tutional safeguards of a full due process evidentiary hearing, the Commission may easily disregard the ALJ's factual findings on violation and any submissions by the parties or interested third persons on the public interest questions.[20]

In sum, patent-based Section 337 investigations, as distinguished from antitrust investigations, are generally contested with respect to (1) intellectual property issues, including validity, enforceability and infringement; (2) economic issues, including the existence of a domestic industry, its efficient and economic operation, and the effect or tendency of imports to injure or prevent the establishment of a domestic industry; and (3) remedy issues, including the public interest and bonding.

Recent Commission Decisions

The proposed amendments result from the Commission's recent interpretations of the statute which have made it more difficult for domestic industries to obtain relief at a time of massive trade deficits.[21] The Commission has (1) narrowed the definition of what constitutes a domestic industry, (2) required individual consideration of the injurious impact of unfair imports from multiple sources, and (3) imposed strict tests for establishing the causal nexus between proven injury and the respondents acts.

The net result of the Commission's recent actions has been to issue exclusion or cease and desist orders in a mere six cases during 1985. Five of the products excluded involved simple technologies such as foam earplugs, costume jewelry, metal cutting snippers, woodworking machines and drills for installing electrical lines in walls or wooden poles.[22] Among the domestic industries the Commission declined to protect were firms with more sophisticated technology which manufactured and sold in more complex markets, including optical waveguide fibers and floppy disk drives used in computers, word processing printers and typewriters, and handheld calculators.[23] In addition, the Commission declined to offer relief to Warner Brothers against imports infringing its property rights to the "Gremlins" characters.[24]

A. *Changes in Defining the Domestic Industry*

A factor which has spurred efforts to eliminate Section 337's economic requirements has been the Commission's inconsistency in defining the domestic industry.[25] The Commission's determinations have swung dramatically from giving the benefit of the doubt to domestic firms having intellectual property rights, but no real manufacturing, to the opposite extreme of limiting the domestic industry to patented products, manufactured as of the date of the complaint, which are fungible with current imports. In so doing, the Commission has denied relief by placing inordinate emphasis on product-by-product site and date of complainant's manufacturing activities.

In *Cast Iron Stoves*[26] and *Cube Puzzles*,[27] complainants were companies which owned U.S. intellectual property but which imported the products themselves from overseas producers. The Commission strained to find a domestic industry in what were essentially disputes among various factions of importers. The Commission's domestic value added analysis, which rationalized the finding of a domestic industry in both investigations, was subsequently used in *Toy Trucks*[28] and *Gremlins*[29] to support a finding of no domestic industry because there was no domestic manufacturing.

Ironically, both *Toy Trucks* and *Gremlins* involved industries with far deeper domestic roots in terms of the development of the intellectual property than were involved in *Cast Iron Stoves and Cube Puzzles*.

In *Toy Trucks*, the Commission held that an American inventor of toy trucks did not constitute a domestic industry because the trucks were manufactured abroad by licensees. In *Gremlins*, the Commission interpreted Section 337 as precluding protection of a "licensing" industry. The Commission's pro-manufacturing bias articulated in *Gremlins* is not required by the statute, nor reflected in its legislative history. While the legislative history of Section 337 gives examples of domestic industries in terms of manufacturing industries, that is more a reflection of the nature of economic activity in the United States at the time of enactment than a limitation on the types of industries protected by the statute.[30]

The criticality of the time and place of manufacturing has recently been emphasized by the Commission. In *Optical Waveguide Fibers*," the Commission, although technically finding an existing domestic industry, found no tendency to injure because the importer was opening a domestic manufacturing facility. In *Rotary Wheels II*," the Commission limited the domestic industry to the products which were most similar to the imports of non-settling respondents and found that on the date the complaint was filed the complainant no longer had domestic manufacturing of such products. Consequently, there was no domestic industry. Ironically, the products of the settled respondents were directly competitive with the complainant's domestically manufactured product line. In *Portable Electronic Calculators*," the Commission declined to review an ALJ's Initial Determination that the domestic industry constituted all products produced under the patent, despite the presence of a clear "low end" and "high end" calculators. However, because of other rulings resulting in a no violation outcome, the scope of the domestic industry was not determinative.

The Commission's apparent engrafting of the "like product" provision of the antidumping laws[31] onto the Section 337 domestic industry definition presents two ironies. First, Section 337 was enacted to provide a remedy to domestic industries which did not qualify for antidumping protection. Second, the Court of International Trade has even rejected the Commission's strict interpretation of the "like product" requirement in antidumping cases.[32]

The Commission in effect has limited the protection of domestic industries to the protection of the manufacturing labor component, rather than the overall domestic entity which created and exploits the domestic intellectual property right. In so doing the Com-

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mission second-guesses the corporate decisionmakers faced with the question of how best to exploit domestically developed intellectual property rights in the most efficient manner to permit competition with imports enjoying lower production costs. This pro-manufacturing bias is particularly critical at a time when our economy is increasingly dependent on the service sector and on complex multinational production and assembly patterns creating disparities in labor costs and exchange rates.[36]

B. *Extent Of Imports Considered in The Injury Determination*

The domestic industry must prove that it has been injured in one of several ways that has been historically accepted by the Commission, such as proof of lost sales, lost market share, declining employment, declining profits, price pressure, plant closing, excess domestic capacity, increased inventories, declining profit margins, failure to meet sales projections, high foreign production capacity or evidence of large outstanding orders for imports.[37] The complainant must establish the level of imports and that those imports have either caused injury to, or that future imports will tend to cause injury to the domestic industry.

The injury determination, while straightforward where there is a single source of infringing imports, has been complicated by the Commission in investigations involving multiple sources of infringing imports. The Commission has been particularly unpredictable where all importers are not respondents at the time the Commission makes it decision because the importers: (1) did not import when the complaint was filed; (2) were named as respondents but negotiated a license for the complainant's intellectual property and thus settled out of the case; or (3) were respondents in an earlier ITC investigation. In such multiple importer cases the Commission must decide which importers' sales to include in the injury determination and the level of proof of unfair acts required to include them.

The Commission's decisions involving multiple sources of imports have been both inconsistent and based upon procedural factors irrelevant to the merits of the injury issue. For example, in *Foam Earplugs* [38], the Commission found settlement agreements sufficient to support a finding of unfair acts by former respondents so as to include their sales among those causing injury. In *Rotary Wheels II*, the Commission held that it would not consider settlement agreements probative on that issue. With respect to the situation where the former respondents were named in an earlier investigation involving the same patent, the Commission, in *Food Slicers*,[39] suggested that it could consider imports by such former respondents if the products in the two investigations were related. In a more recent investigation, the Commission held that it was inappropriate to consider such imports, because that would amount to "joinder" of two investigations. *Rotary Wheels II*.[40] The Commission did not explain how it would amount to joinder or why joinder would be improper.

These recent decisions suggest that the Commission is holding section 337 complainants to stricter proof of injury than required by the laws section 337 was intended to liberalize. For example, the Commission was recently reversed by the Court of International Trade in an antidumping investigation for diluting the impact of imports by considering them on a piecemeal rather than an aggregated basis. In *Grape Growers*, Judge Watson held that "cumulation" of allegedly dumped wine imports from two countries "is necessary and unavoidable consequence of the proper enforcement of laws governing the determination of injury." [41] Judge Watson dismissed arguments that the differences between the French table wines and Italian effervescent wines and the fact that imports from the two countries were subject to separate investigations were reasons not to cumulate. Similarly, in *Republic Steel Corp. v. United States*, Judge Watson held that the Commission erred in deciding not to cumulate imports from seven countervailing duty investigations for purposes of the injury determination.[42]

The rationale in *Grape Growers* and *Republic Steel* should apply in Section 337 investigations to prevent infringing importers from escaping an exclusion order merely because individual consideration of their imports obscures or minimizes their injurious impact.

C. *Requirements for Proof of Nexus*

Another element of proof which the Commission has extended beyond the requirements of both trade and patent laws is that of causation or nexus between the importation of infringing goods and the injury to the domestic industry. Traditionally, in patent-based Section 337 investigations, lack of causation was in the nature of an affirmative defense after the complainant had established that an infringer had made a significant amount of domestic sales or held a significant share of the domestic market.[43] Once that threshold was crossed by complainant, there was a rebuttable presumption of nexus. The Commission has recently abandoned that rebuttable presumption and shifted the burden of proof of causation to the injured industry, even when the respondents have made significant sales or gained a significant share of the market.[44] [45]

The Commission's requirement that complainants pinpoint and quantify the degree of injury from each of the various sources of unfair imports creates problems when there are several sources of unfair imports.[46]

The Commission's concept of causation is at odds with the Federal Circuit's requirement of the district courts in awarding damages in patent infringement cases. The CAFC recognizes that assessing damages "is not an exact science" and that a plaintiff "need not prove causation as a certainty." *King Instrument Corp. v. Otari Corp.*[47] In *King Instrument*, the CAFC found that evidence which shows a "reasonable probability" that the plaintiff would have made the infringing sales made by defendant sufficed to show causation. Moreover, any risk of uncertainty must be cast upon the wrongdoer rather than upon the injured party. On the basis of these standards the CAFC

upheld the district court's award of lost profits despite the fact that the patentee was not selling a directly competing model during the period of infringement.[8]

Clearly, for the Commission to interpret Section 337's nexus requirement more stringently than required under the patent laws ignores its statutory purpose of providing a more effective remedy than is available under the patent laws and contributes to the overreactive legislative proposals now before the Congress.

Proposed Amendments

Congress has been considering several bills designed to overrule the Commission's recent decisions and thereby strengthen the statute. One of these is the "Trade Law Modernization Act," H.R. 3777, which was reported out of the House Energy and Commerce Committee on November 21, 1985. The bill would eliminate the need to prove the efficient and economic operation of the domestic industry and, in intellectual property-based cases, would eliminate the need to prove effect or tendency to injure. In addition, the bill would shorten the time for completing Section 337 investigations from the current 12 months or 18 months in more complicated cases to 6 months and 9 months respectively. Other bills and a Reagan Administration proposal would make these changes and go one step further by eliminating the requirement of proving the existence of a domestic industry in intellectual property cases. These are: S. 1860, "the Trade Enhancement Act of 1985," and its independent bill, S. 1869; H.R. 3776, the "Intellectual Property Rights Protection and Enforcement Act of 1985"; and the Administration's proposed "Intellectual Property Rights Improvement Act of 1986."

The most recent entry into the Section 337 fray is Rep. Kastenmeier's H.R. 4539, the "Intellectual Property and Trade Act," modified, renumbered H.R. 4747 and included as part of the "Comprehensive Trade Policy Reform Act of 1986" which is the House's omnibus trade bill, H.R. 4800. This bill is more comprehensive than the others inasmuch as it affects more provisions of Section 337, but is less far-reaching in changing substantive elements and does not change the statutory time limits. H.R. 4800 would (1) retain but redefine the domestic industry requirement in intellectual property cases, (2) eliminate the efficient and economic operation requirement in all cases, (3) eliminate the injury requirement in intellectual property cases, but raise it sligbtly in other cases, and (4) clarify Section 337's applicability to grey market imports. In addition, tbe bill would create deadlines for rulings on preliminary relief, provide district court-type discovery sanctions and make it easier to obtain relief against importers who fail to appear and defend Section 337 proceedings. While it is not without problems, the Kastenmeier bill is fundamentally sounder and potentially less disruptive of even-handed predictable enforcement of Section 337 than any of the other pending proposals.

A. *Eliminating The Economic Issues Takes Section 337 Out Of The Commission's Field Of Expertise*

The entire justification for Section 337 and its fast track procedure is that import injury, past and future, to American intellectual property holders requires swifter remedies than available in the courts. The touchstone for Section 337 relief was always injury.[9] The Federal Circuit has recognized this fact, stating:

> Congress may well have included this separate requirement in the original 1930 version of section 337 to insure that the extreme and internationally provocative remedy contemplated therein — exclusion of imports from particular countries — would be implemented only when this is compelled by strong economic reasons.[10]

Conversely, one who is not threatened with injury can afford to await the outcome of court proceedings and need not burden the agency docket. As a practical matter, elimination of the injury and domestic industry requirements will waste Commission resources in consideration of issues that, absent injury, there is no haste to decide, and will place further needless stress on Commission resources by permitting foreign firms to complain of competing imports infringing the foreign-owned but U.S.-registered patents.

Moreover, the amendments would essentially turn the Commission into a "patent court" in Section 337 cases. Whether or not such a change would subject the amended statute to constitutional challenges is a question beyond the scope of this article. However, as a practical matter, it makes no sense to have an agency with a primarily economic expertise decide intellectual property cases involving sophisticated technology and having such far-reaching effects, without at least some analysis of the economic impact on trade and commerce.

B. *Eliminating The Domestic Industry Requirement Will Hurt Consumers Without Helping American Firms*

Three of the proposals under consideration by Congress, S. 1860/1869, H.R. 3776, and the Administration's legislative package would delete entirely the requirement of proving the existence of a domestic industry in intellectual property cases. Other bills, such as H.R. 3777 and H.R. 4747, would leave that element of Section 337 in place, but with different degrees of explanatory language. The Kastenmeier proposal, H.R. 4747, as currently incorporated in H.R. 4750 and H.R. 4800, would redefine the domestic industry in intellectual property-based investigations as including "(A) significant investment in plant and equipment; (B) significant employment of labor or capital; or (C) substantial investment in [the intellectual property's] exploitation, including engineering, research and development, or licensing."[11]

We believe that elimination of the U.S. industry requirement would be a mistake. On the other hand, the domestic industry requirement cannot safely be left intact without further definition and explanation by the Congress, because of the Commission's misapplication of the law and inconsistent decisionmaking.

1. *Most Amendments Will Not Solve The Licensing Industry Problem*

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Of the proposed amendments, only H.R. 4800 adequately addresses the problem of the Commission's narrow manufacturing-based view of "domestic industry." The proposed clarification of the domestic industry requirement would reverse the Commission's decisions in the *Toy Trucks* and *Gremlins* cases. It also appears that the Commission would have to abandon its view that the domestic industry can be segmented out of existence by its consideration of the product features most closely resembling those of the imports, as in *Rotary Wheels II*.

H.R. 3777 would eliminate the requirement that the domestic industry be "efficiently and economically operated" and the injury requirement in cases of certain intellectual property-based unfair acts, but like H.R. 4800 would not eliminate the domestic industry requirement. Unlike H.R. 4800, however, it does not shed much light on how the Commission is to define domestic industry. Absent an injury requirement in patent and trademark cases the statutory reference to a domestic industry, without some further definition, becomes somewhat of a loose appendage serving no clear purpose. It would not solve the domestic industry definition problems created by the *Toy Trucks*, *Gremlins*, and *Rotary Wheels II* decisions.[52]

2. *The Amendments Will Hurt Consumers*

The Administration proposal's approach, and that of H.R. 3776 and S. 1860/1869, to the elimination of the domestic industry and injury requirement may have the unintended effect in many cases of raising prices to domestic consumers without any countervailing benefit to domestic firms and their employees. Moreover the influx of new cases may strain Commission resources.

Many foreign firms are more active in seeking protection for intellectual property rights than American firms.[53] If the proposed amendments are enacted foreign importers may well be able to terrorize each other in the ITC based upon the U.S. counterparts to their own foreign patents. Quite apart from the fact that the ITC does not have the resources to devote to essentially foreign disputes, the effect of such disputes would be either the licensing or exclusion of a foreign infringer for the benefit of a foreign patentee. In either case the end result would be to enable one foreign firm and possibly require a second foreign firm to raise prices to domestic consumers.

The possible inflationary effect of the increased cost of imports resulting from such foreign battles may in fact have no benefit to the American economy if the cases involve industries without substantial domestic components. Indeed if that is usually the case, the U.S. consumers' purchases of the now more costly imports will potentially increase, not reduce the trade deficit.

3. *The Amendments Will Aggravate Unpredictability of Enforcement*

The clear intent of the proposed revisions is to eliminate the domestic industry requirement that a number of visible complainants have, in the Commission's view, failed to prove. The danger of such reactive amendments is that they do not examine the statute as whole nor do they necessarily address the statute from the perspective of the practitioner. While the intent of the amendments is to reverse the Commission's failure to find a relevant domestic industry in several complex cases, the amendments may in fact make counselling clients to initiate or vigorously defend Section 337 proceedings more difficult because the outcome of the domestic industry issue may become even less predictable.

Currently, the industry definition and injury determination is initially made by the Administrative Law Judge upon a record developed at the evidentiary hearing after an opportunity for full discovery, while adhering to due process and evidentiary safeguards. Following the ALJ's initial determination, the full Commission may decide to review that decision. The Commission must also consider the public interest in its determination of whether or not to grant relief. The public interest determination is made entirely on the basis of briefs, supporting affidavits and whatever evidence there is in the record as to other issues which happens to support the parties' public interest arguments.[54]

The Commission has historically taken a narrow view of what public interest factors would warrant the denial of relief to a complainant who has proven a Section 337 violation to the Commission's satisfaction.[55] Since there is no definition in the statute of what public interest factors the Commission must consider, nothing precludes the Commission from considering the existence of a domestic industry, its efficient and economic operation and its injury among the public interest factors in deciding whether to grant relief. Chairwoman Stern has already hinted as much in testimony before a subcommittee of the House Judiciary Committee.[56]

Transferring the domestic industry determination to the public interest phase of investigations would only serve to reduce the quality and predictability of Commission decisions. The Commission has less of a record to work with and it will be unrestrained by established precedent and procedural and evidentiary safeguards. Even under existing time constraints such a transfer is clearly a recipe for greater exercise of Commission discretion, the very thing proponents of the legislation hope to diminish.

B. *Elimination Of Efficient And Economic Operation Requirement*

H.R. 4800, the Administration proposal, S. 1869, and H.R. 3776 would eliminate the requirement that the complainant in any Section 337 investigation prove that the domestic industry is efficiently and economically operated. This proposal has merit and should be adopted. However, inefficiency should be considered as a defense to injury allegations, should the injury requirement be retained in the legislation.

Historically the Commission has never based a determination of no violation of Section 337 upon a finding that the domestic industry was not efficiently and economically operated. Moreover, the evidence of

efficient and economic operation which the Commission commonly looks to is (1) generally burdensome to produce, (2) at best inconclusive of, or irrelevant to, efficiency, and (3) inherently contradictory to evidence of injury."

In testimony before subcommittees of the House and Senate, Chairwoman Stern suggested moving the determination of the efficient and economic operation of the domestic industry from the violation to the remedy phase of the investigation. Rep. Kastenmeier's original bill H.R. 4539 adopted this approach. This change, in Chairwoman Stern's view, "would remove the issue from potential discovery abuse in the proceedings before the ALJ, and yet retain the principle that we do not protect industries which are not economically viable." [58] Apart from the fact that discovery abuses are not unique or disproportional to any particular element of proof, moving the efficiency determination would leave the Commission unbridled discretion to grant or deny the requested remedy." With no discovery on the issue, there will be no reliable record upon which to make the determination. Thus, the issue will be reduced to one determined on the basis of lawyers arguments rather than proven facts. It is unclear, however, whether eliminating the efficiency requirement from the violation phase, without more, would preclude the Commission's consideration of efficiency during the remedy and public interest phase of the investigation.

Section 337 investigations are simply too costly from both the complainants' and respondents' sides to have the granting of relief depend on a determination of efficiency made in the weakest link of the adversarial fact determination process. A much fairer alternative is to recognize that issues of efficiency are inherently relevant to the determination of injury. If a complainant's injury is due entirely to its own inefficiency, it obviously cannot have been injured by imports. If, on the other hand, injury can be shown above and beyond such self-inflicted injury, inefficiency *per se* ought not excuse the unfair acts.

In sum, the efficient and economic operation element of a Section 337 violation should be repealed, but with recognition given to the relevance of inefficiency as a possible defense to the allegation of injury.

C. *The Proposals To Cut Statutory Time Limits Run Counter To Commission's Quasi-Judicial Mandate In Section 337 Investigations*

Under current law, Section 337 investigations must be completed within 12 or 18 months of filing the complaint. Several of the proposed amendments, including H.R. 3777, but not including H.R. 4747 or the Administration bill, would reduce the statutory deadlines to six and nine months, respectively. Anyone who has ever prepared and "tried" a Section 337 investigation knows that the existing time limits are barely sufficient in many cases to gather and present the evidence for or against relief. Moreover, the reduction of the number of issues tried by eliminating the economic elements of proof will not alleviate the time pressures on the litigants before the Commission.

It does not follow that elimination of the so-called "economic" or injury issues will cut in half the time required for discovery, preparation of the complainants' and respondents' cases, the administrative hearing, writing the initial determination, and the Commission review process. The discovery, preparation, and briefing periods before the ALJ are concurrent on all issues. The most time-consuming part of a Section 337 investigation, over which neither side alone has control, is discovery. Already the discovery period of a few months is far shorter than permitted in district court actions involving many identical issues. Yet, the Commission quite properly demands district court type rigor in the proof of facts before it. This discovery period cannot be shortened without doing damage to the parties' ability to meet the Commission's evidentiary standards.[60] As it is, more and more litigants fall short of their burden of proof. *See, Portable Electronic Calculators.*

Several other factors preclude shortening the discovery period. First, executives and technical employees on both sides have full time duties and preexisting commitments. Second, discovery involving foreign language documents and witnesses, who speak little or no English, is more time consuming than in purely domestic litigation. Documents must be translated and depositions frequently must have bilingual interpreters, slowing the process considerably.

The Commission has recently proposed amendments to its Rules of Practice and Procedure, 19 C.F.R. Part 210, to permit ALJs to award attorney's fees and costs as sanctions for discovery abuse.[61] The proposal is intended "to encourage timely discovery and avoid needless delay." The prophylactic effect of the threat of sanctions such as those under Rule 11 and Rule 37 of the Federal Rules may, however, be offset by adding a round of sanction motions during the discovery period, thereby adding further pressure on timely completion of investigations.

One concern of proponents of shortened time limits in Section 337 investigations is that the proceedings are not fast enough to protect start-up companies which need speedy relief from unfair competition in order to begin production. Such fears should be addressed by improving the mechanism for preliminary relief. At least one of the current proposals, H.R. 4800, addresses this in an effective fashion by setting a 90-day limit for deciding whether to grant preliminary relief (150 days in more complicated cases) and by requiring compliance with the Federal Rules of Civil Procedure.[62] Enactment of this proposal would address the concerns of complainants requiring expedited relief by providing swift temporary relief, without jeopardizing the integrity and quality of all investigations by cutting the overall statutory deadlines. Moreover, a respondent would be protected from both frivolous requests for and ill-advised orders of preliminary relief by permitting the Commission to require the complainant to post a bond during the period of preliminary relief pending a final determination on the merits.[63]

In summary, the more the Commission's role resembles that of a quasi-judicial tribunal that is expected to render well-reasoned opinions based on sound

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evidence, the less it can afford to reduce the statutory deadlines for investigations. The way to rationalize the goals of speedy relief to injured domestic industries with the goal of affording sufficient time for the conduct of investigations is to enable the parties to prepare adequately and the Commission to reach a well-founded decision by establishing standards for preliminary relief and summary determinations and by tightening the time limits on deciding such motions.

D. Elimination Of The Injury Requirement Violates The GATT Anti Discrimination Provisions

The General Agreement on Tariffs and Trade (GATT) was entered into by the United States and 16 of its trading partners immediately after World War II to establish a framework for free international trade. That treaty contained several provisions requiring equal treatment of domestic and imported products. Part II, Article 111(2) provides that:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.[44]

Further, in Article X(3)(a), referring to "[l]aws, regulations, judicial decisions and administrative rulings" of signatories which pertain to "requirements, restrictions or prohibitions on imports or exports," the GATT provides that:

> Each contracting party shall administer in a uniform, impartial and reasonable manner all [such] laws, regulations, decisions and rulings....[45]

Finally, Article XX of GATT states that:

> Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:
>
> • • •
>
> (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies..., the protection of patents, trade marks and copyrights, and the prevention of deceptive practices.[46]

Clearly the GATT requires generally that imports be treated uniformly with domestic products under trade laws and contemplates nondiscriminatory amendment and enforcement of intellectual property and trade regulation laws. Equally clear is the fact that Section 337, as it existed at the time the GATT was adopted, violated articles 111(2) and X(3)(a). However, the Protocol of Provisional Application adopted concurrently with the GATT "grandfathered" laws already on the books by providing that Part II, which includes the above quoted articles, be implemented to the "fullest extent not inconsistent with existing legislation."[47]

Arguably, the 1974 amendments to Section 337 imposing time constraints on Commission proceedings might have been considered discriminatory and technically in violation of the non-discrimination provisions. Far more important, though, was the enactment of the requirement that the Commission consider the legal and equitable defenses to the patent allegations. Thus, on balance the 1974 amendments eased discriminatory aspects of Section 337 by permitting importers to raise the same defenses available to accused domestic infringers in district court proceedings. The time constraints were but a small price to pay for what amounted to liberalization from the importers point of view.

The proposed amendments eliminating the industry and injury requirements and further speeding the enforcement process would in effect complete a two step replacement of the entire statute grandfathered by the GATT Protocol. An injury statute would be turned into an intellectual property law completely different from anything else enforced by the ITC.[48] Indeed, as Chairwoman Stern has testified, the amended statute might more logically be enforced by an agency other than the Commission.[49] Shifting enforcement responsibility to, say, the Patent and Trademark Office, would, however, underscore the fundamental changes that the amendments portend.

E. Miscellaneous Provisions

A few less fundamental changes to Section 337 have been included in some of the proposed amendments. The most noteworthy of these are set forth in Rep. Kastenmeier's bill, H.R. 4747, which was incorporated in the omnibus trade bill, H.R. 4800. These include: (1) proposals to clarify the Commission's powers and duties in default situations where respondents fail to respond to the complaint and defend themselves, (2) proposals to allow the Commission to order both exclusion orders directed at the goods and cease and desist orders directed at parties in the same investigation, (3) proposals to place on a respondent, who has been found in violation of Section 337, the burden of proof in a later proceeding to determine whether that respondent is no longer in violation, and (4) proposals to clarify how the Commission should treat the parties' confidential information.[50]

Recommendations

We propose the following solutions to the problems created by the Commission's recent Section 337 decisions, which should result in more well-reasoned and sounder investigatory results.

1. *Redefine the domestic industry element of Section 337.*

Since H.R. 3776, S. 1860/1869, and the Administration proposal would delete this requirement, they should be excluded from any proposed legislation.

However, in light of the Commission's poor performance in dealing with the industry requirement, some congressional or appellate court guidance is needed. If Congress is to pass any of the pending Section 337 legislation, we recommend it adopt the domestic industry definition of Rep. Kastenmeier's H.R. 4747. This bill would expressly require the Commission to view investment in engineering, research and development, or licensing as appropriate domestic industry activity, thereby putting an end to some of the ways the Commission has been able to deny relief to legitimate U.S. companies. See, e.g., *Gremlins* (where domestically developed intellectual property rights were licensed to foreign manufacturers), and *Rotary Wheels II* (where the products exploiting the patent that were in direct competition with the imported products were produced offshore to save costs). This proposal would eliminate the potential problem of creating a new patent litigation forum for foreign firms as well as the GATT problem.

2. *Eliminate the efficient and economic operation requirement.*

The efficiency requirement is essentially relevant to a finding of injury and should be considered a complete defense to a Section 337 charge where inefficiency is the sole cause of injury. This would simplify discovery in many cases and would prevent alleged inefficiency from surfacing as a trump card during the remedy phase of investigations.

3. *Discard proposals to reduce time limitations beyond the current 12 month/18 month periods.*

As discussed, *supra*, these limitations already put a strain on the litigative process and jeopardize due process. The concerns, expressed by proponents of the shortened time limitations, about start-up high tech companies for whom immediate relief is needed could be met by an improved preliminary relief mechanism. For example, Rep. Kastenmeier's bills, H.R. 4539 and H.R. 4747, would allow for preliminary relief within three months (five months in more complicated cases), while guaranteeing due process to the affected importers through adoption of district court type procedures.

4. *Keep the injury element of Section 337.*

Without injury, Section 337 has no reason for existence. As discussed, *supra*, this is the element which most naturally falls within the Commission's economic expertise. This is the *quid pro quo* which justifies Section 337's fast track procedures and the amendment of which is most objectionable under the GATT. In retaining the injury requirement, Congress should adopt a rebuttable presumption of causation. The burden should be on respondents to show that the injury was caused by factors other than the unfair imports.

It is also important that the injury determination always be made with respect to the entire domestic industry, rather than subparts thereof. This would prevent the Commission from pre-ordaining a negative injury determination by segmenting the domestic industry and finding an arbitrary "sub-industry" either healthy or nonexistent.

5. *Adopt H.R. 4747's miscellaneous provisions* regarding defaulting respondents, concurrent remedies, the burden of proof in reopened investigations, and the handling of confidential information.

6. *Increase deference to the ALJ's determination* by eliminating the dichotomy between Commission Rules 54 and 56, 19 C.F.R. Sections 210.54 and 210.56. Under Rule 54, the Commission will grant review of the ALJ's initial determination if only one Commissioner believes that (1) "[a] finding or conclusion of material fact is clearly erroneous;" (2) "[a] legal conclusion is erroneous, without governing precedent, rule or law, or constitutes an abuse of discretion;" or (3) "[t]he determination is one affecting Commission policy." These standards, in particular with respect to factual determinations, while they are stringent and appear to give deference to the ALJ, nevertheless require only one Commissioner's vote to trigger review. Once review is granted, however, anything can happen.

Rule 56 provides that "[o]n review the Commission may affirm, reverse, modify, set aside or remand for further proceedings, in whole or in part, the initial determination of the administrative law judge and make any findings or conclusions which in its judgment are proper based on the record in the proceeding." The Commission's review of the ID is therefore *de novo*.

The effect of these two rules can be that even though five Commissioners initially believe that the factual findings of the ALJ are supported by the record and not clearly erroneous, the vote of one Commissioner to the contrary enables the full Commission, upon reading the paper record, to scrap the initial determination entirely and rewrite the factual determinations of the ALJ." It is anomalous for a predominantly lay Commission, upon the basis of written briefs reviewed in the course of a few months, to disregard the findings of an ALJ who has been more involved in the investigation and who has seen the witnesses firsthand and reviewed all of the evidence. The time and energy an ALJ can devote to a single Section 337 investigation is many times that available to the Commission, which has responsibilities far beyond those falling under Section 337, and his or her findings should be accorded appropriate weight.

Our recommended solution is to (1) require the votes of at least half the sitting Commissioners to trigger review of an initial determination under the current Rule 54 standard for granting review, and (2) change the Rule 56 standard of review to the "clearly erroneous" standard of Rule 54.

Conclusion

The Commission has mired Section 337 enforcement by imposing an analytical framework based upon an outdated manufacturing-oriented view of American industry and has increased the burden of proving

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injury to the point that it is now more stringent than that required by the laws that prompted the enactment of Section 337. This is particularly ironic inasmuch as Section 337 was intended to be a less stringent alternative for protection of domestic industries utilizing intellectual property. While the Commission's anachronistic outlook may still work reasonably well in traditional industries involving limited product lines employing relatively simple technology injured by only one or two importers, it does violence to the legislative intent of Section 337 when an investigation involves complex industries and markets and multiple importers. By adhering to the original legislative intent and recognizing parallel developments in other trade and intellectual property laws, the Commission could have developed a more balanced enforcement policy without the need for most of the more drastic of the proposed amendments. However, to ensure that the Commission will expeditiously regain the direction originally contemplated by Congress, Section 337 should be amended, although less drastically than some proposals and along the lines of the above recommendations.

Footnotes

[1] Tariff Act of 1930, Section 337, 46 Stat. 703, 19 U.S.C. Section 1337. Subsection (a) of the statute prohibits "[u]nfair methods of competition and unfair acts in the importation of articles ... the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States...."

[2] Trade Act of 1974, Pub. Law 93-618, Section 341, 88 Stat. 2053 (amending 19 U.S.C. Section 1337); see also 19 CFR Part 210, the ITC rules of procedure in Section 337 investigations, adopted in 1976 with significant amendments in 1979, 1982 and 1984; 41 FR 17711 (4/27/76), 44 FR 76468 (12/26/79), 47 FR 25137 (6/10/82), 49 FR 46123 (11/23/84).

[3] In re The Orion Co., 21 USPQ 563, 567 (CCPA 1934).

[4] Tariff Act of 1922, Section 316, 42 Stat. 858. The section is set forth in full in In re Frischer & Co., 17 CCPA (Customs) 494, 500, T.D. 43964 (1930).

[5] S. Rep. No. 595, 67th Cong., 2nd Sess. 3 (*reprinted in* Legislative History of the Tariff Act of 1930, Part 7, Sec. 337, at 1451).

[6] Letter and Report of the United States Tariff Commission, 17 Tariff Readjustment—1929, 70th Cong., 2d Sess. 10657, 10667 (March 30, 1929), *reprinted in* Legislative History, *supra* n.5, at 1531.

[7] Certain Airtight Cast-Iron Stoves, Inv. No. 337-TA-69, 215 USPQ 963, 967 (1980).

[8] Sealed Air Corp. v. USITC, 645 F.2d 976, 985 (CCPA 1981). In re Frischer & Co., 17 CCPA (Customs) 494, 509-10.

[9] In re Frischer & Co., 17 CCPA (Customs) 494, 509-10 T.D. 43964 (1930). The Court held that the introduction into evidence of a certified copy of a patent constituted *prima facie* evidence of validity, rebuttable only upon proof that the patent had expired or had been held invalid by a federal court. *See also* Orion, *supra*, n.3, at 568-69.

[10] Glidden Company v. Zdanok, 370 U.S. 530, 579 n.50, 82 S.Ct. 1459, 1488 n.50 (1962).

[11] S. Rep. No. 1298, 93d Cong., 2d Sess., *reprinted* in [1974] U.S. Code Cong. & Ad. News 7186, 7329.

[12] *See* P. Stern, Statement for the Subcommittee on Trade, Senate Finance Committee, at 2 (May 14, 1986).

[13] *See, e.g.*, Certain Alkaline Batteries, Inv. No. 337-TA-165, 225 USPQ 823 (1984), *disapproved by the President*, 225 USPQ 862 (1985), *appeal dismissed sub nom.* Duracell, Inc. v. USITC, 228 USPQ 187 (CAFC 1985); Certain Welded Stainless Steel Pipe and Tube, Inv. No. 337-TA-29 (1978)

[14] S. Rep. No. 1298, *supra*, n.11, [1974] U.S. Code Cong. & Ad. News at 7329-30. The former provision creating the cease and desist order remedy permitted the Commission to take less drastic action aimed at specific parties rather than relying solely on blanket exclusion orders. Section 337(f). The latter provision was essential to guarantee review by the CCPA. Section 337(c). The Supreme Court had stated in dictum that Commission determinations in Section 337 cases, because of their advisory nature, were not appealable cases or controversies. Glidden v. Zdanok, 370 U.S. 530, 582-83, 82 S.Ct. 1459, 148990 (1962).

[15] Section 337(d), 19 U.S.C. Section 1337(d) (once it has determined a violation exists, the ITC shall order exclusion "unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.")

[16] 19 CFR Part 210 subpart E. Due process is required by subsection 337(c), which refers to the Administrative Procedure Act, 5 U.S.C. Chapter 5, subchapter II. The parties have the right to cross-examine and to have the evidence judged under a standard of relevance, materiality and reliability.

[17] If the Commission decides not to review the ID, the ID automatically becomes the Commission Determination, or the CD. Warner Brothers, Inc. v. USITC, 229 USPQ 126, 127 (Fed. Cir. 1986).

[18] This involves the determination of (1) whether the Commission should issue an exclusion order against the unfair imports or cease and desist orders against their importers and distributors, (2) whether ordering relief is in the public interest, and (3) the amount importers must post as bond to be permitted to continue importation during the 60 day period of Presidential review.

[19] 19 CFR Sections 210.54, 210.56, 210.58.

[20] 19 CFR Sections 210.56(c), 210.58(a)(4).

[21] *See* Statement of Harvey E. Bale, Jr., Assistant United States Trade Representative For Trade Policy Analysis before the Subcommittee on Courts, Civil Liberties and the Administration of Justice, House Committee on the Judiciary, at 12 (February 19, 1986).

[22] Certain Foam Earplugs, Inv. No. 337-TA-184 (1985), Certain Cloisonne Jewelry, Inv. No. 337-TA-195

(1985), Certain Compound Action Metal Cutting Snips, Inv. No. 337-TA-197 (1985), Certain Woodworking Machines, Inv. No. 337-TA-174 (1985), and Certain Apparatus for Installing Electrical Lines, Inv. No. 337-TA-196 (1985).

[11] Certain Optical Waveguide Fibers, Inv. No. 337-TA-189 (1985), Certain Floppy Disk Drives, Inv. No. 337-TA-203 (1985), Certain Rotary Wheel Printing Systems, Inv. No. 337-TA-185 (1985), Certain Portable Electronic Calculators, Inv. No. 337-TA-198 (1985).

[12] Certain Products With Gremlin Character Depictions, Inv. No. 337-TA-201 (1985).

[13] It is a current requirement of the statute that a relevant 'industry...in the United States" have been injured. Section 337(a).

[14] *Certain Airtight Cast-Iron Stoves, Inv. No.* 337-TA-69, 215 USPQ 963, 967-68 (1980).

[15] Certain Cube Puzzles, Inv. No. 337-TA-112, 219 USPQ 322, 334-35 (1982).

[16] Certain Miniature Battery-Operated All-Terrain Wheeled Vehicles, Inv. No. 337-TA-122 (1982), *aff'd* sub nom. Schaper Mfg. Co. *v.* USITC, 717 F.2d 368 (Fed. Cir. 1983).

[17] Certain Products with Gremlin Character Depictions, Inv. No. 337-TA-201 (1985), *aff'd sub nom.* Warner Brothers, Inc. v. USITC, 229 USPQ 126 (Fed. Cir. 1986).

[18] See, Cast-Iron Stoves, *supra* n.26, 215 USPQ at 267, where the Commission recognized that at the time of the adoption of Section 337 "the dominant economic activity...was manufacturing," but held that Congress did not intend to equate the term "industry" with "manufacturer."

[19] Certain Optical Waveguide Fibers, Inv. No. 337-TA-189 (1985).

[20] Certain Rotary Wheel Printing Systems, Inv. No. 337-TA-185 (1985).

[21] Certain Portable Electronic Calculators, Inv. No. 337-TA-198 (1985).

[22] Tariff Act of 1930, Sections 731 *et seq.*, 19 U.S.C. [illegible]ions 1673 *et seq.*

[23] American Grape Growers Alliance v. United States, 615 F. Supp. 603, 605-06 (CIT 1985) (*Grape Growers*).

[24] Chairwoman Stern has belatedly recognized industry definition problems where the domestic industry engages in some off-shore production. In Certain Double-Sided Floppy Disk Drives, Inv. No. 337-TA-215 (1986), she considered the "dilemma" of whether to include in the domestic industry one type of disk drive, which corresponded to the one type of import which the complainant admitted did not infringe and which was being phased out of production anyway, along with the two types of drives the complainant manufactured domestically and which corresponded to imports which were alleged to infringe. At one "extreme" is the interpretation of domestic industry as not allowing inclusion of all three products which exploit the patent, because substantial domestic manufacturing of each product line is required to warrant its inclusion in the domestic industry. The other extreme would not require "such activities as research and development to be tied to manufacturing in the United States at all." Chairwoman Stern concludes: "Congress intended the Commission to balance *both* the public interest served by protecting intellectual property rights and that served by the entrepreneurial activity which results from a patent's exploitation. I have thus found that in this case it is appropriate to include research and development and other production-related activities within the scope of the domestic industry when there is simultaneous manufacture of products exploiting the patent." Additional Views of Chairwoman Stern on Domestic Industry and Injury, at CD p.22. Vice-Chairman Liebeler went a step further and rejected a production-based evaluation of the domestic industry in favor of defining it as "all forms of exploitation of a domestic patent." Additional Views of Vice Chairman Liebeler, at CD p. 28-29.

[25] *See Certain Spring Assemblies, Inv. No.* 337-TA-88, 216 USPQ 225, 243-44 (1981), Certain Miniature Plug-In Blade Fuses, Inv. No. 337-TA-114, 221 USPQ 792, 808-10 (1983), Certain Drill Point Screws, Inv. No. 337-TA-116 (1983), Certain Sneakers with Fabric Uppers and Rubber Soles, Inv. No. 337-TA-118, 223 USPQ 536, 544-45 (1983), Certain Trolley Wheel Assemblies, Inv. No. 337-TA-161, at 11 (1984).

[26] Certain Foam Earplugs, Inv. No. 337-TA-184, Commission Decision Not To Review Initial Determination, 50 FR 4277 (January 30, 1985).

[27] Certain Food Slicers, Inv. No. 337-TA-76, 219 USPQ 176 (1981). The first investigation carried the same name and was given Investigation Number 337-TA-38.

[28] The earlier investigation, from which all respondents settled out prior to any hearing on the merits, was styled Certain Rotary Wheel Printers, Inv. No. 337-TA-145.

[29] *See supra n.35, 615 F. Supp at 606-07.*

[30] 591 F. Supp. 640, 642 (CIT 1984).

[31] See Certain Spring Assemblies, Inv. No. 337-TA-88, 216 USPQ 225, 243 (1981), aff'd sub nom. General Motors Corp. v. USITC, *687 F.2d 476 (CCPA 1982).*

[32] See Floppy Disk Drives, supra n. 23, Inv. No. 337-TA-203 at CD p. 7-8, ID pp. 54-55 (1985); Rotary Wheels II, supra n.23, Inv. No. 337-TA-185 at CD pp. 54-57 (1985) (Views of Commissioners Stern and Lodwick); Portable Electronic Calculators, supra n.23, Inv. No. 337-TA-198 at ID pp. 124-28 (1985) (decision of the ALJ).

[33] In antidumping cases, Commission Chairwoman Stern unsuccessfully urged consolidation of the injury and causation determinations, because she "does not believe it necessary or desirable to make a determination on the question of material injury separate from the consideration of causation." Dynamic Random Access Memory Semiconductors of 256 Kilobits And Above From Japan, Inv. No. 731-TA-300 at 20 n. 53 (1986); see also Cellular Mobile Telephones And Subassemblies Thereof from Japan, Inv. No. 731-TA-207, Additional Views of Chairman Stern at 18 (1985). Were the Commission to adopt this view it would shield the Commission from politically unpopular decisions in which it finds injury but no nexus by simply finding no injury.

[34] In Rotary Wheels II, the Commission required evidence of causation as to the four of over fifteen original sources of infringing imports remaining as

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respondents at the time of the hearing before the ALJ. *Having eliminated larger importers from consideration* on the basis of their settlement agreements — those whose imported models and distribution patterns most closely resembled the domestic industry and as to which there was specific evidence of lost sales — the Commission preordained the outcome of the nexus inquiry by requiring proof of injury causation on an importer-by-imprter basis. This holding is somewhat clouded by the fact that two of the five Commissioners refrained from ruling on the injury issues, having found the patent issues to be dispositive. This left a two to one plurality favoring a finding of no injury and no nexus. We have noticed a trend in the Commission towards increasingly fragmented decisions, making it difficult to determine how the whole Commission will come down on any one issue.

[41] 767 F.2d. 853, 863-64 (Fed. Cir. 1985).

[42] Id. at 864. See Pavlak, Damages in U.S. Patent Litigation — An overview, AIPLA Selected Legal Papers, Vol. III, No. 2 at J. 3 (December, 1985).

[43] See Sealed Air Corp. v. USITC, 645 F.2d 976, 985 (CCPA 1981) (the Commission's power to order exclusion of imports stems from the plenary constitutional power to regulate foreign commerce).

[44] Textron, Inc. v. USITC, 753 F.2d 1019, 1028 (Fed. Cir. 1985).

[45] H.R. 4800, Section 142(a)(1).

[46] If the injury requirement is to be deleted, therefore, the proposals such as S. 1869, H.R. 3776, and the *Administration's bill, which would also delete the* required proof of the existence of a domestic industry seem to be better alternatives than H.R. 3777. In eliminating the injury requirement the Congress would be conceding that §337 protects intellectual property rights, not domestic industries. As stated above, a well-defined domestic industry requirement, such as that proposed in H.R. 4800, is the best solution regardless of what is done with the injury element.

[47] Recent press reports estimate that over 40 percent of all U.S. patents, and a greater percentage of significant patents, are issued to foreign patentees.

[48] As a practical matter, in many cases both sides simply reargue the substantive issues.

[49] The Commission has declined to grant relief on public interest grounds in only three cases. Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60 (1979), Certain Inclined-Field Acceleration Tubes, Inv. No. 337-TA-67 (1980), and Certain Fluidized Supporting Apparatus (Burn Beds), Inv. No. 337-TA-182/188, 225 USPQ 1211 (1984) (on motion for temporary relief).

[50] P. Stern, Statement for the Subcommittee on Courts, Civil Liberties and the Administration of Justice, House Judiciary Committee, at 12-13, 17-18 (February 19, 1986).

[51] Commonly cited criteria to determine efficient and economic operation are: "(1) the use of modern equipment and procedures; (2) substantial investment in research and development; (3) the constant upgrading of manufacturing equipment; (4) incentive benefit programs for employees; and (5) sustained profitable operation." Certain Method For Extruding Plastic Tubing, Inv. No. 337-TA-110, 218 USPQ 348, 353 (1982). The first four criteria involve business decisions which may or may not be "efficient and economic" *depending upon the company's financial standing.* The fifth criterion, where present, tends to disprove injury to the domestic industry. Other factors mentioned by the Commission are such things as efficient quality control and modern accounting techniques. Certain Spring Assemblies, Inv. No. 337-TA-88, 216 USPQ 225, 242 (1981).

[52] Stern Statement (House), supra n.56 at 18, Stern Statement (Senate), supra n.12, at 23.

[53] The omnibus trade bill, H.R. 4800, would address discovery abuse by confering authority upon the Commission to grant sanctions to the extent authorized by Rules 11 and 37 of the Federal Rules of Civil Procedure. In addition, the Commission is currently promulgating its own sanction rule.

[54] In order to develop the evidence the three sides need at the hearing level there must be time for at least two rounds of discovery, with opportunity to move to compel answers to interrogatories, document requests and requests for admissions in both rounds to insure compliance. Once the documentary evidence is obtained, generally there will be a need to depose at least complainants' and respondents' executives, engineers and expert witnesses and possibly knowledgeable third party personnel who come to light during the discovery period. All this takes time which cannot practicably be reduced, even with elimination of the injury requirement.

[55] 51 FR 5087 (February 11, 1986). One of the current proposed amendments would add a section in the statute to this effect, allowing the Commission to make rules to prescribe sanctions for abuse of discovery or process. H.R. 4800, §142(a)(5)(C), adding a new subsection (h).

[56] H.R. 4800, §142(a)(2), amending §337(e). One minor problem with this provision is that it assumes that all petitions for preliminary relief will be filed with the original complaint. To avoid prohibiting subsequent filing of such petitions and to avoid "squeezing" respondents and the Commission decisionmaking process, the time limits on preliminary relief decisions should be geared to the notice of investigation or the filing of the petition, whichever is later.

[57] H.R. 4800, §142(a)(2), amending §337(e).

[58] 4 Bevans, Treaties and Other International Agreements of the United States of American 1776-1949, at 645 (1970).

[59] Id. at 652.

[60] Id. at 669.

[61] Id. at 687.

[62] The Federal Circuit noted that Congress may well have intended that the severe §337 exclusion remedy be applied only when compelled by strong economic reasons. See Textron, supra n.50, and S. Rep. No. 1298, 93d Cong., 2d Sess., reprinted in [1974] U.S. Code Cong. & Ad. News 7186, 7331.

[63] Stern Statement (House), supra n. 56, at 14-15, Stern Statement (Senate), supra n.12, at 17.

[64] See H.R. 4747, §§1(a)(4), (5), (6) and (8).

[65] Vice Chairman Liebeler commented on the peculiar nature of the Commission's review process in her dissent in Rotary Wheels II. Certain Rotary Wheel Printing Systems, Inv. No. 337-TA-185 (1985), Views of Vice Chairman Liebeler at 1-3.

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Second Session
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EXTENSION OF PATENT PROTECTION OF A PROCESS TO THE PRODUCTS OBTAINED BY THAT PROCESS; PROOF OF INFRINGEMENT OF A PROCESS PATENT

Memorandum by the International Bureau of WIPO

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I. INTRODUCTION

1. This memorandum deals with a special category of inventions, namely, inventions that consist of, or that relate to, processes (hereinafter referred to as "process inventions"). It is generally recognized that a process, if it complies with the conditions of patentability of inventions, can be protected by a patent.* A "process" typically is a technical solution consisting of a series of steps, and the result of a process may be a product.** Processes may be of a chemical nature, leading to chemical compounds, or may belong to other fields of technology (for example, mechanical engineering, nuclear technology, microbiology, etc.). Several different processes may be used, one after the other, in order to produce a product; therefore, a "product" may also be an intermediate form of a product. Moreover, processes may effect the transformation or finishing of existing products (for example, the painting, drying, etc., of a product). In addition to processes that produce products, there also exist processes that have other technical effects, such as the creation of energy, heat, sounds, etc., the analysis of substances or the measuring of temperature, etc. For the purposes of this memorandum, however, only processes that concern products are to be considered, and the expression "process invention," unless otherwise stated, hereinafter is used only for such particular processes.

2. As regards patents for process inventions (hereinafter referred to as "process patents"), two questions arise which will be examined in this memorandum.

3. The first question concerns the definition of the exclusive right conferred by a process patent. In a number of countries (however with important exceptions), the exclusive right of the owner of a process patent not only covers the use of the process but also—in respect of a product obtained directly by means of the patented process—certain acts which are protected under a product patent, typically the acts of importing, offering for sale, selling and using the product.*** This broad definition of the exclusive right conferred by a process patent is meant when this memorandum speaks of "extension of patent protection of a process to the products obtained by that process." The extension seems to be an exception to the principle that the protection conferred by a patent or another title of protection for an invention is defined by the object of the invention. In the case of a process invention, a strict application of the said principle would

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*In this memorandum, "patents" mean both patents for inventions and inventors' certificates, and the expression "patented" is used in this sense. Whether other titles of protection for an invention, such as utility certificates, are to be included, will be studied later.

**See Model Law for Developing Countries on Inventions (hereinafter referred to as the "WIPO Model Law"), Commentary e. on Section 112.

***See Section 135(2) of the WIPO Model Law.

mean that the owner of a process patent could only exclude others from using the patented process. The legal provisions which extend process protection to products obtained by the patented process are based on practical economic considerations. A process which leads to a specific product presents an economic value only through the product. However, it is not always possible to obtain a patent for the product; for example, the product may not be new or may—although new—lack inventive step. The invention of a new and inventive process for the production of such a product which is not patentable constitutes an important technological advance but the reward granted through a process patent is not important because—without an extension to the product—the process patent would be difficult to enforce (since infringement of the process is difficult to prove) and could even be circumvented by use of the process in another country and sale of the products produced in the country where the process is protected. In order to make patent protection of a process meaningful, it is therefore necessary to consider the patented process and the resulting product as a whole, with the consequence that process protection is automatically extended to the resulting product even if the said product has not been claimed. Relevant legal provisions will be considered in Part III of this memorandum (see paragraphs 6 to 53, below).

4. The second question concerns the proof of infringement of a process patent. Whereas the infringement of a product patent normally is proven by the fact that the infringing product is imported or offered for sale, difficulties arise with respect to the proof of the infringement of a process patent, whether or not the process results in a product. The use of the patented process by a competitor typically does not take place in public. Normally, information on such use is available only through an inspection of the premises of the competitor or through witnesses, for example, employees of the competitor who are involved in the use of the patented process. Where the patented process is a process producing a product, the importation or offering for sale of the said product cannot as such be considered as proof of the use of the process since another process may have been used for producing the product. For these reasons, infringement of a process patent frequently cannot be pursued because the plaintiff* cannot prove use of the patented process. In order to overcome this problem, the laws of some countries provide that, where a patent relates to a process for obtaining a new product, the same product, when produced by any other party (the defendant*) is deemed to have been obtained by the patented process, unless that other party can prove the contrary. This provision amounts to a reversal of the burden of proof: where the product is the same, the plaintiff is relieved from proving the use of the patented process by the defendant; instead, the defendant must prove that the product was obtained by a process other than the patented process and, consequently, <u>not</u> by the patented process. Relevant legal provisions will be considered in Part III of this memorandum (see paragraphs 6 to 53, below).

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*In this memorandum, "plaintiff" means the owner of the patent and "defendant" the alleged infringer.

II. PURPOSE OF THE MEMORANDUM

5. The purpose of this memorandum is to examine the existing provisions in respect of extension of patent protection of a process to the products obtained by that process and proof of infringement of the patented process and to suggest a uniform solution which could easily be applied by national and regional industrial property offices, and which would have the advantage that owners of process patents would no longer be confronted with differences of legal protection in the various countries. The solution to be proposed for adoption should be acceptable to the largest number of countries. In this connection, reference is made to the significant achievements in respect of the harmonization of certain provisions of patent law already obtained as a consequence of the the European Patent Convention (1973) and the Community Patent Convention (1975; not yet in force).

III. EXISTING LEGISLATIVE PROVISIONS

A. Information Used in the Present Memorandum

6. Before any uniform solution is proposed, the existing provisions in respect of (i) the extension of process patents to products obtained by the patented process and (ii) proof of infringement of a process patent will be examined. For this purpose, the following information has been taken into account:

(i) the provisions of the Stockholm Act (1967) of the Paris Convention for the Protection of Industrial Property (hereinafter referred to as the "Paris Convention");

(ii) the provisions of the European Patent Convention (EPC), the Community Patent Convention (CPC) and of the legislation (laws, regulations, etc.) of those 18 countries in which or for which, according to the statistics published by WIPO (IP/STAT/1984/A), more than 4,000 titles of protection for inventions were granted in 1984. Those countries are Australia (7,252), Austria (8,565), Brazil (4,887), Canada (20,545), Czechoslovakia (6,601), France (23,666), German Democratic Republic (11,544), Germany (Federal Republic of) (21,758), Greece (9,153), Japan (61,800), the Netherlands (10,257), Poland (4,185), the Soviet Union (62,907), Spain (8,213), Sweden (11,670), Switzerland (13,977), the United Kingdom (18,867) and the United States of America (67,201). The figures in parenthesis following the names of all States except the Soviet Union indicate the number of patents granted in 1984; the figure concerning the Soviet Union represents the total number of patents and of inventors' certificates granted in 1984.

7. In general, the present memorandum is based on legislative provisions (treaties, laws, regulations, etc.) and only exceptionally takes into account the interpretation given to the said provisions by courts and industrial property offices or the practice of industrial property offices. The present memorandum only presents a short summary of the said provisions; the summaries have not been verified by the industrial property offices concerned.

B. The Paris Convention for the Protection of Industrial Property

8. Article 5quater of the Paris Convention reads as follows:

> "When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation, on the basis of the process patent, with respect to products manufactured in that country."

This provision does not require Paris Union member States to provide for an extension of patent protection of a process to the products obtained by that process, nor does it require the provision of a reversal of the burden of proof as described in paragraph 4, above. However, Article 5quater obliges those Paris Union member States which in their national law provide for an extension of patent protection of a process and/or a reversal of the burden of proof to recognize the effects of the extension of patent protection of a process and/or the reversal of the burden of proof with respect to imported products in the same way as with respect to products manufactured in the country. In other words, Article 5quater becomes operational only in a Paris Union member State that has decided to adopt certain provisions in its national law, namely, provisions concerning the extension of patent protection of a process to products obtained by the process and/or provisions on the reversal of proof of infringement of a process patent. In such a State, Article 5quater has the effect that a process patent is infringed through the importation of products manufactured according to the patented process in another country and—where the national law provides for the reversal of the burden of proof—that the importer of the said products has to prove that the patented process was not used in manufacturing the products. Without the effect prescribed by Article 5quater, the provisions of national laws concerning the extension of patent protection of a process and/or the reversal of the burden of proof could easily be circumvented by using the patented process in another country and importing the products obtained into the country where the process is patented. However, as already stated, Article 5quater of the Paris Convention does not achieve a harmonization of national laws in respect of the extension of process protection to products obtained by the patented process and proof of infringement of a process patent.

C. European Patent Convention, Community Patent Convention and National Legislation

9. European Patent Convention. The European Patent Convention (EPC) needs to be considered in this memorandum because, in spite of the basic principle according to which the rights conferred by a European patent are determined by the national law of each Contracting State in respect of which the European patent has been granted (see Article 64(1) and (3) EPC), a relevant provision is contained in Article 64(2) EPC, which reads as follows:

> "If the subject-matter of the European patent is a process, the protection conferred by the patent shall extend to the products directly obtained by such process."

10. The European Patent Convention does not deal with the infringement of European patents, leaving this matter to the applicable national law (see Article 64(3) EPC). Consequently, the question of proof of infringement of process patents is not dealt with in the EPC.

11. Community Patent Convention. The Community Patent Convention (CPC), which was concluded in 1975 between the Member States of the European Community in order to establish uniform rules concerning European patents for the said States and which is not yet in force, provides in its Article 29(c) for the right of the proprietor of a Community patent "to prevent all parties not having his consent ... from offering, putting on the market, using, or importing or stocking for these purposes the product obtained directly by a process which is the subject-matter of the patent."

12. As regards the burden of proof, the CPC contains in its Article 75 a provision which reads as follows:

> "1. If the subject-matter of a Community patent is a process for obtaining a new product, the same product when produced by any other party shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process.
>
> 2. In the adduction of proof to the contrary, the legitimate interests of the defendant in protecting his manufacturing and business secrets shall be taken into account."

13. Australia. The Patents Act 1952, as amended to 1982, does not provide for an extension of process patent protection to a product obtained by the patented process or for a reversal of burden of proof concerning infringement of a process patent.

14. Austria. The Patent Law of 1970, as amended in 1984, provides in Section 22(2) that, if a patent has been granted for a process, it shall be effective also in respect of the products manufactured directly by that process.

15. According to Section 155 of the Patent Law, in the case of a patent for a process for the manufacture of a new substance, any substance with the same composition shall, pending proof of the contrary, be regarded as having been manufactured according to the patented process.

16. Brazil. The Industrial Property Code of 1971 does neither provide for an extension of process patent protection to a product obtained by the patented process nor for a reversal of burden of proof concerning infringement of a process patent.

17. Canada. The Patent Act of 1952, as amended in 1972, does not contain a provision extending process patent protection to a product obtained by the patented process. Such an extension therefore can only be achieved by claiming, when the process is of a certain kind (see below), the resulting product in addition to the process. Section 41(1) contains a special rule concerning the possibility of claiming, in addition to the process, the product obtained by the process. It reads as follows:

> "In the case of inventions relating to substances prepared or produced by chemical processes and intended for food or medicine, the specification shall not include claims for the substance itself, except when prepared or produced by the methods or processes of manufacture particularly described and claimed or by their obvious chemical equivalents."

This provision establishes the principle that substances prepared or produced by chemical processes and intended for food or medicine are excluded from patent protection. As an exception to this principle, such a substance may nevertheless be patented if it is prepared or produced by a method or process of manufacture particularly described and claimed or by their obvious chemical equivalents. The exception permits patenting of the substance together with the process for its manufacture. Although this is not the kind of extension of process protection considered in this memorandum, the result is practically the same. Section 41(1) of the Patent Act, however, shows that the kind of extension of process protection considered in this memorandum does not exist in Canada.

18. As regards proof of infringement, Section 41(2) of the Patent Act provides the following:

> "In an action for infringement of a patent where the invention relates to the production of a new substance, any substance of the same chemical composition and constitution shall, in the absence of proof to the contrary, be deemed to have been produced by the patented process."

19. Czechoslovakia. The Law on Discoveries, Inventions, Rationalization Proposals and Industrial Designs of 1972 does not provide for an extension of process patent protection to a product obtained by the patented process or for a reversal of burden of proof concerning infringement of a process patent.

20. France. Section 28(2) of the Patent Law of 1968, as last amended and supplemented in 1984, provides that, where the subject matter of the patent is a process, the protection conferred by the patent shall extend to the products directly obtained by such process. Consequently, Section 29(c) of the Patent Law extends the exclusive right conferred by a process patent to the offering, putting on the market, using, or importing or stocking for these purposes, of a product obtained directly by the patented process.

21. The Patent Law does not contain a provision concerning proof of infringement of a process patent.

22. German Democratic Republic. According to Section 12(2) of the Law of 1983 on the Legal Protection of Inventions (Patent Law), the right to use an invention under an economic patent or an exclusive patent includes the right to produce, use, offer for sale and sell the subject matter of the invention; where a manufacturing process is protected, those rights also extend to the products manufactured directly by that process.

23. As regards proof of infringement, Section 29(2) provides that, where an action for discontinuance or for damages concerns an invention for the process of manufacture of a new substance, any substance of the same nature shall be considered, until there is proof to the contrary, as having been produced by means of the patented process.

24. Germany (Federal Republic of). According to Section 9(3) of the Patent Law of 1980, the exclusive right conferred by a patent covers the offering, putting on the market, using or importing or stocking for these purposes, of the product obtained directly by a process which is the subject matter of the patent.

25. Section 139 of the Patent Law provides that, if the subject matter of a patent is a process for obtaining a new product, the same product when produced by any other party shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process; in the adduction of proof to the contrary, the legitimate interests of the defendant in protecting his manufacturing and business secrets shall be taken into account.

26. Greece. According to Section 5 of the Law of 1920 on Patents of Invention, if a patent has been granted in respect of a method of production, the products directly obtained by that method also enjoy protection.

27. Section 34, second paragraph, of the Law provides that, in the case of an invention which relates to a method of production of a new product, any product of the same nature shall be deemed, until otherwise proven, to have been manufactured by the patented method.

28. Japan. Section 2(3) of the Patent Law of 1959, as amended in 1982, contains a definition of the term "working," which term is used in Section 68 for the purposes of defining the exclusive right of the patentee. According to Section 2(3)(iii), working of an invention means, in the case of an invention of a process of manufacturing a product, acts of using, assigning, leasing, displaying for the purpose of assignment or lease, or importing, the product manufactured by the process, in addition to using the process.

29. Section 104 of the Patent Law provides that, in the case of a patent for an invention of a process of manufacturing a product, where such product was not publicly known in Japan prior to the filing of the patent application concerned, any identical product shall be presumed to have been manufactured by that process.

30. Netherlands. Section 30(1)(b) of the Patents Act of 1910, as last amended in 1978, provides that a patent confers on its proprietor the sole right to apply the patented process in or for his business or to make, use, put on the market, resell, hire out or deliver the product obtained directly as a result of the application of the patented process, or deal in any other way, in or for his business, in the product, or to offer it or stock it for these purposes, with the exception of any product excluded from the grant of a patent as a result of Section 3(2).

31. As regards the burden of proof of infringement of a process patent, Section 43(5) of the Patents Act provides that, where proceedings are brought for the enforcement of a patent relating to a process for the manufacture of a new product, it shall be assumed that the product in question has been manufactured by using the patented process, unless the defendant can establish the plausibility of the contrary; the contents of patent applications filed and later published shall not be taken into consideration in a judgment relating to the novelty of a product. Thus, the law of the Netherlands does not completely reverse the burden of proof; if the defendant establishes the plausibility that the product has not been manufactured by using the patented process, the owner of the patent has to prove that the patented process was used.

32. Poland. The Law on Inventive Activity of 1972, as amended in 1984, provides, in Section 16(4), that a patent granted for a manufacturing process also covers products directly obtained from the process.

33. According to Section 57(3) of the same Law, in the case of a patent for a process of manufacturing a new product, any product which can be obtained by means of the patented process is presumed to have, in fact, been produced by that process.

34. Soviet Union. The Statute on Discoveries, Inventions and Rationalization Proposals of 1973, as amended in 1978, does not provide for an extension of process protection to products obtained by the protected process, nor does it regulate the proof of infringement of a process patent.

35. Spain. The Industrial Property Code of 1929, as last amended in 1975, does not provide for an extension of process protection to products obtained by the patented process, nor does it regulate the proof of infringement of a process patent.

36. Sweden. According to Section 3, first paragraph, item (3), of the Patents Act of 1967, as last amended in 1983, the exclusive right conferred by a patent covers the offering, putting on the market, or using, of products made by a process protected by the patent, or the importing or possessing of the product for these purposes.

37. There is no provision in the Patents Act concerning proof of infringement of a process patent.

38. Switzerland. Section 8(3) of the Federal Law on Patents for Inventions of 1954, as revised in 1976 (hereinafter referred to as the "Patent Law"), provides that, if an invention concerns a process, the effects of the patent shall extend to the immediate products of the process.

39. According to Section 67(1) of the Patent Law, if an invention concerns a process for the manufacture of a new product, every product of the same composition is presumed to have been made by the patented process until proof to the contrary has been adduced. Section 67(2) provides that Section 67(1) applies by analogy in the case of a process for the manufacture of a known product if the patentee shows prima facie evidence of infringement of the patent. According to Section 68(1) of the Patent Law, manufacturing or business secrets of the parties are to be safeguarded, and Section 68(2) provides that evidence which would disclose such secrets may be made available to the adversary only to such an extent as is compatible with the safeguard of the secrets.

40. United Kingdom. Under Section 60(1)(c) of the Patents Act 1977, a person infringes a patent if, where the invention is a process, he disposes of, offers to dispose of, uses or imports any product obtained directly by means of that process or keeps any such product whether for disposal or otherwise.

41. As regards proof of infringement of a process patent, Section 100(1) of the Patents Act provides that, if the invention for which a patent is granted is a process for obtaining a new product, the same product produced by a person other than the proprietor of the patent or a licensee of his shall, unless the contrary is proved, be taken in any proceedings to have been obtained by that process. Section 100(2) stipulates that, in considering whether a party has discharged the burden imposed upon him by Section 100(1), the court shall not require him to disclose any manufacturing or commercial secrets if it appears to the court that it would be unreasonable to do so.

42. United States of America. According to Section 154 of the United States Code (Title 35--Patents), as last amended in 1984, a patent confers the right to exclude others from making, using, or selling the invention, and Section 271(a) provides that whoever without authority makes, uses or sells any patented invention infringes the patent. These provisions do not establish an extension of process patent protection of the kind considered in this memorandum, and, therefore, such an extension has not been admitted by the courts.

43. There is no provision concerning proof of infringement of a process patent.

44. However, Section 1337a of the United States Code (Title 19--Customs Duties), which concerns unfair trade practices in respect of importation of products, contains a provision according to which products of processes that are patented in the United States of America receive the same treatment as

products patented in the United States of America. This provision has the effect of an extension of process patent protection to products obtained by the patented process, however, only for products produced abroad and not as a general rule under the Patent Law; moreover, the legal consequences of the said provision--namely, measures to be taken by the United States International Trade Commission--are different from the sanctions for patent infringement as provided under the Patent Law.

D. Comparative Analysis

45. When comparing the provisions of the European Patent Convention, the Community Patent Convention and the 18 national laws referred to in the preceding Chapter, it appears that the industrial property laws of 11 countries (Austria, France, German Democratic Republic, Germany (Federal Republic of), Greece, Japan, Netherlands, Poland, Sweden, Switzerland, United Kingdom), the EPC and the CPC provide for an extension of patent protection of a process to products obtained by the patented process, whereas the laws of seven countries (Australia, Brazil, Canada, Czechoslovakia, the Soviet Union, Spain, the United States of America) do not provide for such extension. As far as the reversal of the burden of proof concerning infringement of process patents is concerned, the laws of 10 countries (Austria, Canada, German Democratic Republic, Germany (Federal Republic of), Greece, Japan, Netherlands (with some qualifications), Poland, Switzerland, United Kingdom) and the CPC provide for such reversal, whereas the laws of eight countries (Australia, Brazil, Czechoslovakia, France, the Soviet Union, Spain, Sweden, the United States of America) and the EPC (the latter because of its limited objective) do not provide for such reversal of proof.

46. Although the provisions concerning the two questions dealt with in this memorandum are basically the same in the national laws referred to in the preceding paragraph, as well as in the EPC and the CPC, certain differences exist. They are analyzed in the following paragraphs (paragraphs 47 to 53).

47. Extension of Process Protection to Products Obtained by the Protected Process. Two aspects of the relevant provisions deserve particular attention, namely, the question of whether the result of the patented process is a "product" and the question of whether the product must be "directly" obtained by the process.

48. As regards the result of the process to which the protection extends, the law of Austria uses the expression "substance," which may imply that only the results of chemical processes are to be covered by the extension, whereas all other laws, the EPC and the CPC use the expression "product." It is to be noted, however, that the law of the German Democratic Republic, while extending process protection to "products," uses the expression "substance" in connection with the reversal of the burden of proof and that the law of Canada, which only provides for a reversal of the burden of proof but not for an extension of process patent protection, refers to a "substance of the same chemical composition and constitution."

49. As regards the link between the process and the product, generally national laws, the EPC and the CPC require that the product must be "directly obtained" by the process. The following are exceptions: the laws of Austria and the German Democratic Republic speak of "products manufactured directly" by the process; the law of Japan does not use the term "directly" but speaks only of a "product manufactured by the process"; the law of Sweden refers to "products made by a process protected by the patent"; the law of Switzerland speaks of the "immediate products of the process." Thus, the laws of Japan and Sweden seem to differ somewhat from the laws of the other countries and from the EPC.

50. Reversal of the Burden of Proof. Three aspects of the relevant provisions deserve particular attention, namely, (i) the question of whether the defendant's product on which the reversal of the burden of proof is based must be the same as the one described in the process patent, (ii) the question of whether the plaintiff's product must be new* and (iii) the question of whether the defendant must prove that he did not use the patented process or whether he only has to make plausible that he did not use the process and whether he can avoid disclosing manufacturing or business secrets.

51. As regards the identity of the kind of product, the law of Austria speaks of "any substance with the same composition"; the law of Canada expressly refers to "any substance of the same chemical composition and constitution"; the law of the German Democratic Republic uses the expression "any substance of the same nature"; the CPC and the laws of Germany (Federal Republic of) and the United Kingdom refer to "the same product"; the law of Greece speaks of "any product of the same nature"; the law of Japan uses the expression "any identical product"; the law of the Netherlands refers to "the product in question," the law of Poland speaks of "any product which can be obtained by the patented process" and the law of Switzerland of "every product of the same composition." Whether this diversity of expressions reflects an intended diversity of substance, so that, on the one hand, complete identity is required, whereas, on the other, unimportant deviations would be irrelevant, does not seem to deserve further examination for the purposes of this memorandum.

52. As regards the question whether the product must be new, such a condition is provided for in the CPC and in the laws of Austria, Canada, the German Democratic Republic, Germany (Federal Republic of), Greece, Japan ("product not publicly known prior to filing of the patent application concerned"), the Netherlands (with a special provision concerning the contents of patent applications that have not yet been published, to the effect that the said contents are not to be taken into consideration), Poland and the United Kingdom. Under the law of Switzerland, there are two rules concerning the proof of infringement, one establishing a reversal of the burden of proof in respect of a new product and the other establishing a reversal of the burden

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*It appears that the term "new" is meant in the absolute (worldwide) sense but does not necessarily have the same meaning as the term "new" in the context of novelty as a condition of patentability (see paragraphs 52 and 56(d)).

of proof in respect of a known product if the patentee shows prima facie evidence of infringement of the patent. With the exception of Japan and the Netherlands, neither the CPC nor any of the aforementioned countries specifies what is meant by "new."

53. As regards the proof of having or not having used the patented process, the law of the Netherlands does not provide for a reversal of the burden of proof but establishes an assumption of infringement unless the defendant establishes the plausibility of the contrary. A provision protecting the defendant who receives the burden of proof, because of a legal provision reversing the burden, against a requirement to disclose manufacturing and business secrets is contained in the laws of Germany (Federal Republic of), Switzerland and the United Kingdom.

IV. ARGUMENTS IN FAVOR OF A UNIFORM SOLUTION

54. The diversity of provisions of the national laws covered by this memorandum, the European Patent Convention and the Community Patent Convention presents obvious disadvantages for inventors of process inventions and owners of process patents. In a number of countries, applicants can rely on the legal provision extending patent protection of a process to the product obtained by the process. In other countries, where such an extension is not provided for by the law, inventors of process inventions must claim, in addition to the process, also the resulting product. Where this is not possible, for example, because the product in question is not new or lacks inventive step, the protection is limited to the process with the known difficulties of proving infringement of a process. Therefore, an internationally accepted uniform solution in respect of the two questions examined in this memorandum would greatly facilitate the situation that inventors of process inventions have to face when they seek protection for their inventions in more than one country. Moreover, it would give true effect to the underlying intention of Article 5quater of the Paris Convention.

V. DESIRABILITY OF ACTION AT THE INTERNATIONAL LEVEL

55. It seems evident that it is desirable to take measures to find a uniform solution for the problem under examination in as many treaties and national laws as possible. Such action must take place at the international level. It could take the form either of an international treaty or of a recommendation adopted by a competent body, such as the Assembly of the Paris Union for the Protection of Industrial Property. While a recommendation might have the advantage that it can be adopted relatively easily, it has the disadvantage that it probably would not create sufficient momentum for changing national laws and industrial property office practices. The adoption of treaty provisions would be much more adequate. Such provisions should be included in the envisaged treaty dealing with various aspects of the harmonization of laws for the protection of inventions.

56. For the purposes of establishing the said treaty provisions, the following main issues would need to be decided:

(a) Should only chemical processes or should all kinds of processes be covered? It is proposed to cover all kinds of processes and consequently to use the expressions "product" (and not "substance") and "obtained" (and not "manufactured") since there does not seem to be any need to limit the extension to substances made by chemical processes.

(b) Should only products obtained "directly" by the patented process be covered? It is proposed to reply in the affirmative, as this is the case in the majority of the laws analyzed in this memorandum and since such fact would facilitate the acceptance of the harmonized rule.

(c) Should only an identical product justify the reversal of the burden of proof? It is proposed to reply in the affirmative because other solutions would unduly extend the reversal of the burden of proof and would cause problems of definition and interpretation.

(d) Should the reversal of the burden of proof apply only in respect of "new" products? It is proposed to reply in the affirmative, as is done in the majority of the laws analyzed in this memorandum; the definition of what is to be considered as "new" (which would not necessarily coincide with the definition of novelty for the purposes of patenting an invention) would have to be left to national laws (if, at all, there is a need for such a definition). The consequence of this solution is that the treaty would not oblige Contracting States to provide for a reversal of the burden of proof if the product is not new; but the treaty could permit Contracting States to adopt a more far-reaching provision that is not limited to new products, as has been done in the law of Switzerland.

(e) Should a provision be included protecting the defendant who has to prove that he did not use the patented process against any unjustified requirement to disclose manufacturing and business secrets? It is proposed to reply in the negative since this is a matter which would probably cause problems of definition and interpretation and should rather be left to national laws.

(f) Should the rules of the treaty have a mandatory character or should they permit Contracting States to grant more extensive rights to the owner of the process patent? It is proposed to adopt the latter solution since there is no need to restrict the granting of more extensive rights; what is important for the inventor of a process invention is that he can rely on a certain minimum of protection in all Contracting States.

VI. PRINCIPLES OF A SOLUTION

57. The principles of a solution to be embodied in an international treaty could be drafted as follows:

"(1) If the subject matter of a patent for an invention is a process, the protection conferred by the patent shall extend to any product directly obtained by the said process.

"(2) If the subject matter of the patent for an invention is a process for obtaining a new product, the said product, when produced by any party other than the owner of the patent, shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process.

"(3) Additional rights available under national laws for the benefit of the owner of the patent shall not be affected by the foregoing provisions."

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WIPO

HL/CE/II/8
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WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

COMMITTEE OF EXPERTS ON THE HARMONIZATION OF CERTAIN PROVISIONS IN LAWS FOR THE PROTECTION OF INVENTIONS

Second Session
Geneva, May 26 to 30, 1986

See paragraph 83

REPORT

adopted by the Committee of Experts

I. INTRODUCTION

1. Convened by the Director General of the World Intellectual Property Organization (WIPO) under the 1986-1987 program of the International (Paris) Union for the Protection of Industrial Property (see item PRG.03(1) of Annex A to document AB/XVI/2), the Committee of Experts on the Harmonization of Certain Provisions in Laws for the Protection of Inventions (hereinafter referred to as "the Committee of Experts") held its second session in Geneva from May 26 to 30, 1986.

2. The following States were represented at the session: Austria, Belgium, Brazil, Cameroon, Canada, China, Denmark, Finland, France, Germany (Federal Republic of), Hungary, Iceland, Indonesia, Italy, Japan, Madagascar, Netherlands, Nigeria, Norway, Philippines, Poland, Portugal, Republic of Korea, Soviet Union, Spain, Sweden, Switzerland, Tunisia, United Kingdom, United States of America (30).

59. In conclusion, it was agreed to retain as Principle 3 only the general rule that claims of one and the same category should, subject to Principle 1, be permitted in the same application, taking into account that that rule was already expressed in Principle 1(c) concerning the manner of claiming in paragraph 143 of document HL/CE/II/3.

60. With respect to Principle 4, it was suggested that the words "of a reasonable number" be deleted. Furthermore, it was stated that dependent claims should be of the same category. Reference was also made to "false" dependent claims which, while dependent as to their form, were actually independent claims in view of their substance.

V. EXTENSION OF PATENT PROTECTION OF A PROCESS TO THE PRODUCTS OBTAINED BY THAT PROCESS; PROOF OF INFRINGEMENT OF A PROCESS PATENT

(Document HL/CE/II/5)

61. The contents of document HL/CE/II/5 were discussed in detail, and those contents, including in particular the principles of a solution presented in paragraph 57, were in general considered as acceptable. In particular, the following comments were made.

62. With respect to paragraph 5, it was pointed out that the provisions concerning the extension of patent protection of a process to the products obtained by that process typically had to be applied by courts and not by industrial property offices.

63. Attention was drawn to the fact that the concept of burden of proof differed from country to country and that, consequently, a treaty provision on a reversal of the burden of proof would have different meanings in different countries, depending on the legal principles applying in each country. In particular, such a provision could not change any mandatory rules of criminal law, such as the rule that innocence was to be presumed unless the contrary had been proven.

64(a) The Delegation of Brazil stated that its country was bound by the Hague Act (1925) of the Paris Convention, which did not contain Article 5quater, dealing with process patents and introduced in the Convention at the Revision Conference of Lisbon in 1958, and that it therefore was unable to participate in a discussion on process patents. Since Article 5quater was a provision which was under revision in the current Diplomatic Conference, any harmonization of provisions on process patents should be postponed until the completion of the revision conference.

(b) In answer to the statement of the Delegation of Brazil, it was observed that reference to Article 5quater of the Paris Convention was made only for the sake of information, that the questions dealt with in document HL/CE/II/5 did not depend on Article 5quater and that therefore a harmonization of the provisions discussed in document HL/CE/II/5 could be brought about independently of the revision conference.

65. With respect to Part III (Existing Legislative Provisions), the Delegations of Canada, France, Germany (Federal Republic of), the Netherlands, Poland, Spain and the United States of America and the Representatives of AIPPI, ASIPI and NYPLA made comments on and proposed, either orally or in writing, changes to be made in paragraphs 16, 17, 20, 24, 31, 32, 35 and 44. Those comments and proposals were noted by the Secretariat and will be taken into account when revising document HL/CE/II/5.

66. Concerning the first sentence of paragraph 48, attention was drawn to the need to substitute the word "substance" by the word "product," in order to take into account the fact that the law of Austria used the word "substance" only in relation to the reversal of the burden of proof.

67. With respect to the second sentence of paragraph 49, it was stated that a reference to the Federal Republic of Germany should be included, since the patent law of that country used the expression "products manufactured by the patented process."

68. Concerning the first question in paragraph 50, some delegations pointed out that the reversal of the burden of proof under the laws of their countries was possible only if the defendant's product was exactly the same as the one referred to in the process patent. Other delegations stated that, for this purpose, complete identity was not required under the laws of their countries. The Delegation of France said that French patent legislation did not provide for the reversal of the burden of proof because the same type of guarantee could be obtained by other means, in particular, by the seizure of counterfeited goods. The Delegation of France was therefore not in favor of such a provision. However, it was not excluded that it might change its mind since France had signed the Community Patent Convention which provided for such a system.

69. With respect to the fourth sentence in paragraph 54, it was suggested adding, as a further example, the case where a patent for a product could not be obtained and where, therefore, process patent protection was particularly important. This was the case where the product concerned fell in a category of products expressly excluded from patentability under the national law.

70. Concerning paragraph 54, the Delegation of Norway pointed out that, while supporting the proposal for an international harmonization on the extension of patent protection of a process to the products obtained by that process, some countries might, on the question of reversal of the burden of proof, feel a stronger need for harmony between different parts of their own national law than for international harmonization on this particular point.

71. Concerning paragraph 55, the Delegation of Sweden stated that it had hesitations regarding the desirability of including in the Treaty a provision on the reversal of the burden of proof. Such a provision existed in the patent law of its country before 1967, when it was abandoned in favor of the principle of "freedom of proof," whereby the courts could take into account any piece of evidence and attach to it as much weight as was considered appropriate. On the occasion of the most recent revision of the patent law, which took place during the last year, it was decided not to reintroduce the principle of reversal of the burden of proof. This was because it had been found that, where the plaintiff could prove that the product offered by the defendant was identical to that referred to in the process patent, the courts might well decide, under the principle of "freedom of proof," that the defendant must prove that the patented process had not been used.

72. The Committee of Experts then considered the questions raised in paragraph 56.

73. With respect to paragraph 56(b), the Delegation of the United States of America indicated that the question of extension of process protection to products was at present the subject of legislative action in its country. In particular, the question whether products had to be obtained directly by the patented process in order to be covered by the provision on extension of such patent protection was presently being debated in its country in relation to various bills that had been submitted to Congress. In this connection, the question had been raised as to exactly where the border line should be drawn between products "obtained directly" and products "not obtained directly" from the patented process. It was pointed out that, in any case, until the resulting product had been materially changed, it should be considered to have been obtained directly from the patented process. Moreover, it was stated that a product "directly obtained" from the patented process was likely to show some elements of the process applied for its production.

74. It was suggested that the revised version of document HL/CE/II/5 should cite examples drawn from national jurisprudence, in order to illustrate the practical application of the condition of "directly obtained." In this context, the Chairman asked the countries participating in the Committee of Experts to provide the International Bureau with relevant material.

75. With respect to paragraph 56(c), some delegations were of the opinion that the expression "identical product" should not be maintained, since even a very minor modification could be considered as removing the identity between the product of the alleged infringer and the product referred to in the process patent, thus creating difficulties in the application of the principle of the reversal of the burden of proof. This opinion was not shared by some other delegations.

76. Concerning paragraph 56(d), views were divided whether the reversal of burden of proof should apply only in respect of new products. While one delegation stated that this limitation was not very much favored in the ongoing legislative discussions in its country, several other delegations were

in favor of such limitation, since the reversal of the burden of proof principle already resulted in significant advantages for the patent owner in infringement proceedings. It was also suggested that a definition of "new product" should be established, taking into account the cases of products not yet marketed and products for which marketing had started only recently.

77. In connection with paragraph 56(e), one delegation suggested following the recommendation of the International Bureau, whereas several other delegations were in favor of including a provision protecting the defendant against any unjustified requirement to disclose manufacturing and business secrets. In this context, it was suggested that the principle embodied in Article 75(2) of the Community Patent Convention should be taken into account when revising document HL/CE/II/5.

78. The Committee of Experts then considered the principles of a solution contained in paragraph 57.

79. The principle contained in paragraph 57(1)was generally agreed upon. It was suggested that one should study whether the scope of the protection conferred by the process patent should be more precisely defined, including, for example, the acts of importing and distributing the product obtained by the patented process. It was observed that such a definition might be premature if a provision on the definition of the exclusive right in the case of a product patent was not first prepared.

80. The question was discussed whether the protection of a process patent should extend to products which were expressly excluded from patent protection under national law, such as, for example, pharmaceutical or alimentary products. It was agreed to include in the next draft a clause providing for such extension, with the proviso that this question would be examined again in connection with a future study on the harmonization of provisions on the exclusion of certain categories of inventions from patent protection.

81. With respect to the French version of paragraph 57(2), it was suggested substituting the word "réputé" for the word "présumé."

82. The question was raised of whether the provision on the reversal of the burden of proof contained in paragraph 57(2) should also apply to a retailer of the product obtained by the patented process, in view of the fact that retailers did not normally make inquiries as to the method of manufacture of a product.

83. In reply to a question concerning the possible impact of a treaty provision prescribing the reversal of the burden of proof on decisions to be taken by the judge in each case, in application of the general rules of civil procedure concerning the burden of proof, it was observed that the said treaty provision would influence the rules of evidence to be established by the judge, but would not automatically mean that the defendant, who had the burden of proof, would necessarily lose the case if he could not furnish the required proof; among the rules to be taken into account by the judge were rules on

the recognition of a certain degree of probability, to be established by a party in a civil action, which could have the consequence of shifting the burden of proof to the other party; thus, it could well happen that the plaintiff again would have to prove, taking into account the evidence presented by the defendant, that the products offered by the defendant were manufactured by infringing the patented process. The proposed solution was not intended to apply to the final decision of the judge in a case where both parties had produced conflicting items of evidence.

84. Whereas the Delegations of Canada and the Soviet Union expressed reservations concerning the entirety of the solution proposed in paragraph 57, the Delegations of Austria and France reserved their position with respect to subparagraph (2). On the other hand, several countries expressly stated that they were ready to accept the entire solution, some of them drawing attention to a long-standing favorable experience with the rules proposed in paragraph 57.

85. With respect to paragraph 57(3), it was questioned whether it was appropriate to mention expressly the possibility of additional rights of the owner of the patent and, if so, whether there should not be a reference to more extensive rights of the alleged infringer. It was suggested that one should study whether the proposed solution should present a minimum of the rights of the owner of the patent and of the alleged infringer, particularly taking into account the suggestion referred to in paragraph 75, above. A possible solution to that question might be to omit the words "for the benefit of the owner of the patent" after the words "under national laws."

86. In conclusion, it was agreed that the question should be studied of whether--and if so, in which sense--the solutions proposed in Article 57(1) and (2) should be considered as a minimum, and whether this should be expressed in a revised paragraph (3)--possibly with a clarification in respect of the position of both the owner of the patent and the defendant in an infringement suit. Depending on the outcome of that study, the rules contained in paragraph 57, in particular in (3), might have to be redrafted accordingly.

VI. PRIOR ART EFFECT OF PREVIOUSLY FILED BUT YET UNPUBLISHED PATENT APPLICATIONS

(Document HL/CE/II/6)

87. The contents of document HL/CE/II/6 were discussed in detail and those contents, including in particular the principles of a solution presented in paragraph 54, were in general considered as acceptable. In particular, the following comments were made.

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11 June 1982
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GENERAL AGREEMENT ON TARIFFS AND TRADE

UNITED STATES - IMPORTS OF CERTAIN AUTOMOTIVE SPRING ASSEMBLIES

Report of the Panel

I. Introduction

1. In a communication dated 25 September 1981 (L/5195) the delegation of Canada informed the contracting parties that on 10 August 1981 the United States International Trade Commission (ITC), because of a finding of patent infringement, had issued an order directing that imports of certain automotive spring assemblies from all foreign sources be excluded from entry and sale in the United States sixty days thereafter, unless the ITC order was disapproved by the President, and be subject in the interim to a bonding requirement of 72 per cent of c.i.f. value. The exclusion order followed a determination by the ITC that imports from and sales by a Canadian firm constituted a violation of Section 337 of the United States Tariff Act of 1930. In the same communication the contracting parties were also informed that the Government of Canada, in accordance with Article XXIII:1 of the GATT, had made written representations to the Government of the United States and that consultations had been held with a view to resolving the matter.

2. The Canadian representative raised the matter at the meeting of the Council on 6 October 1981 (C/M/151). He explained that three formal written representations had been made to the United States authorities and that bilateral consultations under Article XXIII:1 had been held. While agreeing to further consultations with the United States, the representative of Canada stated that his authorities would request the establishment of a panel by the Council should the exclusion order not be disapproved by the President of the United States. In a communication dated 23 October 1981 (L/5195/Add.1) Canada informed the contracting parties that the President had decided not to disapprove the exclusion order.

3. At the meeting of the Council on 3 November 1981 (C/M/152), the Canadian representative requested the establishment of a Panel pursuant to Article XXIII:2 of the GATT. The Council agreed that, if further consultations between Canada and the United States did not quickly lead to a mutually satisfactory solution, a panel would be established (C/M/152).

4. As no such solution had been reached the Council, at its meeting on 8 December 1981, set up a panel with the following terms of reference (C/M/154):

> "To examine, in the light of the relevant GATT provisions, the exclusion of imports of certain automotive spring assemblies by the United States under Section 337 of the United States Tariff Act of 1930 and including the issue of the use of Section 337 by the United

States in cases of alleged patent infringement, and to make such findings as will assist the CONTRACTING PARTIES in making recommendations or rulings."

At its meeting on 22 February 1982 the Council was informed of the following composition of the Panel (C/M/155):

Chairman : Mr. H. Reed (Retired Special Assistant to the Director-General)
Members : Mr. H. Siraj (Malaysia)
Mr. D. McPhail (United Kingdom, Hong Kong Affairs)

5. The Panel met on 5 February; on 3-5, 11, 29, 30 March; on 1, 19-22 April; on 6, 7 and 10 May; and on 7-8 June 1982. In the course of its work the Panel held consultations with Canada and the United States. Written submissions and relevant information provided by both parties, their replies to the questions put by the Panel, as well as relevant GATT documentation served as a basis for the examination of the matter.

II. Factual Aspects

The Panel based its deliberations on the following background:

a) Procedural background

6. On 10 August 1981 the ITC issued an order excluding from importation into the United States automotive spring assemblies which had been found to infringe the claims of United States Letters Patent No. 3,782,708 and which would infringe claims of United States Letters Patent No. 3,866,287 were the process used to produce them practiced in the United States. The exclusion order was to remain in force for the remaining terms of the patents, except where such importation was licensed by the patent owner. The ITC also ordered that the articles to be excluded from entry into the United States should be entitled to entry under bond in the amount of 72 per cent of the c.i.f. value of the imported articles until such time as the President of the United States notified the ITC that he approved or disapproved this action, but, in any event, not later than 60 days after receipt. The order became final on 10 October 1981, after being reviewed by the President and not disapproved for policy reasons.

7. The exclusion order of the ITC was made under Section 337 of the United States Tariff Act of 1930 which declares unlawful "unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States". The legislation also requires the ITC to investigate alleged violations and provides procedures for its application, including a provision that the ITC should make its determination not later than one year, or in complicated cases 18 months, after the date of publication of notice of such investigation. It also contains a provision that where the ITC determines that there is a violation, the determination shall have no

effect if the President, for policy reasons, disapproves such determination within the 60-day review period.

b) Factual background

8. In 1971, General Motors Corporation (GM) had arranged with Quality Spring Products, a Division of Kuhlman Corporation (Kuhlman) to produce pre-assembled spring components for automatic transmissions. Kuhlman applied for United States letters patents which were issued in 1974 for the product and in 1975 for the process. From 1971 to 1977 GM, which did not consider either the product or process patents to be valid, sourced these spring assemblies from Kuhlman and two other United States suppliers - Associated Spring and Peterson Spring - as did the Ford Motor Company (Ford). In 1977 GM, in pursuance of its supplier diversification policy and its interest in encouraging competitive Canadian parts suppliers under the terms of the Canada/United States Automotive Products Trade Agreement, placed orders with P.J. Wallbank Manufacturing Co. Limited (Wallbank), a small family-owned Canadian spring manufacturing company.

9. Wallbank was aware of Kuhlman's patent claims but did not consider them valid in light of the advice of private legal counsel and the fact that Kuhlman had taken no legal action to enforce its patent claims against Associated or Peterson. However, Kuhlman had informed GM and Ford that Kuhlman did not object to purchases by those companies of up to one-third of their spring assembly requirements from sources other than Kuhlman. Associated and Peterson were supplying a third of the requirements of GM and Ford when Wallbank entered the market. Wallbank began supplying spring assemblies to GM Canada and exporting to GM and Ford in the United States in 1977, with exports rising to Can.$961,190 in 1980.

10. Wallbank declined Kuhlman's offer of a licensing and market-sharing agreement, and in August 1979 Kuhlman brought an action in the United States District Court in Michigan and subsequently in the Federal Court in Canada on grounds of alleged patent infringement. The action was brought in the Canadian court after the refusal of Wallbank to permit inspection of its manufacturing facilities in accordance with an order issued by the Federal Court in Michigan. After pursuing these actions for several months, but before either action had reached the final stage before the court, Kuhlman in June 1980 filed a petition before the ITC under Section 337 of the United States Tariff Act of 1930 against Wallbank; GM and Ford were also joined as respondents. The ITC voted in July 1980 to institute an investigation. At an early stage of the proceedings Wallbank requested the ITC to suspend the investigation in light of Kuhlman's action in the courts against Wallbank and the threatened patent infringement litigation against Associated and Peterson. The ITC refused this request.

11. The ITC found that both the product and process patents were valid and infringed, and that the other requirements of Section 337 were met. It also found that the United States industry was efficiently and economically operated and that the complainant was not engaged in price-gouging. On 14 July 1981 the ITC determined that there was a violation of Section 337 in the importation and sale of certain spring

assemblies on grounds that they infringed a United States patent and were the product of a process which, if practised in the United States, would infringe a United States patent, the effect or tendency of which was to substantially injure an industry, effeciently and economically operated in the United States.

12. The ITC also found that the appropriate remedy in this case was a general exclusion order, i.e. an order excluding all infringing spring assemblies on the grounds that spring assemblies were relatively simple items, the cost of producing them was low and new manufacturers could begin production of infringing spring assemblies very quickly. The ITC also stated that an exclusion order would be effective in preventing entry of infringing spring assemblies from whatever source into the United States and was, therefore, the most effective remedy.

13. The court actions brought by Kuhlman in the United States and Canada have not been pursued during the ITC investigation. The case was formally suspended in the United States district court when GM filed an appeal in respect of the ITC decision in the United States Court of Customs and Patent Appeals (CCPA) and will remain suspended as regards the issues of patent validity and infringement. Should the CCPA hold the patents invalid, the United States district court would dismiss the infringement suit as moot. If that were the case the exclusion order of the ITC would also have to be revoked.

III. Main arguments

(a) General:

Arguments provided by Canada:

14. The representative of Canada stated that in the view of his authorities Section 337 of the United States Tariff Act of 1930 was a highly protective instrument; its use in cases of patent infringement and the restrictive orders applied to imports were inconsistent with the principles of the General Agreement. The treatment given by United States law to imported products was clearly less-favourable than that accorded to products of national origin in cases of alleged patent infringement. Canada's objective was not just to seek redress in the particular case of automotive spring assemblies. Rather, it was concerned with the general use of Section 337 in patent-based cases. Putting the focus on a patent-related case was not to imply that Section 337 might not be incompatible with the GATT rules also in other cases. Canada's complaint concerned mainly the differential treatment for imported as opposed to domestic products which resulted from the application of Section 337. Section 337 had not been challenged before by Canada because there had been only a few cases where Canadian firms had been affected. Additional cases of this kind had, however, come up more recently and it appeared that Section 337 had been used increasingly to remedy injury in patent-related cases. Complaints in the GATT in connexion with Section 337 had to his knowledge been made in the framework of the non-tariff barriers exercise and considered in the context of the MTN; he understood that the matter had been settled bilaterally and had not been further pursued.

15. In Canada's view there was no provision in the General Agreement authorizing differential treatment on the grounds of "unfair methods of competition and unfair acts" which were declared unlawful in Section 337. The GATT did expressly allow such treatment in Articles VI and XX, but there was no provision under which Section 337 could be justified. The term "unfair methods of competition and unfair acts" was used in a rather general way and applied to all kinds of cases, including patent law cases.

16. Section 337 was a "whole system of law" for the protection of United States industry from injurious import competition. It applied only to foreign products or persons engaged in the import trade; in respect of patent law cases there was no equivalent for domestic products. As regards patent infringement by domestic producers, the remedy open to a patent holder was to sue in the United States federal courts. This recourse was also available in respect of foreign producers, in addition to bringing a complaint under Section 337, and could be pursued before, during or after a Section 337 investigation. Foreign producers and others engaged in the import trade were thus not only subject to an inherently discriminatory process under Section 337 but were exposed to double jeopardy. The scope in these circumstances for harassment of those engaged in the import trade was obvious. Such duplication of procedure had existed in the United States also in the area of antidumping and countervailing but had been changed in 1978 in accordance with the relevant MTN codes. As a consequence the ITC no longer had parallel jurisdiction under Section 337 in countervailing and antidumping cases.

17. The Canadian representative stated furthermore that where the alleged violation under Section 337 involved process (as distinct from product) patents, there was an additional element of discrimination against foreign producers resulting from an ancillary provision referred to as Section 337a which provided that "the importation for use, sale or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of Section 1337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent." This provision went beyond United States patent law, under which it was clear that there could be no infringement of a process patent in the sale of a product which was not itself patented. Section 337a granted to holders of process patents a remedy in addition to that provided by the patent laws, but this remedy was available only in the context of the import trade and only in the guise of a remedy for unfair competition.

18. The Canadian representative also said that the requirement in Section 337 that in addition to the existence of an unfair act there must be a determination of substantial injury to a United States industry which was efficiently and economically operated was not very meaningful in patent-based investigations and certainly did not justify the denial of national treatment. In fact, the existence of these requirements underscored the inappropriateness of using Section 337 in patent infringement cases, given the difficulty of reconciling them with the principle of patent law that the owner of a valid patent (and/or any licensees) was entitled to 100 per cent of the market. As regards injury, the ITC had been applying a standard which was de minimis. As regards

the other requirement, there appeared to be no case where the ITC had found that a United States industry was not efficiently and economically operated and certainly none where such a finding had been the basis for a negative determination.

19. On the other hand, in the Canadian view, there were clear disadvantages for a respondent in a Section 337 investigation as compared to a court action, including:

procedure - the ITC had different rules of evidence and burdens of proof which usually worked to the detriment of the respondent; this applied in particular to the rules on hearsay evidence which were applied less strictly in ITC proceedings than in court proceedings. Furthermore, the ITC had a much wider scope to draw inference in cases where sufficient evidence had not been provided by the foreign defendant;

qualifications - ITC members were not judges nor required to be lawyers; ITC staff participated in the proceedings as a party in its own right , thus interposing United States government representation which was not the case in United States courts;

time-limits - ITC investigations must be completed in twelve months (18 months in complicated cases) which might deprive a respondent from fully pursuing all the available defences, while court proceedings could and normally did take several years; the twelve months period was not always sufficient and the ITC could continue the investigation and take a decision during that time even if the legally available defences had not been exhausted;

counter-claims - a respondent in an ITC case could not make a counter-claim as he could in a federal court, e.g. in respect of revocation of the patent or a declaratory judgement that the patent was invalid;

expense - the expense of an ITC action was high and had to be borne over a period of a year whereas a federal court action and the attendant expense might be spread over several years; moreover, those engaged in the import trade might be faced with expenses for both ITC and court actions; expenses were never reimbursed to a foreign defendant even if the ITC made a finding in his favour.

20. Disadvantages for a respondent tended to be advantages for a complainant, making it more likely that a foreign rather than a domestic infringer would be singled out for patent infringement action. A complainant would also find resort to Section 337 attractive inasmuch as a finding by the ITC of patent invalidity would not result in a revocation of the patent. Generally, the existence of a double standard in United States law for those involved in the import trade was seriously prejudicial to their interests and inhibited United States buyers from using foreign products.

21. The representative of Canada argued that one of the effects of the ITC order in the present case was that during its validity 100 per cent of

the domestic United States market for the springs in question had to be supplied by domestic producers all of whom, apart from Kuhlman, were in the same position as Wallbank as regards infringement of the product if not the process patent. This meant that Wallbank could adjust by setting up production in the United States, and sell there with impunity until and unless a United States court found that these patents were valid and infringed. The protectionist purpose and effect of Section 337 was thereby amply demonstrated. In that context the Canadian representative informed the Panel that as a consequence of the ITC exclusion order Wallbank had recently set up production facilities in the United States for these products and was now exporting to Canada as well as serving the United States market from that plant. This development exacerbated the adverse effects of the Section 337 action in terms of the increased production and employment gained by the United States at the expense of Canada.

Arguments provided by the United States:

22. The representative of the United States stated that his authorities considered that the measures challenged were fully consistent with obligations of the United States under the General Agreement. So far no case relating to Section 337 had been brought to the GATT though the basic law had been in existence prior to the GATT. The one case referred to by Canada had come up in connection with the general NTB notification exercise in the MTN and had nothing to do with patent infringement. The use of Section 337 in cases of alleged patent infringement and the exclusion order against certain automobile spring assemblies fell within the exception from GATT obligations in Article XX(d). The procedures at issue were necessary to secure compliance with United States law for the protection of patents and to enforce other unfair trade practice laws of general applicability. The legal standards for determining patent infringement were the same in the United States law, whether the alleged infringement was caused by domestic or imported products. These measures neither discriminated between countries where the same conditions prevailed nor did they constitute a disguised restriction on international trade. Section 337 was not there to protect United States industry; its use in patent infringement cases in fact only an enforcement mechanism to protect the rights of United States patent holders.

23. Under Section 337 unfair methods of competition and unfair acts in the importation of articles, or in the sale of imported articles, were unlawful if they had the effect or tendency to destroy or injure substantially a domestic industry. The legislative history of this section, the practice under the law, as well as judicial decisions of the reviewing Court of Customs and Patent Appeals, made it clear that infringement of a United States patent by an imported article was an unlawful act or method of competition, and the same test applied to imported and domestic products. It was also an unfair act or method of competition for the purposes of Section 337 if a party manufactured a product using a process that would infringe a United States process patent if practised in the United States and exported the resulting product into the United States or sold it there.

24. As for product patents, the substantive law regarding infringement was the same for imported and domestic goods. The basic substantive patent law was contained in Section 271 of Title 35 of the United States Code (USC) which was applied under Section 1338 of Title 28 of the USC in proceedings before the district courts and under Section 337 of the Tariff Act (i.e. Section 1337 of Title 19 of the USC) before the ITC. It was important to note that the same legal and equitable defenses were available in either proceeding. The only difference was that it was not necessary before the courts to demonstrate injury to a United States industry in order to establish a violation of the law which was necessary before the ITC. In addition, decisions by the ITC were subject to review by the President who had the authority, within 60 days, to disapprove (for policy reasons) an affirmative ITC determination. In such a case any remedy ordered by the ITC would become null and void. The review by the President included a thorough consideration by the United States Trade Representative of all relevant obligations of the United States under the GATT and any other treaties and arrangements.

25. ITC decisions could also be appealed before the CCPA. In the present case the defendant Wallbank had not appealed against the ITC decision. GM had appealed against the ITC determination on the basis of the validity of the patents. If that appeal were successful, the exclusion order would no longer apply. The ITC would also be bound by a prior federal court decision finding that a particular patent was invalid or unenforceable and would not initiate an investigation in such a case. It would terminate an action if such a decision was taken at the time an investigation had already begun. Generally the ITC would suspend an investigation when the proceedings in a United States court had reached the trial stage. In the Wallbank case the ITC had continued its investigation because the court procedures had only reached a very preliminary stage. The ITC was also bound by decisions of the reviewing CCPA and by the United States Supreme Court.

26. Investigations in patent-based cases before the ITC could only be initiated upon the filing of a complete complaint alleging that an article that infringed a United States patent or that was the product of a process that, if practised in the United States, would infringe a patent owned or assigned to the complainant, was being imported or sold by the named respondents. Notice of initiation of an investigation was published in the United States Federal Register and every effort was made to notify specifically the alleged infringer. Any subsequent actions in the case were also published in the Federal Register. Every effort was made to ensure that the respondent had a full opportunity to participate in the proceedings which were conducted in accordance with the United States Administrative Procedures Act. The respondent had the right to representation by legal counsel of his choice and could present any legal or equitable defence that would be available to a defendant in a patent infringement case in a United States court. The investigative proceedings were before an administrative law judge. The ITC made its determination on a remedy on the record that there was an infringement of a patent within the meaning of United States patent law. No remedy would be provided if the ITC found that its effect would be against the public interest. The ITC staff did not represent any party in the dispute; their

task was mainly to advise the members of the ITC in respect of the injury question and the public interest factors.

27. There were two major problems under United States law and the United States legal system in securing compliance with United States law for the protection of patents through court proceedings against foreign parties. The first problem concerned the service of process. Without adequate service of process, a case could not proceed in court. Under United States law, a domestic or foreign party located in the United States could be sued by the patent owner for patent infringement in any United States district court where the party could be served validly with notice of the court process. The rules concerning adequate service of process on foreign parties outside the United States were more complex. A foreign corporation outside the United States could avoid service of process by mail simply by refusing to accept delivery. Use of other legally acceptable means of service by the courts was both expensive and time-consuming, making it particularly difficult for smaller corporations or individual patent owners to enforce their rights against foreign infringers of those rights. Without adequate service of process a case could not proceed in court. Under Section 337, on the other hand, every effort was made to notify the alleged infringer of a case, but the Section 337 case could proceed without the service of process requirement of the courts.

28. The second major problem of enforcement against foreign defendants through a court proceeding concerned the enforcement of judgements against foreign parties outside the United States. Basically there were two remedies against patent infringement before United States courts, an injunction to prevent further patent infringement or an award of damages or both. Injunctions were enforceable only where the party concerned was within a court's jurisdiction. Damages could be enforced where the foreign party had sufficient assets in the United States. If an injunction or a judgement awarding damages had to be enforced through application for enforcement in the courts of the country where the foreign party was located the cost involved might be prohibitive for the patent owner, or enforcement might not be possible at all. All these difficulties could lead to a situation that foreign parties would be effectively immune from suits based upon patent infringement brought in United States courts. In such cases Section 337 provided a remedy for a patent owner if the additional elements required for the finding of a violation (i.e. unfair act, injury) could be shown. While a patent holder could not obtain money damages for his injury under Section 337, an exclusion order by the ITC could be enforced by the United States Customs Service or by an order directed to an importer to cease and desist by the ITC.

29. In the present case Kuhlman, the patent owner, had available two provisions of law for enforcing its patent rights which it considered infringed by the products imported from Canada. A judicial proceeding would have required proof only of patent validity and infringement to obtain a favourable judgement, but would have entailed all the difficulties concerning service of process and enforcement of judgements. An adjudicative proceeding before the ITC would have required proof of

additional elements, but would have resulted in an effective remedy. Kuhlman had decided to choose the latter procedure.

30. In this context the United States representative stated, in reply to a question asked by the Panel, that a United States district court could issue an injunction against GM and other users of Wallbank's spring assemblies only if they had been a party to the original action and only if they were found to be using the Wallbank product without authorization. The problem was that potential users could not be enjoined in the injunction because they could not be made parties. Injunctions directed for instance against GM and Ford, had they been parties in a court proceeding, would not prevent others from using the products. In response to Canada's argument that Wallbank would be able to move to the United States and produce and sell with impunity unless and until a court found the patents valid and infringed, the United States representative stated that in such a court proceeding Wallbank could be liable for up to triple the damages caused to Kuhlman from the moment the infringement began as well as an injunction against future infringement.

31. Section 337a, which was not part of Section 337, provided that goods, produced in a foreign country by a process that, if practiced in the United States, would infringe the claims of a United States process patent would be treated in the same manner under Section 337 as products that were covered by the claim of a product patent. The provision was designed to prevent circumvention of United States patent laws which would occur if a party practised without right the patented process outside the United States and imported and sold the resulting product. In the United States view there was no practical difference between forbidding the use of an infringing process domestically and forbidding the importation of a product made abroad by the same infringing process.

32. The United States representative gave the following additional information : since the amendments to the United States Trade Act went into effect in 1975, investigations had been initiated by the ITC under Section 337 in 114 cases. 14 cases were still pending. Of the 100 cases that had been completed 16 did not relate to patents. 36 cases were terminated either because the complaint was withdrawn or because a settlement was reached between the parties. 24 cases were terminated because the ITC had found no violation; in 9 of these cases the ITC had found no injury; in 2 of these cases no remedy was issued because of the public interest factor. In 26 cases the ITC had found that there was a violation of Section 337, and in one of these cases the ITC determination was disapproved by the President thereby voiding any remedy. In 11 cases the losing party did not appear before the ITC to contest the case, but even in such cases the complaining party had to prove that its patent was infringed and that there was substantial injury or threat of substantial injury to an efficiently and economically operated United States industry. The ITC investigative attorney was able to present evidence to the contrary if it could be obtained.

(b) GATT compatibility of the action by the United States:

Arguments provided by Canada:

33. The Canadian representative stated that in his view there were four main GATT issues before the Panel: Was the use of Section 337 in patent-based cases consistent with Article III? Was the implementation of an exclusion order consistent with Article XI:1? Was an order for a bonding requirement on specific imports consistent with either Article III or Article II:1(b)? Did the use of these measures fall under the exception of Article XX(d)?

In this context he provided the following arguments:

Article III

34. Section 337 and any ensuing exclusion order was incompatible with Article III:1 and 4. The basis for this contention was that United States patent law dealt with private interests of parties in United States courts as far as patent rights were covered while the purpose of Section 337 was to protect United States industries. The use of Section 337 (and where applicable of Section 337a) in cases of alleged patent infringement granted to holders of United States patents a remedy in addition to that provided by the United States patent laws, which was available only in the context of import trade. This constituted a denial of national treatment under Article III:1 and of 4 of the General Agreement. Foreign producers were treated less favourably because, instead of being subject only to the procedures under United States patent law, they had to face separate proceedings in separate bodies. This was not the case for domestic producers unless they engaged in import trade. In the Canadian view this dual system was of a discriminatory nature.

35. The exclusion order, pursuant to Section 337, preventing certain foreign spring assemblies from competing in the United States market with like domestic products (including those of other producers who might also be infringing the same patent) constituted a protection of domestic production according to Article III:1. The institution of a bonding requirement, pursuant to Section 337, was applied to imports but did not apply to like domestic products and was thus inconsistent with the requirements of Article III:1 and 2. Even if the bonding requirement did not contravene Article III because it was a border measure as contended by the United States delegation, it would still contravene Article II:1(b), the last sentence of which had to be read in conjunction with paragraph 2 of the same Article.

Article XI

36. The exclusion order, pursuant to Section 337, preventing the importation of certain automotive spring assemblies, was inconsistent with the obligations of the United States under Article XI:1 not to institute or maintain prohibitions or restrictions other than duties, taxes or other charges on the importation of any product of the territory of any other contracting party.

Article XX:

37. The exception under Article XX(d) did not justify trade restrictive measures taken pursuant to Section 337 on two grounds: (1) differential treatment of foreign products involving a separate adjudicating process was not "necessary" to secure compliance with United States patent laws, and (2) the law with which compliance was sought (Section 337) was "inconsistent with the provisions of this agreement" i.e. Article III of the GATT. If the United States delegation was to assert that such differential treatment was necessary to deal with imports to secure compliance with patent laws the measures taken would constitute "a disguised restriction on international trade" in terms of the preamble to Article XX.

38. Article XX(d) did not mention unfair methods of competition or unfair acts as such. The drafters of that Article seemed to have had in mind national laws which were not inconsistent with the GATT. Canada did not contend that United States patent law (apart from Section 337a) was inconsistent with the GATT, but that Section 337 of the United States Tariff Act of 1930 was inconsistent. The United States contention that Section 337 and a resulting exclusion order were measures necessary "to secure compliance with laws or regulations which are not inconsistent" with the GATT was not defensible. In the Canadian view the separate adjudicative process under Section 337 went far beyond what was necessary to secure compliance with United States patent law. Canada acknowledged that problems could arise with the enforcement of court decisions in respect of parties beyond the jurisdiction. In fact an injunction granted by a United States court was not directly enforceable in Canada.

39. As far as the case before the Panel was concerned an injunction or restraining order would have to be obtained under the Canadian patent in a Canadian court. But other countries had the same problems and did not have anything as far-reaching as Section 337. The difficulties arose from an inherent limitation on national jurisdiction in matters which extended beyond the borders of a country. This limitation existed regardless of whether the powers to take legal action were given to a United States court or to the ITC. The problem could not be solved by utilizing a separate body. There existed always the possibililty for the United States to change its court procedures to arrive at better enforcement of court decisions. Section 337 did not merely provide procedures to take account of legitimate difficulties where an infringer was outside the jurisdiction. Section 337 was a complete system of law in itself; in a way, it was more complete than United States patent law as it provided a substantive offense (unfair trade practices), for a special institution (i.e. the ITC) to administer it, for special procedures, for remedies, and for enforcement powers such as fines. All this, in the Canadian view, was designed to further the public interest of protecting United States industry against injurious import competition, whereas the patent law dealt with the rights of private interests.

Article XXIII

40. It had been established by the CONTRACTING PARTIES that in cases where there was a clear infringement of the provisions of the General

Agreement the action would, prima facie, consititute a case of nullification or impairment (GATT, 11th Supplement (1963) BISD pp. 100, para. 15). It was the position of the Canadian authorities that the use by the United States of Section 337 in patent cases and any resulting trade restrictive measures constituted prima facie nullification of benefits accruing to Canada under the General Agreement, including concessions bound under Article II.

Arguments provided by the United States:

Article XX(d)

41. Article XX(d) provided a general exception from the obligations of the GATT for the adoption or enforcement of measures which were necessary to secure compliance with laws and regulations relating to the protection of patent rights and other property rights, and for the prevention of deceptive practices. Section 337 did not create any substantive patent law, but rather provided a means of enforcement. The use of Section 337 of the Tariff Act of 1930 in patent infringement cases was thus a measure that was necessary to secure compliance with United States patent laws of general applicability. No action was possible under Section 337 unless there were infringement within the meaning of United States patent law. The necessity of Section 337 resulted from the difficulty, inherent in United States and international law, in obtaining jurisdiction over foreign parties in enforcing judgments against them through United States court action. It would have far-reaching implicacions for many contracting parties if a decision were taken stating that separate procedures which existed for the enforcement against imports of substantive laws of general application (e.g. customs, patents, trade marks, copyright laws, monopolies, prevention of deceptive practices) did not fall under the exception of Article XX(d).

Article III:1

42. Section 337 was not applied to imported or domestic products in a manner so as to afford protection to domestic production. Section 337 in itself was not a law, regulation or requirement affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products. It was a measure to secure compliance with the laws, regulations and requirements which did affect the marketing of products. The law under consideration in the present case was the substantive law of the United States dealing with patents, i.e. Section 271 of Title 35 of the United States Code, and the purpose of the patent laws was not to afford protection to domestic production but to protect certain property rights represented by a patent. For the law to be applicable there had to be a valid patent, the claims of which covered the product in question. The claims of the patent determined the extent of the property right protected by the patent. Competing products which did not fall within the patent claims or were licenced by the patent owner could not be found to be infringing.

Article III:4

43. Under the provisions of Section 337, imported products received

treatment which was not less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their sale, offering for sale, purchase, transportation, distribution or use. The law in question was Section 271 of Title 35 of the United States Code. That law required that a party, domestic or foreign, had to have the authority of the patent owner, domestic or foreign, before making, using or selling in the United States the product covered by the claims of a United States patent. Treatment under this law was identical for all parties regardless of origin. Enforcement of the patent law was possible either before the United States district courts under Section 1338 of Title 28 of the United States Code or where the product was imported and substantial injury or threat thereof to an efficient and economic industry could be demonstrated, before the ITC under Section 337.

44. There existed some procedural differences between a United States district court trial and an ITC investigation but the substantive law concerning validity and infringement of patents and the defenses was the same. It was up to the patent owner and not the United States government to decide which proceedings should be used and against whom an action should be brought. All legal and equitable defences were provided in both procedures and the findings in both procedures were subject to court appeal. In the particular case before the Panel the defendants had sufficient time to prepare their defenses and Canada had provided no indication of any available defense of which Wallbank was deprived.

45. In the United States view, Canada had not substantiated its claim that the use of Section 337 in patent infringement cases resulted in treatment less favourable to imported products. Article III:4 did not provide that treatment had to be identical for like domestic and foreign products but only that treatment of foreign products in the specified areas had to be not less favourable than treatment of like domestic products. Procedures followed under Section 337 were not less favourable than those followed by United States district courts. There were some differences like a time limit in Section 337 procedures which did not exist in court proceedings. However, this time limit could also work to the advantage of a foreign party if no infringement was established, by resolving the issue faster than before a United States district court and thereby reducing the costs involved. There was no difference in the burden of proof. No indication had been provided as to how other differences alleged by Canada resulted in less favourable treatment to the imported product.

46. The United States contended also as a matter of GATT interpretation, that Article III:2 would not apply to temporary bonding requirements imposed as a condition of importation.

Article XI

47. In the United States view it was not the intent of Article XI to prohibit restriction on products found to infringe a patent or to violate other national laws of general applicability. Other countries prohibited the imports of such products as well.

Article XXIII

48. The United States asserted that all actions taken by it under Section 337 with respect to complaints based upon alleged patent infringement, including the exclusion from the United States of imports of automotive spring assemblies found to infringe a valid United States patent, were in compliance with the obligations of the United States under the GATT. The United States therefore did not agree that there was prima facie nullification or impairment.

IV. Conclusions

49. In accordance with its terms of reference, the Panel examined the exclusion of imports of certain automotive spring assemblies by the United States under Section 337 of the United States Tariff Act of 1930. The provisions of the GATT considered to be relevant were Articles II:1(b), III:1, 2 and 4, XI:1 and XX(d).

50. The Panel noted the arguments put forward by Canada and the United States as set out in Section III above and took these arguments fully into account. A further communication, with particular reference to the question of national treatment, was subsequently received from the Canadian authorities and this, together with arguments put forward orally in this context, was also taken fully into account. The Panel came to the conclusion that its first step should be to consider whether or not the exception provision of Article XX(d) applied in this case. The Panel considered that if Article XX(d) applied, then an examination of the question of the consistency of the exclusion order with the other GATT provisions cited above would not be required.

51. The Panel noted that, as far as it had been able to ascertain, this was the first time a specific case of patent infringement involving Article XX(d) had been brought before the CONTRACTING PARTIES.

52. The Preamble to Article XX and paragraph (d) of that Article, provide that "Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures...(d)necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to....the protection of patents, trade marks and copyrights, and the prevention of deceptive practices".

53. The Panel noted that the GATT recognized, by the very existence of Article XX(d), the need to provide that certain measures taken by a contracting party to secure compliance with its national laws or regulations which otherwise would not be in conformity with the GATT obligations of that contracting party would, through the application of this provision under the conditions stipulated therein, be in conformity with the GATT provided that the national laws or regulations concerned were not inconsistent with the General Agreement. In this connection the

Panel noted in particular that the protection of patents was one of the few areas of national laws and regulations expressly mentioned in Article XX(d).

54. Looking first at the Preamble, the Panel interpreted the word "measure" to mean the exclusion order issued by the United States International Trade Commission (ITC) under the provisions and procedures of Section 337 since, in the view of the Panel, it was the exclusion order which operated as the measure preventing the importation of the infringing product.

55. The Panel noted that the exclusion order was directed against imports of certain automotive spring assemblies produced in violation of a valid United States patent from all foreign sources, and not just from Canada. It found, therefore, that the exclusion order was "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination against countries where the same conditions prevail".

56. The Panel then considered whether or not the exclusion order was "applied in a manner which would constitute ..... a disguised restriction on international trade". The Panel noted that the Preamble of Article XX made it clear that it was the application of the measure and not the measure itself that needed to be examined. Notice of the exclusion order was published in the Federal Register and the order was enforced by the United States Customs at the border. The Panel also noted that the ITC proceedings in this particular case were directed against the importation of automotive spring assemblies produced in violation of a valid United States patent and that, before an exclusion order could be issued under Section 337, both the validity of a patent and its infringement by a foreign manufacturer had to be clearly established. Furthermore, the exclusion order would not prohibit the importation of automotive spring assemblies produced by any producer outside the United States who had a licence from Kuhlman Corporation (Kuhlman) to produce these goods. Consequently, the Panel found that the exclusion order had not been applied in a manner which constituted a disguised restriction on international trade.

57. Turning to paragraph (d) of Article XX, the Panel concluded that the laws and regulations which were not inconsistent with the General Agreement and with which compliance was to be secured were the patent laws of the United States, since the case in question was based on the allegation of an infringement of patent rights under United States patent law.

58. The Panel considered whether the ITC action, in making the exclusion order, was "necessary" in the sense of paragraph (d) of Article XX to secure compliance with United States patent law. In this connection the Panel examined whether a satisfactory and effective alternative existed under civil court procedures which would have provided the patent holder Kuhlman with a sufficiently effective remedy against the violation of its patent by foreign producers including the Canadian producer Wallbank Manufacturing Co. Ltd (Wallbank).

59. The Panel noted that if Kuhlman had pursued the action it had commenced before the United States district court, it could have joined General Motors, Ford and possibly other known users of the automotive spring assemblies in the action and, once the patent had been found to be valid by the court, prevented these parties, but not unknown users, from utilizing the automotive spring assemblies produced by Wallbank by means of an injunction or a cease and desist order. The Panel decided, however, that such a remedy would not have been sufficient to protect Kuhlman's patent rights because, in practice, it would have been effective only in relation to the automotive spring assemblies produced by Wallbank and supplied to parties joined in the court action. The same remedy would not have been effective against other possible foreign infringers of the United States patent and potential users of the infringing product in the United States. Furthermore, in view of the relatively simple manufacturing process used to produce automotive spring assemblies, these could without major difficulties be produced by other foreign producers infringing Kuhlman's patent and subsequently imported for use in the United States.

60. Against the background of the above considerations, it was the view of the Panel that United States civil court action would not have provided a satisfactory and effective means of protecting Kuhlman's patent rights against importation of the infringing product. The Panel took the view that the only way in which, under existing United States law, Kuhlman's right to the exclusive use of its patent in the United States domestic market could be effectively protected against the importation of the infringing product would be to resort to the exclusion order procedure. For the above reasons, therefore, the Panel found that the exclusion order issued by the ITC under Section 337 of the United States Tariff Act of 1930 was "necessary" in the sense of Article XX(d) to prevent the importation and sale of automotive spring assemblies infringing the patent, thus protecting the patent holder's rights and securing compliance with United States patent law.

61. In the light of the views and findings set out in the above paragraphs, the Panel came to the conclusion that, in the specific case before it, the exclusion order issued by the ITC against the importation of automotive spring assemblies fell within the provisions of Article XX(d) and was, therefore, consistent with the GATT. Since Article XX(d) had been found to apply, the Panel considered that an examination of the United States action in the light of the other GATT provisions referred to in paragraph 49 above was not required.

62. Under its terms of reference the Panel was also required to include in its examination "the issue of the use of Section 337 by the United States in cases of alleged patent infringement".

63. The Panel focussed its attention on the possible conclusions it might be able to draw from its examination of the specific automotive spring assemblies case in the context of the use of Section 337 in cases of patent infringement generally.

64. The Panel took the view that its conclusion in the automotive spring assemblies case, namely that Article XX(d) applied, would in principle

apply to many cases of alleged patent infringement and that the only effective remedy in such cases under existing United States law would be an exclusion order under Section 337 of the Tariff Act.

65. The Panel noted, however, that the substance of patent infringement cases could vary considerably, for example as regards the characteristics of the product which was the subject of the infringement and the simplicity or complexity involved in its manufacture. There might also be variations in the degree of difficulty which might be encountered in joining in a court action all possible users of the product which had been manufactured in violation of the patent, in the serving of process and enforcement of court judgments depending, among other things, on the legal and judicial court system in the country of the manufacturer infringing the patent.

66. The Panel did not, therefore, exclude the strong possibility that there might be cases, for example, involving high-cost products of an advanced technical nature and with a very limited number of potential users in the United States, where a procedure before a United States court might provide the patent holder with an equally satisfactory and effective remedy against infringement of his patent rights. In such cases the use of an exclusion order under Section 337 might not be necessary in terms of Article XX(d) to secure compliance with laws and regulations (i.e. United States patent law) which were not inconsistent with the General Agreement. If therefore Article XX(d) were found not to be applicable, such use would be subject to the other relevant provisions of the General Agreement.

67. The Panel considered it appropriate and in accordance with its terms of reference to supplement the views expressed in paragraphs 63-66 above by means of some additional observations.

68. In the first place, the Panel pointed out that its finding in paragraph 60 above that the exclusion order issued by the ITC was "necessary" within the meaning of Article XX(d) had been made on the basis of existing United States law. It carried no implication that the use of Section 337 was an entirely satisfactory means of dealing with patent based cases.

69. The Panel noted the frequent use that had been made of Section 337 in patent based cases. Since 1975 these had made up 84 of the 100 cases completed by the ITC. The use of the Section had been a major factor in securing compliance with United States patent law in cases of infringement of a patent by a foreign product.

70. However, in the course of its examination of the automotive spring assemblies case, it became evident to the Panel that certain elements contained in Section 337, having a direct bearing on the use of the Section, appeared to be out of place in legislation used for the protection of private patent rights, where all that was strictly required was proof of the validity of the patent and a finding that the patent had been infringed.

71. One such element related to the words "unfair methods of competition and unfair acts" which were declared unlawful in terms of subsection (a)

of Section 337. The Panel observed that these words might be capable of being widely interpreted and might be misconstrued as to their precise scope, purpose and application.

72. Another such element was the reference in subsection (a) of Section 337 to substantial injury to a United States industry which was efficiently and economically operated. The Panel recognized that this injury criterion could work to the advantage of a respondent in an ITC investigation, in that it represented an additional requirement to be satisfied by the complainant. However, in the Panel's view, it could reasonably be said that in considering what were the essential elements in legislation dealing with patent based cases an injury criterion could only be considered irrelevant.

73. The Panel also noted the system of dual procedures for dealing with cases involving a foreign patent infringer. In such cases, the United States patent holder, at his discretion, could take action through the ITC, through the civil court or, if he so wished, use both procedures. In respect of a domestic infringer the patent holder could take action against infringement of his patent only through the civil court. The Panel observed that there might be merit in consideration being given to simplifying and improving the legal procedures for patent infringement cases.

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INTELLECTUAL PROPERTY AND TRADE

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Wisconsin [Mr. KASTENMEIER] is recognized for 15 minutes.

Mr. KASTENMEIER. Mr. Speaker, it is now commonplace that the United States must take dramatic steps to address our serious trade problems. Increasingly the private sector, Government officials and politicians have fixated on enhanced protection of American intellectual property as one of the keystones to addressing the trade problem. Without question, the American creative genius has been nurtured by strong legal tradition of protecting the property rights of intellectual property owners. As we think about adjusting our laws and laws to meet the trade problem I hope that we can proceed in a balanced and objective way. As important as this task is we should not take shortsighted and precipitous action as a palliative for short term problems.

Before outlining what are, in my view, the elements of a coherent and comprehensive approach to intellectual property and trade let me set the context.

Our key intellectual property laws—copyright and patent—are derived from the constitutional mandate to "Promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive rights to their writings and discoveries." (U.S. Constitution Art. 1, section 8, clause 8.) The Constitution envisions a bargain. Creators and inventors receive a benefit—a form of a limited monopoly right. In exchange, the right. In exchange, the public arguably benefits twice—first when it obtains access to the creation or invention, and second when the term of protection expires and the creation or invention is added to the public domain. This bargain furthers the public interest and does not represent in any way recognition of the natural right of creators and inventors to proprietary protection. Thus, our intellectual property laws—including laws relating to trademark and mask works—represent carefully fashioned compromises which limit the nature and extent of the rights of intellectual property owners. These limits include concepts such as fair use and first sale in copyright and the right to engage in reverse engineering with respect to mask works.

From a political perspective it is safe to say that our intellectual property laws are neither unlimited nor primarily designed to provide a special benefit. "Rather, the limited grant is a means by which an important public purpose may be achieved." *Sony* v. *Universal City Studios*, 464 U.S. 417, 429 (1984).

This perspective is important to keep in mind when addressing trade legislation affecting intellectual property. In my view, it would be a serious mistake to use legislation relating to international trade as a vehicle for changing the positive law relating to intellectual property.[1] I am also hopeful that we will not ignore the public interest in a rush to protect what are currently perceived by some to be embattled industries. Ultimately, I think that we would strike a bad bargain on behalf of the public if we ignored the need for balance.

SUMMARY OF PROPOSALS

As chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice, Committee on the Judiciary, I have responsibility for overseeing the functioning of both the intellectual property system and the Federal courts. The proposals I offer hopefully will preserve the appropriate role of the courts in adjudicating and enforcing intellectual property rights while simultaneously recalibrating the nature of the rights and remedies available to creators and inventors. In my view, a comprehensive trade-oriented intellectual property bill should include administrative law reform affecting the operation of the International Trade Commission [ITC].[2]

[1] For example, we should avoid taking sides in the grey market or parallel import issue in trademark law or on first sale in copyright law, or on reverse engineering in mask work law.

[2] Additional measures to further classify the rights of intellectual property owners have already been considered. Congress—through legislation processed by the Committee on Ways and Means—has given the United States Trade Representatives and the Department of State powerful weapons to use in bilateral negotiations in the context of the General System of Preferences [GSP] and the Caribbean Basin Initiative [CBI]. By permitting GSP and CBI benefits to be affected by the adequacy of our trading partners' intellectual property laws we have already wielded a big stick to induce greater intellectual property protection abroad.

Currently pending before my Subcommittee are two important measures affecting patent rights: process patent protection and legislation to implement the Patent Cooperation Treaty. Enactment of these measures would further align American law with internationally accepted norms of patent protection.

Finally, there have been proposals to make an intellectual property code part of the GATT and to adhere to the Berne Convention. While I remain skeptical about the wisdom of both of these initiatives, I know that the Administration will not proceed on these fronts without full consultation with both the House and the Senate, including all the relevant Committees.

[3] See Testimony of ITC Chairwoman Paula Stern before my Subcommittee on Feb. 19, 1986.

The ITC is an independent Federal agency, whose members are appointed by the President, authorized to adjudicate trade cases. The ITC is not and should not become an intellectual property court. In recent years section 337 of the Tariff Act of 1930 has been used to bring a number of patent, copyright, and trademark cases before the ITC. There is no doubt that the ITC is an important—if not essential—supplement to the remedies available in the Federal judicial branch. Because the ITC has in rem jurisdiction to exclude goods which would injure a domestic industry through unfair trade practices it differs both structurally and procedurally from a Federal court. The ITC remedy does not pose an insurmountable jurisdictional barrier to unauthorized exploitation of American intellectual property, because its powers are limited to the exclusion of goods either at the border or before they meld into the stream of commerce. Although the decisions of the ITC are ultimately reviewable by the Court of Appeals for the Federal Circuit, the same circuit that hears all appeals from district courts in patent cases, its procedures are not inherently judicial. For example, the ITC cannot assess damages, exercise any police power, nor can it hear counterclaims. Notwithstanding these limitations, however, the ITC currently is a potent weapon for the enforcement of intellectual property rights. The ITC presents the following advantages: First, availability of an exclusion order preventing entry into the U.S. of all offending goods regardless of source; second, extremely expedited procedures, cases must generally be concluded within a year; and third, the ITC need only follow the Administrative Procedure Act [APA] rather than more cumbersome judicial rules.

Despite the relative advantages of an ITC remedy, there has been a growing consensus to make relief obtained in the ITC more effective and expeditious. While that sentiment is understandable, before acting we should be keenly aware of the nature and extent of the alleged problem.[3] As you know, if it isn't broken don't fix it is a common refrain in Congress. We must also keep in mind the bargain—made on behalf of the public—referred to above.

I cannot tell you exactly what is the problem. I do challenge you to carefully identify the ends served by any legislative solution to see if the ends justify the means.

Some have suggested eliminating the so-called injury test altogether. Such a change is ill-advised. First, it would transform the ITC into a court whose only job would be assessing patent validity and infringement. Such a role would be especially inappropriate for an agency which is five-sixth nonlawyers. Second, retention of the injury requirement is the quid pro quo we offer to importers in exchange for an expedited nonjudicial proceedings in the ITC. Finally, elimination of the injury requirement could very likely produce serious challenges that future ITC orders violate the General Agreement on Tariff and

Trade [GATT]. GATT violations, if found, can trigger retaliatory discrimination against innocent American exporters, hardly a desirable result.

The other major suggestion that has received some level of support in the context of intellectual property and trade is the removal of the domestic industry requirement. If enacted, this proposal would allow—if not encourage—foreign patent holders, currently 40 percent of the total to use the ITC to seek to exclude either their foreign or American competition from obtaining access to the U.S. market. Without the domestic industry requirement, this access would not be predicated on any investment in the United States. This change cannot be said to be an attempt to protect American jobs, quite the contrary is true. I should note parenthetically that it is argued that by giving equal access to the ITC by foreign industries will encourage better treatment of American intellectual property abroad. This argument sounds like the hope of a negligent driver who pays part of the victim's hospital bill that he/she won't be sued. Stated differently, if we gratuitously grant access to the ITC to foreign concerns, it is claimed that they will not sue us in GATT.

This is not to say that no changes are required. A careful review of the ITC and its current problems would support the following five modifications:

First, create a rebuttable presumption that once a complainant establishes the existence of a Federal, statutory, intellectual property right and an act of infringement that alone suffices to make a prima facie showing of injury. This change would permit a respondent to show lack of injury; for example, that the acts complained of produced no lost sale or profits.

Second, modify the domestic industry requirement by allowing complaints to be filed by persons who have made a substantial investment in facilities or activities relating to the exploitation of a patent, copyright, trademark, or mask work, including research and development, licensing, sales, and marketing. This adjustment will assure continued access to the ITC by entities, including universities, who have a substantial stake in the United States. This change would also avoid the unfortunate results which have occurred in some recent cases, such as Gremlins, where—because of pertinent legislative history explaining the current law—the ITC has denied relief notwithstanding the existence of a larger service industry exploiting the intellectual property right within the United States. Finally, such a change will enable universities and small businesses who do not have the capital to actually make the good in the United States to still have access to the ITC forum for the protection of their rights.

Third, transfer the economically and efficiently operated criteria from being an element of the complainant's case to a public interest factor to be evaluated by the ITC only in determining whether to approve a remedy. This change alone should limit the real and potential discovery abuse which can occur under current law.

Fourth, grant the ITC authority to penalize or sanction abusive discovery efforts.

Fifth, clarify the ITC's authority to: issue cease and desist orders in addition to exclusion orders; keep certain information confidential; enter limited exclusion orders in default cases without a full hearing; grant preliminary relief; require the posting of bonds by both parties; and provide that certain forfeited bonds can be assigned to the prevailing party.

In sum, there are five nondraconian modifications to the Tariff Act which meet the legitimate concerns expressed by advocates of change. After carefully reviewing these issues, it is my hope that the Congress will agree upon a balanced approach affecting the rights of both consumers and producers while serving the public interest and meeting constitutional criteria.

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