Testimony of

Christopher A. Cotropia

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Written Statement of Christopher A. Cotropia*
Associate Professor of Law
University of Richmond School of Law

Thank you for the opportunity to testify before the Committee on the extraterritorial enforcement of United States process patents. I appear today on my own behalf, as a concerned observer of the patent system.

The issue before the Committee is very narrow and incredibly complex. This issue focuses on United States patents that cover a process, the unauthorized use of these patented processes outside this country to make products, the importation of these products into this country, and the exception of some of these products from liability. This issue also involves the institutional differences between patent actions in United States District Courts and at the International Trade Commission ("ITC").

This statement hopes to cut through some of the complexity and provide a fair and balanced presentation of the various concerns this issue presents. To put it succinctly, the potential inapplicability of the 35 U.S.C. § 271(g) exceptions to proceedings at the ITC raises three concerns: inconsistent judgments; noncompliance with TRIPs; and hindrance of the policies behind the exceptions. This statement concludes by urging the Committee to consider whether addressing this issue is a road worth going down when Congress is already focused on broader reaching, and higher impact, patent reforms.

Background on the Extraterritorial Enforcement of Process Patents

Prior to the passage of 35 U.S.C. § 271(g), the holder of a United States process patent could exclude only uses of the patented process within the United States. The owner's only recourse to usage of the patented process outside this country was to go before the ITC and seek to exclude from importation products made abroad by the patent process. The patent owner had no recourse in federal district court.

Section 271(g) was enacted in 1988 to close this loophole and provide a cause of action in district court. Specifically, the statute provides that "[w]hoever without authority imports into the

United States, or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer." A patent holder can now seek redress both in district court and before the ITC for extraterritorial use of her patented process. Products made abroad by a process patented in the United States can either be the subject of an injunction issued by a United States District Court or excluded at the border by Customs as the result of an ITC issued exclusionary order. The patent holder can also seek monetary damages for harm already caused by this infringing activity, but this relief is only available in federal district court.

When passing § 271(g), Congress noted that other countries limited the scope of exclusivity to products made "directly" from the patented process. While not adopting the "directly" language, Congress added the two exceptions to § 271(g)'s, excluding a product from infringement if "(1) it is materially changed by subsequent processes; or (2) it becomes a trivial and nonessential component of another product." These exceptions were included to ensure that infringing products had "a reasonable nexus with the patented process."

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). Essentially there are 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."

The Kinik Decision

In Kinik Co. v. International Trade Commission, the Federal Circuit addressed whether the exceptions in § 271(g) were available to a respondent in an ITC action under § 1337. The patent at issue claimed a process for producing certain abrasive articles, and Kinik was allegedly importing products made by this patented process in Taiwan. 3M, the owner of the process patent at issue, initiated an action under § 1337(a)(1)(B)(ii) before the ITC to exclude Kinik from importing these products. Kinik alleged, among other things, that the imported products were "materially changed by subsequent processes," falling within the exception in § 271(g)(1) and thus could not be subject to exclusion. The ITC dismissed Kinik's argument as contrary to the plain meaning of the relevant statutes and the respective legislative history.

The Federal Circuit agreed, concluding that the § 271(g) exceptions did not apply to § 1337(a)(1)(B)(ii) actions. The court noted that § 9006(c) of the Act enacting § 271(g) explicitly indicated that there "amendments . . . shall not deprive a patent holder of any remedies available . . . under section 337 of the Tariff Act of 1930." The Senate Report supported this statement, indicating:

There is no intention to impose any of these limitations on owners of products 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.

The language of § 271(g) also specifically prefaced the exceptions as being "for the purpose of this title," and thus not applying to Title 19 and specifically 19 U.S.C. § 1337. The court also concluded that it was willing to defer to the ITC's statutory interpretation on this issue.

Notably, the Federal Circuit found the process patent not infringed by Kinik, rendering moot the court's discussion as to whether the exceptions applied.

Potential Concerns Raised by the Inapplicability of the § 271(g) Exceptions at the ITC

The Kinik decision, while yet to be applied, identifies the possibility that, as drafted, the exceptions in § 271(g) may apply only in district court proceedings and not in § 1337 actions before the ITC. The rest this statement does not focus on whether the Federal Circuit in Kinik was right as a matter of statutory construction. Instead, this statement assumes courts will follow Kinik and focuses on the various issues Congress should consider were it to make amendments to introduce the § 271(g) exclusions into ITC actions. There are three areas of concern Congress should take into account.

1. Inconsistent Judgments

First, there is a potential for inconsistent judgments on the same patent claims for the same imported products. For example, a company may import a product that, while made abroad by a process patented in the United States, has been materially changed by subsequent processes. This product would fall within the § 271(g)(1) exception, and the process patent holder could not succeed in a district court action of infringement. However, that same patent holder could succeed in an ITC action concerning the very same product because the presence of a subsequent material change is statutorily irrelevant. And neither of these judgments would preclude the other because the § 271(g) exceptions were only legally available in one forum--district court.

There are, however, reasons not to label these as truly "inconsistent" judgments. That is, we may be comparing apples and oranges. Initially, if Congress purposively created separate and different standards for the two causes of actions, there is no reason to compare them as equals. There is legislative history regarding § 271(g) to support this interpretation. This same argument can be made at even a higher level, focusing on the very different purposes of the two tribunals. District courts pursuant to Title 35 are tasked with the specific mandate to enforce patent protections, while the ITC under Title 19 is meant to police trade-related activities and protect domestic industries. These different institutional goals are also exemplified by the fact that "Congress did not intend decisions of the ITC on patent issues to have preclusive effect" on district court proceedings. There is even evidence in the legislative history that Congress recognized, and relied on, these very institutional differences when passing § 271(g).

In addition, because of the lack of a claim preclusion effect for ITC decisions, the possibility of judgment inconsistency is an inherent characteristic of every § 1337 actions. Even if there is no difference in substantive law, district courts can, and do, come to opposite conclusions from the ITC. And partially because of this ever-present chance of inconsistency, there are safety valves in § 1337's remedial structure that can rectify such inconsistencies. For example, the ITC is instructed to consider the "public health and welfare" and "competitive conditions in the United States economy" before excluding products from entry. ITC decisions are also subject to

presidential review before any remedy goes into effect, explicitly giving the President ability to disapprove of the decision "for policy reasons."

2. Noncompliance with TRIPs

Second, the possibility of inconsistent treatment of like cases presents international concerns. Article III of the Agreement of Trade-Related Aspects of Intellectual Property Rights ("TRIPs") requires each member to "accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property . . . ." By not applying the § 271(g) exceptions at the ITC, a foreign-based importer does not get the same defenses as their domestic counterpart. A foreign company importing products into the United States who has no domestic presence is only directly affected by an ITC exclusionary order. In contrast, a domestic distributor is usually outside the jurisdiction of the ITC and subject only to a district court infringement action. If both are moving products made abroad by a United States patented process, the foreign company will not get the benefit of the exceptions in § 271(g), while the domestic company will. Since the foreign company is subject to a more stringent exclusion of products made by a patented process, they can be said to be subject to "less favourable" treatment than domestic companies.

However, to determine whether the treatment is truly "less favourable," the full effect of both types of actions must be examined. While a foreign company does not get the benefit of the § 271(g) exceptions at the ITC, it does gain other benefits over its domestic counterpart in district court. The foreign company is not subject to any monetary liability. 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. A patent holder will also find it 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. Additionally, the domestic company can still 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. Finally, a domestic company will be 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.

3. Hindrance of the Policies Behind the § 271(g) Exceptions

Third, Congress should consider the policy reasons behind the § 271(g) exceptions. Section 271(g) was enacted to strengthen the protection for United States process patents. In turn, § 271(g) is meant to preserve the incentive to invest research and development dollars in the development of publicly beneficial processes. The exceptions evidence a congressional intent to not overincentivize and provide a patent holder with exclusivity over products too far removed from the societal value of the patented process. Additionally, the exceptions strike a balance between protecting a patent holder's rights and recognizing the territorial limits of United States patents. Finally, the exceptions properly limit culpability to those with products closely tied to the patented process since it is the process, not the product, that is truly infringing. Allowing the patent holder to go to the ITC and exclude products that fall within these exceptions hinders these policies.

However, it can be argued that limiting the exceptions to district courts furthers patent policy. Patent law traditionally gives the patent holder the ability to exclude the use of a patented process to make any product, regardless of how valuable the process is to the made product. Section 1337 operates as intended and simply extends this policy to uses of the patented process outside the United States. The § 271(g) exceptions still place limitations on the strength of process patents, albeit not as great, by removing, with all of its advantages, the district court enforcement option. The exceptions also fulfill the goal of limiting territorial overreach by not subjecting foreign companies whose products fall within the exceptions to personal liability for money damages.

Considering This Issue in the Context of Broader Patent Reform

If Congress decides to act on this issue, it should contemplate where it fits within the larger patent reform legislation that is currently before Congress. The § 271(g) exceptions issue is extremely complex, with the previous statutory reforms in this area requiring multiple attempts by Congress, a "bitter battle" between industries, and much congressional testimony. The complexity of the issue stands in sharp contrast to the issue's lack of immediacy. If there is a problem, it is still only a potential problem. The Federal Circuit has yet to apply the dicta in Kinik. And the § 271(g) exceptions have even rarely been applied in district court cases since their 1988 adoption.

Contrast all of this with the wider reaching patent reforms that address core patent issues currently before both the Senate and the House. With such larger issues on the table, there is reason to think that Congress should not be distracted by the § 271(g) exceptions issue. Additionally, successful patent reform most likely requires compromise amongst the various constituents. To include another issue such as this one introduces another moving piece that may either upset the current balance in the pending legislation or make it more difficult to reach such a balance. To put it simply, the issue here may be too small, remote, and uncertain to justify Congress's immediate attention and energy and could possibly negatively impact the likelihood of passage of any broader reaching patent reforms currently before Congress.

Thank you for the opportunity to testify before you today. I would be pleased to answer any questions.

* Christopher Cotropia is an Associate Professor of Law at the University of Richmond School of Law. He is also a member of the School's Intellectual Property Institute. He teaches intellectual property, patent law, copyright law, computer law, and property. He has authored numerous articles in the areas of patent law and federal courts. Professor Cotropia received his B.S. in both Electrical Engineering and Computer Engineering from Northwestern University. He received his J.D. from The University of Texas School of Law, where he graduated Order of the Coif and served as an editor of the Texas Intellectual Property Law Journal. He then clerked for the Honorable Alvin A. Schall of the United States Court of Appeals for the Federal Circuit.
35 U.S.C. § 271(a).

19 U.S.C. § 1337a (1982). Section 1337a, enacted in 1940, read as follows:

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.

Act July 2, 1940, c. 515, 54 Stat. 724. The statute has since been repealed and the language placed in 19 U.S.C. § 1337(a)(1)(B)(ii).

See Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 9003, 102 Stat. 1107, 1563-65 (1988); 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, 608 (2006). Section 271(g) was part of a subsection of the Act subtitled "The Process Patent Amendments Act of 1988".

35 U.S.C. § 271(g).

35 U.S.C. § 283 (noting a district court's discretion to issue an injunction); 19 U.S.C. § 1337(e) (identifying the ITC's ability to exclude infringing articles).

35 U.S.C. § 285. There is a limitation to such damages unique to § 271(g) actions. See 35 U.S.C. § 287 (limiting the scope of damages based on notice, as well as other factors).

S. Rep. No. 100-83, at 31-35, 49-50 (1987).

Id. at 49 (noting that "directly" was not used so as to not "exempt too many products" from infringement).
35 U.S.C. § 271(g).

S. Rep. No. 100-83, at 36.

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.

19 U.S.C. § 1337(a)(1)(B)(i),(ii).

362 F.3d 1359, 1361 (Fed. Cir. 2004).

Id.

Id.

Id. at 1362-63.

Id. at 1362 (quoting Pub. L. 100-418, § 9006(c)).

Kinik, 362 F.3d at 1362-63 (quoting S.Rep. No. 100-83 at 60-61).

Kinik, 362 F.3d at 1363 (quoting 35 U.S.C. § 271(g)).

Kinik, 362 F.3d at 1363.

Id. at 1366; see also John M. Eden, Unnecessary Indeterminacy: Process Patent Protection After Kinik v. ITC, 2006 DUKE L. & TECH. REV. 9, ¶ 2 (noting that the Federal Circuit's interpretation of the § 271(g) exceptions is dicta).

Some have argued that this statutory construction is wrong. Eden, supra note 20, at ¶10-17 (identifying five reasons why the court's interpretation is incorrect).

See Li, supra note 3, at 639 (identifying this possibility).

See Brown v. Felsen, 442 U.S. 127, 131 (1979) ("Res judicata prevents litigation of all grounds for, or defenses to, recovery that were previously available to the parties, regardless of whether they were asserted or determined in the prior proceeding.")

See, e.g., S. Rep. No. 100-83, at 60-61 ("There is no intention to impose any of these limitations on owners of products 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.").

See, e.g., 19 U.S.C. § 1337(a)(2),(3); Tandon Corp. v. U.S. Int'l Trade Comm'n, 831 F.2d 1017, 1019, (Fed. Cir. 1987) (noting that "the Senate Report accompanying the Trade Act of 1974 made clear that the Commission's primary responsibility is to administer the trade laws, not the patent laws").

See Tandon, 831 F.2d at 1019.

See, e.g., S. Rep. No. 100-83, at 36-39 (citing an example were a company may be able to successfully enforce their process patent in district court under § 271(g), but not at the ITC because the patent holder has yet to establish a domestic industry).

See Tex. Instruments Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996) (affirming a district court judgment of non-infringement, even though the ITC found the patents infringed).

19 U.S.C. § 1337(d)(1).

19 U.S.C. § 1337(j)(2); But see, Li, supra note 3, at 645 (noting that the presidential review period will likely pass before the district court makes a substantive decision).

Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 3, Apr. 15, 1994, Marakesh Agreement Establishing the WTO, Annex 1C, Legal Instruments--Results of the Uruguay Round vol. 31, 33 I.L.M. 81.

The ITC does have limited jurisdiction over sales by importers, owners, and consignees in the United States. See 19 U.S.C. § 1337(a)(1)(B).

See Li, supra note 3, at 635-36 (making a similar argument).

See 35 U.S.C. § 284.

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").

19 U.S.C. § 1337(a)(1)(B).

See S. Rep. No. 100-83, at 30-31.

See id., at 49-51 (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).

See, e.g., Amgen, 902 F.3d at 1539 (citing the testimony of Senator Lautenberg regarding the moving of § 1337a to 19 U.S.C. § 1337(a)(1)(B)(ii) in 1988).

See S. Rep. No. 100-83, at 36-39 (noting all of the advantages of district court civil actions over ITC proceedings).

See Eli Lilly & Co. v. Am. Cyanamid Co., 82, F.3d 1568, 1579-81 (Rader, J., dissenting) (walking through the legislative history of 35 U.S.C. § 271(g)).

See Li, supra note 3, at 639-40 (noting that the exceptions were applied only five times from their adoption until March 28, 2005).

See Patent Reform Act of 2007, S. 1145, 110th Cong. (2007); Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007).