

Testimony of  
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Statement of Michael K. Kirk Executive Director  
American Intellectual Property Law Association  
Before the Committee on the Judiciary United States Senate Washington, D.C. On Process  
Patents  
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Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual

Property Law Association (AIPLA) on the topic of process patents, and specifically the question of whether the defenses to infringement in Section 271(g) of title 35 should be made applicable to Section 337 of the Tariff Act of 1930. AIPLA appreciates the opportunity to comment on this issue.

AIPLA is a national bar association of more than 17,000 members engaged in private and corporate practice, in government services, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Since our members represent inventors before the PTO, as well as both plaintiffs and defendants in patent litigation, we have a keen interest in reforms that further an efficient, effective, and balanced patent system.

#### Summary

AIPLA opposes legislation that would amend Section 271(g) of the Patent Act, 35 U.S.C. § 271(g), in a manner that would undermine the existing rights of process patent owners to obtain relief against unfair trade practices under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337(a)(1)(B)(ii), as enforced by the United States International Trade Commission (ITC). Specifically, AIPLA opposes efforts to amend Section 271(g) that would weaken the ability of United States process patent owners to enforce their rights against the importation of foreign manufactured products by providing those foreign manufacturers with additional defenses in Section 337 proceedings brought in the ITC.

Section 337 proceedings in the ITC have long been an effective means of protecting domestic industry against the importation of products manufactured abroad by a process protected by a U.S. process patent. The Process Patents Amendments Act of 1988 ("PPAA"), which added Section 271(g) to the Patent Act, was intended to strengthen process patent rights, not to weaken the rights of process patent owners, as would be the case if Section 271(g) were amended as proposed.

Such a diminishment of process patent rights would put United States industry at a disadvantage with respect to their 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. It would encourage off-shoring by creating a perverse incentive to export manufacturing processes and jobs to foreign countries, where the rights of United States process patent owners could be ignored, directly contrary to the purpose of the PPAA. For these reasons and those explained more fully below, AIPLA opposes the proposed amendment to Section 271(g) of the Patent Act and efforts to undercut the longstanding rights of

United States process patent owners to seek the ITC's assistance in protecting established domestic industries by issuing Exclusion Orders against unfair trade practices and barring the importation and sales of products made by infringing processes practiced outside the United States.

## Background

### Section 271(g)

Section 271(g) provides: Whoever 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, if the importation, offer to sell, sale or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after--

- (1) it is materially changed by subsequent processes; or
- (2) it becomes a trivial and nonessential component of another product.

35 U.S.C. § 271(g).

Section 271(g) was added to Title 35 of the United States Code by the Process Patents Amendments Act of 1988 (PPAA), which was part of the Omnibus Trade and Competitiveness Act of 1988. According to the legislative history of the PPAA, the concerns about infringement of

United States process patents by manufacturers in foreign countries that gave rise to the passage of the PPAA date back to 1966 and can be found in President Johnson's Commission on the Patent System. See "To Promote the Progress of ...Useful Arts", Report of the President's Commission on the Patent System 35-36 (1966).

Section 271(g) contains two specific defenses to infringement of United States process patents by the practice of processes outside the United States. Such activity does not constitute infringement "for purposes of this title" - i.e., under Section 271(g) - if the product made by the patented process is "materially changed by subsequent processes" or "becomes a trivial and nonessential component of another product." These specific defenses were newly-created with the passage of the PPAA; they appear nowhere else in the Patent Act and have no history in the statute or patent jurisprudence. More than a decade after their creation, they have been only rarely discussed in reported decisions and they remain poorly defined and notoriously fact-specific.

### Section 337 Proceedings in the ITC

Before passage of the PPAA, an owner of a process patent in the United States was able to enforce its patent in the United States federal courts under 35 U.S.C. § 271 only if all steps of the process took place within the United States. Before the PPAA, the only remedy available to a process patent owner for the importation of a product manufactured by the patented process was an order from the ITC excluding the product from entry into the United States under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337(a)(1)(B)(ii), which provides in pertinent part:

(a) Unlawful activities; covered industries; definitions.--

(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

\* \* \*

(B) 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--

\* \* \*

(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.

The ITC is thus authorized to issue Exclusion Orders in Section 337 proceedings to protect domestic industry against importation of products made by a process practiced abroad that would infringe a valid and enforceable United States process patent claim if practiced in the United States. The ITC's Exclusion Orders are enforced by United States Customs, and are subject first to Presidential review, and then to review by way of appeal to the United States Court of Appeals for the Federal Circuit.

There are significant differences between a Section 337 proceeding in the ITC and an action for patent infringement in federal court. An action in federal district court is a civil proceeding between private litigants, but because the ITC is charged with protecting the public interest and domestic industry, the Commission is a party to a Section 337 investigation and its staff are active participants throughout the process. They investigate the allegations in the complaint, determine whether to institute an investigation, actively engage in the discovery process, motion practice and other pre-trial proceedings, present evidence and argument at trial, and brief and argue 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 process patent, but also that it has created a domestic industry that would be harmed by the importation. In addition, the patent owner also must show that the public interest would be served by the issuance of an Exclusion Order. Finally, no damages are awarded in a Section 337 proceeding. The Exclusion Order and related Cease and Desist Orders are the sole remedies available in Section 337 proceedings.

Congress enacted the PPAA after years of debate and numerous compromises. The PPAA was intended to give the owners of United States process patents the ability to seek injunctive relief and damages in federal court against infringers who were evading process patents by practicing some or all of a patent process overseas and then importing the resulting product for sale in the United States. The PPAA represented an effort to place domestic manufacturers on a more level playing field with foreign manufacturers, and to eliminate any incentive to export manufacturing processes and jobs to evade United States process patents.

It is clear that in passing the PPAA, Congress intended Section 271(g) to provide additional remedies in federal court for process patent owners. Congress explicitly stated that it in no way intended to supplant or undermine any existing rights or remedies available to patent owners under any other subsection of 35 U.S.C. § 271 or in Section 337 proceedings brought in the ITC. Subsection (c) of Section 6 of the PPAA could not be clearer on this point:

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.

Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 9006(c), 102 Stat. 1107, 1567 (1988).

The legislative history on this point is equally clear.

Addressing the provision codified as

Section 271(g), the Senate Report states:

Section 105(b) makes clear that the bill does not affect any remedies patent owners have under existing law. 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.

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.

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

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 ITC held, and 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 specific 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.

## Discussion

AIPLA opposes any amendment to Section 271(g) that would undermine the longstanding rights of United States process patent owners to seek the ITC's assistance in protecting established domestic industries by issuing Exclusion Orders against unfair trade practices and barring the importation and sales of products made by infringing processes practiced outside the United States. Specifically, AIPLA opposes any amendment to Section 271(g) that would apply the two specific defenses to infringement under Section 271(g) - exempting products made by the

patented process from infringement if such products are "materially changed by subsequent processes" or "a trivial and nonessential component of another product" - to Section 337 proceeding before the ITC.

Section 337 proceedings in the ITC have a separate statutory basis from patent infringement actions brought in federal court. Section 337 proceedings, which existed long before the PPAA was enacted, are intended to protect domestic industries and the public interest by empowering the ITC to launch investigations and issue Exclusion Orders against unfair trade practices, invoking the protection of United States Customs to stop the future importation of goods made offshore by practicing United States process patents. Unlike federal court actions, ITC proceedings do not adjudicate disputes between private litigants, award damages to redress past infringement, or decide reasonable royalties for future infringement if a permanent injunction is not issued.

Because ITC and federal court actions have different purposes and involve different remedies, there is nothing inconsistent with Congress' decision, in passing the PPAA, not to extend the two specific, newly-created defenses to infringement under Section 271(g) to the preexisting requirements for Section 337 proceedings in the ITC. For example, one fundamental difference between the ITC and a federal court is that the ITC can only issue orders preventing future unfair trade practices, whereas a court can award damages for past infringement. In enacting the PPAA, Congress concluded that it would not be appropriate to subject a defendant in federal court to a damages award for sales of products made overseas by a patented process if those products were "materially changed by subsequent processes" or were "a trivial and nonessential component of another product." But Congress did not conclude that Section 337 should be amended to permit a foreign manufacturer to escape an exclusion order for importing such products into the United States where either of the two conditions applies.

Prior to passage of the PPAA in 1988, offshore manufacturers who followed the teachings of United States process patents to manufacture products for importation and sale in the United

States could be blocked by an ITC Exclusion Order. There were no special defenses allowing the continued importation or sales of products made overseas by a patented process if those products were "materially changed by subsequent processes" or "a trivial and nonessential component of another product." But offshore manufacturers importing such products into the United States were not subject to liability for damages in a federal court patent infringement action. Congress closed that loophole with passage of the PPAA, making those infringers subject to damages liability for their past infringement, subject to two specific defenses. But in closing that loophole,

Congress was careful not to undermine the protection available under Section 337 by giving respondents in ITC proceedings new defenses to the issuance of Exclusion Orders against future importation of products made abroad by infringing processes. AIPLA believes that Congress should not create such a loophole to the detriment of United States industry.

Indeed, the language of the PPAA, and the legislative history, make it clear that Congress specifically intended Section 271(g) to add a federal court remedy for process patent owners. They also make it clear that Congress did not intend to subtract from the preexisting rights of process patent owners, including, specifically, the right to seek Exclusion Orders from the ITC against continued importation of products made abroad by infringing processes. Again, AIPLA

believes that this considered decision is correct and should not be changed in a manner that would undermine the longstanding rights of United States process patent owners and place them at a disadvantage relative to their foreign competitors.

The proposed amendment to Section 271(g) would be detrimental to United States manufacturers. The proposed amendment would put domestic manufacturers at a competitive disadvantage relative to their foreign competitors. A domestic manufacturer has no defense to infringement of a United States process patent under 35 U.S.C. § 271(a) on the grounds that its product made in the United States by a patented process will later be "materially changed by subsequent processes" or "become[s] a trivial and nonessential component of another product."

Yet its foreign competitors would not face this problem. The practice outside the United States of a process protected by a U.S. patent is not an infringement of the U.S. patent. There is no § 271(a) action that can be brought against a foreign company for activity outside the United States. If the proposed amendment were adopted, a company in China could take the next step in the manufacturing cycle and transform an intermediate compound (produced according to a patented process) into a chemically-different final product, and import it with impunity into the United States. Or a company in Russia could produce a new heat-resistant alloy according to a patented process, use the resulting alloy to manufacture bearings, and freely import the bearings into the country as a trivial component of massive turbines for power generation. Or a company in South Korea might employ a patented method for forming conductive lines on semiconductor wafers as an initial step in manufacturing integrated circuits for use in cell phones that could be imported into the United States under either defense. Protecting American intellectual property against foreign usurpation is already difficult; the amendment would make it more so.

Moreover, the amendment would create a perverse incentive to offshore domestic manufacturing and jobs. If the defenses to infringement of United States process patents were made applicable to Section 337, they could provide an incentive for domestic manufacturers to practice patented manufacturing processes offshore in order to take advantage of those defenses in the same manner as their foreign competitors. Given the existing pressures to offshore American jobs to countries with low cost labor, aiding their exodus by weakening protection for U.S. process patents would seem unwise.

## Conclusion

For these reasons, AIPLA opposes any amendment to Section 271(g) to create new defenses in Section 337 proceedings in the ITC that would only benefit foreign manufacturers accused of unfair trade practices. We do not believe Section 337 should be amended in a manner that would benefit foreign manufacturers at the expense of American patent owners, manufacturers, and workers.