

Testimony of

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Process Patents Before the Senate Judiciary Committee May 1, 2007 John R. Thomas\* Professor of Law Georgetown University

Chairman Leahy, Ranking Member Specter, and Members of the Committee: Thank you for this opportunity to appear before you to discuss the Patent Reform Act of 2007. I testify here on my own behalf, and my views are not necessarily those of any institution with which I am associated.

The issue before the Committee unquestionably involves a great deal of intellectual property arcana. Even for many patent attorneys the issue is obscure. In the view of many observers, however, the question at issue reduces to an elemental proposition of a just system of laws: That like cases should be decided alike, regardless of the forum in which the case is heard.<sup>1</sup> This issue also potentially implicates the ability of the U.S. patent enforcement regime to achieve congressional objectives, the availability of high technology products to U.S. consumers, and the compliance of the United States with its international obligations. As a result, the current fragmented enforcement regime associated with process patents is well worth further consideration by the 110th Congress.

## The Enforcement of Process Patents

When a patent claim is expressed as a series of steps, it is known as a method or process claim.<sup>2</sup> Traditionally the patent law held that a process claim could be directly infringed only by the performance of those steps within the United States.<sup>3</sup> Congress has enacted two statutes that modify this principle, however. Each of these statutes allow U.S. patent holders to prevent foreign manufacturers from practicing their proprietary processes abroad; and then importing the product of that process into this country.

The first of these statutes was the Tariff Act of 1930, as amended through subsequent legislation. That statute makes it unlawful to import into the United States "articles that . . . 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."<sup>4</sup> If the patent proprietor successfully seeks an exclusion order from the International Trade Commission (ITC), it may obtain a ban on imported products produced through the infringing process.

Alternatively, under the Patent Act of 1952, as amended by the Process Patent Amendments Act of 1988 (PPAA),<sup>5</sup> a patent holder may bring an action in federal district court against the importing manufacturer. The prevailing patentee in those circumstances may obtain an injunction against the importer, along with monetary damages to compensate for the infringement. As codified at 35 U.S.C. § 271(g), a number of exceptions limit liability under the PPAA. In

particular, §271(g) provides that if the product is materially changed by subsequent processes, or becomes a trivial or nonessential component of another product, then there is no infringement.<sup>6</sup>

### The Kinik Dicta

The 2004 opinion of the U.S. Court of Appeals for the Federal Circuit in *Kinik Co. v. International Trade Commission* has resulted in controversy over the scope of protection afforded process patents.<sup>7</sup> The *Kinik* case involved the 3M Corporation's claims that the Kinik Company was importing products into the United States from Taiwan that were made through use of 3M's patented process. The Federal Circuit resolved the litigation by concluding first, that the ITC had not properly construed the claims of the 3M patent, and second, that under a proper claim construction, the 3M patent was not infringed.<sup>8</sup>

Although apparently not necessary to resolve the dispute before it, the Federal Circuit also embarked upon an excursion in statutory interpretation. In addition to its noninfringement argument, *Kinik* asserted that its product was "materially changed by subsequent processes" beyond the alleged use of 3M's patented process. Although this defense is acknowledged within the Patent Act, the Federal Circuit concluded that the exceptions set forth in 35 U.S.C. § 271(g) (1) and (2) do not apply to proceedings under the Tariff Act. In support of its conclusion, the court of appeals observed that the legislative history of the Process Patent Amendments Act provided:

There is no intention to impose any of these limitations upon 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.<sup>9</sup>

The court of appeals further stated that it would apply *Chevron* deference in support of the ITC's conclusion that the exceptions identified in § 271(g) do not apply to exclusion actions.<sup>10</sup>

The *Kinik* dicta has attracted criticism. With respect to the language from the legislative history, one commentator has explained that "the most natural reading" of this language is simply an intention not to constrain the ability of patent holders to obtain exclusion orders from the ITC, even though similar relief was now available in the federal district courts.<sup>11</sup> Similarly, the notion that "these limitations [do not apply to] owners of products or . . . owners of process patents in suits they are able to bring under existing law" suggests that the two exceptions do not apply to charges of process patent infringement in other, wholly domestic situations.

The application of *Chevron* deference has also been critiqued. According to one commentator, "after the Process Patent Amendments Act was passed in 1988, the ITC consistently and openly recognized the general applicability of § 271(g) defenses in exclusion actions."<sup>12</sup> The ITC's apparently changing views suggest that deference may not be appropriate, particularly because

"the ITC is not the agency charged with interpreting the Patent Act."<sup>13</sup>

### Consequences of the Kinik Dicta

Regardless of whether the Federal Circuit correctly construed the governing statutes in *Kinik* or not, recent scholarly commentary has urged Congress to address the fragmented enforcement regime that now exists for process patents in the United States.<sup>14</sup> This commentary has identified numerous complications that arise from varying enforcement possibilities between the ITC and the federal district courts.

First, Congress intended the two exceptions of the Process Patents Amendment Act to balance the traditional competing objectives that inform intellectual property policy: Encouraging the labors that result in innovation, on one hand, and disseminating the fruits of the labors to the public, on the other. The "materially changed" and "nonessential component" limitations both balance the interests of patent proprietors with follow-on innovators and also recognize the territorial nature of the patent instrument. These congressional intentions may not be achieved if the patent proprietor can readily select a forum where the two limitations upon § 271(g) simply do not apply.<sup>15</sup>

Second, our current fragmented enforcement policy may limit the access of U.S. consumers to innovative products. As one commentator explains, "[o]ne could argue that *Kinik* chafes against the interests of U.S. consumers, consumers who would benefit from having access to less expensive goods, including everything from medicines to automobile parts."<sup>16</sup>

Finally, the remedial disparity between the district courts and the ITC potentially favors domestic industry over foreign firms. Because the availability of an exclusion order is premised upon the existence of a domestic industry, "[t]here is a clear difference in the defenses available for foreign goods and importers thereof when compared to their domestic counterparts, potentially constituting a 'disguised restriction on trade.'"<sup>17</sup> Another commentator observes:

*Kinik* also has implications for international relations. Since *Kinik* stands for the idea that the ITC can lawfully make it significantly harder for a defendant to establish a defense based on noninfringement in an exclusion dispute, the foreign business community is likely to view this as an instance of protectionism. After all, the ITC is a body that can unilaterally exclude foreign products from importation into the United States, a fact that will inevitably color foreign perception of the fairness of its procedures. More specifically, foreign business interests are likely to find unfair (and perhaps hypocritical) *Kinik*'s refusal to extend § 271(g)'s defenses—defenses that all defendants have in U.S. federal courts—to exclusion actions given the aggregate effect of exclusion orders on the balance of trade in intellectual property. Foreign businesses are likely to find this policy unfair (and perhaps hypocritical) . . . .<sup>18</sup>

Although the analysis of whether the current situation constitutes a violation of the TRIPS Agreement is complex,<sup>19</sup> the perceived favoritism for U.S. industry over foreign firms may send a conflicting message as the United States proceeds against Israel,<sup>20</sup> China,<sup>21</sup> and other trading partners for perceived lapses in their intellectual property regimes.

## Conclusion

Since at least the publication of Aristotle's *Nicomachean Ethics*, the notion that like cases should be treated alike has been viewed as central to the notion of justice.<sup>22</sup> The disparate results available to process patent holders in the ITC, as compared to the district courts, has been

broadly viewed as violating this fundamental norm of equivalence. Because these dissimilar rules of law potentially conflict with congressional intent, limit competition, and portray the United States in a negative light, academic commentary has expressed "hope that Congress will soon step in to ensure that the fragmented enforcement regime Kinik endorses is dismantled sooner rather than later."<sup>23</sup> I look forward to hearing the view of my fellow witnesses on today's panel, and to answering any questions that may be presented. Thank you.

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<sup>1</sup>See John M. Eden, *Unnecessary Indeterminacy: Process Patent Protection After Kinik v. ITC*, 2006 DUKE L. & TECH. L. REV. 9; Ann Elise Herold Li, *Is the Federal Circuit Affecting U.S. Treaties? The ITC, § 271(g), GATT/TRIPS and the Kinik Decision*, 16 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 601 (2006).

<sup>2</sup>John R. Thomas, *Of Text, Technique and the Tangible: Drafting Patent Claims Around Patent Rules*, 17 JOHN MARSHALL J. COMPUTER & INFO. L. 219 (1998).

<sup>3</sup>United States v. Studiengesellschaft Kohle, m.b.H., 670 F.2d 1122, 1127-28, 212 USPQ 889, 895 (D.C. Cir.1981) ("A product patent gives the patentee the right to restrict the use and sale of the product regardless of how and by whom it was manufactured. A process patentee's power extends only to those products made by the patented process. . . . A process patent thus 'leaves the field open to ingenious men to invent and to employ other processes.' 1 A. Walker, *Patents* s 23 at 140 (2d Deller ed. 1964). . . . A sale of a product made by a patented process does not itself infringe the patent; it is the unauthorized use of the process that infringes the patent.").

<sup>4</sup>19 U.S.C. §1337(a)(1)(B)(ii) (2006).

<sup>5</sup>Pub. L. No. 100-418, 102 Stat. 1107 (1988).

<sup>6</sup>35 U.S.C. §271(g) (2006). See *Eli Lilly & Co. v. American Cyanamid Co.*, 82 F.3d 1568, 1571, 38 USPQ2d 1705, 1707 (Fed. Cir.1996).

<sup>7</sup>362 F.3d 1359 (Fed. Cir. 2004).

<sup>8</sup>*Id.* at 1361.

<sup>9</sup>*Id.* at 1362-63 (citing S. Rep. No. 100-83 at 60-61).

<sup>10</sup>See *id.* at 1363 (citing *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 843 (1984)).

<sup>11</sup>See Eden, *supra* note 1, at \*10.

<sup>12</sup>*Id.* at \*13.

<sup>13</sup>*Id.* at \*19.

<sup>14</sup>*Id.* at 32; Li, *supra* note 1, at 647.

<sup>15</sup>Eden, *supra* note 1, at \*22.

<sup>16</sup>*Id.* at \*23.

<sup>17</sup>Li, *supra* note 1, at 636.

18Eden, supra note 1, at \*24.

19See Li, supra note 1, at 635-40.

20United States Trade Representative, 2004 Special 301 Report Watch List (May 3, 2004) (available at [www.ustr.gov](http://www.ustr.gov)).

21See United States Trade Representative, United States Files WTO Cases Against China Over Deficiencies in China's Intellectual Property Laws and Market Access Barriers to Copyright Based Industries (April 9, 2007) (available at [www.ustr.gov](http://www.ustr.gov)).

22ARISTOTLE, NICOMACHEAN ETHICS (trans. W. C. Ross) (available at <http://classics.mit.edu/Aristotle/nicomachaen.html>).

23Eden, supra note 1, at \*32.