided in this title, Public Law 99-607, and section 42(c) of title 35, United States Code, the Patent and Trademark Office is authorized to use appropriated or apportioned fee revenues for any of its operations or activities

SEC 106 USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED

The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, enter into any agreement for the exchange of items or services (as authorized under section 6(a) of title 35 United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data), and the Commissioner may not, on or after the date of the enactment of this Act, continue existing agreements for the exchange of such items or services The preceding sentence shall not apply to an agreement relating to data for automation programs which is entered into with a foreign government or with an international intergovernmental organization

TITLE II—PATENT MISUSE REFORM

SEC 201 PERMISSIBLE ACTS BY PATENT OWNER.

Section 271(d) of title 35, United States Code, is amended by striking out the period at the end thereof and inserting in lieu thereof the following ", (4) refused to license or use any rights to the patent, or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned "

SEC 202 EFFECTIVE DATE

The amendment made by this title shall apply only to cases filed on or after the date of the enactment of this Act

The SPEAKER pro tempore Is a second demanded?

Mr MOORHEAD Mr Speaker, I demand a second

The SPEAKER pro tempore Without objection, a second will be considered as ordered

There was no objection

The SPEAKER pro tempore 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, I once again bring before the House the bill, H R 4972, to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for the next 3 fiscal years The bill authorizes appropriations for salaries and necessary expenses up to the following amounts $117,504,000 for fiscal year 1989, $125,210,000 for fiscal year 1990, and finally $111,984,000 for fiscal year 1991

The House previously passed H R 4972 on October 5, unanimously by voice vote under suspension of the rules On October 14, the Senate passed H R 4972 with a nongermane amendment Today, we simply are sending title I of H R 4972 back to the Senate in exactly the same form as previously passed by the House Title II of the bill relates to patent misuse, and reflects a compromise with the other body

The authorization levels are necessary to ensure an effective Patent and Trademark Office, which of course is the cornerstone for a reliable and effective intellectual property system in this country A well-functioning Office can have as significant an impact on this Nation's inventiveness as any substantive changes to our patent and trademark laws

H R 4972 is the work-product of my subcommittee—the Subcommittee on Courts, Civil Liberties and the Administration I would like to signal the efforts of the ranking minority Member of the subcommittee, Mr MOORHEAD, and the chairman of the House Committee on Government Operations, Mr BROOKS, who also is a Member of the Committee on the Judiciary H R 5972 represents a joint effort, and without the input of these two respected Members, a bill would not be before us today

I described the bill during my floor remarks on October 5, and I will not repeat my previous statement

Suffice it to say that the bill before us is largely a carry over of the current law I hope that my colleagues can support this bill and promote the effective administration of this Nation's patent system

In addition to the PTO authorization bill, I am pleased to bring before the House an important intellectual property measure relating to patent misuse The title II of the bill before us is the product of excellent legislative work done in the other body by Senators LEAHY, DECONCINI, and HATCH Senator LEAHY, in particular, has taken the lead in advancing the legitimate interests of high technology businesses in bringing innovative products to the American people We are in debt to Senator LEAHY for his leadership on this issue

The measure before us today is the House response to the Seante bill S 438, see Senate Report 100-492, as passed by the Senate on October 4, 1988 The Senate bill contains two titles, one relating a presumption of market power arising under the antitrust laws and the other relating to patent misuse The bill before us only address the misuse issue

Before describing the detailed statutory language in title II of the bill, let me briefly describe to my colleagues the legislative background for this bill. During the 100th Congress the Senate Committee on the Judiciary adopted S 1200 which contained a provision relating to patent misuse The text of S 1200 was then added as an amendment to the Omnibus Trade Reform Act, H R 3

In conference on H R 3, the provisions relating to patent misuse were deleted at the insistence of the House conferees Subsequently on March 3, 1988, I introduced H R 4086 which, as the Department of Justice put it, "takes an analytically different approach to misuse challenges, but may nonetheless produce results in individual cases very similar to (S 1200)" [1]

The Subcommittee on Courts, Civil Liberties and the Administration of Justice, which I chair, conducted a hearing on May 11, 1988, on the various misuse bills At that hearing the subcommittee heard from witnesses form the Department of Commerce, Patent and Trademark Office, Department of Justice Antitrust Division, American Bar Association as well as a leading practicing lawyer and an academic expert After the hearing practicing lawyer and an academic expert After the hearing the committee members and staff continued discussions with interested parties about how to narrow the provisions of the Senate bill to meet the objectives urged by the proponents of reform without undoing the entirety of patent misuse The measure before us today is the product of those discussions

BACKGROUND

Patent misuse is a judicially-developed doctrine of patent law [2] The general rules of equity applicable to the enforcement of patents currently hold that a person who is found to be guilty of misuse is not permitted to enforce his or her patent The underlying policy for this doctrine has been an effort by the courts to prevent a person who has obtained a Government granted right to exclude competition from overreaching the scope of a patent [3] The doctrine has been ap-

[1] The bill H R 4086 adopted an approach that listed licensing practices that were not patent misuse and some practices that were Analytically the bill followed a similar pattern to the rules of the European Economic Community in the context of applying Article 85(3) of the relevant EEC Treaty to certain categories of patent licensing agreements Letter from Hartmut Johannes to Congressman Robert W Kastenmeier April 26 1988 (1988) See also Marks Patent Licensing and Antitrust in the United States and European Economic Community 35 am. univ L. rev 963 (1986)

[2] See generally D Chisum Patents, Section 19 04 The Supreme Court put it well in Hazel Atlas Glass Co v Hartford Co. 322 U.S 2467 when it said that enforcement of patents is of great moment to the public

[3] The reasoning of the courts from the initial misuse cases including Motion Picture Patents Co v Universal Film Manufacturing Co 243 U S 502 (1917) has been to recognize the different nature of the property rights involved when a patent has been granted. A patent is a government created right to exclude others from making using or selling an invention for a period of 17 years. Congressional authority to legislate in this area is derived from the Constitution, Article I section 8 clause 8 An important element of any intellectual property legislation is the balance of interests required and to the furtherance of the public interest. Sony Corp of America v Universal City Studios, 316 U.S 417 429 (1984) (public interest test for copyright) accord United States v Masonite Corp 316 U.S 265 278 (1942) (same with respect to patents) see

plied to a wide variety of circumstances including extension of a patent term beyond 17 years, use of covenants not to compete, price fixing, resale price maintenance, and licenses that involve certain types of exclusive grant backs Once misuse has been found by the court, then the patent owner is not entitled to any relief until the abusive practice has been eliminated

The underlying complaint about current law with respect to patent misuse is that it was developed to address allegedly anticompetitive effects of patent licensing arrangements To address this problem the Senate-passed bill requires that the court find a violation of the antitrust laws, after undertaking an economic analysis, before it can find a patent holder guilty of misuse

The proposal before the House today does not adopt such a sweeping and inflexible view Instead the bill before us proceeds on the basis of consensus about two categories of misuse that the Committee on the Judiciary concluded should not be the subject of a rigid per se rule

The two subject matters affected by the proposed amendment are "refusal to use or license" a patented invention and the tying of a patented product to another separate product Codification of the "refusal to use or license" as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy [4]

Modification of the patent misuse rules with respect to tying addresses one of the most important areas of licensing practice More significantly, the proposed modifications should have a procompetitive effect, insofar as they require some linkage between the patent licensing practice and anticompetitive conduct Hopefully, through enactment of this bill the rules about permissible licensing practices will be clarified and the licensing of innovations will be facilitated

The provisions of the patent law that will be amended by this measure are amendments to section 271 of title 35 The proposed language relating to patent misuse is as follows

[It is not an act of patent misuse to condition] the license of any rights to the patent or the sale of a patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned

It is important to provide the courts with some guidance about the intention of Congress with respect to the terms used in the proposed amendment The underlying principle being advanced by this proposal is the elimination of any vestiges of a per se or automatic inference of patent misuse from certain tying practices While there has been some movement in this direction by the courts,[5] the legislation clarifies the basic congressional policy in this area

The proposed amendment requires that the person who engages in tying conduct must possess "market power in the relevant market" The term "market power" is used in this context in order to permit the courts to reasonably assess the potential for anticompetitive effect of a particular practice We have chosen not to explicitly guide the courts as to the level of "market power" required for a finding of misuse We do expect, however, that the courts will be guided—though not bound—by the post and future decisions of the Supreme Court in the context of antitrust analysis of unlawful tie-ins See *Jefferson Parish Hospital Dist No 2 v Hyde*, 466 U S 2 (1984), *United States v E I du Pont de Nemours & Co*, 351 U S 377 (1956)

We have chosen not to adopt a specific modifier to "market power," such as "substantial" This does not mean, however, that the courts would not reach this result In many of the recent cases courts have developed various approaches to the question of substantiality of "market power," including the use of specific percentages [6] The absence of a modifier is designed to avoid the use of inflexible rules Courts should not use rigid percentage of market share as either a floor or ceiling in the determining of "market power" Courts should evaluate the question of "market power" in the context of the patent, where a patent license is involved, the product and the market in which the tie-in occurs This type of fact specific contextual analysis should make the fact-finding process more sensitive to the realities of the marketplace

The use of the term relevant market is designed to import into the courts' analysis the idea that the scope of the product involved focuses the court's attention on the nature of the property right If a patented product is unique because no practical substitutes exist, the scope of the relevant market would be coextensive with the patent In the situation where the product is sold in a marketplace context where there are substitute products, the scope of the market should resemble the typical antitrust analysis of relevant market

The use of the term in view of the circumstances, is again designed to give the courts the requisite flexibility to exercise their equitable powers See 35 U S C section 283 This phrase is designed, in part, to allow the courts to assess the potentially competitive or anticompetitive effects of the tie-in practice In making this assessment the courts may wish to look at whether the tied product is a staple or a nonstaple In the case of tying a patented product to a nonstaple the net effect of such an arrangement may serve to expand the economic rights of the patent owner This result, however, is generally appropriate because in most situations involving high technology the market for the nonstaple product would not exist but for the existence of the patented product

On the other hand, courts that apply a rule of reason analysis to the tie-in of a patented product involving a staple may evaluate it in a slightly different manner The ability of a party with a patented product to require that the purchaser or the licensee of that product to use a particular staple could have an anticompetitive effect Thus, for cases involving the tie-in of staple products, the courts should be sensitive to the potential anticompetitive burden on commerce such a practice may have if the maker of a competing staple has its market substantially diminished as a result of the tie-in

It is also our intention to avoid the use of inflexible rules once a court has found that market power exists There may be circumstances in which there is market power and a tie-in, but where a finding of misuse would be inappropriate One example would be where the patent owner has a business justification for the licensing practice [7] In real world situations where the only practical way to meter output is to tie the sale of a patented product to the sale of another separate product, then such a practice would be legitimate, unless such a practice—on

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also Pennock v Dialogue 27 U S (2 Pet) 1 9, (1829) see generally Kastenmeier and Remington The Semiconductor Chip Protection Act of 1984 A Swamp or Firm Ground 70 Minn L Rev 417-422-23 (1985)

When an inventor has created an innovation there are a number of options available including trade secret protection as well as patent protection When innovators decide to pursue patent protection they agree to a bargain that furthers the public interest Any patent holder obtains the property right to exclude others from practicing the invention as well as protection against competition from persons who have independently created the same innovation

In exchange for patent protection the public obtains a disclosure of the technology involved in the patent and a limited term (17 years) followed by expansion of the public domain when the patent expires In response the nature of the property right involved in a patent is fundamentally different from that involved in non patent situations Thus the courts have tended to focus on the illegal extension of the patent term or scope of the patent in order to determine misuse see Senza Gel v Seiffart 803 F 2d 661 231 U S P Q 363 (Fed Cir 1986) rather than merely the nature of the economic transaction involved Focus on the scope of the patent has been a central element of the reasoning in many misuse cases

[4] *See SCM Corp v Xerox*, 695 F 2d 1195 (2d Cir 1981) see generally *Continental Paper Bag Co v Eastern Paper Bag Co*, 210 U S 405 426-430 (1908)

[5] See *Windsurfing Int'l, Inc v AMF Inc* 782 F 2d 995 1001-02 (Fed Cir 1986)

[6] See e g *Boadway Delivery Corp v United Parcel Service of America, Inc* 651 F 2d 122 126-29 (2d cir) cert denied 454 U S 968 (1981) *Syufy Enterprises v American Multicinema, Inc* 793 F 2d 990 995 (9th Cir 1986) cert denied 107 S Ct 876, 884 (1987)

[7] For example one court in a non tie in patent misuse case appears to have applied a business justification type defense *Duplan Corp v Deering Milliken, Inc* 444 F Supp 648 700 (D S C 1977) aff d 594 F 2d 979 (4th Cir 1979)

balance—has a generally anticompetitive effect

In closing, I want to urge my colleagues to support this measure Title II of this bill is a careful balance of the interests of proprietors while simultaneously furthering the goals of stimulating the dissemination of innovation through the freer use of licensing agreements for patented products

□ 1800

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

Mr Speaker, I rise in support of House Resolution 597 As pointed out, this bill passed the House 2 weeks ago without objection As it is known to happen during this time of year, the other body chose to decorate this bill with a couple of items that remain controversial

The Patent and Trademark Office performs a service that is important to the industrial strength and well being of our country The bill before us provides a 3-year authorization for that Office It would also permit the long overdue computerization of the search rooms

This legislation has the strong support of the Department of Commerce and the Patent and Trademark Office I hope the other body will pass the bill and send it to the President There will be no time to attach new matter and send it back here If that happens the Patent and Trademark Office will be without an authorization for this year

I urge a favorable vote on the bill

In addition to the Patent and Trademark Office reauthorization we are adding as an amendment a portion of the Senate-passed bill S 438 dealing with the important issue of patent misuse In 1983 I introduced on behalf of the Reagan administration the National Product and Innovation Act That four title bill contained a landmark proposal to revise and reform the Federal law on patent misuse Unfortunately, no favorable action was taken on that proposal in either the 98th or 99th Congress I am pleased that today at least a portion of that legislation is being included in the PTO reauthorization

As I understand the amendment it would not be patent misuse for a refusal to license a patented product Also, as I understand the amendment if you engage in a tying arrangement, that in and of itself is not patent misuse unless you can show market power This is an important amendment to our patent laws and I am happy we are able to include it in House Resolution 597 In closing I would like to commend the ranking member of the Judiciary Committee, Mr FISH, for his leadership on this issue

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

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

The SPEAKER pro tempore The question is on the motion offered by the gentleman from Wisconsin [Mr KASTENMEIER] that the House suspend the rules and agree to the resolution, House Resolution 597

The question was taken, and (two-thirds having voted in favor thereof) the rules were suspended and the resolution was agreed to

A motion to reconsider was laid on the table