Senator Specter's Questions

1. Can you elaborate on the functions of the International Trade Commission and the district courts with regard to patents?

The International Trade Commission (ITC) and the federal district courts have different functions predicated on different statutory bases. The ITC is an executive branch agency that, *inter alia*, serves the public by determining the effect of imports on U.S. industries and directing actions against certain unfair trade practices. ITC proceedings under Section 337 of the Trade and Tariff Act of 1930, 19 U.S.C. §1337, protect domestic industries and the public interest by empowering the Commission to launch investigations and issue exclusion orders against unfair trade practices. In the case of patented processes practiced abroad, an ITC exclusion order may issue upon a finding of unfair trade practices; if issued, it will be implemented by the United States Customs Service to stop the future importation of goods made offshore by practicing that patented process. By contrast, federal court actions adjudicate civil disputes between private litigants in accordance with the Patent Act, issue temporary and permanent injunctions against future infringement, award damages to redress past infringement, and decide reasonable royalties for future infringement if a permanent injunction is not issued.

There are significant differences between a Section 337 proceeding in the ITC and an action for patent infringement in a federal court. The ITC must find that the patentee is actively engaged in exploiting the patent in the U.S.; the patent must be valid, enforceable, and infringed; the remedy is limited to a prospective exclusion order (no monetary damages are possible); the ITC must consider the public interest, health and welfare, and competitive conditions in the U.S. before issuing an exclusion order; and Section 337 determinations are subject to Presidential review before becoming final. By contrast, a federal district court in a patent infringement action only considers whether the patent is valid, enforceable, and infringed—if so, both damages and injunctive relief are available as remedies. Whereas ITC relief is confined to products at the border, district court infringement actions may target those same products after they have entered U.S. commerce.

2. Throughout the past several months, my staff and I have received information indicating that the Judiciary Committee some years ago was unaware of the impact that changes to the patent law could potentially have on proceedings before the ITC. Given your expertise in this area, are you aware of whether the Committee considered the potential impact the Process Patent Amendments Act would have as evidenced by the legislative history?

It is clear from the language of the Process Patent Amendments Act (PPAA) and its legislative history that Congress intended to add a new federal court remedy for process patent owners, not to subtract from preexisting rights. Not only did Congress consider the impact of the PPAA on pre-existing law, but it explicitly stated that it in no way intended to supplant or undermine any existing rights or remedies available to patent owners in Section 337 proceedings brought in the ITC:

> *"Retention of Other Remedies.—The amendments made by this subtitle shall not deprive a patent owner of any remedies available under subsections (a) through (f) of section 271 of title 35, United States Code, under section 337 of the Tariff Act of 1930, or under any other provision of law."*

See subsection (c) of Section 6 of the PPAA.

Mr. Kastenmeier also made it clear that the Committee was quite aware of the differences between ITC and federal court proceedings when, in his remarks introducing the patent reform bills that resulted in the PPAA, he noted that:

> *"Under 19 U.S.C. 1337(a) an aggrieved party can claim that goods are being imported into the United States which have been produced using a process protected by a U.S. patent. While the Tariff Act does provide some protection against this practice the potential remedies are clearly insufficient. … [S]uch a case turns not on questions of patent law, rather whether the importation is unfair. Finally, and most importantly, the remedy in such an action is insufficient.*

Cong. Rec., 11/18/83, p. E5700.

The legislative history on this point is equally clear. The Senate Report states:

> *"The new remedies for process patent owners provided by the bill are subject to general limitations which do not apply in suits under existing law by process patent owners against parties manufacturing in the United States. For example, . . . [t]he bill provides that a product which is made by a patented process will not be considered so made after it is materially changed by subsequent processes; or it becomes a trivial and nonessential component of another product. <u>There is no intention to impose any of these limitations on owners of product patents or on owners of process patents in suits they are able to bring under existing law. Neither is there any intention for these provisions to limit in any way the ability of process patent owners to obtain relief from the U.S. International Trade Commission."</u>*

S. Rep. No. 100-83 at 60-61 (1987) (emphasis added).

3. Does the Kinik decision undermine the preclusive effect that federal court rulings are traditionally given in subsequent ITC proceedings?

Consistent with the language of the statute and its legislative history, in *Kinik Co. v. Int'l Trade Comm'n*, 362 F.3d 1359 (Fed. Cir. 2004) the Federal Circuit affirmed that the PPAA did not create new defenses for respondents in Section 337 proceedings brought in the ITC. Specifically, the Federal Circuit affirmed the ITC's holding that the two affirmative defenses to infringement under Section 271(g) – exempting a product made by a patented process if that product is "materially changed by subsequent processes" or "becomes a trivial and nonessential component of another product" – do not apply in Section 337 proceedings before the ITC.

The Kinik decision in no way alters any preclusive effect of federal court rulings in subsequent ITC proceedings; it merely confirms that the two special defenses to patent infringement available under Section 271(g) in federal court are not available as defenses to unfair trade practices at the ITC. If a federal court finds that a product is made abroad by a patented process, it might also conclude that the product "will, for purposes of this title, not be considered to be so made" after applying the special 271(g) defenses. In that case, the ITC can rely on the district court's factual finding without observing the fiction to the contrary created by those inapt defenses. It can thereby conclude that there is an unfair trade practice and issue an appropriate exclusion order if the other predicates to such an order are present.

4. How do you respond to Mr. Thomas' statement that, "like cases should be decided alike, regardless of the forum in which the case was heard"?

There is no need to test Mr. Thomas' thesis in this instance, because here the cases are not alike when properly considered. There are significant differences between a Section 337 unfair trade proceeding in the ITC and a Section 271(g) action for patent infringement in federal court.

Section 337 proceedings include, as a participant, the agency that is charged with considering the effect on domestic industry and the public interest in protecting against the importation of goods made offshore by a foreign party using a process protected by a U.S. patent. The Commission determines whether to institute an investigation, participates in the discovery process, motion practice and other pre-trial proceedings, presents evidence and argument at trial, and briefs and argues post-trial motions and any appeal. To prevail in a Section 337 action, the patent owner must show not only use of a process covered by a valid, enforceable claim of a patent, but also that it has created a domestic industry that would be harmed by the importation and that the public interest would be served by the issuance of an exclusion order.

In contrast, federal courts adjudicate disputes between private litigants, reviewing evidence of patent validity, enforceability, and infringement, and awarding damages to redress past infringement and reasonable royalties for future infringement if a permanent injunction is not issued. Because the parties, the interests in contention, and the available remedies are different, Mr. Thomas' underlying thesis is inapposite. There is nothing inconsistent with Congress's decision, in passing the PPAA, not to extend the two specific defenses to patent infringement under Section 271(g) to the pre-existing trade related law regarding Section 337 proceedings in the ITC.

Senator Whitehouse's Questions

1. Do you think it is appropriate for Congress to step in to the middle of a dispute between two parties and change the rules while the litigation is ongoing? While it may not be unprecedented, I think it would be an unwise course. Shouldn't Congress have a "don't intentionally and specifically interfere in litigation" policy?

No, it is not appropriate. I believe it is unwise and unfair for Congress to intervene in a pending litigation and "change the rules" in the course of an ongoing legal dispute. Parties evaluate their respective legal positions and engage in litigation under the law as they understand and interpret it at a given time, and Congress should strive not to take any action that would upset the balance between the parties as it existed at the outset. To the extent that Congress finds it appropriate to change or clarify existing law, it should normally be done in a prospective manner, permitting the modifications to become effective at some future date certain. Regarding the instant question of modifying Section 271(g) of the Patent Statute, the proposed changes are not needed and would be detrimental to the U.S. economy.

2. The ITC and the federal court systems have different purposes and grant different remedies. The ITC exists, in part, to protect American industry and trade – and it provides injunctive relief in the form of exclusion orders; the federal court system, among other things, protects individual rights – and provides relief in the form of damages. Doesn't it make perfect sense that defendants in these different venues can avail themselves of different defenses?

Yes, it makes perfect sense that infringement defendants in private litigation in federal court have access to the defenses provided to them by Congress, while defendants before the ITC that threaten American industry and trade not be allowed to assert these defenses. That is precisely why the restrictive language "for purposes of this title" was included in Section 271(g).

Congress enacted the Process Patents Amendment Act (PPAA) after years of debate and numerous compromises. The PPAA was intended, in part, to place domestic manufacturers on a more level playing field with foreign manufacturers. It accomplishes this by giving the owners of U.S. process patents the ability to seek injunctive relief and damages in federal court against infringers who are evading U.S. process patents by practicing overseas some or all of a process patented in the United States and then importing the resulting product for sale in the United States. Because the parties, the interests in contention, and the available remedies before the ITC and in federal court are different, it is perfectly logical, consistent and appropriate for Congress to have declined to extend the newly created Section 271(g) defenses to the pre-existing process under ITC Section 337.

3. What would be the impact on the American economy, and on American jobs, if we were to expand the number of affirmative defenses available to parties accused of infringing process patents before the ITC? Would it send piracy overseas by expanding the permissible uses of US process patents abroad?

An inevitable result of making the Section 271(g) defenses available in ITC proceedings would be that processes invented and patented in the U.S. would be used offshore to produce products for sale in the U.S. If foreign manufacturers were provided with these additional defenses in Section 337 proceedings, with the consequent lessening of the ability of the ITC to exclude such products at the U.S. border, products now made in the U.S. by American workers would instead be made offshore using lower cost foreign labor. The projected result would be the export of American jobs and an increase in the trade deficit.

Section 337 proceedings in the ITC have long been an effective means of protecting domestic industry against the importation of products made by infringing processes practiced abroad. The addition of Section 271(g) to the Patent Act was intended to strengthen the rights of process patent owners, not to weaken the ability of the ITC to protect the U.S. economy. Expanding the defenses available in ITC proceedings would put United States industry at a disadvantage with respect to foreign competitors, by increasing the ability of foreign manufacturers to practice United States process patents abroad and then import the products made by the patented process for sale in the United States. This would encourage off-shoring by creating a perverse incentive to export manufacturing processes and jobs to foreign countries, where the rights of U.S. process patent owners could be ignored, directly contrary to the purpose of the PPAA and undercutting the longstanding right of U.S. process patent owners to seek the ITC’s assistance in protecting established domestic industries.