

**United States Senate
Committee on the Judiciary**

**Responses to Questions Submitted by Senator Specter, Ranking Member
Re: Hearing on "Process Patents" on May 1, 2007**

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1. **Upon introduction of the Process Patents Amendment Act in 1988, Senator DeConcini said, "Our laws must enable U.S. companies to protect themselves from foreign manufacturers which steal American owned technology and then use American innovations to compete with U.S. manufactured goods." This statement tends to indicate that the Process Patent Amendments Act was adopted to strengthen the ability of US process patent holders to enforce their U.S process patents. How is this objective served by extending the exceptions to infringement cases at the ITC?**

Response:

This objective can still be served because the technology the Process Patent Amendment Act in 1988 is trying to protect is the patented process, not the products produced by such processes. Traditionally, a process patent holder cannot gain exclusivity over the products made by the patented process. Section 271(g) creates an exception to this notion, using the non-protected, imported products as a vehicle through which U.S. patent holders can enforce their process patents abroad—meeting Senator DeConcini's goal.

The § 271(g) exceptions do not necessarily thwart this goal. The exceptions keep the scope of exclusivity focused on the patented process and, in turn, try to reign in the reach of U.S. process patent holders over products. The exceptions do this by carving out safe harbors in situations where giving the patent holder exclusive control would be closer to giving the process patent holder exclusivity over the product, instead of the patented process. As a result, the § 271(g) exceptions prevent a patent holder from gaining exclusivity over products too far removed from the societal value of the patented process.¹ The § 271(g) exceptions—where the product is "materially changed" or "a trivial and nonessential component of another product"—focus on situations where foreign manufacturers are not truly "steal[ing] American owned technology" nor are they

¹ See S. Rep. No. 100-83, at 49-51 (1987) (providing an example of non-infringement where the process is not commercially essential to the creation of the imported product); *Eli Lilly & Co v. Am. Cyanamid Co.*, 82 F.3d 1568, 1572 (Fed. Cir. 1996) (noting Congress's intent in passing the § 271(g) exceptions is to limit protection to actions that impact the commercial value of the patented process).

"us[ing] American innovation to compete with U.S. manufactured goods." In the § 271(g) exception situations, the foreign manufacturers are using U.S. intellectual property (the patented process), but the products that come into the United States derive little to no value from this use.

Thus, applying the § 271(g) exceptions to the ITC would simply extend this rationale to another forum—limiting U.S. process patent enforcement to those situations where the imported products' value is closely tied to the intellectual property right at issue—the process patent.

This question does, however, get at the heart of the issue before the Committee. How strong should process patents be? Do we need to give U.S. process patent holders the ability to capture any and all products made anywhere to maintain the incentive to create the patented process? In some ways, the current situation may strike the best balance. The U.S. process patent holder has the ability to exclude from importation any and all products made by their process via ITC proceedings. But that same patent holder cannot receive monetary damages, or the other benefits, of a district court action under § 271(g). Congress may have, perhaps unintentionally, struck the right balance.

And we have yet to see a clear, detrimental effect on innovation because of the limited application of the §271(g) exceptions. The Federal Circuit has not applied the dicta in *Kinik*, and the § 271(g) exceptions have rarely been applied in district court cases since their 1988 adoption.² This all suggests that a wait and see approach may be the best course.

2. Is the U.S. currently in violation of GATT? If not, why not?

Response:

The absence of the § 271(g) exceptions in ITC proceedings is not a violation of GATT. The argument as to why it is a violation would be that by not applying the § 271(g) exceptions at the ITC, a foreign-based importer does not get the same defenses as their domestic counterpart and thus their products are subject to "less favourable" treatment than domestic companies. If this is truly the case, the U.S. would likely violate in violation of Article III of GATT.³

² See Anne Elise Herold Li, *Is the Federal Circuit Affecting U.S. Treaties? The ITC, § 271(g), GATT/TRIPS & the Kinik Decision*, 16 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 601, 639-40 (2006) (noting that the exceptions were applied only five times from their adoption until March 28, 2005).

³ See General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194, Article III.

However, to determine whether the treatment is truly "less favourable," the totality of both types of actions must be examined and compared.⁴ In the end, since both § 271(g) and the ITC actions stem from importation into the United States, both foreign and domestic companies are effected equally by the lack of § 271(g) exceptions at the ITC. A domestic company can fall within the ITC's jurisdiction because § 1337(a)(1)(B) explicitly covers the "sale within the United States after importation by the owner, importer, or consignee" of infringing products.⁵ A domestic company is also indirectly effected by a successful ITC action even if they gain the benefit of the § 271(g) exceptions because any future imports will not be allowed into the country. The domestic company's supply of exempt products under § 271(g) will eventually dry up.

If a domestic company is able to avoid the ITC, a foreign company still gains benefits over its domestic counterpart in district court. The foreign company is not subject to any monetary liability at the ITC. In contrast, if a § 271(g) action is successful, the infringer is, at the very least, liable for reasonable royalties for all past infringements and these damages may be trebled if the infringement is deemed willful.⁶ It is also more difficult to prove a foreign company violated § 1337 because the evidentiary presumptions of infringement set forth in 35 U.S.C. § 295 apply only to § 271(g) actions in district court.⁷

This analysis does bring up an important point. The ITC and district court are different forums, with different procedures, and different remedies. But since § 271(g) is essentially concerned with the importation of foreign products, the ITC can dominate both the foreign and national effect of U.S. process patent rights. The Committee should take this into consideration when addressing the base policy question—How strong should process patent rights be?

⁴ This is the same criteria used by a GATT panel when it considered whether the availability of § 1337 action violated Article III of GATT. See Report of the Panel, *United States – Section 337 of the Tariff Act of 1930*, L/6439, 38-39 (Nov. 7, 1989).

⁵ 19 U.S.C. § 1337(a)(1)(B).

⁶ See 35 U.S.C. § 284.

⁷ See 35 U.S.C. § 295 (noting that the presumptions apply "if a court" makes certain findings); *Nutrinova Nutrition Specialties & Food Ingredients GmbH v. Int'l Trade Comm'n*, 224 F.3d 1356, 1360 n.1 (Fed. Cir. 2000) (noting that "it is possible that § 295 has no application to proceedings before the ITC, since the statute on its face applies to courts, not agencies").

3. **In relying on the following statement about Congressional intent in a Senate Report on 271(g) --"Neither is there any intention for these provision to limit in any way the ability of process patent owners to obtain relief from the U.S. International Trade commission"-- did the Federal Circuit in *Kinik* confuse types of relief available with substantive legal standards as to what constitutes infringement of a US patent?**

Response:

It certainly is possible. And this argument has been made by commentators.⁸

However, to the bottom line issue—did the Federal Circuit correctly construe the relevant statutes and limit the application of the § 271(g) exceptions—I believe they did. The most convincing evidence of Congress's intent is that in the same 1988 Act that enacted 35 U.S.C. § 271(g), Congress also deleted 19 U.S.C. § 1337a and repositioned it, with some non-substantive amendments, at 19 U.S.C. § 1337(a)(1)(B)(ii).⁹ This created two causes of action before the ITC with respect to patents—one for the importation of articles that "infringe a valid and enforceable United States patent" and another for the importation of articles that "are made . . . by means of[] a process covered by the claims of a valid and enforceable United States patent."¹⁰ Congress, with § 1337(a)(1)(B)(ii), specifically kept a separate cause of action before the ITC that is divorced from the concept of "infringement"—a concept defined by 35 U.S.C. § 271, which includes the § 271(g) exceptions. And the self-contained cause of action in § 1337(a)(1)(B)(ii) provides a reach similar to § 271(g) but does not include any exceptions. If Congress truly wanted to have the § 271(g) exceptions apply to all ITC actions, Congress would simply have repealed § 1337a and not moved it into § 1337.¹¹

⁸ See John M. Eden, *Unnecessary Indeterminacy: Process Patent Protection After Kinik v. ITC*, 2006 DUKE L. & TECH. REV. 9, ¶ 10.

⁹ See Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1342, 102 Stat. 1107 (1988); *Amgen, Inc. v. U.S. Int'l Trade Comm'n*, 902 F.2d 1532, 1538-40 (Fed. Cir. 1990). Specifically, § 1337(a)(1)(B) now indicates that the following is unlawful:

The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

- (i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17; or
- (ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

¹⁰ 19 U.S.C. § 1337(a)(1)(B)(i),(ii).

¹¹ As an aside, if the Committee wants the § 271(g) exceptions to apply to ITC actions, a simple deletion of § 1337(a)(1)(B)(ii) would achieve this result.