West's

REVISED CODE OF WASHINGTON ANNOTATED

Under Official Allocation and Numbering

Titles 49 to 50

Cumulative Annual Pocket Part

For Use In 1982

Replacing prior Pocket Part in back of volume

Includes laws through the 1981 Regular and First Extraordinary Sessions

ST. PAUL MINN.
WEST PUBLISHING CO.

Employer's obligation to make contributions to joint labor-management trust, created pursuant to Labor Management Relations Act of 1947 (29 U.S.C.A. § 186), is determined solely by the language of the written agreement between the employer and the employee representative. Western Washington Laborers-Emp. Health & Sec. Trust Fund v Merlino (1981) 29 Wn App 251, 627 P2d 1346.

Joint labor-management trust fund, created pursuant to Labor Management Relations Act of 1947 (29 U.S.C.A. § 186), must present proof showing employer's obligation to make contributions for covered employees conforms to specific terms of agreement between employer and employee representative, since employer contributions unauthorized by the parties' agreement are unlawful. Western Washnigton Laborers-Emp. Health & Sec. Trust Fund v Merlino (1981) 29 Wn App 251, 627 P2d 1346.

49.36.030 Prosecutions prohibited

Under RCW 49.36, which deals with labor unions in general, reasonable contact with workers by a union representative for any lawful purpose is an activity protected from prosecution. State v Fox (1973) 82 Wn 2d 289, 510 P2d 230.

CHAPTER 49.44—VIOLATIONS—PROHIBITED PRACTICES

Blind or handicapped persons, discriminating against in public employment: RCWA 70.84.080.

49.44.010 Blacklisting—Penalty

56 Wn LR 1 (1980-81) (theory of rights for the employment relation. Robert Brousseau).

49.44.030 Labor representative receiving bribe

1 ALR3d 1350 (validity and construction of statutes punishing commercial bribery).

49.44.070 Grafting by employee

1 ALR3d 1350 (validity and construction of statutes punishing commercial bribery).

49.44.090 Unfair practices in employment because of age of employee or applicant—Exceptions

The unfair practice of age discrimination prohibited by RCWA 49.60.180 is limited by the provisions of RCWA 49.44.090 to that class of workers ages 40 to 65. Gross v Lynnwood (1978) 90 Wn 2d 395, 583 P2d 1197.

Where trial court in discrimination case entered finding that plaintiff was not terminated because of age but because of work performance, and plaintiff did not assign error to such finding, it became a verity on appeal. Curtis v Clark (1981) 29 Wn App 967, 632 P2d 58.

49.44.120 Requiring lie detector tests

It shall be unlawful for any person, firm, corporation or the state of Washington, its political subdivisions or municipal corporations to require any employee or prospective employee to take or be subjected to any lie detector or similar tests as a condition of employment or continued employment: *Provided*, That this section shall not apply to persons making initial application for employment with any law enforcement agency: *Provided further*, That this section shall not apply to either the initial application for employment or continued employment of persons who dispense controlled substances as defined in chapter 69.50 RCW, or to persons in sensitive positions

directly involving national security, or to persons in the field of public law enforcement who are seeking promotion to a rank of captain or higher. [Added by Laws 1965 ch 152 § 1; Amended by Laws 1973 ch 145 § 1.]

8 Gonzaga LR 190 (disciplining or discharging police officer for refusal to submit to polygraph test).

CJS Master and Servant §§ 14 et seq.

47 Wn LR 73 (right of privacy, and prospective employee—need to restrict polygraph and personality testing).

Key Number Digests: Labor Relations ⇐7.

Police officer may be required to submit to polygraph test under penalty of dismissal for refusal, when authorities investigating serious and notorious allegations of police misconduct or corruption conclude, in exercise of prudent judgment, that it is reasonably necessary to use device as investigatory tool to test dependability of prior answers of suspected officers to questions specifically, narrowly, and directly related to performance of their official duties. Seattle Police Officers' Guild v Seattle (1972) 80 Wn 2d 307, 494 P2d 485.

49.44.130 —— Penalty

Any person violating the provisions of RCW 49.44.120 shall be guilty of a gross misdemeanor. [Added by Laws 1965 ch 152 § 2.]

49.44.140 Requiring assignment of employee's rights to inventions —Conditions

(1) A provision in an employment agreement which provides that an employee shall assign or offer to assign any of the employee's rights in an invention to the employer does not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable.

(2) An employer shall not require a provision made void and unenforceable by subsection (1) of this section as a condition of employment or continuing employment.

(3) If an employment agreement entered into after September 1, 1979, contains a provision requiring the employee to assign any of the employee's rights in any invention to the employer, the employer must also, at the time the agreement is made, provide a written notification to the employee that the agreement does not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, unless (a) the invention relates (i) directly to the business of the employer, or (ii) to the employer's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by the employee for the employer.

[Added by Laws 1st Ex Sess 1979 ch 177 § 2, effective September 1, 1979.]

CJS Master and Servant §§ 73, 74.

Key Number Digests: Master and Servant ⇐62.

49.44.150 Requiring assignment of employee's rights to inventions—Disclosure of inventions by employee

Even though the employee meets the burden of proving the conditions specified RCW 49.44.140, the employee shall, at the time of employment or thereafter, disclose all inventions being developed by the employee, for the purpose of determining employer or employee rights. The employer or the employee may disclose such inventions to the Department of Employment Security, and the department shall maintain a record of such disclosures for a minimum period of five years.

[Added by Laws 1st Ex Sess 1979 ch 177 § 3, effective September 1, 1979.]

CJS Master and Servant §§ 73, 74.

Key Number Digests: Master and Servant ⇐62.

CHAPTER 49.46—MINIMUM WAGE ACT

Ops Atty Gen 61-62 No. 106 (application of Minimum Wage and Hour Act to persons employed by nonprofit agriculture fair association).

2 ALR Fed 637 (what contracts are subject to wage and hour regulations of Walsh-Healey Act (41 USCS § 35)).

3 ALR Fed 675 (call or waiting time as working time within the minimum wage and overtime provisions of the Fair Labor Standards Act (29 USCS §§ 206, 207)).

7 ALR Fed 155 (what are "goods" within definition of "goods" in § 3(i) of Fair Labor Standards Act (29 USCS § 203(i))).

7 ALR Fed 624 (what constitutes "retail or service establishment" within exemption stated in § 13(a)(2) and (4) of Fair Labor Standards Act, as amended (29 USCS § 213(a)(2) and (4))).

10 ALR Fed 919 (removal from state court to Federal District Court of action for wages under § 16(b) of Fair Labor Standards Act (29 USCS § 216(b))).

Minimum Wage Act does not apply to "employments" or services rendered in violation of criminal statutes of this state. Cooper v Baer (1962) 59 Wn 2d 763, 370 P2d 871.

49.46.010 Definitions

As used in this chapter:

(1) "Director" means the director of labor and industries;

(2) "Wage" means compensation due to an employee by reason of his employment, payable in legal tender of the United States or checks on banks convertible into cash on demand at full face value, subject to such deductions, charges, or allowances as may be permitted by regulations of the director under RCW 49.46.050;

(3) "Employ" includes to suffer or to permit to work;

(4) "Employer" includes any individual, partnership, association, corporation, business trust, or any person or group of persons acting directly or indirectly in the interest of an employer in relation to an employee;

(5) "Employee" includes any individual employed by an employer but shall not include:

(a) Any individual employed (i) on a farm, in the employ of any person, in connection with the cultivation of the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and furbearing animals and wildlife, or in the employ of the owner or tenant or other operator of a farm in connection with the operation, management, conservation, improvement, or maintenance of such farm and its tools and equipment; or (ii) in packing, packaging, grading, storing or delivering

to storage, or to market or to a carrier for transportation to market, any agricultural or horticultural commodity; and the exclusions from the term "employee" provided in this item shall not be deemed applicable with respect to commercial canning, commercial freezing, or any other commercial processing, or with respect to services performed in connection with the cultivation, raising, harvesting, and processing of oysters or in connection with any agricultural or horticultural commodity after its delivery to a terminal market for distribution for consumption;

(b) Any individual employed in domestic service in or about a private home;

(c) Any individual employed in a bona fide executive, administrative, or professional capacity or in the capacity of outside salesman (as such terms are defined and delimited by regulations of the director: *Provided however*, That such terms shall be defined and delimited by the state personnel board pursuant to chapter 41.06 RCW and the higher education personnel board pursuant to chapter 28B.16 RCW for employees employed under their respective jurisdictions);

(d) Any individual engaged in the activities of an educational, charitable, religious, state or local governmental body or agency or nonprofit organization where the employer-employee relationship does not in fact exist or where the services are rendered to such organizations gratuitously: *Provided*, That if such individual receives reimbursement in lieu of compensation for normally incurred out-of-pocket expenses or receives a nominal amount of compensation per unit of voluntary service rendered, an employer-employee relationship is deemed not to exist for the purpose of this section or for purposes of membership or qualification in any state, local government or publicly supported retirement system other than that provided under RCW 41.24;

(e) Any individual employed full time by any state or local governmental body or agency who provides voluntary services but only with regard to the provision of such voluntary services: *Provided*, That such voluntary services and any compensation therefor shall not affect or add to qualification, entitlement or benefit rights under any state, local government or publicly supported retirement system other than that provided under RCW 41.24;

(f) Any newspaper vendor or carrier;

(g) Any carrier subject to regulation by Part 1 of the Interstate Commerce Act;

(h) Any individual engaged in forest protection and fire prevention activities;

(i) Any individual employed by any charitable institution charged with child care responsibilities engaged primarily in the development of character or citizenship or promoting health or physical fitness or providing or sponsoring recreational opportunities or facilities for young people or members of the armed forces of the United States;

(j) Any individual whose duties require that he reside or sleep at the place of his employment or who otherwise spends a substantial portion of his work time subject to call, and not engaged in the performance of active duties;

(k) Any resident, inmate, or patient of a state, county, or municipal correctional, detention, treatment or rehabilitative institution;

(l) Any individual who holds a public elective or appointive office of the state, any county, city, town, municipal corporation or quasi municipal corporation, political subdivision, or any instrumentality thereof, or any employee of the state legislature;

(m) All vessel operating crews of the Washington state ferries operated by the state highway commission;

(n) Any individual employed as a seaman on a vessel other than an American vessel.

APPENDIX 10



Canadian Embassy Ambassade du Canada

1746 Massachusetts Avenue N.W.
Washington, D.C. 20036-1985

4 October 1984

The Honourable
Robert N. Kastenmeier
United States House of
Representatives
Room 2232 RHOB
Washington, D.C. 20515

Dear Mr. Kastenmeier,

I am writing to you today regarding Bill H.R.6286 which you co-sponsored and and has now been passed in the House. In particular, I have been asked by Canadian authorities to express our support for the approach you have adopted in Section 107 of the Bill whereby the amendments to process patent law would apply only to U.S. patents granted on or after the date of enactment of the legislation.

This is not the approach taken in the Senate companion Bill S.1535 which would apply the amendments to all existing U.S. process patents as well as those issued in the future. This would create problems for businesses in Canada which have made substantial investments on the basis of existing U.S. law with a view to supplying the Canadian and U.S. markets.

We very much appreciate that your proposal would not change the rules in the middle of the game and we sincerely hope that this will be the approach adopted during your final deliberations with the Senate on this measure.

Yours sincerely,

A. E. Gotlieb

Allan Gotlieb
Ambassador

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 8, 1984

Honorable Peter W. Rodino, Jr.
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of February 17, 1984, requesting the views of this Commission on H.R. 4526, a bill to amend title 35, United States Code, with respect to use of patented inventions outside the United States.

The U.S. International Trade Commission has no views to offer regarding H.R. 4526 beyond noting that enactment of the proposed new subsection (e) to 35 U.S.C. § 271 would create in title 35 a provision analogous to 19 U.S.C. § 1337a currently administered by the Commission.

Sincerely,

Alfred Eckes
Chairman

COMMITTEE ON THE JUDICIARY
U.S. House of Representatives
Washington, D.C. 20515

February 17, 1984

MAR 1 3:58

Mr. Alfred Eckes
Chairman
U.S. International Trade Commission
701 E. St. N.W.
Washington, D.C. 20436

RE:H.R. 4526

Dear Sir:

Enclosed herewith are copies of the captioned bill pending before this Committee.

I shall appreciate your furnishing the Committee with an expression of your views on the proposed legislation.

Sincerely yours,

Peter W. Rodino, Jr.
Chairman

cc: Office of Management and Budget
Legislative Reference Division
Room 7201, NEOB
Washington, D.C. 20503

NSN 10-637713-2

98TH CONGRESS
1ST SESSION

H. R. 4526

To amend title 35, United States Code, with respect to use of patented inventions outside the United States.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 18, 1983

Mr. KASTENMEIER introduced the following bill; which was referred to the Committee on the Judiciary

---

A BILL

To amend title 35, United States Code, with respect to use of patented inventions outside the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 271 of title 35, United States Code, is amended by adding at the end thereof the following new subsections:

"(e) Whoever without authority imports into or sells or uses within the United States a product which is made in another country by a process patented in the United States shall be liable as an infringer, if the product is made during the term of such process patent.

"(f) Whoever without authority supplies or causes to be supplied in the United States the material components of a patented invention, where such components are uncombined in whole or in part, intending that such components will be combined outside of the United States, and knowing that if such components were combined within the United States the combination would be an infringement of the patent, shall be liable as an infringer.".

SEC. 2. Section 287 of title 35, United States Code, is amended by adding at the end thereof the following: "No damages may be recovered for an infringement under section 271(e) of this title unless the infringer was on notice that the product was made by a process patented in the United States.".

SEC. 3. The amendments made by this Act shall apply to any United States patent granted before the date of the enactment of this Act and to any United States patent granted on or after such date.

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98TH CONGRESS
1ST SESSION

H. R. 4526

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SEC. 3. The amendments made by this Act shall apply to any United States patent granted before the date of the enactment of this Act and to any United States patent granted on or after such date.

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GR. 3 (DC BAR/AA (202) 429-0936

WRITER'S DIRECT DIAL NO.

February 17, 1984

861-3542

Harry F. Manbeck, Jr., Esquire
General Electric Company
3135 Easton Turnpike
Fairfield, Connecticut 06431

Re: ABA Committee 101
Subcommittee B
-- Process Patents

Dear Harry:

I have received Jack Rafter's letter of February 8, 1984 and have reviewed the enclosed January 24, 1984 memorandum from the General Counsel of the Office of the U.S. Trade Representative.

After considering the January 24 memorandum very carefully, my conclusion is that the General Counsel has misapprehended several aspects of the proposed legislation, and consequently, his opinion that the process patent legislation embodied in S.1535 would be inconsistent with Article 3, Paragraph 4 of the GATT is not correct.

The concern expressed in the General Counsel's Memorandum is that the proposed legislation discriminates against contracting countries to the General Agreement on Tariffs and Trade (GATT) because it would "treat imported products less favorably than domestically produced products". The Memorandum

also expresses concern that the Article XX exceptions would not be applicable.

However, the Memorandum appears to overlook the real purpose of the legislation, which is to place foreign manufacturers on an equal basis with U.S. manufacturers vis-a-vis owners of United States process patents. Under existing law, U.S. manufacturers may not make products by processes patented in the United States and sell or use them without incurring liability to the patent owner for infringement of the process patent. At this time, however, no such liability is incurred when the manufacture takes place outside the United States and the product is imported into, sold and used within the United States. The purpose of the legislation is to correct that inequity and to put both the domestic and the foreign manufacturer on an equal footing with respect to infringement of United States process patents.

It should be noted further that the proposed legislation does not discriminate against foreign nationals since it would impose infringement liability even if the patented process is carried out abroad, or the importation is caused, by a United States citizen.

Moreover, the concerns expressed in the January 24 Memorandum over the "guarantees" that might be required of a foreign manufacturer or importer appear to be greatly exaggerated. The proposed legislation, of course, does not require any such "guarantee" from an importer, user or seller, and any damages for infringement would be awarded only after customary inter partes proceedings in the United States Courts in which the patent owner would bear the burden of proving that the product imported was made by the patented process and in which all of the usual defenses would be available to the alleged infringer. Domestic manufacturers who infringe United States process patents are subject to the same scope of liability and have no additional or greater defenses available to them. Damages, if any, awarded under the proposed legislation should relate to the use and value of the thing patented, i.e., the process, and thus would involve the same measure of damages that would be applicable if the product had been manufactured in the United States by a domestic manufacturer. When a domestic manufacturer sells its products, such sale is usually accompanied by a "warranty" that the purchaser will be defended or indemnified against liability from patent infringement, and in many states the Uniform Commercial Code prescribes such a "guarantee" as an incident to commercial sales transactions.

Indeed, if certain proposed limitations on damages presently under study by the ABA were to be incorporated into the proposed legislation, then articles produced abroad potentially would be treated more favorably than domestically produced products in that infringement damages could be much less than where the same products were produced and sold domestically. For example, under those proposals, an innocent user of foreign produced products would incur no liability for damages unless and until he received actual notice of the infringement. On the other hand, an innocent United States manufacturer utilizing the same patented process to make the same product would be liable for full infringement damages even in the absence of actual notice.

As the General Counsel's Memorandum appears to acknowledge, Section 337a of the Tariff Act of 1930, as amended, (now 19 U.S.C. §1337a) provides the remedy of exclusion from importation for "products that are produced by a process that, if used in the United States, would infringe a domestic process patent." Further, as the Memorandum recognizes, the sanctions provided by Section 1337a are "comparable to obtaining an injunction in [a] United States Court against a domestic infringer of a method patent." It should be clear, therefore, that the proposed legislation does not imply or signify some new barrier against products produced abroad, but in effect merely adds monetary damages to the "injunctive" relief previously available under Section 1337a when, despite the patent owner's diligence, the product already has been imported into the United States and entered the stream of commerce. Thus, again, it should be apparent that the effect of the proposed legislation would be to put foreign products on a par with United States products made by the same patented process.

Finally, with respect to the General Counsel's concern that the proposed legislation might be viewed with hostility by Canada, one of the contracting countries to the GATT, it should be noted that a number of countries already have similar provisions in their own patent laws, including Canada. For many years, by judicial decision rather than statute, Canadian law has provided that it is an infringement of a Canadian process patent to import into Canada an article made abroad by use of the patented process. See Saccharin Corp. v. Anglo-Continental Chemical Works Ltd., 1900, 17 R.P.C. 307; Fox, Digest of Canadian Patent Law, at 124 (The Carswell Company Ltd., 1957).

Accordingly, enactment of the proposed legislation would no more "discriminate" against importation of products produced abroad -- for example, in Canada -- than Canada's present law has for many years discriminated against goods produced in the United States and exported to Canada.

Based on the views expressed to me by the members of Subcommittee B with respect to the pending process patent legislation, the foregoing comments may be deemed to express the opinion of the Subcommittee.

Very truly yours,

William K. West

William K. West, Jr.
Chairman, Subcommittee B

WKW:pat

With the proposed general revision, not available prior to meeting.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

January 24, 1984

MEMORANDUM

TO: CHARLES F. RULE
DEPUTY ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION

FROM: CLAUD GINGRICH
GENERAL COUNSEL

SUBJECT: Process Patent Infringement and the General Agreement on Tariffs and Trade

This memorandum analyzes the consistency under the General Agreement on Tariffs and Trade (GATT) of an amendment to section 271 of Title 35 of the United States Code that would add as an infringement the importation, sale or use of a product produced abroad using a process covered by a process patented in the United States. We think such a provision would be inconsistent with Article III, paragraph 4 of the GATT in that it would treat imported products less favorably than domestically produced products under laws related to the sale, offering for sale, purchase and use in the United States. We also think that the general exception to GATT obligations under Article XX(d) would not apply to such a provision. If the practice were challenged in the GATT and an adverse panel report adopted by the Contracting Parties, the United States would be asked to eliminate the inconsistency or to provide compensation to injured countries.

The amendment that the Administration is being asked to make to its bill is similar to that contained in S. 1535 that was introduced by Senator Mathias. The Mathias bill would add to section 271 of Title 35 the following:

> (e) Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer.

To avoid liability for patent infringement, potential importers, sellers or users of any foreign produced product would have to determine the entire process used by the foreign producer to manufacture the product involved and discover whether a method patent has been granted in the United States covering any portion of that process. The importer, seller or user, in effect, would

be guaranteeing to pay damages to a U.S. patentee simply by importing, selling or using a foreign produced product. The seller or user of a domestically produced product would have no such obligation or guarantee demanded of him. No liability for infringement would result from sale or use of a domestically produced product regardless of any method patent infringement that may have occurred in its manufacture. Foreign products once imported into the United States, therefore, truly would be treated less favorably by the U.S. patent law than domestic products and that would be inconsistent with U.S. obligations under GATT Article III, paragraph 4.
One also could make an argument (similar to that used by the United States in its complaint against the Canadian Foreign Investment Review Act [FIRA]: NOTE DO NOT DISCUSS FIRA PUBLICLY) that the proposed provision would have a trade distorting effect. Purchasers are bound to view foreign produced products with a jaundiced eye if importing, selling or using them may result in liability for damages if any part of the process used to produce it was covered by a U.S. patent. Few potential importers, sellers or users would have the knowledge or the resources to ensure that no liability would result from their importation, sale or use of a foreign procuct.

The Article XX(d) exception to GATT obligations for actions necessary to secure compliance with laws related to the protection of patents would not apply to the U.S. law in this case as it did in the Canadian complaint regarding an order issued by the U.S. International Trade Commission under section 337 of the Tariff Act of 1930. Section 337a of the Tariff Act of 1930 is available to domestic parties who are being injured and wish to stop the importation of products that are produced by a process that, if used in the United States, would infringe a domestic process patent. That section is comparable to obtaining an injunction in U.S. court against a domestic infringer of a method patent. An exclusion order under section 337a is the means necessary to prevent circumvention of U.S. law prohibiting infringement where method patents are concerned by producing outside the U.S.

The only real remedy the proposed provision would add to that achievable under 337a is the ability to collect damages for past importations, sale or use of the product and to enjoin the sale or use of the foreign product that has entered the country. There is no reason to differentiate between foreign and domestically produced products if the purpose of the provision is to enable the patent owner to obtain damages where they are

substantial or to prevent the sale or use of products that have entered the stream of commerce. There would be instances where damages for infringement would not be available against a U.S. producer, leaving the patent owner without recourse. If domestically produced products have entered the stream of commerce, the patent owner cannot prevent their sale or use. It is possible to bring suit for damages in U.S. court against foreign parties in most cases in which past damages are worth pursuing and, if successful, there are treaties that govern enforcement of judgments abroad if the foreign party does not have property in the United States that can be attached. Mere convenience of patent owner does not provide a GATT justification for differential treatment in this case.

If using or selling a product produced by using a process covered by a U.S. patent is to be made an infringement, it should be an infringement when the method patent is infringed in the United States as well as when someone has imported products produced abroad.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

August 14, 1984

Memorandum

To: Mike Remington
Chief Counsel
Subcommittee on Courts, Civil Liberties,
and the Administration of Justice

From: Alice Zalik
Assistant General Counsel

Subject: Process Patent Protection and the GATT

You were kind to take time during an obviously hectic Wednesday afternoon to meet with me. I appreciate it.

Thank you also for the opportunity to explain further the problem we might face under the General Agreement on Tariffs and Trade were the importation, sale, or use of products made in another country by a process patented in the United States made an infringement, while sale or use of products made in the U.S. by infringing a U.S. process patent would not be. Let me discuss the GATT issue first, then respond to Mr. West's February 17 letter. If there are other questions about the provision, please call me.

THE GATT

The GATT establishes rules for the conduct of international trade in goods. Contracting Parties are obligated not to take certain actions that affect adversely international trade in goods. If a CP takes an action that has an adverse effect on another CP's exports, the affected CP can challenge the action under the dispute settlement procedures. If the action is found to be inconsistent with GATT, the CP responsible will be required to eliminate the action within a reasonable time or provide trade concessions as compensation; otherwise, the injured CP's will be authorized to withdraw trade concessions it has granted the CP responsible for the injury.

The GATT issue, then, is not simply an intellectual exercise interpreting U.S. international obligations. It is basically a practical one. If we were to pass legislation on process patent infringement that affects imports adversely in a way

that is GATT inconsistent, we could lose trade concessions from other countries that benefit our exports. We also would "send a signal" to other CPs that, when enacting new legislation, we believe it is acceptable to ignore GATT rules.

Although intellectual property protection is not directly related to GATT, we ought also to be concerned about the "message" we send developing countries about the purpose of intellectual property laws at a time we are attempting to improve protection worldwide. All our arguments that intellectual property encourages research, product development, and the free flow of ideas would be lost. Intellectual property would be viewed as just one more way developed countries protect their domestic industries from competing developing country products.

Would making the importation, use, or sale of a product produced abroad by a process patented in the United States an infringement affect imports adversely? Of course. A potential importer, purchaser (user), or seller of any foreign produced product, to be certain it could not be found liable for infringement, would have to determine the entire process used to produce the foreign product and make certain that no portion of that process was patented in the United States. Who would be willing to take that risk if there is an acceptable U.S. produced product available. As an alternative, an importer, purchaser, or seller could insist on a "hold harmless" clause in the sales contract. That would increase the cost of imported product. Either approach would result in an artificially created preference for domestic products in the U.S. market.

The United States was successful in arguing that an administrative practice of Canada's Foreign Investment Review Agency gave a preference for domestic products over imported products in the Canadian market. The U.S. argued that requirements related to the sale, purchase or use of products that created a preference for domestic products resulted in less favorable treatment for imports and violated Article III of GATT. I have no doubt that Canada would be happy to use our own argument against us in GATT and could do so successfully.

It was Canada that challenged our use of section 337 of the Tariff Act of 1930 in GATT and raised section 1337 of title 19 of the U.S. Code as a subsidiary issue. The panel reviewing the complaint decided that our excluding a Canadian product from entry into the United States was excepted from GATT as necessary to secure compliance with U.S. patent laws, which were not themselves inconsistent with GATT. It is precisely because section 1337 is available to U.S. process patent owners that the general exception to GATT would not justify a new form of infringement action applicable only to imported products. We already have in our arsenal a GATT excepted provision of law with a Draconian remedy. We also might lose our general

exception for section 1337a by making the U.S. patent laws themselves inconsistent with GATT.

THE LETTER OF FEBRUARY 17

The basic argument made by Mr. West in his February 17 letter is that "the real purpose" of the proposal is "to place foreign manufacturers on an equal basis with U.S. manufacturers vis-a-vis owners of United States process patents." I would point out first that U.S. process patent owners themselves have the ability to obtain process patents in most countries technologically advanced enough to compete with the U.S. manufacturer in the U.S. market. The U.S. government should encourage them to do so. The process patent owner that has obtained foreign patents on its process can enforce its rights abroad against a manufacturer using its process as it does in the United States. That way foreign manufacturers and U.S. manufacturers would be on truly equal footing.

If imported products produced by a U.S. patented process enter the United States from a country in which a U.S. patent owner does not have a process patent, they can be excluded under section 1337a of title 19 of the U.S. Code if the U.S. International Trade Commission finds a violation of the section. If it finds a violation of section 1337a, the ITC generally issues exclusion orders against all products that infringe the patent regardless of source. The ITC also can order an importer to cease and desist selling any imported products it may have in inventory. Any importer wishing to import a product produced by a different process bears the burden of demonstrating to the ITC that the process, in fact, is different. In such an advisory opinion proceeding, the importer is not able to challenge the validity of the patent or to raise any other defenses available to a defendant in a patent infringement suit even though it was not a party to the original ITC investigation. The proposed new form of infringement, therefore, places foreign manufacturers on an even more unequal footing than they are now. No one has provided evidence that section 1337a is an inadequate. As I will explain later, arguments concerning damages and the ability to enjoin further sale or use of products already in the stream of commerce apply equally to domestically produced products.

Sellers and users of foreign and domestically produced products, are now on an equal footing. The proposed new form of infringement would change that. Sellers and users of foreign produced products would be liable for infringement of U.S. process patents while sellers and users of domestic products would be immune from such liability. This in spite of the fact that in the case of foreign produced products no infringement has occurred, unless the patent owner has rights abroad where they can be enforced, while, in the case of domestically produced products, there is actual infringement. In effect, the proposal would apply U.S. patent

law extraterritorially, thereby relieving inventors of processes, patentable in the United States, of the necessity of obtaining patents abroad. Such laziness may protect U.S. manufacturers in the U.S. market, but it will not increase U.S. competition in foreign markets.

If damages and the ability to enjoin further sale or use of products already in the stream of commerce are what concern supporters of the proposed legislation, they should have no objection to making sale or use of any product an infringement if it is produced by a process patented in the United States. It is true that, because patents are territorial, the owner of a U.S. process patent can obtain damages from a foreign manufacturer using the process only if it has obtained a patent in the country in which the manufacturer is located. The patent owner also cannot stop sale or use of an imported product that is beyond the control of the importer.

There also must be times when a patent owner cannot obtain damages against an actual infringer of its process patent in the United States, e.g. if the infringer cannot be located or has few assets. As with imported products, once a domestically produced product is beyond the control of infringer, an injunction cannot prevent its further sale or use. If the Congress believes it appropriate, making the sale or use of a product an infringement if it is produced by a process patented in the United States regardless of where it was produced would ensure that damages would available and would ensure that further sale or use of any product that has entered the stream of commerce can be enjoined.

GENERAL AGREEMENT ON TARIFFS AND TRADE

BASIC INSTRUMENTS AND SELECTED DOCUMENTS

Volume IV

Text of the General Agreement
1969

THE CONTRACTING PARTIES
TO THE
GENERAL AGREEMENT ON TARIFFS AND TRADE

GENEVA, MARCH 1969

Department of State Publication No. 8468

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 45 cents

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PREFACE

This volume contains the text of the General Agreement as in force on 1 March 1969. The text incorporates the amendments to the General Agreement which have become effective since November 1958, when Volume III was published. The principal change is the addition of Articles XXXVI to XXXVIII following the entry into force of the Protocol Amending the General Agreement to Introduce a Part IV on Trade and Development which has been accepted by nearly all contracting parties. A guide to the legal sources of the provisions of the Agreement is provided in an Appendix. An Analytical Index (second revision), containing notes on the drafting, interpretation and application of the Articles of the Agreement, was published by the secretariat in February 1966.

The General Agreement is applied " provisionally " by all contracting parties. The original contracting parties, and also those former territories of Belgium, France, the Netherlands and the United Kingdom which, after attaining independence, acceded to the General Agreement under Article XXVI: 5 (c), apply the GATT under the Protocol of Provisional Application, the text of which is reproduced in this volume. Chile applies the General Agreement under a Special Protocol of September 1948. The contracting parties which have acceded since 1948 apply the General Agreement under their respective Protocols of Accession.

For the convenience of the reader, asterisks mark the portions of the text which should be read in conjunction with notes and supplementary provisions in Annex I to the Agreement. In accordance with Article XXXIV, Annexes A to I are an integral part of the Agreement. The Schedules of tariff concessions annexed to the General Agreement (not here reproduced) are also, in accordance with Article II: 7, an integral part of the Agreement.

By the Decision of 23 March 1965, the CONTRACTING PARTIES changed the title of the head of the GATT secretariat from " Executive Secretary " to " Director-General ". However, in the absence of an amendment to the General Agreement to take account of this change, the title " Executive Secretary " has been retained in the text of Articles XVIII: 12 (e), XXIII: 2, and XXVI: 4, 5 and 6. The Decision of 23 March 1965 provides that the duties and powers conferred upon the Executive Secretary by the General Agreement " shall be exercised by the person holding the position of Director-General, who shall, for this purpose, also hold the position of Executive Secretary ".

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The Governments of the COMMONWEALTH OF AUSTRALIA, the KINGDOM OF BELGIUM, the UNITED STATES OF BRAZIL, BURMA, CANADA, CEYLON, the REPUBLIC OF CHILE, the REPUBLIC OF CHINA, the REPUBLIC OF CUBA, the CZECHOSLOVAK REPUBLIC, the FRENCH REPUBLIC, INDIA, LEBANON, the GRAND-DUCHY OF LUXEMBURG, the KINGDOM OF THE NETHERLANDS, NEW ZEALAND, the KINGDOM OF NORWAY, PAKISTAN, SOUTHERN RHODESIA, SYRIA, the UNION OF SOUTH AFRICA, the UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, and the UNITED STATES OF AMERICA:

Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods,

Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce,

Have through their Representatives agreed as follows:

45-025 O - 85 - 34

PART I

Article I

General Most-Favoured-Nation Treatment

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, * any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

2. The provisions of paragraph 1 of this Article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 4 of this Article and which fall within the following descriptions:

(*a*) Preferences in force exclusively between two or more of the territories listed in Annex A, subject to the conditions set forth therein;

(*b*) Preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C and D, subject to the conditions set forth therein;

(*c*) Preferences in force exclusively between the United States of America and the Republic of Cuba;

(*d*) Preferences in force exclusively between neighbouring countries listed in Annexes E and F.

3. The provisions of paragraph 1 shall not apply to preferences between the countries formerly a part of the Ottoman Empire and detached from it on July 24, 1923, provided such preferences are approved under paragraph 5 † of Article XXV, which shall be applied in this respect in the light of paragraph 1 of Article XXIX.

† The authentic text erroneously reads " sub-paragraph 5 (*a*) ".

4. The margin of preference * on any product in respect of which a preference is permitted under paragraph 2 of this Article but is not specifically set forth as a maximum margin of preference in the appropriate Schedule annexed to this Agreement shall not exceed:

(*a*) in respect of duties or charges on any product described in such Schedule, the difference between the most-favoured-nation and preferential rates provided for therein; if no preferential rate is provided for, the preferential rate shall for the purposes of this paragraph be taken to be that in force on April 10, 1947, and, if no most-favoured-nation rate is provided for, the margin shall not exceed the difference between the most-favoured-nation and preferential rates existing on April 10, 1947;

(*b*) in respect of duties or charges on any product not described in the appropriate Schedule, the difference between the most-favoured-nation and preferential rates existing on April 10, 1947.

In the case of the contracting parties named in Annex G, the date of April 10, 1947, referred to in sub-paragraphs (*a*) and (*b*) of this paragraph shall be replaced by the respective dates set forth in that Annex.

Article II

Schedules of Concessions

1. (*a*) Each contracting party shall accord to the commerce of the other contracting parties treatment no less favourable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement.

(*b*) The products described in Part I of the Schedule relating to any contracting party, which are the products of territories of other contracting parties, shall, on their importation into the territory to which the Schedule relates, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for therein. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date.

(*c*) The products described in Part II of the Schedule relating to any contracting party which are the products of territories entitled under Article I to receive preferential treatment upon importation into the territory to which the Schedule relates shall, on their importation into such territory,

and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for in Part II of that Schedule. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date. Nothing in this Article shall prevent any contracting party from maintaining its requirements existing on the date of this Agreement as to the eligibility of goods for entry at preferential rates of duty.

2. Nothing in this Article shall prevent any contracting party from imposing at any time on the importation of any product:

(*a*) a charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article III * in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part;

(*b*) any anti-dumping or countervailing duty applied consistently with the provisions of Article VI;*

(*c*) fees or other charges commensurate with the cost of services rendered.

3. No contracting party shall alter its method of determining dutiable value or of converting currencies so as to impair the value of any of the concessions provided for in the appropriate Schedule annexed to this Agreement.

4. If any contracting party establishes, maintains or authorizes, formally or in effect, a monopoly of the importation of any product described in the appropriate Schedule annexed to this Agreement, such monopoly shall not, except as provided for in that Schedule or as otherwise agreed between the parties which initially negotiated the concession, operate so as to afford protection on the average in excess of the amount of protection provided for in that Schedule. The provisions of this paragraph shall not limit the use by contracting parties of any form of assistance to domestic producers permitted by other provisions of this Agreement.*

5. If any contracting party considers that a product is not receiving from another contracting party the treatment which the first contracting party believes to have been contemplated by a concession provided for in the appropriate Schedule annexed to this Agreement, it shall bring the matter directly to the attention of the other contracting party. If the latter agrees that the treatment contemplated was that claimed by the first contracting party, but declares that such treatment cannot be accorded because a court or other proper authority has ruled to the effect that the product involved

cannot be classified under the tariff laws of such contracting party so as to permit the treatment contemplated in this Agreement, the two contracting parties, together with any other contracting parties substantially interested, shall enter promptly into further negotiations with a view to a compensatory adjustment of the matter.

6. (*a*) The specific duties and charges included in the Schedules relating to contracting parties members of the International Monetary Fund, and margins of preference in specific duties and charges maintained by such contracting parties, are expressed in the appropriate currency at the par value accepted or provisionally recognized by the Fund at the date of this Agreement. Accordingly, in case this par value is reduced consistently with the Articles of Agreement of the International Monetary Fund by more than twenty per centum, such specific duties and charges and margins of preference may be adjusted to take account of such reduction; *Provided* that the CONTRACTING PARTIES (*i.e.*, the contracting parties acting jointly as provided for in Article XXV) concur that such adjustments will not impair the value of the concessions provided for in the appropriate Schedule or elsewhere in this Agreement, due account being taken of all factors which may influence the need for, or urgency of, such adjustments.

(*b*) Similar provisions shall apply to any contracting party not a member of the Fund, as from the date on which such contracting party becomes a member of the Fund or enters into a special exchange agreement in pursuance of Article XV.

7. The Schedules annexed to this Agreement are hereby made an integral part of Part I of this Agreement.

PART II

Article III *

National Treatment on Internal Taxation and Regulation

1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.*

2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.*

3. With respect to any existing internal tax which is inconsistent with the provisions of paragraph 2, but which is specifically authorized under a trade agreement, in force on April 10, 1947, in which the import duty on the taxed product is bound against increase, the contracting party imposing the tax shall be free to postpone the application of the provisions of paragraph 2 to such tax until such time as it can obtain release from the obligations of such trade agreement in order to permit the increase of such duty to the extent necessary to compensate for the elimination of the protective element of the tax.

4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

5. No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources. Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principles set forth in paragraph 1.*

6. The provisions of paragraph 5 shall not apply to any internal quantitative regulation in force in the territory of any contracting party on July 1, 1939, April 10, 1947, or March 24, 1948, at the option of that contracting party; *Provided* that any such regulation which is contrary to the provisions of paragraph 5 shall not be modified to the detriment of imports and shall be treated as a customs duty for the purpose of negotiation.

7. No internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions shall be applied in such a manner as to allocate any such amount or proportion among external sources of supply.

8. (*a*) The provisions of this Article shall not apply to laws, regulations or requirements governing the procurement by governmental agencies of products purchased for governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

(*b*) The provisions of this Article shall not prevent the payment of subsidies exclusively to domestic producers, including payments to domestic producers derived from the proceeds of internal taxes or charges applied consistently with the provisions of this Article and subsidies effected through governmental purchases of domestic products.

9. The contracting parties recognize that internal maximum price control measures, even though conforming to the other provisions of this Article, can have effects prejudicial to the interests of contracting parties supplying imported products. Accordingly, contracting parties applying such measures shall take account of the interests of exporting contracting parties with a view to avoiding to the fullest practicable extent such prejudicial effects.

10. The provisions of this Article shall not prevent any contracting party from establishing or maintaining internal quantitative regulations relating to exposed cinematograph films and meeting the requirements of Article IV.

Article IV

Special Provisions relating to Cinematograph Films

If any contracting party establishes or maintains internal quantitative regulations relating to exposed cinematograph films, such regulations shall take the form of screen quotas which shall conform to the following requirements:

(*a*) Screen quotas may require the exhibition of cinematograph films of national origin during a specified minimum proportion of the total screen time actually utilized, over a specified period of not less than one year, in the commercial exhibition of all films of whatever origin, and shall be computed on the basis of screen time per theatre per year or the equivalent thereof;

(*b*) With the exception of screen time reserved for films of national origin under a screen quota, screen time including that released by administrative action from screen time reserved for films of national origin, shall not be allocated formally or in effect among sources of supply;

(*c*) Notwithstanding the provisions of sub-paragraph (*b*) of this Article, any contracting party may maintain screen quotas conforming to the requirements of sub-paragraph (*a*) of this Article which reserve a minimum proportion of screen time for films of a specified origin other than that of the contracting party imposing such screen quotas; *Provided* that no such minimum proportion of screen time shall be increased above the level in effect on April 10, 1947;

(*d*) Screen quotas shall be subject to negotiation for their limitation, liberalization or elimination.

Article V

Freedom of Transit

1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this Article " traffic in transit ".

2. There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.

3. Any contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties and from all transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered.

4. All charges and regulations imposed by contracting parties on traffic in transit to or from the territories of other contracting parties shall be reasonable, having regard to the conditions of the traffic.

5. With respect to all charges, regulations and formalities in connection with transit, each contracting party shall accord to traffic in transit to or from the territory of any other contracting party treatment no less favourable than the treatment accorded to traffic in transit to or from any third country.*

6. Each contracting party shall accord to products which have been in transit through the territory of any other contracting party treatment no less favourable than that which would have been accorded to such products had they been transported from their place of origin to their destination without going through the territory of such other contracting party. Any contracting party shall, however, be free to maintain its requirements of direct consignment existing on the date of this Agreement, in respect of any goods in regard to which such direct consignment is a requisite condition of eligibility for entry of the goods at preferential rates of duty or has relation to the contracting party's prescribed method of valuation for duty purposes.

7. The provisions of this Article shall not apply to the operation of aircraft in transit, but shall apply to air transit of goods (including baggage).

Article VI

Anti-dumping and Countervailing Duties

1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

(*a*) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

(*b*) in the absence of such domestic price, is less than either

(i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

(ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.*

2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.*

3. No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The term "countervailing duty" shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly or indirectly, upon the manufacture, production or export of any merchandise.*

4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

5. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to both anti dumping and countervailing duties to compensate for the same situation of dumping or export subsidization.

6. (*a*). No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting party unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

(*b*) The CONTRACTING PARTIES may waive the requirement of sub-paragraph (*a*) of this paragraph so as to permit a contracting party to levy an anti-dumping or countervailing duty on the importation of any product for the purpose of offsetting dumping or subsidization which causes or threatens material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party. The CONTRACTING PARTIES shall waive the requirements of sub-paragraph (*a*) of this paragraph, so as to permit the levying of a countervailing duty, in cases in which they find that a subsidy is causing or threatening material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party.*

(*c*) In exceptional circumstances, however, where delay might cause damage which would be difficult to repair, a contracting party may levy a countervailing duty for the purpose referred to in sub-paragraph (*b*) of this paragraph without the prior approval of the CONTRACTING PARTIES; *Provided* that such action shall be reported immediately to the CONTRACTING PARTIES and that the countervailing duty shall be withdrawn promptly if the CONTRACTING PARTIES disapprove.

7. A system for the stabilization of the domestic price or of the return to domestic producers of a primary commodity, independently of the movements of export prices, which results at times in the sale of the commodity for export at a price lower than the comparable price charged for the like commodity to buyers in the domestic market, shall be presumed not to result in material injury within the meaning of paragraph 6 if it is determined

by consultation among the contracting parties substantially interested in the commodity concerned that:

(*a*) the system has also resulted in the sale of the commodity for export at a price higher than the comparable price charged for the like commodity to buyers in the domestic market, and

(*b*) the system is so operated, either because of the effective regulation of production, or otherwise, as not to stimulate exports unduly or otherwise seriously prejudice the interests of other contracting parties.

Article VII

Valuation for Customs Purposes

1. The contracting parties recognize the validity of the general principles of valuation set forth in the following paragraphs of this Article, and they undertake to give effect to such principles, in respect of all products subject to duties or other charges * or restrictions on importation and exportation based upon or regulated in any manner by value. Moreover, they shall, upon a request by another contracting party review the operation of any of their laws or regulations relating to value for customs purposes in the light of these principles. The CONTRACTING PARTIES may request from contracting parties reports on steps taken by them in pursuance of the provisions of this Article.

2. (*a*) The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.*

(*b*) "Actual value" should be the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions. To the extent to which the price of such or like merchandise is governed by the quantity in a particular transaction, the price to be considered should uniformly be related to either (i) comparable quantities, or (ii) quantities not less favourable to importers than those in which the greater volume of the merchandise is sold in the trade between the countries of exportation and importation.*

(*c*) When the actual value is not ascertainable in accordance with sub-paragraph (*b*) of this paragraph, the value for customs purposes should be based on the nearest ascertainable equivalent of such value.*

3. The value for customs purposes of any imported product should not include the amount of any internal tax, applicable within the country of

origin or export, from which the imported product has been exempted or has been or will be relieved by means of refund.

4. (*a*) Except as otherwise provided for in this paragraph, where it is necessary for the purposes of paragraph 2 of this Article for a contracting party to convert into its own currency a price expressed in the currency of another country, the conversion rate of exchange to be used shall be based, for each currency involved, on the par value as established pursuant to the Articles of Agreement of the International Monetary Fund or on the rate of exchange recognized by the Fund, or on the par value established in accordance with a special exchange agreement entered into pursuant to Article XV of this Agreement.

(*b*) Where no such established par value and no such recognized rate of exchange exist, the conversion rate shall reflect effectively the current value of such currency in commercial transactions.

(*c*) The CONTRACTING PARTIES, in agreement with the International Monetary Fund, shall formulate rules governing the conversion by contracting parties of any foreign currency in respect of which multiple rates of exchange are maintained consistently with the Articles of Agreement of the International Monetary Fund. Any contracting party may apply such rules in respect of such foreign currencies for the purposes of paragraph 2 of this Article as an alternative to the use of par values. Until such rules are adopted by the CONTRACTING PARTIES, any contracting party may employ, in respect of any such foreign currency, rules of conversion for the purposes of paragraph 2 of this Article which are designed to reflect effectively the value of such foreign currency in commercial transactions.

(*d*) Nothing in this paragraph shall be construed to require any contracting party to alter the method of converting currencies for customs purposes which is applicable in its territory on the date of this Agreement, if such alteration would have the effect of increasing generally the amounts of duty payable.

5. The bases and methods for determining the value of products subject to duties or other charges or restrictions based upon or regulated in any manner by value should be stable and should be given sufficient publicity to enable traders to estimate, with a reasonable degree of certainty, the value for customs purposes.

Article VIII

Fees and Formalities connected with Importation and Exportation *

1. (*a*) All fees and charges of whatever character (other than import and export duties and other than taxes within the purview of Article III) imposed by contracting parties on or in connexion with importation or exportation shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes.

(*b*) The contracting parties recognize the need for reducing the number and diversity of fees and charges referred to in sub-paragraph (*a*).

(*c*) The contracting parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements.*

2. A contracting party shall, upon request by another contracting party or by the CONTRACTING PARTIES, review the operation of its laws and regulations in the light of the provisions of this Article.

3. No contracting party shall impose substantial penalties for minor breaches of customs regulations or procedural requirements. In particular, no penalty in respect of any omission or mistake in customs documentation which is easily rectifiable and obviously made without fraudulent intent or gross negligence shall be greater than necessary to serve merely as a warning.

4. The provisions of this Article shall extend to fees, charges, formalities and requirements imposed by governmental authorities in connexion with importation and exportation, including those relating to:

(*a*) consular transactions, such as consular invoices and certificates;
(*b*) quantitative restrictions;
(*c*) licensing;
(*d*) exchange control;
(*e*) statistical services;
(*f*) documents, documentation and certification;
(*g*) analysis and inspection; and
(*h*) quarantine, sanitation and fumigation.

Article IX

Marks of Origin

1. Each contracting party shall accord to the products of the territories of other contracting parties treatment with regard to marking requirements no less favourable than the treatment accorded to like products of any third country.

2. The contracting parties recognize that, in adopting and enforcing laws and regulations relating to marks of origin, the difficulties and inconveniences which such measures may cause to the commerce and industry of exporting countries should be reduced to a minimum, due regard being had to the necessity of protecting consumers against fraudulent or misleading indications.

3. Whenever it is administratively practicable to do so, contracting parties should permit required marks of origin to be affixed at the time of importation.

4. The laws and regulations of contracting parties relating to the marking of imported products shall be such as to permit compliance without seriously damaging the products, or materially reducing their value, or unreasonably increasing their cost.

5. As a general rule, no special duty or penalty should be imposed by any contracting party for failure to comply with marking requirements prior to importation unless corrective marking is unreasonably delayed or deceptive marks have been affixed or the required marking has been intentionally omitted.

6. The contracting parties shall co-operate with each other with a view to preventing the use of trade names in such manner as to misrepresent the true origin of a product, to the detriment of such distinctive regional or geographical names of products of the territory of a contracting party as are protected by its legislation. Each contracting party shall accord full and sympathetic consideration to such requests or representations as may be made by any other contracting party regarding the application of the undertaking set forth in the preceding sentence to names of products which have been communicated to it by the other contracting party.

Article X

Publication and Administration of Trade Regulations

1. Laws, regulations, judicial decisions and administrative rulings of general application, made effective by any contracting party, pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges, or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing, inspection, exhibition, processing, mixing or other use, shall be published promptly in such a manner as to enable governments and traders to become acquainted with them. Agreements affecting international trade policy which are in force between the government or a governmental agency of any contracting party and the government or governmental agency of any other contracting party shall also be published. The provisions of this paragraph shall not require any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.

2. No measure of general application taken by any contracting party effecting an advance in a rate of duty or other charge on imports under an established and uniform practice, or imposing a new or more burdensome requirement, restriction or prohibition on imports, or on the transfer of payments therefor, shall be enforced before such measure has been officially published.

3. (*a*) Each contracting party shall administer in a uniform, impartial and reasonable manner all its laws, regulations, decisions and rulings of the kind described in paragraph 1 of this Article.

(*b*) Each contracting party shall maintain, or institute as soon as practicable, judicial, arbitral or administrative tribunals or procedures for the purpose, *inter alia*, of the prompt review and correction of administrative action relating to customs matters. Such tribunals or procedures shall be independent of the agencies entrusted with administrative enforcement and their decisions shall be implemented by, and shall govern the practice of, such agencies unless an appeal is lodged with a court or tribunal of superior jurisdiction within the time prescribed for appeals to be lodged by importers; *Provided* that the central administration of such agency may take steps to obtain a review of the matter in another proceeding if there is good cause to believe that the decision is inconsistent with established principles of law or the actual facts.

(c) The provisions of sub-paragraph (b) of this paragraph shall not require the elimination or substitution of procedures in force in the territory of a contracting party on the date of this Agreement which in fact provide for an objective and impartial review of administrative action even though such procedures are not fully or formally independent of the agencies entrusted with administrative enforcement. Any contracting party employing such procedures shall, upon request, furnish the CONTRACTING PARTIES with full information thereon in order that they may determine whether such procedures conform to the requirements of this sub-paragraph.

Article XI *

General Elimination of Quantitative Restrictions

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

(a) Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party;

(b) Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade;

(c) Import restrictions on any agricultural or fisheries product, imported in any form,* necessary to the enforcement of governmental measures which operate:

(i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available

to certain groups of domestic consumers free of charge or at prices below the current market level; or

(iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any contracting party applying restrictions on the importation of any product pursuant to sub-paragraph (*c*) of this paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors* which may have affected or may be affecting the trade in the product concerned.

Article XII *

Restrictions to Safeguard the Balance of Payments

1. Notwithstanding the provisions of paragraph 1 of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported, subject to the provisions of the following paragraphs of this Article.

2. (*a*) Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of such contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

(*b*) Contracting parties applying restrictions under sub-paragraph (*a*) of this paragraph shall progressively relax them as such condi-

tions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that sub-paragraph.

3. (*a*) Contracting parties undertake, in carrying out their domestic policies, to pay due regard to the need for maintaining or restoring equilibrium in their balance of payments on a sound and lasting basis and to the desirability of avoiding an uneconomic employment of productive resources. They recognize that, in order to achieve these ends, it is desirable so far as possible to adopt measures which expand rather than contract international trade.

(*b*) Contracting parties applying restrictions under this Article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential.

(*c*) Contracting parties applying restrictions under this Article undertake:

(i) to avoid unnecessary damage to the commercial or economic interests of any other contracting party;*.

(ii) not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and

(iii) not to apply restrictions which would prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

(*d*) The contracting parties recognize that, as a result of domestic policies directed towards the achievement and maintenance of full and productive employment or towards the development of economic resources, a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves of the sort referred to in paragraph 2 (*a*) of this Article. Accordingly, a contracting party otherwise complying with the provisions of this Article shall not be required to withdraw or modify restrictions on the ground that a change in those policies would render unnecessary restrictions which it is applying under this Article.

4. (*a*) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under this Article shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the CONTRACTING

PARTIES as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(*b*) On a date to be determined by them,* the CONTRACTING PARTIES shall review all restrictions still applied under this Article on that date. Beginning one year after that date, contracting parties applying import restrictions under this Article shall enter into consultations of the type provided for in sub-paragraph (*a*) of this paragraph with the CONTRACTING PARTIES annually.

(*c*) (i) If, in the course of consultations with a contracting party under sub-paragraph (*a*) or (*b*) above, the CONTRACTING PARTIES find that the restrictions are not consistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the CONTRACTING PARTIES determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period of time. If such contracting party does not comply with these recommendations within the specified period, the CONTRACTING PARTIES may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*d*) The CONTRACTING PARTIES shall invite any contracting party which is applying restrictions under this Article to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the CONTRACTING PARTIES have ascertained that direct discussions between the contracting parties concerned have not been successful. If, as a result of the consultations with the CONTRACTING PARTIES, no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified

within such time as the CONTRACTING PARTIES may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*e*) In proceeding under this paragraph, the CONTRACTING PARTIES shall have due regard to any special external factors adversely affecting the export trade of the contracting party applying restrictions.*

(*f*) Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

5. If there is a persistent and widespread application of import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the CONTRACTING PARTIES shall initiate discussions to consider whether other measures might be taken, either by those contracting parties the balances of payments of which are under pressure or by those the balances of payments of which are tending to be exceptionally favourable, or by any appropriate intergovernmental organization, to remove the underlying causes of the disequilibrium. On the invitation of the CONTRACTING PARTIES, contracting parties shall participate in such discussions.

Article XIII *

Non-discriminatory Administration of Quantitative Restrictions

1. No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

2. In applying import restrictions to any product, contracting parties shall aim at a distribution of trade in such product approaching as closely as possible the shares which the various contracting parties might be expected to obtain in the absence of such restrictions, and to this end shall observe the following provisions:

(*a*) Wherever practicable, quotas representing the total amount of permitted imports (whether allocated among supplying countries or not) shall be fixed, and notice given of their amount in accordance with paragraph 3 (*b*) of this Article;

(*b*) In cases in which quotas are not practicable, the restrictions may be applied by means of import licences or permits without a quota;

(*c*) Contracting parties shall not, except for purposes of operating quotas allocated in accordance with sub-paragraph (*d*) of this paragraph, require that import licences or permits be utilized for the importation of the product concerned from a particular country or source;

(*d*) In cases in which a quota is allocated among supplying countries, the contracting party applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other contracting parties having a substantial interest in supplying the product concerned. In cases in which this method is not reasonably practicable, the contracting party concerned shall allot to contracting parties having a substantial interest in supplying the product shares based upon the proportions, supplied by such contracting parties during a previous representative period, of the total quantity or value of imports of the product, due account being taken of any special factors which may have affected or may be affecting the trade in the product. No conditions or formalities shall be imposed which would prevent any contracting party from utilizing fully the share of any such total quantity or value which has been allotted to it, subject to importation being made within any prescribed period to which the quota may relate.*

3. (*a*) In cases in which import licences are issued in connection with import restrictions, the contracting party applying the restrictions shall provide, upon the request of any contracting party having an interest in the trade in the product concerned, all relevant information concerning the administration of the restrictions, the import licences granted over a recent period and the distribution of such licences among supplying countries; *Provided* that there shall be no obligation to supply information as to the names of importing or supplying enterprises.

(*b*) In the case of import restrictions involving the fixing of quotas, the contracting party applying the restrictions shall give public notice of the total quantity or value of the product or products which will be permitted to be imported during a specified future period and of any change in such quantity or value. Any supplies of the product in question which were *en route* at the time at which public notice was given shall not be excluded from entry; *Provided* that they may be counted so far as practicable, against the quantity permitted to be imported in the period in question, and also, where necessary, against the quantities permitted to be imported in the next following period or periods; and *Provided* further that if any contracting party customarily exempts from such restrictions products entered for consumption or withdrawn from warehouse for consumption during a period of thirty days after the day of such public notice, such practice shall be considered full compliance with this sub-paragraph.

(c) In the case of quotas allocated among supplying countries, the contracting party applying the restrictions shall promptly inform all other contracting parties having an interest in supplying the product concerned of the shares in the quota currently allocated, by quantity or value, to the various supplying countries and shall give public notice thereof.

4. With regard to restrictions applied in accordance with paragraph 2 (*d*) of this Article or under paragraph 2 (*c*) of Article XI, the selection of a representative period for any product and the appraisal of any special factors * affecting the trade in the product shall be made initially by the contracting party applying the restriction; *Provided* that such contracting party shall, upon the request of any other contracting party having a substantial interest in supplying that product or upon the request of the CONTRACTING PARTIES, consult promptly with the other contracting party or the CONTRACTING PARTIES regarding the need for an adjustment of the proportion determined or of the base period selected, or for the reappraisal of the special factors involved or for the elimination of conditions, formalities or any other provisions established unilaterally relating to the allocation of an adequate quota or its unrestricted utilization.

5. The provisions of this Article shall apply to any tariff quota instituted or maintained by any contracting party, and, in so far as applicable, the principles of this Article shall also extend to export restrictions.

Article XIV *

Exceptions to the Rule of Non-discrimination

1. A contracting party which applies restrictions under Article XII or under Section B of Article XVIII may, in the application of such restrictions, deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which that contracting party may at that time apply under Article VIII or XIV of the Articles of Agreement of the International Monetary Fund, or under analogous provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article XV.*

2. A contracting party which is applying import restrictions under Article XII or under Section B of Article XVIII may, with the consent of the CONTRACTING PARTIES, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties.*

3. The provisions of Article XIII shall not preclude a group of territories having a common quota in the International Monetary Fund from applying against imports from other countries, but not among themselves, restrictions in accordance with the provisions of Article XII or of Section B of Article XVIII on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.

4. A contracting party applying import restrictions under Article XII or under Section B of Article XVIII shall not be precluded by Articles XI to XV or Section B of Article XVIII of this Agreement from applying measures to direct its exports in such a manner as to increase its earnings of currencies which it can use without deviation from the provisions of Article XIII.

5. A contracting party shall not be precluded by Articles XI to XV, inclusive, or by Section B of Article XVIII, of this Agreement from applying quantitative restrictions:

(*a*) having equivalent effect to exchange restrictions authorized under Section 3 (*b*) of Article VII of the Articles of Agreement of the International Monetary Fund, or

(*b*) under the preferential arrangements provided for in Annex A of this Agreement, pending the outcome of the negotiations referred to therein.

Article XV

Exchange Arrangements

1. The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES.

2. In all cases in which the CONTRACTING PARTIES are called upon to consider or deal with problems concerning monetary reserves, balances of payments or foreign exchange arrangements, they shall consult fully with the International Monetary Fund. In such consultations, the CONTRACTING PARTIES shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments, and shall accept the determination of the Fund as to whether action by a contracting party in exchange matters is in accordance with the Articles of Agreement of the International Monetary Fund,

or with the terms of a special exchange agreement between that contracting party and the CONTRACTING PARTIES. The CONTRACTING PARTIES, in reaching their final decision in cases involving the criteria set forth in paragraph 2 (*a*) of Article XII or in paragraph 9 of Article XVIII, shall accept the determination of the Fund as to what constitutes a serious decline in the contracting party's monetary reserves, a very low level of its monetary reserves or a reasonable rate of increase in its monetary reserves, and as to the financial aspects of other matters covered in consultation in such cases.

3. The CONTRACTING PARTIES shall seek agreement with the Fund regarding procedures for consultation under paragraph 2 of this Article.

4. Contracting parties shall not, by exchange action, frustrate * the intent of the provisions of this Agreement, nor, by trade action, the intent of the provisions of the Articles of Agreement of the International Monetary Fund.

5. If the CONTRACTING PARTIES consider, at any time, that exchange restrictions on payments and transfers in connexion with imports are being applied by a contracting party in a manner inconsistent with the exceptions provided for in this Agreement for quantitative restrictions, they shall report thereon to the Fund.

6. Any contracting party which is not a member of the Fund shall, within a time to be determined by the CONTRACTING PARTIES after consultation with the Fund, become a member of the Fund, or, failing that, enter into a special exchange agreement with the CONTRACTING PARTIES. A contracting party which ceases to be a member of the Fund shall forthwith enter into a special exchange agreement with the CONTRACTING PARTIES. Any special exchange agreement entered into by a contracting party under this paragraph shall thereupon become part of its obligations under this Agreement.

7. (*a*). A special exchange agreement between a contracting party and the CONTRACTING PARTIES under paragraph 6 of this Article shall provide to the satisfaction of the CONTRACTING PARTIES that the objectives of this Agreement will not be frustrated as a result of action in exchange matters by the contracting party in question.

(*b*) The terms of any such agreement shall not impose obligations on the contracting party in exchange matters generally more restrictive than those imposed by the Articles of Agreement of the International Monetary Fund on members of the Fund.

8. A contracting party which is not a member of the Fund shall furnish such information within the general scope of section 5 of Article VIII of the Articles of Agreement of the International Monetary Fund as

the CONTRACTING PARTIES may require in order to carry out their functions under this Agreement.

9. Nothing in this Agreement shall preclude:

(*a*) the use by a contracting party of exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund or with that contracting party's special exchange agreement with the CONTRACTING PARTIES, or

(*b*) the use by a contracting party of restrictions or controls on imports or exports, the sole effect of which, additional to the effects permitted under Articles XI, XII, XIII and XIV, is to make effective such exchange controls or exchange restrictions.

Article XVI *

Subsidies

Section A—Subsidies in General

1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B - Additional Provisions on Export Subsidies *

2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.

3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting

party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting such trade in the product.*

4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.*

5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties.

Article XVII

State Trading Enterprises

1.* (*a*) Each contracting party undertakes that if it establishes or maintains a State enterprise, wherever located, or grants to any enterprise, formally or in effect, exclusive or special privileges,* such enterprise shall, in its purchases or sales involving either imports or exports, act in a manner consistent with the general principles of non-discriminatory treatment prescribed in this Agreement for governmental measures affecting imports or exports by private traders.

(*b*) The provisions of sub-paragraph (*a*) of this paragraph shall be understood to require that such enterprises shall, having due regard to the other provisions of this Agreement, make any such purchases or sales solely in accordance with commercial considerations,* including price, quality, availability, marketability, transportation and other conditions of purchase or sale, and shall afford the enterprises of the other contracting parties adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales.

(*c*) No contracting party shall prevent any enterprise (whether or not an enterprise described in sub-paragraph (*a*) of this paragraph) under its jurisdiction from acting in accordance with the principles of sub-paragraphs (*a*) and (*b*) of this paragraph.

2. The provisions of paragraph 1 of this Article shall not apply to imports of products for immediate or ultimate consumption in governmental use and not otherwise for resale or use in the production of goods * for sale. With respect to such imports, each contracting party shall accord to the trade of the other contracting parties fair and equitable treatment.

3. The contracting parties recognize that enterprises of the kind described in paragraph 1 (*a*) of this Article might be operated so as to create serious obstacles to trade; thus negotiations on a reciprocal and mutually advantageous basis designed to limit or reduce such obstacles are of importance to the expansion of international trade.*

4. (*a*) Contracting parties shall notify the CONTRACTING PARTIES of the products which are imported into or exported from their territories by enterprises of the kind described in paragraph 1 (*a*) of this Article.

(*b*) A contracting party establishing, maintaining or authorizing an import monopoly of a product, which is not the subject of a concession under Article II, shall, on the request of another contracting party having a substantial trade in the product concerned, inform the CONTRACTING PARTIES of the import mark-up * on the product during a recent representative period, or, when it is not possible to do so, of the price charged on the resale of the product.

(*c*) The CONTRACTING PARTIES may, at the request of a contracting party which has reason to believe that its interests under this Agreement are being adversely affected by the operations of an enterprise of the kind described in paragraph 1 (*a*), request the contracting party establishing, maintaining or authorizing such enterprise to supply information about its operations related to the carrying out of the provisions of this Agreement.

(*d*) The provisions of this paragraph shall not require any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises.

Article XVIII *

Governmental Assistance to Economic Development

1. The contracting parties recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development

of their economies, particularly of those contracting parties the economies of which can only support low standards of living * and are in the early stages of development.*

2. The contracting parties recognize further that it may be necessary for those contracting parties, in order to implement programmes and policies of economic development designed to raise the general standard of living of their people, to take protective or other measures affecting imports, and that such measures are justified in so far as they facilitate the attainment of the objectives of this Agreement. They agree, therefore, that those contracting parties should enjoy additional facilities to enable them (*a*) to maintain sufficient flexibility in their tariff structure to be able to grant the tariff protection required for the establishment of a particular industry * and (*b*) to apply quantitative restrictions for balance of payments purposes in a manner which takes full account of the continued high level of demand for imports likely to be generated by their programmes of economic development.

3. The contracting parties recognize finally that, with those additional facilities which are provided for in Sections A and B of this Article, the provisions of this Agreement would normally be sufficient to enable contracting parties to meet the requirements of their economic development. They agree, however, that there may be circumstances where no measure consistent with those provisions is practicable to permit a contracting party in the process of economic development to grant the governmental assistance required to promote the establishment of particular industries * with a view to raising the general standard of living of its people. Special procedures are laid down in Sections C and D of this Article to deal with those cases.

4 (*a*) Consequently, a contracting party the economy of which can only support low standards of living * and is in the early stages of development * shall be free to deviate temporarily from the provisions of the other Articles of this Agreement, as provided in Sections A, B and C of this Article.

(*b*) A contracting party the economy of which is in the process of development, but which does not come within the scope of sub-paragraph (*a*) above, may submit applications to the CONTRACTING PARTIES under Section D of this Article.

5. The contracting parties recognize that the export earnings of contracting parties, the economies of which are of the type described in paragraph 4 (*a*) and (*b*) above and which depend on exports of a small number of primary commodities, may be seriously reduced by a decline in the sale of such commodities. Accordingly, when the exports of primary commodities by such a contracting party are seriously affected by measures taken

by another contracting party, it may have resort to the consultation provisions of Article XXII of this Agreement.

6. The CONTRACTING PARTIES shall review annually all measures applied pursuant to the provisions of Sections C and D of this Article.

Section A

7. (*a*) If a contracting party coming within the scope of paragraph 4 (*a*) of this Article considers it desirable, in order to promote the establishment of a particular industry * with a view to raising the general standard of living of its people, to modify or withdraw a concession included in the appropriate Schedule annexed to this Agreement, it shall notify the CONTRACTING PARTIES to this effect and enter into negotiations with any contracting party with which such concession was initially negotiated, and with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest therein. If agreement is reached between such contracting parties concerned, they shall be free to modify or withdraw concessions under the appropriate Schedules to this Agreement in order to give effect to such agreement, including any compensatory adjustments involved.

(*b*) If agreement is not reached within sixty days after the notification provided for in sub-paragraph (*a*) above, the contracting party which proposes to modify or withdraw the concession may refer the matter to the CONTRACTING PARTIES, which shall promptly examine it. If they find that the contracting party which proposes to modify or withdraw the concession has made every effort to reach an agreement and that the compensatory adjustment offered by it is adequate, that contracting party shall be free to modify or withdraw the concession if, at the same time, it gives effect to the compensatory adjustment. If the CONTRACTING PARTIES do not find that the compensation offered by a contracting party proposing to modify or withdraw the concession is adequate, but find that it has made every reasonable effort to offer adequate compensation, that contracting party shall be free to proceed with such modification or withdrawal. If such action is taken, any other contracting party referred to in sub-paragraph (*a*) above shall be free to modify or withdraw substantially equivalent concessions initially negotiated with the contracting party which has taken the action.*

Section B

8. The contracting parties recognize that contracting parties coming within the scope of paragraph 4 (*a*) of this Article tend, when they are in rapid process of development, to experience balance of payments difficulties arising mainly from efforts to expand their internal markets as well as from the instability in their terms of trade.

9. In order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development, a contracting party coming within the scope of paragraph 4 (*a*) of this Article may, subject to the provisions of paragraphs 10 to 12, control the general level of its imports by restricting the quantity or value of merchandise permitted to be imported; *Provided* that the import restrictions instituted, maintained or intensified shall not exceed those necessary:

(*a*) to forestall the threat of, or to stop, a serious decline in its monetary reserves, or

(*b*) in the case of a contracting party with inadequate monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of the contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

10. In applying these restrictions, the contracting party may determine their incidence on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential in the light of its policy of economic development; *Provided* that the restrictions are so applied as to avoid unnecessary damage to the commercial or economic interests of any other contracting party and not to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and *Provided* further that the restrictions are not so applied as to prevent the importation of commercial samples or to prevent compliance with patent, trade mark, copyright or similar procedures.

11. In carrying out its domestic policies, the contracting party concerned shall pay due regard to the need for restoring equilibrium in its balance of payments on a sound and lasting basis and to the desirability of assuring an economic employment of productive resources. It shall progressively relax any restrictions applied under this Section as conditions improve, maintaining them only to the extent necessary under the terms of paragraph 9 of this Article and shall eliminate them when conditions no longer justify such maintenance; *Provided* that no contracting party shall be required to withdraw or modify restrictions on the ground that a change in its development policy would render unnecessary the restrictions which it is applying under this Section.*

12. (*a*) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification

of the measures applied under this Section, shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the CONTRACTING PARTIES as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(*b*) On a date to be determined by them,* the CONTRACTING PARTIES shall review all restrictions still applied under this Section on that date. Beginning two years after that date, contracting parties applying restrictions under this Section shall enter into consultations of the type provided for in sub-paragraph (*a*) above with the CONTRACTING PARTIES at intervals of approximately, but not less than, two years according to a programme to be drawn up each year by the CONTRACTING PARTIES; *Provided* that no consultation under this sub-paragraph shall take place within two years after the conclusion of a consultation of a general nature under any other provision of this paragraph.

(*c*) (i) If, in the course of consultations with a contracting party under sub-paragraph (*a*) or (*b*) of this paragraph, the CONTRACTING PARTIES find that the restrictions are not consistent with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the CONTRACTING PARTIES determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period. If such contracting party does not comply with these recommendations within the specified period, the CONTRACTING PARTIES may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*d*) The CONTRACTING PARTIES shall invite any contracting party which is applying restrictions under this Section to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the CONTRACTING PARTIES have ascertained that direct discussions between the contracting parties concerned

have not been successful. If, as a result of the consultations with the CONTRACTING PARTIES no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified within such time as the CONTRACTING PARTIES may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*e*) If a contracting party against which action has been taken in accordance with the last sentence of sub-paragraph (*c*) (ii) or (*d*) of this paragraph, finds that the release of obligations authorized by the CONTRACTING PARTIES adversely affects the operation of its programme and policy of economic development, it shall be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary [1] to the CONTRACTING PARTIES of its intention to withdraw from this Agreement and such withdrawal shall take effect on the sixtieth day following the day on which the notice is received by him.

(*f*) In proceeding under this paragraph, the CONTRACTING PARTIES shall have due regard to the factors referred to in paragraph 2 of this Article. Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

Section C

13. If a contracting party coming within the scope of paragraph 4 (*a*) of this Article finds that governmental assistance is required to promote the establishment of a particular industry * with a view to raising the general standard of living of its people, but that no measure consistent with the other provisions of this Agreement is practicable to achieve that objective, it may have recourse to the provisions and procedures set out in this Section.*

14. The contracting party concerned shall notify the CONTRACTING PARTIES of the special difficulties which it meets in the achievement of the objective outlined in paragraph 13 of this Article and shall indicate the specific measure affecting imports which it proposes to introduce in order to remedy these difficulties. It shall not introduce that measure before the expiration of the time-limit laid down in paragraph 15 or 17, as the case may be, or if the measure affects imports of a product which is the subject of a concession included in the appropriate Schedule annexed to

[1] See Preface.

this Agreement, unless it has secured the concurrence of the CONTRACTING PARTIES in accordance with the provisions of paragraph 18; *Provided* that, if the industry receiving assistance has already started production, the contracting party may, after informing the CONTRACTING PARTIES, take such measures as may be necessary to prevent, during that period, imports of the product or products concerned from increasing substantially above a normal level.*

15. If, within thirty days of the notification of the measure, the CONTRACTING PARTIES do not request the contracting party concerned to consult with them,* that contracting party shall be free to deviate from the relevant provisions of the other Articles of this Agreement to the extent necessary to apply the proposed measure.

16. If it is requested by the CONTRACTING PARTIES to do so,* the contracting party concerned shall consult with them as to the purpose of the proposed measure, as to alternative measures which may be available under this Agreement, and as to the possible effect of the measure proposed on the commercial and economic interests of other contracting parties. If, as a result of such consultation, the CONTRACTING PARTIES agree that there is no measure consistent with the other provisions of this Agreement which is practicable in order to achieve the objective outlined in paragraph 13 of this Article, and concur * in the proposed measure, the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to apply that measure.

17. If, within ninety days after the date of the notification of the proposed measure under paragraph 14 of this Article, the CONTRACTING PARTIES have not concurred in such measure, the contracting party concerned may introduce the measure proposed after informing the CONTRACTING PARTIES.

18. If the proposed measure affects a product which is the subject of a concession included in the appropriate Schedule annexed to this Agreement, the contracting party concerned shall enter into consultations with any other contracting party with which the concession was initially negotiated, and with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest therein. The CONTRACTING PARTIES shall concur * in the measure if they agree that there is no measure consistent with the other provisions of this Agreement which is practicable in order to achieve the objective set forth in paragraph 13 of this Article, and if they are satisfied:

(*a*) that agreement has been reached with such other contracting parties as a result of the consultations referred to above, or

(*b*) if no such agreement has been reached within sixty days after the notification provided for in paragraph 14 has been received by the CONTRACTING PARTIES, that the contracting party having recourse to this Section has made all reasonable efforts to reach an agreement and that the interests of other contracting parties are adequately safeguarded.*

The contracting party having recourse to this Section shall thereupon be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to permit it to apply the measure.

19. If a proposed measure of the type described in paragraph 13 of this Article concerns an industry the establishment of which has in the initial period been facilitated by incidental protection afforded by restrictions imposed by the contracting party concerned for balance of payments purposes under the relevant provisions of this Agreement, that contracting party may resort to the provisions and procedures of this Section; *Provided* that it shall not apply the proposed measure without the concurrence* of the CONTRACTING PARTIES.*

20. Nothing in the preceding paragraphs of this Section shall authorize any deviation from the provisions of Articles I, II and XIII of this Agreement. The provisos to paragraph 10 of this Article shall also be applicable to any restriction under this Section.

21. At any time while a measure is being applied under paragraph 17 of this Article any contracting party substantially affected by it may suspend the application to the trade of the contracting party having recourse to this Section of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove;* *Provided* that sixty days' notice of such suspension is given to the CONTRACTING PARTIES not later than six months after the measure has been introduced or changed substantially to the detriment of the contracting party affected. Any such contracting party shall afford adequate opportunity for consultation in accordance with the provisions of Article XXII of this Agreement.

Section D

22. A contracting party coming within the scope of sub-paragraph 4 (*b*) of this Article desiring, in the interest of the development of its economy, to introduce a measure of the type described in paragraph 13 of this Article in respect of the establishment of a particular industry* may apply to the CONTRACTING PARTIES for approval of such measure. The CONTRACTING PARTIES shall promptly consult with such contracting party

and shall, in making their decision, be guided by the considerations set out in paragraph 16. If the CONTRACTING PARTIES concur * in the proposed measure the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to permit it to apply the measure. If the proposed measure affects a product which is the subject of a concession included in the appropriate Schedule annexed to this Agreement, the provisions of paragraph 18 shall apply.*

23. Any measure applied under this Section shall comply with the provisions of paragraph 20 of this Article.

Article XIX

Emergency Action on Imports of Particular Products

1. (*a*) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(*b*) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (*a*) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice

shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (*a*) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph 1 (*b*) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(*b*) Notwithstanding the provisions of sub-paragraph (*a*) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Article XX

General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(*a*) necessary to protect public morals;

(*b*) necessary to protect human, animal or plant life or health;

(*c*) relating to the importation or exportation of gold or silver;

(*d*) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including

those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;

(*e*) relating to the products of prison labour;

(*f*) imposed for the protection of national treasures of artistic, historic or archaeological value;

(*g*) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;

(*h*) undertaken in pursuance of obligations under any intergovernmental commodity agreement which conforms to criteria submitted to the CONTRACTING PARTIES and not disapproved by them or which is itself so submitted and not so disapproved;*

(*i*) involving restrictions on exports of domestic materials necessary to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; *Provided* that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to non-discrimination;

(*j*) essential to the acquisition or distribution of products in general or local short supply; *Provided* that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist. The CONTRACTING PARTIES shall review the need for this sub-paragraph not later than 30 June 1960.

Article XXI

Security Exceptions

Nothing in this Agreement shall be construed

(*a*) to require any contracting party to furnish any information the disclosure of which it considers contrary to its essential security interests; or

(*b*) to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests

(i) relating to fissionable materials or the materials from which they are derived;

(ii) relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;

(iii) taken in time of war or other emergency in international relations; or

(*c*) to prevent any contracting party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

Article XXII

Consultation

1. Each contracting party shall accord sympathetic consideration to, and shall afford adequate opportunity for consultation regarding, such representations as may be made by another contracting party with respect to any matter affecting the operation of this Agreement.

2. The CONTRACTING PARTIES may, at the request of a contracting party, consult with any contracting party or parties in respect of any matter for which it has not been possible to find a satisfactory solution through consultation under paragraph 1.

Article XXIII

Nullification or Impairment

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of

(*a*) the failure of another contracting party to carry out its obligations under this Agreement, or

(*b*) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or

(*c*) the existence of any other situation,

the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

2. If no satisfactory adjustment is effected between the contracting parties concerned within a reasonable time, or if the difficulty is of the type described in paragraph 1 (*c*) of this Article, the matter may be referred to the CONTRACTING PARTIES. The CONTRACTING PARTIES shall promptly investigate any matter so referred to them and shall make appropriate recommendations to the contracting parties which they consider to be concerned, or give a ruling on the matter, as appropriate. The CONTRACTING PARTIES may consult with contracting parties, with the Economic and Social Council of the United Nations and with any appropriate inter-governmental organization in cases where they consider such consultation necessary. If the CONTRACTING PARTIES consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any concession or other obligation is in fact suspended, that contracting party shall then be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary[1] to the CONTRACTING PARTIES of its intention to withdraw from this Agreement and such withdrawal shall take effect upon the sixtieth day following the day on which such notice is received by him.

[1] See Preface.

PART III

Article XXIV

Territorial Application—Frontier Traffic—Customs Unions and Free-trade Areas

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; *Provided* that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.

2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.

3. The provisions of this Agreement shall not be construed to prevent:

(*a*) Advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;

(*b*) Advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.

4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided* that:

(*a*) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;

(*b*) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement, as the case may be; and

(*c*) any interim agreement referred to in sub-paragraphs (*a*) and (*b*) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

6. If, in fulfilling the requirements of sub-paragraph 5 (*a*), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union.

7. (*a*) Any contracting party deciding to enter into a customs union or free trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the CONTRACTING PARTIES and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.

(*b*) If, after having studied the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties

to that agreement and taking due account of the information made available in accordance with the provisions of sub-paragraph (*a*), the CONTRACTING PARTIES find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the CONTRACTING PARTIES shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

(*c*) Any substantial change in the plan or schedule referred to in paragraph 5 (*c*) shall be communicated to the CONTRACTING PARTIES, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.

8. For the purposes of this Agreement:

(*a*) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

(*b*) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected.* This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (*a*) (i) and paragraph 8 (*b*).

10. The CONTRACTING PARTIES may by a two-thirds majority approve proposals which do not fully comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territory.

Article XXV

Joint Action by the Contracting Parties

1. Representatives of the contracting parties shall meet from time to time for the purpose of giving effect to those provisions of this Agreement which involve joint action and, generally, with a view to facilitating the operation and furthering the objectives of this Agreement. Wherever reference is made in this Agreement to the contracting parties acting jointly they are designated as the CONTRACTING PARTIES.

2. The Secretary-General of the United Nations is requested to convene the first meeting of the CONTRACTING PARTIES, which shall take place not later than March 1, 1948.

3. Each contracting party shall be entitled to have one vote at all meetings of the CONTRACTING PARTIES.

4. Except as otherwise provided for in this Agreement, decisions of the CONTRACTING PARTIES shall be taken by a majority of the votes cast.

5. In exceptional circumstances not elsewhere provided for in this Agreement, the CONTRACTING PARTIES may waive an obligation imposed upon a contracting party by this Agreement; *Provided* that any such decision shall be approved by a two-thirds majority of the votes cast and that such majority shall comprise more than half of the contracting parties. The CONTRACTING PARTIES may also by such a vote

(i) define certain categories of exceptional circumstances to which other voting requirements shall apply for the waiver of obligations, and

(ii) prescribe such criteria as may be necessary for the application of this paragraph.†

Article XXVI

Acceptance, Entry into Force and Registration

1. The date of this Agreement shall be 30 October 1947.

2. This Agreement shall be open for acceptance by any contracting party which, on 1 March 1955, was a contracting party or was negotiating with a view to accession to this Agreement.

3. This Agreement, done in a single English original and in a single French original, both texts authentic, shall be deposited with the Secretary-General of the United Nations, who shall furnish certified copies thereof to all interested governments.

4. Each government accepting this Agreement shall deposit an instrument of acceptance with the Executive Secretary[1] to the CONTRACTING PARTIES, who will inform all interested governments of the date of deposit of each instrument of acceptance and of the day on which this Agreement enters into force under paragraph 6 of this Article.

5. (*a*) Each government accepting this Agreement does so in respect of its metropolitan territory and of the other territories for which it has international responsibility, except such separate customs territories as it shall notify to the Executive Secretary[1] to the CONTRACTING PARTIES at the time of its own acceptance.

(*b*) Any government, which has so notified the Executive Secretary[1] under the exceptions in sub-paragraph (*a*) of this paragraph, may at any time give notice to the Executive Secretary[1] that its acceptance shall be effective in respect of any separate customs territory or territories so excepted and such notice shall take effect on the thirtieth day following the day on which it is received by the Executive Secretary.[1]

(*c*) If any of the customs territories, in respect of which a contracting party has accepted this Agreement, possesses or acquires full autonomy in the conduct of its external commercial relations and of the other matters

† The authentic text erroneously reads " sub-paragraph ".
[1] See Preface.

provided for in this Agreement, such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the above-mentioned fact, be deemed to be a contracting party.

6. This Agreement shall enter into force, as among the governments which have accepted it, on the thirtieth day following the day on which instruments of acceptance have been deposited with the Executive Secretary[1] to the CONTRACTING PARTIES on behalf of governments named in Annex H, the territories of which account for 85 per centum of the total external trade of the territories of such governments, computed in accordance with the applicable column of percentages set forth therein. The instrument of acceptance of each other government shall take effect on the thirtieth day following the day on which such instrument has been deposited.

7. The United Nations is authorized to effect registration of this Agreement as soon as it enters into force.

Article XXVII

Withholding or Withdrawal of Concessions

Any contracting party shall at any time be free to withhold or to withdraw in whole or in part any concession, provided for in the appropriate Schedule annexed to this Agreement, in respect of which such contracting party determines that it was initially negotiated with a government which has not become, or has ceased to be, a contracting party. A contracting party taking such action shall notify the CONTRACTING PARTIES and, upon request, consult with contracting parties which have a substantial interest in the product concerned.

Article XXVIII *

Modification of Schedules

1. On the first day of each three-year period, the first period beginning on 1 January 1958 (or on the first day of any other period * that may be specified by the CONTRACTING PARTIES by two-thirds of the votes cast) a contracting party (hereafter in this Article referred to as the "applicant contracting party") may, by negotiation and agreement with any contracting party with which such concession was initially negotiated and with any other contracting party determined by the CONTRACTING PARTIES to have a principal supplying interest* (which two preceding categories of contracting

[1] See Preface.

parties, together with the applicant contracting party, are in this Article hereinafter referred to as the "contracting parties primarily concerned"), and subject to consultation with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest in such concession, modify or withdraw a concession included in the appropriate Schedule annexed to this Agreement.

2. In such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products, the contracting parties concerned shall endeavour to maintain a general level of reciprocal and mutually advantageous concessions not less favourable to trade than that provided for in this Agreement prior to such negotiations.

3. (*a*) If agreement between the contracting parties primarily concerned cannot be reached before 1 January 1958 or before the expiration of a period envisaged in paragraph 1 of this Article, the contracting party which proposes to modify or withdraw the concession shall, nevertheless, be free to do so and if such action is taken any contracting party with which such concession was initially negotiated, any contracting party determined under paragraph 1 to have a principal supplying interest and any contracting party determined under paragraph 1 to have a substantial interest shall then be free not later than six months after such action is taken, to withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

(*b*) If agreement between the contracting parties primarily concerned is reached but any other contracting party determined under paragraph 1 of this Article to have a substantial interest is not satisfied, such other contracting party shall be free, not later than six months after action under such agreement is taken, to withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

4. The CONTRACTING PARTIES may, at any time, in special circumstances, authorize a contracting party to enter into negotiations for modification or withdrawal of a concession included in the appropriate Schedule annexed to this Agreement subject to the following procedures and conditions:

(*a*) Such negotiations and any related consultations shall be conducted in accordance with the provisions of paragraphs 1 and 2 of this Article.

(*b*) If agreement between the contracting parties primarily concerned is reached in the negotiations, the provisions of paragraph 3 (*b*) of this Article shall apply.

(c) If agreement between the contracting parties primarily concerned is not reached within a period of sixty days* after negotiations have been authorized, or within such longer period as the CONTRACTING PARTIES may have prescribed, the applicant contracting party may refer the matter to the CONTRACTING PARTIES.

(d) Upon such reference, the CONTRACTING PARTIES shall promptly examine the matter and submit their views to the contracting parties primarily concerned with the aim of achieving a settlement. If a settlement is reached, the provisions of paragraph 3 (b) shall apply as if agreement between the contracting parties primarily concerned had been reached. If no settlement is reached between the contracting parties primarily concerned, the applicant contracting party shall be free to modify or withdraw the concession, unless the CONTRACTING PARTIES determine that the applicant contracting party has unreasonably failed to offer adequate compensation.* If such action is taken, any contracting party with which the concession was initially negotiated, any contracting party determined under paragraph 4 (a) to have a principal supplying interest and any contracting party determined under paragraph 4 (a) to have a substantial interest, shall be free, not later than six months after such action is taken, to modify or withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

5. Before 1 January 1958 and before the end of any period envisaged in paragraph 1 a contracting party may elect by notifying the CONTRACTING PARTIES to reserve the right, for the duration of the next period, to modify the appropriate Schedule in accordance with the procedures of paragraphs 1 to 3. If a contracting party so elects, other contracting parties shall have the right, during the same period, to modify or withdraw, in accordance with the same procedures, concessions initially negotiated with that contracting party.

Article XXVIII bis

Tariff Negotiations

1. The contracting parties recognize that customs duties often constitute serious obstacles to trade; thus negotiations on a reciprocal and mutually advantageous basis, directed to the substantial reduction of the general level of tariffs and other charges on imports and exports and in particular to the reduction of such high tariffs as discourage the importation even of minimum quantities, and conducted with due regard to the objectives of this Agreement

and the varying needs of individual contracting parties, are of great importance to the expansion of international trade. The CONTRACTING PARTIES may therefore sponsor such negotiations from time to time.

2. (*a*) Negotiations under this Article may be carried out on a selective product-by-product basis or by the application of such multilateral procedures as may be accepted by the contracting parties concerned. Such negotiations may be directed towards the reduction of duties, the binding of duties at then existing levels or undertakings that individual duties or the average duties on specified categories of products shall not exceed specified levels. The binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties.

(*b*) The contracting parties recognize that in general the success of multilateral negotiations would depend on the participation of all contracting parties which conduct a substantial proportion of their external trade with one another.

3. Negotiations shall be conducted on a basis which affords adequate opportunity to take into account:

(*a*) the needs of individual contracting parties and individual industries;

(*b*) the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes; and

(*c*) all other relevant circumstances, including the fiscal,* developmental, strategic and other needs of the contracting parties concerned.

Article XXIX

The Relation of this Agreement to the Havana Charter

1. The contracting parties undertake to observe to the fullest extent of their executive authority the general principles of Chapters I to VI inclusive and of Chapter IX of the Havana Charter pending their acceptance of it in accordance with their constitutional procedures.*

2. Part II of this Agreement shall be suspended on the day on which the Havana Charter enters into force.

3. If by September 30, 1949, the Havana Charter has not entered into force, the contracting parties shall meet before December 31, 1949, to agree whether this Agreement shall be amended, supplemented or maintained.

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4. If at any time the Havana Charter should cease to be in force, the CONTRACTING PARTIES shall meet as soon as practicable thereafter to agree whether this Agreement shall be supplemented, amended or maintained. Pending such agreement, Part II of this Agreement shall again enter into force; *Provided* that the provisions of Part II other than Article XXIII shall be replaced, *mutatis mutandis*, in the form in which they then appeared in the Havana Charter; and *Provided* further that no contracting party shall be bound by any provisions which did not bind it at the time when the Havana Charter ceased to be in force.

5. If any contracting party has not accepted the Havana Charter by the date upon which it enters into force, the CONTRACTING PARTIES shall confer to agree whether, and if so in what way, this Agreement in so far as it affects relations between such contracting party and other contracting parties, shall be supplemented or amended. Pending such agreement the provisions of Part II of this Agreement shall, notwithstanding the provisions of paragraph 2 of this Article, continue to apply as between such contracting party and other contracting parties.

6. Contracting parties which are Members of the International Trade Organization shall not invoke the provisions of this Agreement so as to prevent the operation of any provision of the Havana Charter. The application of the principle underlying this paragraph to any contracting party which is not a Member of the International Trade Organization shall be the subject of an agreement pursuant to paragraph 5 of this Article.

Article XXX

Amendments

1. Except where provision for modification is made elsewhere in this Agreement, amendments to the provisions of Part I of this Agreement or to the provisions of Article XXIX or of this Article shall become effective upon acceptance by all the contracting parties, and other amendments to this Agreement shall become effective, in respect of those contracting parties which accept them, upon acceptance by two-thirds of the contracting parties and thereafter for each other contracting party upon acceptance by it.

2. Any contracting party accepting an amendment to this Agreement shall deposit an instrument of acceptance with the Secretary-General of the United Nations within such period as the CONTRACTING PARTIES may specify. The CONTRACTING PARTIES may decide that any amendment made effective under this Article is of such a nature that any contracting party

which has not accepted it within a period specified by the CONTRACTING PARTIES shall be free to withdraw from this Agreement, or to remain a contracting party with the consent of the CONTRACTING PARTIES.

Article XXXI

Withdrawal

Without prejudice to the provisions of paragraph 12 of Article XVIII, of Article XXIII or of paragraph 2 of Article XXX, any contracting party may withdraw from this Agreement, or may separately withdraw on behalf of any of the separate customs territories for which it has international responsibility and which at the time possesses full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement. The withdrawal shall take effect upon the expiration of six months from the day on which written notice of withdrawal is received by the Secretary-General of the United Nations.

Article XXXII

Contracting Parties

1. The contracting parties to this Agreement shall be understood to mean those governments which are applying the provisions of this Agreement under Articles XXVI or XXXIII or pursuant to the Protocol of Provisional Application.

2. At any time after the entry into force of this Agreement pursuant to paragraph 6 of Article XXVI, those contracting parties which have accepted this Agreement pursuant to paragraph 4 of Article XXVI may decide that any contracting party which has not so accepted it shall cease to be a contracting party.

Article XXXIII

Accession

A government not party to this Agreement, or a government acting on behalf of a separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement, may accede to this Agreement, on its own behalf or on behalf of that territory, on terms to be agreed between such government and the CONTRACTING PARTIES. Decisions of the CONTRACTING PARTIES under this paragraph shall be taken by a two-thirds majority.

Article XXXIV

Annexes

The annexes to this Agreement are hereby made an integral part of this Agreement.

Article XXXV

Non-application of the Agreement between particular Contracting Parties

1. This Agreement, or alternatively Article II of this Agreement, shall not apply as between any contracting party and any other contracting party if:

(*a*) the two contracting parties have not entered into tariff negotiations with each other, and

(*b*) either of the contracting parties, at the time either becomes a contracting party, does not consent to such application.

2. The CONTRACTING PARTIES may review the operation of this Article in particular cases at the request of any contracting party and make appropriate recommendations.

PART IV*

TRADE AND DEVELOPMENT

Article XXXVI

Principles and Objectives

1.* The contracting parties,

(*a*) recalling that the basic objectives of this Agreement include the raising of standards of living and the progressive development of the economies of all contracting parties, and considering that the attainment of these objectives is particularly urgent for less-developed contracting parties;

(*b*) considering that export earnings of the less-developed contracting parties can play a vital part in their economic development and that the extent of this contribution depends on the prices paid by the less-developed contracting parties for essential imports, the volume of their exports, and the prices received for these exports;

(*c*) noting that there is a wide gap between standards of living in less-developed countries and in other countries;

(*d*) recognizing that individual and joint action is essential to further the development of the economies of less-developed contracting parties and to bring about a rapid advance in the standards of living in these countries;

(*e*) recognizing that international trade as a means of achieving economic and social advancement should be governed by such rules and procedures and measures in conformity with such rules and procedures—as are consistent with the objectives set forth in this Article;

(*f*) noting that the CONTRACTING PARTIES may enable less-developed contracting parties to use special measures to promote their trade and development;

agree as follows.

2. There is need for a rapid and sustained expansion of the export earnings of the less-developed contracting parties.

3 There is need for positive efforts designed to ensure that less-developed contracting parties secure a share in the growth in international trade commensurate with the needs of their economic development.

4. Given the continued dependence of many less-developed contracting parties on the exportation of a limited range of primary products,* there is need to provide in the largest possible measure more favourable and acceptable conditions of access to world markets for these products, and wherever appropriate to devise measures designed to stabilize and improve conditions of world markets in these products, including in particular measures designed to attain stable, equitable and remunerative prices, thus permitting an expansion of world trade and demand and a dynamic and steady growth of the real export earnings of these countries so as to provide them with expanding resources for their economic development.

5. The rapid expansion of the economies of the less-developed contracting parties will be facilitated by a diversification * of the structure of their economies and the avoidance of an excessive dependence on the export of primary products. There is, therefore, need for increased access in the largest possible measure to markets under favourable conditions for processed and manufactured products currently or potentially of particular export interest to less-developed contracting parties.

6. Because of the chronic deficiency in the export proceeds and other foreign exchange earnings of less-developed contracting parties, there are important inter-relationships between trade and financial assistance to development. There is, therefore, need for close and continuing collaboration between the CONTRACTING PARTIES and the international lending agencies so that they can contribute most effectively to alleviating the burdens these less-developed contracting parties assume in the interest of their economic development.

7. There is need for appropriate collaboration between the CONTRACTING PARTIES, other intergovernmental bodies and the organs and agencies of the United Nations system, whose activities relate to the trade and economic development of less-developed countries.

8. The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties.*

9. The adoption of measures to give effect to these principles and objectives shall be a matter of conscious and purposeful effort on the part of the contracting parties both individually and jointly.

Article XXXVII

Commitments

1. The developed contracting parties shall to the fullest extent possible—that is, except when compelling reasons, which may include legal reasons, make it impossible—give effect to the following provisions:

(*a*) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms;*

(*b*) refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties; and

(*c*) (i) refrain from imposing new fiscal measures, and

(ii) in any adjustments of fiscal policy accord high priority to the reduction and elimination of fiscal measures,

which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form, wholly or mainly produced in the territories of less-developed contracting parties, and which are applied specifically to those products.

2. (*a*) Whenever it is considered that effect is not being given to any of the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1, the matter shall be reported to the CONTRACTING PARTIES either by the contracting party not so giving effect to the relevant provisions or by any other interested contracting party.

(*b*) (i) The CONTRACTING PARTIES shall, if requested so to do by any interested contracting party, and without prejudice to any bilateral consultations that may be undertaken, consult with the contracting party concerned and all interested contracting parties with respect to the matter with a view to reaching solutions satisfactory to all contracting parties concerned in order to further the objectives set forth in Article XXXVI. In the course of these consultations, the reasons given in cases where effect was not being given to the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1 shall be examined.

(ii) As the implementation of the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1 by individual contracting parties

may in some cases be more readily achieved where action is taken jointly with other developed contracting parties, such consultation might, where appropriate, be directed towards this end

(iii) The consultations by the CONTRACTING PARTIES might also, in appropriate cases, be directed towards agreement on joint action designed to further the objectives of this Agreement as envisaged in paragraph 1 of Article XXV.

3. The developed contracting parties shall:

(*a*) make every effort, in cases where a government directly or indirectly determines the resale price of products wholly or mainly produced in the territories of less-developed contracting parties, to maintain trade margins at equitable levels;

(*b*) give active consideration to the adoption of other measures * designed to provide greater scope for the development of imports from less-developed contracting parties and collaborate in appropriate international action to this end;

(*c*) have special regard to the trade interests of less-developed contracting parties when considering the application of other measures permitted under this Agreement to meet particular problems and explore all possibilities of constructive remedies before applying such measures where they would affect essential interests of those contracting parties.

4. Less-developed contracting parties agree to take appropriate action in implementation of the provisions of Part IV for the benefit of the trade of other less-developed contracting parties, in so far as such action is consistent with their individual present and future development, financial and trade needs taking into account past trade developments as well as the trade interests of less-developed contracting parties as a whole.

5. In the implementation of the commitments set forth in paragraphs 1 to 4 each contracting party shall afford to any other interested contracting party or contracting parties full and prompt opportunity for consultations under the normal procedures of this Agreement with respect to any matter or difficulty which may arise.

Article XXXVIII

Joint Action

1. The contracting parties shall collaborate jointly, within the framework of this Agreement and elsewhere, as appropriate, to further the objectives set forth in Article XXXVI.

2. In particular, the CONTRACTING PARTIES shall:

(*a*) where appropriate, take action, including action through international arrangements, to provide improved and acceptable conditions of access to world markets for primary products of particular interest to less-developed contracting parties and to devise measures designed to stabilize and improve conditions of world markets in these products including measures designed to attain stable, equitable and remunerative prices for exports of such products;

(*b*) seek appropriate collaboration in matters of trade and development policy with the United Nations and its organs and agencies, including any institutions that may be created on the basis of recommendations by the United Nations Conference on Trade and Development;

(*c*) collaborate in analysing the development plans and policies of individual less-developed contracting parties and in examining trade and aid relationships with a view to devising concrete measures to promote the development of export potential and to facilitate access to export markets for the products of the industries thus developed and, in this connexion, seek appropriate collaboration with governments and international organizations, and in particular with organizations having competence in relation to financial assistance for economic development, in systematic studies of trade and aid relationships in individual less-developed contracting parties aimed at obtaining a clear analysis of export potential, market prospects and any further action that may be required;

(*d*) keep under continuous review the development of world trade with special reference to the rate of growth of the trade of less-developed contracting parties and make such recommendations to contracting parties as may, in the circumstances, be deemed appropriate;

(*e*) collaborate in seeking feasible methods to expand trade for the purpose of economic development, through international harmonization and adjustment of national policies and regulations, through technical and commercial standards affecting production, transportation and marketing, and through export promotion by the establishment of facilities for the increased flow of trade information and the development of market research; and

(*f*) establish such institutional arrangements as may be necessary to further the objectives set forth in Article XXXVI and to give effect to the provisions of this Part.

ANNEX A

List of Territories referred to in Paragraph 2 (*a*) of Article I

United Kingdom of Great Britain and Northern Ireland
Dependent territories of the United Kingdom of Great Britain and Northern Ireland
Canada
Commonwealth of Australia
Dependent territories of the Commonwealth of Australia
New Zealand
Dependent territories of New Zealand
Union of South Africa including South West Africa
Ireland
India (as on April 10, 1947)
Newfoundland
Southern Rhodesia
Burma
Ceylon

Certain of the territories listed above have two or more preferential rates in force for certain products. Any such territory may, by agreement with the other contracting parties which are principal suppliers of such products at the most-favoured-nation rate, substitute for such preferential rates a single preferential rate which shall not on the whole be less favourable to suppliers at the most-favoured-nation rate than the preferences in force prior to such substitution.

The imposition of an equivalent margin of tariff preference to replace a margin of preference in an internal tax existing on April 10, 1947 exclusively between two or more of the territories listed in this Annex or to replace the preferential quantitative arrangements described in the following paragraph, shall not be deemed to constitute an increase in a margin of tariff preference.

The preferential arrangements referred to in paragraph 5 (*b*) of Article XIV are those existing in the United Kingdom on April 10, 1947, under contractual agreements with the Governments of Canada, Australia and New Zealand, in respect of chilled and frozen beef and veal, frozen mutton and lamb, chilled and frozen pork, and bacon. It is the intention, without prejudice to any action taken under sub-paragraph (*h*) † of Article XX, that these arrangements shall be eliminated or replaced by tariff preferences, and that negotiations to this end shall take place as soon as practicable among the countries substantially concerned or involved.

The film hire tax in force in New Zealand on April 10, 1947, shall, for the purposes of this Agreement, be treated as a customs duty under Article I. The

† The authentic text erroneously reads " part I (*h*) ".

renters' film quota in force in New Zealand on April 10, 1947, shall, for the purposes of this Agreement, be treated as a screen quota under Article IV.

The Dominions of India and Pakistan have not been mentioned separately in the above list since they had not come into existence as such on the base date of April 10, 1947.

ANNEX B

List of Territories of the French Union referred to in Paragraph 2 (*b*) of Article I

France
French Equatorial Africa (Treaty Basin of the Congo [1] and other territories)
French West Africa
Cameroons under French Trusteeship [1]
French Somali Coast and Dependencies
French Establishments in Oceania
French Establishments in the Condominium of the New Hebrides [1]
Indo-China
Madagascar and Dependencies
Morocco (French zone) [1]
New Caledonia and Dependencies
Saint-Pierre and Miquelon
Togo under French Trusteeship [1]
Tunisia

ANNEX C

List of Territories referred to in Paragraph 2 (*b*) of Article I as respects the Customs Union of Belgium, Luxemburg and the Netherlands

The Economic Union of Belgium and Luxemburg
Belgian Congo
Ruanda Urundi
Netherlands
New Guinea
Surinam
Netherlands Antilles
Republic of Indonesia

For imports into the territories constituting the Customs Union only.

ANNEX D

List of Territories referred to in Paragraph 2 (*b*) of Article I as respects the United States of America

United States of America (customs territory)
Dependent territories of the United States of America
Republic of the Philippines

[1] For imports into Metropolitan France and Territories of the French Union.

The imposition of an equivalent margin of tariff preference to replace a margin of preference in an internal tax existing on April 10, 1947, exclusively between two or more of the territories listed in this Annex shall not be deemed to constitute an increase in a margin of tariff preference.

ANNEX E

List of Territories covered by Preferential Arrangements between Chile and Neighbouring Countries referred to in Paragraph 2 (*d*) of Article I

Preferences in force exclusively between Chile on the one hand, and

1. Argentina
2. Bolivia
3. Peru

on the other hand.

ANNEX F

List of Territories covered by Preferential Arrangements between Lebanon and Syria and Neighbouring Countries referred to in Paragraph 2 (*d*) of Article I

Preferences in force exclusively between the Lebano-Syrian Customs Union, on the one hand, and

1. Palestine
2. Transjordan

on the other hand.

ANNEX G

Dates establishing Maximum Margins of Preference referred to in Paragraph 4 † of Article I

Australia	October 15, 1946
Canada	July 1, 1939
France	January 1, 1939
Lebano-Syrian Customs Union	November 30, 1938
Union of South Africa	July 1, 1938
Southern Rhodesia	May 1, 1941

ANNEX H

Percentage Shares of Total External Trade to be Used for the Purpose of Making the Determination referred to in Article XXVI

(based on the average of 1949-1953)

If, prior to the accession of the Government of Japan to the General Agreement, the present Agreement has been accepted by contracting parties the external

† The authentic text erroneously reads " Paragraph 3 ".

trade of which under column I accounts for the percentage of such trade specified in paragraph 6 of Article XXVI, column I shall be applicable for the purposes of that paragraph. If the present Agreement has not been so accepted prior to the accession of the Government of Japan, column II shall be applicable for the purposes of that paragraph.

	Column I (Contracting parties on 1 March 1955)	*Column II* (Contracting parties on 1 March 1955 and Japan)
Australia	3.1	3.0
Austria	0.9	0.8
Belgium-Luxemburg	4.3	4.2
Brazil	2.5	2.4
Burma	0.3	0.3
Canada	6.7	6.5
Ceylon	0.5	0.5
Chile	0.6	0.6
Cuba	1.1	1.1
Czechoslovakia	1.4	1.4
Denmark	1.4	1.4
Dominican Republic	0.1	0.1
Finland	1.0	1.0
France	8.7	8.5
Germany, Federal Republic of	5.3	5.2
Greece	0.4	0.4
Haiti	0.1	0.1
India	2.4	2.4
Indonesia	1.3	1.3
Italy	2.9	2.8
Netherlands, Kingdom of the	4.7	4.6
New Zealand	1.0	1.0
Nicaragua	0.1	0.1
Norway	1.1	1.1
Pakistan	0.9	0.8
Peru	0.4	0.4
Rhodesia and Nyasaland	0.6	0.6
Sweden	2.5	2.4
Turkey	0.6	0.6
Union of South Africa	1.8	1.8
United Kingdom	20.3	19.8
United States of America	20.6	20.1
Uruguay	0.4	0.4
Japan	—	2.3
	100.0	100.0

Note: These percentages have been computed taking into account the trade of all territories in respect of which the General Agreement on Tariffs and Trade is applied.

ANNEX I

NOTES AND SUPPLEMENTARY PROVISIONS

Ad *Article I*

Paragraph 1

The obligations incorporated in paragraph 1 of Article I by reference to paragraphs 2 and 4 of Article III and those incorporated in paragraph 2 (*b*) of Article II by reference to Article VI shall be considered as falling within Part II for the purposes of the Protocol of Provisional Application.

The cross-references, in the paragraph immediately above and in paragraph 1 of Article I, to paragraphs 2 and 4 of Article III shall only apply after Article III has been modified by the entry into force of the amendment provided for in the Protocol Modifying Part II and Article XXVI of the General Agreement on Tariffs and Trade, dated September 14, 1948. [1]

Paragraph 4

The term "*margin of preference*" means the absolute difference between the most-favoured-nation rate of duty and the preferential rate of duty for the like product, and not the proportionate relation between those rates. As examples:

(1) If the most-favoured-nation rate were 36 per cent *ad valorem* and the preferential rate were 24 per cent *ad valorem*, the margin of preference would be 12 per cent *ad valorem*, and not one-third of the most-favoured-nation rate;

(2) If the most-favoured-nation rate were 36 per cent *ad valorem* and the preferential rate were expressed as two-thirds of the most-favoured-nation rate, the margin of preference would be 12 per cent *ad valorem*;

(3) If the most-favoured-nation rate were 2 francs per kilogramme and the preferential rate were 1.50 francs per kilogramme, the margin of preference would be 0.50 franc per kilogramme.

The following kinds of customs action, taken in accordance with established uniform procedures, would not be contrary to a general binding of margins of preference:

(i) The re-application to an imported product of a tariff classification or rate of duty, properly applicable to such product, in cases in which the application of such classification or rate to such product was temporarily suspended or inoperative on April 10, 1947; and

(ii) The classification of a particular product under a tariff item other than that under which importations of that product were classified on April 10, 1947, in cases in which the tariff law clearly contemplates that such product may be classified under more than one tariff item.

[1] This Protocol entered into force on 14 December 1948.

Ad *Article II*

Paragraph 2 (a)

The cross-reference, in paragraph 2 (*a*) of Article II, to paragraph 2 of Article III shall only apply after Article III has been modified by the entry into force of the amendment provided for in the Protocol Modifying Part II and Article XXVI of the General Agreement on Tariffs and Trade, dated September 14, 1948. [1]

Paragraph 2 (b)

See the note relating to paragraph 1 of Article I.

Paragraph 4

Except where otherwise specifically agreed between the contracting parties which initially negotiated the concession, the provisions of this paragraph will be applied in the light of the provisions of Article 31 of the Havana Charter.

Ad *Article III*

Any internal tax or other internal charge, or any law, regulation or requirement of the kind referred to in paragraph 1 which applies to an imported product and to the like domestic product and is collected or enforced in the case of the imported product at the time or point of importation, is nevertheless to be regarded as an internal tax or other internal charge, or a law, regulation or requirement of the kind referred to in paragraph 1, and is accordingly subject to the provisions of Article III.

Paragraph 1

The application of paragraph 1 to internal taxes imposed by local governments and authorities within the territory of a contracting party is subject to the provisions of the final paragraph of Article XXIV. The term "reasonable measures" in the last-mentioned paragraph would not require, for example, the repeal of existing national legislation authorizing local governments to impose internal taxes which, although technically inconsistent with the letter of Article III, are not in fact inconsistent with its spirit, if such repeal would result in a serious financial hardship for the local governments or authorities concerned. With regard to taxation by local governments or authorities which is inconsistent with both the letter and spirit of Article III, the term "reasonable measures" would permit a contracting party to eliminate the inconsistent taxation gradually over a transition period, if abrupt action would create serious administrative and financial difficulties.

Paragraph 2

A tax conforming to the requirements of the first sentence of paragraph 2 would be considered to be inconsistent with the provisions of the second sentence

[1] This Protocol entered into force on 14 December 1948.

only in cases where competition was involved between, on the one hand, the taxed product and, on the other hand, a directly competitive or substitutable product which was not similarly taxed.

Paragraph 5

Regulations consistent with the provisions of the first sentence of paragraph 5 shall not be considered to be contrary to the provisions of the second sentence in any case in which all of the products subject to the regulations are produced domestically in substantial quantities. A regulation cannot be justified as being consistent with the provisions of the second sentence on the ground that the proportion or amount allocated to each of the products which are the subject of the regulation constitutes an equitable relationship between imported and domestic products.

Ad *Article V*

Paragraph 5

With regard to transportation charges, the principle laid down in paragraph 5 refers to like products being transported on the same route under like conditions.

Ad *Article VI*

Paragraph 1

1. Hidden dumping by associated houses (that is, the sale by an importer at a price below that corresponding to the price invoiced by an exporter with whom the importer is associated, and also below the price in the exporting country) constitutes a form of price dumping with respect to which the margin of dumping may be calculated on the basis of the price at which the goods are resold by the importer.

2. It is recognized that, in the case of imports from a country which has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State, special difficulties may exist in determining price comparability for the purposes of paragraph 1, and in such cases importing contracting parties may find it necessary to take into account the possibility that a strict comparison with domestic prices in such a country may not always be appropriate.

Paragraphs 2 and 3

1. As in many other cases in customs administration, a contracting party may require reasonable security (bond or cash deposit) for the payment of anti-dumping or countervailing duty pending final determination of the facts in any case of suspected dumping or subsidization.

2. Multiple currency practices can in certain circumstances constitute a subsidy to exports which may be met by countervailing duties under paragraph 3 or can constitute a form of dumping by means of a partial depreciation of a country's currency which may be met by action under paragraph 2. By " multiple

currency practices " is meant practices by governments or sanctioned by governments.

Paragraph 6 (b)

Waivers under the provisions of this sub-paragraph shall be granted only on application by the contracting party proposing to levy an anti-dumping or countervailing duty, as the case may be.

Ad *Article VII*

Paragraph 1

The expression " or other charges " is not to be regarded as including internal taxes or equivalent charges imposed on or in connexion with imported products.

Paragraph 2

1. It would be in conformity with Article VII to presume that " actual value " may be represented by the invoice price, plus any non-included charges for legitimate costs which are proper elements of " actual value " and plus any abnormal discount or other reduction from the ordinary competitive price.

2. It would be in conformity with Article VII, paragraph 2 (*b*), for a contracting party to construe the phrase " in the ordinary course of trade ... under fully competitive conditions ", as excluding any transaction wherein the buyer and seller are not independent of each other and price is not the sole consideration.

3. The standard of " fully competitive conditions " permits a contracting party to exclude from consideration prices involving special discounts limited to exclusive agents.

4. The wording of sub-paragraphs (*a*) and (*b*) permits a contracting party to determine the value for customs purposes uniformly either (1) on the basis of a particular exporter's prices of the imported merchandise, or (2) on the basis of the general price level of like merchandise.

Ad *Article VIII*

1. While Article VIII does not cover the use of multiple rates of exchange as such, paragraphs 1 and 4 condemn the use of exchange taxes or fees as a device for implementing multiple currency practices; if, however, a contracting party is using multiple currency exchange fees for balance of payments reasons with the approval of the International Monetary Fund, the provisions of paragraph 9 (*a*) of Article XV fully safeguard its position.

2. It would be consistent with paragraph 1 if, on the importation of products from the territory of a contracting party into the territory of another contracting party, the production of certificates of origin should only be required to the extent that is strictly indispensable.

Ad *Articles XI, XII, XIII, XIV and XVIII*

Throughout Articles XI, XII, XIII, XIV and XVIII, the terms " import restrictions " or " export restrictions " include restrictions made effective through state-trading operations.

Ad *Article XI*

Paragraph 2 (c)

The term " in any form " in this paragraph covers the same products when in an early stage of processing and still perishable, which compete directly with the fresh product and if freely imported would tend to make the restriction on the fresh product ineffective.

Paragraph 2, last sub-paragraph

The term " special factors " includes changes in relative productive efficiency as between domestic and foreign producers, or as between different foreign producers, but not changes artificially brought about by means not permitted under the Agreement.

Ad *Article XII*

The CONTRACTING PARTIES shall make provision for the utmost secrecy in the conduct of any consultation under the provisions of this Article.

Paragraph 3 (c) (*i*)

Contracting parties applying restrictions shall endeavour to avoid causing serious prejudice to exports of a commodity on which the economy of a contracting party is largely dependent.

Paragraph 4 (b)

It is agreed that the date shall be within ninety days after the entry into force of the amendments of this Article effected by the Protocol Amending the Preamble and Parts II and III of this Agreement. However, should the CONTRACTING PARTIES find that conditions were not suitable for the application of the provisions of this sub-paragraph at the time envisaged, they may determine a later date; *Provided* that such date is not more than thirty days after such time as the obligations of Article VIII, Sections 2, 3 and 4, of the Articles of Agreement of the International Monetary Fund become applicable to contracting parties, members of the Fund, the combined foreign trade of which constitutes at least fifty per centum of the aggregate foreign trade of all contracting parties.

Paragraph 4 (c)

It is agreed that paragraph 4 (*c*) does not add any new criteria for the imposition or maintenance of quantitative restrictions for balance of payments reasons.

It is solely intended to ensure that all external factors such as changes in the terms of trade, quantitative restrictions, excessive tariffs and subsidies, which may be contributing to the balance of payments difficulties of the contracting party applying restrictions, will be fully taken into account.

Ad *Article XIII*

Paragraph 2 (d)

No mention was made of "commercial considerations" as a rule for the allocation of quotas because it was considered that its application by governmental authorities might not always be practicable. Moreover, in cases where it is practicable, a contracting party could apply these considerations in the process of seeking agreement, consistently with the general rule laid down in the opening sentence of paragraph 2.

Paragraph 4

See note relating to "special factors" in connexion with the last sub-paragraph of paragraph 2 of Article XI.

Ad *Article XIV*

Paragraph 1

The provisions of this paragraph shall not be so construed as to preclude full consideration by the CONTRACTING PARTIES, in the consultations provided for in paragraph 4 of Article XII and in paragraph 12 of Article XVIII, of the nature, effects and reasons for discrimination in the field of import restrictions.

Paragraph 2

One of the situations contemplated in paragraph 2 is that of a contracting party holding balances acquired as a result of current transactions which it finds itself unable to use without a measure of discrimination.

Ad *Article XV*

Paragraph 4

The word "frustrate" is intended to indicate, for example, that infringements of the letter of any Article of this Agreement by exchange action shall not be regarded as a violation of that Article if, in practice, there is no appreciable departure from the intent of the Article. Thus, a contracting party which, as part of its exchange control operated in accordance with the Articles of Agreement of the International Monetary Fund, requires payment to be received for its exports in its own currency or in the currency of one or more members of the International Monetary Fund will not thereby be deemed to contravene Article XI or Article XIII. Another example would be that of a contracting party which specifies on

an import licence the country from which the goods may be imported, for the purpose not of introducing any additional element of discrimination in its import licensing system but of enforcing permissible exchange controls.

Ad *Article XVI*

The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.

Section B

1. Nothing in Section B shall preclude the use by a contracting party of multiple rates of exchange in accordance with the Articles of Agreement of the International Monetary Fund.

2. For the purposes of Section B, a " primary product " is understood to be any product of farm, forest or fishery, or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade.

Paragraph 3

1. The fact that a contracting party has not exported the product in question during the previous representative period would not in itself preclude that contracting party from establishing its right to obtain a share of the trade in the product concerned.

2. A system for the stabilization of the domestic price or of the return to domestic producers of a primary product independently of the movements of export prices, which results at times in the sale of the product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, shall be considered not to involve a subsidy on exports within the meaning of paragraph 3 if the CONTRACTING PARTIES determine that:

(*a*) the system has also resulted, or is so designed as to result, in the sale of the product for export at a price higher than the comparable price charged for the like product to buyers in the domestic market; and

(*b*) the system is so operated, or is designed so to operate, either because of the effective regulation of production or otherwise, as not to stimulate exports unduly or otherwise seriously to prejudice the interests of other contracting parties.

Notwithstanding such determination by the CONTRACTING PARTIES, operations under such a system shall be subject to the provisions of paragraph 3 where they are wholly or partly financed out of government funds in addition to the funds collected from producers in respect of the product concerned.

Paragraph 4

The intention of paragraph 4 is that the contracting parties should seek before the end of 1957 to reach agreement to abolish all remaining subsidies as from 1 January 1958; or, failing this, to reach agreement to extend the application of the standstill until the earliest date thereafter by which they can expect to reach such agreement.

Ad *Article XVII*

Paragraph 1

The operations of Marketing Boards, which are established by contracting parties and are engaged in purchasing or selling, are subject to the provisions of sub-paragraphs (*a*) and (*b*).

The activities of Marketing Boards which are established by contracting parties and which do not purchase or sell but lay down regulations covering private trade are governed by the relevant Articles of this Agreement.

The charging by a state enterprise of different prices for its sales of a product in different markets is not precluded by the provisions of this Article, provided that such different prices are charged for commercial reasons, to meet conditions of supply and demand in export markets.

Paragraph 1 (a)

Governmental measures imposed to ensure standards of quality and efficiency in the operation of external trade, or privileges granted for the exploitation of national natural resources but which do not empower the government to exercise control over the trading activities of the enterprise in question, do not constitute "exclusive or special privileges".

Paragraph 1 (b)

A country receiving a "tied loan" is free to take this loan into account as a "commercial consideration" when purchasing requirements abroad.

Paragraph 2

The term "goods" is limited to products as understood in commercial practice, and is not intended to include the purchase or sale of services.

Paragraph 3

Negotiations which contracting parties agree to conduct under this paragraph may be directed towards the reduction of duties and other charges on imports and exports or towards the conclusion of any other mutually satisfactory arrangement consistent with the provisions of this Agreement. (See paragraph 4 of Article II and the note to that paragraph.)

Paragraph 4 (b)

The term " import mark-up " in this paragraph shall represent the margin by which the price charged by the import monopoly for the imported product (exclusive of internal taxes within the purview of Article III, transportation, distribution, and other expenses incident to the purchase, sale or further processing, and a reasonable margin of profit) exceeds the landed cost.

Ad *Article XVIII*

The CONTRACTING PARTIES and the contracting parties concerned shall preserve the utmost secrecy in respect of matters arising under this Article.

Paragraphs 1 and 4

1. When they consider whether the economy of a contracting party " can only support low standards of living ", the CONTRACTING PARTIES shall take into consideration the normal position of that economy and shall not base their determination on exceptional circumstances such as those which may result from the temporary existence of exceptionally favourable conditions for the staple export product or products of such contracting party.

2. The phrase " in the early stages of development " is not meant to apply only to contracting parties which have just started their economic development, but also to contracting parties the economies of which are undergoing a process of industrialization to correct an excessive dependence on primary production.

Paragraphs 2, 3, 7, 13 and 22

The reference to the establishment of particular industries shall apply not only to the establishment of a new industry, but also to the establishment of a new branch of production in an existing industry and to the substantial transformation of an existing industry, and to the substantial expansion of an existing industry supplying a relatively small proportion of the domestic demand. It shall also cover the reconstruction of an industry destroyed or substantially damaged as a result of hostilities or natural disasters.

Paragraph 7 (b)

A modification or withdrawal, pursuant to paragraph 7 (*b*), by a contracting party, other than the applicant contracting party, referred to in paragraph 7 (*a*), shall be made within six months of the day on which the action is taken by the applicant contracting party, and shall become effective on the thirtieth day following the day on which such modification or withdrawal has been notified to the CONTRACTING PARTIES.

Paragraph 11

The second sentence in paragraph 11 shall not be interpreted to mean that a contracting party is required to relax or remove restrictions if such relaxation

or removal would thereupon produce conditions justifying the intensification or institution, respectively, of restrictions under paragraph 9 of Article XVIII.

Paragraph 12 (b)

The date referred to in paragraph 12 (*b*) shall be the date determined by the CONTRACTING PARTIES in accordance with the provisions of paragraph 4 (*b*) of Article XII of this Agreement.

Paragraphs 13 and 14

It is recognized that, before deciding on the introduction of a measure and notifying the CONTRACTING PARTIES in accordance with paragraph 14, a contracting party may need a reasonable period of time to assess the competitive position of the industry concerned.

Paragraphs 15 and 16

It is understood that the CONTRACTING PARTIES shall invite a contracting party proposing to apply a measure under Section C to consult with them pursuant to paragraph 16 if they are requested to do so by a contracting party the trade of which would be appreciably affected by the measure in question.

Paragraphs 16, 18, 19 and 22

1. It is understood that the CONTRACTING PARTIES may concur in a proposed measure subject to specific conditions or limitations. If the measure as applied does not conform to the terms of the concurrence it will to that extent be deemed a measure in which the CONTRACTING PARTIES have not concurred. In cases in which the CONTRACTING PARTIES have concurred in a measure for a specified period, the contracting party concerned, if it finds that the maintenance of the measure for a further period of time is required to achieve the objective for which the measure was originally taken, may apply to the CONTRACTING PARTIES for an extension of that period in accordance with the provisions and procedures of Section C or D, as the case may be.

2. It is expected that the CONTRACTING PARTIES will, as a rule, refrain from concurring in a measure which is likely to cause serious prejudice to exports of a commodity on which the economy of a contracting party is largely dependent.

Paragraphs 18 and 22

The phrase "that the interests of other contracting parties are adequately safeguarded" is meant to provide latitude sufficient to permit consideration in each case of the most appropriate method of safeguarding those interests. The appropriate method may, for instance, take the form of an additional concession to be applied by the contracting party having recourse to Section C or D during such time as the deviation from the other Articles of the Agreement would remain in force or of the temporary suspension by any other contracting party referred to in paragraph 18 of a concession substantially equivalent to the impairment due

to the introduction of the measure in question. Such contracting party would have the right to safeguard its interests through such a temporary suspension of a concession; *Provided* that this right will not be exercised when, in the case of a measure imposed by a contracting party coming within the scope of paragraph 4 (*a*), the CONTRACTING PARTIES have determined that the extent of the compensatory concession proposed was adequate.

Paragraph 19

The provisions of paragraph 19 are intended to cover the cases where an industry has been in existence beyond the " reasonable period of time " referred to in the note to paragraphs 13 and 14, and should not be so construed as to deprive a contracting party coming within the scope of paragraph 4 (*a*) of Article XVIII, of its right to resort to the other provisions of Section C, including paragraph 17, with regard to a newly established industry even though it has benefited from incidental protection afforded by balance of payments import restrictions.

Paragraph 21

Any measure taken pursuant to the provisions of paragraph 21 shall be withdrawn forthwith if the action taken in accordance with paragraph 17 is withdrawn or if the CONTRACTING PARTIES concur in the measure proposed after the expiration of the ninety-day time limit specified in paragraph 17.

Ad *Article XX*

Sub-paragraph (h)

The exception provided for in this sub-paragraph extends to any commodity agreement which conforms to the principles approved by the Economic and Social Council in its resolution 30 (IV) of 28 March 1947.

Ad *Article XXIV*

Paragraph 9

It is understood that the provisions of Article I would require that, when a product which has been imported into the territory of a member of a customs union or free-trade area at a preferential rate of duty is re-exported to the territory of another member of such union or area, the latter member should collect a duty equal to the difference between the duty already paid and any higher duty that would be payable if the product were being imported directly into its territory.

Paragraph 11

Measures adopted by India and Pakistan in order to carry out definitive trade arrangements between them, once they have been agreed upon, might depart from particular provisions of this Agreement, but these measures would in general be consistent with the objectives of the Agreement.

Ad *Article XXVIII*

The CONTRACTING PARTIES and each contracting party concerned should arrange to conduct the negotiations and consultations with the greatest possible secrecy in order to avoid premature disclosure of details of prospective tariff changes. The CONTRACTING PARTIES shall be informed immediately of all changes in national tariffs resulting from recourse to this Article.

Paragraph 1

1. If the CONTRACTING PARTIES specify a period other than a three-year period, a contracting party may act pursuant to paragraph 1 or paragraph 3 of Article XXVIII on the first day following the expiration of such other period and, unless the CONTRACTING PARTIES have again specified another period, subsequent periods will be three-year periods following the expiration of such specified period.

2. The provision that on 1 January 1958, and on other days determined pursuant to paragraph 1, a contracting party "may ... modify or withdraw a concession" means that on such day, and on the first day after the end of each period, the legal obligation of such contracting party under Article II is altered; it does not mean that the changes in its customs tariff should necessarily be made effective on that day. If a tariff change resulting from negotiations undertaken pursuant to this Article is delayed, the entry into force of any compensatory concessions may be similarly delayed.

3. Not earlier than six months, nor later than three months, prior to 1 January 1958, or to the termination date of any subsequent period, a contracting party wishing to modify or withdraw any concession embodied in the appropriate Schedule, should notify the CONTRACTING PARTIES to this effect. The CONTRACTING PARTIES shall then determine the contracting party or contracting parties with which the negotiations or consultations referred to in paragraph 1 shall take place. Any contracting party so determined shall participate in such negotiations or consultations with the applicant contracting party with the aim of reaching agreement before the end of the period. Any extension of the assured life of the Schedules shall relate to the Schedules as modified after such negotiations, in accordance with paragraphs 1, 2 and 3 of Article XXVIII. If the CONTRACTING PARTIES are arranging for multilateral tariff negotiations to take place within the period of six months before 1 January 1958, or before any other day determined pursuant to paragraph 1, they shall include in the arrangements for such negotiations suitable procedures for carrying out the negotiations referred to in this paragraph.

4. The object of providing for the participation in the negotiations of any contracting party with a principal supplying interest, in addition to any contracting party with which the concession was initially negotiated, is to ensure that a contracting party with a larger share in the trade affected by the concession than a contracting party with which the concession was initially negotiated shall have an effective opportunity to protect the contractual right which it enjoys under this

Agreement. On the other hand, it is not intended that the scope of the negotiations should be such as to make negotiations and agreement under Article XXVIII unduly difficult nor to create complications in the application of this Article in the future to concessions which result from negotiations thereunder. Accordingly, the CONTRACTING PARTIES should only determine that a contracting party has a principal supplying interest if that contracting party has had, over a reasonable period of time prior to the negotiations, a larger share in the market of the applicant contracting party than a contracting party with which the concession was initially negotiated or would, in the judgment of the CONTRACTING PARTIES, have had such a share in the absence of discriminatory quantitative restrictions maintained by the applicant contracting party. It would therefore not be appropriate for the CONTRACTING PARTIES to determine that more than one contracting party, or in those exceptional cases where there is near equality more than two contracting parties, had a principal supplying interest.

5. Notwithstanding the definition of a principal supplying interest in note 4 to paragraph 1, the CONTRACTING PARTIES may exceptionally determine that a contracting party has a principal supplying interest if the concession in question affects trade which constitutes a major part of the total exports of such contracting party.

6. It is not intended that provision for participation in the negotiations of any contracting party with a principal supplying interest, and for consultation with any contracting party having a substantial interest in the concession which the applicant contracting party is seeking to modify or withdraw, should have the effect that it should have to pay compensation or suffer retaliation greater than the withdrawal or modification sought, judged in the light of the conditions of trade at the time of the proposed withdrawal or modification, making allowance for any discriminatory quantitative restrictions maintained by the applicant contracting party.

7. The expression "substantial interest" is not capable of a precise definition and accordingly may present difficulties for the CONTRACTING PARTIES. It is, however, intended to be construed to cover only those contracting parties which have, or in the absence of discriminatory quantitative restrictions affecting their exports could reasonably be expected to have, a significant share in the market of the contracting party seeking to modify or withdraw the concession.

Paragraph 4

1. Any request for authorization to enter into negotiations shall be accompanied by all relevant statistical and other data. A decision on such request shall be made within thirty days of its submission.

2. It is recognized that to permit certain contracting parties, depending in large measure on a relatively small number of primary commodities and relying on the tariff as an important aid for furthering diversification of their economies or as an important source of revenue, normally to negotiate for the modification or withdrawal of concessions only under paragraph 1 of Article XXVIII, might cause them at such a time to make modifications or withdrawals which in the long

run would prove unnecessary. To avoid such a situation the CONTRACTING PARTIES shall authorize any such contracting party, under paragraph 4, to enter into negotiations unless they consider this would result in, or contribute substantially towards, such an increase in tariff levels as to threaten the stability of the Schedules to this Agreement or lead to undue disturbance of international trade.

3. It is expected that negotiations authorized under paragraph 4 for modification or withdrawal of a single item, or a very small group of items, could normally be brought to a conclusion in sixty days. It is recognized, however, that such a period will be inadequate for cases involving negotiations for the modification or withdrawal of a larger number of items and in such cases, therefore, it would be appropriate for the CONTRACTING PARTIES to prescribe a longer period.

4. The determination referred to in paragraph 4 (*d*) shall be made by the CONTRACTING PARTIES within thirty days of the submission of the matter to them, unless the applicant contracting party agrees to a longer period.

5. In determining under paragraph 4 (*d*) whether an applicant contracting party has unreasonably failed to offer adequate compensation, it is understood that the CONTRACTING PARTIES will take due account of the special position of a contracting party which has bound a high proportion of its tariffs at very low rates of duty and to this extent has less scope than other contracting parties to make compensatory adjustment.

Ad *Article XXVIII bis*.

Paragraph 1

It is understood that the reference to fiscal needs would include the revenue aspect of duties and particularly duties imposed primarily for revenue purposes or duties imposed on products which can be substituted for products subject to revenue duties to prevent the avoidance of such duties.

Ad *Article XXIX*

Paragraph 1

Chapters VII and VIII of the Havana Charter have been excluded from paragraph 1 because they generally deal with the organization, functions and procedures of the International Trade Organization.

Ad *Part IV*

The words "developed contracting parties" and the words "less-developed contracting parties" as used in Part IV are to be understood to refer to developed and less-developed countries which are parties to the General Agreement on Tariffs and Trade.

Ad *Article XXXVI*

Paragraph 1

This Article is based upon the objectives set forth in Article I as it will be amended by Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX when that Protocol enters into force. [1]

Paragraph 4

The term " primary products " includes agricultural products, *vide* paragraph 2 of the note ad Article XVI, Section B.

Paragraph 5

A diversification programme would generally include the intensification of activities for the processing of primary products and the development of manufacturing industries, taking into account the situation of the particular contracting party and the world outlook for production and consumption of different commodities.

Paragraph 8

It is understood that the phrase " do not expect reciprocity " means, in accordance with the objectives set forth in this Article, that the less-developed contracting parties should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments.

This paragraph would apply in the event of action under Section A of Article XVIII, Article XXVIII, Article XXVIII *bis* (Article XXIX after the amendment set forth in Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX shall have become effective [1]), Article XXXIII, or any other procedure under this Agreement.

Ad *Article XXXVII*

Paragraph 1 (a)

This paragraph would apply in the event of negotiations for reduction or elimination of tariffs or other restrictive regulations of commerce under Articles XXVIII, XXVIII *bis* (XXIX after the amendment set forth in Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX shall have become effective [1]), and Article XXXIII, as well as in connexion with other action to effect such reduction or elimination which contracting parties may be able to undertake.

Paragraph 3 (b)

The other measures referred to in this paragraph might include steps to promote domestic structural changes, to encourage the consumption of particular products, or to introduce measures of trade promotion.

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[1] This Protocol was abandoned on 1 January 1968.

PROTOCOL OF PROVISIONAL APPLICATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

1. The Governments of the COMMONWEALTH OF AUSTRALIA, the KINGDOM OF BELGIUM (in respect of its metropolitan territory), CANADA, the FRENCH REPUBLIC (in respect of its metropolitan territory), the GRAND-DUCHY OF LUXEMBURG, the KINGDOM OF THE NETHERLANDS (in respect of its metropolitan territory), the UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (in respect of its metropolitan territory), and the UNITED STATES OF AMERICA, undertake, provided that this Protocol shall have been signed on behalf of all the foregoing Governments not later than 15 November 1947, to apply provisionally on and after 1 January 1948:

(*a*) Parts I and III of the General Agreement on Tariffs and Trade, and

(*b*) Part II of that Agreement to the fullest extent not inconsistent with existing legislation.

2. The foregoing Governments shall make effective such provisional application of the General Agreement, in respect of any of their territories other than their metropolitan territories, on or after 1 January 1948, upon the expiration of thirty days from the day on which notice of such application is received by the Secretary-General of the United Nations.

3. Any other government signatory to this Protocol shall make effective such provisional application of the General Agreement, on or after 1 January 1948, upon the expiration of thirty days from the day of signature of this Protocol on behalf of such Government.

4. This Protocol shall remain open for signature at the Headquarters of the United Nations (*a*) until 15 November 1947, on behalf of any government named in paragraph 1 of this Protocol which has not signed it on this day, and (*b*) until 30 June 1948, on behalf of any other Government signatory to the Final Act adopted at the conclusion of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment which has not signed it on this day.

5. Any government applying this Protocol shall be free to withdraw such application, and such withdrawal shall take effect upon the expiration of sixty days from the day on which written notice of such withdrawal is received by the Secretary-General of the United Nations.

6. The original of this Protocol shall be deposited with the Secretary-General of the United Nations, who will furnish certified copies thereof to all interested Governments.

IN WITNESS WHEREOF the respective Representatives, after having communicated their full powers, found to be in good and due form, have signed the Protocol.

DONE at Geneva, in a single copy, in the English and French languages, both texts authentic, this thirtieth day of October one thousand nine hundred and forty-seven.

APPENDIX

The first section of this Appendix gives the source (legal instruments) of the various provisions of the GATT, other than schedules, their effective date and their respective citations in the United Nations *Treaty Series* (UNTS) or in GATT publications.

The second section contains a key to the abbreviated titles used in the first section, together with their citations. Column 4 refers to provisions in Part I of the General Agreement and indicates where they have been qualified, for instance, with regard to territorial application or the maintenance of preferences. Column 5 refers to provisions in Part II of the General Agreement, and indicates where they have been qualified, e.g. with regard to dates of application. Column 6 refers to different applicable dates with regard to paragraph 1 of Article II. Column 7 refers to different applicable dates with regard to Article V:6, Article VII:4 (*d*), Article X:3 (*c*). Column 8 refers to different termination periods for withdrawal from the Agreement.

I. SOURCE AND EFFECTIVE DATE OF GATT PROVISIONS

GATT provision	*Source*	*Effective*	*Citation*
Title	GATT	1 Jan. 1948	55 UNTS 194
Preamble	GATT	1 Jan. 1948	55 UNTS 194
Part I	GATT	1 Jan. 1948	55 UNTS 196
Article I	GATT	1 Jan. 1948	55 UNTS 196
Par. 1	Cross reference to art. III modified by 1948 Pt. I Prot., par. 1, sec. A (i)	24 Sept. 1952	138 UNTS 336
Par. 2	Cross reference to subsequent par. modified by 1948 Pt. I Prot., par. 1, sec. A (ii)	24 Sept. 1952	138 UNTS 336
	Provisions in supplementary agreements permitting additional tariff preferences are listed in col. 4 of key in section II		
Par. 3	1948 Pt. I Prot., par. 1, sec. A (iii)	24 Sept. 1952	138 UNTS 336
Par. 4	Par. No. modified by 1948 Pt. I Prot., par. 1, sec. A (iii)	24 Sept. 1952	138 UNTS 336
	Provisions in supplementary agreements providing different base dates are listed in col. 4 of key in section II		
Article II	GATT	1 Jan. 1948	55 UNTS 200
Par. 1	Provisions in supplementary agreements providing different dates applicable to certain concessions are listed in col. 6 of key in section II		
Par. 2			
Subpar. (*a*)	Cross reference to art. III modified by 1948 Pt. I Prot., par. 1, sec. B	24 Sept. 1952	138 UNTS 336

GATT provision	*Source*	*Effective*	*Citation*
Part I *(cont.)*			
Article II *(cont.)*			
Par. 6			
Subpar. *(a)*	Provisions in supplementary agreements providing different dates applicable to certain concessions are listed in col. 6 of key in section II		
Part II	GATT	1 Jan. 1948	55 UNTS 204
	Provisions in supplementary agreements qualifying application of this part are listed in col. 5 of key in section II		
Article III	1948 Pt. II Prot., par. 1, sec. A	14 Dec. 1948	62 UNTS 82
Article IV	GATT	1 Jan. 1948	55 UNTS 208
Article V	GATT	1 Jan. 1948	55 UNTS 208
Par. 6	Provisions in supplementary agreements providing different dates concerning consignment requirements are listed in col. 7 of key in section II		
Article VI	1948 Pt. II Prot., par. 1, sec. B	14 Dec. 1948	62 UNTS 86
Par. 6	1955 Pt. II Prot., par. 1, sec. D	7 Oct. 1957	278 UNTS 170
Article VII	GATT	1 Jan. 1948	55 UNTS 216
Par. 1	Former qualification deleted from first sentence by 1955 Pt. II Prot., par. 1, sec. I. (i)	7 Oct. 1957	278 UNTS 172
Par. 2			
Subpar. *(b)*	First sentence modified by 1955 Pt. II Prot., par. 1, sec. I. (ii)	7 Oct. 1957	278 UNTS 172
Par. 4			
Subpar. *(a)* and *(b)*	Modified by 1955 Pt. II Prot., par. 1, sec. E (iii)	7 Oct. 1957	278 UNTS 172
Subpar. *(d)*	Provisions in supplementary agreements providing different dates concerning currency conversion methods are listed in col. 7 of key in section II		

GATT provision	*Source*	*Effective*	*Citation*
Part II (*cont.*)			
Article VIII	GATT	1 Jan. 1948	55 UNTS 218
Title	1955 Pt. II Prot., par. 1, sec. F (i)	7 Oct. 1957	278 UNTS 174
Par. 1 and 2	1955 Pt. II Prot., par. 1, sec. F (ii)	7 Oct. 1957	278 UNTS 174
Article IX	GATT	1 Jan. 1948	55 UNTS 220
Par. 2	1955 Pt. II Prot., par. 1, sec. G (i)	7 Oct. 1957	278 UNTS 174
Par. 3 to 6	Par. No. modified by 1955 Pt. II Prot., par. 1, sec. G (ii)	7 Oct. 1957	278 UNTS 174
Article X	GATT	1 Jan. 1948	55 UNTS 222
Par. 3 Subpar. (c)	Provisions in supplementary agreements providing different dates concerning procedures are listed in col. 7 of key in section II		
Article XI	GATT	1 Jan. 1948	55 UNTS 224
	Former par. 3 deleted by 1955 Pt. II Prot., par. 1, sec. H	7 Oct. 1957	278 UNTS 174
Article XII	1955 Pt. II Prot., par. 1, sec. I	7 Oct. 1957	278 UNTS 174
Article XIII	GATT	1 Jan. 1948	55 UNTS 234
Par. 5	Former reference to art. III deleted by 1948 Pt. II Prot., par. 1, sec. C	14 Dec. 1948	62 UNTS 90
Article XIV			
Par. 1	1955 Pt. II Prot., par. 1, sec. J (i)	15 Feb. 1961	278 UNTS 180
Par. 2 to 5	1955 Pt. II Prot., par. 1, sec. J (ii)	7 Oct. 1957	278 UNTS 180
Article XV	GATT	1 Jan. 1948	55 UNTS 246
Par. 2	Reference to art. XVIII added by 1955 Pt. II Prot., par. 1, sec. K	7 Oct. 1957	278 UNTS 182
Par. 9	Opening clause modified by 1948 Pt. II, Prot., par. 1, sec. D	14 Dec. 1948	62 UNTS 90

GATT provision	*Source*	*Effective*	*Citation*
Part II (*cont.*)			
Article XVI	GATT	1 Jan. 1948	55 UNTS 250
Sec. A			
Title	Section designation and title added by 1955 Pt. II Prot., par. 1, sec. L (i)	7 Oct. 1957	278 UNTS 182
Par. 1	Par. No. added by 1955 Pt. II Prot., par. 1, sec. L (i)	7 Oct. 1957	278 UNTS 182
Sec. B	1955 Pt. II Prot., par. 1, sec. L (ii)	7 Oct. 1957	278 UNTS 182
Par. 2	Opening words modified by 1955 Rectif. P.-V., art. I, sec. B, par. 4	7 Oct. 1957	278 UNTS 248
Par. 4	Effective date of prohibition provided for in 1960 art. XVI:4 Prohib. Decl., par. 1	14 Nov. 1962	445 UNTS 294
	Reference to domestic market modified by 1955 Rectif. P.-V., art. I, sec. B, par. 4	7 Oct. 1957	278 UNTS 248
Article XVII	GATT	1 Jan. 1948	55 UNTS 250
Title	Modified by 1955 Pt. II Prot., par. 1, sec. M (i)	7 Oct. 1957	278 UNTS 184
Par. 3 and 4	1955 Pt. II Prot., par. 1, sec. M (ii)	7 Oct. 1957	278 UNTS 184
Article XVIII	1955 Pt. II Prot., par. 1, sec. N	7 Oct. 1957	278 UNTS 186
Article XIX	GATT	1 Jan. 1948	55 UNTS 258
Par. 3	Language of suspension rights modified by 1955 Pt. II Prot., par. 1, sec. O	7 Oct. 1957	278 UNTS 200
Article XX	GATT	1 Jan. 1948	55 UNTS 262
	Former Pt. II and No. of Pt. I deleted by 1955 Pt. II Prot., par. 1, sec. P (i)	7 Oct. 1957	278 UNTS 200
Subpar. (*h*)	1955 Pt. II Prot., par. 1, sec. P (ii)	7 Oct. 1957	278 UNTS 200
Subpar. (*j*)	1955 Pt. II Prot., par. 1, sec. P (iii)	7 Oct. 1957	278 UNTS 200
Article XXI	GATT	1 Jan. 1948	55 UNTS 266
Article XXII	1955 Pt. II Prot., par. 1, sec. Q	7 Oct. 1957	278 UNTS 200
Article XXIII	GATT	1 Jan. 1948	55 UNTS 266
Par. 2	Last two sentences modified by 1955 Pt. II Prot., par. 1, sec. R	7 Oct. 1957	278 UNTS 200

GATT provision	*Source*	*Effective*	*Citation*
Part III	GATT	1 Jan. 1948	55 UNTS 268
Article XXIV	1948 art. XXIV Prot., sec. I	7 June 1948	62 UNTS 56
Par. 4	1955 Pt. II Prot., par. I, sec. S (i)	7 Oct. 1957	278 UNTS 202
Par. 7 Subpar. (*b*)	First clause modified by 1955 Pt. II Prot., par. I, sec. S (ii)	7 Oct. 1957	278 UNTS 202
Article XXV	GATT	1 Jan. 1948	55 UNTS 272
Par. 5	1948 Mod. Prot., sec. I	15 Apr. 1948	62 UNTS 30
	Former subpars. (*b*) through (*d*) and subpar. designation following par. no. deleted by 1955 Pt. II Prot., par. I, sec. T	7 Oct. 1957	278 UNTS 202
Article XXVI	1955 Pt. II Prot., par. I, sec. U (i)	7 Oct. 1957	278 UNTS 202
Article XXVII	GATT	1 Jan. 1948	55 UNTS 276
	Final sentence modified by 1955 Pt. II Prot., par. I, sec. V	7 Oct. 1957	278 UNTS 204
Article XXVIII	1955 Pt. II Prot., par. I, sec. W	7 Oct. 1957	278 UNTS 204
Article XXVIII *bis*	1955 Pt. II Prot., par. I, sec. X (i)	7 Oct. 1957	278 UNTS 208
Article XXIX	1948 Pt. I Prot., par. I, sec. C	24 Sept. 1952	138 UNTS 336
Article XXX	GATT	1 Jan. 1948	55 UNTS 282
Article XXXI	GATT	1 Jan. 1948	55 UNTS 282
	Reference to art. XVIII added by 1955 Pt. II Prot., par. I, sec. Y (i)	7 Oct. 1957	278 UNTS 210
	Connecting words added to first clause by 1955 Rectif. P.-V., art. I, sec. B, par. 5	7 Oct. 1957	278 UNTS 248
	Former limiting date deleted from each sentence by 1955 Pt. II Prot., par. I, sec. Y (ii) and (iii)	7 Oct. 1957	278 UNTS 210
	Provisions in supplementary agreements providing for different termination period are listed in col. 8 of key in section II		

GATT provision	*Source*	*Effective*	*Citation*
Part III (*cont.*)			
Article XXXII	GATT	1 Jan. 1948	55 UNTS 282
Par. 1	1948 Mod. Prot., sec. II	15 Apr. 1948	62 UNTS 32
Par. 2	Cross references modified by 1955 Pt. II Prot., par. 1, sec. SS	7 Oct. 1957	278 UNTS 234
Article XXXIII	1948 Mod. Prot., sec. III	15 Apr. 1948	62 UNTS 34
Article XXXIV	GATT	1 Jan. 1948	55 UNTS 284
Article XXXV	1955 Pt. II Prot., par. 1, sec. Z	7 Oct. 1957	278 UNTS 210
Part IV	1965 Pt. IV Prot., par. 1, sec. A	27 June 1966	GATT, Final Act 2nd Sp. Sess. 25
Article XXXVI	1965 Pt. IV Prot., par. 1, sec. A	27 June 1966	GATT, Final Act 2nd Sp. Sess. 25
Article XXXVII	1965 Pt. IV Prot., par. 1, sec. A	27 June 1966	GATT, Final Act 2nd Sp. Sess. 27
Article XXXVIII	1965 Pt. IV Prot., par. 1, sec. A	27 June 1966	GATT, Final Act 2nd Sp. Sess. 30
Annex A	GATT	1 Jan. 1948	55 UNTS 284
Final par.	1948 Pt. I Prot., par. 1, sec. D	24 Sept. 1952	138 UNTS 338
Annex B	1955 4th Rectif. and Modif. Prot., par. 1	23 Jan. 1959	324 UNTS 302
Annex C	1950 4th Rectif. Prot., par. 1 (*a*)	24 Sept. 1952	138 UNTS 399
	Last name in list modified by 1950 5th Rectif. Prot., par. 1 (*a*)	30 June 1953	167 UNTS 266
Annex D	GATT	1 Jan. 1948	55 UNTS 290
Annex E	GATT	1 Jan. 1948	55 UNTS 290
Annex F	GATT	1 Jan. 1948	55 UNTS 290
Annex G	GATT	1 Jan. 1948	55 UNTS 290
Annex H	1955 Pt. II Prot., par. 1, sec. AA (i)	7 Oct. 1957	278 UNTS 212
Annex I	GATT	1 Jan. 1948	55 UNTS 292
Title	1955 Pt. II Prot., par. 1, sec. BB (ii)	7 Oct. 1957	278 UNTS 214

GATT provision	*Source*	*Effective*	*Citation*
Annex I (*cont.*)			
Ad Article I	GATT	1 Jan. 1948	55 UNTS 292
Par. 1			
First par.	Cross reference to art. III modified by 1948 Pt. I Prot., par. 1, sec. E (i)	24 Sept. 1948	138 UNTS 338
Second par.	1948 Pt. I Prot., par. 1, sec. E (ii)	24 Sept. 1952	138 UNTS 338
Par. 3	Par. No. modified by 1948 Pt. I Prot., par. 1, sec. E (iii)	24 Sept. 1952	138 UNTS 340
Ad Article II	GATT	1 Jan. 1948	55 UNTS 294
Par. 2 (*a*)	1948 Pt. I Prot., par. 1, sec. E (iv)	24 Sept. 1952	138 UNTS 340
Par. 4	1948 Pt. I Prot., par. 1, sec. E (v)	24 Sept. 1952	138 UNTS 340
Ad Article III	1948 Pt. II Prot., par. 1, sec. G (i)	14 Dec. 1948	62 UNTS 104
Ad Article V	GATT	1 Jan. 1948	55 UNTS 296
Ad Article VI	1948 Pt. II Prot., par. 1, sec. G (ii)	14 Dec. 1948	62 UNTS 106
Par. 1			
Note 1	Note No. added by 1955 Pt. II Prot., par. 1, sec. CC (i)	7 Oct. 1957	278 UNTS 214
Note 2	1955 Pt. II Prot., par. 1, sec. CC (ii)	7 Oct. 1957	278 UNTS 214
Par. 6 (*b*)	1955 Pt. II Prot., par. 1, sec. CC (iii)	7 Oct. 1957	278 UNTS 214
Ad Article VII	GATT	1 Jan. 1948	55 UNTS 296
Par. 1	1955 Pt. II Prot., par. 1, sec. DD (i)	7 Oct. 1957	278 UNTS 214
Par. 2	1955 Pt. II Prot., par. 1, sec. DD (ii)	7 Oct. 1957	278 UNTS 214
Ad Article VIII	1955 Pt. II Prot., par. 1, sec. EE	7 Oct. 1957	278 UNTS 216
Ad Articles XI, XII, XIII, XIV and XVIII	1955 Rectif. P.-V., art. I, sec. B, par. 7	7 Oct. 1957	278 UNTS 248
Ad Article XI	GATT	1 Jan. 1948	55 UNTS 298
Ad Article XII	1955 Pt. II Prot., par. 1, sec. GG	7 Oct. 1957	278 UNTS 216

GATT provision	*Source*	*Effective*	*Citation*
Annex I (*cont.*)			
Ad Article XIII	GATT	1 Jan. 1948	55 UNTS 300
Ad Article XIV			
Par. 1	1955 Pt. II Prot., par. 1, sec. HH	15 Feb. 1961	278 UNTS 218
Par. 2	1948 Art. XIV Prot., sec. II	1 Jan. 1949	62 UNTS 46
Ad Article XV	GATT	1 Jan. 1948	55 UNTS 302
Ad Article XVI	1955 Pt. II Prot., par. 1, sec. II	7 Oct. 1957	278 UNTS 218
Ad Article XVII	GATT	1 Jan. 1948	55 UNTS 302
Par. 3	1955 Pt. II Prot., par. 1, sec. JJ	7 Oct. 1957	278 UNTS 220
Par. 4 (*b*)	1955 Pt. II Prot., par. 1, sec. JJ	7 Oct. 1957	278 UNTS 220
Ad Article XVIII	1955 Pt. II Prot., par. 1, sec. KK	7 Oct. 1957	278 UNTS 222
Ad Article XX	1955 Pt. II Prot., par. 1, sec. LL	7 Oct. 1957	278 UNTS 226
Ad Article XXIV	1948 Art. XXIV Prot., sec. II	7 June 1948	62 UNTS 64
Par. 9	1949 3rd Rectif. Prot., par. 1	21 Oct. 1951	107 UNTS 314
Ad Article XXVIII	1955 Pt. II Prot., par. 1, sec. NN	7 Oct. 1957	278 UNTS 226
Ad Article XXVIII *bis*	1955 Pt. II Prot., par. 1, sec. OO (i)	7 Oct. 1957	278 UNTS 232
Ad Article XXIX	1948 Pt. I Prot., par. 1, sec. E (vi)	24 Sept. 1952	138 UNTS 340
Ad Part IV	1965 Pt. IV Prot., par. 1, sec. B	27 June 1966	GATT, Final Act 2nd Sp. Sess. 31
Ad Article XXXVI	1965 Pt. IV Prot., par. 1, sec. B	27 June 1966	GATT, Final Act 2nd Sp. Sess. 31
Ad Article XXXVII	1965 Pt. IV Prot., par. 1, sec. B	27 June 1966	GATT, Final Act 2nd Sp. Sess. 32

II. KEY TO ABBREVIATIONS USED IN THIS APPENDIX AND TO PROVISIONS IN SUPPLEMENTARY AGREEMENTS AFFECTING THE APPLICATION OF CERTAIN PORTIONS OF THE GENERAL AGREEMENT

Abbreviated agreement title used (1)	*Agreement title* (2)	*Citation* (3)	*Qualification re application of pt. I* (4)	*Qualification re application of pt. II* (5)	*Different date re certain concessions* (6)	*Different date re certain parties* (7)	*Different termination period* (8)
GATT	General Agreement on Tariffs and Trade	55 UNTS 194	—	—	—	—	—
—	Protocol of Provisional Application of the General Agreement on Tariffs and Trade, 30 October 1947	55 UNTS 308	—	Par. 1 (*b*)	—	—	Par. 5
1948 Mod. Prot.	Protocol modifying certain provisions of the General Agreement on Tariffs and Trade, 24 March 1948	62 UNTS 30	—	—	—	—	—
1948 Art. XIV Prot.	Special Protocol modifying Article XIV of the General Agreement on Tariffs and Trade, 24 March 1948	62 UNTS 40	—	—	—	—	—
1948 Art. XXIV Prot.	Special Protocol relating to Article XXIV of the General Agreement on Tariffs and Trade, 24 March 1948	62 UNTS 56	—	—	—	—	—
1948 Pt. I Prot.	Protocol modifying Part I and Article XXIX of the General Agreement on Tariffs and Trade, 14 September 1948	138 UNTS 334	—	—	—	—	—

1948 Pt. II Prot.	Protocol modifying Part II and Article XXVI of the General Agreement on Tariffs and Trade, 14 September 1948	62 UNTS 80	—	—	—	—	—
—	Protocol for the Accession of Signatories of the Final Act of 30 October 1947, 14 September 1948	62 UNTS 68	—	Par. 1	—	—	Par. 1
1949 3rd Rectif. Prot.	Third Protocol of Rectifications to the General Agreement on Tariffs and Trade, 13 August 1949	107 UNTS 312	—	—	—	—	—
—	Annecy Protocol of Terms of Accession to the General Agreement on Tariffs and Trade, 10 October 1949	62 UNTS 122	Par. 1 (*d*)	Par. 1 (*a*) (ii)	Par. 5 (*a*)	Par. 5 (*b*)	Par. 7
1950 4th Rectif. Prot.	Fourth Protocol of Rectifications to the General Agreement on Tariffs and Trade, 3 April 1950	138 UNTS 398	—	—	—	—	—
1950 5th Rectif. Prot.	Fifth Protocol of Rectifications to the General Agreement on Tariffs and Trade, 16 December 1950	167 UNTS 265	—	—	—	—	—
—	Torquay Protocol to the General Agreement on Tariffs and Trade, 21 April 1951	142 UNTS 34	—	Par. 1 (*a*) (ii)	Par. 5 (*a*)	Par. 5 (*b*)	Par. 8
—	First Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Union of South Africa and Germany), 27 October 1951	131 UNTS 316	—	—	Par. 3	—	—

Abbreviated agreement title used (1)	*Agreement title* (2)	*Citation* (3)	*Qualification re application of pt. I* (4)	*Qualification re application of pt. II* (5)	*Different date re certain concessions* (6)	*Different date re certain parties* (7)	*Different termination period* (8)
—	Second Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Austria and Germany), 22 November 1952	172 UNTS 340	—	—	Par. 3	—	—
1955 4th Rectif. & Modif. Prot.	Fourth Protocol of Rectifications and Modifications to the Annexes and to the Texts of the Schedules to the General Agreement on Tariffs and Trade, 7 March 1955	324 UNTS 300	—	—	—	—	—
1955 Pt. II Prot.	Protocol Amending the Preamble and Parts II and III of the General Agreement on Tariffs and Trade, 10 March 1955	278 UNTS 168	—	—	—	—	—
—	Protocol of Terms of Accession of Japan to the General Agreement on Tariffs and Trade, 7 June 1955	220 UNTS 164	Par. 1 (*d*)	Par. 1 (*a*) (ii)	Par. 5 (*a*)	Par. 5 (*b*)	Par. 7
—	Third Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Denmark and Federal Republic of Germany), 15 July 1955	250 UNTS 292	—	—	Par. 2 (*a*)	—	—

—	Fourth Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Federal Republic of Germany and Norway), 15 July 1955	250 UNTS 297	—	—	Par. 2 (*a*)	—	—
—	Fifth Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Federal Republic of Germany and Sweden), 15 July 1955	250 UNTS 301	—	—	Par. 2 (*a*)	—	—
1955 Rectif. P.-V.	Procès-Verbal of Rectification Concerning the Protocol Amending Part I and Articles XXIX and XXX of the General Agreement on Tariffs and Trade, the Protocol amending the Preamble and Parts II and III of the General Agreement on Tariffs and Trade and the Protocol of Organizational Amendments to the General Agreement on Tariffs and Trade, 3 December 1955	278 UNTS 246	—	—	—	—	—
—	Sixth Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade, 23 May 1956	244 UNTS 2	—	—	Par. 4	—	—
—	Seventh Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Austria and Federal Republic of Germany), 19 February 1957	309 UNTS 364	—	—	Par. 4	—	—

Abbreviated agreement title used (1)	*Agreement title* (2)	*Citation* (3)	*Qualification re application of pt. I* (4)	*Qualification re application of pt. II* (5)	*Different date re certain concessions* (6)	*Different date re certain parties* (7)	*Different termination period* (8)
—	Eighth Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Cuba and United States of America), 20 June 1957	274 UNTS 322	—	—	Par. 2	—	—
—	Protocol relating to Negotiations for the Establishment of New Schedule III—Brazil—to the General Agreement on Tariffs and Trade, 31 December 1958	398 UNTS 318	—	—	Par. 7	—	—
1960 Art. XVI: 4 Prohib. Decl.	Declaration Giving Effect to the Provisions of Article XVI: 4 of the General Agreement on Tariffs and Trade, 19 November 1960	445 UNTS 294	—	—	—	—	—
—	Protocol for the Accession of Portugal to the General Agreement on Tariffs and Trade, 6 April 1962	431 UNTS 208	Par. 3	Par. 1 (*b*)	Par. 7	Par. 2 (*b*)	Par. 12
—	Protocol for the Accession of Israel to the General Agreement on Tariffs and Trade, 6 April 1962	431 UNTS 244	—	Par. 1 (*b*)	Par. 6	Par. 2 (*b*)	Par. 10

—	Protocol to the General Agreement on Tariffs and Trade Embodying Results of the 1960-61 Tariff Conference, 16 July 1962	440 UNTS 2	—	—	Par. 5	—	—
—	Tenth Protocol of Supplementary Concessions to the General Agreement on Tariffs and Trade (Japan and New Zealand), 28 January 1963	476 UNTS 254	—	—	Par. 4	—	—
—	Protocol Supplementary to the Protocol to the General Agreement on Tariffs and Trade Embodying Results of the 1960-61 Tariff Conference, 6 May 1963	501 UNTS 304	—	—	Par. 4	—	—
—	Protocol for the Accession of Spain to the General Agreement on Tariffs and Trade, 1 July 1963	476 UNTS 264	Par. 4	Par. 1 (*b*)	Par. 8	Par. 2 (*b*)	Par. 12
1965 Pt. IV Prot.	Protocol Amending the General Agreement on Tariffs and Trade to Introduce a Part IV on Trade and Development, 8 February 1965	GATT, Final Act 2nd Sp. Sess. 25	—	—	—	—	—
—	Protocol for the Accession of Switzerland to the General Agreement on Tariffs and Trade, 1 April 1966	GATT, Prot. Acc. Switz.	—	Pars. 1 (*b*), 4, and 5	Par. 9	Par. 2 (*b*)	Par. 15
—	Protocol for the Accession of Yugoslavia to the General Agreement on Tariffs and Trade, 20 July 1966	GATT, Prot. Acc. Yugo.	—	Par. 1 (*b*)	Par. 4	Par. 2 (*b*)	Par. 9

Abbreviated agreement title used (1)	*Agreement title* (2)	*Citation* (3)	*Qualification re application of pt. I* (4)	*Qualification re application of pt. II* (5)	*Different date re certain concessions* (6)	*Different date re certain parties* (7)	*Different termination period* (8)
—	Protocol for the Accession of Korea to the General Agreement on Tariffs and Trade, 2 March 1967	GATT, Prot. Acc. Korea	—	Par. 1 (*b*)	Par. 4	Par. 2 (*b*)	Par. 9
—	Geneva (1967) Protocol to the General Agreement on Tariffs and Trade, 30 June 1967	GATT, Instrs. 1964-67 Conf., I, 21	—	—	Par. 4	—	—
—	Protocol for the Accession of Argentina to the General Agreement on Tariffs and Trade, 30 June 1967	GATT, Instrs. 1964-67 Conf., V, 3719	—	Par. 1 (*b*)	Par. 4	Par. 2 (*b*)	Par. 9
—	Protocol for the Accession of Iceland to the General Agreement on Tariffs and Trade, 30 June 1967	GATT, Instrs. 1964-67 Conf., V, 3763	—	Par. 1 (*b*)	Par. 4	Par. 2 (*b*)	Par. 9
—	Protocol for the Accession of Ireland to the General Agreement on Tariffs and Trade, 30 June 1967	GATT, Instrs. 1964-67 Conf., V, 3789	Par. 2 (*b*)	Par. 1 (*b*)	Par. 4	Par. 2 (*c*)	Par. 9
—	Protocol for the Accession of Poland to the General Agreement on Tariffs and Trade, 30 June 1967	GATT, Instrs. 1964-67 Conf., V, 3959	Pars. 4 and 7	Pars. 1 (*b*), 3, 4, 7, and 8	—	Par. 2 (*b*)	Par. 14

U.S. GOVERNMENT PRINTING OFFICE: 1969 O - 356-318 (1148)

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AIR MAIL
YOUR REF.

OUR REF.

August 15, 1984

CUSHMAN, DARBY & CUSHMAN
RECEIVED
AUG 21 1984
WASHINGTON, D.C.

Michael K. Kirk, Esq.,
5941 River Drive,
Lorton, Virginia 22079,
U.S.A.

Dear Mike:

Re: ABA Resolution 101-3

I promised to drop you a line about the above resolution, having regard to some history in the British Commonwealth. This history raises the question whether the United States should consider limiting protection to the product "directly" produced by the claimed process. At the meeting you quoted the present British and European statutory provisions which refer to the product "directly" produced.

The history, briefly summarized, is as follows.

Before there was any detailed patent legislation in England, Letters Patent for inventions were granted by the Crown. The courts looked at the wording of the grant from the Crown to ascertain what rights were granted. The formal grant was, inter alia, to "make, use, exercise and vend the said invention...and that the said patentee shall have and enjoy the whole profit and advantage from time to time accruing by reason of the said invention,...AND to the end that the said patentee may have and enjoy the sole use and exercise and the full benefit of the said invention, We do...strictly command all our subjects whatsoever...that they do not at any time during the continuance of the said term either directly or indirectly make use of or put in practice the said invention, nor in anywise imitate the same..."

Under this rather sweeping grant, the English courts held that the importation into and sale in England of products manufactured abroad by either a claimed process or by a claimed apparatus was an infringement of the process claim or of the apparatus claim. Further, it was held (Saccharin Corporation v. Anglo-Continental (1900) 17 R.P.C. 307) that there was an infringement though the claimed process was used abroad in the production of an intermediate substance, that intermediate being used abroad to make the imported product. A relatively recent case on this is Beecham v. Bristol [1978] R.P.C. 153, in the House of Lords, a case arising prior to the effective date of the present U.K. Patents Act 1977 which, in section 60(1)(c), introduced reference to a product obtained "directly" by means of the process.

In an older case, Wilderman v. Berk (1925) 42 R.P.C. 79, it was suggested by Tomlin J. that use of the patented process or apparatus must have played an important part in the manufacture of the imported product. As an example, he suggested that it would not be an infringement of a patent on a hammer to import a locomotive in the manufacture of which the patented hammer had been used.

This background set the stage for the introduction into the British legislation of the word "directly". The meaning of "directly" can be the subject of argument but it has been adopted in the EPC Article 64(2) and in the CPC Article 29(c).

Under the 1977 U.K. Patents Act it seems that it may no longer be an infringement of an apparatus claim to import and sell the product of a patented apparatus. I am not sure that this is right, in principle, if one is prepared to enact that it is an infringement of a patented process to import the product of that process. I expect that there are many patents in existence today in the United States that have claims in apparatus form that might equally have been written in process form (by substituting, for means for doing so and so, process steps for doing so and so). If U.S. legislation is to make it an infringement, in the future, to import and sell the product of a patented process, and if this is to apply to presently subsisting patents as well as to ones taken out in the future, there could be situations where owners of subsisting patents are discriminated against simply because the draftsmen decided that they would obtain adequate protection by means of apparatus claims although they might, had they been able to see into the future, equally have obtained process claims. Or, looking to future claim drafting problems, situations may arise where a process is old and cannot be claimed but an apparatus is new and can be: should this put the inventor at a disadvantage with respect to imported products? He would not be in Canada, where we have preserved the old English doctrines as to what constitutes an infringement. (This may, of course, be re-examined one day in Canada, if and when our government ever gets around to amending our Patent Act.)

The state of the law in England, Canada, and other countries puts the importer into something of a dilemma. If he is going to import a product, should he investigate the process or apparatus by which the product was made in order to satisfy himself as to whether he may be charged with infringement of a patent for a process or apparatus? Or should he deliberately refrain from inquiring, so that if he is sued the patentee will not be able to prove, out of the importer's mouth, what process or apparatus was used in the manufacture of the imported product?

Perhaps I might sum up my point about whether the word "directly" should be included by reference to another example, the method claims allowed in Diamond v. Diehr, 209 U.S.P.Q. 1, where the claims relate to a method of operating a rubber-molding press. Suppose that you import into the United States a locomotive having a rubber gasket made according to this method. Would this be an infringement under legislation which follows resolution 101-3? The resolution would govern both use and sale. Would all users of such locomotives face being enjoined against use of the locomotives unless they went to the very considerable expense of dismantling the locomotives and replacing the gaskets? This would probably be less expensive than fighting a patent infringement suit, but could be highly disruptive. What one of the speakers labelled at the ABA

Meeting as a "can of worms" might be regarded, from the litigating attorney's point of view, as a pot of gold.

I am sending copies of this letter to Harry Manbeck and Bill West, as well as to Bill Thompson and Vic Bellino, both of whom expressed some interest in the foregoing points.

Sincerely yours,

William L. Hayhurst

WLH/pw
cc: Harry F. Manbeck, Esq.
William K. West, Esq.✓
William S. Thompson, Esq.
Vito V. Bellino, Esq.

APPENDIX 11

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol. 129 WASHINGTON, FRIDAY, NOVEMBER 18, 1983 No. 161

House of Representatives

E 5693

THE PATENT AND TRADEMARK OFFICE PROCEDURES IMPROVEMENT ACT OF 1983

HON. ROBERT W. KASTENMEIER

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Thursday, November 17, 1983

● Mr. KASTENMEIER. Mr. Speaker, today, I—having been joined by the ranking minority Member of my subcommittee (Mr. MOORHEAD)—am introducing the Patent and Trademark Office Procedures Improvement Act of 1983.

The bill is derived from an executive communication dated July 18, 1983 sent to you, Mr. Speaker, from the Secretary of Commerce, Malcolm Baldrige. Although I take no position on the bill at this time, I find the proposal to be a serious one, deserving of our scrutiny.

The general purpose of the bill is to amend the patent laws to improve administrative proceedings in the Patent

E 5694

and Trademark Office of the Department of Commerce for determining who is the first inventor of a given patentable invention. At present, these proceedings are known as interference proceedings. They are conducted in the Patent and Trademark Office between two or more adverse patent applicants or between one or more patent applicants and a patentee, all of whom are claiming the same patentable invention. Under existing law, the tribunal responsible for determining who is the first inventor, a Board of Patent Interferences, is not authorized to address all questions of patentability of the invention. This restriction on the Board's jurisdiction unduly complicates the procedures for obtaining patents for applicants involved in interference proceedings. By combining the Board of Patent Interferences with an existing board having patentability jurisdiction—the Board of Appeals of the Patent and Trademark Office, procedures for patent applicants and patentees involved in interferences will be simpler, more expeditious, and less costly. The merger of the Board of Patent Interferences with the Board of Appeals will also provide a uniform standard of patentability for the Patent and Trademark Office.

The proposed legislation is designed to secure the just, speedy, and inexpensive determination of every interference action. See, for example, rule 1, Federal rules of civil procedure. Hearings will have to inquire whether this important standard is met.

A brief sectional analysis of the proposed legislation follows:

SECTION 1

This section provides a short title for the act.

SECTION 2

This section changes the name of the Board of Appeals to the Board of Appeals and Interferences. The Board of Appeals and Interferences, in addition to performing the tasks by the Board of Appeals of reviewing adverse decisions of examiners on patent applications and of a board of patent interferences of determining priority of invention, will also determine patentability of invention in interferences.

SECTION 3

This section changes the name of the Board of Appeals to the Board of Appeals and Interferences. The $100 fee for requesting an oral hearing for appeals is not extended to requests for oral hearings in interference proceedings.

SECTION 4

This section changes the name of the Board of Appeals to the Board of Appeals and Interferences.

SECTION 5

This section authorizes the Board of Appeals and Interferences to resolve questions of both priority and patentability of invention in interferences. Consideration of both questions in an interference will permit the Board to resolve all issues arising in the interference and will more promptly settle the rights of the parties in the interference. The change to section 135(b) is intended to make clear that a patent applicant is barred from obtaining a claim copied from a patent unless the applicant presents the claim within 1 year from the date the patent issued.

SECTION 6

This section replaces the references to the Board of Appeals and the Board of Patent Interferences with references to the Board of Appeals and Interferences, and makes the necessary conforming changes with respect to appeals of decisions under sections 134 and 135. As the Board of Appeals and Interferences will be addressing questions of priority and patent ability of invention in interferences, appeals may be taken from final decisions of the Board on both questions.

SECTION 7

This section replaces references to the Board of Appeals with references to the Board of Appeals and Interferences. A conforming change continues to limit review under this section to decision on ex parte matters arising under 35 U.S.C. 134.

SECTION 8

This section replaces the reference to the Board of Patent Interferences with a reference to the Board of Appeals and Interferences. As the Board of Appeals and Interferences will be addressing questions of priority and patentability of invention in interferences, remedy by civil action may be had with respect to final decisions of the Board on both questions.

SECTION 9

This section replaces the reference to the Board of Appeals with a reference to the Board of Appeals and Interferences.

SECTION 10

This section replaces the reference to the Board of Appeals and the Board of Patent Interferences with a reference to the Board of Appeals and Interferences.

SECTION 11

This section replaces the references to the Board of Patent Interferences with references to the Board of Appeals and Interferences.

SECTION 12

This section replaces the references to the Board of Patent Interferences with references to the Board of Appeals and Interferences.

SECTION 13

This section provides that the individuals serving as examiners-in-chief of the Board of Appeals and the examiners of interference of the Board of Patent Interferences on the effective date of the act shall continue in office as members of the Board of Appeals and Interferences.

SECTION 14

This section provides that the act shall take effect 90 days after enactment.

In conclusion, I commend a reading of this bill to my colleagues.●

No. 161—Part III

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 98th CONGRESS, FIRST SESSION

Vol. 129 WASHINGTON, FRIDAY, NOVEMBER 18, 1983 No. 161—Part III

House of Representatives

PATENT REFORM BILLS INTRODUCED

HON. ROBERT W. KASTENMEIER

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Friday, November 18, 1983

● Mr. KASTENMEIER. Mr. Speaker, today I am introducing a series of bills aimed at reforming our Nation's patent laws. I wish to take this opportunity to briefly review the nature of the bills and express my intentions about how these legislative proposals will be evaluated.

The Subcommittee on Courts, Civil Liberties and the Administration of Justice of the Committee on the Judiciary, which I chair, has long had direct legislative and oversight responsibilities for the American patent system. Part of the subcommittee's job is to secure for the owners of intellectual property, including patent holders, a workable, efficient and vigorous set of laws to protect their creations. It is only through implementation of the constitutional mandate of encouraging the sciences and the useful arts that we will be able to spur the inventive spirit that has made our country a world leader. Indeed, our ability to *foster innovation* is a central element to our national security for without technological and scientific developments we could not maintain our current standard of living or hope for the diminution of unemployment caused by foreign competition.

The bills I have introduced are likely to be seen by most observers as mundane or technical in nature. Each of the bills addresses a specific, narrow concern in the patent law. However, without enactment of these bills and other housekeeping oriented measures (such as H.R. 2610, relating to alternative forms of patent protection) the patent system will not be responsive to the challenges of a changing world.

Before describing in greater detail each of the measures discussed above, I wish to make clear that these bills should not be seen as representing a final legislative work product. Rather,

these bills were originally suggested by an ad hoc committee of patent law experts. These individuals (Rudolph J. Anderson, Robert B. Benson, Donald W. Banner, Homer O. Blair, Harry F. Manbeck, John E. Maurer, Pauline Newman, Donald J. Quigg, Richard C. Witte, Arthur R. Whale) worked long and hard to refine these proposals. The subcommittee is indebted to these individuals for their work in the public interest. Within the patent community there has been only a minimal amount of controversy about most of these measures. I fully expect, however, that some of these ideas will generate further interest as a result of the hearing process. Thus, in addition to describing the bills, I will endeavor to point out potential concerns which may arise during our consideration of these matters. Persons or organizations who wish to comment on these bills should contact the Subcommittee on Courts, Civil Liberties, and the Administration of Justice, 2137-B Rayburn House Office Building, Washington, D.C. 20515 (phone 225-3926).

The first bill, H.R. 4524, slightly modifies the rules applicable to foreign patent filings. Under current law cumbersome procedures require that each and every "illustration, exemplification, comparison or explanation" filed in a foreign country must be licensed, even though the original foreign filing was also licensed. This bill eliminates that dual licensing requirement. In addition, the bill eliminates the overly severe criminal sanctions for inadvertent filing of a foreign patent application without the requisite U.S. license. Thus, the only instances in which there would be a criminal penalty for nonfiling would be where the patent application had been the subject of a patent secrecy order, or if the failure to obtain a license was due to a deliberate intent to deceive.

The second bill, H.R. 4525, provides that unpublished information known to the inventor does not constitute prior art in the field of the invention, and therefore cannot serve to defeat the patentability of that invention. The provisions of this bill are only a first attempt at resolving this issue. This provision has the net effect of overruling In re Bass, 474 F.2d 1276 (C.C.P.A. 1973) and its progeny. This amendment, or a substantially similar bill, will be of material benefit to university and corporate research laboratories where the free exchange of ideas and concepts may have been hampered by the current state of the law with respect to what constitutes "prior art." See generally Shurn, "Is the Invention of Another Available as Prior Art? In re Bass to In re Clemens and Beyond," 63 Journal of the Patent Office Society 516 (1981); see also Waltersheid, "The Ever Evolving Meaning of Prior Art," Parts I-IV, 64 Journal of the Patent Office Society 457, 571, 632 (1982), 65 Journal of the Patent Office Society 3 (1983).

A third bill, H.R. 4526 contains two parts. First, the bill would bring the U.S. patent law into line with those of most of our major trading partners by providing for international protection of process patents. Second, the bill provides that a product patent's protection cannot be avoided through the manufacture of component parts within the United States for assembly outside the United States.

This bill takes an approach which is not new to Federal law. 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. A Tariff Act case is almost by definition extremely complex and expensive. Moreover, such 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. The only remedies in a proceeding under 19 U.S.C. 1337(a) are a cease and desist order and an order of exclusion. Thus, unlike a patent infringement case, under current law in a Tariff Act case, there is no damage remedy available to a person who holds a valid U.S.

process patent when a product made by that process outside the United States is imported into this country.

I should note that this subject has also been addressed in earlier legislation by the ranking member of my subcommittee, Mr. MOORHEAD. See, e.g., H.R. 3577 and H.R. 4288. The earlier bills suggest two features which are not present in my bill: a presumption that an infringement has occurred *if there is proof that it is substantially likely* that the product was produced by the protected process patent, and reasonable discovery efforts have been exhausted. The net effect of the presumption is to shift the burden of proof to establish innocence to the alleged infringer if the two conditions precedent are met.

While I am sympathetic with problems which are likely to occur in such cases involving discovery in foreign countries, I am not yet convinced about the need for such a presumption. It is arguable, for example, that an innocent purchaser of gasoline (or other fungible product) would be placed in the difficult situation of having to establish that the product was not produced using a process subject to patent protection. In my view it will be possible to establish infringement in these cases without such a legislative presumption. Such a showing could be made by establishing that there are no other economically viable processes—other than the patented process—which could have produced the product at the same cost as it was made available in the U.S. market. Alternatively persons alleging infringement of a U.S. process patent could establish infringement through the identification of side effects in the product which occur only as a result of the use of the patented process.

My final concern about the presumption provisions found in the other bills is whether they will produce more, rather than less, litigation. It is possible that infringement cases will become more protracted because the parties will argue about whether reasonable discovery efforts have been exhausted than on the merits.

I hope that the hearing process will address both the merits of this proposal and these other procedural problems.[1]

The second part of this bill provides greater protection for U.S. patent holders when copiers produce all of the parts of a patented product in the country but who move offshore for final assembly before export. This proposal responds to a suggestion made by the Supreme Court in *Deepsouth Packing Co. v. The Laitram Corp.*, 406 U.S. 518 (1972) for a legislative solution to this issue.

A fourth bill, H.R. 4527 provides that two or more inventors may obtain a patent jointly even though each inventor has not contributed to each and every "claim" found in the patent application. This technical amendment should be of benefit to universities and corporations which rely on team research. One question which has arisen about this bill is whether it is necessary in light of current case law which may make sufficient allowance for correction of misjoinder of an inventor. Another question is whether this amendment is consistent with the policy enunciated by section 102(f) of title 35 (relating to a requirement that patents issue to persons who have made an inventive contribution). Hopefully, the hearing process will answer these questions.

H.R. 4528, a fifth proposal, authorizes parties involved in patent interferences to arbitrate such disputes. This change parallels a provision of Public Law 97-297 which authorizes arbitration with respect to questions of patentability. This bill requires that the parties provide notice of the arbitration award to the Commissioner of the Patent and Trademark Office. Finally, the bill provides that the arbitration award is not enforceable unless the Commissioner has been given the requisite notice. Nothing in this bill abrogates the final authority of the Commissioner of Patents to determine the validity of a patent application. The bill also makes a technical change in section 135 of title 35.

Sixth, H.R. 4529 creates a new section 295 relating to licensee estoppel. Since the Supreme Court decision in *Lear v. Adkins*, 395 U.S. 653 (1969), the law has been settled that a party with a license from a patent holder may challenge the validity of the patent and continue to use the license. As the Court reasoned in Lear, to hold otherwise may work to encourage the continued existence of dubious patents. The perpetration of the advantageous market situation afforded by patent protection should be balanced by a relatively open process to challenge patent validity.

In the years since *Lear*, however, some commentators have suggested that the pendulum has swung too far toward protecting the rights of licensees in patent validity suits. See McCarthy, "'Unmuzzling' the Patent Licensee: Chaos in the Wake of *Lear v. Adkins*," 45 Geo. Wash. L. Rev. 429 (1977). For example, some courts have permitted a licensee to challenge the validity of a patent by seeking a declaratory judgment, pay license royalties into an escrow account and still be able to use the patent license if the patent is found valid. See, e.g., *Precision Shooting Equipment Co. v. Allen*, 198 U.S.P.Q. 502 (E.D. Ill. 1977). This situation is unfair to patent holders because they are forced to remain cash starved during the pendency of the patent validity litigation. The imbalance caused by this approach is particularly acute for a patentee who was forced to license the product in the first place because of a leak of adequate capital to work or produce the invention.

The bill provides that a licensee is not estopped from denying the validity of a patent which is the subject of the license. The bill makes unenforceable, as a *matter of Federal law*, any contract or license agreement that attempts to estop the licensee from challenging the validity of the licensed patent. Subsection (b) of proposed section 295 provides that the licensee and licensor both have the option of unilaterally terminating the license after assertion in a judicial proceeding of the invalidity of the licensed patent. Finally, the bill provides that during the life of any license which is subject to a judicial action asserting the invalidity of the licensed patent that the obligation of the licensee to continue to make payments under the license continues.

This latter bill raises several questions. First, is this change necessary in light of recent case law of a similar nature. *See Telectronics Pty. Ltd. v. Cordis Corp.*, 217 U.S.P.Q. 1374 (D. Minn. 1972). On the other hand, it is possible to argue that the lack of uniform case law on these questions is sufficient reason to provide for a nationally applicable result balancing the competing interests. Second, since the effective date provisions of the bill have the net effect of changing the nature of the contractual arrangements between the parties by modifying the nature of available judicial remedies, it must be questioned whether this bill should be prospective only in effect. The third, and more fundamental question, is whether permitting termination of the license agreement by the licensor after a challenge to the validity of the licensed patent will be used punitively to prevent the assertion of patent invalidity. Hopefully, as stated above, such questions will be addressed more fully in the hearing process.●

[1] The bill also requires that before an infringement action may be brought successfully under section 271(a) the alleged infringer must be on *notice* that the product was made by a process patented in the United States. This notice requirement was added at the suggestion of the American Patent Law Association. Two questions arise with respect to the notice requirement. First, will uncertainty about the meaning of the term "on notice" become a cause of unnecessary litigation? Second, is the notice requirement necessary in light of the provisions of 2-312 of the Uniform Commercial Code relating to a warranty against infringement?

APPENDIX 12

Combustion Engineering, Inc.
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Windsor, Connecticut 06095

Tel. 203/688-1911
Telex: 9-9297

COMBUSTION ENGINEERING

July 20, 1984

The Honorable Robert W. Kastenmeier, Chairman
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Re: H.R. 4524 through 4529
"Bills to Increase the Effectiveness of the U.S. Patent Laws"

Dear Congressman Kastenmeier:

Please be advised that I enthusiastically support the above-identified legislation. The various improvements contained therein will substantially enhance the effectiveness of the U.S. patent laws and accordingly improve the climate for innovation in the U.S. I urge favorable consideration of this legislation.

Very truly yours,

Eldon H. Luther

Eldon H. Luther
Vice President-Corporate Patent Counsel

EHL/mm

Aerospace Industries Association of America, Inc.

Office of the President

May 15, 1984

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Civil Liberties,
and Administration of Justice
Committee on the Judiciary
U.S. House of Representatives
2137 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

As the national trade association representing the major domestic manufacturers of aircraft, spacecraft, missiles, their power plants and components, the Aerospace Industries Association of America, Inc. (AIA), would like to take this opportunity to address H.R. 3285 and 3286 presently awaiting action by your Subcommittee.

Proposed H.R. 3286 would amend Title 35 of the United States Code to establish standards for permissible preinvention assignment agreements between employers and employees. H.R. 3285 would determine ownership of, and amount of compensation to be paid for, inventions made by employed persons. As a consequence of their position on the leading edge of advanced technology, AIA member companies have had long-term, relevant experience with employer/employee relationships vis-a-vis inventions. On the whole, we do not find that there is any evidence to support the contention either that invention assignment agreements or appropriate compensation to inventor employees create problems or discourage creativity.

With employment situations varying widely from company to company, a form of invention agreement which may be acceptable to a company providing a highly supervised working environment may, on the other hand, be completely intolerable to a second company which encourages unrestricted creativity and technical interchange between its employees and their multi-disciplined colleagues. Accordingly,

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we suggest that, as problems in this area differ, legislation should not be used to attempt to solve such problems. Stated briefly, it is AIA's position that preinvention assignment agreements remain a proper subject for individual agreement and are not, and should not be made, a matter of public law.

In view of the foregoing, AIA strongly opposes such legislation in general and H.R. 3285 and H.R. 3286 in particular.

Yours very truly,

Karl G. Harr, Jr.

Electronic Industries Association



FEB 2 ~ 84

Peter F. McCloskey
President

February 24, 1984

The Honorable Robert Kastenmeier
Chairman
Subcommittee on Courts, Civil Liberties
and the Administration of Justice
Committee on the Judiciary
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

The Electronic Industries Association appreciates the opportunity to submit comments on proposed §156 of H.R. 2610. For your information, the Electronic Industries Association is made up of over 400 companies both small and large. Most of these companies are engaged in high technology research and development and are very active participants in the acquisition of patents. Thus, these companies are intimately familiar with the workings and importance of the patent system.

The Association appreciates that the rationale for §156 of H.R.2610 is founded upon the commendable purpose of reducing the workload of the Patent and Trademark Office. However, it is fearful that the effect of a §156 patent would be detrimental to the patent system in that non-enforceable patents, being examined for formalities only, would detract from the quality and value of enforceable patents. We are concerned that these "second-class" type patents would lower the public and judicial perception of the patent system. Accordingly, we recommend that they be designated as inventor or innovator certificates, or some other appropriate term, not patents.

We question the extent that the §156 provisions would be used by corporations, companies, universities and the like. From the standpoint of preparation, substantially the same amount of effort would be expended in preparing a §156 application as in preparing a normal application. However, there may be a benefit in allowing applicants for true patents, who have paid the full fee, to elect during prosecution to have an inventor certificate issued, perhaps for an additional fee.

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We further do not believe the government has the need to obtain "true" patents at significant costs to taxpayers. Accordingly, we recommend that the statutory recording procedure be made mandatory for the government.

We appreciate the opportunity to express our views and would be pleased to assist your staff in these matters if so desired.

Respectfully submitted,

Peter F. McCloskey
President

Electronic Industries Association

Peter F. McCloskey
President

June 8, 1984

Honorable Robert W. Kastenmeier
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Kastenmeier:

The Electronic Industries Association (EIA) would like to take this opportunity to comment on H. R. 3286 relating to the equitable apportionment of rights to inventions made by employed inventors which has been an issue of discussion for decades.

With more than 1,000 participating companies, EIA is the full-service national trade organization representing the entire spectrum of U. S. companies manufacturing electronic products with an annual sales volume of $126 billion. The range of companies encompasses both small and large firms. The industry engages in research and development which amounted to approximately 10-1/2 billion dollars in 1982.

We believe the basic approach of certain state statutes, such as North Carolina, is fair and equitable to both the employer and employee and preserves the fundamentally contractual nature of employer-employee relations. If there is to be any federal legislation in this area we believe it should reflect this balanced view.

We oppose H. R. 3286 in several respects. H. R. 3286 purports to regulate private contracts between employers and employees, not just with respect to patents, but with respect to patentable "inventions", whether or not patented. It thus encompasses patentable inventions which are retained as trade secrets, and fails to cover those inventions which are not patentable subject matter.

H. R. 3286 does not allow an employer to require assignment of an invention made with a substantial use of the employer's time, materials, and funds, but not related to the employee's specific job assignment. As a result, the employer runs the risk that the employee may direct too much of his on-the-job energies to his personal interest or to work that is not within his normal or specifically assigned duties.

H. R. 3286 requires that the employee's invention disclosures be received and kept in confidence by the employer. Confidentiality as to employment inventions which are by definition owned by the employer should be of no concern to the employee. Most companies will not accept confidentiality provisions in disclosures of unsolicited third-party inventions because they may jeopardize present or future research. In the event of a disclosure of an employee-owned invention under this provision, the same principles would apply.

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H. R. 3826 requires, in certain circumstances, that an invention be related to the employer's actual or contemplated business known to the employee, and thus introduces a subjective test which places control over ownership of employee inventions in the hands of the employee to the extent the employee can limit or fabricate his knowledge of the employer's business. This control may be particularly easy for employees in multi-state or decentralized multi-divisional or multi-product companies.

Finally, H. R. 3286 is unacceptably vague in a number of areas, including incorporation of definitions of key terms from other, unrelated statutes, e.g. 29 U.S.C. 203, creation of a second meaning for the term "invention" within Title 35, and use of the phrase "special position of trust, confidence or fiduciary relationship with the employer".

For the above reasons we strongly oppose H. R. 3286 in its present form. If it is to be enacted, we urge that as a minimum the following changes be made to bring it into closer conformance with the approach of the North Carolina statute:

Delete §222(1) and §222(2).

Amend §222(4)(A) to read - as a result of the employee's normal or specifically assigned duties or any work performed by the employee for the employer; or -

Amend §222(4)(B) to read - based upon technical data or information owned or controlled by the employer which is not generally known to the public; or -

Amend §222(4)(C) to read - When the invention relates to the employer's business, or that of its parent, subsidiary or related companies, or actual or demonstrably anticipated research or development of the employer or said companies; and -

§223(a), page 4, line 1, delete "substantial".

§223(b), page 4, lines 6 and 7 delete "if the disclosures are received and kept in confidence" and substitute — At the employees request the employer shall hold disclosures of nonemployment inventions in confidence for a period of one year or a lesser agreed upon term —

We would be pleased to meet with members of your staff to discuss the above and to assist in your consideration of these comments.

Sincerely,

Electronic Industries Association

July 24, 1984

Honorable Robert W. Kastenmeier
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Kastenmeier:

The Electronic Industries Association (EIA) would like to take this opportunity to comment on H. R. 4526 relating to the equitable apportionment of rights to inventions made by employed inventors, which has been an issue of discussion for decades.

We favor the enactment of H. R. 4526 in order to provide long-needed protection for the holders of U.S. process patents against importation into the U.S. of goods made outside the United States and its territories in accordance with a process patented in the U.S. It is our position that unauthorized importation of unpatented goods made beyond our borders by a process which is patented in the U.S. is an inequitable circumvention of the intent of our patent law to reward inventors who have disclosed their contributions which usually have been obtained only after considerable investments of time and money. We also note that the proposed new subsection (e) of 35 USC 271 is in keeping with the laws and their interpretation of some of our leading foreign trading partners.

We favor the proposition that subsection (e) should apply to all products which are used or sold during the term of the process patent regardless of when the product was made. Our position in this regard is believed to be consistent with the present rights of a patentee against an infringement that takes place in the U.S. We propose that subsection (e) be amended to read as set forth in H.R. 3577 in proposed subsection (a)(2) of 35 USC 271.

If subsection (e) of 35 USC 271 stood alone, it is likely that most U.S. manufacturers would join with the holders of process patents to endorse passage of the bill. However, the inclusion of proposed subsection (f) is considered to be divisive and is likely to split U.S.

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manufacturers of component parts from U.S. manufacturers of finished assemblies. Making the shipment out of the U.S. of kits of components for the assembly of a product which is patented in the U.S. to be an infringement of the U.S. product patent is likely to result only in driving the kit producer off-shore where he will utilize foreign built components. We propose that enactment of subsection (e) be expedited by cancellation of controversial subsection (f).

In addition, we support the requirement in proposed Sec. 2 of 35 USC 287 that the patent owner provide notice to the importer that the product was made by a process patented in the U.S. in order for damages to be recovered for infringement. We support the notion that the notice should be actual notice according to the terms and interpretations of existing 35 USC 287 in a non-marking situation.

We would be please to meet with members of your staff to discuss the above and to assist in your consideration of these comments.

Sincerely,

/m

HR 4526



PFIZER INC., 235 EAST 42nd STREET, NEW YORK, N.Y. 10017

CHARLES J. KNUTH
Director of Patents

February 29, 1984

Honorable Robert Kastenmeier
Chairman,
Subcommittee on Courts, Civil Liberties
and the Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20006

Dear Mr. Chairman:

I have noted with great interest the bills which you have introduced to provide important reforms to our patent law. Their enactment will provide significant incentives to United States inventors and will encourage research and innovation in this country.

In particular, H.R.4526 would close loopholes in the present law which work to the advantage of foreign over U.S. manufacturers and patentees. Its provision, that importation into this country of a product manufactured abroad by a U.S.-patented process would constitute infringement, differs in some respects from that of S-1841, which also applies to use or sale of U.S.-manufactured goods and which affords a presumption of use of the patented process and reversal of the burden of proof in certain limited circumstances. While, in view of the difficulties of obtaining discovery of a foreign manufacturer, I believe that such presumption would be desirable, I endorse H.R.4526 since it provides an important substantive change in the present law.

I urge early consideration of your proposed legislation by the subcommittee and enactment by the House of Representatives.

Very truly yours,

Charles J. Knuth

CJK/rmt
cc: David Beier, Esq.

THE PROCTER & GAMBLE COMPANY

PATENT DIVISION

IVORYDALE TECHNICAL CENTER
CINCINNATI, OHIO 45217

June 4, 1984

The Hon. Robert W. Kastenmeier
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Re: Patent Law Reform - H.R.4524-4529

Dear Congressman Kastenmeier:

We support this legislation. It is extremely important to the Patent System and should be passed this year. This reform legislation will strengthen the patent system in ways which will further stimulate invention and innovation and improve the world competitive position of U.S. industry.

The legislation has been drafted and redrafted with great care. Thoughtful suggestions from many interested groups, including the Patent and Trademark Office and Congressional Staffs, have been incorporated.

Respectfully,

Richard C. Witte
Chief Patent Counsel

rhw/13L

Pitney Bowes
Manager, Government Relations
State and Local

March 26,1984

Chairman Robert Kastenmeier
Subcommitte on Courts, Civil Liberties and
the Administration of Justice
House Committee on Judiciary
Room 2137 RHOB
Washington, D.C. 20515

Dear Chairman Kastenmeier:

I write to respectfully register Pitney Bowes' support for H.R. 4524-29, legislation that would amend Title 35, United States Code, to increase the effectiveness of U.S. Patent Law.

It is my understanding that this series of bills will be heard by your Subcommittee on March 28, and that a representative of the Intellectual Property Owners Inc. will testify in support. Pitney Bowes' position parallels IPO's.

Thanking you for your interested attention, I am,

Yours very truly,

Peter J. Cotch

PJC/ae

Walter H. Wheeler, Jr. Drive Stamford, Connecticut 06926 203 356-7127

HUGHES AIRCRAFT COMPANY

July 26, 1984

United States House of Representatives
House Judiciary Subcommittee on Courts, Civil
Liberties and the Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Attention: Hon. Robert W. Kastenmeier
Chairman

Subject: Patent Code Reform
Legislation S. 1525
and H.R. 4524 to 29

Sir:

Hughes Aircraft Company is a major electronics firm active in the application of advanced technology for military programs, space exploration and communications projects. As such, the Company is extremely active in intellectual property matters in general and is vitally concerned and interested in strengthening the American patent system in particular.

In view of the pressing demands to continually extend the frontiers of state-of-the-art, high technology, which represents the expenditure of substantial amounts of time and vast sums of money invested in Research and Development programs, it is essential that the rights of patent owners be further protected and strengthened. This is especially significant in order to continue to promote the progress of science in the face of ever increasing competition in this country and particularly from countries outside the United States. On review of the above-identified legislation, indications are that its enactment and early passage would go a long way towards this end. By encouraging and promoting the inventive community, the single, basic foundation contributing to the scientific and technical progress of this country, we will ensure that the United States will continue to be an industrial leader and maintain the highest standard of living in the world.

Since enactment of the legislation would be beneficial to all owners of patents whether they be large companies with voluminous patent portfolios or independent inventors, your efforts urging early action and passage of the legislation are earnestly solicited and will be greatly appreciated.

Very truly yours,

HUGHES AIRCRAFT COMPANY

A. W. Karambelas

A. W. Karambelas
Staff Vice President
Corporate Patents and Licensing

CPC International Inc.
P.O. Box 8000, International Plaza
Englewood Cliffs, NJ 07632

CPC International

Legal Department

August 3, 1984

Congressman Robert W. Kastenmeier
House Judiciary Subcommitee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Kastenmeier:

I solicit your support of the Patent Code Reform Bill, H.R. 4524 to 29.

CPC International is one of the 100 largest corporations in the United States. I believe this legislation will improve the patent laws, thereby encouraging innovation and productivity, worthwhile objectives of industry.

Your vote will be appreciated.

Sincerely yours,

Ellen P. Trevors
Patent Counsel

EPT/mc

CORNING

Corning, New York 14831
Tel 607-974-8592

Thomas C. M. A. ...
Vice Chairman

July 31, 1984

Honorable Charles McC. Mathias, Jr.
Chairman, Senate Subcommittee on
Patents, Copyrights & Trademarks
U. S. Senate
137 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to express the views of Corning Glass Works regarding Senate Bill S.1535. In particular, I want to address the importance of that portion of S.1535 which relates to the importation into the U.S. of goods made abroad by a process which is the subject of a United States patent.

At the outset, it should be understood that Corning supports free and fair international trade. Such support is not altruistic. We compete actively and successfully in foreign markets and, as a result, our foreign exports are not an insignificant factor in our business. We do not fear fair competition in the U.S. market. We do, however, object to competition in the U.S. market which, by the standards of the rest of the world, is "unfair".

In virtually all commercial countries except the U.S., the law provides that a patent on a process automatically extends protection to the product made by that process. Our country essentially stands alone in not providing such protection under U.S. patents. The injury to U.S. firms is clear. And, as I shall point out, this is particularly true with respect to the vital high technology segment of U.S. industry.

Corning is representative of many high tech, U.S. companies. Specifically, the significant research expenditures of Corning frequently lead to the discovery or development of new methods and processes. While these processes are often patentable, they do not always produce products which are patentable. Rather, in such cases, the products are basically known, but the newly developed process produces the product in a demonstrably superior manner. An example within Corning is the improved methods we developed for the production of TV tubes. The point is that, under the present U.S. Patent Laws, there is no infringement of a U.S. process patent if the patented process is used outside the U.S. and the resulting product is imported into the U.S. Thus, there is no relief available in the United States Courts.

At present, in such a situation, the only recourse available to the owner of a U.S. process patent is to petition the International Trade Commission (pursuant to 19 U.S.C. §1337(a)) for relief. For many reasons, this form of relief may be either unavailable or inadequate. This is because, among other things, the granting of relief through an ITC proceeding may be dependent upon factors which are unrelated to the salutary objectives of the patent system, i.e., a reward for a technical contribution to society. For example, there is no provision in an ITC proceeding for obtaining an award of damages for past infringement.

It is most important to recognize that this is not a matter in which industry has a parochial concern. Processes and methods are run by people. To the extent that processes are practiced outside this country, employment in this country is diminished. The U.S. Patent Laws should not be structured so as to encourage practicing processes abroad rather than in the United States, in order to avoid infringement.

I believe, as others do, that this country may be at a crossroads. For more than a century Americans have set a technological standard of excellence. The world has benefited from "Yankee ingenuity". We, at Corning, feel that we have played some role in that history. Corning, through its commitment to research and technology, has developed methods for making products which are used today at the leading edge of technology, e.g., the windows and heat resistant coating materials employed in the space shuttles. If, in the face of unprecedented foreign competition, America is to maintain its standard of technical excellence, industry must be given the same protection which is enjoyed by the companies of other commercially important countries. Enactment of S.1535 will help secure that result and we urge its passage into law.

Very truly yours,

Thomas C. MacAvoy

cc: Honorable Alphonse D'Amato
David Boltax, Esq.
Honorable Robert W. Kastenmeier
Honorable Stanley Lundine
Honorable Howard M. Metzenbaum
Honorable Daniel P. Moynihan
Michael Remington, Esq.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

ALBERT D. BOURLAND
VICE PRESIDENT
CONGRESSIONAL RELATIONS

July 27, 1984

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/463-5600

The Honorable Robert W. Kastenmeier, Chairman
Subcommittee on Courts, Civil Liberties and the
Administration of Justice
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Based on the U.S. Chamber's long-stand support of patent reform. I respectfully urge you to expedite consideration of H.R. 4524 through 4529 to ensure enactment by the 98th Congress.

These bills contain changes that support:

-- R&D investment;

-- modernizing the law in such key areas as team research and patent interferences;

-- decreasing the administrative burden upon both the government and the public in the area of foreign patent licenses without raising risk to national security; and

-- raising the flexibility of licensing patent rights by intellectual property owners without in any way lessening the applicability of, or detracting from, the antitrust laws.

We favor these proposed changes, and support H.R. 4524 through 4529 as some of the more progressive patent reform bills in many years.

Sincerely,

cc: Subcommittee Members
Michael J. Remington, Chief Counsel
David W. Beier, Counsel
Thomas E. Mooney, Minority Chief Counsel
Joseph V. Wolfe, Counsel

HUGHES AIRCRAFT COMPANY

July 26, 1984

United States House of Representatives
House Judiciary Subcommittee on Courts, Civil
Liberties and the Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Attention: Hon. David Beier

Subject: Patent Code Reform
Legislation S. 1525
and H.R. 4524 to 29

Sir:

Hughes Aircraft Company is a major electronics firm active in the application of advanced technology for military programs, space exploration and communications projects. As such, the Company is extremely active in intellectual property matters in general and is vitally concerned and interested in strengthening the American patent system in particular.

In view of the pressing demands to continually extend the frontiers of state-of-the-art, high technology, which represents the expenditure of substantial amounts of time and vast sums of money invested in Research and Development programs, it is essential that the rights of patent owners be further protected and strengthened. This is especially significant in order to continue to promote the progress of science in the face of ever increasing competition in this country and particularly from countries outside the United States. On review of the above-identified legislation, indications are that its enactment and early passage would go a long way towards this end. By encouraging and promoting the inventive community, the single, basic foundation contributing to the scientific and technical progress of this country, we will ensure that the United States will continue to be an industrial leader and maintain the highest standard of living in the world.

Since enactment of the legislation would be beneficial to all owners of patents whether they be large companies with voluminous patent portfolios or independent inventors, your efforts urging early action and passage of the legislation are earnestly solicited and will be greatly appreciated.

Very truly yours,

HUGHES AIRCRAFT COMPANY

A. W. Karambelas

A. W. Karambelas
Staff Vice President
Corporate Patents and Licensing

Combustion Engineering, Inc.
1000 Prospect Hill Road
Windsor, Connecticut 06095

Tel. 203/688-1911
Telex: 9-9297

COMBUSTION ENGINEERING

July 20, 1984

David Beier, Esq.
Counsel
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Re: H.R. 4524 through 4529
"Bills to Increase the Effectiveness of the U.S. Patent Laws"

Dear Mr. Beier:

Please be advised that I enthusiastically support the above-identified legislation. The various improvements contained therein will substantially enhance the effectiveness of the U.S. patent laws and accordingly improve the climate for innovation in the U.S. I urge favorable consideration of this legislation.

Very truly yours,

Eldon H. Luther

Eldon H. Luther
Vice President-Corporate Patent Counsel

EHL/mm



CHEMICAL MANUFACTURERS ASSOCIATION

ROBERT A. ROLAND
President

July 24, 1984

The Honorable Robert W. Kastenmeier
Chairman, Subcommittee on Courts,
Civil Liberties and the Administration
of Justice
Committee on the Judiciary
U.S. House of Representatives
2137 Rayburn House Office Building
Washington, DC 20515

HAND-DELIVERY

RE: Endorsement of H.R.4524-29,
Amending Title 35 of the
United States Code.

Dear Congressman Kastenmeier:

This letter is to inform you that the Chemical Manufacturers Association endorses H.R.4524-29, "to amend Title 35, United States Code." The Chemical Manufacturers Association (CMA) is a nonprofit trade association whose company members represent more than 90 percent of the productive capacity of basic industrial chemicals within this country.

CMA maintains that an increase in the effectiveness of the U.S. patent laws and encouragement of industrial innovation in this country should be priorities of the Congress. We believe that the enactment of H.R.4524-29 would contribute significantly to these goals. We, therefore, urge the Subcommittee to take swift and favorable action on these bills.

CMA and its member companies appreciate the opportunity to comment on this important subject. If there are any questions concerning this letter, please contact Robert B. Hill (887-1128), a Legislative Representative at CMA.

Sincerely,

cc: Members of Subcommittee
Michael Remington, Counsel
David Beier, Assistant Counsel
Thomas Mooney, Minority Associate Counsel
Joseph Wolfe, Minority Associate Counsel

Colt Industries

Colt Industries Inc
Charter Oak Boulevard
West Hartford, Connecticut 06101
203/236-0651

July 18, 1984

The Honorable Robert W. Kastenmeier, Chairman
House Judiciary Committee
Room 2137
Rayburn House Office Building
Washington, D.C. 20515

Re: Patent Code Reform Legislation H.R. 4524 through 4529

Dear Congressman Kastenmeier:

I understand the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice has unanimously approved the above-captioned bills and that these bills are up for placement on the agenda for imminent consideration by the Committee of the Judiciary of the House of Representatives.

This legislation will permit certain patent matters to be more speedily and efficiently consummated.

I strongly urge that these bills be placed on the agenda forthwith and that the Committee on the Judiciary give speedy approval to this legislation. Accordingly, I strongly support H.R. 4524 through 4529.

Sincerely,

Colt Industries Inc

Radford W. Luther
Patent Counsel

RWL:sjd



Schering-Plough

Schering Plough Corporation
[illegible] Farms
[illegible] NJ 07940-1000
[illegible] 201 822-7000

July 18, 1984

Congressman Robert W. Kastenmeier
Chairman,
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

RE: S. 1535 and H.R. 4524 to 29 -
Patent Code Reform Legislation

Dear Congressman Kastenmeier:

We just wish to let you know that we strongly support the above Bill which you introduced. It would tend to simplify patent matters in many instances by streamlining procedures and/or avoiding uncertainty.

The present law and practice has given rise to unnecessary confusion in many patent matters (e.g. Basa-type situations, arbitrations, settlements, licensing) without corresponding public benefit. As we all know, business and society need clear legal guidelines to flourish.

Very truly yours,

Bruce Eisen

Bruce M. Eisen
Director, Patents-U.S.

BRISTOL-MYERS COMPANY
345 PARK AVENUE
NEW YORK, NEW YORK 10154

LEGAL DIVISION

TELEPHONE: (212) 546-4000
CABLE: MYTOL
TELEX: 620629
423163

July 20, 1984

The Honorable Robert W. Kastenmeier,
Chairman
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Kastenmeier:

Re: H. R. 4524 - 4529

The purpose of this letter is to apprise you of the fact that Bristol-Myers Company strongly supports H. R. 4524 - 4529.

We believe that this legislation, if passed by Congress, will significantly improve the patent laws of the United States and be supportive of the R&D efforts of U. S. industry.

Yours sincerely,

Isaac Jarkovsky

Isaac Jarkovsky
Assistant General Counsel - Patents

IJ:nmo

mona
INDUSTRIES/INC

76 E. 24th ST., PO BOX 425, PATERSON, NJ 07544 USA/201-345-8220/TELEX 130308/CABLE MONA PATERSON NEW JERSEY
7900 S. CASS AVENUE, DARIEN, IL 60559 USA/312-964-9737

JUL 23 1984

July 20, 1984

Honorable Peter W. Rodino, Jr.
Chairman, House Judiciary Committee
2464 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Rodino:

It is my understanding that the subcommittee on Courts, Civil Liberties and the Administration of Justice will take up HR 3605 on Tuesday, July 24th.

While we are very supportive of HR 3605, we feel it is equally important that the subcommittee at the same time take up HR 5529, the Agricultural Patent Reform Act of 1984 on July 24th. While passage of HR 3605 is critical to the leadership of our drug industry, the passage of HR 5529 provides the balance needed to provide our industry's continued leadership in pesticides, chemicals and animal drugs.

Both bills are critical to the long term viability of New Jersey's extensive chemical industry and we trust both bills will receive your fullest consideration.

Cordially,

John W. Braitmayer
President

JWB:el

RECEIVED
JUL 24 1984
JUDICIARY COMMITTEE

Air Products and Chemicals, Inc.
Patent Department
Box 538, Allentown, PA 18105
(215) 481-7262
(215) 481-4911

IN REPLY REFER TO

19 July 1984

The Honorable Robert W. Kastenmeier,
Chairman
House Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Office building
Washington, DC 20515

Dear Representative Kastenmeier:

Your support is urged for H.R. 4524 to 29, the patent code reform legislation which is now before the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice.

For many years owners of and applicants for U.S. patents have operated under handicaps not burdening holders of corresponding rights in foreign countries. Legislation is needed to remedy limited enforceability of patents, complexities in the law on inventorship and "secret" prior art, and restrictions on licensing. H. R. 4524 to 29 deal with these reforms in our patent system to make it the catalyst for innovation needed in today's economy.

This is important legislation deserving passage in this Congress.

Sincerely,

E. E. Innis
Assistant General Counsel - Patents

EEI:lbh
1872P1a



Allied Corporation
Law Department
P.O. Box 2245R
Morristown, New Jersey 07960

July 19, 1984

The Honorable Robert Kastenmeier
U.S. House of Representatives
2232 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Allied Corporation, which has facilities in Wisconsin, strongly supports Patent Code Reform legislation, H.R. 4524 - H.R. 4529. This legislation fills in basic gaps in the patent code and strengthens the patent system to give U.S. patent owners protection similar to benefits enjoyed by patentees in other major industrial countries. Hearings have been held, and there is strong support for the legislation. However, it appears time could run out this session unless you act quickly to press for early passage.

We particularly urge support for H.R. 4526 which provides process patents protection similar to that now given product patents. Currently, the only protection against the import of products made abroad by processes which infringe U.S. process patents is through the Trade Act. Allied Corporation recently received a favorable ruling from the International Trade Commission. We have invested nearly $100 million in research on a process only to have the basic patent infringed by Japanese and German firms. However, we have been before the ITC for over fourteen months, do not have a final recommendation for an exclusion order, and when the President acts on that final recommendation in several months, he will not be able to grant damages. Unless this law is corrected, the United States is inviting foreign infringement of its latest technology.

Please urge rapid action on this legislation.

Sincerely,

Roy H. Massengill
General Patent Counsel

LAW DEPARTMENT

JOY MANUFACTURING COMPANY
301 GRANT STREET
PITTSBURGH, PENNSYLVANIA 15219
Telephone: (412) 562-4500

July 18, 1984

The Honorable Representative Robert W. Kastenmeier
Chairman, House Judiciary Subcommittee on
Courts, Civil Liberties and the Administration
of Justice
2137 Rayburn House Office Building
Washington, D. C. 20515

Dear Representative Kastenmeier:

I wish to go on record as a strong supporter of H. R. 4524 to 29. I urge you and your subcommittee members to act on the legislation. Our country needs the legislation to strengthen the American patent system.

Very truly yours,

William J. O'Rourke, Jr.
Corporate Patent Counsel

ams

cc: Herbert C. Wamsley, IPO

Subcommittee Members:
Jack Brooks
Romano L. Mazzoli
Mike Synar
Patricia Schroeder
Dan Glickman
Barney Frank
Bruce A. Morrison
Howard L. Berman
Carlos J. Moorhead
Henry J. Hyde
Michael DeWine
Thomas N. Kindness
Harold S. Sawyer

THE DOW CHEMICAL COMPANY

OFFICE OF PATENT COUNSEL

July 23, 1984

JUL 25 1984

Honorable Robert W. Kastenmeier
2232 Rayburn House Office Bldg.
Washington, D.C. 20515

Re: H.R. 4524 through H.R. 4529 Patent Code Reform

Dear Mr. Kastenmeier:

It has come to my attention that the above bills may not be moving because of an impression of a lack of interest from the private sector. If that is so, nothing could be further from the actual facts.

Perhaps there has not been much clamor, but that is only because there is little if any controversy over the bills. Except for some insignificant differences in points of view, there is almost unanimous support for the bills among industry, the universities and interested government agencies.

Considerable effort has been expended on getting these bills to their present status. They are needed. They have popular support. They are important to the economic well-being of society because they will serve their intended purpose of improving the U.S. patent system and enhancing innovation.

We respectfully urge you to move these bills through Committee and to encourage a favorable vote on the House Floor. In doing so, however, we recommend these six bills be consolidated into one bill commensurate with the present draft of S. 1535.

Sincerely,

Richard G. Waterman
General Patent Counsel
Patent Department

RGW/cg

Post Office Box 1967, Midland, Michigan 48641-1967, U.S.A.
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Telex: (023)-227-455 - PATENT Cable: DOWCHEMCO - PATENT
Facsimile Ph: (517)-638-3237 (Voice Contact: (517)-636-2213)
CCITT 2 and 3 (Group 1 — U.S.A. only) Automatic 24 hours

45-025 O - 85 - 42

SOHIO THE STANDARD OIL COMPANY

MIDLAND BUILDING (928 TT), CLEVELAND, OHIO 44115-1098

TELEPHONE. (216) 575-8451
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LARRY W. EVANS
MANAGER
PATENT & LICENSE DIVISION

July 17, 1984

Mr. David Beier, Counsel
House Judiciary Subcommittee on Courts, Civil Liberties
and the Administration of Justice
2137 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Beier:

The purpose of this letter is to indicate my unqualified support for legislation pending in Congress which is directed toward improving the patent laws. This legislation is identified as S. 1535 in the Senate and H.R. 4524 through 4529 in the House.

I (and Sohio) believe that this legislation will greatly improve the Patent Laws of the United States.

Sincerely,

Larry W. Evans

LWE:lp
06901

Itek Corporation

10 Maguire Road
Lexington, Massachusetts 02173
Telephone: 617-276-2000

July 21, 1983

The Honorable Robert W. Kastenmeier
U.S. House of Representatives
2232 Rayburn Building
Washington, DC 20515

Dear Congressman Kastenmeier:

Subject: H.R. 3285 - Compensation for Employee Inventors

I am enclosing herewith some detailed comments on some aspects of the subject Bill.

While I don't have any philosophical problems with the Bill, I am concerned that in our American society, with its surplus of lawyers and litigious attitudes between employers and employees, this Bill would not reduce any friction between employers and employees, which must be done in order to permit us to compete with the Japanese.

Although such systems appear to operate in Germany and Japan (I think it is too early to tell about the English system), I believe the Germans and Japanese are more likely to accept their employer's decisions on the value of compensation than Americans.

I any event, if you or members of your staff have any questions after reading my attached comments, please do not hesitate to contact me.

Best regards,

ITEK CORPORATION

Homer O. Blair
Vice President
Patents and Licensing

HOB/dmc

Enclosure

cc: Mike Remington

H.R. 3285 - KASTENMEIER/COMPENSATION FOR EMPLOYEE INVENTORS

GENERAL COMMENTS

BY

HOMER O. BLAIR

I. MAJOR PROBLEMS

A. Employer must apply for patents on all patentable inventions unless the invention belongs to the employee or unless it is decided to keep it a trade secret. (Section 421(a))

Section 421(a) provides, in effect, that an employer shall diligently apply for a patent on any and all "service inventions" unless it becomes a "free invention" (owned by the employee) or unless they decide to keep it a trade secret. This language apparently assumes the normal employer files patent applications on every patentable invention made by its employees. This is far from being true.

As a matter of fact, the vast majority of employers file on less than 50% of the inventions disclosed to them by their employees. For example, I made a survey of the Patent Departments of 102 corporations for the Association of Corporate Patent Counsel in 1971. The survey included a question on the percentage of inventions disclosed to the employer on which patent applications were filed in the U.S. Patent and Trademark Office for the years 1967-1969. Although this information is dated, I doubt that the ratios have changed in any appreciable amount.

In 1967, the percentage of inventions disclosed to the company on which patent applications were filed was 43.1%. In 1968, the percentage was 42.8% and in 1969, the percentage was 44.5%. Overall, for these years,

the percentage was 43.5%. It should be noted that only one out of 102 corporations filed on all patent disclosures submitted by employees, eight companies filed on 15% or less invention disclosures in 1967, eight were 15% or less in 1968 and five companies filed on 15% or less in 1969.

The reason for not filing on the inventions is not usually patentability, although the breadth of the patent coverage is often considered. The major reasons include the fact that the particular invention is not significantly important on the product or process involved, the patent coverage on the product or process is already regarded as adequate, the invention is regarded as minor, even though patentable, or it is not felt that the invention will have enough use.

Nearly all products and processes include a number of inventions. For example, an automobile obviously has inventions relating to carburetors, transmissions, tires, windshield wipers, engines, paint, etc.

A product such as a copier would have inventions on the photosenstive material used, toner used, the paper handling mechanism, the exposure arrangement, the optics involved, the method of heating the toner to fuse it to the paper, etc. It is rare that one invention will cover one product. Thus, the average industrial product may have eight or ten or more patents on it.

B. <u>If the company does not file a patent application on the invention, it belongs to the employee</u>. (Section 421)

Thus, apparently, the employee would be able to get a patent on the invention and prevent the company from using that invention, even if it was a minor detail. Thus, the company would be forced to file patent applications on nearly all inventions disclosed, which appear to be patentable,

the U.S. Patent and Trademark Office would be flooded with unimportant patent applications and small companies would have to spend large sums to obtain patents on all their inventions. While there would be a wide shortage of patent attorneys, which might be to my personal financial advantage, society would be seriously damaged.

C. If an employer does not file a patent application on a service invention in a foreign country, he shall release the service invention to the employee in that country. (Section 422)

Thus, if the employee obtained a patent in that country, the employer would not have a license and would be liable for patent infringement.

The survey mentioned previously also included a question on the percentage of U.S. patent applications which were filed abroad and the number of foreign patent applications that were filed abroad per U.S. patent application. Of the U.S. patent applications filed in 1968, 46.7% of them were filed in at least one foreign country. Of the U.S. patent applications filed in 1969, 46.9% were filed in at least one foreign country. The average for both years was 46.8% of the U.S. patent applications filed in a particular year were filed in a foreign country.

Thus, more than half of the U.S. patent applications are not filed in any foreign country.

Of U.S. patent applications filed in 1968, an average of 4.5 foreign patents applications are filed; of the U.S. patent applications filed in 1969, an average of 4.4 foreign patent applications are filed, with the average for both years being 4.45.

If the average number of foreign applications per U.S. patent application is divided by the percentage of U.S. patent applications which are filed abroad, one arrives at the following figures: In 1968, an average of 9.6 foreign patent applications were filed on each U.S. patent application

which was filed in a foreign country. In 1969, 9.4 foreign patent applications were filed on each U.S. patent application that was filed in a foreign country. For both years, an average of 9.5 foreign patent applications were filed on each U.S. patent application which was filed abroad.

Thus, it is shown that foreign patent applications are not filed in a vast majority of the 160 plus countries of the world and in most countries there is no patent protection on inventions made in the U.S.

However, it should be noted that if the U.S. company does not file a foreign patent application in a particular country, the employee may do so, and thus prevent the employer from exporting his product to that particular country as the employer will not have a license under the foreign patent involved.

There are a number of criteria for determining whether or not to file a patent application in a foreign country. One of the most important is the substantial cost of doing so, particularly, if large numbers of countries are involved. Thus, often even though a company plans to export its product to a particular country, it will not file patent applications in that country if the market in that country does not seem to be significantly large or if the invention itself is not broad enough to be significant with respect to that particular product. Keep in mind my earlier statements that while there are usually a number of patents per product, a company might file one or two patent applications on a particular product and not file others in a number of foreign countries. However, the proposed legislation would, in effect, require a company to file in many more countries costing much more money on something which is not useful to society.

Often a company wishes to license certain technology to others. The proposed legislation would set up a situation where, if the employer had not obtained patents on all the inventions involved in the licensed technology, the licensee might be prevented from practising some of the improvement inventions, at least in certain countries, as the employee would own the patents covering some of the improvements. Thus, licensing would be inhibited if this legislation is enacted.

D. Service Invention (Article 402(3))

The definition of service invention would be very difficult to operate under, as it is quite vague. It is defined as an invention which either (A) has grown out of the type of work performed by the employee for the employer, or (B) derived from experiences gained on the job related to operations carried out by the employer. The first two clauses in Section 222(4) of H.R. 3286 are a part of what would be a preferable defintion. They are set forth as (1) as a result of the employee's normal or specifically assigned duties; or (2) based in significant part upon technical data or information possessed by or acquired from the employer, and which is not generally known to the public.

In the above service invention definition, the term "has grown out of" is very difficult to interpret. Also, (B) referring to being "derived from experiences...related to operations carried out by the employer" is also far too vague. This language would seem to omit investigatory and research activity as such work would probably not be an "operation carried out". Also, if one is doing a literature search, is that an "experience"?

Often we will hear comments that it is too broad if the invention belongs to the employer if it is within the scope of the company's business, research or investigation. Keep in mind, however, that any employee

of a corporation has access to the technical activity going on in all parts of the corporation. He meets with employees from other divisions, he has access to their reports, the technical library of the corporation often has information about all the company's products, research, etc. For example, my company circulates abstracts of invention disclosures to many of the other divisions for their information.

If an employee makes an invention based on the company's information, even though it does not relate to his particular job, but he would not have made it except for access to the information and/or what he has learned on his job, by any reasonable criteria it should belong to the employer.

E. Compensation for Service Inventions (Section 414)

This section states that the employee's compensation shall represent the fair market value of the employer's exclusive right to the invention adjusted to reflect (1) the position and duties of the employee and (2) the degree to which the operations of the employer contributed to the making of the invention. Although I have been in the patent and licensing business for nearly 30 years, I don't feel confident that I could determine an appropriate amount of compensation based on the above criteria, particularly, when the product involved may have eight or ten inventions, with at least that number of inventors involved. It is not particularly difficult to figure out a fair royalty when you are purchasing technology from someone else which includes patent rights and know-how or, on occasion, just patent rights. Usually, one is acquiring a package or rights and the amounts paid do not have to be broken down for a number of individuals on a number of inventions.

Most of the time a royalty is reached by negotiations between two parties, one of whom owns the package of rights and the other one whom wishes to use the package of rights. Negotiating between a number of employees and an

employer on a number of inventions is a completely different type of activity.

I am concerned that this legislation will encourage antagonism between employers and employees. I would rather encourage goodwill between them so that the United States companies may more efficiently compete with the Japanese, who do not seem to have our employer/employee antagonism.

I realize that Section 437 provides for the Secretary of Labor to issue guidelines providing specific rules for determination of the compensation, I must admit that I have no confidence in the ability of the Secretary of Labor to provide practical useful guidelines.

III. COMPARATIVELY MINOR PROBLEMS

A. "Made."

There is no definition of when an invention is "made". I realize that H.R. 3286 defines "made" in the following manner: "An invention is deemed to have been made when it is conceived or first actually reduced to practice." While this is the definition which has been used by the Government for many years when dealing with contractors, it is an unfair definition in many instances, and I would recommend strongly that this definition not be used.

For example, this definition would provide that if an individual conceived an invention, filed a patent application, got an issued patent and was later hired by an employer, and the invention was first built or "actually reduced to practice" while the employee was working for the employer, and the reduction to practice was part of his job, the invention would then become a service invention, and would belong to the employer with a possible royalty to the employee. This would happen even though the employee had previously obtained an issued patent and might have even licensed or sold it to someone else who had not yet actually reduced it to practice.

An improvement would be if the word "actually" were omitted which then would provide for what is known as a "constructive" reduction to practice, namely, the filing of a patent application in the U.S. Patent and Trademark Office. However, even this can be somewhat unfair, and the best definition would be that an invention is made when it is "conceived".

B. Description of the Invention (Section 411(b))

This Section provides that the employees notice to the employer shall "contain a complete description of the invention in the manner prescribed by the Commissioner", although the act does not specify what this "manner" consists of. If a burden is placed upon the employee to submit a description in a manner described by the Commissioner, the description will probably be similar to that of a patent application. Based on my experience of nearly 30 years, this is far too much of a burden to place on the employee, as most patent disclosures disclosed to companies are one or two paragraphs with or without a simple drawing.

Often, of course, the company's patent attorney gets further information before the company decides what action they wish to take on the invention, and, before the patent application is filed in the U.S. Patent and Trademark Office, the patent attorney must develop substantially more information. However, if the employee is required to submit more than a paragraph or two, disclosures will not be submitted, as it is too difficult and takes too much time for employees to do this, particularly when they are not skilled in preparing such documents.

C. Reasonable Time Before Issuance (Section 414(b))

Often the value of an invention cannot be determined until it is known what claims of the patent will be allowed by the Patent and Trademark Office. This is not actually known until a Notice of Allowance is received by the patent applicant. The patent issues a comparatively short time thereafter. It would

be more reasonable to provide that the kind and amount of compensation should be determined within a reasonable time after issuance of the patent.

D. Supplying the Employee a Copy of Documents (Section 423(a))

This Section provides that a copy of the patent application is supplied to the employee inventor, who is also permitted to examine all Patent Office correspondence in connection with the application. I assume this language applies to both U.S. and foreign patent applications. This would be a substantial burden on both parties, and in the case of a litigious employee, it would be extremely expensive to obtain a patent. It should be noted that it is unlikely that a company would deliberately get less than they were entitled to in the Patent and Trademark Office in an effort to avoid or reduce the payment to the employee. This would reduce the strength of the patent with respect to their competition, which, of course, is the major reason for obtaining a patent.

GENERAL COMMENT

In general, I am concerned that this law would be very burdensome on both employees and employers, as there are many provisions for arbitration boards, appeals, etc., which will probably result in full scale legal proceedings which are extremely expensive and do not serve any real useful purpose.

The present employee invention system is preferable. Approximately 10% of companies give significant invention awards to employees. The rest do not. Approximately 60% of companies give awards of a few hundred dollars to employee inventors and the rest do not. If the employee feels strongly on these points, he is free to either start his own business or work for a company that gives significant rewards.

In my experience, most employees, while they would like to have more money, do not think that the invention situation is a big issue. The number of employees

who would get a substantial amount of money is extremely small because the number of worthwhile inventions entitled to any substantial amount of money is very small. If a company is shortsighted enough to not reward his employee inventors one way or another when they make inventions, it is that company's loss.

I do not believe the Government really can solve that problem in a fair, equitable and inexpensive manner.

APPENDIX 13

48 104 PATENT CONTRACTS OTHER THAN GOVERNMENT

COMMITTEE NO. 104 EDWARD G. FIORITO, *Chairman*

PATENT CONTRACTS OTHER THAN GOVERNMENT

Scope of Committee: Problems arising out of domestic nongovernmental contract matters involving the sale and license of patents and indemnity against infringement liability, including:

(1) employer-employee relations, such as the provision of assignment agreements between employers and employed inventors and policies relating thereto;
(2) indemnity warranties and defense agreements, including those arising out of sales or by reason of the Commercial Code statutes; and
(3) recommendations to improve the rights of patent owners to obtain a just return on their patents from licensees, assignees and others with whom they may enter into agreements. In coordination with the Committee on Cooperation with Other Bar Groups, this committee cooperates with other Sections and Committees of the A.B.A. such as the Section of Corporation, Banking and Business Law.

SUBCOMMITTEE A RICHARD C. WITTE, *Subcommittee Chairman*

Subject 1. APPORTIONMENT OF RIGHTS BETWEEN EMPLOYED INVENTORS AND EMPLOYERS.

PROPOSED RESOLUTION 104-1. Council Action: Class 1 Full Debate.

RESOLVED, that the Section of Patent, Trademark, and Copyright Law favors in principle the adoption, by those states which choose to enact employee invention legislation, of the following Model State Law set out below:

PROPOSED MODEL STATE LAW REGARDING EMPLOYEE INVENTIONS

Any provision in an employment agreement which provides that the employee shall assign or offer to assign any of his rights in an invention to his employer shall not apply to an invention that the employee developed entirely on his own time without using the employer's equipment, or supplies, or facilities of proprietary information except for those inventions that (i) relate, at the time of conception of the invention, to the employer's business, or that of its parent, subsidiary or related companies, or actual or demonstrably anticipated research or development of the employer or said companies, or (ii) result from any work performed by the employee for the employer. To the extent a

provision in an employment agreement purports to apply to the type of invention described, it is against the public policy of this State and is unenforceable. The employee shall bear the burden of proof in establishing that his invention qualifies under this section.

An employer may not require a provision of an employment agreement made unenforceable hereunder as a condition of employment or continued employment. An employer, in an employment agreement, may require that the employee report all inventions developed by the employee, solely or jointly, during the term of his employment to the employer, including those asserted by the employee as nonassignable, for the purpose of determining employee or employer rights. If required by a contract between the employer and the United States or its agencies, the employer may require that full title to certain patents and inventions be in the United States.

Past Action. In 1982, the Section passed the following resolution (1982SP89-R104-2A):

RESOLVED, that the Section of Patent, Trademark, and Copyright Law opposes in principle the enactment of any federal legislation apportioning rights between employers and employees regarding employee inventions; and, specifically, the Section of Patent, Trademark, and Copyright Law opposes H.R. 4732 (Kastenmeier), 97th Congress, 1st Session (1981) and H.R. 6635 (Kastenmeier), 97th Congress, 2nd Session (1982).

Discussion. In 1982, the Section passed Resolution 104-2A opposing in principle the enactment of any federal legislation apportioning rights between employers and employees regarding employee inventions. Passage of Resolution 104-2A reflects the Section's position that the federal forum is an inappropriate one for regulation of what is presently an issue regulated by the states, either by legislation or in the courts. It reflects the view that rights in inventions, patented or not, are property rights, the ownership of which is properly a state matter. The resolution also indicates the Section's sense that disputes between employers and employees regarding ownership of invention rights involve issues which may be resolved differently by different states, and is thus best left for the states to manage.

At the Annual Meeting in August, 1982, the Section considered and recommitted two resolutions, the first opposing any legislation inequitably apportioning

employee inventions, and the second favoring state legislation over federal legislation apportioning rights between employers and employees regarding employee inventions. Some members of the subcommittee believe that there is insufficient basis for proposing another resolution at this time. They believe that there is no pressing Federal issue to be addressed because they do not perceive a significant likelihood that Federal legislation will be enacted, and they believe that there is no pressing state issue because the state legislation being passed is basically equitable. Such legislation already exists in four industrial states: Minnesota, Washington, California and North Carolina. The statutes in these states generally provide an equitable allocation of rights between employer and employee by implicitly approving employer-employee agreements which include equitable allocations, and by declaring unenforceable employer-employee agreements which involve "overreaching" by the employer. The statutes are quite similar in their apportionment of employee invention rights, and thus provide a reasonable degree of uniformity from state to state for both employers and employees.

The remainder of the states, in which no legislation exists, provide a common law apportionment which gives the employer limited rights to employee inventions. This has been offset, in the case of almost all employed inventors, by the use of employer-employee agreements, which give the employer rights to most employee inventions.

Most employer-employee agreements contain clauses which: (1) require protection of trade secrets; (2) require the employee to assign inventions; (3) require the employee to cooperate in disclosing inventive activity; and (4) require the employee to cooperate in patent prosecution activities. While the last two items follow a fairly standard pattern, the obligation to assign inventions varies from contract to contract. Some agreements are limited to inventions made in the actual course of the inventor's research, while some agreements include inventions unrelated to the employer's business or research and made independently by the employed inventor. Some contracts contain trailer clauses requiring the employee inventor to assign inventions made for a certain period after leaving employment.

Courts may construe such agreements strictly against the employer and in favor of the employee and could, in some cases, refuse to enforce a broad contract as unconscionable or overreaching. The current trend in the courts is to attempt to balance perceived inequities in bargaining position between employers and employees, and to limit the scope of inventions covered by employer-employee agreements to those in which the employer has a legitimate and justified business interest. In some respects, the situation is worse than that provided by the common law, because disputed inventions are handled on a case by case basis, removing the certainty desired by employers, both for making R&D investment decisions and for providing a uniform policy regarding administration of employee inventions. Either employer or employee may end up receiving less than was thought to be bargained for.

In view of the problems of an agreement-based apportionment system in the common law states, the subcommittee perceives a need for state legislation which would preserve the fundamentally contractual nature of the current apportionment system, yet provide a greater measure of certainty in its administration, by protecting employer-employee agreements which equitably apportion employee invention rights, and by setting the limits beyond which such an agreement will be declared unenforceable.

The subcommittee considers the Proposed Model State Law Regarding Employee Inventions (cited in the Proposed Resolution) to succinctly incorporate the best features of the current state legislation in this area. The Model State Law is based on the North Carolina enactment. It exempts from employer-employee invention assignment agreements, inventions developed by the empolyee entirely on his own time without using the employer's equipment, supplies, facilities, or trade secret information, where the invention does not relate to the employer's business or actual or demonstrably anticipated research or development or does not result from any work performed by the employee for the employer. It permits an employer to require that the employee report all inventions made by the employee to the employer, including those asserted to be nonassignable. It also provides that an employer may not require an employment provision made unenforceable under the statute as a condition of employment or continued employment. It places the burden of proof on the employee claiming ownership of an invention under the law.

The subcommittee believes that this matter is properly regulated at the state level. Federal policy should be to leave as much regulation of property rights to the states as possible. Employment contracts and employer-employee bargaining are traditionally state matters and are adequately being handled by the states. There is no pressing federal problem which requires attention. There is significant overlap between an "invention" and a trade secret. An invention can also be a trade secret until it appears in an issued patent. Ownership of trade secrets is a well-established, state-controlled property right. Federal interference in this is unnecessary and improper.

SUBCOMMITTEE B PAUL M. ENLOW, *Subcommittee Chairman*

Subject 2. COMPENSATION OF EMPLOYED INVENTORS.

PROPOSED RESOLUTION 104-2. Council Action: Class 2 Approved.

RESOLVED, that the Section of Patent, Trademark and Copyright Law, while fully supporting the just and proper compensation of inventors for their creative efforts, opposes in principle and practice legislation requiring employers to pay compensation to employees, over and above that normally paid to them for their services, in return for rights in their inventions under legally enforceable obligations, and

Specifically, opposes the enactment of H.R. 6635 (Kastenmeier) 97th Congress, 2nd Session (1982).

Past Action. In 1970 the Section passed the following resolutions:

(1970 SP87-R26) Section disapproves legislation forcing implementation of the principle of special recognition by corporations and other institutions of inventions made by employees, whether or not these are work-related, and disapproves legislation forcing implementation of the principle of some form of compensation to employees over and above salary, commissions, and bonuses regularly paid to them for their services, in return for assignment of exclusive rights in such inventions, and specifically, the Section disapproves H.R. 15512 (Moss), 91st Congress.

(1980 SP67-R104-1) Section, while recognizing the desirability of appropriately compensating inventors, opposes in principle legislation requiring employers to pay compensation to employees over and above that normally paid to them for their services, in return for rights in their inventions under legally enforceable obligations.

Discussion. The subcommittee believes that there has been no demonstrated need for legislation such as H.R. 6635. In the absence of conclusive evidence that employed inventors creativity has been thwarted, it does not appear warranted to adopt a legislative scheme that will add to the cost of R&D efforts without reasonable assurance that new and competitive products will be developed; particularly, when U.S. industry is suffering from competitive onslaughts from abroad. The public and U.S. industry is bound to suffer from increasing the costs of products without any commensurate benefit.

Further, the great majority of employed technical employees may suffer because of the special treatment required for a special minority. Many important contributions are made by employees which add significantly to the commercial success of a product but which are not patentable inventions. Special compensation for inventors may result in reduced compensation for the great majority of other employees, and introduce an element of secretiveness and divisiveness amongst employees. Any disruption of the close team effort required in a development effort may prove catastrophic.

It is also believed that attempts to determine reasonable compensation for the value of an invention, which may be one of many used in a product or forming part of a licensing package, will border on the metaphysical. The creation of additional governmental organizations to delve into such issues is considered counterproductive.

control use of the patented product after sale of the product, in the absence of a patent grant directed toward the use of the product. Specifically, the manufacturing licensee granted an exclusive field of use license to one of its customers for the patented product sold to that customer. There was no patent coverage relating to the use itself. The Court held that the protection of a patent monopoly on a product cannot be stretched so far as to continue the monopoly after the sale of the product, except in unusual circumstances. Thus, the attempted field of use limitation was forbidden by the antitrust laws.

The decision in *United States v. Westinghouse Electric Corp.*, 471 F. Supp. 532 (N.D. Cal. 1978) is also of interest although it primarily relates to territorial licensing rather than field of use provisions. The *Westinghouse* court cites the *CIBA GEIGY* case with approval for the point that restrictions which do not enlarge the monopoly beyond that given by the patent statute are presumably acceptable.

The subcommittee will continue to review the law and recent cases relating to field of use restrictions.

SUBCOMMITTEE B CHARLES F. RENZ, *Subcommittee Chairman*

Subject 2. EMPLOYEE INVENTIONS.

PROPOSED RESOLUTION 104-1.

RESOLVED, that the Section of Patent, Trademark and Copyright Law, while recognizing the desirability of appropriately compensating inventors, opposes in principle legislation requiring employers to pay compensation to employees over and above that normally paid to them for their services, in return for rights in their inventions under legally enforceable obligations.

Past Action. In 1970 the Section passed the following resolution. (1970 SP87 R26):

RESOLVED, that the Section of Patent, Trademark and Copyright Law disapproves legislation forcing implementation of the principle of special recognition by corporations and other institutions of inventions made by employees, whether or not these are work related, and disapproves legislation forcing implementation of the principle of some form of compensation to employees over and above salary, commissions, and bonuses regularly paid to them for their services, in return for assignment of exclusive rights in such inventions. SPECIFICALLY, the Section of Patent, Trademark and Copyright Law disapproves H.R. 15512 (Moss), 91st Congress.

Discussion. There are no bills pending in Congress at this time directed to the subject of compensation for inventors. The proposed resolution is intended to supersede the 1970 resolution. The 1970 resolution opposed legis-

APPENDIX 14

Trademark Trial and Appeal Board
UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

April 17, 1984

Hon. Robert Kastenmeier
U. S. House of Representatives
Washington, D. C. 20515

Dear Bob,

It looks like your Patent and Trademark Office housekeeping bills are going into the final stretch. In this regard, I am sure you will recall my expression of interest to you last year in a legislative upgrading of the grades of members of my Trademark Trial and Appeal Board who, for too long, have remained one or two grades below their counterparts on the agency's Patent Appeals and Patent Interference tribunals.

We were pleased that the Senate side saw fit to add a provison to the Administration bill seeking to merge the Board of Patent Appeals (30 judges) and the Board of Patent Interferences (8 judges) that would also raise the grades of Trademark Board members (7 judges) from GS-15 to GS-16. This provision is in S. 1538, and should stay there through the full Judiciary Committee and Consent Calendar.

Margaret Laurence and I are hopeful that similar action may result from deliberations on the merger bill by the Subcommittee on Courts, Civil Liberties and Administration of Justice. I understand there is a good chance that a rider identical to that introduced by Senator Matthias for S. 1538 may be proposed from the minority side of your Subcommittee. I hope that it meets with general favor. The idea of upgrading the Board has been officially endorsed not only by the U. S. Trademark Association but also by such key patent-oriented organizations as the American Patent Law Association (AIPLA) and the Intellectual Property Association (IPO).

If your colleagues harbor any hesitancy about a legislative upgrading of PTO top adjudicators, this is an issue that the Subcommittee will be unable to avoid when it considers the merger bill for the Patent Boards (H.R. 4462). Although it may not be apparent on the face of the bill and although the point may not have been highlighted in testimony or legislative reports, passage of the merger bill will automatically operate to increase the grade of members of the Board of Patent Interferences from GS-16 to GS-17.

We were originally unsure of agency support at the top for our initiative. However, Secretary Baldridge and Commissioner Mossinghoff have indicated support for the S.1538 rider (not to full parity with the patent Boards but limited to the modest one-grade promotion that the Senate bill mandates).

Accordingly, we've got our fingers crossed that the House, like the Senate, will look kindly on the Board upgrading proposal. It is long overdue and really makes sense, both in terms of internal equity and the interests of the public in attracting high quality adjudicative talent to the Trademark Board.

I hope all goes well, personally and professionally. I know that you must be busier than ever and have always wondered at the breathtaking scope of your Subcommittee's jurisdiction, which I recall so well from the old LEAA days. My sojourn with the Trademark Board is nearing its second anniversary and has met with good fortune. Our backlogs (1 year when I came on) have been totally eliminated and we now decide cases and issue opinions within 3-6 weeks after hearings are held (the best waiting period in the Board's 25-year history). We are probably the "fastest gun" in the federal administrative judiciary and I like to think that our work has held up on the quality side as well.

Cordially and with appreciation for your interest in this matter.

Daniel L. Skoler
Chairman, Trademark Trial and
Appeal Board

As passed by ABA PTC Section
Chicago, Ill. Aug. 7, 1984

SUBSTITUTE PROPOSED RESOLUTION 101-3

RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle the enactment of legislation which provides that whoever without authority uses or sells within, or imports into, the United States during the term of a United States process patent a product produced by such patented process, infringes the process patent, provided, however, that no damages for such infringement shall be recovered by the process patentee from any person thereby made an infringer of the process patent except on proof that such infringer knew of or was notified of the infringement and continued to infringe thereafter, in which event damages shall be recovered only for infringement occuring after such knowledge or notice.

Allied Corporation
Suite 700
1150 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 296-3980

September 25, 1984

RECEIVED
SEP 28 1984

The Honorable Peter W. Rodino, Jr.
2462 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Rodino:

Allied Corporation supports H.R. 6286, reported by the Subcomittee on Courts, Civil Liberties and The Administration of Justice, which makes significant improvements in patent law. In particular, we applaud one section which provides process patents protection against foreign infringement similar to that now provided product patents.

As reported from subcommittee, however, the process patent section only applies to patents granted after date of enactment. This section should be amended so that it would apply to processes which are used to manufacture a product after date of enactment. This would provide protection to current patents without harming importers who have relied on current law.

The only current remedy against a company which violates a U.S. process patent to make a product in a foreign country and ships that product to the U.S. is to file an unfair trade practice action at the International Trade Commission. Allied Corporation filed such an action in March 1983, and in May 1984, a process patent was found to have been infringed. However, a final exclusion order has not been granted yet, and then the order must be acted on by the President. No damages are available. This remedy is inadequate. However, Allied Corporation is not asking for retroactive application to such a case. We only ask for protection against future infringements after date of enactment.

Allied Corporation believes the future lies in research and development. The company received 187 patents in the first half of 1984. Altogether it owns 7545 patents. A random survey indicated that more than fifty percent were process patents. In such fields as metallurgy, chemistry and biotechnology, "high technology," the cutting edge of the future, depends on adequate protection for process patents.

Please support an amendment to H.R. 6286 which would provide this protection to current process patents.

Sincerely,

R. Ray Randlett

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
SUITE 203 • 2001 JEFFERSON DAVIS HIGHWAY, ARLINGTON, VA 22202

Telephone (703) 521-1680

September 27, 1984

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The Honorable Robert W. Kastenmeier
Chairman Subcommittee on Courts, Civil
Liberties, and the Administration of Justice
Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Re: Amendments to the Patent Law (H.R. 6268)

Dear Mr. Chairman:

The American Intellectual Property Law Association (AIPLA) is a national bar association of attorneys engaged in the practice of patent, trademark, copyright and other laws affecting intellectual property.

The AIPLA enthusiastically supports H.R. 6268, "Amendments to the Patent Law," which you have introduced. The bill corrects a number of defects in the Patent Code and will improve the ability of the Patent and Trademark Office (PTO) to serve the public. Of particular importance and timeliness is the provision which will protect American process patent owners from unfair foreign competition.

H.R. 6268 will strengthen our patent system. In doing so, innovation in the American business community will be encouraged. The ability of U.S. companies to compete in domestic and foreign markets for high technology products and staple goods produced by new and advanced processes will also be enhanced.

We commend you, Representative Carlos Moorhead, and the other members of the Committee on the Judiciary who assumed a leadership role in developing this meaningful economic legislation.

Sincerely,

B. R. Pravel

BRP:bw

B. R. Pravel
President

cc: Members of the Judiciary Committee

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

April 17,1984

The Honorable Robert W. Kastenmeier, Chairman
Committee on the Judiciary
Subcommittee on Courts, Civil Liberties
and the Administration of Justice
U.S. House of Representatives
Washington, D.C. 20515

Subject: Recommendations for
H.R.2610 and H.R.4462

Dear Congressman Kastenmeier:

The Patent Office Professional Association (POPA) represents all patent examiners in the Patent and Trademark Office (PTO) including examiners-in-chief and examiners of interferences.

POPA strongly supports all efforts which increase the efficiency and effectiveness of PTO operations. However, certain provisions of H.R.2610 and H.R.4462 are likely to have exactly the opposite effect since they ignore the expertise of primary examiners.

Primary examiners are the cornerstone of our examination system. They are persons who, through a long period of progressively more responsible apprenticeship, and after careful scrutiny of their work during trial periods by multiple supervisors, have attained recognition for their scientific and legal competence. By concentrating in a relatively narrow area of technology for many years, they have the experience necessary to qualify as experts.

Consequently, to utilize appropriately the accummulated experience and demonstrated judgement of primary examiners, POPA recommends the following amendments:

1. In H.R.2610:

   a) Strike out the proposed change to Section 134 of Title 35, USC, so that the designation "primary" is retained. Keep Section 134 as it is.

   b) Instead, in Section 132 of Title 35, USC, insert the words "by a primary examiner" after "reexamined."

2. In H.R.4462:

a) In proposed Section 7 of Title 35, USC, strike out "and patentability" in the third sentence.

b) In proposed Section 135(a) of Title 35, USC, strike out "and patentability" in the second sentence.

Protecting Applicants From Prolonged Prosecution

H.R.2610's proposed modification of Section 134 is intended to provide a remedy for an applicant who receives a second rejection from an examiner with partial signatory authority. The remedy is an appeal to the Board of Appeals, a time consuming and expensive procedure for both the applicant and the PTO.

Our recommendation, to require that all second rejections be issued by a primary examiner, is a better remedy. A primary examiner is more likely to avoid an unnecessary appeal than an examiner with lesser signatory authority. Furthermore, since a primary examiner is responsibile for an examiner's answer on appeal, the primary should also control that which is being appealed. Lastly, since most second rejections already require the attention of a primary, extending this attention to all second rejections would not be an undue burden. It is obviously more cost effective to prevent, rather than to prosecute, an appeal.

Patentability Decisions In Interferences

Current practice requires that patentability issues which arise during the course of an interference proceeding be remanded to the primary examiner for decision. Our recommendation is to retain this practice.

As presently written, H.R.4462 proposes not only to merge the existing functions of the Board of Appeals and the Board of Patent Interferences, but also to add the function of initially deciding matters of patentability which arise during the course of an interference. To assign the primary examiner's job of generating an initial decision to an appeals body has two drawbacks.

First, by eliminating the primary's role in the proceeding, the technological expertise of that primary is also abandoned. Because of the vast array of arts they are required to consider, members of the combined Board must be generalists. Primary examiners, by comparision, are experts due to their daily contact with applications in a narrow specialization. While a generalist may be competent to review the decision of an expert, the generalist will not be in as good a position to generate an initial analysis.

Secondly, eliminating the primary's role also eliminates the opportunity for an independent administrative review. Traditionally, an applicant has been afforded at least one administrative appeal prior to final agency action.

We hope these recommendations will assist you in your deliberations on these bills. Thank you for giving us this opportunity to present our views.

Respectfully submitted,

Ronald J. Stern

Ronald J. Stern, President
Telephone: 557-2975

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

4 May 1984

The Honorable Robert W. Kastenmeier
Chairman
Committee on the Judiciary
Subcommittee on Courts, Civil Liberties
and the Administration of Justice
U.S. House of Representatives
Washington, DC 20515

Subj: Recommendations for H.R.2610 and H.R.4462

Dear Congressman Kastenmeier:

We request the opportunity to testify, on the recommendations on these pending patent bills in our letter to you of 17 April 1984, and answer any questions the subcommittee may have. We hope our letter has been helpful and that our testimony would further assist the subcommittee in its deliberations on H.R. 2610 and H.R.4462.

Very truly yours,

Ronald J. Stern
President
Telephone: 557-2975

RS:blp

Stauffer Chemical Company
Westport, Connecticut 06881 / Tel. (203) 222-3000 / Cable "Staufchem"

April 6, 1984

Michael Remington, Esq.
Counsel
Courts, Civil Liberties and
Administration of Justice
2137 Rayburn House Office Building
Washington, D.C. 20515

Dear Mike:

I want to thank you very much for the time you spent with Allan Noe and myself on Tuesday, April 3. I enjoyed it very much and your suggestions were very helpful.

In accordance with your recommendation, I am enclosing herewith my comments on H.R. 4524. While I have similar comments in respect to retroactivity to the other House bills which are counter-parts to S. 1535, I have not addressed these.

I would greatly appreciate it if you would see that my comments are placed in hearing record of H.R. 4524.

I have copied Gerald Mossinghoff, Mike Kirk, Tom Mooney and Ralph Oman on this letter.

I am also enclosing, for your information, a copy of the comments I sent to Ralph Oman in respect to S. 1535.

Sincerely,

Bob Sullivan

Robert C. Sullivan
Director
Patent Department

RCS/rj
Attachments

Stauffer Chemical Company
Westport, Connecticut 06881 / Tel. (203) 222-3000 / Cable "Staufchem"

April 6, 1984

Michael Remington, Esq.
Counsel
Courts, Civil Liberties and
Administration of Justice
2137 Rayburn House Office Bldg.
Washington, D.C. 20515

Subject: Opposition to H.R. 4524

Dear Mr. Remington:

As Director of the Patent Department at Stauffer Chemical Company, I am sending this letter on behalf of my company with the request that it be placed in the record of the hearing for H.R. 4524 for review by the subcommittee.

H.R. 4524 is retroactive legislation and, consequently, can result in far-reaching unforeseeable effects well beyond what it purports to accomplish. For this reason, it is potentially unfair. To the extent that it is retroactive in nature, we believe that it fails the test of John Stedman that it must benefit the public. It is not believed to stimulate innovation to the extent that it applies to past inventions beyond hope of stimulation.

If this bill were amended to make it only prospective in nature, we could support it, as our objections are not to the concepts expressed, but only to its retroactive application. However, there is a question that even prospectively this bill might encourage repeated carelessness in respect to foreign patent practice vis-a-vis 35USC 184 et seq.

My company is party to patent litigation filed more than a year ago. The history of the patent involved appears to have many facts in common with the Gaertner case 202 USPQ 714 (1979). We have claimed a defense under 35 USC 184 and 185. If H.R. 4524 becomes law in its present form, this defense might well be eliminated. This will possibly benefit our opponent. It could damage us. It cannot be said to benefit the public or stimulate innovation. It is not known how many other such cases exist, or where else it will affect the rights of U.S. companies.

This legislation will change the standards or tests by which the sanctions of 35 USC 184 et seq. can be avoided. The standards should be changed prospectively. The results of retroactive legislation are unpredictable and, worse, will be unintended.

The results can be inequitable as they are designed to help those who cannot meet the present standards to the detriment of others who are acting in reliance on the present tests. Ex post facto deprivation of rights could result, from those relying on the current law.

Section 4 of this proposed bill is directed to patents past and future and, consequently, in both instances can be retroactive.

It is respectfully requested that Section 4 of the subject proposed bill be deleted in its entirety and be replaced by the following:

> "The amendments made by this act shall apply to any United States Patent application having a filing date or claiming the benefit of a filing date subsequent to the enactment of this act and patents issuing on such applications."

By limiting Section 4 to patent applications with a filing date subsequent to the date of the act, it will make the act prospective. By including patent applications claiming the benefit of a filing date after the date of the act, it will prevent continuation applications or continuation-in-part applications from being used to obtain the benefit of the act for old cases through fortuitous pending applications. In summary, it will make this act equitable and prospective in nature. It will no longer be retroactive and we would then support it.

This submission represents a personal and corporate view of the subject legislation. It is not intended in any way to criticize the substantial efforts of those who have proposed or supported this legislation.

Most respectfully submitted,

Robert C. Sullivan
Director
Patent Department

RCS/rj
cc: G. Mossinghoff
M. Kirk
T. Mooney
R. Oman

Stauffer Chemical Company
Westport, Connecticut 06881 / Tel. (203) 222-3000 / Cable "Staufchem"

April 6, 1984

Ralph Oman, Esq.
Chief Counsel
Patents, Copyrights and Trademarks
SD-137 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Subject: Opposition to S. 1535

Dear Mr. Oman:

As Director of the Patent Department at Stauffer Chemical Company, I am sending this letter on behalf of my company with the request that it be placed in the record of the hearing for S. 1535 for review by the subcommittee.

S. 1535 is retroactive legislation and, consequently, can result in far-reaching unforeseeable effects well beyond what it purports to accomplish. For this reason, it is potentially unfair. To the extent that it is retroactive in nature, we believe it fails to benefit the public and it will also fail to stimulate innovation, at least to the extent that it applies to past inventions beyond hope of stimulation.

If this bill were amended to make it only prospective in nature, we could support it. As our objections are not to the concepts expressed, but only to its retroactive application.

Since we have a direct interest in those sections of the bill establishing a new standard under Section 184, 185 and 186 of title 35 USC, I would address this section of the bill specifically, although it is believed that every section of this bill should be made prospective. It is believed that this can be easily accomplished by amending Section 11 of this bill in a manner as set forth below.

My company is party to patent litigation, filed more than a year ago. The history of the patent involved appears to have many facts in common with the Gaertner case 202 USPQ 714 (1979). We have claimed a defense under 35 USC 184 and 185. If S. 1535 becomes law in its present form, this defense might well be eliminated. This will possibly benefit our opponent. It could damage us. It cannot be said to benefit the public or stimulate innovation. It is not known how many other such cases exist or where else it will affect the rights of U.S. companies.

This legislation will change the standards or tests by which the sanctions of 35 USC 184 et seq. can be avoided. The standards should be changed prospectively. The results of retroactive legislation are unpredictable and, worse, will be unintended. The results can be inequitable as they are designed to help those who cannot meet the present standards to the detriment of others who are acting in reliance on the present tests. Ex post facto deprivation of rights could result from those relying on the current law.

Section 11 of this proposed bill is directed to patents past and future and, consequently, in both instances can be retroactive.

It is respectfully requested that Section 11 of the subject proposed bill be deleted in its entirety and be replaced by the following:

> "The amendments made by this act shall apply to any United States patent application having a filing date or claiming the benefit of a filing date subsequent to the enactment of this act and to patents issuing on such applications."

By limiting Section 11 to patent applications with a filing date subsequent to the date of this act, it will make the act prospective. By including patent applications claiming the benefit of a filing date after the date of the act, it will prevent continuation applications or continuation-in-part applications from being used to obtain the benefit of the act for old cases through fortuitous pending applications. In summary, it will make this act equitable and prospective in nature. It will no longer be retroactive and we would then support it.

I would further note that there is an additional question in respect to this area. By changing the standards, it might well encourage repeated carelessness in respect to foreign patent practice vis-a-vis 35 USC 184 et seq. Congress should be well aware of the full ramifications of this change.

While the other sections of this act do not have an immediate impact on our company, I feel the same limitations should apply to the other provisions and they should be prospective in nature. Retroactive effect can be inequitable to those who have acted within the law and have adopted a position in reliance upon it. It could result in increased litigation and constitutional questions could certainly be raised. Consequently, I urge the subcommittee to amend Section 11 of S. 1535 as indicated above.

45-025 O - 85 - 44

This submission represents a personal and corporate view of the subject legislation. It is not intended in any way to criticize the substantial efforts of those who have proposed or supported this legislation.

Most respectfully submitted,

Robert C. Sullivan
Director
Patent Department

RCS/rj
cc: G. Mossinghoff
M. Kirk
T. Mooney
M. Remington

S. 1535
Page 3

Stauffer Chemical Company
Westport, Connecticut 06881 / Tel. (203) 222-3000 / Cable "Staufchem"

April 6, 1984

Ralph Oman, Esq.
Chief Counsel
Patents, Copyrights and Trademarks
SD-137 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Subject: Opposition to S. 1535

Dear Mr. Oman:

As Director of the Patent Department at Stauffer Chemical Company, I am sending this letter on behalf of my company with the request that it be placed in the record of the hearing for S. 1535 for review by the subcommittee.

S. 1535 is retroactive legislation and, consequently, can result in far-reaching unforeseeable effects well beyond what it purports to accomplish. For this reason, it is potentially unfair. To the extent that it is retroactive in nature, we believe it fails to benefit the public and it will also fail to stimulate innovation, at least to the extent that it applies to past inventions beyond hope of stimulation.

If this bill were amended to make it only prospective in nature, we could support it. As our objections are not to the concepts expressed, but only to its retroactive application.

Since we have a direct interest in those sections of the bill establishing a new standard under Section 184, 185 and 186 of title 35 USC, I would address this section of the bill specifically, although it is believed that every section of this bill should be made prospective. It is believed that this can be easily accomplished by amending Section 11 of this bill in a manner as set forth below.

My company is party to patent litigation, filed more than a year ago. The history of the patent involved appears to have many facts in common with the Gaertner case 202 USPQ 714 (1979). We have claimed a defense under 35 USC 184 and 185. If S. 1535 becomes law in its present form, this defense might well be eliminated. This will possibly benefit our opponent. It could damage us. It cannot be said to benefit the public or stimulate innovation. It is not known how many other such cases exist or where else it will affect the rights of U.S. companies.

This legislation will change the standards or tests by which the sanctions of 35 USC 184 et seq. can be avoided. The standards should be changed prospectively. The results of retroactive legislation are unpredictable and, worse, will be unintended. The results can be inequitable as they are designed to help those who cannot meet the present standards to the detriment of others who are acting in reliance on the present tests. Ex post facto deprivation of rights could result from those relying on the current law.

Section 11 of this proposed bill is directed to patents past and future and, consequently, in both instances can be retroactive.

It is respectfully requested that Section 11 of the subject proposed bill be deleted in its entirety and be replaced by the following:

> "The amendments made by this act shall apply to any United States patent application having a filing date or claiming the benefit of a filing date subsequent to the enactment of this act and to patents issuing on such applications."

By limiting Section 11 to patent applications with a filing date subsequent to the date of this act, it will make the act prospective. By including patent applications claiming the benefit of a filing date after the date of the act, it will prevent continuation applications or continuation-in-part applications from being used to obtain the benefit of the act for old cases through fortuitous pending applications. In summary, it will make this act equitable and prospective in nature. It will no longer be retroactive and we would then support it.

I would further note that there is an additional question in respect to this area. By changing the standards, it might well encourage repeated carelessness in respect to foreign patent practice vis-a-vis 35 USC 184 et seq. Congress should be well aware of the full ramifications of this change.

While the other sections of this act do not have an immediate impact on our company, I feel the same limitations should apply to the other provisions and they should be prospective in nature. Retroactive effect can be inequitable to those who have acted within the law and have adopted a position in reliance upon it. It could result in increased litigation and constitutional questions could certainly be raised. Consequently, I urge the subcommittee to amend Section 11 of S. 1535 as indicated above.

This submission represents a personal and corporate view of the subject legislation. It is not intended in any way to criticize the substantial efforts of those who have proposed or supported this legislation.

Most respectfully submitted,

Robert C. Sullivan
Director
Patent Department

RCS/rj
cc: G. Mossinghoff
M. Kirk
T. Mooney
M. Remington

MARTIN LOBEL
ALAN S. NOVINS
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JIM GUY TUCKER
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LAW OFFICES OF
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1523 L STREET, N.W.
WASHINGTON, D.C. 20005
(202) 628-0066

April 24, 1984

TO: David Beier

FROM: James F. Flug 977

RE: S.1535/H.R.4526

Enclosed is Al Engleberg's recent testimony on process patents, in case you haven't seen it yet.

THE ASSOCIATION OF THE BAR
OF THE CITY OF NEW YORK
42 WEST 44TH STREET
NEW YORK 10036

COMMITTEE ON PATENTS

DAVID W. PLANT, CHAIR
JESSE J. JENNER, SECRETARY
875 THIRD AVENUE
29TH FLOOR
NEW YORK 10022
(212) 715-0600

March 7, 1984

RECEIVED
MAR 1
JUDICIARY COMMITTEE

Re: Titles III, IV, and V of the
National Productivity and
Innovation Act of 1983 (S. 1841)

Honorable Peter W. Rodino, Jr.
Chairman
Committee on the Judiciary
United States House of
Representatives
2333 Rayburn House Office Building
Washington, D.C. 205125

Dear Representative Rodino:

Enclosed is a copy of a report adopted by the Committee on Patents of the Association of the Bar of the City of New York on Titles III, IV and V of the National Productivity and Innovation Act of 1983 (S. 1841). Title II has been considered by the Association's Committee on Trade Regulation and is the subject of a separate report sent to you on December 27, 1983.

For the reasons set forth in the report, while we support Congress' attention to these issues, we respectfully recommend your consideration of the comments and suggestions set forth in our report. If you or any member of your staff would like further explanation of our views, please do not hesitate to contact me.

Respectfully,

David W. Plant

DWP:rt
Enclosure

REPORT ON TITLES III, IV and V OF THE PROPOSED NATIONAL PRODUCTIVITY AND INNOVATION ACT

by THE COMMITTEE ON PATENTS

Titles III, IV and V of S. 1841, 98 Cong., 1st Session (1983) are part of the Reagan administration's proposal to encourage technological development by (1) providing that agreements which convey rights to intellectual property shall not be subject to a per se rule of illegality, (2) eliminating treble damages for antitrust violations based upon agreements which convey rights in intellectual property, (3) abolishing patent misuse as a defense in certain circumstances unless the conduct violates the antitrust laws and (4) granting U.S. process patent owners the right to exclude others from using or selling goods produced by the patented process.*

This proposed legislation was analyzed by a joint subcommittee of members from the Association's Committee on Patents and the Committee on Trade Regulation. The Committee on Patents and the Committee on Trade Regulation separately considered the subcommittee's recommendations set forth herein.

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* This report does not deal with Title II of the proposed National Productivity and Innovation Act, which is being considered by The Committee on Trade Regulation. That Committee has issued a separate report which was sent to Congress on December 27, 1983.

For the reasons that follow, the Committee on Patents recommends that a modified version of such a bill be adopted. The Committee on Trade Regulation concurs in these recommendations, except as noted with respect to Point 4. Our recommendations are as follows:

1. Modify proposed Title III to provide that a rule of reason analysis be required with respect to all intellectual property licensing agreements where the conduct complained of is a patent licensing or enforcement practice and not other conduct to which the intellectual property license is merely incidental. The Committee favored the rule of reason test for intellectual property licensing agreements. Concern was expressed, however, that the intellectual property license may merely be incidental to, or a cover for, anti-competitive agreements between competitors, for example, horizontal price fixing, which in the Committee's view should continue to be subject to a per se rule.

This proposed legislation should also make it clear that the rule of reason analysis of tying arrangements involving patented tying products should be based on an evaluation of the actual market power rather than on a presumption of sufficient market power. Patented products are often in competition with products not covered by the patent. Therefore, the patent may not provide the requisite market power.

2. Delete the provision in Title III of the proposed Act that eliminates treble damage liability with respect to antitrust violations based upon agreements to convey rights in intellectual property. The Committee unanimously rejected the proposal to eliminate treble damages, and a majority opposed a proposal which would give Courts discretion to impose treble or lesser damages. The Committee is not necessarily opposed to the principle of elimination of treble damages, but a majority believes that piecemeal elimination of treble damages from the antitrust laws is not appropriate. It is the Committee's unanimous recommendation that Congress consider directly and in an integrated way the desirability of eliminating or limiting treble damages under the antitrust laws as a whole.*

3. Delete the provision of Title IV of the proposed Act that abolishes misuse as a defense to patent infringement unless the conduct violates the antitrust laws. The Committee views the present misuse doctrine as an effective check on what could be an abuse of the patent power. As explained in detail in the Subcommittee's analysis in the attached memorandum, many of the proposed changes have little impact and are therefore, in view of the Committee, unnecessary. Other proposed changes could have a significant impact, but the sponsors of this

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* This is currently being considered by the Association's Committee on Trade Regulation.

proposed legislation have not yet demonstrated the desirability of these changes.

The legislation is also somewhat vague -- it is not clear whether certain misuse defenses would be eliminated. Thus, for example, it is not clear whether or not this legislation would abolish the proscription against post-expiration royalties in patent licenses established by Brulotte v. Thys Co. 379 U.S. 27 (1964). In the Committee's view, this would be an undesirable result.

The Committee recommends that Congress investigate and analyze the doctrine of misuse thoroughly and thereafter propose legislation directed to the specific aspects of the doctrine that Congress considers to be undesirable.

4. Modify the provision of proposed Title V to limit the remedy to circumstances where the patented process is practiced outside the United States and the resulting goods are imported. The Committee opposed the current proposal which would empower process patent owners to prevent others from using or selling goods produced by the process, and endorsed a similar provision (HR-4524) which would limit the remedy to circumstances where the patented process is practiced outside the United States and the resulting goods are imported. The Committee endorsed this modified version of the proposed legislation because it would give U.S. patent owners a

remedy which is now available to patent owners in most foreign countries.

The Committee on Trade Regulation opposed passage of either proposal. That Committee noted that many foreign countries which have similar provisions also have "working" requirements and compulsory licensing, which assure that the patented process can be utilized in such countries. In contrast, the U.S. has neither "working" requirements nor compulsory licensing. Consequently, the proposed changes would permit a U.S. process patent owner -- even a foreign entity -- to prevent importation into the U.S. of goods made by the patented process, while also preventing anyone in the U.S. from practicing the patented process. In addition, since infringement of a process patent may not be established by examination of the product itself, this provision might require a foreign manufacturer to disclose its processes in order to rebut a claim or inference of infringement. Rather than disclose such proprietary information, the foreign manufacturer may choose to forego importing into this country. The Trade Regulation Committee also voiced concern that the House version (HR-4524), which would limit the remedy to circumstances where the patented process is practiced abroad, might violate the General Agreement on Tariffs and Trade.

5. Delete the provision in Title V which would create a presumption of infringement if the patent owner cannot directly prove infringement outside of this country,

has exhausted available discovery techniques and has shown a likelihood that the patented process was used. The rebuttable presumption is objectionable because the buyer of the product may not be in any better position to determine how the product was made than the patentee. In a typical situation, the buyer may neither know nor care about the methods actually used by its supplier to make the product. Suppliers often maintain the process information as a trade secret and are often reluctant to disclose the process details even to its customers for fear that it would eventually lose its competitive edge. Given this fairly typical set of facts, the Committee believes that the burden of proving noninfringement of a patent should not be on the innocent buyer of imported goods.

CONCLUSION

While the Committee believes it appropriate for Congress to act in this area, we respectfully submit

that Congress should consider acting in accord with the suggestions set forth in this Report.

Respectfully submitted,

COMMITTEE ON PATENTS

David W. Plant, Chair

Herbert Blecker
William F. Eberle
Paul M. Enlow**
John A. Fogarty, Jr.
Kenneth A. Genoni*
Theresa M. Gillis
Jules E. Goldberg
Martin E. Goldstein
Beverly B. Goodwin
Jules P. Kirsch
Stanley H. Lieberstein
Elizabeth Manning
Robert McKay
David J. Mugford
Gregor N. Neff
Pauline Newman
Lawrence F. Scinto
Jules H. Steinberg
John F. Sweeney
Mary-Ellen Timbers
Walt T. Zielenski

---

* Subcommittee Chair

** Subcommittee member (also: Jesse J. Jenner, secretary of Committee on Patents; and Zachary Shimer and William F. Sondericker of the Committee on Trade Regulation).

SUMMARY OF STATEMENT OF ALFRED B. ENGELBERG RE S1535

FOR HEARING OF APRIL 3, 1984

We are opposed to the proposed amendment to Section 271 of Title 35 which would extend patent infringement liability to the practice of patented processes in foreign countries for the following reasons:

1. The provisions of the Tariff Act (19 U.S.C. 1337) provide adequate protection for U.S. manufacturers in those instances where the infringement of a patented process causes injury to a domestic industry.

2. A substantial number of U.S. patents are owned by foreign applicants who do not practice the patented inventions in this country. The proposed law would actually provide greater protection to these patent owners than the laws in any other industrial nation. Most other countries require that the patent owner actually "work" the patent in that country as a pre-condition of injunctive relief. Otherwise, a patent may be subject to compulsory licensing. These provisions are similar in spirit to the provisions of the Tariff Act.

3. Process information is normally retained as a trade secret by its owner and is the lifeblood of many businesses. A U.S. importer charged with infringement will normally have no knowledge of the process used to make a product and no means of gaining access to that knowledge. Foreign manufacturers may refuse to defend infringement cases, rather than risk disclosure of trade secrets unless substantial amounts of business are involved even though meritorious defenses exist. Thus, domestic businesses (and jobs) could be needlessly put at risk.

4. The Patent Law deprives foreign inventors of the right to prove prior invention or invalidity of a patented invention based upon prior use or sale in a foreign country. If foreign acts can form the basis for a charge of infringement, it must logically follow that foreign activities should be available to prove invalidity or prior invention.

STATEMENT OF

ALFRED B. ENGELBERG

PATENT COUNSEL

GENERIC PHARMACEUTICAL INDUSTRY ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON JUDICIARY

SUBCOMMITTEE ON PATENTS, TRADEMARKS AND COPYRIGHTS

UNITED STATES SENATE

ON

S1535

APRIL 3, 1984

My name is Alfred Engelberg, and I am Patent Counsel to the Generic Pharmaceutical Industry Association and a partner in the firm of Amster, Rothstein & Engelberg of New York City. I have been engaged in the practice of patent law for over twenty years and during that time period, have been a Patent Examiner in the United States Patent and Trademark Office, a patent attorney for a large multi-national corporation, a patent trial attorney for the United States Department of Justice, and a private practitioner.

As you know, there is already an existing law which protects domestic manufacturers from foreign imports made by infringing processes abroad. Under 19 U.S.C. 1337(a), the ITC can exclude imported products which infringe a patent, but only if "the effect or tendency...is to destroy or substantially injure an industry efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States...".

In my opinion, the Tariff Act provisions strike the appropriate balance by protecting patent owners from foreign infringement only if they are actually engaged in the domestic exploitation of a process patent. If, in fact, the primary purpose of the legislation is to protect domestic jobs and industries, then there is no reason for a broader-based process patent infringement bill. It must be borne in mind that a substantial percentage of all U.S. patents are now granted to foreign applicants. Certainly, permitting foreign (or multi-national) patent

owners to enforce U.S. process patents in order to protect foreign manufacturing activities will not create domestic jobs unless those process patents are actually being exploited in the United States. Indeed, it would be somewhat anomalous for Congress to give foreign patent owners greater protection at a time when it is considering "domestic content" legislation which would limit foreign imports by requiring products such as automobiles to be made from parts manufactured in the U.S.

Many of the proponents of this legislation have argued that U.S. Patent Law is out of step with the rest of the world in refusing to enforce process patents more broadly. This, in fact, is not the case. The patent laws of most countries, such as England, Germany, Holland, Japan and the rest of the industrialized world, require that a patent be "worked" by actual use of the patented invention in that country. Compulsory licensing may be ordered if a patent is not "worked." Indeed, in England, for example, compulsory licensing may be ordered even in those instances where the patent is being "worked" but production is insufficient to make products available at reasonable prices. There are also other public interest situations where compulsory licensing may be invoked--patents covering drugs is one such area. In the final analysis, these economic overrides on the operation of the patent system are comparable to the fundamental purpose underlying the Tariff Act. It is for that reason that Congress has consistently rejected earlier attempts to enact this type of legislation.*

*A formal memorandum prepared by GPIA which deals with the Tariff Act, as well as previous attempts to enact similar process patent infringement legislation is annexed to this statement as an Appendix.

The pending ITC proceeding involving the prescription drug known as indomethacin demonstrates why the Tariff Act provides adequate protection. For 17 years, Merck owned a product patent covering this anti-arthritic drug and properly reaped hundreds of millions of dollars in monopoly profits. The product patent has now expired and generic drug companies are preparing to import indomethacin. Merck has now purchased a U.S. process patent issued to a Japanese chemical company and is seeking to prevent importation of indomethacin based on that newly acquired patent. In the ITC, the case can be defended on the ground that there is no injury to Merck and a substantial benefit to the public. No such defense is available under the proposed legislation. Given the substantial monopoly which Merck has already enjoyed, there is no reason to eliminate the defenses which are provided in an ITC proceeding.

It has also been argued that proceedings before the Tariff Commission are cumbersome. There is, in fact, no real evidence to support that assertion. To the contrary, the use of ITC proceedings to enforce patents against foreign infringers is very much in vogue. This is due to the vigorously enforced statutory time limits which assure patent owners of a speedy result. The real reason why Merck and others seek the present legislation is to avoid the legitimate economic defenses which can be asserted in ITC proceedings.

Wholly apart from the foregoing, in the typical buy/sell situation, the buyer may neither know nor care about the process actually used by its supplier to produce the product being sold.

Indeed, suppliers ordinarily maintain process information as a trade secret since manufacturing methods are the lifeblood of many businesses. Many suppliers are very reluctant to disclose any process details to their customers for fear that they will eventually lose their competitive edge (and their customers) as a result of such disclosure. Given these fairly typical facts, it makes no sense to put the burden of proving non-infringement of a patent on the innocent importer of products. Yet, by charging the importer with infringement of a process patent, the burden of proving non-infringement may fall on the importer. Indeed, the Commissioner of Patents supports a proposal before the House of Representatives (H.R. 3577) which would formally shift the burden of proof to the importer. That proposal is based on the erroneous belief that the importer's leverage as a customer of the accused infringer can be used to force the accused infringer to disclose the details of the accused process. In practice, it is not likely to work in that manner. Rather, the accused infringer's decision to defend patent infringement litigation may well be based on other factors such as the amount of business involved; the value of the trade secrets involved; the identity of the patentee; and the nature of the worldwide competition between the patentee and the accused infringer. Innocent buyers may well lose access to valuable sources of supply, even though there is no actual infringement, simply because a foreign manufacturer legitimately refuses to make a disclosure of trade secrets to a competitor.

Those who would argue that any disclosure problems can be solved by the use of protective orders in litigation are simply not being realistic. Protective orders are largely distrusted by the business community, and no one believes that they completely prevent the flow of valuable information to clients who are directly involved in a litigation. Important bits of confidential information can "slip out" all too often despite the good faith efforts of counsel. Clearly, the best protective order is non-disclosure.

The expansion of the definition of process patent infringement is also clearly inequitable given other provisions of the patent law relating to activities in foreign countries. For example, under 35 U.S.C. §104, a foreign applicant may not rely on any activities in a foreign country for the purpose of establishing priority of invention. Similarly, under 35 U.S.C. §102(a) and (b), the prior use or sale of an invention in a foreign country cannot be relied upon as prior art for the purpose of establishing patent invalidity. These statutory provisions have their roots in the long held belief that the development and verification of evidence relating to foreign activities is too difficult and such evidence is inherently unreliable. Logic would appear to dictate that precisely the same evidentiary barriers exist with respect to proving infringement. In any event, if the expanded process infringement legislation is enacted without changing other parts of the patent law, it would be possible to find a foreign manufacturer guilty of infringement

even though that manufacturer was the first inventor of the patented subject matter, or had been engaged in the actual use of the patented subject matter for many years prior to the issuance of the U.S. patent. The inequity in such a result is self-evident. Moreover, that inconsistency demonstrates the difficulty in attempting to make important substantive modifications to the patent law on a piecemeal basis or on the basis of alleged parity with the patent laws of other countries. In that regard, it should be noted that many of the countries which enforce process patents where production occurs in a foreign country also permit reliance on prior public use or sale in a foreign country to establish patent invalidity.

In summary, our present law already provides for the enforcement of process patents against imported products and strikes an appropriate balance between the enforcement of patent rights and the protection of domestic industries. Unless and until a body of economic information is developed which would establish that a braoder enforcement of U.S.. patent rights would be beneficial to U.S. industries and U.S. jobs, there is no reason to go any further.

American Chemical Society

OFFICE OF THE
PRESIDENT

Warren D. Niederhauser
President-Elect, 1983
President, 1984
Immediate Past President, 1985

1155 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20036
Phone (202) 872-4600

June 5, 1984

The Honorable Robert W. Kastenmeier
Chairman Subcommittee on Courts, Civil
Liberties, and the Administration of Justice
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kastenmeier:

The American Chemical Society favors efforts to improve the U.S. patent laws by appropriate and prudent amendments. In H.R.2610, "Patent Law Amendments of 1983," Sections 5-9 are proposals that eliminate or reduce obstacles to the implementation of the Patent Cooperation Treaty. The ACS supports these provisions since they enable the new patent system to be more useful for the public good. However, Sections 2-4 of the bill are of concern to the Society and are discussed below.

Issuance of Patents Without Examination

Section 2 would amend Chapter 14 of 35 U.S.C. by adding a provision for the issuance of patents without examination. The stated objectives of the section--a cheaper, faster form of protection for inventors and the saving of time and expense for the government--are desirable. The realities, however, may be otherwise. The basic philosophy of the patent system contemplates the full disclosure of advances in science to the public in return for a limited monopoly. Section 2 of H.R.2610 would establish a category of patents, indistinguishable from traditional patents except for their use as a purely defensive measure, without the safeguards provided by fulfillment of the standards of patentability required for other patents. There is a serious question as to whether the proposed provision is consistent with Article 1, Section 8, Clause 8 of the Constitution.. This Clause empowers Congress "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The most distinguishing characteristic of the patents proposed under Section 2 is that they would not secure exclusive rights for anyone, because they would require a waiver of the right of exclusivity as a condition for obtaining the patent. Congress, therefore, would not be complying with a necessary condition required by the enabling Clause, i.e., the securing of exclusive rights for inventors.

Apart from the Constitutional issue, there are other cogent reasons for not supporting the adoption of this provision. If no more than defensive protection is being sought, this could be achieved through the already existing defensive publication procedure. This procedure gives an inventor the right to contest priority of inventions with a contemporaneous or subsequent applicant. The present procedure, therefore, grants an inventor the same degree of protection as would be afforded by the proposed legislation.

The new defensive patent would be available as prior art as of its filing date, rather than as of the date of its publication. The principal effect of this provision would not be felt by the holder of the unexamined patent, but by other inventors. Since this type of patent would not be required to meet the requisite standards of patentability, such as novelty, unobviousness and utility, the ACS has serious reservations as to whether an application should be accorded the status of prior art with respect to other pending applications, particularly when it was, in fact, unavailable to the public between the time of filing and publication.

The ability to obtain a patent without complying with current patentability requirements would tend to clutter the scientific literature. These disclosures, in many instances, would not be able to meet either the test of peer review required for publication in scientific journals or the test of patentability required for a traditional patent. The likely result would be a proliferation of patents that would increase rather than decrease, the operating costs of the Patent Office, and would add nothing of value to the inventor that is not already available.

The ACS is not opposed to providing defensive protection to inventors at minimal cost. However, the Society does believe that there are better means for accomplishing the same result without distorting the patent system by the issuance of non-examined patents.

Primary Examiners

Section 3 of the bill would amend Section 134 of 35 U.S.C. to read as follows: "An applicant for a patent, any of whose claims has been twice rejected, may appeal from the decision of the examiner to the Board of Appeals, having once paid the fee for such appeal."

Under the rules of practice presently in effect, a second (or any subsequent) rejection of any claim by an examiner may be made final by the examiner, in which case the only recourse for the applicant is to appeal to the Board of Appeals. In addition, an applicant whose claim has been rejected twice, even though the examiner has not characterized the rejection as final, may appeal to the Board of Appeals. The American Chemical Society is concerned that the proposed omission of the word "primary" which precedes the word "examiner" in the current text of Section 134 might lead to a less careful issuance of a final rejection. A primary examiner may be expected to bring a higher degree of expertise to bear on both the merit and subject matter of the pending application than an examiner of less signatory authority.

A final rejection puts a considerable burden on the applicant in terms of either pursuing an appeal or drafting a new application. It is therefore of paramount importance that a primary examiner sign such a rejection to indicate that a full review of the application on its merits has been made. Accordingly, the ACS proposes to add the following sentence to Section 134: "A final rejection shall be reviewed and signed by a primary examiner."

Issue Fees

Section 4 of the bill, amending Section 151 of 35 U.S.C., would provide the Commissioner with authority to set a period as short as one month after the notice of allowance for the payment of an issue fee. Normally, the Society would be sympathetic to efforts directed toward reducing the time to issue patents. In this instance, however, the American Chemical Society opposes such a change.

The current three month statutory period allows the inventor's patent counsel adequate time to assess: (1) the coverage of allowed claims with the inventor and management personnel; and, (2) the necessity of refiling or filing divisional applications if important new technology is brought to the attention of counsel or if technical errors are present that would possibly affect the validity of the patent. Adequate time also is allowed under the current three month statutory period for delays in completing the foregoing evaluations in the face of vacation time, business travel, and other commitments on the part of counsel, inventor(s), and management. Reduction of the time period would subject both inventors and counsel to unnecessary pressure without adequate countervailing advantage.

The preceding comments address the obvious problems that would be posed by the enactment of H.R.2610. The Society hopes these comments, which have been approved by the ACS Board of Directors, will assist the Subcommittee in its deliberations on the bill.

Sincerely yours,

Warren D. Niederhauser

Warren D. Niederhauser

American Chemical Society

OFFICE OF THE
PRESIDENT

Warren D. Niederhauser
President-Elect, 1983
President, 1984
Immediate Past President, 1985

1155 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20036
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April 20, 1984

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Civil Liberties,
and the Administration of Justice
Committee on The Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kastenmeier:

The American Chemical Society favors efforts to improve the U.S. patent laws through appropriate and prudent amendments as proposed in the series of bills you introduced recently (H.R.4524 - H.R.4529). These provisions would enable the patent system to be more useful for the public good. The ACS supports the principles contained in these bills. The following elaborates upon the Society's position.

License for Foreign Filing (H.R.4524)

The purpose of the present Sections 184 and 185 of 35 U.S.C. is to prevent the transmittal abroad of information that might possibly be detrimental to national security. The Society believes that the proposed modification of the statute to accommodate errors of judgment, as well as pure inadvertence, is desirable where the subject matter is not under a secrecy order. The ACS understands that information which has been designated by the government as a security risk would not be affected by the proposed amendments.

H.R.4524 would eliminate the requirement that a license be obtained before an applicant can file amendments to a patent application in a foreign country, when these amendments disclose only information that has already been disclosed in the application. This amendment would clarify a present area of uncertainty, and would eliminate a great deal of paperwork at the Patent and Trademark Office.

Penalty (H.R.4524)

H.R.4524 would amend 35 U.S.C. 186 to limit the penalty imposed for violation of the secrecy provisions of 35 U.S.C. 181. The Society believes that the imposition under 35 U.S.C. 186, as currently written, of a substantial fine and possible imprisonment for inadvertent filing of a foreign patent application without the proper foreign filing license is excessive. Thus, the ACS supports the amendment proposed in this bill.

Prior Art (H.R.4525)

The inventive process is evolutionary. The last step of that process--between a certain level of technology (base technology) and an invention--may turn out to be, on subjective analysis, an obvious step. If the base technology is known to the public, then Section 103 of 35 U.S.C. would apply and no invention is deemed to have occured. However, if a research organization has built the base technology and has not disclosed it to others, the ACS believes that organization should not be precluded from obtaining a patent for the invention. In proposing this modification, H.R.4525 would accomplish a number of objectives: (1) promote the free exchange of ideas and concepts within a research team; (2) encourage the publication of inventions through the patent system, and (3) provide an incentive for investment in research and development. The ACS recommends the following amendment prepared by the American Intellectual Property Law Association as preferable to the current language in H.R.4525:

> "That Section 103 of Title 35, United States Code, is amended by adding at the end thereof the following:
>
> > In addition, subject matter developed by another, which qualifies as prior art only under Section 102(f) or (g) of this title, shall not negative patentability under this section where the subject matter and the claimed invention were commonly owned at the time the invention was made".

Process Patents (H.R.4526)

The American Chemical Society agrees with the proposed addition of subsections (e) and (f) to 35 U.S.C. 271. These amendments are a proper extension of existing law, and would provide better protection of process patents. A manufacturer can no longer circumvent a patent by having component parts of a product assembled outside the United States.

Joint Inventorship (H.R.4527)

The proposed modification of Section 116 of 35 U.S.C. is appropriate and just, for it recognizes that much research that results in an invention is conducted on a team basis. Team members may each contribute to a significant stage of the research, but seldom does each team member contribute to each stage. The ACS supports this modification for it removes the inequity of depriving an individual of the status of joint inventor when that person was a significant contributor to an invention.

Interference Practice (H.R.4528)

The ACS supports proposals which simplify the often involved patent interference process and which seek alternatives to determining prior inventorship through the discovery and deposition process. The proposed wording changes for Section 135(c) of 35 U.S.C. are in keeping with the intent to promote agreement between parties to an interference. This modification will make it less likely for involved parties to encounter difficulties arising from innocent oversights or undue time constraints.

Licensee Estoppel (H.R.4529)

The objective of H.R.4529 is to codify, generally, judicial holdings against licensee estoppel and to include a license termination provision related thereto. The principles established in this bill are supported by the Society. However, the ACS does believe that clarification of the intent of the proposed subsection (b) of 35 U.S.C. 295 is warranted. For example, as presently drafted this subsection would make the following scenario possible. A licensee challenges the validity of a licensed patent, and the license is terminated in accordance with the provisions of subsection (b). The licensee then continues production. If subsequently the patent is found to be valid, the now terminated licensee probably will be found liable for infringement. The intent of this subsection needs to be further clarified relative to: (1) the mere existence of a license; (2) the good faith of the validity contest; (3) the identity of the terminating party; and (4) the relationship of these factors to the damages and accelerated damage awards provisions of Section 284 of 35 U.S.C.

The American Chemical Society reiterates its support of this series of bills and hopes these comments, which have been approved by the ACS Board of Directors, will assist the Subcommittee in its deliberations.

Sincerely yours,

Warren D. Niederhauser

Warren D. Niederhauser

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September 19, 1984

The Honorable Peter W. Rodino, Jr.
Chairman, House Judiciary Committee
U. S. House of Representatives
2137 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Rodino:

Re: H. R. 6286, "Patent Housekeeping Bill"

I am writing on behalf of Intellectual Property Owners, Inc. in support of the subject legislation, which was reported last week by the House Judiciary Subcommittee on Courts, Civil Liberties, and the Administration of Justice.

We believe the changes in the United States patent law made by this bill will strengthen incentives to create and commercialize new technology. We also support an amendment to the effective date provision of the bill which we understand may be proposed by Subcommittee Chairman Kastenmeier and Ranking Minority Member Moorhead.

Supporters of the key elements of this legislation in the intellectual property field--in addition to Intellectual Property Owners, Inc.--include the American Intellectual Property Law Association, the Ad Hoc Committee to Improve the Patent Laws, the Patent, Trademark and Copyright Law Section of the American Bar Association, and numerous state and local patent law associations. The bill also is supported by the National Association of Manufacturers, the U. S. Chamber of Commerce, and several other trade associations. The Senate may pass a similar measure, S. 1535, within a few days.

We understand action may be taken on H. R. 6286 next week. We urge you to help secure the enactment of this important measure.

Sincerely,

Donald W. Banner

Donald W. Banner
President

DWB/lll

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May 21, 1984

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Michael Remington, Esq.
House Judiciary Subcommittee
on Courts, Civil Liberties,
and the Adminstration of Justice
U. S. House of Representatives
Washington, D.C. 20515

Dear Mr. Remington:

I am pleased to enclose a statement on behalf of the Patent, Trademark and Copyright Law Section of the Bar Association of the District of Columbia on H.R. 2610. I would be most appreciative if you would include this statement in the record.

Sincerely yours,

J. Michael Cleary

J. Michael Cleary
Chairman

Enclosure
JMC/eve

Statement on Behalf of the Patent, Trademark
and Copyright Law Section of the
Bar Association of the District of Columbia
On H.R.2610

The Patent, Trademark and Copyright Law Section of the Bar Association of the District of Columbia is a non-profit membership organization of over 250 attorneys interested in all aspects of intellectual property law, including patents and related anti-trust and unfair competition concepts. Section membership is not restricted to any segment of the profession, and its members and their clients thus represent widely divergent interests and views. Section members, who include attorneys in private practice as well as those employed by corporations and those in government, regularly represent patentees and accused infringers and are thus concerned both with enforcement of patents and with challenges to patents. This Statement is made on behalf of the Patent, Trademark and Copyright Law Section.

The Patent, Trademark and Copyright Law Section appreciates having the opportunity to present its views on H.R.2610. We applaud the Administration's interest in and effort toward improving the patent law of the United States. The patent law is a vital part of the stimulus to economic growth of the country. Many of the provisions of H.R.2610 are directed to improving this important law. However, we believe that Section 4 of H.R.2610 is inappropriate because it would not improve the nation's patent system but instead would possibly weaken it. Also, we believe that in its present form Section 2 of H.R.2610 has great potential for weakening the patent system. By a minor amendment, Section 2 can be made to have its desired effect and can strengthen the patent system.

1. Payment of The Patent Issue Fee Within One Month

Section 4 of H.R.2610 proposes to amend Section 151 of Title 35 to make a minor housekeeping change and also to authorize the Commissioner of Patents and Trademarks to require payment of the issue fee for an allowed patent application within one month of allowance. We expect that if given this authority, the Commissioner would likely make such a requirement standard. We believe that, given the realities of the practice of patent law, one month is wholly insufficient for this function.

The decision to pay the issue fee, and so to have the patent issue, is not simply ministerial once the patent application is allowed. Substantive decisions must be made by the attorney and the applicant. The scope of protection of the allowed claims of the patent application must be carefully compared with the commercial form of the invention, which may have changed since the patent application was filed, to determine whether that protection is adequate. If the allowed claims do not cover the commercial form of the invention and viable variations of it, a review must be made to determine whether broader protection might be available in view of the prior art which was uncovered during the prosecution of the patent application. A decision that better protection may be available could result in a decision not to pay the issue fee, but instead to file a continuing application in order to seek that broader protection. Such broader protection is clearly appropriate and helps stimulate innovation. Alternatively, the review may show that further improvements have been made which call for the filing of another application even if the allowed application is permitted to issue. However, that new application must be prepared and filed before the allowed application is issued as a patent in order to be pending at the same time and so obtain the benefit of the allowed application's filing date as to common subject matter. On the other hand, in certain circumstances a decision that better protection is not available could result in a decision not to pay the issue fee,

but instead to permit the allowed application to become abandoned and to protect the invention as a trade secret. Again, the protection thus obtained helps stimulate innovation.

Review of the application and the technology may show that an amendment is required to the application even though it has been allowed. This is particularly likely for the applications allowed on the first action by the Examiner. Many applications from foreign applicants require such amendments due to not being in idiomatic English or not being in altogether correct form under United States patent practice.

In numerous situations, for example a large corporation having decentralized research and development activities and a centralized patent staff, such review and decision making cannot be completed in one month. As another example, an applicant may deal directly with an attorney in general practice who forwards correspondence from the patent attorney to the applicant and instructions from the applicant to the patent attorney, perhaps adding his own comments and suggestions. Similarly, foreign patent applicants are often represented by a United States patent attorney who corresponds with the applicant through a patent agent or attorney in the applicant's home country. Such corresponding attorneys add at least one layer to the correspondence that is required, again making it impossible to complete the necessary review and make the required decision in only one month. The attorney to whom the Notice of Allowance is sent by the Patent and Trademark Office, initiating the proposed one-month period, may be out of his office on business for several days, delaying the forwarding of the Notice to those who must participate in the review. Postal delays within the United States, as well as between the United States and some foreign countries, make obtaining even a ministerial decision difficult. During holiday periods mail may be particularly slow. Furthermore, during holiday or vacation times such as late December and mid-summer, people who must participate in the review and decision making may not be available for extended periods.

Certain other activities often must take place during the period provided for payment of the issue fee. These include having made any drawing corrections which may have been approved during the examination of the application, obtaining and recording any assignment of the application to assure issuance of the patent to the assignee and obtaining and filing a small entity declaration. Obtaining approval for and completing these acts can be time consuming, requiring more than one month.

A practical effect which a one month period would bring about would be to make the attorney representing the small, moderately financed applicant into a banker on behalf of such applicant, at the attorney's risk and, all too often, loss. Small applicants, with limited funds, must be particularly concerned about whether the patent proctection to be obtained by payment of the issue fee is economically justified. Some applicants may be asked to submit the money for such fee, or any other fee, in advance of the fee being paid by the attorney. If the fee must be paid within one month, the attorney is going to be faced with the decision of whether to pay the fee or whether to permit the allowed application to be abandoned before the attorney can receive authorization from the small applicant or payment from the applicant. The attorney may conclude that ethically the attorney must pay the fee in the absence of contrary instructions from the applicant. If the applicant then decides that he or she does not want to expend his or her limited funds on the issue fee, or if the applicant does not reimburse the attorney, the attorney will bear the loss, which when multiplied by the number of applicants represented by an attorney, can clearly be significant.

The Commissioner of Patents and Trademarks has committed the Patent and Trademark Office to reducing the average time between filing of a patent application and issuance of a patent to eighteen months. We commend this goal. However, its achievement must not be accomplished, even in part, by gaining a critical two months in

this manner. Requiring payment of the issue fee within one month might bring the Patent and Trademark Office two months closer to its goal of eighteen month average pendency time by 1987, but it would significantly weaken the patent system.

For all the above reasons, we urge that the Commissioner not be given authority to require payment of the issue fee within less than the statutorily stated three months. To this end, we urge that Section 4 of H.R.2610 be amended by changing the comma on page 2, line 25 to a period and by deleting the remainder of that line 25, all of line 1 of page 3, and everything through the period in line 2 of page 3.

2. Defensive "Patents"

Section 2 of H.R. 2610 proposes to add to the patent statute provisions under which, on request of an applicant, the Patent and Trademark Office would be authorized to issue a patent without examination as to the merits of the invention, provided the applicant waives all rights to enforcement of the patent against infringers. The original idea of such unenforceable patents is understood to have been with reference to inventions owned by the United States Government, since the Government seldom seeks to enforce its patents. The idea has since been expanded to permit any applicant to obtain such a patent. Such expansion to cover all applicants is appropriate since any applicant may have a reason for desiring a patent as available under present law, even though the applicant has no interest in preventing infringement of the patent or otherwise keeping third parties from practicing the invention. Such patents are often sought for defensive purposes--to assure that some later inventor of the same invention does not obtain a patent which would prevent the first inventor from practicing the invention. In this respect, the first inventor uses the patent as a publication to prevent the later inventor from obtaining a patent.

Such use of present day patents is often referred to as a defensive use. Thus, the proposal for unenforceable patents has come to be known as a proposal for "defensive patents."

Section 2 of H.R. 2610 seeks to implement this proposal. We feel that the proposal for issuance of a defensive document is good and should be enacted. However, as presently worded, H.R.2610 refers to these documents as "patents" and it is possible that the Patent and Trademark Office will designate them as "Defensive Patents" should Section 2 of H.R.2610 be enacted in its present wording.

We are concerned that designating these documents as "patents" weakens the United States patent system. Such defensive patents would not be based on Article I, Section 8 of the Constitution, since they would not secure to their inventors the exclusive right to their respective discoveries or inventions, even for a limited time. If a class of patents that are not examined as to the merits of the invention is created, all patents are likely to be less respected. Courts before which enforceable patents, issued from thoroughly examined applications, are brought for enforcement may become confused as to the weight to be given to the issuance of the patent by the Patent and Trademark Office. Foreign governments and their patent offices are likely to fail to distinguish between enforceable patents and defensive patents and so will lose respect for the entire United States patent system. Furthermore, we believe that a serious question exists as to whether such a document would meet the definition of a "patent" which has been proposed for incorporation into The International Union for the Protection of Industrial Property (popularly known as the Paris Convention) and that labeling these documents as any type of patent would create questions and confusion with regard to the right of priority given patent applications under The Paris Convention.

In sum, we fear that labeling these worthwhile documents as any type of "patent" will have a negative effect on the United States patent system.

This potential problem can be avoided by substituting another designation for "patent," and for this purpose we suggest "certificate."

To achieve this, we suggest that Section 2 of H.R.2610 be amended as follows:

a) Page 1, line 8; page 2, line 15; and page 2, between lines 17 and 18,
change "patents" to "certificates".

b) Page 1, line 10 and page 2, lines 10, and 14,
change "patent" to "certificate".

c) Page 2, line 5,
change "patent and any reissue thereof, arising" to "invention which otherwise might arise".

Summary

In summary, we believe most of the objectives of H.R.2610 are commendable. However, we urge that the Commissioner not be given the authority to require payment of the issue fee within one month. We further urge that applications issued without examination as to the merits of the invention be designated "publications" or "defensive publications" and not any form of patent.

Thank you for the opportunity to present our views.

American Bar Association

JAN 31 1984 January 25, 1984

The Honorable Robert W. Kastenmeier
United States House of Representatives
Washington, D.C. 20515

Re: H.R. 4524 Kastenmeier

Dear Chairman Kastenmeier:

I am writing in my capacity as Chairman of the American Bar Association Section of Patent, Trademark and Copyright Law, in support of H.R. 4524 which would alleviate some of the unnecessarily harsh effects of the requirement for obtaining a license before filing a patent application abroad. These views are being presented only on behalf of the Section of Patent, Trademark and Copyright Law and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association, and should not be construed as representing the position of the ABA.

At the 1983 Annual Meeting in Atlanta the Patent, Trademark and Copyright Section adopted the following two resolutions:

> RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle a broadening of the remedial provisions for retroactive grant of license for foreign filing under 35 U.S.C. §184, and
>
> Specifically, the Section favors legislation amending 35 U.S.C. §184 to provide that the license may be granted retroactively where an application has been filed abroad through error without any deceptive intent and the application does not disclose an invention within the scope of Section 181 of this title.

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RESOLVED, that the Section of Patent, Trademark and Copyright Law favors in principle an amendment to 35 U.S.C. §184 clarifying the circumstances in which an applicant for patent shall be relieved of the obligation to seek a license with respect to any modifications, amendments, or supplements to an earlier filed application, and

Specifically, the Section favors legislation amending 35 U.S.C. §184 to add the following further, and final sentence:

"In the case of an application for which a license has been obtained, or which has been filed in the United States for more than six months, a license shall not be required for any modifications, amendments, or supplements to said application, provided that such modifications, amendments, or supplements only illustrate, exemplify or explain such matter previously disclosed, specifically or generically, in said application."

These resolutions are thus in support of the provisions of H.R. 4524, and for the record I would like to state the reasons why we believe such legislation is needed.

Under 35 U.S.C. 184, as it now stands, a foreign patent application may not be filed on an invention made in the United States until six months after the U.S. application has been filed on the invention, unless an express license has been obtained from the Commissioner of Patents and Trademarks authorizing earlier foreign filing. The penalty for filing a foreign patent application within the six month period without a license from the Commissioner is harsh. The right to obtain the United States patent is lost, and if the United States patent has issued, it becomes invalid. There is also a criminal sanction although it is rarely, if ever applied, except possibly for violations involving national security.

The Patent Code does contain amelioration in that the Commissioner may grant the foreign filing license retroactively where an application has been inadvertently filed abroad and the application does not disclose an invention involving national security. However, as the case law has developed, the statutory requirement of inadvertence has prevented the Commissioner from granting relief for certain unintentional violations which have no effect on national security. Also, the license requirement may necessitate a new license be obtained if changes need to be made in foreign applications after they are filed.

H.R. 4524 would overcome the difficulties and unfair results of the present law, amending the Patent Code in respect to licenses for foreign filing.

The change in the standard for the grant of a retroactive license to be effected by Sec. 1 paragraph (1) of the Bill from one of inadvertence to one of error with no deceptive intent is significant. It is supported by our first Resolution and it would, for example, relieve the harshness to an applicant or patentee in situations such as that presented in In re Gaertner, 604 F.2d 1348, 202 U.S.P.Q. 714 (C.C.P.A. 1979). In that case, an applicant's continuation-in-part patent application was rejected because foreign counterparts of the continuation-in-part patent had been filed without a license within six months of its U.S. filing. However, the U.S. patent or original application had been on file by that time for more than six months. The continuation-in-part patent application differed from the parent application only by adding an example showing the use of a known starting material to produce compounds, which material was not disclosed in the original application, but was well within the generic claim already present in the parent case. Gaertner's counsel, as discussed in fn. 6 of the reported decision, had considered whether a license was necessary and had come to the good faith conclusion that it was not. Applying a strict construction to the license-to-file statute, the C.C.P.A. affirmed the rejection of all claims in the application.

The present language, which permits retroactive grant of the license where an application has been "inadvertently" filed abroad without grant of a license, does not provide relief for an applicant, such as Gaertner, who had considered whether a license was necessary and intentionally but mistakenly decided that it was not. Changing the requirement from inadvertence to "error without deceptive intention" would broaden the availability of a retroactive license, applying the C.C.P.A. constructions of that term as found in its reissue cases. Such cases extend to an intentional act which is erroneous but not motivated by deception, In re Wadlinger, et al., 496 F.2d 1200, 181 U.S.P.Q. 826 (C.C.P.A. 1974).

Thus, the changed standard provided by paragraph (1) of Section 1 of H.R. 4524, which is also applied to issued patents under Section 2 of the Bill, is a most desirable modification of the Patent Law.

The amendment provided by paragraph (2) of Section 1, which is supported by our second Resolution would relieve the overly strict requirement of 35 U.S.C. 184 that a Commissioner's license must be obtained for any modification or supplements to the foreign applications. The proposed amendment provides some latitude to allow for changes which only illustrate or exemplify the matter previously disclosed, specifically or generically, in the earlier application, thereby to avoid the harshness of the result obtained in Gaertner.

Such changes while providing more detail and being helpful to the U.S. applicant in his quest for foreign patent coverage are by their nature not of concern to national security, and there is no reason to continue any requirement for a Commissioner's license to be obtained before they can be made. The amendment to the statute would eliminate senseless paper work for both the applicant and the Patent and Trademark Office, and will remove an unjustified risk from the shoulders of United States applicants who also file abroad.

In my view, Sec. 3 of the Bill is also very desirable in its proposal to remove the present criminal sanctions unless national security is involved.

In summary, it is believed that legislation is particularly appropriate at this time of expanding worldwide markets to enable United States inventors to solicit foreign patent coverage effectively without risking a bar to their U.S. patent rights for conduct which does not involve national security. Failure to procure a license because of error without deceptive intent, and minor changes to a foreign application should no longer be allowed to be the cause for an applicant to lose his United States patent rights.

For the above reasons, our Section strongly supports H.R. 4524. We would also appreciate the opportunity to testify should a hearing or hearings be held on any bill relating to the resolution.

Sincerely yours,

John C. Dorfman

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American Bar Association

January 25, 1984

The Honorable Robert W. Kastenmeier
United States House of Representatives
Washington, D.C. 20515

Re: H.R. 4526 Kastenmeier

Dear Chairman Kastenmeier:

I am writing in my capacity as Chairman of the American Bar Association Section of Patent, Trademark and Copyright Law, in support of the provision of H.R. 4526 making importation of a product made outside of the United States by the patented process infringement of the United States patent. These views are being presented only on behalf of the Section of Patent, Trademark and Copyright Law and have not been approved by the House of Delegates or the Board of Governors of the American Bar Association, and should not be construed as representing the position of the ABA.

The Patent, Trademark and Copyright Section at the 1983 annual American Bar Association meeting in Atlanta adopted the following resolution:

> Resolved, that the Section of Patent, Trademark and Copyright Law favors in principle the enactment of legislation to provide that whoever without authority from the patentee imports into the United States or uses or sells in the United States a product made in another country by a process patented in the United States and made during the term of that patent shall be liable as an infringer.

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This resolution is in direct support of the provision of H.R. 4526 pertaining to the scope of protection afforded to United States process patents. Specifically, it is an endorsement of the first paragraph of Section 1, which would amend §271 of Title 35 of the United States Code to include in it the following new provision:

> (e) Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer, if the product is made during the term of such process patent.

We feel strongly that legislation is needed to provide the owners of process patents with adequate remedies so that foreign manufacturers cannot use the patented processes to make products without liability for sale in the United States.

Many of today's significant inventions involve new processes used to make existing--and, therefore, unpatentable--products. These new processes may be extremely valuable, as, for example, can be seen from the litigation, United States v. Studiengesellschaft Kohle, Gmbh, 670 F2d 1122 (D.C. Cir. 1981), arising out of a new process for making aluminum tri-alkyls. The relevant process, known as the Ziegler process, revolutionized the tri-alkyl industry even though the end product was the same as before.

A manufacturer in the United States seeking to use a new patented process, such as the Ziegler process, must, of course, reach an accommodation with the patent owner by licensing or otherwise. But a foreign manufacturer using the new process to make products for sale in the United States has no liabilty under the United States process patent. The foreign manufacturer can produce abroad with no liability, and import and sell here without liability; the United States patent simply does not reach those activities.

This unfortunate circumstance occurs because process patent protection under current United States law does not extend to the product of the patented process. As a result, an unpatented product made offshore by a patented process can be sold here without constituting an infringement. In contrast, the domestic patent law of other major countries would prevent similar importation into those countries by a United States manufacturer. For example, the European Patent Convention states: "If the subject matter of the European patent is a process, the protection conferred by the patent shall

extend to the products directly obtained by such process." Convention on the Grant of European Patents, Art. 64(2). If the product produced by the patented process is itself novel, the defendant is burdened in many of these countries with proving that his product was not produced by that process.

In certain circumstances the importation of products produced offshore by a U.S. patented process may be actionable in this country before the U.S. International Trade Commission as an unfair method of competition. The ITC proceedings under 19 U.S.C. 1337(a) provide for an exclusion order to be issued against the products made abroad by a process covered by a United States process patent, but these proceedings are not a completely satisfactory remedy for the process patentee for a number of reasons.

First of all, the patentee must prove that there is an efficient and economically operated industry in the United States operating under the patent. This is difficult at best, particularly for individual and small business patentees, and also, it may require the disclosure of financial information which the United States patent owner wishes to preserve on a confidential basis. The latter reason is one why some companies refuse, or are reluctant, to use the ITC proceedings.

A second reason why the ITC proceedings are unsatisfactory is that they do not provide for the recovery of damages suffered by the patentee. The foreign user of the patented process can send significant amounts of goods into the country before being subjected to an exclusion order. It can thus take a large part or, conceivably even all, of the market for an extended period without ever having to respond in damages.

The ITC proceedings are further nonsatisfactory to some companies because of the active participation in them by the sttaff of ITC. Instead of the patentee being able to handle the case in the way it chooses in its own best interests, it may find the time schedules, proofs and even settlement discussions subject to monitoring and perhaps interference from the ITC staff.

Still another undesirable aspect of the ITC proceedings is they result only in an exclusion order subject to Presidential disapproval. The President, if he is unwilling to allow the exclusion order perhaps for some policy or political reason, may disapprove the order and the patentee gets no relief.

Given these problems with the ITC proceedings and the lack of any sanctions under the patent law, it is the position of the Patent, Trademark and Copyright Section that remedial legislation is eminently in order. In fact, it is believed that legislation is particularly appropriate at this time of ever increasing worldwide competition so as to close the loophole which allows foreign manufacturers to avoid the effects of the United States process patents to which their American competition are subject.

The need for appropriate legislation to amend the Patent Code is recognized and supported by the present Administration. The Honorable Gerald J. Mossinghoff, Commissioner of Patents and Trademarks, in a speech before the Patent, Trademark and Copyright Section at the ABA Annual Meeting on August 7, 1982, expressed the support of the Patent and Trademark Office for an amendment of 35 U.S.C. 271 to close the gap in United States process patent protection, and there are now at least three other bills pending in Congress that would amend the scope of process patent protection according to a specific proposal of Administration. These bills are H.R. 3577 - Moorhead, S. 1841 - Thurmond, and H.R. 3878 - Moorhead. They would all extend the scope of process patents to cover products made by the patented process whether produced abroad or in the United States.

H.R. 3577 is directed solely to process patent coverage, while the other two bills include it together with other subjects believed by the Administration to be important for stimulating innovation and productivity in the United States. In the analysis accompanying the latter two bills it is noted that "because a process patentee can prevent the use of his patented process by domestic manufacturers directly, their primary effect will be on foreign manufacturing." The above resolution of the PTC Section is thus consistent with the expressed intent of all of these bills. The resolution also supports the first paragraph of Section 1 of S. 1535 Mathias which proposes to amend Section 271 of the Patent Code in a manner substantially similar to the amendment proposed by H.R. 4526.

For the above reasons, our Section strongly supports H.R. 4526. We would also appreciate the opportunity to testify should a hearing or hearings be held on any bill relating to the resolution.

Sincerely yours,

John C. Dorfman

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American Bar Association

May 1, 1984

The Honorable Robert Kastenmeier
Chairman, House Judiciary Subcommittee
on Courts, Civil Liberties and the
Administration of Justice
2137 Rayburn House Building
Washington, D.C. 20515

Dear Representative Kastenmeier:

The Patent, Trademark and Copyright Law Section of the American Bar Association has always had an interest in laws that addressed the question of fair compensation of employed inventors. Its current interest began back in 1975 with the introduction of H.R. 5605, 94th Cong., 1st Sess. (1975) by Representative John Moss of California, and continues with your bill H.R. 3285, introduced in the 1st Session of the 98th Congress.

The Section is not opposed to paying inventors just and proper compensation for their inventions; however, it is opposed to legislation that requires payment to inventors for inventions over and above what is paid to them for their services. This position is embodied in the following resolution approved by the Section membership at its 1983 Annual Meeting.

> "Resolved, that the Section of Patent, Trademark and Copyright Law, while fully supporting the just and proper compensation of inventors for their creative efforts, opposes in principle and practice legislation requiring employers to pay compensation to employees, over and above that normally paid to them for their services, in return for rights in their inventions under legally enforceable obligations, and specifically, the Section opposes the enactment of H.R. 6635 (Kastenmeier) 97th Congress, 2nd Session, 1982."

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It should be noted that these views, as well as the above resolution are presented on behalf of the Section of Patent, Trademark and Copyright Law only. They have not been approved by, or submitted to, the ABA House of Delegates or the Board of Governors and, accordingly, do not represent the position of the American Bar Association.

The Section's objection to H.R. 3285 can be summarized as follows:

(1) While the Section recognizes that it is desirable to compensate inventors appropriately, the Section is opposed in principle to legislation that requires that inventors be paid compensation over and above that normally paid to them for their services.

(2) There has been no demonstrated need for legislation such as H.R. 3285. For example, there is no conclusive evidence that the creativity of employed inventors has been thwarted by the lack of such legislation.

(3) The proposed legislation only covers patentable inventions. Many inventions or techniques that are not patentable may enhance the commercial success as much or more than a patentable invention, yet regards for them is not being provided for by the legislation. In its present form, the legislation would mandate favored treatment for a special minority of employees.

(4) Special compensation for employed inventors could, because of incentive to be secretive, impede the flow of information between coworkers.

(5) Finally, the process of determining the relative contribution of an inventor of different inventions to the success of a commercial product would be a monumental job.

For the above reasons, the Section of Patent, Trademark and Copyright Law strongly urges that H.R. 3285 not be enacted and that before any similar legislation is enacted careful study and thought be given to what if any benefit it would bestow upon innovation in the United States.

Thank you for your consideration of our Section's views in this matter. If you have any questions, or if I can provide any further information, please let me know.

Sincerely yours,

John C. Dorfman, Chairman

JCD:jmc

cc: Sidney B. Williams, Jr., Esq.
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April 27, 1984

Honorable Robert W. Kastenmeier
House of Representatives
United States Congress
Washington, D.C.

Dear Mr. Kastenmeier:

The New York Patent, Trademark and Copyright Law Association (the "NYPTCLA" or "Association") has considered those provisions of S. 1535, H.R. 3577 and H.R. 4526, which would amend Section 271 of Title 35 United States Code to provide that selling or using a product in the United States which was made by a process covered by a U.S. patent would constitute an infringement of that patent. The NYPTCLA considers the concept underlying these bills to be of great importance, not only to our patent system, but to a multitude of domestic industries as well. Accordingly, the Association would like an opportunity to have a representative testify before your subcommittee the next time hearings are held on this issue. In the event that this request to testify is not granted, the NYPTCLA would like to take this opportunity to set forth its position and to ask that this letter be made a matter of record.

The Association agrees in principle with this proposed legislation in the belief that it would correct a situation where the patent system is not operating as effectively as it might be to promote the progress of science and the useful arts, or to encourage full utilization of the capacities of domestic industries and to further employment of American workers. While contrary arguments have been raised, the NYPTCLA does not believe they are valid.

In the early days of our patent system, when the United States was a more insular society, the American market for manufactured goods was nearly entirely supplied by domestic manufacturers. Many factors unrelated to patents (e.g. shipping problems, under-development of foreign technology, etc.) effectively precluded competition from foreign manufactured goods.

Under these conditions our patent system served quite well to encourage disclosures of new manufacturing processes. A U.S. manufacturer who disclosed a new process in a U.S. patent could use his patent to prevent copying by competing U.S. manufacturers. Since there was relatively little competition from foreign manufacturers, most such manufacturers considered this to be adequate protection. Not only did this system protect patentees, it also induced competing U.S. manufacturers to develop alternative processes. As a result, the patent system effectively promoted the progress of science and the useful arts.

More recently, the factors which had previously kept foreign manufactured products out of the American market have largely disappeared and domestic manufacturers now face substantial competition from abroad. Our patent system, however, was not designed to cope with this recent emergence of foreign competition. Under the present system, if a domestic manufacturer should disclose a new manufacturing process in a U.S. patent, a foreign manufacturer, after learning of the process and how to use it from that document, may make use of it with inpunity in his or her own country and sell the resulting products in the United States in competition with the U.S. inventor. As we all know, there are already sufficient inducements, particularly low labor rates, which encourage manufacturers, even U.S. companies, to have products manufactured elsewhere. The present limited protection enjoyed by the owner of a process patent is just one more such inducement. Thus, there has developed a tendency for U.S. inventors to keep their new manufacturing processes secret; and consequently the progress of science and useful arts in the area of manufacturing processes is not being promoted by the patent system to the fullest extent possible.

The NYPTCLA believes that our patent system would be more effective in inducing patent disclosures of new manufacturing processes if such patents could be enforced against imported goods. The ability of a patentee to enforce his process patent against products produced by that process would also encourage development of domestic

industries, use of domestic production facilities and utilization of domestic labor.

The suppressive effect on disclosures of new manufacturing techniques which occurs when foreign manufacturers compete for domestic markets was long recognized in Europe; and most European patent systems provide that process patents are enforceable against imported goods made by the patented processes. The presently proposed changes to U.S. patent law do not therefore embody a new concept. They would merely reconcile our system with those of most foreign countries. Because the patent systems of foreign nations already contain similar provisions, adoption by the U.S. would help reduce the inequities experienced by U.S. manufacturers vis-a-vis manufacturers in other countries.

The NYPTCLA sees no substantial disadvantage to the concept of the proposed legislation. To some degree, it is already embodied in our Tariff Act. The Tariff Act, however, provides for enforcement only under specific conditions; and such enforcement is carried out by a Tariff Commission rather than in the courts which should have the primary responsibility for patent enforcement. Also, the remedies available under the Tariff Act are more limited than under the patent statute, and all decisions of the Tariff Commission are subject to being overruled for political considerations.

An argument has been raised that those countries with patent enforcement provisions against imported goods made by patented processes also have compulsory licensing statutes. Under those statutes the courts are empowered to permit continuing use of the patented process in circumstances where it is found that a patent is not being sufficiently exploited in the home country. It is argued that the laws of those countries are, therefore, closer to our Tariff Act than they are to the proposed legislation. The NYPTCLA does not find this to be the case. Although compulsory licensing statutes vary from country to country, it is often the case that a compulsory license of a process is not granted for importation of foreign made goods. The granting of such relief, as a practical matter, is usually reserved for domestic use of the process.

Another argument has been raised that the proposed new legislation could be used to stop a foreign

manufacturer from selling his goods in this country even though the foreign manufacturer may have been using the patented process years before it was invented by the U.S. patentee. The Association recognizes this but does not believe it to be an undue burden on the foreign manufacturer who certainly could have published his process. Indeed, one of the primary objectives of our patent system is to encourage public disclosure of new inventions so that eventually all may benefit and so that research is fostered.

As you can see, the NYPTCLA approves the concept of being able to enforce a process patent against products made by that process. The presently pending bills, while all embracing this concept, differ in their specific provisions. As to the substantive differences, the NYPTCLA offers the following comments:

1. H.R. 3577 (The Moorehead bill) contains a provision that if a patent owner has exhausted all reasonably available discovery means without determining the actual process used by the foreign manufacturer, the burden will shift to the alleged infringer to prove that the patented process was not employed. Neither S. 1535 (the Mathias bill) nor H.R. 4526 (the Kastenmeier bill) contain such a provision. The Association is of the view that since discovery in foreign countries is very limited, the effectiveness of the new legislation would be severely diminished without this provision of the Moorehead bill. Accordingly, the NYPTCLA recommends that any legislation which is enacted contain such a provision.

2. The Moorehead bill, unlike the Mathias and Kastenmeier bills, would extend to products made by the patented process irrespective of where that process was practiced. Under the provisions of the Mathias and Kastenmeier bills, the only products which would be deemed to infringe would be those produced in a foreign country. The NYPTCLA believes that a patentee has adequate remedies available to him against those who would practice the patented process domestically. There is very little need to permit him to sue unsuspecting retailers when he can sue the true culprit, the manufacturer.

It has come to the Association's attention, however, that the provisions of GATT may preclude treating products of domestically practiced processes differently

from those produced by processes practiced in other countries. If this be the case, the NYPTCLA favors enactment of a bill which treats all such products equally. The mischief that might ensue from covering products of domestically practiced processes is far outweighted by the advantages to be derived from adopting the basic concept. It should be noted that the owner of a patent on a product can sue retailers, with or without joining the manufacturer, and this has not been overly troublesome.

3. Neither the Mathias bill nor the Moorehead bill contain any provision which would protect an innocent dealer from damages for past infringements. The NYPTCLA believes that inequities could arise in such a situation and, therefore, recommends that provision be made to prevent recovery for damages unless and until the infringer has been given actual notice that the product was made by a patented process. A provision such as this is set forth in the Kastenmeier bill; and the NYPTCLA recommends that such a provision be adopted.

4. Finally, each of the pending bills appears to be limited to process patents. It is possible that a patented improvement to a machine for carrying out an unpatentable process may make it possible for the machine to turn out products more economically or more accurately than without the improvement. Machine patents, like process patents, are presently enforceable only when the patented improvement (the machine) is used in this country. Thus, unpatented parts produced off-shore on the patented machine may be imported without restriction. Although the situation with respect to products produced by a patented machine is no different, in principle, from the one involving products of a patented process, there has not been adequate consideration or discussion of a provision extending protection to such products. Accordingly, the NYPTCLA does not recommend inclusion of such a provision at this time.

While we have tried to set forth our view as completely and yet succintly as possible, no written statement is an adequate substitute for live testimony.

We therefore reiterate our request that a representative of the NYPTCLA be given an opportunity to testify at a hearing of the Subcommittee.

Respectfully submitted,
On Behalf Of The New York
Patent, Trademark and
Copyright Law Association

By _____
Douglas W. Wyatt,
President

cc: Board of Directors

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July 16, 1984

The Honorable Robert W. Kastenmeier
Chairman Judiciary Subcommittee on
Courts, Civil Liberties and the
Administration of Justice
Room 2232
Rayburn House Office Building
Washington, D.C. 20515

S. 1538 (Sec. 23)

Dear Congressman Kastenmeier:

Senator Mathias has advised me of the recent passage of S. 1538. The New York Patent, Trademark and Copyright Law Association, Inc. carefully considered and supported that legislation, and particularly Sec. 23 which provides increased compensation for members of the Trademark Trial and Appeal Board. We are in favor of enactment of similar legislation by the House for the reasons presented below.

Section 23 of S. 1538 (Mathias) 98th Congress provides that the members of the Trademark Trial and Appeal Board of the Patent and Trademark Office shall receive compensation equal to that paid grade GS-16 level under the General Schedule contained in Section 5332 of Title 5, United States Code. Members of the Trademark Trial and Appeal Board have been classified and compensated at the level of GS-15 since the TTAB was established in 1958. Members of the Patent Board of Appeals are compensated at the level of GS-17 and Members of the Board of Patent Interferences are compensated at the level of GS-16.

Section 11 of S. 1538 provides for the merger of the two patent boards into a Board of Patent Appeals and Interferences, which would result in the reclassification of the present members of the Board of Patent Interferences to GS-17. There would thus be a discrepancy of two grade levels between the Members of the TTAB and all of the Members of the proposed Board of Patent Appeals and Interferences.

The vast majority of the cases decided by the TTAB are contested proceedings which present complex factual and legal issues. The TTAB must apply the Federal Rules of Civil Procedure, the Federal Rules of Evidence, the Trademark Act and the Trademark Rules of Practice to the resolution of those issues. The work of the TTAB is on a par with the work of the proposed Board of Patent Appeals and Interferences and the decisions of the TTAB may have economic effects as important, or more so, as the decisions of the proposed Board of Patent Appeals and Interferences. The analogy holds true even if, contrary to expectations, the two patent boards are not combined.

The GS-15 grade level of Members of the TTAB implies a lack of appreciation of the importance of their decisions in ex parte appeals and contested proceedings and denigrates the importance of trademarks in the economy. Enactment by the House of legislation similar to Sec. 23 of S. 1538 would constitute recognition of the high value of the TTAB's work.

The Chairman of the TTAB, as a member of the Senior Executive Service, is compensated at the GS-16 level, and that position is not affected by S. 1538.

Sec. 23 of S. 1538 places the Members of the TTAB on a par with Administrative Law Judges in other Federal agencies who adjudicate economic and regulatory proceedings of complexity comparable to those decided by the TTAB.

The reclassification of the grade level of the Members of the TTAB would make it possible to reclassify upward other positions under the Assistant Commissioner for Trademarks, which would reward and help retain the highly educated and skilled professionals needed by the Trademark Office.

It is estimated that Sec. 23 of S. 1538 entails an aggregate increase in payroll costs of less than $25,000 per year.

Secretary of Commerce Baldrige and Commissioner of Patents and Trademarks Mossinghoff have indicated their support of passage of Sec. 23. The professional organizations which have already supported passage of the measure are the United States Trademark Association (which adopted a resolution supporting at least a GS-16 rating), the American Intellectual Property Law Association and Intellectual Property Owners, Inc.

Enactment of the proposed legislation would be in the best interests of trademark owners and the public.

Very truly yours,

Lee C. Robinson, Jr.

Lee C. Robinson, Jr.
President

LCR:sc

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May 4, 1984

The Honorable Robert W. Kastenmeier
Room 2232
Rayburn House Office Building
Washington, D.C. 20515

Re: H.R. 2610

Dear Mr. Kastenmeier:

The Board of Directors of the New York Patent, Trademark & Copyright Law Association has recently learned that the pending version of H.R. 2610 would, at Section 4, authorize the Commissioner of Patents and Trademarks to reduce from the present three months to one month the time in which the issue fee may be paid for a pending patent application. The Association's Board is opposed to granting the Commissioner that authority.

We recognize that there is merit in accelerating the issuance of a patent after the formal examination of the application is complete. There are, however, several intensely practical reasons why a one month period from the date when the Patent Office mails the formal notice of allowance would require unjustified haste and expense of the applicant and the attorney.

1. There are prevalent delays in the mails without any real expectation that they will be eliminated. This, it is no exaggeration to say that the one month period will frequently be truncated through no fault of the applicant or his attorney.

2. The proposal appears to assume that there is nothing left to be done but pay the fee. It is usually the case, however, that upon receipt of the formal notice of issue fee becoming due, the applicant's attorney must interrogate the applicant or his assignee one last time for a decision as to whether the application is to be allowed to issue as a patent and thereby make a public disclosure of the technology or withhold that disclosure which is within the right of the applicant. There are numerous legitimate reasons for the latter course. Perhaps the applicant has recently made an improvement that advances the technology described in the pending application. If the patent about to be granted is not to become prior art against a subsequent application to describe and

claim the improvement, the applicant must at this stage file a continuing application before the pending application issues as a patent. Even in a relatively small organization, the investigation to determine whether such an improvement exists may reasonably require more than would be available if the Commissioner were to exercise the authority proposed in H.R. 2610. This is so if the attorney is able most diligently to relay the news and proper advice to the applicant by mail. Of course, if the applicant resides abroad or must query foreign locations, the fraction of a month then available becomes prohibitively short. Other real circumstances on which we base our objection come readily to the minds of private and corporate practitioners.

3. Of course, one may argue that there are modern means of communication, such as telex and telefax, to convey the questions and instructions in a matter of minutes. But those means are expensive and not all practitioners and applicants are so equipped; even for those who are, we assert that the haste and additional expense of rounding out the application process, which normally will have taken the most part of two or three years, cannot be justified by a mere two months shorter pendency of the application.

This Association and its Directors will be pleased to provide your Committee with additional discussion of this matter if you believe it would be helpful.

Respectfully,

Douglas W. Wyatt

Douglas W. Wyatt
President
New York Patent, Trademark
& Copyright Law Association

cc: NYPTC Officers & Board of Directors

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June 1, 1984

The Honorable Robert W. Kastenmeier
Committee on the Judiciary
Subcommittee on Courts, Civil Liberties,
& The Administration of Justice
House of Representatives
Washington, D.C. 20231

H.R. 3285 Employed Inventors Compensation Law
H.R. 3286 Employee Pre-Invention Agreements

Dear Representative Kastenmeier:

The New York Patent, Trademark and Copyright Law Association, Inc. has carefully considered the above pieces of proposed legislation. We are opposed to enactment of the Employed Inventors Compensation Law but, in large part, favor the Employee Pre-Invention Agreement Bill. An opportunity to present our views at a hearing before the Subcommittee would be greatly appreciated. Our views are summarized below.

H.R. 3285

H.R. 3285 provides that employees who make a patentable invention would receive from their employers "adequate compensation" based on the "fair market value" of the invention, such as a percentage of profits from products resulting therefrom.

A primary objective for proponents of this Bill is to stimulate innovation. For the following reasons we believe this goal will not be met and perhaps impeded by this legislation.

Establishing an institutional atmosphere which fosters innovation requires delicate handling and fine tuning under a wide variety of circumstances. Statutory regulation of the relations between employer and employee which is intended to create that atmosphere is likely to interfere with establishing the appropriate balance between attitudes and incentives; between control and freedom.

We feel it is impractical for the Government to regulate these matters. We believe therefore that each institution and corporation should be left to determine for itself the best mix of exhortations, incentives and controls.

Singling out for special award those innovative activities of some employees which result in certain patents may put a damper on other members of the innovation team. In some industries, the corporation may find it desirable to award all members of the innovative team either equally or in some predetermined fashion. In other industries, it may be found best to avoid special financial awards and make sure that the employees are satisfied with their salary and status, and have the appropriate enthusiasm for their jobs. An employer may wish to direct his employees to patentable inventions which do not lead to immediate or forseeable economic gain or which lead to good routine engineering which is of great practical value but does not produce patentable subject matter. Statutorily regulated awards may distort the employee's enthusiasm and focus. Moreover, legislation generates administrative rules, paper work and intra-company conflicts which tend to negate the atmosphere required for innovation. The statutory scheme of allocating to patents their economic value and the value of the inventor's contribution would be a great burden on employers and on employee morale. We are concerned about the strains this Bill would impose on employer-employee relations.

Patents, of course, are important incentive factors for those who make investment decisions. Institutions, corporations, and individual entrepeneurs are encouraged by the patent system to invest in research and development, as well as to invest in the results of these efforts. An employee's effort in making a patentable invention is but one, albeit critically important, factor in this process. However, it has not been established that legislation is necessary, or even useful in stimulating an employee's effort; nor that market factors and present incentives are insufficient. The complexity of the incentives to invent and then to invest in that invention leaves us with the belief that each company and institution should be free to determine its own mix of incentives.

Companies do continue to experiment with techniques, including additional economic incentives, to find the appropriate mixture for optimally fostering invention and innovation. No one has any fixed answers. Certainly we do not. But we do feel that it is inappropriate to legislate an answer. It seems doubtful that a single uniform law for all industries and throughout the country is likely to be helpful.

H.R. 3286

H.R. 3286 provides that pre-invention assignment agreements shall be limited to inventions arising from the employment. We support this Bill. However, we question the requirement that the parties give up their right to a trial of any disputes under this law. We feel that the arbitration provision in this legislation should be made permissible rather than mandatory.

Very truly yours,

Douglas W. Wyatt, President
The New York Patent,Trademark
and Copyright Law Association,Inc.

DWW:dvm
cc: David W. Beier,III, Esq.
House of Representatives
Washington, D.C. 20231

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March 15, 1984

The Honorable Robert W. Kastenmeier
2232 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Kastenmeier:

I note with great interest that you introduced a Bill, H.R. 4527, on November 18, 1983 to amend Section 116 of title 35, United States Code, to make certain clarifications with respect to joint inventors. This Bill should help simplify identification of inventors of inventions arising from research projects involving numerous individuals. Since this Bill is obviously intended to address an exisiting problem, I assume that the problem to be resolved has been investigated in depth. If you have any information pertaining to the present state of the law that you may have developed as an aid to drafting your Bill and, perhaps, as background information for the introduction of your Bill, I would be greatful if a summary of such information could be sent to me.

Thank you.

Very truly yours,

Peter H. Kondo
President

PHK/rai

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
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Telephone (703) 521-1680

April 25, 1984

Mike

Honorable Robert W. Kastenmeier
Chairman, Subcommittee on Courts,
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Judiciary Committee
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Washington, D.C. 20515

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Executive Director
MICHAEL W. BLOMMER

Dear Mr. Chairman,

Thank you for taking the time to meet with me yesterday.

Despite our recent change of name, AIPLA is primarily a patent bar association. We are very interested in testifying before your subcommittee on bills which would amend Title 35.

I very much appreciate your willingness to allow us to participate in the current series of hearings. We can do that on any day except May 9 through 11 when all of the officers will be in Boston, Massachusetts for the Association Spring Meeting.

I want you to know, however, that our interest in testifying is not just for the sake of doing so. We want to see the improvement of the patent system -- and improvements are needed. We believe that we can assist you by offering a carefully considered and balanced view of the law from the point of view of attorneys in private practice, which includes litigation, licensing, and prosecution before the Office, as well as those in corporate practice.

Our interest is to play a constructive role in the legislative process. We need your guidance in how best we can do that.

Regards,

Sincerely,

Michael W. Blommer

cc: Michael Remington, Esq.

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March 15, 1984

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The Honorable Robert W. Kastenmeier
Chairman, Subcommittee on Courts, Civil
Liberties & the Administration of Justice
U. S. House of Representatives
2137 Rayburn House Office Building
Washington, D. C. 20515

Re: H.R. 4525 and H.R. 4527

Dear Mr. Chairman:

The American Intellectual Property Law Association (AIPLA) has been carefully considering the bills pending before the Subcommittee on Courts, Civil Liberties and the Administration of Justice which affect the patent law and the patent system. AIPLA will present a detailed statement on these bills in the course of the hearings you have scheduled to begin later this month.

During our testimony we will recommend that amendments be made to H.R. 4525 and H.R. 4527. These bills both address serious and current problems in the application of the patent law to inventions resulting from team research carried on in corporations and universities. The amendments do not change, in any way, the intent of H.R. 4525 and H.R. 4527. Rather, we believe the amendments are clarifying and technical in nature.

The amendments follow. I am forwarding them to you in advance of the hearings for your consideration.

H.R. 4525

That Section 103 of Title 35, United States Code, is amended by adding at the end thereof the following:

In addition, subject matter developed by another, which qualifies as prior art only under Section 102(f) or (g) of this title,

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shall not negative patentability under this section where the subject matter and the claimed invention were commonly owned at the time the invention was made.

H.R. 4527

That Section 116 of Title 35, United States Code is amended by amending the first paragraph to read as follows:

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each (shall sign the application and) make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though (i) they did not physically work together or at the same time, (ii) each did not make the same type or amount of contribution or (iii) each did not make a contribution to the subject matter of every claim of the patent.

That Section 120 of Title 35, United States Code, is amended to read as follows:

An application for patent for an invention disclosed in the manner provided by the first paragraph of Section 112 of this title in an application previously filed in the United States, or as provided by Section 363 of this title, by an (the same) inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application on or an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application.

For the purpose of clarity regarding the amendments recommended to H.R. 4527, the additions to the current law are underlined and the deletions are in brackets.

Regards,

Sincerely,

Michael W. Blommer
Executive Director

MWB:cs

cc: Honorable Carlos J. Moorhead
Honorable Gerald J. Mossinghoff,
Commissioner of Patents and Trademarks
Michael Remington, Esq.
Thomas E. Mooney, Esq.

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May 25, 1984

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Chairman, Subcommittee on Courts,
Civil Liberties and the
Administration of Justice
U. S. House of Representatives
2232 Rayburn House Office Building
Washington, D. C. 20515

Re: Amendments to the Patent Law

Dear Mr. Chairman:

When you introduced H.R. 4524 through H.R. 4529 on November 18, 1983, you made clear in a Record statement that the bills should not be considered a "final legislative work product" but rather proposals subject to refinement. Since then, hearings on these bills have been held by the Subcommittee you chair. Also, hearings on S. 1535, which is substantially the same legislation as H.R. 4524-H.R. 4529, have been completed by the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks chaired by Senator Mathias.

At the conclusion of the Senate hearings, Senator Mathias requested that interested organizations, both private sector and Executive Branch, work together to reach a concensus on the issues and the drafting. Those participating were representatives of the "ad hoc" committee which originally proposed the legislation to you and to Senator Mathias, the Patent and Trademark Office, the Anti-Trust Division of the Department of Justice, Intellectual Property Owners, and the AIPLA.

Enclosed is an amended version of S. 1535 which is the work product of these efforts. I believe it substantially improves and refines that bill and the corresponding bills pending before your Subcommittee. While I cannot speak for others, the bill in this form is supported by the AIPLA. I'm forwarding it to you in an effort to assist in the consideration of H.R. 4524-H.R. 4529.

Let me make some brief comments on this draft. Section 1 (H.R. 4526) which modifies the rights of process patent owners

has been amended to eliminate the element of importation of the product made by the patented process. The United States Trade Representative firmly believes that a provision of U. S. law in this context which only applies to imported products is inconsistent with U. S. obligations under Article III, paragraph 4, of the General Agreement on Tariffs and Trade (GATT). We have no opinion of the correctness of that belief. However, we would accept this change because we believe that establishing a cause of action for infringement by the use or sale of a product produced by the infringement of a U. S. process patent in the U. S. will have a minimal effect in practice. As Commissioner Mossinghoff aptly testified, it is highly unlikely that a patentee would sue its customers or potential customers for infringement when a suit lies against its competitor which is directly infringing the patented process. This possibility is made even more remote by the provision of the draft bill which limits possible damages for infringement to infringers which do not use the process to acts which occur after actual notice from the patentee of the infringement. That notice safeguard is contained in H.R. 4526 in a different form.

On March 15, 1984, I forwarded to you amended versions of H.R. 4525 and H.R. 4527. Those amendments are found in Sections 5 and 6 of the draft enclosed. These provisions remedy current serious problems facing the managers of team research efforts and their attorneys which resulted from the court's decision in the Bass case. I am enclosing a thorough analysis of how these amendments to Sections 103, 116, and 120 will affect existing law and practice. This is a rather complicated area of the patent law where amendments must be particularly clear, precise, and definite.

On May 3, 1984, you raised with Don Banner the important issue of the effective date application of these various amendments to Title 35. Please note Section 10 of the draft bill which addresses this problem.

This series of bills does not represent a panacea to lagging American innovation. However, if they were enacted, the efficiency of the patent system would be materially improved. These bills correct inequities and solve problems which now needlessly burden those who must depend on the validity of their patents. Please advise if there is anything we can do to assist you to consider them. I know I

speak for everyone who has been working on this legislation in saying that whatever further information or effort you request will be provided.

Regards,

Sincerely,

Michael W. Blommer
Executive Director

MWB:cs

Enclosure

cc: The Honorable Carlos J. Moorhead (w/enclosure)
Michael Remington, Esq. (w/enclosure)
David W. Beier, III, Esq. (w/enclosure)
Thomas E. Mooney, Esq. (w/enclosure)

D R A F T

(Added material is underlined; deleted material is bracketed)

98TH CONGRESS S.1535

2ND SESSION

To amend title 35, United States Code, to increase the effectiveness of the patent laws and for other purposes.

IN THE SENATE OF THE UNITED STATES

A BILL

To amend title 35, United States Code, to increase the effectiveness of the patent laws and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That

(a) Section 154 of title 35, United States Code, is amended by inserting after the words "United States," the words "and, if the invention is a process, of the right to exclude others from using or selling products produced thereby throughout, or importing products produced thereby into, the United States,".

(b) Section 271 of title 35, United States Code, is amended by --

(1) redesignating subsection (a) as paragraph (a)(1):

(2) inserting the following new paragraph (a)(2):

"(a)(2) If the patented invention is a process, whoever without authority uses or sells within, or imports into, the United States during the term of the patent therefor a product produced by such process infringes the patent."; and

(3) adding the following new subsection (e):

"(e)(1) Whoever without authority supplies or causes to be supplied in or from the United

States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

"(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred in the United States, shall be liable as an infringer.".

(c) Section 287 of title 35, United States Code, is amended by --

(1) designating the existing language as subsection (a); and

(2) adding the following new subsection (b):

"(b) No damages shall be recovered by the patentee for infringement under section 271(a)(2) of this title from an infringer who did not use the patented process except on proof that such infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice."

(d)(1) Title 35, United States Code, is amended by adding the following new section 295:

§ 295. Presumption: Product Produced by Patented Process.

In actions alleging infringement of a process patent based on use, sale or importation of a product produced by the patented process, if the court finds (1) that a substantial likelihood exists

that the product was produced by the patented process and (2) that the claimant has made a reasonable effort to determine the process actually used in the production of the product and was unable so to determine, the product shall be presumed to have been so produced, and the burden of establishing that the product was not produced by the process shall be on the party asserting that it was not so produced.".

(2) The table of sections for chapter 29 of title 35, United States Code, is amended by adding after the item relating to section 294 the following:

"295. Presumption: Product Produced by Patented Process.".

[section 271 of title 35, United States Code, is amended by adding at the end thereof the following new subsections:]

["(e) Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer.]

["(f) Whoever without authority supplies or causes to be supplied in the United States the material components of a patented invention, where such components are uncombined in whole or in part, intending that such components will be combined outside of the United States, and knowing that if

such components were combined within the United States the combination would be an infringement of the patent, shall be liable as an infringer."]

SEC. 2. Section 184 of title 35, United States Code, is amended by --

(1) amending the third sentence thereof by striking out "inadvertently" and inserting after "filed abroad" the words "through error and without deceptive intent";

(2) adding at the end thereof the following new paragraph:

"Subject to such conditions as the Commissioner may set by regulations, the scope of a license shall permit subsequent modifications, amendments, and supplements containing additional subject matter when the application upon which a license request is based is not required to be made available for inspection under section 181 of this title."

["In the case of an application for which a license has been obtained or an application which has been filed in teh United States Patent and Trademark office for more than six months before the filing in a foreign country, and on which no secrecy order has been issued, a license shall not be required for any modifications, amendments,

supplements, divisions, or other information filed in or transmitted to the foreign country in connection with such application if such modifications, amendments, supplements, divisions, or information consist only of the illustration, exemplification, comparison, or explanation of subject matter specifically or generally disclosed in such application."]

SEC. 3. Section 185 of title 35, United States Code, is amended by adding before the period in the last sentence thereof the following: ", unless the failure to procure such license was through error and without deceptive intent, and the patent does not disclose subject matter within the scope of section 181 of this title".

SEC. 4. Section 186 of title 35, United States Code, is amended by inserting "willfully" after the second occurrence of "whoever".

[(1) striking out "whoever, in violation of the provisions of section 184 of this title,"; and]

[(2) inserting "such" after "in respect of any".]

SEC. 5. Section 103 of title 35, United States Code, is amended by adding at the end thereof the following:

"In addition, subject matter developed by another, which qualifies as prior art only under Sections 102(f) or (g) of this title, shall not negative patentability under this section where the subject matter and the claimed invention were commonly owned or subject to an obligation of assignment to the same party at the time the invention was made."

["Prior art shall not include unpublished information which is developed by the applicant jointly with others, or which is known to the applicant only by virtue of his or her employment."]

SEC. 6. (a) Section 116 of title 35, United States Code, is amended by amending the first paragraph to read as follows:

"When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even

though (i) they did not physically work together or at the same time, (ii) each did not make the same type or amount of contribution, or (iii) each did not make a contribution to the subject matter of every claim of the patent."

(b) Section 120 of title 35, United States Code, is amended to read as follows:

"An application for patent for an invention disclosed in the manner provided by the first paragraph of Section 112 of this title in an application previously filed in the United States, or as provided by Section 363 of this title, by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application."

[|"When two or more persons have made inventive contributions to the subject matter claimed in an application, they shall apply for patent jointly and each shall sign the application and make the required oath, except as otherwise provided in this title. Joint inventors need not have made an inventive contribution to each claim of the application."]

[SEC. 7. Section 135(a) of title 35, United States Code, is amended by adding at the end thereof the following: "Evidence to establish priority of invention in accordance with section 102(g) shall be provided by affidavit."]

[SEC. 8. Section 135(c) of title 35, United States Code, is amended by--]

[(1) inserting before "shall render" in the third sentence the following: ", unless such failure was through error and without deceptive intent,"; and]

[(2) striking out the wrods "during the six-month period" in the fourth sentence and "within the six-month period" in the sixth sentence.]

SEC. 7 [9]. Section 135 of title 35, United States Code, is amended by adding at the end thereof the following new subsection:

"(d) Parties to a patent interference may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9, United States Code, to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Commissioner, and such award shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. [and such award shall be dispositive of the issues to which it relates.] The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Commissioner from determining patentability of the invention involved in the interference."

SEC. 8 [10]. (a) Title 35, United States Code, is amended by adding after section 295 [294] the following new section:

§ 296. Licensee Challenges to Patent Validity ["Section 295. Licensee estoppel]

(a) A licensee shall not be estopped from asserting in a judicial action the invalidity of any patent under which it is licensed. Any agreement between the parties

to a patent license agreement which purports to bar the licensee from asserting the invalidity of licensed patent shall be unenforceable as to that provision.

"(b) Any patent license agreement may provide for a party or parties to the agreement to terminate the license if the licensee asserts in a judicial action the invalidity of the licensed patent, and may further provide that the licensee's obligations under the agreement shall continue until a final and unappealable determination of invalidity is reached if such right to terminate is not exercised. Such agreement shall not be unenforceable as to such provisions on the ground that such provisions are contrary to federal patent law or policy."

["(b) In the event of an assertion of invalidity by the licensee in a judicial action, licensee and licensor shall each have the right to terminate the license at any time after such assertion. Until so terminated by either party, the licensee shall pay and the licensor shall receive the consideration set in the license agreement."]

"(b) The table of sections for chapter 29 of title 35, United States Code, is amended by adding after the item relating to section 295 [294] the following:

"296. Licensee Challenges to Patent Validity [estoppel]."

SEC. 9.(a) The Clayton Act, as amended (15 U.S.C. Section 12 et seq.), is amended by renumbering Section 27 as Section 28 and by adding the following new Section 27:

"SEC. 27. Agreements to convey rights to use, practice, or sublicense patented inventions, trade secrets, or know-how shall not be deemed illegal per se in actions under the antitrust laws.".

(b) Section 282 of title 35, United States Code, is amended by --

(1) designating the existing language as subsection (a); and

(2) adding the following new subsection (b):

"(b) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following, unless such conduct, in view of the circumstances in which it is employed, violates the antitrust laws: (a) licensed the patent under terms that affect commerce outside

the scope of the patent's claims. (b) restricted a licensee of the patent in the sale of the patented product or in the sale of a product made by the patented process, (c) obligated a licensee of the patent to pay royalties that differ from those paid by another licensee or that are allegedly excessive, (d) obligated a licensee of the patent to pay royalties in amounts not related to the licensee's sales of the patent product or a product made by the patented process, (e) refused to license the patent to any person, or (f) otherwise used the patent allegedly to suppress competition.".

SEC. 10. [11] (a) Subject to subsections (b), (c), (d) and (e) of this section, the amendments made by this Act shall apply to all United States patents granted before, on, or after the date of enactment of this Act, and to all applications for United States patents pending on the date of enactment.

(b) The amendments made by this Act shall not affect any final decision made by a court or the Patent and Trademark Office before the date of enactment of this Act with respect to a patent or application for patent, if no appeal from such decision is pending and the time for filing an appeal has expired.

(c) Section 271(a)(2) of title 35, United States Code, added by Section 1 of this Act, shall apply only to the importation, sale or use of a product after the date of enactment of this Act.

(d) Section 271(e) of title 35, United States Code, added by Section 1 of this Act shall apply only to the supplying, or causing to be supplied, of any component or components of a patented invention after the date of enactment of this Act.

(e) No United States patent granted before the date of enactment of this Act shall abridge or affect the right of any person or his successors in business who made, purchased, or used prior to such effective date anything protected by the patent, to continue the use of, or to sell to others to be used or sold, the specific thing so made, purchased, or used, if the patent claims were invalid or otherwise unenforceable on a ground obviated by Section 2, 3, 5, 6, or 9 of this Act and the person made, purchased, or used the specific thing in reasonable reliance on such invalidity or unenforceability. If a person reasonably relied on such invalidity or unenforceability, the court before which such matter is in question may provide for the continued manufacture, use, or sale of the thing made, purchased, or used as specified, or for the manufacture,

use, or sale of which substantial preparation was made before the date of enactment of this Act, and it may also provide for the continued practice of any process practiced, or for the practice of which substantial preparation was made, prior to the date of enactment, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the date of enactment.

[The amendments made by this Act shall apply to all unexpired United States patents granted before or after the date of enactment of this act.]

Analysis of Proposed Amendment
to Section 5 of S. 1535

Section 5 of this bill amends section 103 of title 35, United States Code, by adding to the end of section 103 a new sentence providing that subject matter developed by another which qualifies as prior art only under sections 102(f) or (g) of title 35 shall not negative patentability when the subject matter and the claimed invention were commonly owned at the time the invention was made.

The term "subject matter" as used in this amendment is intented to be construed broadly in the same manner as the term is construed in the remainder of section 103. The term "another" as used in this amendment means any inventive entity other than the inventor and would include the inventor and any other person. Thus, subject matter developed jointly by the inventor and any other person would be "subject" matter developed by another" for purposes of this amendment and insofar as the claimed invention is concerned. The term

"developed" is to be read broadly and is not limited to the manner in which the development occurred.

The subject matter which is disqualified as prior art under section 103 is strictly limited to subject matter which qualifies as prior art only under sections 102(f) or (g). If the subject matter qualifies as prior art under any other section, e.g., section 102(a), (b) or (e), it would not be disqualified as prior art under the amendment to section 103. The amendment only applies to subject matter which qualifies as prior art under section 103. It does not apply to or affect subject matter which qualifies as prior art under section 102.

The amendment is not intended to permit anyone other than the inventor to be named as the inventor in a patent application or patent. Also, the amendment is not intended to, and does not, ratify or enable appropriation of the invention of another. For example, if the subject matter developed by another is the same as that claimed, and would thus anticipate the claimed invention under section 102, the amendment would not disqualify the subject matter as prior art. Section 5 of this bill also makes clear that subject matter derived from another under section 102(f) is prior art under section 103 unless the derived subject matter and the claimed invention are commonly owned. The contents of a

secret co-pending patent application, of the same or different ownership, continue to be available as prior art under section 103 by virtue of section 102(e) as of the application filing date. If subject matter becomes potential prior art under section 102(e) because a patent application is filed on such subject matter before a commonly owned claimed invention is made the subject matter of a later application, the two applications may be combined into a single application under the changes contained in section 6 of this bill and such subject matter would no longer constitute potential prior art under section 102(e) or under Section 103.

In order to be disqualified as prior art under the amendment the subject matter which would otherwise be prior art to the claimed invention and the claimed invention must be commonly owned at the time the claimed invention was made. The term "commonly owned" is intended to mean that the subject matter which would otherwise be prior art to the claimed invention and the claimed invention are entirely or wholly owned by the same person, persons, or organization at the time the claimed invention was made. If the person, persons, or organization owned less than 100 percent of the subject matter which would otherwise be prior art to the claimed invention, or less than 100 percent of the claimed invention, then common ownership would not exist. Common ownership requires that the person, persons, or organization own 100 percent of the subject matter and 100 percent of the claimed

invention. As long as principal ownership rights to either the subject matter or the claimed invention reside in different persons or organizations common ownership does not exist. A license of the claimed invention to another by the owner where basic ownership rights are retained would not defeat ownership. The requirement for common ownership at the time the claimed invention was made is intended to preclude obtaining ownership of subject matter after the claimed invention was made in order to disqualify that subject matter as prior art against the claimed invention. The question of whether common ownership exists at the time the claimed invention was made is to be determined on the facts of the particular case in question. Actual ownership of the subject matter and the claimed invention by the same individual or organization or a legal obligation to assign both the subject matter and the claimed invention to the same individual or organization must be in existence at the time the claimed invention was made in order for the subject matter to be disqualified as prior art. A moral or unenforceable obligation would not evidence common ownership.

Under this amendment of section 103, an applicant's admission that subject matter was developed prior to applicant's invention would not make the subject matter prior art to applicant if the subject matter qualifies as prior art only under sections 102(f) or (g) of title 35 and if the subject matter and the claimed

invention were commonly owned at the time the invention was made. See In re Fout, 213 USPQ 532 (CCPA 1982), for a decision involving an applicants' admission which was used as prior art against their application. If the subject matter and invention were not commonly owned, an admission that the subject matter is prior art would be usable under section 103.

The burden of establishing that subject matter is disqualified as prior art under the section is intended to be placed and reside upon the person or persons urging that the subject matter is disqualified. For example, a patent applicant urging that subject matter is disqualified as prior art under the amendment would have the burden of establishing that it was commonly owned at the time the claimed invention was made. The patentee in litigation would likewise properly bear the same burden placed upon the applicant before the Patent and Trademark Office. To place the burden upon the patent examiner or the defendant in litigation would not be appropriate since evidence as to common ownership at the time the claimed invention was made might not be available to the patent examiner or the defendant in litigation, but such evidence, if it exists, should be readily available to the patent applicant or the patentee.

In view of this amendment it would be expected and intended that the Commissioner would reinstitute in appropriate circumstances



the practice of rejecting claims in commonly owned applications of different inventive entities on the grounds of double patenting. Such rejections could then be overcome in appropriate circumstances by the filing of terminal disclaimers. This practice has been judicially authorized. See In re Bowers, 149 USPQ 571 (CCPA 1966). The use of double patenting rejections which then could be overcome by terminal disclaimers would preclude patent protection from being improperly extended while still permitting inventors and their assignees to obtain the legitimate benefits from their contributions.

Analysis of Proposed Amendments
to Section 6 of S. 1535

Section 6 of this bill amends section 116 of title 35 by adding to the end of section 116 a new sentence recognizing that inventors may apply for a patent jointly even though (i) they did not physically work together or at the same time, (ii) each did not make the same type or amount of contribution or (iii) each did not make a contribution to the subject matter of every claim of the patent. Determinations of inventorship in patent law are recognized as different undertakings and the amendment seeks to clarify and, to the extent possible, to simplify such undertakings by adopting and introducing into section 116 some principles set forth in judicial precedents. The court in Monsanto Co. v. Kamp, 154 USPQ 259 (D.D.C. 1967) stated the pertinent principles as follows:

> "A joint invention is the product of collaboration of the inventive endeavors of two or more persons working toward the same end and producing an invention by their aggregate efforts. To constitute a joint invention,

it is necessary that each of the inventors work on the same subject matter and make some contribution to the inventive thought and to the final result. Each needs to perform but a part of the task if an invention emerges from all of the steps taken together. It is not necessary that the entire inventive concept should occur to each of the joint inventors, or that the two should physically work on the project together. One may take a step at one time, the other an approach at different times. One may do more of the experimental work while the other makes suggestions from time to time. The fact that each of the inventors plays a different role and that the contribution of one may not be as great as that of another does not detract from the fact that the invention is joint, if each makes some original contribution, though partial, to the final solution of the problem."

The amendments to section 116, in (i) and (ii), adopt as statutory criteria the pertinent principles of Monsanto Co. v. Kamp.

The amendment to section 116 also provides that inventors may apply for a patent jointly even though each did not make a contribution to the subject matter of every claim of the patent.

This amendment recognizes the realities of corporate and team research. A research project in today's environment may include many inventions and some inventions may have contributions which are made by some individuals who were not involved in other aspects of the invention. It is appropriate to recognize the contribution of each individual even though the individual may not have been involved in, or may not have contributed to, all aspects of the invention. The amendment to section 116 would permit this recognition by not requiring that each inventor make a contribution to every claim of the patent. Under the amendment to section 116, an inventor could apply for a patent jointly with other inventors as long as each inventor made a contribution, i.e., was an inventor or joint inventor, of the subject matter of at least one claim of the patent. While the principle that each inventor does not have to make a contribution to every claim of the patent was recognized by the court in SAB Industri v. Bendix Corp., 199 USPQ 95 (E.D. Va. 1978), it is appropriate that this principle be incorporated into section 116 in order to clarify the criteria for joint inventorship. It is not intended that this amendment encourage the inclusion in one application of more than one invention. However, to the extent that more than one invention is included in an application, the Commissioner may require the application to be restricted to one of the inventions in accordance with the provisions of section 121 of title 35. In such case, any divisional applications filed would be entitled to the filing date of the original application, even if the

inventorship changes in the divisional application, as long as the subject matter of the original application and the divisional application are commonly owned.

The amendments to section 116 increase the possibility that the claims of a particular application may have different dates of invention to which they are entitled. For example, one inventor may have developed part of the invention represented by some claims. On a later date another inventor may have developed another part of the invention which is claimed in other claims. The two inventors could have jointly developed the subject matter of other claims at an even later time. Under the amendment to section 116, a single application could be filed on behalf of the two inventors. At the same time, there is no requirement that all the inventors be joint inventors of the subject matter of any one claim. Where necessary for purposes of examination of the patent application or during the course of patent litigation involving the patent, the Patent and Trademark Office or the court before which the litigation is pending may inquire of the patent applicant or the patentee as to the inventorship and the invention dates of the subject matter of the various claims.

The amendments to section 116 also delete the reference to "sign the application" to be consistent with earlier changes to section 111 and to clarify that it is not necessary for

each inventor to separately sign the application, in addition to making the required oath and applying for a patent jointly.

Section 6 of this bill amends section 120 of title 35, United States Code, to provide that a later filed application by an inventor or inventors of a previously filed pending application may claim the benefit of the previously filed pending application even though the later filed application does not name all of the same inventors as the previously filed application. For example, if the previously filed application named inventors A and B as the inventors, a later application by either A or B could be filed during the pendency of the previously filed application and claim benefit of the previously filed application under section 120 of title 35. In order for the claims of the later filed application to be entitled to the benefit of the date of the earlier filed application, the requirements of section 120 would have to be met, including the requirement that the subject matter of the claims of the later filed application be disclosed in the earlier filed pending application in the manner provided by the first paragraph of section 112 of title 35.

Similarly, if inventor A filed an application on an invention and during the pendency of that application made an improvement on the subject matter of the application as a joint inventor with inventor B, the joint application filed on behalf of inventors A and B could claim the benefit of A's previously

filed sole application to the extent that the later filed joint application contained claims to A's subject matter which was disclosed in the earlier filed pending application in the manner provided by the first paragraph of section 112 of title 35.

Likewise, an application filed by inventors A and C could claim the benefit of an earlier filed pending application of inventors A and B, to the extent that the requirements of section 120 could be met.

The Patent and Trademark Office or a court before whom the patent is being litigated may inquire, in appropriate circumstances, as to who invented, and the date of invention of, the subject matter being claimed in any claims in the later filed application. In order to be entitled to the benefit of an earlier filed pending application, the subject matter of the claims of the later filed application would have to be disclosed in the manner provided by the first paragraph of section 112 of title 35.

The prohibitions of double patenting would also be applicable to the applications or patents, whether or not they are commonly owned. If the applications or patents are commonly owned, the rejection of the application on the grounds of double

patenting could be overcome by an appropriate terminal disclaimer as long as the identical invention is not being claimed. See In re Robeson, 141 USPQ 485 (CCPA 1964), and In re Kaye, 141 USPQ 829 (CCPA 1964). If the applications or patents are not commonly owned, the double patenting rejection of the later filed application could not be overcome by a terminal disclaimer since the ownership of subject matter being claimed belongs to someone other than the owner of the later filed application.

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STATEMENT OF

BERNARR R. PRAVEL, PRESIDENT

AMERICAN
INTELLECTUAL PROPERTY LAW
ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES
AND THE ADMINISTRATION OF JUSTICE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE
OF REPRESENTATIVES

JUNE 13, 1984

ON

AMENDMENTS TO THE PATENT LAW

The American Intellectual Property Law Association (AIPLA) is a national society of more than 4800 lawyers engaged in the practice of patent, trademark, copyright, licensing, and related fields of law affecting intellectual property rights. AIPLA membership includes lawyers in private, corporate, and government practice; lawyers associated with universities, small business, and large business; and lawyers active in both the domestic and international transfer of technology.

We commend this Subcommittee for undertaking this most important series of hearings which directly relate to the alarming decline in American industrial productivity and innovation. Although we have clarifying amendments to offer, we support the enactment of H.R. 2610 with the exception of Section 4, H.R. 3502, H.R. 4462, H.R. 4524, H.R. 4525, H.R. 4526, H.R. 4527, H.R. 4528, and H.R. 4529. These initiatives will materially assist American creators of intellectual property. We do not support the enactment of H.R. 3462, H.R. 3285 and H.R. 3286.

There are facts and impressive statistics known to the Members of this Subcommittee which demonstrate that U. S. technical superiority in the world is now threatened. We in AIPLA know from first-hand experience that competition in world markets in high technology products and goods produced by advanced technological methods and processes is growing

stiffer for American business each year. This declining ability to compete is clearly having a serious impact on American exports and imports and is contributing to America's massive trade deficit.

H.R. 3285 and H.R. 3286

These bills would modify certain existing legal relationships between persons employed by another who may make "inventions" and their employers. Issues such as compensation of "inventors" and allocation of rights to "inventions" in the private sector in the employer-employee context are currently defined by employment contracts, common law, and relevant state laws. The disposition of rights in federal employee inventions is governed by Executive Order 10096, January 23, 1950 (3 C.F.R. at 292).

We understand a primary goal of each bill is to stimulate and encourage American invention and innovation. We have considered both from that perspective. These bills raise other issues involved with employee-employer relationships such as the scope and effectiveness of labor laws and the collective bargaining opportunities. We are not sufficiently qualified to evaluate these other issues.

H.R. 3285 is modeled on a provision of the West Germany Patent Code which has been in effect since 1957. The bill would amend title 35 to establish certain standards for the determination of ownership of and compensation for inventions

of employees of both government (federal, state, and local), and private employers.

AIPLA has been interested in this German law for a number of years. The subject was considered in an issue of our Quarterly Law Journal in 1973. A number of our members do business in Germany and have direct continuing experience with the effect of this law in that country.

We oppose the enactment of H.R. 3285 because of our understanding of how the German law has worked in Germany and our belief that this type of law would negatively impact on American invention and innovation. We know of no reason to conclude that the German law has stimulated innovation in that country or that the enactment of H.R. 3285 would do so in the U. S. On the other hand, the German law has proved to be burdensome and expensive for both German industry and the German Patent Office. H.R. 3285 singles out "inventors" for special legally enforceable rewards. To do so is an injustice to other employees who form an integral part of the innovation process and who deserve equal credit for the ultimate success of an invention. To do so promotes secrecy among pure and applied research scientists who would suddenly have a direct monetary interest in "their" inventions. H.R. 3285 would disrupt and reduce the effectiveness of industrial research, and that reason alone gives sufficient reason, in our opinion, why it should not be enacted.

H.R. 3286 would limit the right of an employer to

contract with an employee for the assignment of "inventions" made by the employee that "are unrelated to their employment." H.R. 3286 is similar to laws recently enacted in the states of California, Illinois, Minnesota, North Carolina, and Washington.

The Institute of Electrical and Electronics Engineers, which is a primary proponent of this bill, testified to this Subcommittee in 1982 that its enactment constitutes "a step which is essential if we are to halt the decline of innovation in the United States." We believe that the IEEE has overstated the potential benefits of the bill.

Large numbers of scientific or technically trained people are employed in circumstances in which "inventions" may be created. Their educational background and field of expertise are directly related to their employment. For example, chemical companies employ chemical engineers and chemists to do research and development work. A research chemist may make an "invention" in his spare time wholly unrelated to the work he performs for his chemical company employer. H.R. 3286 would make it unlawful for an employer to require the assignment of these "spare time" or "hobby" category of inventions.

We do not believe that these "spare time" inventions could potentially have an impact on American industrial innovation if H.R. 3286 were enacted. This is especially true because at the current time a significant percentage of

employed inventors are not required to assign rights to these inventions, and so they are already owned by employed inventors. We believe that a majority of U. S. corporations do not require these assignments, although we do not have empirical evidence to support that view. Also, those corporations which do have all-encompassing assignment policies cannot enforce them in the five states with relevant laws. In sum, the scope and practical effect of H.R. 3286 is narrow.

An important relevant issue is whether the federal law should preempt the states from legislating in this area. It is true that a federal law would provide a practical benefit for large corporations with employees in many states in establishing a uniform standard. However, this is not sufficient reason to preempt the authority of the states. Other state laws, such as those dealing with trade secrets and unfair competition, which materially affect intellectual property rights are not uniform. Regulation of corporate activities and contracts between private parties are traditionally matters within the jurisdiction of the states absent a compelling overriding problem which is national in scope.

We oppose the enactment of H.R. 3286 because of our belief that the minimal potential benefit to national productivity of the bill does not justify federal preemption of the right of the states to act. However, we fully recognize that there are other issues here relating to labor practices.

We believe the state laws upon which H.R. 3286 is patterned were enacted for those reasons and not to stimulate invention and innovation. As we said earlier, we are not qualified to address these questions.

H.R. 3462

H.R. 3462 would exempt patent owners who are "independent inventors, nonprofit organizations, and small business concerns" from paying maintenance fees. The bill would also exempt this group from any change in current patent fees under Section 41(a) of title 35 such as filing and issue fees. The Commissioner is authorized in 41(f) to increase all fees on October 1, 1985, and every third year thereafter, to reflect fluctuations in the Consumer Price Index.

The clear intent of the bill is to reduce patent fees to those most likely to be deterred from filing patent applications because of the expense of the fees. However, at this point in time, there is not sufficient evidence to determine whether the new fees are deterring filings from any category of patent applicant. Therefore, enactment of the bill seems premature. However, we would urge this Subcommittee to continue to monitor the effect of the new processing fee levels on patent applications and the maintenance fees on the abandonment rate of patents. High government fees should not be a deterrent to the use of the patent system.

H.R. 2610

The AIPLA supports the provisions of H.R. 2610 with the single exception of Section 4(1) which we strongly oppose.

We offer for the consideration of the Subcommittee two observations on Section 2 of the bill which authorizes the issuance of a patent without examination in certain circumstances.

Firstly, the bill authorizes the issuance of what we would describe as a "defensive" patent or perhaps more accurately as a "defensive publication." This new type of "patent" would be fundamentally different from a regular patent in that it confers no right to exclude others from practicing the invention described. The right to exclude is fundamental to the long established and commonly understood meaning of the word patent. Today, if a product is marked "patented" or "patent pending" the meaning and legal implications are clear. However, if this new type of "patent" is authorized, confusion, be it intentional or unintentional, might result.

We would urge the Subcommittee to seriously consider more precisely defining this instrument with words such as a "statutory invention recording" as was done by the Senate Judiciary Committee.

Secondly, we believe the enactment of Section 2 will have significant potential benefit to Goverment agencies which currently finance applications for patents on inventions made by Government employees. The Government does not need

the right to exclude others from practicing an invention because it does not manufacture products. A primary reason patents are obtained by the Government is to guard against having to pay royalties on inventions first made by an agency employee but subsequently patented by another. The "statutory invention recordings" will solve that problem. However, because the use of this new procedure is wholly voluntary, we question whether agencies will readily change existing practices and utilize it. We urge the Subcommittee to consider whether the bill would be strengthened by specifically empowering an official or office in the Executive Branch to promulgate regulations for the use of the section by Government agencies.

The AIPLA strongly objects to Section 4(1) of H.R. 2610 and urges the Committee to reject the proposal therein.

Section 4(1) would amend 35 USC 151 to authorize the Commissioner to reduce from three months to one month the time during which an inventor or an assignee has to pay the patent issue fee after the Office has given notice the application is allowed. In many cases, for a variety of practical reasons, the current three-month period is too short. To reduce this period to one month is unreasonable.

Furthermore, we perceive no reason, compelling or otherwise, to support adoption of this amendment. The Commissioner has announced that his goal is to reduce the average time patent applications pend to 18 months. We

support that goal because we understand it to mean that the Patent Office would provide more prompt service in the future. This amendment would reduce patent pendency time without any improvement in Patent Office service. The amendment would however place unwarranted and possibly prejudicial burdens on inventors. For that reason, the adoption of this amendment worsens rather than improves PTO service.

Rather than relating to pendency time, we believe the proposed amendment may be the result of a serious misunderstanding by the Patent Office of the importance of this period of time. Close to the termination of the successful prosecution of a patent application, the examiner issues a notice that the application is allowed and sends it to the attorney for the inventor. Under current practice, the applicant is allowed three months from the day the notice is sent to pay the issue fee. If the issue fee fails to reach the Patent Office within three months of the day the notice of allowance was sent, the application is legally abandoned.

Once the notice of allowance is received, a number of significant decisions relating to the invention must be made. Reaching these decisions involves at the very minimum consultation among the attorney and the inventor and corporate management if the inventor is an employee and the application has been assigned. Some of the issues to be resolved are:

- Should the patent issue or should the invention be retained as a trade secret? This is especially

relevant if the application as allowed has been considerably narrowed in scope from the original application.

- Should a continuation or divisional application be filed?
- Is an amendment pursuant to 37 CFR 1.312 required? If the application is allowed on the first action by the Office, very frequently, especially if the application is based on a foreign filed application, revisions in the form of a "Rule 312 Amendment" are indicated or the patent will issue in improper form.
- Is a supplemental declaration required by 37 CFR 1.67 necessary? If the claims in the application have been amended, often the inventor must file a declaration stating, in effect, that the changes made are descriptive of his invention.

We submit it is clearly unreasonable to require that several parties review files against an allowed application, consider the legal and practical implications surrounding the case, communicate with each other and perhaps with other parties, reach a decision on how to proceed, prepare papers if required and have them properly executed, and then notify the Patent Office in one month less the time the notice was in the mails before being received. Vacations or work related travel of even a short duration by attorneys or

inventors in and of themselves could cause cases to be abandoned. Of course, when the inventor resides in a foreign country, as is the case of 40 percent of all pending applications, possibility of complying with the proposed amendment becomes even more remote.

It is also possible the notice of allowance may be accompanied by an attachment which specifies that the drawings in the application must be revised. If so, the attorney must retain a bonded draftsman who must go to the Patent Office, inspect the application file, prepare new drawings, submit the drawings to the attorney for review, and then the amended drawings must be filed with the Patent Office. Under current practice, this procedure alone is often difficult to accomplish in three months.

In sum, the time between receiving a notice of allowance and paying the issue fee is a busy and important period of time in the prosecution of every patent application. Every inventor has the right to have the patent issue in optimal condition as to form and content or not to issue at all. In many cases, three months may not be required and so the issue fee will be paid before the time has run. In many cases, every day of the three-month period is necessary. The proposal to reduce this period from three months to one month is unwise and should be rejected.

H.R. 3502 and H.R. 5529

The AIPLA supports the enactment of patent term restoration legislation because we believe it will serve the public interest. Our belief is not based on an analysis of the economics of the industries most directly affected, nor an analysis of the impact of the Federal regulatory process on those industries or American industry in general. Rather, we believe history teaches that an effective patent system, premised on a commercially viable 17-year patent grant, has been of immense direct benefit to our country since the patent laws were enacted by the First Congress in 1790.

In recent years, a number of beneficial new laws have been enacted to protect the health and safety of the citizenry and the integrity of the environment. The enforcement of these laws delays or even prohibits new products from being sold or industrial processes from being employed if possibly prejudicial to the public good. In many cases these laws delay the sale or use of a patented invention. In effect, the 17-year patent term granted to the inventor for the exclusive use of his invention is thusly shortened. This raises a question of equity. The inventor has disclosed his creation to the public so that it can be used by others to build on and to advance the progress of the useful arts. In return, the Government has granted and then interfered with the full patent term. These bills bring the equities back in balance.

However, merely providing relief to certain inventors is not the compelling reason why this legislation should be enacted into law. A Patent Term Restoration Act inevitably will stimulate the innovation process. In some cases, renewed activity will be industry-wide. In some cases, a single small business will be assisted. In all cases, the incentive to engage in research will be strengthened. All constructive legislative solutions to reverse declining industrial productivity and innovation are preeminently in the public interest.

We are aware that Congressman Waxman and others are developing a patent term restoration bill that differs materially from H.R. 3502 and H.R. 5529. While we are not part of that effort, very recently we have seen a draft of the bill. A part of that draft bill amends section 271 of title 35 presumably for the purpose of circumventing the April 23, 1984, decision of the Court of Appeals for the Federal Circuit in Roche Products, Inc. v. Bolar Pharmaceutical Co.--F.2d--(FedCir 1984). Roche sued to enjoin Bolar from making federally mandated premarketing tests of a drug for which Roche held the patent. Roche maintained this use infringed their patent. Bolar argued that their use of the patented drug fell within the "experimental use" defense to infringement. While the CAFC recognized the validity of that defense which originated in Whittemore v. Cutter, 29 F. Cas. 1120, 1121 (C.C. D. Mass. 1813),

the court said "Bolar's intended 'experimental' use is solely for business reasons and not for amusement, to satisfy curiosity, or for strictly philosophical inquiry" and found that Bolar had infringed the Roche patent.

One of the most fundamental principles of patent law is that "whoever without authority makes, uses, or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent." (35 USC 271(a)). We oppose compromising this important principle without a demonstrated compelling reason to do so. We recognize that this is one part of a bill where circumstances require that Congress balance the equities of a number of competing interests. If the Subcommittee determines that an exception to the principles of patent infringement must be made, we would urge that any such amendment be very carefully considered and drafted.

H.R. 4526

This bill corrects two anomolies in the patent law which weaken the ability of American patent owners to compete in international markets. While these two amendments have implications involving export and import trade, both only affect domestic patent rights. U. S. patents only confer rights within the United States.

Process Patent Rights

Many U. S. patents cover processes for making a product. Under those patents, the patentee has the right to exclude

others from using the patented process in the U. S. A process patent owner can benefit from his invention by using it himself to make and sell a product or by licensing others to do so.

If a patent owner could obtain a patent on the product produced by a process, the protection afforded by this bill would be unnecessary because the patent owner could then sue for infringement of the product claims of the patent. However, in many cases, particularly involving chemicals, a patent cannot be obtained on the chemical or product as such because the product or chemical occurs in nature or is otherwise old and therefore is not patentable under 35 U.S.C. §102. However, the naturally occurring or old product is frequently not economically obtainable or it cannot be practically or competitively made using old processes. For that reason, the process which is new and patentable is the only practical and competitive way to make the product available to the public. Therefore, the process patent protects a new practical way to obtain the product so that the product is available to the public on a commercial basis.

To evade the process patent owner's rights, unscrupulous persons may now use the protected process outside of the U. S. and import the resulting product into this country. This practice unfairly undercuts American inventors' rights and promotes unfair foreign competition in domestic U. S. markets.

This activity now constitutes an unfair method of competition within the scope of the Tariff Act [19 U.S.C. §1337(a)]. However this cause of action before the International Trade Commission is of limited use to aggrieved process patent owners. Not only must patent infringement be proved, but also the Commission must determine that the importation tends to "destroy or substantially injure an industry . . . in the United States" (19 U.S.C. §1337). Also, an Executive Order of exclusion must be obtained. In addition, the patent owner can only obtain this order of exclusion, and cannot obtain damages for past infringement.

The patent laws of the other industrialized countries do not permit this type of evasion of process patent owner's rights. Foreign manufacturers are protected and American manufacturers are not. Finally, we note that this change in U. S. law was recommended by President Johnson's Commission on the Patent System in 1966.

We recommend that two amendments be made to H.R. 4526 regarding process patent rights. The first amendment is to insert on page one, line 7 of the bill, after the words "United States" the words "during the term of the patent therefor" and strike out the words beginning on line 8 ", if the product is made during the term of such process patent". The infringing acts in this new section are the importing into or sale or use within the United States of a product made by the process patented in the U. S. The amendment makes clear

that the infringing acts must occur in the U. S. during the term of the U. S. patent being infringed.

The second amendment is to strike Section 2 of the bill and insert the following:

> Sec. 2. Section 287 of title 35, United States Code is amended by adding at the end thereof the following new subsection:
>
> "(b) No damages shall be recovered by the patentee for infringment under section 271(e) of this title from an infringer who did not use the patented process except on proof that such infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice."

This new language does not change the effect of existing Section 2 of the bill but rather clarifies it. Section 286 of title 35 provides that damages for patent infringement may be recovered for a period of six years prior to filing of the complaint or counterclaim for infringement. The law in Section 287 provides a means for giving notice to the public that a product is protected by a patent. This form of public notice is met by affixing the word "patent" or "pat." and the patent number to the product, its package, or its label. If the patentee fails to mark, damages for infringement may be recovered only after the infringing party has received actual notice of infringement. Damages are limited to infringing activity occurring after the notice. However, the law is equally clear that failure to mark does not limit damages for infringement of a process patent. The amendment we propose

takes into account these two principles and will have the following effect. If the party manufacturing the product abroad by use of the patented U. S. process is also the importer, seller, or user of the product within the U. S., no limitation on liability for infringement will apply. That party is treated as to notice in the same way as the party would be if the process was infringed by the party within the United States. However, if a party is committing the infringing acts and is dealing at arm's length with the manufacturer of the product, it would be unfair not to limit liability for infringement. Such a party must be put "on notice" and liability for damages will attach only after the date of notice. The notice required will be actual notice according to the terms and interpretations of existing Section 287 in a nonmarking situation.

Product Patent Rights

The Supreme Court in a 5 to 4 decision in Deepsouth Packing v. Laitram Corporation, 406 U.S. 518 (1972) created what amounts to a "loophole" in the patent law, which the Court said must be corrected by Congress. While many legal commentators believe the case was wrongly decided [e.g., "Operable Versus Substantial Assembly of Patented Combinations: A Critique of Deepsouth v. Laitram," Charles Kerr, 26 Stanford Law Review 893 (1974)], the precedent stands.

Laitram patented and manufactured a machine to devein shrimp. Deepsouth, a competitor, manufactured a similar device. Laitram sued Deepsouth for patent infringement and the district court found that Deepsouth had infringed Laitram's patent. In a subsequent clarification of its holding, the district court ruled that Deepsouth could continue to manufacture the machine so long as the machine was not completely assembled in the U. S. and was being made for export only. The Fifth Circuit reversed and ruled that substantially assembling the machine so that it could be made operable in a foreign country constituted infringement of Laitram's patent on the machine. The Supreme Court reversed the Fifth Circuit and reinstated the district court decision.

We believe that a patentee, such as Laitram, should have the right to benefit from his invention. The holding in the Deepsouth Case enables domestic copiers to circumvent the protection afforded by the patent laws by taking simple evasive production and marketing tactics. This loophole in the law negatively affects the patentee's ability to export his invention or license others to do so. Defeating the expectation of innovative companies of benefitting from export trade is a severe disincentive, serious injustice, and is especially contrary to current economic policies designed to reduce United States trade deficits.

We recommend that the word"knowing" be deleted from line 5 on page 2. Section 271(f) like existing Section 271(a)

defines activities which constitute direct infringement of a patent. If a patentee brings suit pursuant to Section 271(a), he must prove that the alleged infringer committed the infringing acts. A judge or jury decides whether or not the patent was infringed. Section 271(f) as drafted would require that the patentee not only prove that the alleged infringer committed the infringing acts and intended the combining of the material components outside of the U. S. but also that he did so "knowing" that components when combined would "be an infringement of the patent." The existence of this state of mind in the alleged infringer would be extremely difficult to prove. Proof of infringement involves both facts and law and cannot be known until after a court determination. Therefore, for the patentee to prove that the alleged infringer "knew" would be an easy escape for the unscrupulous infringer and would effectively nullify the section. But more importantly, the reason 271(f) should be added to the law is that patent rights should be protected whether an infringer finally assembles the infringing product in the U. S. or arranges to have it done in a foreign country. We see no reason to require a higher burden of proof in one set of circumstances and not the other.

H.R. 4524

This bill contains amendments to provisions of Chapter 27 of Title 35. That Chapter is designed to prevent the

transmittal of information in patent applications to foreign countries which may "be detrimental to the national security" (35 U.S.C. 181). Approximately 7 percent of the patent applications filed by Americans each year are in a class which requires scrutiny by the PTO and other Government agencies to determine whether secrecy orders should be issued. The problem is that the licensing regulations, which are burdensome on the PTO and to applicants, and the penalties, which are harsh, apply to the 93 percent of the applications which clearly do not affect national security. The amendments proposed by these sections of the bill affect only the "non-national security" applications and in no manner affect or weaken the ability of the PTO to meet its vital legal responsibility to issue secrecy orders when necessary.

An inventor who wishes to apply for a patent abroad within six months of the date of filing a U. S. application must receive a license from the PTO to do so. The term "application" is defined in Section 184 to include "modifications, amendments, or supplements theretor, or divisions thereof."

Section 184 also provides that in the case of an application which does not affect national security a retroactive license may be granted to an applicant who has filed abroad without a license if the applicant acted "inadvertently." Paragraph (1) of Section 2 would change the standard of "inadvertently" to require that the applicant acted "through error and without deceptive intent."

We believe that Section 184 authorizes the Commissioner to grant retroactive licenses to allow for equity when an applicant has made an unintentional error. The reason that equity is required is that the penalty for filing abroad without a license is that the corresponding U. S. application is declared invalid. The need for a more flexible standard was made clearly evident by the case of In Re Gaertner, 604 F. 2nd 1348 (1979). The attorney for the applicant in a complicated situation decided that a foreign filing license was not required based on his interpretation of the facts in the case and judicial interpretations of the Section 184 definition of "application." The Commissioner's position was that he did not have the right to grant a retroactive license because the decision by the attorney which was ultimately found to be incorrect was not "inadvertent," but was consciously made. The patent application was, therefore, declared invalid. The CCPA, in upholding the PTO, stated: "Neither Gaertner nor this court has authority to determine whether the disclosure abroad of . . . would be detrimental to national security. Section 184 assigns that right and duty to the PTO." The bill would provide the Commissioner a more flexible and reasonable standard so that fairness is possible in all cases of unintentional error.

We emphasize that the more flexible standard only applies to errors in cases which do not affect national security.

Paragraph (2) of Section 2 amends Section 184 to provide that filing licenses are not required to file "the illustration, exemplification, comparison, or explanation of subject matter specifically or generally disclosed" in an application already authorized to be filed abroad. This amendment will eliminate the need to obtain a foreign filing license on information which adds nothing substantive to subject matter of the patent application which has no national security implications and which has already been licensed for foreign filing. The PTO has already promulgated regulations which authorize the Commissioner to grant a general license which eliminates the need for an additional specific license in this type of situation. However, we believe this change in Section 184 is highly desirable in view of the fact that criminal liability and a declaration of patent invalidity potentially arises for failure to comply with these license requirements.

Section 3 of the bill conforms Section 185 to the amendment made by the bill to Section 184. Section 4 amends Section 186 to provide that criminal penalties may not be imposed on an inventor who fails to meet licensing requirements in cases which do not involve national security. The inventor is subject to loss of patent rights in the U. S. for a violation of licensing requirements. Adding criminal sanctions to that is an unduly severe penalty.

H.R. 4525

This bill contains an amendment to Section 103 of Title 35. Section 103 is a key provision in Title 35 in determining what is patentable. When the subject matter sought to be patented is not identical to the prior art, Section 103 requires the Patent and Trademark Office or the court to determine whether the subject matter would have been "obvious."

This amendment does not change the test for obviousness set forth in Section 103. It merely limits the subject matter which can be considered "prior art" under Section 103.

Such limitation on the "prior art" is necessary because of specific problems which arise in conjunction with research and development projects within corporations, universities, and other business entities where several people or a group of people are involved in such research and development.

The problem cured by this amendment to Section 103 is focused on in two cases by the Court of Customs and Patent Appeals (now merged into the new Court of Appeals for the Federal Circuit). Those cases are In Re Bass et al, 177 U.S.P.Q. 178 (C.C.P.A. 1973) and In Re Clemens et al, 206 U.S.P.Q. 289 (C.C.P.A. 1980).

In the Bass case, there was a first inventor, Jenkins, who invented a tapered bar screen. Jenkins was also a co-inventor with two other parties, Bass and Horvat, on a combination apparatus that included the Jenkins tapered bar screen. Both of the inventions were assigned to a company by whom all three of the inventors were employed.

In the Clemens case, there were two inventions, one made by an employee, Barrett, and the second by a group of three co-employees including Clemens. As in Bass, both inventions were assigned to the employer of the co-employees involved in the two inventions.

In both Bass and Clemens, the CCPA construed Section 102(g) and Section 103 of Title 35 so that the prior invention of one employee could be "prior art" to the second invention of co-employees and thus be subject to the "obviousness" test of Section 103. The Bass decision was by a divided court, with a two-judge concurring opinion which amounted to a dissent. Wording used in both cases implicated Section 102(f) as well as Section 102(g).

The result of Bass and Clemens is that the earlier invention by an employee is treated under Section 102(g) or possibly under 102(f) as prior art to a later invention made by a co-employee(s) who is involved in the first invention or otherwise has knowledge of the first invention by reason of their mutual employment and usually by reason of joint or overlapping research and development work.

Such treatment of an invention by a co-employee as prior art under Section 103 is a hindrance and an impediment to joint research and development within a corporation, university, or other business entity. In effect, it inhibits co-employees from communicating with each other about their research work on projects in the same organization, even

though their work may be related. Such restraint on communication in research is unhealthy and contrary to the purpose of the patent laws which is to promote progress in science and the useful arts. Such blocking of communication between persons working on research and development is a negative influence which does not serve any useful purpose.

Further, under the Bass case, the prior inventor of a component is inhibited from cooperating with others to make additional inventions within the same research and development organization.

Additionally, under the present state of the law, to avoid the first invention from being treated as prior art as to later modifications and improvements, the employer must either keep the first invention secret until the research and development project is completed, or run the risk of losing patent protection on the later modifications and improvements by the court holding them to be "obvious" from the first invention. Such a restraint thus could delay the patenting of inventions and the ultimate availability to the public.

Thus, the amendment to Section 103 of Title 35 is an important step in the encouragement of research and development within organizations by removing statutory obstacles to disclosure and cooperation between co-employees working in such organizations.

We recommend that H.R. 4525 be redrafted as follows:

> In addition, subject matter developed by another which qualifies as prior art only under sections 102(f) or (g) of this title shall not negative patentability under this section when the subject matter and the claimed invention were commonly owned or subject to an obligation of assignment to the same party at the time the invention was made.

We believe that H.R. 4525 as drafted in addition to modifying subparagraphs (f) and (g) of Section 102 of Title 35 might be interpreted as eliminating other prior art bars. Also, some of the words in the bill are unnecessarily vague. The purpose of the amendment is to precisely define the needed remedy. We have attached as an appendix a full discussion of the effect of the proposed amendment which may be useful to the Committee in establishing legislative history.

H.R. 4527

The amendments to Section 116 of Title 35 should have a twofold purpose: (1) to permit inventors to be joined in a single patent application, even though they may not have contributed to every claim in the application, and (2) to clarify the criteria for joint inventorship. The bill as currently drafted achieves only the first purpose. Therefore, we recommend that an amendment be made to H.R. 4527. The amendment is specified below. H.R. 4527 is complimentary to the amendment to Section 103 in H.R. 4525 and recognizes the realities of team research in a modern organizational environment.

With respect to the first purpose, although the present statute is silent as to the requirement that each inventor

joined in the patent application must have contributed to the invention recited in each claim thereof, judicial interpretations can be found supporting either side of the coin. Thus, in support of such a requirement are Worden v. Fisher, 11 F. 505, C.C.E.D. Mich. 1882, and Stewart v. Tenk, 32 F. 665, C.C.S.D. Ill. 1887. That this requirement continued under present Section 116 is shown by a footnote In Re Sarett, 327 F. 2d 1005 (C.C.P.A. 1964). In that case, an application by a sole inventor was rejected for double patenting over a patent issuing to joint inventors, including that same person. Judge Rich, speaking for the Court, states:

> It should be clear that the patent could not legally contain a claim to Sarett's sole invention under existing law because it would not have been the invention of the joint patentees.

Of interest to the present proposal to modify the first paragraph of Section 116 is that Judge Rich goes on to state:

> This rule of law forces the filing of distinct applications in many situations resembling that before us and creates the complexities and delays which could be avoided under a less rigid statute.

However, in SAB Industri A.B. v. The Bendix Corp., 199 U.S.P.Q. 95 (E.D. Va. 1978), the Virginia District Court noted that neither the statute or any rule of the Patent and Trademark Office provides that joint inventors must have combined their efforts to each claim in the patent. In view of the problems noted by Judge Rich above, the

uncertainty resulting from different judicial interpretations, a need for the first purpose of this amendment becomes quite evident.

The second purpose is to overcome the difficulty in what does, in fact, constitute joint inventorship. As stated by the judge in Mueller Brass Co. v. Reading Indus., 352 F. Supp. 1357 (E.D. Pa. 1972):

> The exact parameters of what constitutes joint inventorship are quite difficult to define. It is one of the muddiest concepts in the muddy metaphysics of the patent law.

Researchers in an organization sometimes work on one aspect of an invention, while others may work on a different aspect. Personnel are continually added to the research team, while others may leave the team. Concepts and developments are often generated through brainstorming and cannot accurately be attributed to a particular inventor or inventors. The criteria for joint inventorship, as the amendments to Section 116 would state such criteria, have been judicially recognized. The District of Columbia district court noted in Monsanto Co. v. Kamp, 154 U.S.P.Q. 259 (D.D.C. 1967) that to constitute joint inventorship it is not necessary that (1) the co-inventors physically work together or at the same time, or (2) the co-inventors make the same type or amount of contribution to the invention. In addition to clarifying this "muddy" concept of the patent law, the suggested amendment also serves to insure that the patent specification provides a more complete disclosure relative to the requirements of enablement

and best mode, by making it clear that persons who have made contributions can be included as inventors, even when a question exists as to whether their contribution is "an inventive contribution."

As we said above, originally the wording of H.R. 4527 achieves only the first objective and does not state specific criteria for joint inventorship. The original wording merely substitutes a new, undefined term, i.e., that each have made "an inventive contribution." The amendment to Section 116 we recommend follows along with a conforming amendment to Section 120 of Title 35:

> When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though (i) they did not physically work together or at the same time, (ii) each did not make the same type or amount of contribution to the invention, or (iii) each did not make a contribution to the subject matter of every claim to the invention.

Section 120 of Title 35 United States Code is amended to read:

> An application for patent for an invention disclosed in the manner provided by the first paragraph of Section 112 of this title in an application previously filed in the United States, or as provided by Section 363 of this title, by an inventor or inventors named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application.

We have attached as an appendix a full discussion of the effect of the proposed amendments.

H.R. 4528

The United States and Canada are the only industrialized countries in the world whose patent laws are based on the fundamental principle that only the "first" inventor is entitled to receive a patent. Other countries award patents to the first to file an application. The Commissioner of Patents regularly receives from different inventors applications for a patent on a substantially identical invention. The Commissioner is then responsible, pursuant to Section 135 of Title 35, to determine through interference proceedings which applicant was the first to invent. These proceedings are complicated and time consuming. H.R. 4528 will make needed improvements in this difficult area of patent practice which will benefit parties to a patent interference.

Section 1 of the bill would add a new section, 135(d), to permit the parties to an interference to determine priority or any other aspect of an interference by arbitration. Under this proposal, the parties would give notice of any arbitration award to the Commissioner which would then be dispositive of the issues to which it relates. The arbitration award would, however, be unenforceable until notice had been given to the Commissioner. With the recent enactment of 35 U.S.C. 294, (Public Law 97-247), arbitration agreements to settle

issues of patent validity are made valid and enforceable. To authorize the use of arbitration here is wholly consistent with the public policy underlying 35 U.S.C. 294. Parties should be encouraged to seek more expeditious and economic alternatives to litigation in order to resolve disputes.

Historically, parties in interference have often agreed to settle the issue of priority of invention and other aspects of an interference proceeding amicably between themselves. In one sense, proposed 35 U.S.C. 135(d) merely permits parties who agree that an interference should be settled amicably to designate a third party to arbitrate the issue rather than to resolve it through arbitration-like activity by the respective counsel for the involved parties.

Should the proposed 35 U.S.C. 135(d) be enacted into law, then the PTO should be encouraged to exercise its rulemaking authority to facilitate arbitration of interferences. One rulemaking action which the PTO might take would be to suspend interferences for periods of up to six months upon notice by the parties to the PTO that they have agreed to conduct the priority determination by arbitration.

Section 2 of the bill makes two amendments to 35 U.S.C. 135(c). Under current 35 U.S.C. 135(c), interference settlement agreements must be filed before the termination of an interference, or, if good cause for delay is shown, within six months of the termination. Patents issuing from any

involved application are rendered permanently unenforceable if the agreements are not filed in a timely fashion. The two changes set forth would, first, render such patents unenforceable only where the failure to file the agreement was not through error and without deceptive intent; and, second, would eliminate the statutory six month limitation on accepting late-filed agreements.

The rigidity with which existing 35 U.S.C. 135(c) operates is sufficient to justify the proposed change. The penalty under 35 U.S.C. 135(c) is too harsh; the failure to meet the six month limit for the filing of agreements is often in itself of no substantial harm to the public interest. If the failure to file was intentional for any reason, a patentee may fairly be said to have assumed the risk of unenforceability. If, however, for any reason the failure to make a timely filing was unintentional, there can be no question of a "deceptive intent" and the failure was clearly in error.

Elimination of the six month limitation on discretionary acceptance of belatedly filed agreements is appropriate. A patentee might have unintentionally failed to file an agreement and only after the six month grace period discover the need to do so. In such a case a part of the "good cause for failure to file" in a timely manner before termination would require a showing of diligence, i.e., a patentee would need to demonstrate that once the need to file was appreciated,

he proceeded expeditiously with the filing. Any continuing failure to file would be intentional.

H.R. 4529

The Supreme Court in Lear, Inc. v. Adkins, 395 U.S. 653 (1969) held that a person licensed to use a patent may challenge the validity of the patent in court. The Court expressly overruled the holding in Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950) that licensee estoppel was the "general rule."

The Court in Lear said the following:

> The uncertain status of licensee estoppel in the case law is a product of judicial efforts to accommodate the competing demands of the common law of contracts and the federal law of patents. On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent . . . When faced with this basic conflict in policy, both this Court and courts throughout the land have naturally sought to develop an intermediate position which somehow would remain responsive to the radically different concerns of the two different worlds of contract and patent. The result has been a failure. Rather than creative compromise, there has been a chaos of conflicting case law, proceeding on inconsistent premises.

The bill will bring the equities of these conflicts between patent licensors and licensees back into balance. The section codifies the results in Lear. However, it also provides that the licensee shall pay to the licensor the royalties agreed upon in the licensing contract until the

contract is terminated. It also provides that either the licensor or the licensee can terminate the contract if the licensee challenges the validity of the patent in court.

Under the Lear doctrine, the contract rights of the licensor are largely illusory. A licensee is free to negotiate a contract to pay royalties to a patent owner and then at any time renege on the contract by either failing to pay the royalties or by bringing a declaratory judgment action on the ground that the patent is invalid. The licensor must then either bring a breach of contract action against the licensor or defend the patent in the declaratory judgment action. Courts have adopted various theories on whether the licensee is required to continue to pay royalties during the course of litigation. In any case, currently the licensee risks virtually nothing. If the patent is valid, courts are very likely to find that the agreed upon royalties are the best measure of the worth of the patent. Therefore, after prevailing in the lawsuit the licensor will receive the royalties owed under the contract. Also, because the licensor remains bound to the contract, the licensee can continue to practice the invention after the patent is found valid.

The unfairness of the current state of the law is especially relevant when the licensor is an individual inventor and the licensee is a large corporation. This is often the case and was in Lear. If a patent owner does not

resources to utilize his invention, he must license it to another who possesses those resources. That licensee is able to bear the cost of litigation where the licensor is often hardpressed to do so.

The fact that the licensee has so little to lose encourages a disregard for contract obligations and encourages litigation. Neither result is desirable.

Effective Dates

An important consideration in the bills H.R. 4524, H.R. 4525, H.R. 4526, H.R. 4527, H.R. 4528, and H.R. 4529 is the effect on existing rights of affected parties if enacted.

As to H.R. 4526, we recommend the following provision be added in lieu of Section 3:

> Sec. 3. The amendments made in Section 1 shall apply to any U. S. patent granted after the date of this Act; and shall apply to any unexpired U. S. patent granted prior to the date of this Act, provided that no liability shall attach to the importation, sale or use of a product imported into the U. S. before the date of this Act, where such liability is founded solely on subsection (e) and to the supply of any components before the date of this Act, where such liability is founded solely on subsection (f).

H.R. 4526 will enhance the ability of American patent owners to compete in international and U. S. markets, and to prevent the evasion of the rights of U. S. patent owners. Therefore, the strengthening of such rights should apply to unexpired U. S. patents, many of which still have a significant period to run. However, it would be unfair to attach infringement

liability to a party as a result of acts which were permissible prior to the effectuation of this Act. Therefore, the proposal for the effectiveness as to Section 1 removes such liability as to any product imported into the U. S. [subsection (e)] and as to components supplies [subsection (f)] prior to the date of the Act. Another important recognition of equity is contained in Section 2 discussed earlier which makes damages for infringement only prospectively possible for a class of potential infringers by requiring notice of infringement.

H.R. 4524, H.R. 4525, and H.R. 4526 will obviate certain undesirable interpretations of Sections 102(f), 102(g), and 184 of title 35. Because the bills correct what we believe are existing inequities, they should apply to pending patent applications, and existing patents. However, some instances may exist in which a party made, used, or sold a patented invention in reliance on the advice of counsel that the patent was invalid for reasons obviated by these bills. These cases will be extremely rare because the facts and circumstances surrounding a patent, which would have to be known to the third party to form the basis to evaluate the validity in circumstances affected by these bills, would generally only become known during the course of discovery during litigation. Nevertheless, if reliance can be shown that party should not be held liable for acts preceding the effective date of the bills.

We recommend the following provision patterned after existing Section 252 of Title 35 be added to these bills:

> No United States patent granted before the date of enactment of this Act shall abridge or affect the right of any person or his successors in business who made, purchased, or used prior to such effective date anything protected by the patent, to continue the use of, or to sell to others to be used or sold, the specific thing so made, purchased, or used, if the patent claims were invalid or otherwise unenforceable on a ground obviated by this Act and the person made, purchased, or used the specific thing in reasonable reliance on such invalidity or unenforceability. If a person reasonably relied on such invalidity or unenforceability, the court before which such matter is in question may provide for the continued manufacture, use, or sale of the thing made, purchased, or used as specified, or for the manufacture, use, or sale of which substantial preparation was made before the date of enactment of this Act, and it may also provide for the continued practice of any process practiced, or for the practice of which substantial preparation was made, prior to the date of enactment, to the extent and under such terms as the court deems equitable for the protection of investments made or business commenced before the date of enactment.

H.R. 4462

This bill would combine the Board of Appeals and the Board of Patent Interferences, which now exist in the Patent and Trademark Office, into a single Board of Appeals and Interferences. The intent to the proposal is to improve and expedite patent interferences which are often lengthy and costly proceedings. The bill is an important part of a comprehenisive rulemaking now underway to reform patent interference practice and procedure. We support the bill and the efforts of the Office to improve the administration of this provision of the law.

APPENDIX

Analysis of Proposed Amendment
to H.R. 4525

The bill amends section 103 of title 35, United States Code, by adding to the end of section 103 a new sentence providing that subject matter developed by another which qualifies as prior art only under sections 102(f) or (g) of title 35 shall not negative patentability when the subject matter and the claimed invention were commonly owned at the time the invention was made.

The term "subject matter" as used in this amendment is intended to be construed broadly in the same manner as the term is construed in the remainder of section 103. The term "another" as used in this amendment means any inventive entity other than the inventor and would include the inventor and any other person. Thus, subject matter developed jointly by the inventor and any other person would be "subject" matter developed by "another" for purposes of this amendment and insofar as the claimed invention is concerned. The term

"developed" is to be read broadly and is not limited to the manner in which the development occurred.

The subject matter which is disqualified as prior art under section 103 is strictly limited to subject matter which qualifies as prior art only under sections 102(f) or (g). If the subject matter qualifies as prior art under any other section, e.g., section 102(a), (b) or (e), it would not be disqualified as prior art under the amendment to section 103. The amendment only applies to subject matter which qualifies as prior art under section 103. It does not apply to or affect subject matter which qualifies as prior art under section 102.

The amendment is not intended to permit anyone other than the inventor to be named as the inventor in a patent application or patent. Also, the amendment is not intended to, and does not, ratify or enable appropriation of the invention of another. For example, if the subject matter developed by another is the same as that claimed, and would thus anticipate the claimed invention under section 102, the amendment would not disqualify the subject matter as prior art. The bill also makes clear that subject matter derived from another under section 102(f) is prior art under section 103 unless the derived subject matter and the claimed invention are commonly owned. The contents of a secret co-pending

patent application, of the same or different ownership, continue to be available as prior art under section 103 by virtue of section 102(e) as of the application filing date. If subject matter becomes potential prior art under section 102(e) because a patent application is filed on such subject matter before a commonly owned claimed invention is made the subject matter of a later application, the two applications may be combined into a single application under the changes contained in H.R. 4527 and such subject matter would no longer constitute potential prior art under section 102(e) or under Section 103.

In order to be disqualified as prior art under the amendment the subject matter which would otherwise be prior art to the claimed invention and the claimed invention must be commonly owned at the time the claimed invention was made. The term "commonly owned" is intended to mean that the subject matter which would otherwise be prior art to the claimed invention and the claimed invention are entirely or wholly owned by the same person, persons, or organization at the time the claimed invention was made. If the person, persons, or organization owned less than 100 percent of the subject matter which would otherwise be prior art to the claimed invention, or less than 100 percent of the claimed invention, then common ownership would not exist. Common ownership requires that the person, persons, or organization own 100 percent of the subject matter and 100 percent of the claimed

invention. As long as principal ownership rights to either the subject matter or the claimed invention reside in different persons or organizations common ownership does not exist. A license of the claimed invention to another by the owner where basic ownership rights are retained would not defeat ownership. The requirement for common ownership at the time the claimed invention was made is intended to preclude obtaining ownership of subject matter after the claimed invention was made in order to disqualify that subject matter as prior art against the claimed invention. The question of whether common ownership exists at the time the claimed invention was made is to be determined on the facts of the particular case in question. Actual ownership of the subject matter and the claimed invention by the same individual or organization or a legal obligation to assign both the subject matter and the claimed invention to the same individual or organization must be in existence at the time the claimed invention was made in order for the subject matter to be disqualified as prior art. A moral or unenforceable obligation would not evidence common ownership.

Under this amendment of section 103, an applicant's admission that subject matter was developed prior to applicant's invention would not make the subject matter prior art to applicant if the subject matter qualifies as prior art only under sections 102(f) or (g) of title 35 and if the subject matter and the claimed

invention were commonly owned at the time the invention was made. See In re Fout, 213 USPQ 532 (CCPA 1982), for a decision involving an applicants' admission which was used as prior art against their application. If the subject matter and invention were not commonly owned, an admission that the subject matter is prior art would be usable under section 103.

The burden of establishing that subject matter is disqualified as prior art under the section is intended to be placed and reside upon the person or persons urging that the subject matter is disqualified. For example, a patent applicant urging that subject matter is disqualified as prior art under the amendment would have the burden of establishing that it was commonly owned at the time the claimed invention was made. The patentee in litigation would likewise properly bear the same burden placed upon the applicant before the Patent and Trademark Office. To place the burden upon the patent examiner or the defendant in litigation would not be appropriate since evidence as to common ownership at the time the claimed invention was made might not be available to the patent examiner or the defendant in litigation, but such evidence, if it exists, should be readily available to the patent applicant or the patentee.

In view of this amendment it would be expected and intended that the Commissioner would reinstitute in appropriate circumstances

the practice of rejecting claims in commonly owned applications of different inventive entities on the grounds of double patenting. Such rejections could then be overcome in appropriate circumstances by the filing of terminal disclaimers. This practice has been judicially authorized. See In re Bowers, 149 USPQ 571 (CCPA 1966). The use of double patenting rejections which then could be overcome by terminal disclaimers would preclude patent protection from being improperly extended while still permitting inventors and their assignees to obtain the legitimate benefits from their contributions.

Analysis of Proposed Amendments
to H.R. 4527

The bill amends section 116 of title 35 by adding to the end of section 116 a new sentence recognizing that inventors may apply for a patent jointly even though (i) they did not physically work together or at the same time, (ii) each did not make the same type or amount of contribution, or (iii) each did not make a contribution to the subject matter of every claim of the patent. Determinations of inventorship in patent law are recognized as different undertakings and the amendment seeks to clarify and, to the extent possible, to simplify such undertakings by adopting and introducing into section 116 some principles set forth in judicial precedents. The court in Monsanto Co. v. Kamp, 154 USPQ 259 (D.D.C. 1967) stated the pertinent principles as follows:

> "A joint invention is the product of collaboration of the inventive endeavors of two or more persons working toward the same end and producing an invention by their aggregate efforts. To constitute a joint invention,

> it is necessary that each of the inventors work on the same subject matter and make some contribution to the inventive thought and to the final result. Each needs to perform but a part of the task if an invention emerges from all of the steps taken together. It is not necessary that the entire inventive concept should occur to each of the joint inventors, or that the two should physically work on the project together. One may take a step at one time, the other an approach at different times. One may do more of the experimental work while the other makes suggestions from time to time. The fact that each of the inventors plays a different role and that the contribution of one may not be as great as that of another does not detract from the fact that the invention is joint, if each makes some original contribution, though partial, to the final solution of the problem."

The amendments to section 116, in (i) and (ii), adopt as statutory criteria the pertinent principles of Monsanto Co. v. Kamp.

The amendment to section 116 also provides that inventors may apply for a patent jointly even though each did not make a contribution to the subject matter of every claim of the patent.

This amendment recognizes the realities of corporate and team research. A research project in today's environment may include many inventions and some inventions may have contributions which are made by some individuals who were not involved in other aspects of the invention. It is appropriate to recognize the contribution of each individual even though the individual may not have been involved in, or may not have contributed to, all aspects of the invention. The amendment to section 116 would permit this recognition by not requiring that each inventor make a contribution to every claim of the patent. Under the amendment to section 116, an inventor could apply for a patent jointly with other inventors as long as each inventor made a contribution, i.e., was an inventor or joint inventor, of the subject matter of at least one claim of the patent. While the principle that each inventor does not have to make a contribution to every claim of the patent was recognized by the court in SAB Industri v. Bendix Corp., 199 USPQ 95 (E.D. Va. 1978), it is appropriate that this principle be incorporated into section 116 in order to clarify the criteria for joint inventorship. It is not intended that this amendment encourage the inclusion in one application of more than one invention. However, to the extent that more than one invention is included in an application, the Commissioner may require the application to be restricted to one of the inventions in accordance with the provisions of section 121 of title 35. In such case, any divisional applications filed would be entitled to the filing date of the original application, even if the

inventorship changes in the divisional application, as long as the subject matter of the original application and the divisional application are commonly owned.

The amendments to section 116 increase the possibility that the claims of a particular application may have different dates of invention to which they are entitled. For example, one inventor may have developed part of the invention represented by some claims. On a later date another inventor may have developed another part of the invention which is claimed in other claims. The two inventors could have jointly developed the subject matter of other claims at an even later time. Under the amendment to section 116, a single application could be filed on behalf of the two inventors. At the same time, there is no requirement that all the inventors be joint inventors of the subject matter of any one claim. Where necessary for purposes of examination of the patent application or during the course of patent litigation involving the patent, the Patent and Trademark Office or the court before which the litigation is pending may inquire of the patent applicant or the patentee as to the inventorship and the invention dates of the subject matter of the various claims.

The amendments to section 116 also delete the reference to "sign the application" to be consistent with earlier changes to section 111 and to clarify that it is not necessary for

each inventor to separately sign the application, in addition to making the required oath and applying for a patent jointly.

The bill also amends section 120 of title 35, United States Code, to provide that a later filed application by an inventor or inventors of a previously filed pending application may claim the benefit of the previously filed pending application even though the later filed application does not name all of the same inventors as the previously filed application. For example, if the previously filed application named inventors A and B as the inventors, a later application by either A or B could be filed during the pendency of the previously filed application and claim benefit of the previously filed application under section 120 of title 35. In order for the claims of the later filed application to be entitled to the benefit of the date of the earlier filed application, the requirements of section 120 would have to be met, including the requirement that the subject matter of the claims of the later filed application be disclosed in the earlier filed pending application in the manner provided by the first paragraph of section 112 of title 35.

Similarly, if inventor A filed an application on an invention and during the pendency of that application made an improvement on the subject matter of the application as a joint inventor with inventor B, the joint application filed on behalf of inventors A and B could claim the benefit of A's previously

filed sole application to the extent that the later filed joint application contained claims to A's subject matter which was disclosed in the earlier filed pending application in the manner provided by the first paragraph of section 112 of title 35.

Likewise, an application filed by inventors A and C could claim the benefit of an earlier filed pending application of inventors A and B, to the extent that the requirements of section 120 could be met.

The Patent and Trademark Office or a court before whom the patent is being litigated may inquire, in appropriate circumstances, as to who invented, and the date of invention of, the subject matter being claimed in any claims in the later filed application. In order to be entitled to the benefit of an earlier filed pending application, the subject matter of the claims of the later filed application would have to be disclosed in the manner provided by the first paragraph of section 112 of title 35.

The prohibitions of double patenting would also be applicable to the applications or patents, whether or not they are commonly owned. If the applications or patents are commonly owned, the rejection of the application on the grounds of double

patenting could be overcome by an appropriate terminal disclaimer as long as the identical invention is not being claimed. See In re Robeson, 141 USPQ 485 (CCPA 1964), and In re Kaye, 141 USPQ 829 (CCPA 1964). If the applications or patents are not commonly owned, the double patenting rejection of the later filed application could not be overcome by a terminal disclaimer since the ownership of subject matter being claimed belongs to someone other than the owner of the later filed application.

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Congress of the United States
OFFICE OF TECHNOLOGY ASSESSMENT
WASHINGTON, D.C. 20510

JOHN H. GIBBONS
DIRECTOR

April 26, 1982

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Civil Liberties,
and the Administration of Justice
Committee on the Judiciary
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter is in response to your letter of April 26, 1982, requesting OTA's assistance in connection with your Subcommittee's consideration of voluntary arbitration for patent disputes.

The enclosed staff paper, on Resolving Patent Disputes Outside the Court System, discusses binding voluntary arbitration. It was prepared by the OTA staff based on analyses and information developed as part of our ongoing Assessment of "The Patent System and Its Impact on New Technology Enterprises".

We would be happy to respond to any questions you may have regarding this document. I hope that this information is useful to you and the members of your Subcommittee.

Sincerely,

John H. Gibbons

cc: The Honorable Tom Railsback

OTA STAFF PAPER

RESOLVING PATENT DISPUTES OUTSIDE THE COURT SYSTEM

April 26, 1982

This material has neither been reviewed nor approved by the Technology Assessment Board

RESOLVING PATENT DISPUTES OUTSIDE THE COURT SYSTEM

The expense of resolving patent disputes in the court system is a major factor determining whether a patent will be enforced or challenged in court.

The causes of the expense in litigating patent disputes are inherent in the American judicial system, and the problem of expense is shared by many other high-stakes litigations. Reducing the expense of resolving patent disputes by denying access to the court system or materially altering the procedural due process of litigants in the courts is not Constitutionally permissible. Article VII of the Bill of Rights of the Constitution guarantees the right to trial and Article V assures that no one can be deprived of property without due process of law.

Congress can authorize a non-judicial forum, or para-judicial system, from which parties can seek a less expensive resolution of patent disputes. The para-judicial system could accomplish less expensive resolutions of disputes through, for instance, limiting discovery and using quasi-judges who are familiar with the technology and patent law.

Congress by enacting reexamination has created a para-judicial system for resolving certain matters in patent disputes (35 USC Sect. 302-307). While reexamination is a significant step, it can not serve to resolve infringement, patent misuse, or even issues of patent validity that do not

involve patentability of the claims over disclosures in patents or printed publications (35 USC 301).

Binding voluntary arbitration has been proposed as an alternative forum for resolving patent disputes by the Committee on Economic Development (Stimulating Technological Progress, p. 55, January, 1980) and the United States Chamber of Commerce. Recent emphasis has been placed on encouraging the use of binding voluntary arbitration by Chief Justice Burger. (Burger, Warren E., "Isn't There a Better Way?", American Bar Association Journal 68 pp. 274-277, March, 1982). This paper explores binding voluntary arbitration and administrative patent law panels as alternative forums for the resolution of patent disputes.

Binding Voluntary Arbitration: In binding voluntary arbitration, the parties agree among themselves to waive their rights to seek redress in the court system and agree to be bound by the decision of an arbitrator. The decision of the arbitrator would only be challengeable in the courts for matters such as impropriety in the arbitration proceeding.

Binding voluntary arbitrations are widely used in resolving many types of disputes, and have been authorized by Congress in the Federal Arbitration Act (Title 9, USC). (Virtually all states have arbitration statutes that authorize voluntary arbitration and provide controls on the arbitration procedures; for example, in California, the arbitrator is not permitted to award attorney fees.) The law is presently unclear as to whether parties can use binding voluntary arbitration to resolve patent

disputes. Several courts have held that binding arbitration of patent validity is against public policy. (Zip Manufacturing Co. et. al. v. Pep Manufacturing Co., 44 F2d 184, USDCD Del (1930); Beckman Instruments, Inc. v. Technical Development Corp., 167 USPQ 10, CCA7 (1970); and Babcock & Wilcox Co. v. Public Service Company of Indiana, 193 USPQ 161, DCSD Indiana (1976)) The lack of consensus on this issue among the courts has purportedly deterred the use of binding voluntary arbitration in patent validity and infringement disputes.

Because of the uncertainty about whether agreements to arbitrate and the decisions of an arbitrator will be enforced by the courts, legislation authorizing voluntary arbitration (S. 2255) was passed by the Senate in the 94th Congress, and in the 97th authorizing legislation will be introduced (Mr. Railsback's forthcoming amendment to H.R. 5602). The issues before the policymaker include not only whether voluntary arbitration in patent disputes should be permitted, but also if it is permitted, what constraints, if any, are to be placed on the parties.

Binding voluntary arbitration offers the potential for, but does not guarantee, less expensive and more expeditious resolution of patent disputes. Favoring the speed and lesser expense of the proceedings are that the arbitrator could be selected on the basis of his familiarity with the technology and patent law; that the proceedings need not await the availability of the court; and that the standards for discovery used by the courts need not be employed. However, these benefits depend on the willingness of the parties to cooperate in all aspects of the arbitration

and on the performance of the arbitrator. Since the rules and procedures of the arbitration, as well as the arbitrator and issues to be arbitrated must be agreed upon by the parties major areas for disagreement exist that can result in lengthy and expensive efforts even before the arbitration begins. Arbitrations that limit discovery can achieve cost reductions but it can jeopardize the ability of the parties to present their positions adequately and fairly. One commentator, who has served as an arbitrator in patent disputes, has stated that discovery should be fairly complete for a sound arbitration of patent disputes. (Davis, James F., "A New Approach to Resolving Costly Litigation", Journal of the Patent Office Society, Vol. 61, pp. 482, 1979)

Binding voluntary arbitration will have little, if any, effect on the value of patents in general and will not enhance the patent-provided incentives to undertake innovation. The only patents that will be involved in arbitration are those in which economic interest exists to have a dispute worth resolving and in which the parties can come to an agreement to arbitrate. If one party to a patent dispute believes that strategic advantages exist with court litigation or that an adverse resolution can have a significant effect on its operations, it is unlikely that an agreement to arbitrate would be reached. (J. F. Davis, supra)

A published case history of a successful arbitration (Paul Janicke "Resolving Patent Disputes by Arbitration: An Alternative to Litigation", Journal of the Patent Office Society, 62 (6) pp 337-360, June 1980) relates the experience of two major companies, Shell Oil Company and Intel Company,

in resolving a dispute as to whether a Shell patent on a computer chip invention was infringed. The author, who represented a party to the arbitration, states his belief that the arbitration succeeded because of the mutual trust of the parties, and their desire and willingness to save time and money. He also argues that the arbitration was possible because the computer chip was not in Shell's line of business and that the parties pre-agreed to damages of $500,000 in the event that the patent was found to be infringed. In his judgment had the stakes been higher ($5,000,000) or the patent had been of direct commercial interest to Shell, no agreement to arbitrate would have been achieved.

These observations place into question the frequency that binding voluntary arbitration would be used by the parties to a dispute. Some circumstances seem more favorable for voluntary arbitration. For example, it is likely that the agreements to arbitrate would often be made as provisions to patent license agreements. Since the possibility of a dispute is remote, the parties would be more willing to enter into agreements to arbitrate. Patent owners, particularly small patent owners, would benefit from including binding voluntary arbitration provisions in licensing agreements because the licensee would have sacrificed his ability to go to court where he could have withheld royalty payments pending the outcome of the suit and thereby exert economic pressure on the licensor.

Another class of potential user would be one who can not afford litigation, yet has an earnest desire to seek an independent resolution of disputes. But binding voluntary arbitration is not likely to place parties

having disparate economic resources on a more equal footing in resolving a patent dispute than court litigation. Because the parties must establish the ground roles of the arbitration, the relative bargaining positions of the parties may have a greater influence in arbitrations than in court resolutions of disputes.

It is difficult to reliably estimate how many will use binding voluntary arbitration to resolve patent disputes and whether it will provide a more expeditious and less expensive route for resolving disputes. Nonetheless, the growing emphasis and acceptance of voluntary arbitration in other areas implies the likelihood of use of voluntary arbitration in patent disputes.

The policy implications of arbitration of patent disputes affect more than the parties themselves. For example, society can benefit from binding voluntary arbitration. The use of arbitration would free the court system of some disputes. On the other hand, there is a public interest in patent validity. It is on this basis that the courts have held voluntary arbitration agreements unenforceable.

One of the public interest concerns is that a finding of validity by the arbitrator would prevent the challenger from contesting the validity of the patent in the courts. The challenger, however, may be the only party having sufficient economic interest to test the validity of the patent. The policy set forth by the Supreme Court in holding that agreements by licensees not to contest the validity of patents were unenforceable (Lear

v. Adkins, 162 USPQ 1, 1969) would, to some extent, be modified if binding voluntary arbitration were permitted. However, arbitrators, although perhaps not having the same degree of public interest concerns as the courts, are more likely to reflect the public interest concerns than the parties themselves. For those cases which would be resolved by arbitration, litigation might be precluded or unjustified for many because of the expense. Hence in those cases in which litigation would not occur, arbitration increases the likelihood that the public interest would be considered in their resolutions. (President's Commission on Patents, 1966, p. 41)

There is another public interest concern in that if a patent is found to be invalid by the arbitrator the invalidity would apply only between the parties to the agreement. The patent owner could continue to enforce his patent against others. Legislative options exist that would result in arbitration having an effect on more than the parties to the arbitration. One option is to require the arbitrator to request reexamination in all instances in which a significant question of the validity of the patent over printed prior art exists. A finding of invalidity by the PTO would nullify the patent.

An alternative to requiring reexamination would be to require that the decision of the arbitrator be made part of the public record of the patent. Although the decision would not affect the patent, the public would be made aware of what the arbitrator believed to be defects in the patent. A finding by an arbitrator that the patent was not valid would create an

inference that the patent would be found invalid by a court, and this inference would diminish the statutory presumption of validity should the patent owner attempt to enforce the patent against another party. Further, the patent owner could anticipate efforts by the other party to obtain the details of the arbitration decision through discovery.

In summary, binding voluntary arbitration of patent disputes will benefit those parties that are able to agree to the proceedings and exercise discipline in the proceedings; however, potentials for abuse exist. The frequency with which voluntary arbitration will be used is subject to speculation, but because the parties must agree to the arbitration and its finality, its use is not likely to be widespread. While questions of the effect of arbitration on society exist, they are not susceptible to quantification. The policymaker can minimize any negative effects on society by requiring that issues of patentability over prior art be resolved through reexamination by the Patent and Trademark Office or by requiring the decision of the arbitrator to be placed in the public record of the patent.

Administrative Patent Law Panels: The Federal government could establish, within the Executive Branch, administrative law panels that would resolve all aspects of patent disputes including the validity and infringement of the patent and whether the patent can be enforced as a matter of equity. Other issues that do not directly relate to the patent law, such as anti-trust, which sometimes arise in patent disputes, would not be considered by the administrative law panel.

This legislative approach is explored to contrast another type of forum for resolving patent disputes with binding voluntary arbitration. The administrative proceedings would have an established procedure and panel of judges, thereby eliminating the necessity for the parties to negotiate these factors as would be required for an arbitration. Also, the administrative proceedings would be made public as are court proceedings, and the decision of invalidity would invalidate the patent itself. Another difference is that the administrative law judges would be charged with protecting the public interest.

While the administrative procedure can be mandatory, the right of the parties to seek a resolution in the courts can not be constitutionally compromised. Because mandatory administrative proceedings offer the potential of adding to the duration and expense of litigation, only voluntary proceedings under which the parties agree to forego their right to the courts, are reviewed herein.

Having administrative law judges with expertise in patent law and technology will facilitate the proceedings and represent some savings to the parties. However, in order to reduce significantly the duration and expense of litigation, it is essential that the administrative proceedings limit discovery, the primary area of expense in court litigations. An example of an existing administrative law panel that has limitations on discovery primarily through the imposition of time limits is the International Trade Commission. (19USC Sect 1337(b)). The International Trade Commission has jurisdiction to resolve, among other things, patent

validity and infringement in connection with actions to stop the importation of products. (19USC Sect 1337(a)) Often the International Trade Commission is the exclusive forum to resolve the dispute (e.g., for the importation of a product made by allegedly infringing a U. S. patent directed to a process for making the product).

The limited discovery procedures of the International Trade Commission have received mixed reviews. On the one hand, the proceedings have been expeditious with disputes being resolved within 12 months (18 months in complex cases) from the notice that an investigation has commenced. But as a trade-off, discovery has been limited in time to usually about 5 months (Donald V. Duvall, "The Expeditious Adjudication of Section 337 Unfair Import Trade Practice Cases at the United States International Trade Commission," APLA Quarterly Journal, Vol 9 (2) pp. 157-171, 165, 1981). The presiding administrative law judge has the authority to limit the kind and amount of discovery to enable the proceeding to be completed in a timely fashion. (19 CFR 210.30) There have been complaints from involved parties that they have not had adequate time to prepare for trial. The due process limits imposed by the statute have not yet been fully tested. (Duvall, "Adjudication Under Statutory Time Limits: The I. T. C. Experience," 32 Ad. L. Rev. 733, 744 (ABA 1980))

Whether parties, given a choice, would be willing to forego a comprehensive discovery provided by the courts for the possible time and cost advantages of an administrative proceeding is uncertain. As with binding voluntary arbitration, factors such as the amount in controversy,

the importance of the patent, and the mutual trust of the parties, are expected to be determinative of whether to undertake the risk of a proceeding offering limited discovery. Hence the frequency of use of administrative proceedings, if available, to resolve patent disputes may be on the same order as that for binding voluntary arbitration. The administrative law panel would be governed by the Administrative Procedures Act (5 USC, Sect 551), and therefore its decisions would be reviewable by the courts. However, the review is considered in the manner of an appeal rather than a new trial, and the standard for reversal is that the decision was clearly contrary to the evidence or arbitrary, capricious or discriminatory.

The broader social implications of administrative proceedings include whether as a matter of practice the administration law judges will consider the public interest as well as the courts and the expense of operating an administrative law panel. As with voluntary arbitration, it must be recognized that the alternative to administrative proceedings for many cases may not be court litigation but rather private settlements. The expense of the administrative proceedings could be off-set through user fees; however, the implications of user fees is not addressed in this paper.

In conclusion, administrative patent law panels can provide advantages to the parties and to the public over binding voluntary arbitration; however, these advantages (e.g., providing existing procedures and panels) can be provided privately, for instance, by the American Arbitration

Association. Further, these advantages are not so significant that on balance administrative proceedings are clearly superior to arbitration. While it is difficult to reliably predict, it is expected that administrative proceedings would not be appreciably more widely used than binding voluntary arbitration.

FMC Corporation

2000 Market Street
Philadelphia Pennsylvania 19103
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March 15, 1983

FEDERAL EXPRESS

Mr. Mike Remington
Chief Counsel
Subcommittee on Courts,
Civil Liberties, and the
Administration of Justice
House Committee on the Judiciary
2137 Rayburn Building
Washington, D.C. 20515

Dear Mike:

This is the proposed patent legislation I mentioned today by phone. It was developed by a group of us with industrial backgrounds, and the purpose is to strengthen the patent system from a variety of directions: briefly, to encourage manufacturing within the United States, to ease technology transfer by patent license, to simplify patent interferences, and to correct some inequities. All this is described on the attached pages.

I look forward to discussing this - and other issues of interest - on Friday at 3:00 p.m. Dick Witte (who testified for the Industrial Research Institute during the hearings on the new Court of Appeals) will also be in Washington that day, and I've asked him to come along. We all look forward to working with you again.

Cordially,

Pauline Newman, Director
Patent & Licensing Department

cc: R. Witte

r18A1
LN73

file Patent Law proposals

PROPOSAL FOR PATENT LEGISLATION, prepared by the Ad Hoc Committee to Improve the Patent Laws

As patent counsel for major technology-based industries we have undertaken to study proposed modifications of the patent system, for the purpose of increasing its value to our national purpose of technological leadership. We now recommend the following group of amendments to Title 35. These amendments will encourage manufacturing within the boundaries of the United States, will ease technology transfer through licensing, will simplify patent interferences, and will modify some inequitable procedures. Taken together, they will strengthen the usefulness of the patent system as a bulwark of industrial innovation.

We stand ready to provide further information and materials in support of the attached proposals.

The committee:

Rudolph J. Anderson
Merck & Co.

Robert B. Benson
Allis Chalmers Co.

Donald W. Banner
Schuyler, Banner, Birch, McKie & Beckett

Homer O. Blair
Itek Corporation

Harry F. Manbeck
General Electric Company

John E. Maurer
Monsanto Company

Pauline Newman
FMC Corporation

Donald J. Quigg
Philips Petroleum Co. (retired)

Richard C. Witte
Procter & Gamble Company

Arthur R. Whale
Eli Lilly & Co.

Supporting organizations:

Chemical Manufacturers Association

(Others pending)

3/3/83

PROPOSED PATENT LEGISLATION

The national interest in the patent system is based on its contributions in strengthening the technological base of the nation, in encouraging research and invention and the commercial development of new technology, in stimulating investment by the private sector in technological progress, in improving the international trade balance of the nation, in increasing employment, and in providing a wider selection of products and services.

The pace of technological growth is slowing in the United States. We believe that the patent system has the potential to serve as a more forceful element in encouraging technological commitment and investment. We believe that it is feasible to increase the effectiveness of the patent system for this purpose.

The urgency of our national situation with respect to technological leadership and innovation has convinced us that modification of the patent law, in ways that strengthen the incentive role of patents, can have a significant beneficial effect in encouraging investment in innovative efforts. For this purpose, the following areas are proposed for early legislative attention:

I. Infringement of process patents by offshore production: This is a situation that has long been in need of remedy. The 1966 Report of the President's Commission on the Patent System commented as follows:

> "The unauthorized importation into the United States, or sale or use, of a product made abroad by a process patented in the United States, does not now constitute infringement... This recommendation would make it possible to prevent evasion of the process patent owner's exclusive rights in the United States by the practice of his process abroad and the importation of the products so produced into this country."

All other major manufacturing countries have such provisions in their laws. It is inequitable for foreign laws to protect foreign manufacturers against imports of this type without the same benefit being available to United States manufacturers. As part of a program to strengthen the patent system for the benefit of United States innovators, this useful step should now be taken.

The principle is not new to U.S. jurisprudence, and is embodied in 19 U.S.C. 1337(a), the Tariff Act, as a potential unfair method of competition. However there are limitations to application of the Tariff Act: it requires an administrative determination of substantial competitive injury and the Presidential promulgation of an exclusion order, as well as proof of patent infringement and often adjudication of patent validity. This proposed change would broaden the procedural and substantive remedies available to the patentee, would embody basic principles of fairness, and would favor production within the United States of products intended for the United States market. A proposed text follows:

> §271(e): Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer.

II. Infringement of product patents by offshore assembly of components: As a corollary to the above, it is timely to implement the long-discussed legislative reversal of the decision in Deepsouth Packing Co. v. The Laitram Corporation, 406 U.S. 518 (1972), in order to provide an innovator with a remedy against those who act to circumvent a United States patentee's rights. In Deepsouth the Supreme Court held that a United States patent is not infringed if the final assembly of the patented machine is done outside of the United States, even when all the components are made within the United States for this purpose. The Court stated that legislative, not judicial, remedy is required. Such remedy was part of various patent bills, including S. 2504 in the 93rd Congress and S. 473, S. 2255, and S. 23 in the 94th Congress.

There has been extensive commentary on the Deepsouth holding, in connection with hearings on past proposed legislation, and in scholarly articles. It has been noted that the subterfuge enabled by Deepsouth is disadvantageous to an innovative economy, as copiers move offshore for the final assembly of a patented product destined for export. This result is inimical to innovation as well as unfair to the innovator. We suggest that the national interest is better served if there were increased support and recompense to innovation, and decreased encouragement to opportunistic copying and evasion of inventors' rights. The following text is proposed:

§271(f): Whoever without authority supplies or causes to be supplied in the United States the material components of a patented invention, which components are uncombined in whole or in part, intending that such components will be combined outside the United States and knowing that if such components were combined within the United States the combination would be an infringement of the patent, shall be liable as an infringer.

III. Licenses for foreign filing: Chapter 17 of Title 35 was enacted to prevent the transmittal abroad of technical information bearing on national security. Its provisions permit Government agencies concerned with security matters to determine if patent applications contain such information. When an inspection indicates that this is so, the Government agency places the application under a secrecy order.

Although the great majority of patent applications contain no sensitive information relating to national security, all United States inventors wishing to file a foreign patent application are required either to obtain a license for filing abroad or to wait for six months after filing an application in this country (35 U.S.C. 184). Any deviation from that requirement, including the furnishing of information abroad as an amendment to a foreign patent application without prior license, could result in invalidation of the corresponding U.S. patent and, additionally, in criminal penalties (35 U.S.C. 186). These sanctions can apply even when the subject matter has nothing to do with national security and even when the general subject matter has been on file in the United States for over six months or has been published in an issued U.S. patent.

In compliance with §184, enormous volumes of paper flow through the PTO for the routine grant of export licenses, often on trivial material. It is believed that a slightly modified system can fully meet the governmental purpose of the statute, while providing a significant benefit to users of the patent system and cost savings to the PTO. The following is suggested:

Add to §184: In the case of an application for which a license has been obtained or an application which has been filed in the United States PTO for more than six months before the filing in a foreign country, and on which no secrecy order has been issued, a license shall not be required for any modifications, amendments, supplements, divisions, or other information filed in or transmitted to the foreign country in connection with such application if such modifications, amendments, supplements, divisions, or information, consist only of the illustration, exemplification or explanation of subject matter specifically or generally disclosed in such application.

A further change is proposed in Section 184, the third sentence of which provides for a retroactive license if a patent application was "inadvertently" filed abroad. It is proposed to substitute the concept that the inadvertent filing was "through error and without deceptive intent", which language appears in a different context in Section 251 of this title, and is in line with judicial analysis (see In re Wadlinger et al., 181 U.S.P.Q. 827, 832). The Court of Customs and Patent Appeals in Wadlinger pointed out that the primary definition of error or mistake is "to choose wrongly"; thus even if the foreign filing without the requisite license was not really inadvertent, but rather was a mistake in interpretation of the statute, it could be rectified at the Commissioner's discretion - in accordance with the following amendment:

amending the third sentence of §184 by striking out "inadvertently" and inserting after "filed abroad" the words "through error and without deceptive intent".

Section 185 provides that failure to comply with §184 shall invalidate the patent. Section 186 imposes a fine and prison term for violation of Section 181 and Section 184. The penalty for a non-deliberate and harmless failure to comply with §184 (as contrasted with §181 relating to national security) is disproportionately harsh. The following amendments are proposed:

§185, add: , unless the failure to procure such license was through error and without deceptive intent, and the patent does not disclose subject matter within the scope of §181 of this title.

§186, lines 6-7, delete: whoever, in violation of the provisions of §184 of this title,

IV. Unpublished research known to the patent applicant or the assignee, as prior art:

Whether in a large research laboratory or a small technology-based business, there usually exists scientific or technological prior knowledge in the field of an invention made by a patent applicant. Team research, and the benefits of the free flow of information within a research organization, add inevitably to this situation. There is a growing body of jurisprudence on the subject of the effect of this prior knowledge on subsequent invention, starting with In re Bass. The subject was discussed in the Journal of the Patent Office Society, October 1981, 516-559.

> "The impact of Bass and Clemens on the corporate research environment arises not from any Bass-Clemens rule per se, but rather from concepts of inventive entity and joint and sole inventorship under United States patent laws - laws that require each and every joint inventor to have contributed to the subject matter of each and every claim contained in a patent application... Thus, in the corporate research environment where teamwork is the general rule and the general policy is to encourage knowing what fellow employees are doing, the patent laws place a premium on not knowing. What an applicant did not know when he made his invention cannot be used as prior art, but what he did know, can.
>
> "Such encouragement of ignorance defeats a fundamental principle of corporate research-the free exchange of ideas between corporate employees. Moreover, it runs counter to both the policy and the spirit of the patent laws because it discourages both invention and the prompt disclosure of new inventions." (p. 557)

The situation is being refined through litigation, but meanwhile it presents pitfalls which will inspire further litigation and emphasize the unreliability of patents by raising a further basis for challenge. Legislative evaluation of the issues and balance of interests, in the light of modern research practices and the purpose of the patent incentive, is believed preferable to continuing uncertainty in the law. Of the various statutory texts which have been proposed, the following is suggested:

> Add to §103: Prior art shall not include unpublished information which is developed by the applicant singly or jointly with others, or which is known to the applicant only by virtue of his/her employment.

In re Bass and subsequent cases focused attention on the issues of joint invention in research organizations and in complex modern technology. It is timely to recognize and provide for the common occurrence within research organizations, that team research may lead to inventions that are not technically "joint" under present law. Thus there is today a potential cloud on genus/species inventions, on continuation-in-part applications where new researchers have joined the team, on inventions which result from the teamwork of specialists who contribute different aspects of the inventive solution. The following is suggested:

> Substitute for the first paragraph of §116:
> When two or more persons have made inventive contributions to the subject matter claimed in an application, they shall apply for patent jointly and each shall sign the application and make the required oath, except as otherwise provided in this title. Joint inventors need not have made an inventive contribution to each claim of the application.

V. Patent interference practice: It is reported that five out of six interferences are disposed of prior to final hearing at the PTO. Of those which are fully contested, about 70% are won by the senior party. Interference contests and law, and the procedures accompanying the declaration of interferences, the delineation of the issues, and the adducement of proofs, comprise one of the most elaborate and arcane practices that lawyers, judges, and bureaucrats have evolved over the years. The cost is commensurately high. The determination of priority of invention, as an administrative proceeding, needs a fresh look.

We do not propose the abolition of interferences and adoption of a first-to-file system. Rather, we propose that the interference practice be simplified, to relieve its unnecessary burden on the Patent and Trademark Office and patent applicants, to remedy inequities, and to remove pitfalls, by (a) adopting the statutory basis for a procedure whereby priority of invention is established on the basis of affidavits and documents submitted to the PTO, as in the Canadian procedure; and (b) encouraging administrative control and simplification of all phases of interference practice.

1. Affidavit evidence:

The major cause of disproportionate cost and delay is in the extensive discovery and deposition phase of current interference practice. We propose that this be eliminated, by appropriate Rule changes as well as by statutory change to authorize a practice similar to that of Canada, whereby evidence is by affidavit, and discovery and depositions are not involved in priority contests.

> Add to §135(a): Evidence to establish priority of invention in accordance with Section 102(g) shall be provided by affidavit.

Procedural details could be presented in the Rules. There are opportunities for improving on the Canadian system, with which there has been generally satisfactory experience. Simplification of the interference practice before the PTO will avoid what is often a large litigation expense; and earlier resolution of priority of invention can remove a significant disincentive to innovation. If indeed there is suspicion of false affidavits or contrived records, the usual legal remedies and defenses are available. And if any disappointed interference party wants to go beyond a decision based on the record of affidavits and written argument, the party can bring an action in the Federal District Court as presently provided by 35 U.S.C. 146.

2. Arbitration of priority of invention:

In harmony with the national interest in facilitating the settlement of disputes, it is recommended that parties to an interference be authorized to arbitrate issues of priority and issues ancillary to priority. This is a logical extension of arbitration of issues of patent validity and infringement, enabled in 35 U.S.C. 294, passed in 1982. As stated by Rivise and Caesar in "Interference Law and Practice", page 2940, "It is extremely doubtful whether the Patent Office may base a decision of priority on an arbitration award." Although it is uncertain how frequently it would be used in the context of today's patent/antitrust interface, arbitration may provide a faster and cheaper alternative to the present interference practice. In any event, there appears to be no need to continue this last exception to arbitration of patent-related disputes.

Add §135(d): Parties to a patent interference may determine such contest or any aspect thereof by arbitration. The parties shall give notice of any arbitration award to the Commissioner, and such award shall be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given.

3. Filing of interference settlement agreements: Interference settlement agreements are private contracts in settlement of litigation before the PTO where the issue is priority of invention. Section 135(c) of the patent statute requires the filing of these agreements for Justice Department antitrust review. This is a regulatory statute, apparently intended to deter antitrust violations by placing them on record. Since its adoption in 1962 there has been no recorded antitrust action, public or private, as a result of this filing statute. The primary effect of this law has been to provide another pitfall for patentees, due to the harsh and inflexible statutory penalty.

At the time of enactment of §135(c) concern was expressed that the statutory language was unclear as to what agreements were covered. The reality of this concern is apparent in subsequent litigation. Rather than try to revise the entire statute to define its scope, it is proposed that the penalty provision be made subject to a rule of reason rather than an inflexible forfeiture, in harmony with the relief proposed for inadvertent violation of §184 (above). At present, for both §184 and §135(c), willful wrongdoing and substantial compliance receive the same penalty. By the proposed amendment the forfeiture would apply only when the non-compliance was in bad faith and for the purpose of concealment, i.e., with deceptive intent:

Rewrite the 3d sentence of §135(c): Failure to file the copy of such agreement or understanding, unless such failure was through error and without deceptive intent, shall render permanently unenforceable such agreement or understanding and any patent of such parties...

To provide an opportunity for remedy of a good faith failure to meet the statute's filing requirements, it is proposed that the Commissioner be granted discretion to accept late filings on a showing of good cause. The following amendments would remove the six-month present limit on such discretion:

In §135(c), strike "during the six-month period" in the fourth sentence and "within the six-month period" in the sixth sentence.

It is also suggested that this regulation be subject to "sunset", since experience over its twenty-one years of life has shown it to be of limited public value as compared with its burden.

VI. Licensee estoppel and licensor estoppel:
It is not proposed to change the judge-made law that a licensee can not be estopped to refrain from attacking the validity of a licensed patent. There have however been conflicting judicial interpretations of related issues, such as the right of the licensor to terminate the license or to receive royalties if the licensee refuses to terminate the license while attacking the patent.

The opportunities for mischief have become disproportionately high: A potential licensee can negotiate its best deal, sign the contract, and then move into court at its whim, in the knowledge that in some jurisdictions it is not even risking its license. A fairer balance is required between the integrity of contracts and the purported public interest in facilitating attacks on the validity of patents. Legislation is proposed to embody the following principles:

(a). A licensee shall not be estopped from contesting the validity of a licensed patent; however, the licensee shall be liable for continuing royalties unless it terminates the license agreement.

(b). A licensor shall not be estopped from terminating the license during such contest.

(c). Until such termination by licensor or licensee, royalties shall continue to be paid to the licensor (i.e., not in escrow) in accordance with the license agreement.

(d). Upon such termination of the license agreement by either party, unlicensed practice of the patented invention shall be subject to the remedies in Chapter 29 of Title 35.

These changes are intended to discourage opportunistic licensing and subsequent litigation to the disadvantage of a licensor who may find the patent asset wasted thereby. A draft text follows:

Section 295. Licensee estoppel

(a) A licensee shall not be estopped from asserting in judicial action the invalidity of any patent to which it is licensed. Any agreement between the parties to a patent license agreement which purports to bar the licensee from asserting the invalidity of any licensed patent shall be unenforceable as to that provision.

(b) In the event of an assertion of invalidity by the licensee in a judicial action, licensee and licensor shall each have the right to terminate the license at any time after such assertion. Until so terminated by either party, the licensee shall pay and the licensor shall receive the consideration set in the license agreement."

This proposal places a heavier burden on the licensee to make its attack on the patent at an early stage or prior to taking a license. It also ensures that the licensor will receive the bargained-for consideration if the licensee continues to practice the licensed invention. Those courts which have required the payment of royalties into escrow have prevented the inventor from using these monies to defend the patent. In our opinion, the balance should not be weighted so heavily against the inventor.

VI. Applicability to unexpired patents: If indeed these changes in title 35 will help to increase the usefulness of the patent system as a national incentive, they should be available to the large number of already issued United States patents:

> The amendments made by this Act shall apply to all unexpired United States patents granted before or after the date of enactment of this Act.

* * *

r116A20(s2)
ec73(N)

A BILL

To amend title 35, of the United States Code, to increase the effectiveness of the patent laws and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Sec. 1. Section 271 of title 35, of the United States Code, is amended by adding at the end thereof the following new subsections:

"(e) Whoever without authority imports into or sells or uses within the United States a product made in another country by a process patented in the United States shall be liable as an infringer.

"(f) Whoever without authority supplies or causes to be supplied in the United States the material components of a patented invention, where such components are uncombined in whole or in part, intending that such components will be combined outside of the United States, and knowing that if such components were combined within the United States the combination would be an infringement of the patent, shall be liable as an infringer."

Sec. 2. Section 184 of title 35, United States Code, is amended by

(1) amending the third sentence thereof by striking out "inadvertently" and inserting after "filed abroad" the words "through error and without deceptive intent".

(2) adding at the end thereof the following new paragraph:

"In the case of an application for which a license has been obtained or an application which has been filed in the United States Patent and Trademark Office for more than six months before the filing in a foreign country, and on which no secrecy order has been issued, a license shall not be required for any modifications, amendments, supplements, divisions, or other information filed in or transmitted to the foreign country in connection with such application if such modifications, amendments, supplements, divisions, or information consist only of the illustration, exemplification, or explanation of subject matter specifically or generally disclosed in such application."

Sec. 3. Section 185 of title 35, United States Code, is amended by adding to the last sentence thereof the following: ", unless the failure to procure such license was through error and without deceptive intent, and the patent does not disclose subject matter within the scope of section 181 of this title."

Sec. 4. Section 186 of title 35, United States Code, is amended by:

(1) striking out " whoever, in violation of the provisions of section 184 of this title,"; and

(2) inserting "such" in the clause "in respect of any such invention..."

Sec. 5. Section 103 of title 35, United States Code, is amended by adding at the end thereof the following:

"Prior art shall not include unpublished information which is developed by the applicant singly or jointly with others, or which is known to the applicant only by virtue of his or her employment."

Sec. 6. Section 116 of title 35, United States Code, is amended by amending the first paragraph to read as follows:

"When two or more persons have made inventive contributions to the subject matter claimed in an application, they shall apply for patent jointly and each shall sign the application and make the required oath, except as otherwise provided in this title. Joint inventors need not have made an inventive contribution to each claim of the application."

Sec. 7. Section 135(a) of title 35, United States Code, is amended by adding at the end thereof the following: "Evidence to establish priority of invention in accordance with section 102(g) shall be provided by affidavit."

Sec. 8. Section 135(c) of title 35, United States Code, is amended by--

(1) inserting before "shall render" in the third sentence the following: ", unless such failure was through error and without deceptive intent,"; and

(2) striking out the words "during the six-month period" in the fourth sentence and "within the six-month period" in the sixth sentence.

Sec. 9. Section 135 of title 35, United States Code, is amended by adding at the end thereof the following new subsection:

"(d) Parties to a patent interference may determine such contest or any aspect thereof by arbitration. The parties shall give notice of any arbitration award to the Commissioner, and such award shall be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given."

Sec. 10. Title 35, United States Code, is amended by adding a new section 294 a follows:

"Section 295. Licensee estoppel

"(a) A licensee shall not be estopped from asserting in judicial action the invalidity of any patent to which it is licensed. Any agreement between the parties to a patent license agreement which purports to bar the licensee from asserting the invalidity of any licensed patent shall be unenforceable as to that provision.

"(b) In the event of an assertion of invalidity by the licensee in a judicial action, licensee and licensor shall each have the right to terminate the license at any time

after such assertion. Until so terminated by either party, the licensee shall pay and the licensor shall receive the consideration set in the license agreement."

Sec 11. The amendments made by this Act shall apply to all unexpired United States patents granted before or after the date of enactment of this Act.

r126A19
ec73(N)

FMC Corporation

2000 Market Street
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July 29, 1983

FMC

David Beier, Esq.
Subcommittee on Courts, Civil Liberties,
and the Administration of Justice
House Committee on the Judiciary
2137-B Rayburn House Office Building
Washington, DC 20515

Subject: Legislative Proposals Relating to Offshore Production or Assembly as Patent Infringement

Dear David:

The enclosed materials relate to Section 1 of the legislation proposed by the Ad Hoc Group, directed to the practice of process patents outside of the United States and to the overturn of the Supreme Court decision in Deepsouth v. Laitram. The following enclosed materials are pertinent:

1. A page from the 1966 report of President Johnson's Commission on the Patent System, recommending that importation of a product made abroad by a process patented in the United States shall constitute infringement of the United States patent.

2. A report distributed in 1974 by Rudy Anderson discussing the commercial problems that require remedy of the sort achieved by the amendment recommended by the President's Commission.

3. A copy of a letter from Mike Kirk dated March 10, 1982. (Mike and the Commissioner of Patents have participated in the work of the Ad Hoc Group. The first page of Mike's letter applies to Section 2 of our proposed bill, about which I shall write separately. The second page of his letter relates to the Deepsouth case. Mike's letter contains a number of pertinent materials, as follows:

2. July 29, 1983

David Beier, Esq.
Subcommittee on Courts, Civil Liberties,
and the Administration of Justice
House Committee on the Judiciary

a. Several bills introduced in the 93rd and 94th Congresses, wherein the proposals embodied in Section 1 of our Bill were previously submitted. They were not the subject of controversy at the time.

b. A statement which appeared in hearings held before the 93rd Congress on S.1321, by Guy Shoup discussing the Deepsouth decision and the reasons why a divided Supreme Court reversed a unanimous Court of Appeals. The Supreme Court decision also appears in this record, along with the dissent which suggests the need for legislative attention.

c. Mike also provided the attached statement of the Houston Patent Law Association.

d. He also provided an internal Patent Office paper discussing Deepsouth and supporting the position that the decision should be overturned.

I'm working on the next installment.

Sincerely,

Pauline Newman/ps

Pauline Newman, Director
Patent & Licensing Department

cc: Ad Hoc Group

Enclosures

r412A4
md73

XXI

The importation into the United States of a product made abroad by a process patented in the United States shall constitute an act of infringement.

The unauthorized importation into the United States, or sale or use, of a product made abroad by a process patented in the United States, does not now constitute infringement. A process patent owner may seek to have the offending product excluded from this country under the Tariff Act of 1930, on the ground that importation will tend to cause substantial injury to an efficiently and economically operated domestic industry. However, because of these requirements, the patent owner has little prospect for success.

This recommendation would make it possible to prevent evasion, of the process patent owner's exclusive rights in the United States, by the practice of his process abroad and the importation of the products so produced into this country.

DEEPSOUTH PACKING CO., INC. *v.* LAITRAM CORP.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 71-315. Argued April 11, 1972—Decided May 30, 1972

Petitioner is not foreclosed by 35 U. S. C. § 271 (a), which proscribes the unauthorized making of any patented invention within the United States, from making the parts of shrimp deveining machines (for which respondent was adjudged to have valid combination patents) to sell to foreign buyers for assembly by the buyers for use abroad. The word "makes" as used in § 271 (a) does not extend to the manufacture of the constituent parts of a combination machine, and the unassembled export of the elements of an invention does not infringe the patent. *Radio Corp. of America* v. *Andrea*, 79 F. 2d 626. Pp. 519-532.

443 F. 2d 936, reversed and remanded.

WHITE, J., delivered the opinion of the Court, in which DOUGLAS, BRENNAN, STEWART, and MARSHALL, JJ., joined. BLACKMUN, J., filed a dissenting opinion, in which BURGER, C. J., and POWELL and REHNQUIST, JJ., joined, *post*, p. 532.

Harold J. Birch argued the cause for petitioner. With him on the briefs were *C. Emmett Pugh* and *William W. Beckett.*

Guy W. Shoup argued the cause and filed a brief for respondent.

Edward S. Irons and *Mary Helen Sears* filed a brief as *amici curiae* urging reversal.

MR. JUSTICE WHITE delivered the opinion of the Court.

The United States District Court for the Eastern District of Louisiana has written:

> "Shrimp, whether boiled, broiled, barbecued or fried, are a gustatory delight, but they did not evolve

> to satisfy man's palate. Like other crustaceans, they wear their skeletons outside their bodies in order to shield their savory pink and white flesh against predators, including man. They also carry their intestines, commonly called veins, in bags (or sand bags) that run the length of their bodies. For shrimp to be edible, it is necessary to remove their shells. In addition, if the vein is removed, shrimp become more pleasing to the fastidious as well as more palatable." [1]

Such "gustatory" observations are rare even in those piscatorially favored federal courts blissfully situated on the Nation's Gulf Coast, but they are properly recited in this case. Petitioner and respondent both hold patents on machines that devein shrimp more cheaply and efficiently than competing machinery or hand labor can do the job. Extensive litigation below has established that respondent, the Laitram Corp., has the superior claim and that the distribution and use of petitioner Deepsouth's machinery in this country should be enjoined to prevent infringement of Laitram's patents. *Laitram Corp.* v. *Deepsouth Packing Co.*, 443 F. 2d 928 (CA5 1971). We granted certiorari, 404 U. S. 1037 (1972), to consider a related question: Is Deepsouth, barred from the American market by Laitram's patents, also foreclosed by the patent laws from exporting its deveiners, in less than fully assembled form, for use abroad?

I

A rudimentary understanding of the patents in dispute is a prerequisite to comprehending the legal issue presented. The District Court determined that the Laitram Corp. held two valid patents for machin-

[1] *Laitram Corp.* v. *Deepsouth Packing Co.*, 301 F. Supp. 1037, 1040 (1969).

ery used in the process of deveining shrimp. One, granted in 1954,[2] accorded Laitram rights over a "slitter" which exposed the veins of shrimp by using water pressure and gravity to force the shrimp down an inclined trough studded with razor blades. As the shrimp descend through the trough their backs are slit by the blades or other knife-like objects arranged in a zig-zag pattern. The second patent, granted in 1958, covers a "tumbler," "a device to mechanically remove substantially all veins from shrimp whose backs have previously been slit," App. 127, by the machines described in the 1954 patent. This invention uses streams of water to carry slit shrimp into and then out of a revolving drum fabricated from commercial sheet metal. As shrimp pass through the drum the hooked "lips" of the punched metal, "projecting at an acute angle from the supporting member and having a smooth rounded free edge for engaging beneath the vein of a shrimp and for wedging the vein between the lip and the supporting member," App. 131, engage the veins and remove them.

Both the slitter and the tumbler are combination patents; that is,

> "[n]one of the parts referred to are new, and none are claimed as new; nor is any portion of the combination less than the whole claimed as new, or stated to produce any given result. The end in view is proposed to be accomplished by the union of all, arranged and combined together in the manner described. And this combination, composed of all the parts mentioned in the specification, and arranged with reference to each other, and to other

[2] This patent expired shortly before argument in this court and is therefore not relevant to Laitram's claim for injunctive relief. It is described, however, because Laitram claims damages for Deepsouth's asserted past exportation of the parts of this machine.

> parts of the [machine] in the manner therein described, is stated to be the improvement, and is the thing patented." *Prouty* v. *Ruggles,* 16 Pet. 336, 341 (1842).

The slitter's elements as recited in Laitram's patent claim were: an inclined trough, a "knife" (actually, knives) positioned in the trough, and a means (water sprayed from jets) to move the shrimp down the trough. The tumbler's elements include a "lip," a "support member," and a "means" (water thrust from jets). As is usual in combination patents, none of the elements in either of these patents were themselves patentable at the time of the patent, nor are they now. The means in both inventions, moving water, was and is, of course, commonplace. (It is not suggested that Deepsouth infringed Laitram's patents by its use of water jets.) The cutting instruments and inclined troughs used in slitters were and are commodities available for general use. The structure of the lip and support member in the tumbler were hardly novel: Laitram concedes that the inventors merely adapted punched metal sheets ordered from a commercial catalog in order to perfect their invention. The patents were warranted not by the novelty of their elements but by the novelty of the combination they represented. Invention was recognized because Laitram's assignors[3] combined ordinary elements in an extraordinary way—a novel union of old means was designed to achieve new ends.[4] Thus,

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[3] The machines were developed by two brothers who are now president and vice-president of the Laitram Corp. The patents are in their names, but have been assigned to the corporation.

[4] The District Court wrote:

"Defendant urges that the [1958] patent is invalid as aggregative, anticipated by the prior art, obvious, described in functional language, overbroad, and indefinite. While it is clear that the elements in

for both inventions "the whole in some way exceed[ed] the sum of its parts." *Great A. & P. Tea Co.* v. *Supermarket Equipment Corp.*, 340 U. S. 147, 152 (1950).

II

The lower court's decision that Laitram held valid combination patents entitled the corporation to the privileges bestowed by 35 U. S. C. § 154, the keystone provision of the patent code. "[F]or the term of seventeen years" from the date of the patent, Laitram had "the right to exclude others from making, using, or selling the invention throughout the United States . . . ." The § 154 right in turn provides the basis for affording the patentee an injunction against direct, induced, and contributory infringement, 35 U. S. C. § 283, or an award of damages when such infringement has already occurred, 35 U. S. C. § 284. Infringement is defined by 35 U. S. C. § 271 in terms that follow those of § 154:

> "(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, [directly] infringes the patent.
>
> "(b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> "(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringe-

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the . . . patent, especially the punch lip material, had been available for a considerable period of time, when combined they co-act in such a manner to perform a new function and produce new results." 301 F. Supp., at 1063.

ment of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer."

As a result of these provisions the judgment of Laitram's patent superiority forecloses Deepsouth and its customers from any future use (other than a use approved by Laitram or occurring after the Laitram patent has expired) of its deveiners "throughout the United States." The patent provisions taken in conjunction with the judgment below also entitle Laitram to the injunction it has received prohibiting Deepsouth from continuing to "make" or, once made, to "sell" deveiners "throughout the United States." Further, Laitram may recover damages for any past unauthorized use, sale, or making "throughout the United States." This much is not disputed.

But Deepsouth argues that it is not liable for every type of past sale and that a portion of its future business is salvageable. Section 154 and related provisions obviously are intended to grant a patentee a monopoly only over the United States market; they are not intended to grant a patentee the bonus of a favored position as a flagship company free of American competition in international commerce. Deepsouth, itself barred from using its deveining machines, or from inducing others to use them "throughout the United States," barred also from making and selling the machines in the United States, seeks to make the parts of deveining machines, to sell them to foreign buyers, and to have the buyers assemble the parts and use the machines abroad.[5] Ac-

[5] Deepsouth is entirely straightforward in indicating that its course of conduct is motivated by a desire to avoid patent infringement. Its president wrote a Brazilian customer:

"We are handicapped by a decision against us in the United States. This was a very technical decision and we can manufacture the entire

cordingly, Deepsouth seeks judicial approval, expressed through a modification or interpretation of the injunction against it, for continuing its practice of shipping deveining equipment to foreign customers in three separate boxes, each containing only parts of the 1¾-ton machines, yet the whole assemblable in less than one hour.[6] The company contends that by this means both the "making" and the "use" of the machines occur abroad and Laitram's lawful monopoly over the making and use of the machines throughout the United States is not infringed.

Laitram counters that this course of conduct is based upon a hypertechnical reading of the patent code that, if tolerated, will deprive it of its right to the fruits of the inventive genius of its assignors. "The right to make can scarcely be made plainer by definition . . . ," *Bauer* v. *O'Donnell*, 229 U. S. 1, 10 (1913). Deepsouth in all respects save final assembly of the parts "makes" the invention. It does so with the intent of having the foreign user effect the combination without Laitram's permission. Deepsouth sells these components as though they were the machines themselves; the act of assembly is regarded, indeed advertised, as of no importance.

The District Court, faced with this dispute, noted that three prior circuit courts had considered the meaning of "making" in this context and that all three had resolved the question favorably to Deepsouth's posi-

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machine without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil."

Quoted in *Laitram Corp.* v. *Deepsouth Packing Co.*, 443 F. 2d 928, 938 (CA5 1971).

[6] As shipped, Deepsouth's tumbler contains a deveining belt different from Laitram's support member and lip. But the Laitram elements are included in a separate box and the Deepsouth tumbler is made to accommodate the Laitram elements. The record shows that many customers will use the machine with the Laitram parts.

tion. See *Hewitt-Robins, Inc.* v. *Link-Belt Co.*, 371 F. 2d 225 (CA7 1966); *Cold Metal Process Co.* v. *United Engineering & Foundry Co.*, 235 F. 2d 224 (CA3 1956); and *Radio Corp. of America* v. *Andrea*, 79 F. 2d 626 (CA2 1935). The District Court held that its injunction should not be read as prohibiting export of the elements of a combination patent even when those elements could and predictably would be combined to form the whole.

> "It may be urged that . . . [this] result is not logical . . . . But it is founded on twin notions that underlie the patent laws. One is that a combination patent protects only the combination. The other is that monopolies—even those conferred by patents—are not viewed with favor. These are logic enough." 310 F. Supp. 926, 929 (1970).

The Court of Appeals for the Fifth Circuit reversed, thus departing from the established rules of the Second, Third, and Seventh Circuits. In the Fifth Circuit panel's opinion, those courts that previously considered the question "worked themselves into . . . a conceptual box" by adopting "an artificial, technical construction" of the patent laws, a construction, moreover, which in the opinion of the panel, "[subverted] the Constitutional scheme of promoting 'the Progress of Science and useful Arts' " by allowing an intrusion on a patentee's rights, 443 F. 2d, at 938–939, citing U. S. Const., Art. I, § 8.

III

We disagree with the Court of Appeals for the Fifth Circuit.[7] Under the common law the inventor had no

[7] For simplicity's sake, we, like the lower courts, will discuss only Deepsouth's claim as to permissible future conduct. It is obvious, however, that what we say as to the scope of the injunction in Laitram's favor applies also to the calculation of damages that Laitram may recover.

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right to exclude others from making and using his invention. If Laitram has a right to suppress Deepsouth's export trade it must be derived from its patent grant, and thus from the patent statute.[8] We find that 35 U. S. C. § 271, the provision of the patent laws on which Laitram relies, does not support its claim.

Certainly if Deepsouth's conduct were intended to lead to use of patented deveiners inside the United States its production and sales activity would be subject to injunction as an induced or contributory infringement. But it is established that there can be no contributory infringement without the fact or intention of a direct infringement. "In a word, if there is no [direct] infringement of a patent there can be no contributory infringer." *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 677 (1944) (Frankfurter, J., dissenting on other grounds). *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U. S. 336, 341–342 (1961), succinctly articulates the law:

> "It is plain that § 271 (c)—a part of the Patent Code enacted in 1952—made no change in the fundamental precept that there can be no contributory infringement in the absence of a direct infringement. That section defines contributory infringement in terms of direct infringement—namely the sale of a component of a patented combination or machine for use 'in an infringement of such patent.' "

[8] "But the right of property which a patentee has in his invention, and his right to its exclusive use, is derived altogether from these statutory provisions; and this court [has] always held that an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the acts of Congress; and that his rights are to be regulated and measured by these laws, and cannot go beyond them." *Brown* v. *Duchesne*, 19 How. 183, 195 (1857).

The statute makes it clear that it is not an infringement to make or use a patented product outside of the United States. 35 U. S. C. § 271. See also *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U. S. 641, 650 (1915), *Brown* v. *Duchesne*, 19 How. 183 (1857). Thus, in order to secure the injunction it seeks, Laitram must show a § 271 (a) direct infringement by Deepsouth in the United States, that is, that Deepsouth "makes," "uses," or "sells" the patented product within the bounds of this country.

Laitram does not suggest that Deepsouth "uses" the machines. Its argument that Deepsouth sells the machines—based primarily on Deepsouth's sales rhetoric and related indicia such as price [9]—cannot carry the day unless it can be shown that Deepsouth is selling the "patented invention." The sales question thus resolves itself into the question of manufacture: did Deepsouth "make" (and then sell) something cognizable under the patent law as the patented invention, or did it "make" (and then sell) something that fell short of infringement?

The Court of Appeals, believing that the word "makes" should be accorded "a construction in keeping with the ordinary meaning of that term," 443 F. 2d, at 938, held against Deepsouth on the theory that "makes" "means what it ordinarily connotes—the substantial manufacture of the constituent parts of the machine." *Id.*, at 939. Passing the question of whether this definition more closely corresponds to the ordinary meaning of the term than that offered by Judge Swan in *Andrea* 35 years earlier (something is made when it reaches the state of

[9] Deepsouth sold the less than completely assembled machine for the same price as it had sold fully assembled machines. Its advertisements, correspondence, and invoices frequently referred to a "machine," rather than to a kit or unassembled parts. See Brief for Respondent 8–11.

final "operable" assembly), we find the Fifth Circuit's definition unacceptable because it collides head on with a line of decisions so firmly embedded in our patent law as to be unassailable absent a congressional recasting of the statute.

We cannot endorse the view that the "substantial manufacture of the constituent parts of [a] machine" constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. "For as we pointed out in *Mercoid* v. *Mid-Continent Investment Co.*, [320 U. S. 661, 676] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680, 684 (1944). See also *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U. S. 301:

> "A combination is a union of elements, which may be partly old and partly new, or wholly old or wholly new. But whether new or old, the combination is a means—an invention—distinct from them." *Id.*, at 318.
>
> . . . . . .
>
> "[O]ne element is not the combination. Indeed, all of the elements are not. To be that—to be identical with the invention of the combination—they must be united by the same operative law." *Id.*, at 320.

And see *Brown* v. *Guild*, 23 Wall. 181 (1874). In sum,

> "[i]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U. S., at 344.

It was this basic tenet of the patent system that led Judge Swan to hold in the leading case, *Radio Corp. of America* v. *Andrea*, 79 F. 2d 626 (1935), that unassembled export of the elements of an invention did not infringe the patent.

> "[The] relationship is the essence of the patent.
>
> ". . . No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted." *Id.*, at 628.

See also *Cold Metal Process Co.* v. *United Engineering & Foundry Co.*, 235 F. 2d, at 230 ("We are in full accord with the rule thus laid down in the Andrea case and we think that the master and the district court were right in applying it here"); *Hewitt-Robins, Inc.* v. *Link Belt Co.*, 371 F. 2d, at 229 (to the same effect).

We reaffirm this conclusion today.

IV

It is said that this conclusion is derived from too narrow and technical an interpretation of the statute, and that this Court should focus on the constitutional mandate

> "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . ," Art. I, § 8,

and construe the statute in a manner that would, allegedly, better reflect the policy of the Framers.

We cannot accept this argument. The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress. We are here construing the provisions of a statute passed in 1952. The prevailing law in this and other courts as to what is necessary to show a patentable invention when a combination of old elements is claimed was clearly evident from the cases when the Act was passed; and at that time *Andrea,* representing a specific application of the law of infringement with respect to the export of elements of a combination patent, was 17 years old. When Congress drafted § 271, it gave no indication that it desired to change either the law of combination patents as relevant here or the ruling of *Andrea.*[10] Nor has it on any more recent occasion indicated that it wanted the patent privilege to run farther than it was understood to run for 35 years prior to the action of the Court of Appeals for the Fifth Circuit.

Moreover, we must consider petitioner's claim in light of this Nation's historical antipathy to monopoly [11] and of repeated congressional efforts to preserve and foster competition. As this Court recently said without dissent:

> "[I]n rewarding useful invention, the 'rights and welfare of the community must be fairly dealt

[10] When § 271 was drafted and submitted to the Senate in 1952, Senator Saltonstall asked: "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran, Chairman of the Judiciary Committee, responded: "It codifies the present patent laws." 98 Cong. Rec. 9323.

[11] See the discussion in *Graham* v. *John Deere Co.,* 383 U. S. 1, 7 *et seq.* (1966).

with and effectually guarded.' *Kendall* v. *Winsor*, 21 How. 322, 329 (1859). To that end the prerequisites to obtaining a patent are strictly observed, and when the patent has issued the limitations on its exercise are equally strictly enforced." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 230 (1964).

It follows that we should not expand patent rights by overruling or modifying our prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language. We would require a clear and certain signal from Congress before approving the position of a litigant who, as respondent here, argues that the beachhead of privilege is wider, and the area of public use narrower, than courts had previously thought. No such signal legitimizes respondent's position in this litigation.

In conclusion, we note that what is at stake here is the right of American companies to compete with an American patent holder in foreign markets. Our patent system makes no claim to extraterritorial effect; "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States," *Brown* v. *Duchesne*, 19 How., at 195; and we correspondingly reject the claims of others to such control over our markets. Cf. *Boesch* v. *Graff*, 133 U. S. 697, 703 (1890). To the degree that the inventor needs protection in markets other than those of this country, the wording of 35 U. S. C. §§ 154 and 271 reveals a congressional intent to have him seek it abroad through patents secured in countries where his goods are being used. Respondent holds foreign patents; it does not adequately explain why it does not avail itself of them.

V

In sum: the case and statutory law resolves this case against the respondent. When so many courts have so often held what appears so evident—a combination patent can be infringed only by combination—we are not prepared to break the mold and begin anew. And were the matter not so resolved, we would still insist on a clear congressional indication of intent to extend the patent privilege before we could recognize the monopoly here claimed. Such an indication is lacking. Accordingly, the judgment of the Court of Appeals for the Fifth Circuit is reversed and the case is remanded for proceedings consistent with this opinion.

It is so ordered.

MR. JUSTICE BLACKMUN, with whom THE CHIEF JUSTICE, MR. JUSTICE POWELL, and MR. JUSTICE REHNQUIST join, dissenting.

Because our grant of certiorari was limited, 404 U. S. 1037 (1972), the customarily presented issues of patent validity and infringement are not before us in this case. I necessarily accept, therefore, the conclusion that the Laitram patents are valid and that the Deepsouth deveining machine, when manufactured and assembled in the United States, is an infringement. The Court so concedes. The Court, however, denies Laitram patent law protection against Deepsouth's manufacture and assembly when the mere assembly is effected abroad. It does so on the theory that there then is no "making" of the patented invention in the United States even though every part is made here and Deepsouth ships all the parts in response to an order from abroad.

With all respect, this seems to me to be too narrow a reading of 35 U. S. C. §§ 154 and 271 (a). In addition, the result is unduly to reward the artful com-

petitor who uses another's invention in its entirety and who seeks to profit thereby. Deepsouth may be admissive and candid or, as the Court describes it, *ante*, at 523 n. 5, "straightforward," in its "sales rhetoric," *ante*, at 527, but for me that rhetoric reveals the very iniquitous and evasive nature of Deepsouth's operations. I do not see how one can escape the conclusion that the Deepsouth machine was *made* in the United States, within the meaning of the protective language of §§ 154 and 271 (a). The situation, perhaps, would be different were parts, or even only one vital part, manufactured abroad. Here everything was accomplished in this country except putting the pieces together as directed (an operation that, as Deepsouth represented to its Brazilian prospect, would take "less than one hour"), all much as the fond father does with his little daughter's doll house on Christmas Eve. To say that such assembly, accomplished abroad, is not the prohibited combination and that it avoids the restrictions of our patent law, is a bit too much for me. The Court has opened the way to deny the holder of the United States combination patent the benefits of his invention with respect to sales to foreign purchasers.

I also suspect the Court substantially overstates when it describes *Radio Corp. of America* v. *Andrea*, 79 F. 2d 626 (CA2 1935), as a "leading case," *ante*, at 529, and when it imputes to Congress, in drafting the 1952 statute, an awareness of *Andrea*'s "prevailing law," *ante*, at 530. *Andrea* was seriously undermined only two years after its promulgation, when the Court of Appeals modified its decree on a second review. *Radio Corp. of America* v. *Andrea*, 90 F. 2d 612 (CA2 1937). Its author, Judge Swan himself, dissenting in part from the 1937 decision, somewhat ruefully allowed that his court was overruling the earlier decision. *Id.*, at 615. I therefore would follow the Fifth Circuit's opinion in the

present case, 443 F. 2d 936 (1971), and would reject the reasoning in the older and weakened *Andrea* opinion and in the Third and Seventh Circuit opinions that merely follow it.

By a process of only the most rigid construction, the Court, by its decision today, fulfills what Judge Clark, in his able opinion for the Fifth Circuit, distressingly forecast:

> "To hold otherwise [as the Court does today] would subvert the Constitutional scheme of promoting 'the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' U. S. Const., art. I § 8 Cl. 8. It would allow an infringer to set up shop next door to a patent-protected inventor whose product enjoys a substantial foreign market and deprive him of this valuable business. If this Constitutional protection is to be fully effectuated, it must extend to an infringer who manufactures in the United States and then captures the foreign markets from the patentee. The Constitutional mandate cannot be limited to just manufacturing and selling within the United States. The infringer would then be allowed to reap the fruits of the American economy—technology, labor, materials, etc.—but would not be subject to the responsibilities of the American patent laws. We cannot permit an infringer to enjoy these benefits and then be allowed to strip away a portion of the patentee's protection." 443 F. 2d, at 939.

I share the Fifth Circuit's concern and I therefore dissent.

Syllabus

JEFFERSON ET AL. *v.* HACKNEY, COMMISSIONER OF PUBLIC WELFARE, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS

No. 70–5064. Argued February 22, 1972—Decided May 30, 1972

Appellants, recipients of Aid to Families With Dependent Children (AFDC), challenge the system whereby Texas, in order to allocate its fixed pool of welfare money among persons with acknowledged need, applies a percentage reduction factor to arrive at a reduced standard of need, the factor being lower for AFDC than for other categorical assistance programs. Appellants assert that the State's method of applying this factor to recipients with outside income contravenes § 402 (a)(23) of the Social Security Act, which required adjustment, by July 1, 1969, of "amounts used . . . to determine the needs of individuals" to reflect increases in living costs, because this method does not increase the welfare rolls to the same extent as would an alternative procedure used by some other States. They also make an equal protection claim on the grounds that the distinction between the aid programs is not rational and that the Texas system racially discriminates against the proportionately larger number of minority groups in AFDC than in the other programs. *Held:*

1. The Texas scheme does not contravene § 402 (a)(23) of the Social Security Act, which does not require use of a computation procedure that maximizes individual eligibility for subsidiary benefits. Pp. 539–545.

2. The challenged system does not violate the Equal Protection Clause of the Fourteenth Amendment. Pp. 545–551.

(a) The fact that there are more members of minority groups in the AFDC program than in other categories does not indicate racial discrimination, absent any proof of racial motivation in the Texas scheme. There was no such proof here. Pp. 547–549.

(b) Texas' decision to provide somewhat lower welfare benefits for AFDC recipients than for the aged and infirm who are in other categories is not invidious or irrational, and there is no constitutional or statutory requirement that relief categories be treated exactly alike. Pp. 549–551.

Affirmed.

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ST. JOHN'S LAW REVIEW

Deepsouth

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...EGAL AND PSYCHOLOGICAL CONSIDERATIONS
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Gottschalk v. Benson—THE SUPREME COURT TAKES A HARD LINE ON SOFTWARE

INFRINGEMENT AND ASSEMBLY ABROAD—PATENT PROTECTION TAKES A VACATION IN *Deepsouth*

THE FREEDOM OF INFORMATION ACT: SHREDDING THE PAPER CURTAIN

THE QUARTERLY SURVEY OF NEW YORK PRACTICE

VOLUME 47 MAY 1973 NUMBER 4

INFRINGEMENT AND ASSEMBLY ABROAD — PATENT PROTECTION TAKES A VACATION IN *DEEPSOUTH*

INTRODUCTION

The doctrine of infringement originated as a means of enforcing a patentee's superior claim to intellectual property and was legislatively recognized in this country by the original Patent Act of 1790.[1] However, as application of the patent system broadened and technology advanced, a patentee's ability to protect his patent was diluted by the impracticality of maintaining infringement actions against direct infringers.[2] In 1871, as a solution to this dilemma, the concept of contributory infringement was advanced in *Wallace v. Holmes*.[3] A line of case law embracing this concept[4] was codified as section 271(c) of the Patent Act of 1952.[5] Although the courts' interpretations of this section led to much controversy, the doctrine of contributory infringement has gained general acceptance. This doctrine has been most useful in the area of combination patents. Opponents of its broad application argue that the doctrine of contributory infringement indirectly extends the

1 Patent Act of 1790, ch. 7, § 4, 1 Stat. 109, 111.

2 As an example of a fairly common pattern that made it difficult for a patentee to pursue the direct infringer, a private consumer might purchase an unpatented element of a patented combination from an unauthorized manufacturer and then combine this element with the rest of the combination (which he had either manufactured himself or bought from another). The ultimate use of the resulting combination would be a direct infringement if the replacement of the element in question was a reconstruction of the patented combination. (*See* text accompanying notes 19-33 *infra* for a complete discussion of this aspect of infringement.) In such a situation, the private consumer would be the direct infringer whether or not he had knowledge of the nature of his conduct. The inadequacy of an infringement action against an individual consumer or even consumer-users as a class is obvious to even the most aggressive patent holder. The loss of good will would easily outweigh the possibility of recovery. Additionally, the monetary recovery resulting from a cause of action against a consumer or a group of consumers would, of necessity, be too small to reasonably compensate the plaintiff for the costs of his action, not to mention damages incurred as a result of the infringement. A more equitable and effective remedy was needed by the patent holder.

3 29 F. Cas. 74 (No. 17,100) (C.C.D. Conn. 1871). This doctrine permits a patentee to sue a person who sells an unpatented component of a patented combination with the intent and purpose of bringing about its use in a patented combination. *See* text accompanying notes 38 to 62 *infra*. The practical advantage of the doctrine is that it gives the patentee a cause of action against a party better able than the direct infringer to compensate him adequately for his damages.

4 Carbice Corp. of America v. American Patents Dev. Corp., 283 U.S. 27 (1931); Henry v. A. B. Dick Co., 224 U.S. 1 (1912); Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 325 (1909); Morgan Envelope Co. v. Albany Paper Co., 152 U.S. 425 (1894); Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co., 77 F. 288 (6th Cir. 1896); Saxe v. Hammond, 21 F. Cas. 593 (No. 12,411) (C.C.D. Mass. 1875); Wallace v. Holmes, 29 F. Cas. 74 (No. 17,100) (C.C.D. Conn. 1871).

5 35 U.S.C. § 271(c) (1970). *See* note 66 *infra*.

patent monopoly beyond its intended bounds by protecting unpatented elements as well as the patented combination itself.[6]

The recent Supreme Court patent case, *Deepsouth Packing Co. v. Laitram Corp.*,[7] dealt with an analogous area. This case involved an alleged infringer who manufactured a domestically patented machine, omitting two small pieces that would be present in the finished product. The almost complete combination was then exported for final assembly and sale to a foreign country where the patentee had no patent rights. The Supreme Court, in a 5-4 decision, narrowly construed the section 154[8] right to exclude others from "making" the patented invention in the United States as embracing only the fully assembled patented combination.

Although the Court's holding, reversing a unanimous Fifth Circuit Court of Appeals, was consonant with established precedents, this paper will urge application of a more realistic test of infringement. Such a test would seek out the "heart of the invention," a focus revived by the second *Aro Manufacturing Co. v. Convertible Top Replacement Co.*[9] case. Such a change is necessary to bolster the patent system by offering the patentee broader protection in exchange for his disclosure of the details of the patented invention. Just as section 271(c) codified early case law and overruled the Supreme Court's holding in the *Mercoid* cases,[10] an amendment to 35 U.S.C. § 271 could codify substantial case law and overrule the holding in *Deepsouth*. The purpose of this paper is to explain the need for and urge the adoption of such an amendment which would become section 271(e). The proposed subsection reads as follows:

> (e) Whoever shall substantially manufacture in the United States so much of the unpatented elements of a patented combination

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[6] The philosophy tending to construe a patent grant most narrowly was clearly manifested in two cases dealing with the activities of an alleged contributory infringer, the Mercoid Corporation. The resulting "*Mercoid* doctrine" greatly limited the permissible uses of a combination patent. Although Mercoid was found to have unauthorizedly manufactured the significant unpatented element of a patented combination, the Court held that the patent grant could not be extended to cover such unprotected elements regardless of their dominance in the combination. The patentee and his licensee were barred from enforcing their patent rights against Mercoid in companion cases. Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U.S. 680 (1944); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944).

[7] 406 U.S. 518, *rehearing denied, request for leave to amend petition granted*, 409 U.S. 902 (1972).

[8] 35 U.S.C. § 154 (1970). *See* note 14 *infra*.

[9] 377 U.S. 476 (1964). For further discussion of this case, *see* text accompanying notes 101-121 *infra*.

[10] Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U.S. 680 (1944); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944). *See* note 6 *supra*.

> that the patentable aspect of that combination is captured, and there exists no significant practical use for such manufactured item(s) other than assembly into the patented combination, and such assembly, requiring only minor integration, does in fact take place abroad, shall be liable as a direct infringer.[11]

The remainder of this paper will discuss the development of patent protection concepts and their relationship to the patent problem most graphically illustrated in *Deepsouth*, partial domestic manufacture and assembly abroad. It is hoped that this background exploration will illustrate the unsoundness of the result achieved by the Court in its first decision affecting this significant area.

INFRINGEMENT

The mandate of the patent system is to implement the intention of the framers of the Constitution: "The Congress shall have Power . . . [t]o promote the Progress of Science . . . by securing for limited Times to . . . Inventors the exclusive Right to their respective . . . Discoveries."[12] The hope was that offering this exclusive right to an inventor in exchange for his full and frank disclosure would enable others to have an opportunity to become familiar with his invention within a short period of time. The natural result of such wide dissemination of knowledge is the advancement of technology through the development and application of new techniques, processes and equipment.[13]

A patent grant gives a patentee, his heirs or assigns, the right to exclude others from making, using or selling the invention in the United States for a period of 17 years.[14] The patentee's remedy for violation of this patent grant by another is a civil action for infringement.[15]

The present infringement statute, § 271(a)[16] of the Patent Act of

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11 An explanation of the proposed amendment and an analogous case law analysis are presented in text accompanying note 190 *infra*.

12 U.S. CONST. art. I, § 8.

13 SUBCOMM. ON PATENTS, TRADEMARKS AND COPYRIGHTS OF THE SENATE COMM. ON THE JUDICIARY, 81ST CONG., 2D SESS., PROPOSALS FOR IMPROVING THE PATENT SYSTEM (Comm. Print 1956).

14 35 U.S.C. § 154 (1970) reads:

> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States. . . .

15 35 U.S.C. § 281 (1970) reads:

> A patentee shall have remedy by civil action for infringement of his patent.

16 35 U.S.C. § 271(a) (1970) provides:

> Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

1952, is a recodification of earlier statutes. The infringement concept has been well received and broadly applied by the courts. The statute prohibits unauthorized use, manufacture or sale of the intellectual property claimed by the patent. To determine if there is an infringement, the claims of the patent are compared to the device allegedly used, manufactured or sold in violation of the patent. Consideration is given to the patent disclosure and the prosecution history of the patent application.[17] If the identical elements recited in the claims are present in the defendant's item, there is "literal" infringement.

When a user purchases a patented item from an authorized seller, the sale implies authority to use that item. Consistent with this authority, the purchaser has the right to repair the device to keep it operable. However, difficulty arises in determining when the repair exceeds what is permissible and thus becomes reconstruction, *i.e.*, a remaking. The authority to reconstruct is not ordinarily implied in the sale of a patented item even though the reconstructed device will be used solely by the original purchaser.[18] The distinction between repair and reconstruction becomes even more elusive when the patented item is protected by a combination patent under which individual elements are unpatented, only the combination being protected.

The concept of repair versus reconstruction[19] was first considered in the 1850 case, *Wilson v. Simpson*,[20] wherein defendant purchaser of a patented planing machine replaced only the unpatented knife blades. The Court discussed tests that could be used to determine the limits of permissible repair. The two factors given greatest weight in this decision were the durability of the part and the intention of the patentee. The major assembly of the machine had a useful life of several years while the cutting blades had a comparatively shorter life. Therefore, the Court held the replacement of the blade a permissible repair within the implicit intention of the patentee. However, the other parts were not intended to be replaced by a purchaser and the useful life of the machine was thus limited by the life of the more durable parts.[21]

The *Wilson* Court's analysis was relied upon in a line of cases

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17 Janes, *Infringement*, in ENCYCLOPEDIA OF PATENT PRACTICE AND INVENTION MANAGEMENT 437, 439 (R. Calvert ed. 1964).

18 Wilson v. Simpson, 50 U.S. (9 How.) 109 (1850). The *Wilson* Court found that reconstruction constitutes a re-"making."

19 This concept gains significance in the area of contributory infringement. When an unpatented element of a patented combination is the basis of an infringing reconstruction, the unauthorized supplier of that element may be liable for contributory infringement. *See* text accompanying notes 38-62 *infra*.

20 50 U.S. (9 How.) 109 (1850).

21 *Id.* at 125-26.

dealing with repair and reconstruction. Significantly, a number of factors besides intent[22] and durability[23] have been used by courts to test whether a replacement is repair or reconstruction.[24] For instance, the inventiveness of the unpatented element in the combination was the determining factor in *Davis Electrical Works v. Edison Electric Light Co.*[25] where the patent for an electric light bulb was held to be infringed by the replacement of the filament. The First Circuit stated that the filament was the distinctive element and its replacement was reconstruction and not repair.

In *Leeds & Catlin Co. v. Victor Talking Machine Co.*,[26] the Supreme Court found the patent covering the combination of the record and the player to be infringed by the replacement of the record disc. This holding was also based on the importance or dominance of that element in the patented combination.[27]

Other factors were relied upon in *Westinghouse Electric & Manufacturing Co. v. Hesser*[28] when the Sixth Circuit held that replacement of certain unpatented elements in a patented progressive-feed stoker was merely repair and not infringing reconstruction. This decision was based primarily on the factors of removability and frequency of replacement of the element in question. The Court also relied on durability and intent, saying:

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22 The leading case on intent is Cotton-Tie Co. v. Simmons, 106 U.S. 89 (1882). This case dealt with a patented combination consisting of a steel buckle and a steel strap. The patentee sold these ties for use on cotton bales. The ties were removed by cutting them off. Although the ties were marked "licensed to use once only," the defendant welded the used ties together and resold the remade combination. The Court held such replacement to be infringing reconstruction since the obvious *intent* of the patentee was for the ties to be used but once. *See* Hildreth, *Contributory Infringement*, 44 J. PAT. OFF. SOC'Y 512, 535-36 (1962), for the suggestion that intention be deemed the controlling consideration and other factors such as dominance, removability, life and inventiveness are means of determining the patentee's intention.

23 Examples of cases relying on durability are *Wilson v. Simpson*, discussed in text accompanying note 20 *supra*, and another early case, Morgan Envelope Co. v. Albany Paper Co., 152 U.S. 425 (1894). The latter case concerned a patented toilet paper roll and dispenser combination. The patentee charged the defendant with contributory infringement for supplying purchasers of the combination with replacement rolls of toilet paper. Because of the perishable nature of the commodity, the Court found for the defendant. The toilet paper roll, by its very nature, would have to be replaced frequently during the useful life of the dispenser-roll combination. Such replacement of a perishable element is merely permissive repair. *Accord*, Heyer v. Duplicator Mfg. Co., 263 U.S. 100 (1923).

24 *See* Hildreth, *Contributory Infringement, supra* note 22, at 528-36; Comment, *Repair and Reconstruction of Patented Combinations*, 32 U. CHI. L. REV. 353 (1965); Note, *Repair and Reconstruction in Patented Combinations*, 23 U. PITT. L. REV. 184 (1961).

25 60 F. 276 (1st Cir. 1894).

26 213 U.S. 325 (1909).

27 *See* text following note 49 *infra*. Actually, the disc itself had been protected by an early patent that had expired.

28 131 F.2d 406 (6th Cir. 1942).

> Where the perishable nature of the parts are recognized by the patentee, and where the parts are adapted to be removed from the patented combination and, from time to time, replaced, replacement of such parts is repair and not reconstruction.[29]

Aro Manufacturing Co. v. Convertible Top Replacement Co. (Aro I)[30] was the first major infringement case decided by the Supreme Court subsequent to enactment of the Patent Act of 1952. Cautioning that direct infringement is a prerequisite to a finding of contributory infringement,[31] the Court found that the mere replacement of part of a patented combination would not constitute infringement.[32] Justice Brennan's concurring opinion recognized that replacement of elements could not be dismissed so categorically. In order to determine whether a replacement is permissible repair or infringing reconstruction,

> [a]ppropriately to be considered are the life of the part replaced in relation to the useful life of the whole combination, the importance of the replaced element to the inventive concept, the cost of the component relative to the cost of the combination, the common sense understanding and intention of the patent owner and the buyer of the combination as to its perishable components, whether the purchased component replaces a worn-out part or is bought for some other purpose, and other pertinent factors.[33]

When the infringement concept was initially introduced, only literal infringement was considered. However, the courts expanded the concept with their recognition of the doctrine of equivalents. In 1853, the Supreme Court, in *Winans v. Denmead*,[34] first applied this doctrine. The modern case that is most frequently cited for this principle is *Graver Tank & Manufacturing Co. v. Linde Air Products*[35] where the Court stated:

> "To temper unsparing logic and prevent an infringer from stealing the benefit of the invention" a patentee may invoke this doctrine to proceed against the producer of a device "if it performs substantially the same function in substantially the same way to obtain the same result."[36]

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29 *Id.* at 410.

30 365 U.S. 336 (1961).

31 *Id.* at 341, *citing* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944).

32 365 U.S. at 346.

> No element, not itself separately patented, that constitutes one of the elements of a combination patent is entitled to patent monopoly, however essential it may be to the patented combination and no matter how costly or difficult replacement may be.

Id. at 345.

33 *Id.* at 363-64 (footnotes omitted). *See id.* nn.2-7.

34 56 U.S. (15 How.) 330 (1853).

35 339 U.S. 605 (1950).

36 *Id.* at 608, *quoting* Sanitary Refrigerator Co. v. Winters, 280 U.S. 30, 42 (1929).

The doctrine of equivalents recognizes society's moral and practical obligation to protect the patentee in exchange for his disclosure of the patented item, thus preventing someone else from changing an insignificant element and claiming the whole item as new. Such application of the doctrine of equivalents effectively broadens the protection afforded by a patent grant although the claims themselves are, of course, not affected.[37] This doctrine is the product of judicial decision and has never been codified.

Contributory Infringement

Similar to the doctrine of equivalents, the doctrine of contributory infringement was also a logical response to the practical and equitable obligation to protect patentees. Typically, an inventor of a combination would patent it as such if the elements were individually unpatentable although the combination met patentability requirements.[38] Such a patent protects the combination only and not the individual elements.[39] As stated in *Aro I*,[40]

> [I]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant.[41]

The doctrine of contributory infringement, as it developed at common law, was a tort concept.[42] It provided that a patentee could sue a person who sold an unpatented component of a patented combination with the intent and purpose of bringing about its use in a patented combination. The earliest case applying this doctrine was *Wallace v. Holmes*[43] which permitted recovery against an unauthorized seller of a patented kerosene lamp. The defendant sold the lamp without the glass chimney, thus omitting one claimed element in an effort to avoid

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37 Janes, *Infringement*, *supra* note 17, at 443, *citing* International Harvester Co. v. Killeser Mfg. Co., 67 F.2d 54, 61 (9th Cir. 1933).

38 The statutory requirements of patentability are novelty, utility and non-obviousness. For a discussion of the modern considerations for patentability, *see* Graham v. John-Deere Co., 383 U.S. 1 (1966).

39 Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U.S. 680, 684 (1944). *But see* 35 U.S.C. § 271(c) (1970). This section sets down circumstances in which the contributory infringement action will be used to protect unpatented elements of a patented combination: when the component is a material part of the invention, especially made or especially adapted for use in infringement of the patent and not a staple article of commerce, the sale or manufacture of that unpatented component is expressly prohibited.

40 365 U.S. 336 (1961).

41 *Id.* at 344.

42 Report of Attorney General's National Committee to Study Antitrust Laws at 251 (March 31, 1955).

43 29 F. Cas. 74 (No. 17, 100) (C.C.D. Conn. 1871).

liability for infringement. The court allowed recovery on the theory that the ultimate purchaser would supply the missing element and thus infringe the patent by the use of the lamp. Since the recovery against the user was impractical, the court felt that equity demanded recovery against the contributory infringer, the supplier of the almost complete combination.

Just four years later, in *Saxe v. Hammond*,[44] this broad holding was limited to the situation where the element sold was usable only in the patented combination. If the element sold was a staple item of commerce capable of significant non-infringing use, the seller escaped liability as a contributory infringer. This principle was applied much later in *Carbice Corp. of America v. American Patent Development Corp.*[45]

The Patent Act of 1952 codified the doctrine of contributory infringement.[46] In the 81 years between *Wallace*[47] and the Patent Act there arose a number of significant cases. In *Morgan Envelope Co. v. Albany Paper Co.*,[48] the holder of a patent on a toilet paper dispenser combination brought suit against an alleged contributory infringer who supplied purchasers of this device with replacement rolls of paper. The court denied recovery because of the nature of the element supplied and its impliedly permissible replacement (repair) without direct infringement of the patent.

Similarly, *Leeds & Catlin Co. v. Victor Talking Machine Co.*[49] was an action brought against the unauthorized manufacturer of sound discs, charging the company with contributory infringement. The patent in question covered the combination of player and sound disc. The disc manufactured by the defendant Leeds & Catlin Company could be used only on plaintiff's player. Recovery was allowed because the replacement constituted an infringing reconstruction and the defendant, as supplier, was a contributory infringer. Thus, the determination of the alleged contributory infringer's liability turned on both the existence of direct infringement (the consumer's use of the Leeds & Catlin

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44 21 F. Cas. 593, 594 (No. 12,411) (C.C.D. Mass. 1875).

45 283 U.S. 27 (1931). This case dealt with a combination patent on a refrigerator device that incorporated dry ice (solid carbon dioxide) as a coolant. The patentee granted another the exclusive license to supply purchasers of the patented device with the dry ice. The defendant, Carbice Corporation, supplied dry ice to the same customers with the knowledge that the ice would be used in the patented combination. Carbice escaped liability because the dry ice was a staple item and could not be granted patent protection.

46 35 U.S.C. §§ 271(b), (c) (1970).

47 29 F. Cas. 74 (No. 17,100) (C.C.D. Conn. 1871).

48 152 U.S. 428 (1894).

49 213 U.S. 325 (1909). *See* text accompanying note 26 *supra*.

disc in combination with the player) and the absence of a substantial non-infringing use for the component supplied by the defendant.

The *Leeds & Catlin* Court distinguished the nature of the element supplied in the *Morgan Envelope* case from the record disc. The Supreme Court stated that the paper rolls in the earlier case were mere passive elements while in the latter case the discs were "the distinction of the invention, . . . the advance upon the prior art." This formulation has also come to be known as the "heart of the invention" test.

That a patentee could enforce his patent rights against a contributory infringer was a well-settled principle until 1944 when the two *Mercoid* cases[50] were decided by the Supreme Court. The suit brought by Mid-Continent Investment Company against Mercoid Corporation,[51] the alleged contributory infringer, concerned a combination patent for a heating system. The dominant element of the combination was an unpatented stoker switch which was being manufactured by Mercoid without authorization. Mid-Continent, the patent holder, brought an action for contributory infringement based on the fact that Mercoid's stoker switch was not a staple item since it lacked any significant non-infringing use. As a defense, Mercoid alleged that the prosecution of a contributory infringement action based on an element not itself patented constituted patent misuse.[52] This view was supported by the dis-

[50] Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U.S. 680 (1944).

[51] 43 F. Supp. 692 (N.D. Ill. 1942).

[52] The particular significance of a patent misuse defense or counterclaim lies in its remedial aspects. Some forms of patent misuse involve conduct that, by its nature, constitutes an antitrust violation, *e.g.*, patent pooling, tying arrangements, and fraud on the Patent Office. Only the patent monopoly itself is exempted from Sherman Act antitrust liability and the above types of repressive conduct related to the use of patents are not.

A typical patent pooling agreement involves a number of patentees who have agreed to condition the licensing of their particular patents upon the licensee acquiring the rights to use all the patents in the pool. These agreements unlawfully expand a patent monopoly beyond its permissible bounds and the Sherman Act exemption does not apply.

Tying arrangements condition the sale of patented proprietary items upon the purchase of nonpatented, readily available items as well. These restrictions remove the sale of the unpatented items from free competition and constitute unlawful attempts to expand the scope of a patent grant.

Fraud on the Patent Office is another type of patent misuse that is characterized as an antitrust violation. When a patent applicant knowingly and wilfully submits false information or conceals pertinent information from the Patent Office to acquire a patent, that patentee is wrongfully removing the subject from the public domain and fraudulently acquiring a monopoly.

Typically, these severe manifestations of patent misuse result in antitrust liability. The wrongful patentee may be liable for treble damages and the counsel fees of the aggrieved party and can be compelled to enter into royalty-free licensing agreements with others in the field. In extreme cases, the court may even order that the patent be dedicated to the public.

The *Mercoid* Court held that the use of a combination patent to protect an unpatented element was a patent misuse of sufficient gravity to entitle the aggrieved party to antitrust

trict court.[53] The Court of Appeals for the Seventh Circuit reversed,[54] basing its decision on the *Leeds*[55] case. *Leeds* had held that the unauthorized use of an unpatented element constituted infringement if that element was the dominant aspect of the patented combination. The Supreme Court, in *Mercoid Corp. v. Mid-Continent Investment Co.*,[56] reversed, stating that the *Leeds* rule could no longer be used to protect an unpatented element of a patented combination.[57] Factors such as the dominance or inventiveness of an element were no longer of consequence.[58] Justice Douglas, writing for the Court, clarified the resulting status of the doctrine of contributory infringement:

> The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider.[59]

Thus limiting the patent monopoly was deemed to be justified in the public interest and consistent with the judicial attitude that monopoly is "evil" per se.[60]

The companion case, *Mercoid v. Minneapolis Honeywell Regulator Co.*,[61] was brought by Honeywell, a patent licensee. The Court reiterated its position and clarified its attitude of opposition to the use of a patent on a combination to control the market for unpatented elements. The mere bringing of a contributory infringement action against a manufacturer or seller of an unpatented element of a patented combination was held to be patent misuse per se and an antitrust violation:

> The legality of any attempt to bring unpatented goods within the

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damages. This holding was grounded on the belief that the patent was being used to protect an unpatented element from competition. In reality, however, the patentee was "using his patent not to monopolize the sale of what is not patented but to prevent the defendants from aiding others to infringe what is patented." Florence-Mayo Nuway Co. v. Hardy, 168 F.2d 778, 785 (4th Cir. 1948).

53 *Id.*

54 133 F.2d 803 (7th Cir. 1942).

55 213 U.S. 325 (1909).

56 320 U.S. 661 (1944).

57 The Court's holding had the effect of overruling the *Leeds* case although Justice Roberts stated, in his dissenting opinion, that *Leeds* had not been overruled. *Id.* at 675.

58 *Id.* at 667.

59 *Id.* at 669.

60 This judicial hostility is prevalent notwithstanding the creation of the patent monopoly by Article I, section 8 of the United States Constitution. One explanation for this current attitude toward patents is the 1938 Hartford Conspiracy. This incident and the resulting antitrust action, Hartford-Empire Co. v. United States, 323 U.S. 386 (1945), arose from the pooling of over 500 patents by a number of companies engaged in glass manufacturing. *See* Gregg, *Tracing the Concept of "Patentable Invention,"* 13 VILL. L. REV. 98, 104 (1967).

61 320 U.S. 680 (1944).

protection of the patent is measured by the anti-trust laws not by the patent law.[62]

The holding in the *Mercoid* cases led to much confusion and criticism. In effect, the doctrine of contributory infringement had been abrogated, the patentee's protection stripped of much of its attractiveness, and the distinction between patent misuse and antitrust violations all but disregarded.

Legislative Reaction

The controversy that resulted from the *Mercoid* decisions led to the passage of § 271 of the Patent Act of 1952. Subsection (a)[63] merely restates the general definition of infringement applied by the courts. The doctrine of contributory infringement was revived and codified in the remaining subsections of section 271. Subsection (b)[64] was interpreted by *Hautau v. Kearney & Trecher Corp.*[65] to apply only in the situation where actual infringement occurs as a result of inducement by the alleged infringer. A mere attempt to induce infringement is insufficient.

Subsection (c)[66] narrowly defines the elements of contributory infringement. Specifically, the components of the patented device sold for use in performing the patented process or as an element of a patented combination must be a material part of the invention, must be known to be particularly made or adapted for use in the infringement, and such component must not be a staple item suitable for substantial non-infringing use. If these elements are present, the unauthorized seller is guilty of contributory infringement.

The House Judiciary Committee[67] attempted to clarify the purpose of section 271(c):

> One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or im-

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62 *Id.* at 684.

63 35 U.S.C. § 271(a) (1970) provides:
Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

64 35 U.S.C. § 271(b) (1970) reads:
Whoever actively induces infringement of a patent shall be liable as an infringer.

65 179 F. Supp. 490 (E.D. Mich. 1959).

66 35 U.S.C. § 271(c) (1970) provides:
Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

67 House Comm. on the Judiciary, Revision of Title 35, United States Code, H.R. Rep. No. 1923, 82d Cong., 2d Sess. (1952).

> plied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion.[68]

Since subsection (c) specifically reestablished the offense of contributory infringement, another section was required to allow a patentee to utilize this concept without risking patent misuse liability. The law prior to the Patent Act of 1952 followed the holding of the *Mercoid* cases and considered enforcement of patent rights against a contributory infringer to be a per se patent misuse. Theoretically, section 271(d)[69] was intended to overrule this concept. Justice Brennan's concurring opinion in *Aro I* found that "the legislative history makes it clear that paragraph (d) complements (c) with the view to avoid the application of the patent misuse doctrine to conduct such as that of the patent owner in the present case."[70]

POST SECTION 271 CASE LAW

Aro Manufacturing Co. v. Convertible Top Replacement Co.[71] (*Aro I*) was the first case to be decided by the Supreme Court under § 271 of the Patent Act of 1952. Briefly, this case was concerned with a

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[68] *Id.* at 9.

[69] 35 U.S.C. § 271(d) (1970) reads:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

[70] 365 U.S. 365 n.9, *citing* HOUSE COMM. ON THE JUDICIARY, REVISION OF TITLE 35, UNITED STATES CODE, H.R. REP. No. 1923, 82d Cong., 2d Sess. (1952) and *Hearings on H.R. 3760 Before the Subcomm. of the House Comm. on the Judiciary*, 82d Cong., 1st Sess., at 161-62, 169-75 (1951).

In Aro Mfg. Co. v. Convertible Top Replacement Co. (*Aro II*), 377 U.S. 476 (1964), the Court stated that

> Congress enacted § 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid*, and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions.

Id. at 492.

The court made reference to the *Aro I* opinions of Justice Black, 365 U.S. at 348-49 and nn.3-4; Justice Harlan, *id.* at 378 n.6; and Justice Brennan, *id.* at 365-67.

[71] 365 U.S. 336 (1961).

combination patent on a self-sealing weatherproof convertible top used in 1952-1954 Ford and General Motors automobiles.[72] Older designs required the user to fasten external devices along the sides of the top whenever it was raised. The new design obviated the need for this operation. The patented top contained a number of major elements including wood or metal supports, a fitted fabric top, and a wiper panel that sealed the top against the body of the car by applying internal pressure along the sides of the top. These individual elements were unpatented.

The controversy arose when Convertible acquired territorial rights to the combination patent and brought an action to enjoin Aro, the alleged contributory infringer, from making and selling replacement fabrics. The district court held for Convertible[73] and the Court of Appeals for the First Circuit affirmed.[74] Both decisions were based on the determination that the replacement of so major an element of the combination was a reconstruction and, therefore, an infringement.[75]

The Supreme Court reversed, declaring, "It is plain that § 271(c) . . . made no change in the fundamental precept that there can be no contributory infringement in the absence of direct infringement."[76] In the Court's opinion, direct infringement was lacking because the replacement of the unpatented fabric element was permissible "repair" and not infringing "reconstruction."[77] The actual test applied was quite simple:

> Mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property. Measured by this test, the replacement of the fabric involved in this case must be characterized as permissible "repair," not "reconstruction."[78]

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72 Mackie-Duluk Patent No. 2,569,724.

73 119 U.S.P.Q. 122 (D. Mass. 1957).

74 270 F.2d 200 (1st Cir. 1959).

75 Representatives of the Aro Company admitted that replacement fabrics cut for the Mackie-Duluk top, due to their unique shape, could not be used on any other type of convertible top. Thus, the courts found that the replacement fabric was not a staple article since it had no non-infringing use.

76 365 U.S. at 341.

77 The Court apparently overlooked the fact that Ford's use of the Mackie-Duluk top was unauthorized. General Motors had acquired a license to use the top on its 1952-54 cars but Ford had not. Thus, any manufacture or sale of Ford automobiles containing that patented top was a direct infringement of the patent. Further, the use of the convertible top by Ford purchasers was unauthorized and a direct infringement as well, making it unnecessary to even consider repair versus reconstruction since anyone supplying a material element of a patented combination to a direct infringer is liable as a contributory infringer.

78 365 U.S. at 346.

Additionally, the Court reasserted the concept that a combination patent protects only the combination and not the unpatented elements of that combination.[79] It found that no distinction could be made based on whether the element was the inventive or dominant part of the patent or merely an insignificant part. The Court thus expressly rejected the "heart of the invention" test applied prior to *Mercoid* and by the lower courts in *Aro I*.

Justice Black, in his concurring opinion, construed the doctrine of contributory infringement under section 271(c) very narrowly. He stated that a combination patent protects only the combination and that, if an element is novel, it should be patented individually. Otherwise, any member of the public has the right to make the part except where it is knowingly supplied for a new making of what is in effect the whole combination.[80] Finally, Justice Black joined the majority in rejecting the "heart of the invention" test for infringement, whether direct or contributory.[81]

Although the *Aro I* holding was a 6-3 decision, the reasoning of the Court was more evenly split. Chief Justice Warren and Justices Whittaker, Douglas, Clark, and Black held the test of infringement to be a narrow interpretation of "reconstruction," that is, the combination is merely repaired so long as at least one element is left untouched.[82] Justice Brennan joined the dissenters, Justices Harlan, Frankfurter and Stewart, in calling for a broader test of repair versus reconstruction,[83] a test to be based on a collection of factors from the Court's earlier decisions, including, in particular, the "inventive" factor.[84] The dissent's argument is particularly persuasive in light of the express intent of the

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[79] *Id.* at 344, *citing* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 676 (1944).

[80] 365 U.S. at 362. The knowing supply of a part for use in the whole combination could make the supplier a contributory infringer.

[81] A patented combination is no more than that, a novel relationship brought to bear on what presumably are familiar elements already in the public domain. Such familiar elements are not removed from the public domain merely because of their use, *however crucial*, in the novel combination.

Id. at 361 (Black, J., concurring) (emphasis added).

[82] An inconsistency in the opinion must be pointed out. The majority, at 365 U.S. 346, cited the *Cotton Tie* case, as an example of reconstruction by "second creation." However, under the majority's new test set down on the same page of the opinion, the *Cotton Tie* situation would be a prime example of mere repair. The combination consisted of two separate elements, the buckle and the strap. Replacing only the strap element left the buckle element untouched. Thus, under the new test, such replacement would constitute repair and not the reconstruction which *Cotton Tie* had held it to be. *See* 32 U. CHI. L. REV. 353, 360 (1965); 49 CALIF. L. REV. 988, 992 (1961).

[83] 365 U.S. at 363.

[84] *See* Hildreth, *Contributory Infringement*, *supra* note 22, at 537-40.

drafters of section 271(c): restoration of the concept of contributory infringement as it existed prior to the *Mercoid* cases.[85]

Aro I's treatment of precedents caused much confusion.[86] As a result, in 1964, *Wilbur-Ellis Co. v. Kuther*[87] came before the Court. Defendant petitioner had purchased four patented fish canning machines in nonoperable condition. Complete sandblasting of the machines and grinding of some elements was required to restore them to working order. In the process of restoration, six of the 35 unpatented elements were modified so that the machine would pack a five ounce can of fish instead of the one pound can it had originally been designed for. The patentee's ensuing infringement action against the purchaser was upheld by the district court.[88]

The petitioner argued that, under the *Aro I* test,[89] the individual elements could have been replaced with identical elements without infringing the patent so long as at least one element remained untouched. Thus, it was contended, a finding of non-infringement should also result if the same elements are merely ground to a different size or relocated. However, the district court based its decision on the determination that changing the essential elements of the machine was reconstruction and not merely repair.[90]

The Court of Appeals for the Ninth Circuit affirmed[91] but the Supreme Court reversed on the basis of the principle that a combination patent protects only the entire combination, not the elements.[92] The petitioner had modified only six elements,[93] the size and location of which were not covered by the patent claims.[94] The Court held that

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85 *Hearings on H.R. 3760 Before the Subcomm. of the House Comm. on the Judiciary*, 82d Cong., 1st Sess., 151 (1951). *See* Connor, *The Second* Aro *Case: A Realignment of the Supreme Court on the Matter of Contributory Infringement of a Combination Patent*, 34 U. CIN. L. REV. 127 n.18 (1965) [hereinafter cited as Connor].

The codification of the doctrine of contributory infringement in § 271(c) of the Patent Act of 1952 must be considered an expansion of patent protection. The traditional judicial hostility toward the patent monopoly is the only possible explanation for the consistent refusal of the courts to acknowledge the explicit intent of the framers of the Patent Act. The report of the House Committee on the Judiciary expressly states the purpose of § 271(c) as "codifying the principles of contributory infringement" and "eliminating the doubt and confusion." HOUSE COMM. ON THE JUDICIARY, REVISION OF TITLE 35, UNITED STATES CODE, H.R. REP. No. 1923, 82d Cong., 2d Sess. 9 (1952).

86 Note, *Repair and Reconstruction of Patented Combinations*, 32 U. CHI. L. REV. 353, 360-61 n.48 (1965).

87 377 U.S. 422 (1964).

88 Kuther v. Leuscher, 200 F. Supp. 841 (N.D. Cal. 1961).

89 *See* text accompanying note 78 *supra*.

90 200 F. Supp. at 842.

91 Leuscher v. Kuther, 314 F.2d 71 (9th Cir. 1963).

92 377 U.S. 422 (1964).

93 The claimed invention included a total of 35 elements.

94 377 U.S. at 423.

such replacement was within the rights purchased by the petitioner and constituted repair, not reconstruction. The abandonment of the "heart of the invention" concept after *Aro I* made it clear that the existence of 29 unchanged elements sufficed to classify the replacement as a mere repair even though the essential elements were in fact modified.

Unlike the lower courts in the *Wilbur-Ellis* case, most lower courts interpreted the *Aro I* decision as greatly limiting the power of a patent grant to protect the elements of a patented combination. In *Switzer Brothers v. Locklin*,[95] a particularly noteworthy case, the Seventh Circuit held that the *Mercoid* rule had not been vacated by section 271(c). Instead, as had been stated in *Aro I*, the monopoly granted to the patentee applied only to the entire patented combination and not to the elements thereof regardless of their essential nature.[96]

Similarly, in *Pierce v. Aeronautical Communication Equipment, Inc.*,[97] the Fifth Circuit refused to find double patenting[98] where an element of a patented combination was separately patented. A combination patent covered an electrical circuit containing a Pierce oscillator, among other elements. Seven years later, a second patent was issued for the oscillator element alone. The court of appeals overruled the district court's finding of double patenting,[99] citing *Aro I* and *Mercoid* for the proposition that a combination patent protects only the combination and not the individual elements regardless of their essential nature. Thus, a second patent on the oscillator alone would not give rise to double patenting for that individual element received no protection from the combination patent.[100]

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[95] 297 F.2d 39 (7th Cir. 1961). This case dealt with an assignee of several patents for fluorescent fixtures and displays. The plaintiff assignee required that licensees purchase from him the raw materials needed to produce the fixtures. Although the materials in question were raw materials and not included in a patent grant, the assignee tried to invoke the protection of section 271(c). Not only did the Seventh Circuit state that section 271(c) did not abrogate the *Mercoid* doctrine but it also asserted that *Aro* affirmed that same doctrine. Thus, the elements of the combination would not be covered by the patent. Furthermore, the court stated that, after *Aro*, it could no longer be argued that section 271(c) overruled the *Mercoid* holdings.

[96] *Id.* at 46.

[97] 307 F.2d 790 (5th Cir. 1962). *See* Connor, *supra* note 85, at 127 for a complete discussion of this point.

[98] Double patenting occurs when the same invention receives patent protection from more than one patent. The effect of a double patenting situation could be to extend the patent protection beyond the statutory 17-year period. To avoid such a result, the later patent is declared invalid. The significance of this rule is demonstrated by a situation like the *Pierce* case where one separately patented element was part of a patented combination. If the combination patent was held to give protection to the already patented oscillator element, the later combination patent would have been declared invalid as a form of double patenting.

[99] 198 F. Supp. 269 (S.D. Fla. 1961).

[100] 307 F.2d at 795. The oscillator patent was held to be invalid by the First Circuit in

It was necessary to mitigate the absolute rule the lower courts had derived from the *Aro I* case. The refusal to protect any element of a combination patent regardless of its essential nature created a situation that required the Supreme Court to reanalyze its *Aro I* holding.

THE SECOND *ARO* CASE (*ARO II*)

Such an opportunity to assess the effect of the *Aro I* decision occurred in 1964 when the *Aro* case[101] which had been remanded to the district court[102] and then appealed to the court of appeals,[103] once again came to the Supreme Court on a writ of certiorari. This second decision sounded a retreat from much of the holding in *Aro I*. *Aro II* drew a sharp distinction between the claims with respect to the licensed use of the convertible tops in General Motors cars and the unlicensed use in Ford cars.[104] In *Aro II*, the Court claimed it had never intended, in *Aro I*, to reverse the original court of appeals' finding of contributory infringement with respect to Aro's supplying of the fabric elements for use as replacements in Ford cars. In fact, however, there had been no such apparent distinction made in *Aro I* since the Court had ordered the case as a whole "reversed and remanded."

On remand, the district court, acting under the Supreme Court order, entered a judgment negating any allegation of infringement, either direct or contributory. Convertible Top appealed to the Court of Appeals for the First Circuit[105] which reversed the lower court determination with respect to the fabric elements supplied for use on Ford cars. The circuit court was in the unusual position of having to explain its own holding in the first *Aro* case in order that the precise scope of the earlier decision might be determined.[106] Such analysis was needed

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Pierce v. Hewlett-Packard Co., 220 F.2d 531, *cert. denied*, 350 U.S. 833 (1955), and by the Third Circuit in Pierce v. Allen B. DuMont Laboratories, 297 F.2d 323 (1961), although the latter court did not reach the same issue. The holding in Blonder-Tongue Laboratories v. University of Ill. Foundation, 402 U.S. 313 (1971), has since obviated the need for multiple litigation on the validity of a single patent by abolishing the requirement of mutuality of estoppel. Now, once a patent is held invalid by one court, an alleged infringer may use the defense of collateral estoppel provided the invalidating judgment was rendered under conditions meeting the Supreme Court's fairness test outlined in *Blonder-Tongue*.

101 Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964).

102 (S.D. Mass. 1961) (unreported decision).

103 312 F.2d 52 (1st Cir. 1962).

104 General Motors had acquired a license to use the patented top combination while Ford had no such license. Thus, Ford's use was a direct infringement of the combination patent — a prerequisite for a finding of contributory infringement liability that obviated the need for a repair versus reconstruction analysis.

105 312 F.2d 52 (1st Cir. 1962).

106 Through Chief Judge Woodbury, the court of appeals acknowledged the summary

to, in turn, define the parameters of the Supreme Court's reversal in *Aro I*.

In particular, the First Circuit directed its attention to a consideration of whether *Aro I* reviewed (and thus reversed) a decision covering the contributory infringement aspects of Aro's conduct with respect to both General Motors and Ford Cars or General Motors cars alone. In a very persuasive opinion, the court of appeals found that the Supreme Court's *Aro I* decision dealt only with the question of contributory infringement in relation to replacement tops for licensed General Motors cars.[107] Speaking for the Court in *Aro II*, Justice Brennan[108] agreed, declaring, in reference to *Aro I*, "Our decision dealt, however, only with the General Motors and not with the Ford cars."[109]

Aro II had significant impact on three areas of prime concern to patent lawyers:[110] the vitality of the *Mercoid* doctrine, the effect of licensing, and the concept of "heart of the invention." First, *Aro II* expressly recognized that the legislative intent behind the enactment of section 271 was the restoration of the pre-*Mercoid* doctrine of contributory infringement.[111] The Court held that contributory infringement actions seeking to protect substantial unpatented elements under combination patents would no longer be barred as per se patent misuse.[112]

The impact of *Aro II*'s holding on the area of licensing is not as easy to assess. The case is generally cited as authority for the proposition that repair alone is infringement when the original use was unautho-

treatment given in the original district court opinion to Ford's infringement and concluded that its own attention in the earlier decision had been directed primarily to the basic question of repair versus reconstruction. *Id.* at 54. This question was only relevant to a consideration of the allegation of contributory infringement with respect to licensed General Motors cars since Ford's unauthorized use of the Convertible tops constituted a direct infringement and thus obviated any need to resort to a reconstruction concept.

107 *Id.* at 56.

108 Mr. Justice Brennan's concurring opinion in *Aro I* did refer to this distinction. 365 U.S. at 368.

109 377 U.S. at 479.

110 Additionally, *Aro II* considered the element of knowledge required by section 271(c) for a finding of contributory infringement. Although knowledge is particularly significant to a determination of monetary liability, *Aro I* disregarded this element. 377 U.S. at 488. See Moseley, *The Knowledge Requirement of Contributory Infringement and the* Aro *Case*, 47 J. PAT. OFF. SOC'Y 98 (1965), for a thorough discussion of the legislative considerations leading to the enactment of § 271(c) of the Patent Act, in particular the development of the knowledge concept.

111 377 U.S. at 492.

112 The *Mercoid* Court held that the defense of patent misuse barred a contributory infringement action. 320 U.S. at 668. However, the second *Aro* Court stated that section 271(c) was enacted for the "express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid*, and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions." 377 U.S. at 492.

rized since the repair operates to perpetuate the infringing use.[113] The Court stated:

> The reconstruction-repair distinction is decisive, however, only when the replacement is made in a structure whose original manufacture and sale have been licensed by the patentee, as was true only of the General Motors cars; when the structure is unlicensed, as was true of the Ford cars, the traditional rule is that even repair constitutes infringement. . . . This aspect of the case was not considered or decided by our opinion in *Aro I*.[114]

The minority Justices in *Aro II* maintained, however, that *Aro I* considered the issue of contributory infringement as it applied to replacement fabric for *both* the licensed General Motors and the unlicensed Ford cars. They felt that there was no reason to draw a distinction between the two situations.[115]

This statement is particularly significant because the dissenters in *Aro II* had all been members of the majority in *Aro I*.[116] The *Aro II* dissent reiterated the earlier holding that the patent monopoly could not be applied to the unpatented fabric element regardless of any lack of authorization for use of the entire patented combination.[117] Thus, the *Aro II* dissenters would accord no significance to the licensing of General Motors.[118] These Justices were, of course, in the best position to clarify that the intent of *Aro I* was not to differentiate between the General Motors and Ford situations. This creates at least one problem: since *Aro II* did not *expressly* overrule the licensing aspect of the *Aro I* holding and that holding is at least arguably as the *Aro II* dissenters would have it, it could be claimed that the mere unlicensed use of a device covered by a combination patent does not make a supplier of an element for the device a contributory infringer.[119] It is clear, however, that, if *Aro II* does indeed permit this escape from liability via *Aro I*,

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113 *See* Janes, *Infringement*, *supra* note 17, at 446.

114 377 U.S. at 480.

115 *Id.*

116 Justice Black, who wrote the dissenting opinion in *Aro II*, suggested that a change in Court personnel resulted in the different holding. Justice Whittaker, the author of the majority opinion in *Aro I*, was replaced by Justice White, who, with Justices Harlan, Stewart, Goldberg and Brennan, formed the majority in *Aro II*. 377 U.S. at 521. Justices Harlan and Stewart had dissented in *Aro I*. Justice Goldberg replaced *Aro I*'s dissenting Justice Frankfurter while Justice Brennan had already drawn the *Aro II* distinction in his *Aro I* concurring opinion. In light of the sharp line later drawn between General Motors and Ford replacements in *Aro II*, Justice Brennan's concurrence in *Aro I* could effectively be considered a dissenting opinion.

117 *Id.* at 519.

118 *Id.*

119 *Accord*, Connor, *supra* note 85, at 133.

[illegible] limited to unauthorized suppliers of *non-material* elements because [illegible] the later decision's restoration of the "heart of the invention" test.[120]

The judicial restoration of the essential element doctrine makes *Deepsouth II* one of the few recent Supreme Court decisions that strengthens the patent system. Through reinstatement of the pre-*Mercoid* concepts of contributory infringement, the combination patent could properly protect some unpatented elements. With dominance and inventiveness of the element in question once again given primary consideration, *Mercoid*'s prima facie refusal to protect any unpatented element was rejected.[121] This holding was more realistic, giving greater recognition to the policy concepts behind the patent system and the need to give the inventor of a combination broader protection.

Partial Manufacture and Export

In an analogous area, the recent Supreme Court decision, *Deepsouth Packing Co. v. Laitram Corp.*,[122] perpetuates the improper application of the patent laws. This action was commenced in the District Court for the Eastern District of Louisiana by the Laitram Corporation, assignee of a combination patent for a machine that cleaned and deveined shrimp,[123] against the Deepsouth Packing Company.[124] Laitram charged that Deepsouth infringed its patent through manufacture in the United States of all the elements of the patented deveining machine and their subsequent assembly (by Deepsouth) at the customer's facility in Brazil. Laitram sought to enjoin Deepsouth from such activity.

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120 377 U.S. at 485-86, 491-92. One commentator has said:

> Now the situation has changed entirely . . . [with] the Supreme Court believing that protection may be afforded to an individual element of a patented combination. . . . [I]t is [now] reasonable to protect from direct and contributory infringement elements which go to the heart of a combination patent.

Connor, *supra* note 85, at 135.

121 377 U.S. at 491-92.

122 406 U.S. 518 (1972). *See generally* the discussions of this case in Lipman, Deepsouth Packing Co. v. Laitram Corp.—*How to Succeed in Deveining Without Really Trying*, 54 J. Pat. Off. Soc'y 695 (1972); 58 A.B.A.J. 1226 (1972); 41 Fordham L. Rev. 458 (1972); 10 Houston L. Rev. 216 (1972).

123 The validity and priority of the Laitram patent had been established in earlier actions. Laitram Corp. v. Deepsouth Packing Co., 301 F. Supp. 1037 (E.D. La. 1969), *aff'd*, 443 F.2d 928 (5th Cir. 1971). The elements of the combination were individually unpatentable. Furthermore, each element was available commercially and shown in suppliers' catalogues. The Laitram patent was awarded for the novelty of the combination of the known elements.

The first district court opinion held that the Laitram and Deepsouth machines were substantially the same and thus, under the doctrine of equivalents, Laitram's patent was infringed. An injunction specifically prohibiting Deepsouth from selling its infringing machine in the United States was issued.

124 Laitram Corp. v. Deepsouth Packing Co., 310 F. Supp. 926 (E.D. La. 1970).

The district court relied on the earlier decisions of the Second, Third and Seventh Circuits in *Radio Corp. of America v. Andrea (Andrea I)*,[125] *Cold Metal Process Co. v. United Engineering & Foundry Co.*,[126] and *Hewitt-Robins, Inc. v. Link-Belt Company*,[127] respectively, and concluded that its injunction in an earlier infringement action against Deepsouth could not properly be used to guard against less than complete manufacture and assembly within the United States. The Fifth Circuit reversed unanimously,[128] holding that, since Deepsouth manufactured all parts for its deveiner in the United States and assembled it to such a degree before exporting that the machine could be made operable by a mere one hour final assembly abroad, there was a direct infringement of Laitram's patent. On certiorari, the Supreme Court heard the case. In a 5-4 decision, [129] the Court reversed the Fifth Circuit, restoring the holding of the district court.

The district court had relied heavily on the Second Circuit's first decision in the *Andrea I* case.[130] In *Andrea I* the defendants manufactured all the components of a patented radio receiver but, to avoid infringement, packed the receiver chassis and uninstalled vacuum tubes separately (although they were shipped in the same carton) for exclusively foreign sales. The court stated:

> No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, *and not even then if it is done outside the territory for which the monopoly was granted.*[131]

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125 79 F.2d 626 (2d Cir. 1935).

126 235 F.2d 224 (3d Cir. 1956). This case concerned a defendant who manufactured and sold a steel rolling mill to users overseas. The mill, though manufactured in the United States, was shipped abroad before it was assembled. The plaintiff patentee had licensed the defendant to manufacture such mills but a controversy arose over the royalties involved in this sale. The defendant escaped liability because the place of final assembly was beyond the limits of American patent protection.

127 371 F.2d 225 (7th Cir. 1966). *Hewitt-Robins* dealt with a patented reclaiming apparatus. Plaintiff Hewitt-Robins, as assignee of the patent, brought the action against Link-Belt. The defendant had contracted to supply the reclaiming apparatus to purchasers in Enegli, Turkey. The patented apparatus was never assembled in the United States and parts were sent to Turkey in numerous shipments over a three month period. This case can clearly be distinguished from *Deepsouth* by the degree of assembly required at the place of foreign usage. In *Hewitt-Robins* the assembly took months while in *Deepsouth* it took merely one hour although the equipment was complex and weighed over one and three quarter tons.

128 443 F.2d 936 (5th Cir. 1971).

129 406 U.S. 518 (1972).

130 310 F. Supp. at 929.

131 79 F.2d at 628 (emphasis added).

The later *Cold Metal* and *Hewitt-Robins* cases cited by the *Deepsouth* district court added little to the analysis of this situation. These later cases cited *Andrea I* as the primary reason for their holdings.

The Fifth Circuit reviewed the above decisions in *Deepsouth* and rejected their reasoning, stating that "the courts have worked themselves into what we perceive to be a conceptual box."[132] The court of appeals argued that the term "makes" in section 271(a)[133] should be given a realistic construction,[134] *i.e.*, it should be read as meaning "what it ordinarily connotes — the *substantial* manufacture of the constituent parts of the machine."[135] Thus, the court held:

> [W]hen all parts of a patented machine are produced in the United States and, in merely minor respects, the machine is to be finally assembled for its intended use in a foreign country . . . . the machine is "made" within the United States.[136]

One year later, the Supreme Court overruled the court of appeals in an opinion written by Justice White. Citing *Aro I* and *Mercoid v. Mid-Continent Investment Co.*,[137] the Supreme Court reiterated the rigid rule that a combination patent protects only the entire combination and not the unpatented elements.[138] On that premise, the Court rejected the view that substantial manufacture of the constituent parts of a machine results in direct infringement of a combination patent.[139] The Court quoted Judge Swan's declaration for the Second Circuit in the *Andrea I* case, "[The] relationship is the essence of the patent,"[140] and concluded that, unless all the elements are assembled, there is no "essence" to be violated by the manufacturing exporter.[141]

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132 443 F.2d at 938.

133 35 U.S.C. § 271(a) (1970) provides:

> (a) Except as otherwise provided in this title, whoever without authority *makes*, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(Emphasis added.)

134 443 F.2d at 938.

135 *Id.* at 939. (Emphasis added.)

136 *Id.*

137 320 U.S. 661 (1944).

138 406 U.S. at 528-29.

139 *Id.*

140 79 F.2d at 628, *quoted in* 406 U.S. at 529.

141 This attitude is unrealistic. By their selection of the words "makes," "uses" and "sells," the framers of the Patent Act were obviously trying to offer the patentee an attractive exclusive right. He could exclude others from making, using or selling his invention. Since it is to be presumed that each of these words has independent legislative significance, an interesting argument that would produce a result contrary to *Deepsouth* can be developed. The argument would run as follows: First, it would be noted that, in addition to its explicit meaning, the term "use" protects the patentee where another appropriates the benefit of his invention and, without authority, makes and then uses the

The dissenting opinion, written by Justice Blackmun and joined by Chief Justice Burger and Justices Powell and Rehnquist,[142] identified the major weakness in the majority's argument, a point not highlighted by the court of appeals but one discussed by commentators prior to the Supreme Court's *Deepsouth* decision.[143] The authority of *Andrea I*, relied on by the majority, was substantially undermined by the modified opinion of the same court just two years later,[144] reversing the holding and arguably overruling the rationale of the original decision. This later case held that the sale of the substantially assembled parts of the patented combination for a minor final assembly and use abroad was a direct infringement since the entire combination was made, sold and practically completely assembled in the United States.

It is the opinion of this author that the second *Andrea* case completely eviscerated the first decision because, in its modification, the Second Circuit neutralized its prior holding point for point. Seeking to narrow the *Andrea II* holding, the *Cold Metal*[145] and *Hewitt-Robins*[146] courts incorrectly relied upon only one of the distinctions drawn by the majority in *Andrea II*[147] — complete assembly for testing purposes and subsequent disassembly before shipment. However, immediately following its observation regarding assembly for testing purposes, *Andrea II* also noted:

> Where the elements of an invention are thus sold in *substantially* unified and combined form, infringement may not be avoided by a

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device himself. Similarly, "sells" protects the patentee from one who, without authority, makes and then sells the device. Thus, since a domestic maker of a fully assembled combination (*i.e.*, the only type of "maker" *Deepsouth* would provide protection against) could invariably be found guilty of use or sales infringement, the inclusion of the term "makes" in section 271(a) would be unnecessary unless a broader meaning were intended. Second, it would be pointed out that, in fact, the only situation in which one can use or sell a patented device without also necessarily incurring liability for making it as well, occurs when that device is made or purchased outside the United States and then imported by the ultimate user or seller. In any but this infrequent situation the prohibition of "making" the patented item is necessarily included in the very terms "sells" and "uses." Third, it would be determined that it is, therefore, a reasonable interpretation of the framers' intent to conclude that "makes" has a broader meaning than that attributed to it in *Deepsouth* and that it could specifically protect the patentee from an exporter-manufacturer who only makes the item in this country and ships it abroad for sale or use. Allowing a manufacturer to escape liability because minor, insubstantial elements are not finally assembled before shipment abroad seems to be contrary to the overall intent of § 271(a) of the Patent Act.

142 406 U.S. at 532.

143 *See, e.g.*, Comment, *Tightening the Screws on Minor Assemblies Abroad: The Meaning of "Makes" Under the Patent Infringement Statute*, 57 IOWA L. REV. 889, 891-97 (1972).

144 Radio Corp. of America v. Andrea, 90 F.2d 612 (2d Cir. 1937).

145 235 F.2d at 230.

146 371 F.2d at 230-31.

147 90 F.2d at 613.

> separation or division of parts which leaves to the purchaser a simple task of integration.[148]

The court then quoted its earlier *Andrea I* holding, pointing out that

> [the judgment was made] on the basis that the defendants were manufacturing and selling a complete combination which infringed, even though the tubes were not inserted in the sockets of the receiver at the time of sale.[149]

Going even further, the court held that the sale in the United States of the supposedly disassembled receiver constituted infringement because "[t]he single package contained all the elements of the combination"[150] and thus was a "sale" of the patented device. Therefore, the assembly for testing purposes analysis was merely one aspect of the decision and not a proper basis for distinguishing the *Cold Metal* and *Hewitt-Robins* cases from *Andrea II*. The primary consideration should be the substantial combination of all the elements. In *Deepsouth*, there was a sale of the entire combination[151] — although not fully assembled, all the elements were present.

The *Andrea I* opinion restated the rule that a combination patent protects only the entire combination. *Andrea II* noted that the defendant appellant did in fact sell the whole combination, the only mitigating factor being that the vacuum tubes needed cursory insertion to make the combination operable. However, only sale of a complete combination, not sale of an operable combination, was required by the Patent Act.[152]

To clarify its holding and complete its analysis, *Andrea II* discussed the defendant's right to use the tubes[153] as an element in an unauthorized combination.

Judge Swan,[154] in his partial dissent to *Andrea II*, stated that the Second Circuit's later holding overruled its decision in *Andrea I*. He expressed his agreement with the second holding on the merits but

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148 *Id.* at 613 (emphasis added).

149 *Id.* at 614.

150 *Id.*

151 Liability under the "sales" aspect was also discussed by the Court.

152 90 F.2d at 614.

153 The existence of other uses for the tubes and the written notice accompanying the sale of each tube stating that "tubes are to be used in systems already licensed for use" negated any implied license to use the tubes in this unauthorized combination. Thus, the defendant's use of the tubes was an infringement. *Id.* at 615.

154 Judge Swan had written the opinion of the court in *Andrea I*, and would, therefore, have been well aware of its intent.

dissented because he felt the court should not disregard its earlier opinion before the Supreme Court had an opportunity to review it.[155]

In light of *Andrea II*, the precedential value of the line of cases that relied upon *Andrea I* must be viewed cautiously. As mentioned earlier, neither *Cold Metal* nor *Hewitt-Robins* added any significant independent basis for their holdings. Indeed, the court in *Hewitt-Robins* demonstrated a superficial treatment of this aspect of patent law by citing *Aro I* for the proposition that a combination patent covers only the totality of the elements in the claim and that no element separately viewed is within the grant.[156] Just two years prior to this Seventh Circuit observation, the *Aro II* decision had demonstrated that such a statement was no longer absolutely true.[157]

Additionally, the Seventh Circuit "deem[ed] it equally clear that unassembled elements of a combination patent do not constitute the 'patented invention.' "[158] This statement was totally unsupported by authority[159] and demonstrated the court's desire to affirm the district court holding. A more reasonable basis for such a result would have been the factual distinction which could be drawn between *Hewitt-Robins* and *Andrea II*: in *Hewitt-Robins* there were separate shipments of the various parts over a prolonged period of time and, even more significantly, the assembly overseas was substantial.

The same argument cannot be used to distinguish *Deepsouth* from *Andrea II* for, in both these cases, the entire combination was shipped at one time and the final assembly abroad was really a "final sham assembly."[160]

Critical Analysis of the Supreme Court Holding

The majority of the Court, in an opinion written by Justice White, refused to find that Deepsouth's conduct infringed Laitram's patent. The Court based its holding on a number of points which must have had a synergistic effect because, when considered individually, they are not persuasive at all.

Citing *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment*

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155 90 F.2d at 615.

156 371 F.2d at 229.

157 377 U.S. at 485-86, 491-92. The opinion of the Court in *Aro II* expressly stated that the sale of the fabric element by the unauthorized manufacturer made such manufacturer liable as a contributory infringer under section 271(c). In this noteworthy instance the unpatented element was indeed protected by the combination patent.

158 371 F.2d at 229.

159 *See* Comment, *Tightening the Screws on Minor Assemblies Abroad: The Meaning of "Makes" Under the Patent Infringement Statute*, 57 IOWA L. REV. 889, 893 (1972).

160 D. DUNNER, J. GAMBRELL, I. KAYTON, PATENT LAW PERSPECTIVES, at Dev. B.1(2)(a)-9 (1971 Developments).

Corp.,[161] the opinion first reiterated the principle that a combination patent is awarded not for the novelty of the elements but for the novelty of the combination which in some way exceeds the sum of its parts.[162] Thus, only the entire combination was entitled to patent protection. In this case, however, Deepsouth did manufacture the entire combination. The patentable essence of the combination had been captured by Deepsouth when it manufactured and substantially assembled the patented device. Once the novelty of a combination is present in the substantially assembled device and there is no other legitimate use for the partial assembly, there is an effective misappropriation of enough of the combination to be a direct and intentional infringement of the combination patent — even though the minor assembly of unsubstantial elements might be omitted or intended for a later point in time.[163]

The Court did not consider such factors as the patentable essence of the combination, often called the "heart of the invention." Instead, it cited *Mercoid Corp. v. Mid-Continent Investment Co.*[164] and *Aro I* as authority for an absolute principle that only the totality of elements is protected by a combination patent. This theory is, however, now subject to exceptions carved out by Congress and the case law. First, the strict holdings of the *Mercoid* cases were expressly overruled by the enactment of § 271 of the Patent Act of 1952.[165] Second, the *Aro II* case expressly revived the "heart of the invention" analysis, particularly in the area of contributory infringement.[166]

Although it might be pointed out that Deepsouth's liability, to the extent that it should have been found to exist, would not have resulted from contributory infringement,[167] it is highly significant that the Court majority so blatantly showed its tendency to ignore any patent law developments, legislative or judicial, that expand protection of the patentee from the misappropriation of the fruits of his labor.

On the question of sales liability, Deepsouth argued that there was no unauthorized sale of a patented device because only components were sold here and the "making" occurred outside the United States.[168] This position was adopted by the Court and was justified by a narrow construction of the term "makes."[169] However, this

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161 406 U.S. at 552.
162 340 U.S. 147 (1950).
163 *See* D. DUNNER, *et al.*, PATENT LAW PERSPECTIVES, *supra* note 160, at Dev. B.1(2)(a)-9.
164 320 U.S. 661 (1944).
165 *See* text accompanying notes 68-70 *supra*.
166 377 U.S. at 491-92.
167 406 U.S. at 526.
168 *Id.* at 523-24.
169 *Id.* at 528.

aspect of the decision adds little to its weight because the Court relied entirely on *Andrea I* where Judge Swan stated that something is "made" when it reaches a state of final "operable" assembly. The Court disregarded the effect of *Andrea II* which conspicuously omitted the word "operable" from the same court's re-analysis. Of significance in *Andrea II* was the fact that all elements of the combination were made, packaged together, and sold in the United States by the infringing manufacturer.

The last point to be considered by the Court[170] was legislative intent affecting this area of infringement. The majority felt that § 271 of the Patent Act of 1952 was a mere codification of existing patent laws and did not change them in any way.[171] This reasoning was extended to encompass codification of the *Andrea I*[172] holding for, it was argued, if Congress had intended to overrule that doctrine, it would have done so expressly just as it had expressly overturned the *Mercoid* holdings. However, it is contended by this author that at the time section 271 was adopted, *Andrea II*,[173] not *Andrea I*, represented the courts' latest expression on the law of infringement applicable to the export of elements of a substantially assembled patented combination.[174] *Andrea II* so limited the Second Circuit's earlier ruling that the *Deepsouth* majority's argument on this point is wholly lacking in persuasive value.

In its final discussion, the Court appeared to recognize the weakness of some of its arguments and to reveal the true reason for its holding. Justice White indicated that it was the majority's opinion that a contrary decision would constitute an overruling or modification of prior case law, it being felt that such a modification should be based on an argument stronger than Laitram's demand for recognition of the equities of its situation.[175] As a result, the Court permitted an unauthorized manufacturer to take advantage of another's disclosure of an

170 The Court also touched upon the availability of foreign patents to protect the American patent holder beyond the territorial limits of the original patent. *Id.* at 531. Foreign patenting is not always a practical solution. In countries with patent laws like those of the United States, a patent application would be barred if made more than one year after the same patent application was filed in any other country. Thus, an American patentee would have to anticipate those foreign countries in which he would later need patent protection and apply immediately. Even if this course of conduct could be pursued, it would be financially burdensome in many instances. Many countries assess their patent holders an annual tax for the privilege of holding a patent monopoly. This tax is often substantial and is levied regardless of whether the patent is used or not.

171 406 U.S. at 530 & n.10, *citing* the *Congressional Record* and a conversation between Senators Saltonstall and McCarran, Chairman of the Committee on the Judiciary.

172 79 F.2d 626 (2d Cir. 1935).

173 90 F.2d 612 (2d Cir. 1937).

174 *Accord*, 406 U.S. at 533 (Blackmun, J., dissenting). *See* Comment, *Tightening the Screws on Minor Assemblies Abroad: The Meaning "Makes" Under the Patent Infringement Statute*, 57 IOWA L. REV. 889, 895 (1972).

175 406 U.S. at 531.

invention in compliance with the patent laws, to appropriate the fruits of the patentee's labor without regard to patent law responsibility, and then to hide behind an unrealistic and highly technical interpretation of the same laws.

Conduct such as Deepsouth's is causing a failure of consideration in the patent system. The consideration given to a patentee in exchange for his disclosure is the right to exclude others from the use, manufacture or sale of the disclosed invention in the United States. Much of the value of this consideration is lost when another is allowed to substantially manufacture that device without incurring liability.[176] The Court did not expressly state that such an interpretation of the Patent Act would be incorrect[177] but based its holding on a reluctance to overturn "strong" judicial precedents.[178] However, no such strong precedents existed. As has been discussed above, reliance on *Andrea I* is erroneous. *Cold Metal*[179] cited *Andrea I* without contributing any new development while *Hewitt-Robins*[180] simply cited *Cold Metal* and *Andrea I* and is, furthermore, distinguishable on its facts.[181] Thus, to have overruled such weak precedent and affirmed the holding of the court of appeals would not have been a difficult step.

In its failure to recognize the possible consequences of its holding, the Court took refuge behind the assertion that such an expansion of the patent law as Laitram proposed is a legislative task not to be initiated by the courts in the absence of some "sign" of congressional approval.[182] In so reasoning, the Court ignored the example of the doctrine of equivalents. That patent law doctrine is nothing more than a court-developed equity concept which has broadened the patent grant protection.[183] Under it, if an alleged infringer has changed one or more of the elements of a patented item to a substantially similar substance that performs substantially the same function in substantially the same way, he is held liable for infringement by equivalency.

This doctrine evolved in response to the moral and practical obligation to protect the patented item. Although a solid constituent of

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176 *See* note 141 *supra*.

177 Although the Court did not argue that monopolies are per se undesirable, the majority referred to a suggestion to that effect in Graham v. John-Deere, 383 U.S. 1 (1966). 406 U.S. at 530 n.11, *et. seq*.

178 *See* 406 U.S. at 528.

179 Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 224 (3d Cir. 1956). *See* note 126 *supra*.

180 Hewitt-Robins, Inc. v. Link-Belt Company, 371 F.2d 225 (7th Cir. 1966). *See* note 127 *supra*.

181 *I.e.*, the substantial assembly overseas. *Id*.

182 406 U.S. at 531-32.

183 *See* text accompanying notes 34-37 *supra*.

patent jurisprudence, the rule has never received legislative recognition. Clearly, the failure to codify this rule in the Patent Act of 1952 cannot be construed as a legislative renunciation but, more properly, as an implied concurrence. If the courts had waited for a "sign" from the legislature before applying the doctrine of equivalents, the patent system would have all but disappeared in the 120 years since *Winans v. Denmead.*[184]

Immediately after the district court holding in *Deepsouth*, some commentators[185] recognized the analogy between the doctrine of equivalents and substantial manufacture and export:

> [The district court] ignore[d] the fact that sale of the unassembled parts of a patented combination — at least when most of the parts have no other substantial use or are clearly intended to be combined to create the patented combination — is fully the equivalent of selling the parts assembled. The unassembled subterfuge works the same kind of constructive fraud on the patentee that the Supreme Court refused to permit in its *Graver Tank* decision by invoking the doctrine of equivalents.[186]

This statement assumes even greater significance when the degree of domestic assembly of the combination components in *Deepsouth* is considered. The final Brazilian assembly of the one and three quarter ton machine took *less than one hour.*

Contributory infringement also originated as a judicial concept. Until it was first recognized in *Wallace v. Holmes,*[187] there was no basis for the extension of infringement liability to a supplier of the elements of a patented combination. The *Wallace* holding operated to make the supplier of the almost complete combination liable. That doctrine survived the next 70 years with various expansions and narrowings[188] until it was effectively abolished by the *Mercoid* cases in 1944. Only then did the legislature take the opportunity to place its imprimatur on the doctrine in § 271 of the Patent Act of 1952. The concept of contributory infringement was then codified as it existed prior to the *Mercoid* cases. If the severe limitation by *Mercoid* had not occurred, the legislature might not have expressly acknowledged the doctrine at all.

The "sign" sought by the Court has, in fact, already been manifested in the expressions of congressional intent leading to the enactments of the patent acts from the original act of 1790[189] to the present

184 56 U.S. (15 How.) 330 (1853).

185 *See* D. DUNNER, *et al.*, PATENT LAW PERSPECTIVES, *supra* note 160, at Dev. B.1(2)(a)-2 (1969-1970 Annual Review).

186 *Id.* (footnotes omitted).

187 29 F. Cas. 74, 80 (No. 17,100) (C.C.D. Conn. 1871).

188 *See* Hildreth, *Contributory Infringement, supra* note 22, at 541-42.

189 1 Stat. 109 (1790).

act of 1952. The thrust of these acts has uniformly revealed the legislative intent to be the legal and moral protection of the inventor and the encouragement of full and frank disclosure of his invention.

Proposed Test

A distinction must be made between the liability attaching to a *Deepsouth* situation and that applied to the conduct of a manufacturer who intends a bona fide sale of only some elements of a patented combination to a user outside the United States. In *Deepsouth*, the substantial manufacture and assembly of the combination in the United States was so complete that the complex machine could be finally assembled in just one hour.

To draw such a distinction, this author proposes that the courts use a test based on the essence of the combination, *i.e., if there is such substantial manufacture of the elements of a patented combination in the United States that the patentable aspect of the combination is captured and no practical use can be made of the manufactured elements other than assembly into the patented combination, there is a direct infringement.* The element of knowledge becomes moot as it can easily be inferred from the conduct of an infringer meeting this test. If sales are significantly limited to users beyond the territorial bounds of the United States patent, it can be inferred that the seller knew of the existence of the protection within the United States.

This test, set out in statutory form in the introduction to this paper,[190] could also be added to section 271 by Congress in order to clarify the line of cases in the area. *Andrea I* would then be expressly overruled and *Andrea II* adopted. *Cold Metal* would become a question of fact as to the extent of the overseas assembly and *Hewitt-Robins* would be affirmed on its facts since the final assembly in Turkey took fully three months and was clearly not a "minor assembly abroad."

Conclusion

As the *Deepsouth* dissenters pointed out, the results of that holding will effectively frustrate the constitutional intent that shaped the patent system.[191] The Supreme Court's refusal to apply a more realistic interpretation of the section 271 term "makes" is tantamount to a tacit approval of the type of "iniquitous and evasive"[192] operation resorted to by Deepsouth. With the importance presently attached to world

190 *See* text accompanying note 11 *supra*.
191 406 U.S. at 534.
192 *Id.* at 533.

trade, it would seem that a broader interpretation of "makes" is necessary.

When the framers of the Constitution promised a limited monopoly to an inventor[193] and offered the United States as the territorial limit of its protection, world trade was certainly not the factor it is today. At that time, a monopoly in this country was very attractive to the inventor and effective in its purpose of encouraging disclosure. Today, with world trade such a tremendous consideration in marketing and sales,[194] it has become more important that the full breadth of patent protection be afforded the patentee.[195] It is an abuse of the patent system whose purpose it is to encourage the disclosure of invention to use that very system to assist a manufacturer who resorts to devious means to circumvent another's patent by substantial domestic manufacture of the same article. Condoning this practice obviates the need for the unauthorized manufacturer to qualify with the requisite patentable improvement intended to promote the growth of science and technology.

A test such as that formulated above would establish both a guideline for future conduct and a standard that can be uniformly and consistently applied.[196] If so much of the combination has been manufactured that the patentable aspect is present and no substantial use other than assembly into the patented combination can be found, equity concepts and substantial fairness[197] require that such manufacture

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193 U.S. CONST. art. I, § 8.

194 The Court in *Deepsouth* stated that a judgment of affirmance would have given Laitram's patent extraterritorial effect. Such a statement is not absolutely accurate because Laitram sought to prohibit not foreign use, but domestic manufacture by a domestic corporation.

United States patents have indirectly been given extraterritorial effect in an analogous area. The Tariff Act of 1930, 19 U.S.C. § 1337A (1970), provides that the importation of goods made, produced, processed or mined by means of a process patented in the United States (although the goods themselves are not patented) will be forbidden when a showing can be made to the President of the United States that an established domestic industry will be damaged by such importation. In effect, the Tariff Act forbids use of the United States-patented process in a foreign country by prohibiting the importation of goods so made.

The Tariff Act proceeding is like an infringement action in the sense that the defense of patent invalidity is available to the importer.

See also, Comment, Gottschalk v. Benson — *The Supreme Court Takes a Hard Line on Software*, 47 ST. JOHN'S L. REV. at 635 n.85 (1973) where the "Paris Convention's" deliberations concerning a multi-national patent system are discussed.

195 *Contra*, Comment, 29 WASH. & LEE L. REV. 173 (1972).

196 Once a standard is established, the courts are properly left to determine the factual issue of liability. Such a fact-finding process, in the area of substantial manufacture, would be not unlike the questions considered by a court handling a doctrine of equivalents case.

197 In the area of collateral estoppel affecting patent validity, the Supreme Court has demonstrated its willingness to rely on the trial court's sense of equity and justice. Blonder-Tongue Corp. v. University of Ill. Foundation, 402 U.S. 313, 349 (1971).

constitute an infringing "mak[ing]" under § 271 of the Patent Act of 1952. A more realistic holding would result from the application of this standard and would avoid what the minority[198] in *Deepsouth* cautions could be a trend that will "subvert the Constitutional scheme of promoting 'The Progress of Science and Useful Arts.' "[199]

—*Neil M. Zipkin*

198 Justices Blackmun, Powell, Rehnquist and Chief Justice Burger. Perhaps personnel factors alone will result in a change of the judicial attitude of the high Court as it did in the *Aro* cases. Significantly, the four newest appointees to the Supreme Court comprise the minority in this decision.

199 406 U.S. at 534, *quoting* U.S. CONST. art. I, § 8, and *citing* the unanimous opinion of the court of appeals per Judge Clark in Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 939 (5th Cir. 1971).

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Stanford Law Review

April 1974

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Operable Versus Substantial Assembly of Patented Combinations: A Critique of *Deepsouth v. Laitram*

A United States patent grants a patentee "the right to exclude others from making, using, or selling [his] invention throughout the United States" for a term of 17 years.[1] Anyone who makes, uses, or sells a patented invention without the authorization of the patentee infringes his patent.[2] The United States Supreme Court held in *Deepsouth Packing Co. v. Laitram Corp.*[3] that, insofar as patented combinations[4] are concerned, "operable" assembly of the combination rather than "substantial" assembly[5] is necessary before a patentee can claim that his patent has been directly infringed by a competitor's action in "making" the invention.[6]

This Note examines the arguments advanced by the Court in *Deepsouth* and contends that the result was incorrect. Having first set out the contentions advanced by the Court, the Note considers them individually. After demonstrating that the operable assembly rule does not properly balance the concerns of rewarding inventiveness and avoiding monopoly, is not required by precedent, and does not reflect congressional intent, the Note advances a proposal for legislation to remedy the problems engendered by *Deepsouth*.

I. The *Deepsouth* Litigation

A. *Lower Court Decisions*

The *Deepsouth* dispute arose between two competing manufacturers of shrimp deveiners. After a long, multifaceted course of litigation[7] the district

1. 35 U.S.C. § 154 (1970).

2. *Id.* § 271(a).

3. 406 U.S. 518 (1972), *rev'g* 443 F.2d 936 (5th Cir. 1971), *rev'g* 310 F. Supp. 926 (1970), *clarifying* 301 F. Supp. 1037 (E.D. La. 1969).

4. A combination patent protects a new arrangement of known elements which produces a new and beneficial result never before attained. Loom Co. v. Higgins, 105 U.S. 580, 591 (1881).

5. The concept of operable assembly is a straightforward one: it describes a completed combination which is ready to be used. Substantial assembly is a more difficult concept that attempts to describe a stage at which the combination is both complete and incomplete. The combination is complete in that its significant components are all present, but it is incomplete in that it is not yet ready to be used. If the combination in question is in fact the combination covered by the patent, it has been substantially assembled if only minor activities necessary to put it in operating order remain to be done. *See* text following note 114 *infra*; *cf.* Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 938–39 (5th Cir. 1971), *rev'd*, 406 U.S. 518 (1972).

6. 406 U.S. at 527–28. In cases such as *Deepsouth* the competitor makes and then sells the combination involved. The question of whether a sale of the patented combination has occurred, therefore, "resolves itself into the question of manufacture." *Id.* at 527. In this Note the definition of "sale" will therefore be ignored, and the issue discussed will be the definition of "making."

7. The dispute generated so much litigation that the district court was led to observe that, while

court held that Laitram's patent on the deveiner had been infringed by its competitor, Deepsouth, which manufactured a similar device.[8] In a subsequent clarification of its holding, however, the district court ruled that Deepsouth could manufacture the equipment in question so long as the device was not completely (or "operably") assembled in the United States and was for export only.[9]

The second district court decision rested in large part on decisions involving similar facts in courts of appeals of other circuits.[10] On appeal, the Fifth Circuit examined these decisions[11] but concluded that their operable assembly rule would not further the goals of the patent system.[12] Construing the Patent Act[13] as an attempt to balance the interests and expectations of the public with those of the patent holder, the Fifth Circuit was of the opinion that holding substantial assembly an infringement would be more in keeping with the balancing approach embodied in the Act than the operable assembly test for infringement, favored in the other circuits and followed by the lower court.[14] Applying its substantial assembly rule, the Fifth Circuit reversed the district court, finding that Deepsouth would infringe the Laitram patent even if it refrained from operably assembling the combination prior to export.[15]

B. *The Supreme Court Decision*

Confronted with a conflict among the circuits, the Supreme Court found the rule articulated by the majority of circuits to be the better approach: in a 5-to-4 decision, it reversed the Fifth Circuit and reinstated the district court decision.[16]

Justice White's majority opinion begins with a demonstration that the

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the course of the litigation had "not yet run as long as Jarndyce versus Jarndyce, . . . [it had] undoubtedly gone far beyond anything that even Mr. Dickens imagined in scope, cost and complexity." Laitram Corp. v. Deepsouth Packing Co., 279 F. Supp. 883, 885 (E.D. La. 1968). For a synopsis of other litigation involving Laitram or its predecessors, see *id.* at 886–87.

8. 301 F. Supp. at 1066.

9. 310 F. Supp. at 926. The district court expressed some misgivings about the logic of its decision: "It may be urged that [the operable assembly rule] is not logical—or that it is at best law logic, which John Quincy Adams told John Marshall was 'an artificial system of reasoning, exclusively used in courts of justice, but good for nothing anywhere else.' But it is founded on twin notions that underlie the patent laws. One is that a combination patent protects only the combination. The other is that monopolies—even those conferred by patents—are not viewed with favor. These are logic enough." *Id.* at 929.

10. *Id.* at 927–29, *citing* the following cases: Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & F'dry Co., 235 F.2d 224 (3d Cir. 1956); Radio Corp. of America v. Andrea, 79 F.2d 626 (2d Cir. 1935).

11. 443 F.2d at 938.

12. *Id.* at 938–39.

13. 35 U.S.C. §§ 1–293 (1970).

14. 443 F.2d at 938–39.

15. *Id.* at 939. The Fifth Circuit articulated its holding as follows: "[W]e . . . hold that when all parts of a patented machine are produced in the United States and, in merely minor respects, the machine is to be finally assembled for its intended use in a foreign country, that machine is 'made' within the United States." *Id.*

16. 406 U.S. at 532.

its grievance that the patentee could claim was that its competitor had directly infringed its patent rights.[17] In considering whether such an infringement had taken place, the Court saw itself as accommodating two conflicting policies—the desire to reward the inventor by granting him exclusive rights and the "Nation's historic antipathy to monopoly."[18] The Court interpreted precedent to indicate that only operable assembly by Deepsouth would constitute an infringement of Laitram's patent.[19] Given its belief that a ruling in favor of Laitram would be an expansion of the rights of the patentee and would thus disturb the existing balance between policies favoring exclusive patent rights and those opposed to monopoly, the Court argued that it should not modify precedent by finding a patent infringement in the *Deepsouth* situation.[20]

The Court buttressed its argument by maintaining that Congress had impliedly approved of the statutory construction followed in *Deepsouth*. The Court contended that precedents in favor of the operable assembly approach were uncontradicted when the relevant statutory provisions were recodified in 1952 and that had Congress desired to change the rule it would have so indicated at that time.[21] Furthermore, according to the Court, Congress did not intend the patent laws to operate outside the limits of the United States and in fact intended that those patentees in Laitram's situation rely on patents secured in the countries where their products were to be used.[22]

II. The False Conflict of Policies

The Court in *Deepsouth* was clearly correct that there are two congressional policies relevant to the scope of patent protection. On the one hand, there is the monopolistic policy of the Patent Act dating back to the first Congress,[23] a policy tradition designed to promote inventiveness and rooted in a specific provision of the Constitution itself.[24] On the other, there is the

17. *Id.* at 526. The Court concedes that if the deveiners made by Deepsouth were used in the United States, the maker would be subject to an injunction on the grounds of contributory infringement—contributing to a direct infringement of the patent. Since the use took place outside the United States in the *Deepsouth* situation, however, no direct infringement occurred. Therefore Deepsouth could not be guilty of contributory infringement, and Laitram could argue only that its competitor's actions constituted direct infringement in themselves. *Id.* at 526–27. While this construction of the relationship between contributory and direct infringement is unfortunate, the Court's approach is undeniably consistent with prior precedent. *See* note 76 *infra* and accompanying text.

18. *Id.* at 530–31.

19. *Id.* at 528–29.

20. *Id.* at 530–31.

21. *Id.* at 526, 530 n.10, 531.

22. *Id.* at 531.

23. *See* Grant v. Raymond, 31 U.S. (6 Pet.) 218 (1832); B. Bugbee, Genesis of American Patent and Copyright Law 131–48 (1967).

24. Among the powers granted to Congress by the Constitution is the power "[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." U.S. Const. art. I, § 8.

"historic antipathy" to monopoly, an antipathy one scholar has labeled the "competitive mandate."[25] The *Deepsouth* Court perceived a conflict between the two policies, and Justice White suggested that questions of patent law must be resolved in light of the competitive mandate's impact on the patent policy—an impact the effect of which is to draw narrowly the parameters of the patent privilege.[26]

In this Part the Note contends that the existing patent laws already embody a congressional balance between the policy in favor of promoting inventiveness and the policy against establishing monopolies. As a result the Court was not presented with the problem of resolving conflicting policies but rather should have considered its duty to be the full execution of the balancing decision already made by Congress, an approach which would have resulted in protection of the patentee. The Court's misinterpretation of its duty is particularly important because of its impact on the issues in the case. The following two Parts argue that proper interpretation of judicial precedent and congressional intent regarding the specific statutory section at issue supports the patentee's position that substantial assembly is an infringement and that had the Court envisioned its role differently it might well have adopted such an interpretation.

A. *The Policy of Promoting Inventiveness*

1. *The patent grant as monopoly.*

The Patent Act provides a limited monopoly as a reward for the innovator. As Professor Baxter has indicated: "The patent law explicitly authorizes the extraction of monopoly profits by restricting utilization of and raising the price for using the invention."[27] The monopoly technique

25. Goldstein, *The Competitive Mandate*, 59 CALIF. L. REV. 873, 875 (1971).

26. *See* 406 U.S. at 530–31.

27. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly*, 76 YALE L.J. 267, 312 (1966). Modern commentators have had little difficulty discerning the monopoly characteristics of the patent grant. *See* W. BOWMAN, JR., PATENT AND ANTITRUST LAW 2 (1973); E. CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 57 (1962); D. DEWEY, MONOPOLY IN ECONOMICS AND LAW 171 (1959); R. NORDHAUS, PATENT-ANTITRUST LAW 13 (1972); Goldstein, *supra* note 25, at 873. *But see* Fortas, *The Patent System in Distress*, 53 J. PAT. OFF. SOC'Y 810, 814 (1971). Nineteenth-century commentators were less willing to characterize patents as monopolies. Walker, in his treatise on patent law, distinguished patents, which he called "public franchises," from monopolies. A. WALKER, TEXTBOOK OF THE PATENT LAWS OF THE UNITED STATES 103–04 (2d ed. 1883). Similarly, Curtis declared: "A patent for a useful invention is not, under our law, or the law of England, a grant of a monopoly in the sense of the old common law." G. CURTIS, TREATISE ON THE LAW OF PATENTS FOR USEFUL INVENTIONS at xix (1873). The distinction Walker and Curtis had in mind was apparently between a monopoly which takes something from the public previously in the public domain, and a franchise granted to an inventor for bestowing upon the public something it did not have before. The roots of this distinction can be traced back to the 17th century. B. BUGBEE, *supra* note 23, at 6–8, *citing* Charles River Bridge v. Warren Bridge, 36 U.S. (11 Pet.) 496, 562–63 (1837), *and* United States v. Dublier Condenser Co., 289 U.S. 178, 186–87 (1933).

Modern commentators are focusing on the economic characteristics of the patent grant while the 19th-century commentators were concerned with the value judgments that adhere to the term monopoly. In this Note the term monopoly is used in its economic sense. Nonetheless, it is worth noting that the term monopoly does tend to conjure up value judgments. As Professor Bugbee

thus employs a market mechanism to subsidize invention.[28] However, the fact that an inventor receives a monopoly over his invention does not in any way assure him of a subsidy. He is rewarded only to the extent that he can induce others to pay him for the right to use his invention.[29] Thus, if others have no use for his invention, the inventor receives no reward regardless of his patent rights.

2. *The economic rationale for the patent monopoly.*

Implicit in Congress' decision to grant patents are three assumptions: (1) that invention is a socially valuable activity, (2) that without some form of subsidy less than optimum allocation of resources will be made to innovative activity, and (3) that the best method of subsidizing innovative activity is the granting of an exclusive right in an invention to its inventor.[30] The first assumption is sufficiently obvious not to require justification. An economic justification for the second and third assumptions can be advanced based on the classic economic criterion for optimal resource allocation: a given economic activity should attract as many of those resource inputs as would, if invested in another economic activity, yield a product of lesser social value.[31] Where no substantial disparity exists between the private and social value of either inputs or outputs, market forces can be relied upon for proper resource allocation. Private investment inputs will flow to those activities in which the value to the investor of the products most exceeds the cost of production. Where the private value to investors is comparable to the social value of the activity, activities that generate products of high social value will not be neglected.[32] However, when a given activity has significantly higher social than private value, it will not attract optimum private investment in the market, and that activity should be subsidized as much as is necessary to attract those resource inputs which, if invested in some other activity, would yield outputs having a lower social value.[33]

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has noted: "The very word 'monopoly' is indeed a tainted one immediately suggesting—and usually involving—illegal activities. It is obvious that the opprobrium earned by monopolies of all kinds, governmentally granted or otherwise, can infect any award to which the name monopoly is applied." B. BUGBEE, *supra* note 23, at 6. The detrimental impact of the monopoly characterization for patent construction by the courts was underscored by Chief Justice Taney: "[O]nce [it is] suggested that a [patent] grant is of the nature or tendency of a monopoly, the mind almost instantaneously prepares itself to reject every construction which does not pare itself down to the narrowest limits." Charles River Bridge v. Warren Bridge, *supra*, at 847–48, *quoted in* B. BUGBEE, *supra* note 23, at 6–7. One cannot resist speculating that the Court in *Deepsouth* was affected to some extent by the "paring" psychology Chief Justice Taney described.

28. Baxter, *supra* note 27, at 273.

29. *Id.*

30. *Cf.* W. BOWMAN, JR., *supra* note 27, at 2.

31. *See* Baxter, *supra* note 27, at 268; *cf.* K. BOULDING, ECONOMIC ANALYSIS 168–72 (3d ed. 1955).

32. Baxter, *supra* note 27, at 268.

33. *Id.*; *cf.* P. AREEDA, ANTITRUST ANALYSIS 321–22 (1967).

The case for subsidizing invention rests on the assumption that the value of innovation to private investors, if left to the market valuing system, is small because the inventor cannot readily realize for himself the value of his invention.[34] The private value of inventions to their inventors is limited because inventions consist primarily of knowledge.[35] Knowledge has little economic value unless used, but if knowledge is used extensively, disclosure is usually inevitable, and to the extent that the information becomes generally available, its value diminishes. Investment in a given activity may be expected to stop when "the next private dollar invested would yield greater private gains if invested elsewhere."[36] If private investors could expect only relatively small private gains from innovative activity due to their inability to prevent others from using their ideas, then private investment could be expected to go to activities that might have a lower social but higher private value. Since in such a situation the social value of innovation would exceed both its private value and the social value of the other activities to which private investment would flow, a subsidy designed to divert private investment to innovation is desirable.[37]

The mere fact that innovative activity may not attract an optimum amount of private investment does not, of course, compel the subsidy system of exclusive grants which the Constitution permits and the Patent Act dictates. It is not possible to determine accurately what amount of subsidization is optimum, and the amount of subsidization provided by an exclusive grant may be either too much or too little.[38] However, whether the Patent Act subsidizes too much or too little is not a question for the courts to decide.[39] The Congress, acting within its constitutional prerogative, has determined that granting an exclusive right in his invention to the patentee

34. Baxter, *supra* note 27, at 268. Professor Baxter illustrates this point with the following example: "A man debating whether to commit his resources to manufacturing shoes can estimate with tolerable accuracy both how many shoes he can produce in a month and their worth upon completion. If, alternatively, he considers committing those resources to the process of innovation, he can have little confidence in either the quantity of his informational output or its worth when and if produced. A production process characterized by highly uncertain outputs as a function of given inputs will generally attract less than optimum inputs." *Id*; *see* E. MANSFIELD, MICROECONOMICS 466 (1970).

35. Baxter, *supra* note 27, at 267–68. Professor Bowman suggests in a similar fashion: "The principal justification for patents . . . is the need to foreclose rapid copying by others." W. BOWMAN, JR., *supra* note 27, at 33; *see* E. MANSFIELD, *supra* note 34, at 466.

36. Baxter, *supra* note 27, at 268–69.

37. *Id.* at 267–69.

38. For a discussion of this problem *see* P. AREEDA, *supra* note 33, at 321; W. BOWMAN, JR., *supra* note 27, at 15–32; Baxter, *supra* note 27, at 269–75.

39. As Professor Bowman notes, the Patent Act contains no limit on the rate of return which a patentee may receive on his invention by virtue of his monopoly. W. BOWMAN, JR., *supra* note 27, at 54. The courts do, however, have a responsibility for determining what the patentee will be permitted to monopolize. The concern of the judiciary "is directed to whether the reward to the patentee comes from [an] advantage ascribable to the patent rather than from another source not deserving of monopoly protection . . . . [M]onopoly beyond the patent's proper scope, being subject to the antitrust laws and not patent law, is . . . not deemed deserving of patent protection." *Id.* This role was not available to the Court in *Deepsouth*, however, since the patentee sought to protect a benefit which was clearly attributable only to the competitive superiority of its invention.

the best mechanism for determining how much the patentee will receive as his subsidy.[40]

B. *The Policy Against Monopolies*

Traditionally, American legislatures and courts have been committed to furthering the principles of a market economy.[41] They have thus in large part pursued the antimonopolistic competitive mandate. The economic goal of the competitive mandate is to "maximize allocative efficiency (making what consumers want) and productive efficiency (making these goods with the fewest scarce resources)."[42] The competitive mandate seeks to avoid output restriction;[43] monopoly, which by definition restricts output, is the natural enemy of the mandate. But not all monopoly naturally runs counter to the mandate. The mandate, and more specifically the antitrust laws, do not demand competition under all circumstances.[44] Instead the mandate "permits monopoly when monopoly makes for greater output than would the alternative of an artificially fragmented (inefficient) industry."[45]

C. *The Case for Compatibility of the Policies and Its Consequences*

Though the patent monopoly is not without costs,[46] Congress must be presumed to have found the benefits derived from the patent system to be greater than these associated costs. If one accepts the argument that the ob-

40. Baxter, *supra* note 27, at 272 (emphasis added): "For the United States the judgment [on how to effect a subsidy of innovative activity and how much subsidy should be granted] has been made by Congress and made in a way, by conferral of monopoly, which inextricably intertwines the issues of 'how' and 'how much.' In view of the intractability of the question 'how much,' it seems peculiarly appropriate that the answer should have been given by a political branch, and the same consideration reinforces traditional doctrine in dictating that *the judiciary should accept that judgment not grudgingly but with full acquiescence.*"

41. Goldstein, *supra* note 25, at 875. According to Professor Goldstein, "This commitment predicates that the nation's interest in equitable distribution of income, in the promotion of technological advance, and in the dedication of resources to their most productive possible uses will be best advanced by a market economy. . . . [L]egislatures and courts, and the Supreme Court particularly, have largely assumed the centrality of a market economy and have, with equal consistency, committed their energies to promoting competitive principles." *Id.*

42. W. BOWMAN, JR., *supra* note 27, at 5. As Bowman points out, the competitive mandate is not synonymous with "perfect competition." Though a valuable tool for economic analysis, "there is nothing even closely approximating perfect competition in the real world. . . . [W]hen perfect competition is used as a goal rather than as an analytic tool, either for restructuring the number of market participants in any activity or for proscribing their activities," Bowman warns, "it can lead to worse rather than better resource allocation. Given the imperfect conditions all markets share to a greater or lesser degree, public policy requires the assessment of the alternatives available in an uncertain world, not the pursuit of a textbook model." *Id.*; *see* P. AREEDA, *supra* note 33, at 8.

43. W. BOWMAN, JR., *supra* note 27, at 3.

44. *Id.* at 1. Professor Goldstein notes that promotion of a market economy through direct application of the antitrust laws is supplemented by other tools. "Among these [other tools] are grants of government largesse and the exemption of certain industries, such as air and rail transport, professional baseball, public utilities, and organized labor, from the application of the antitrust laws. The basic rationale for these exemptions is that to permit unbridled competition in the specific industrial context would, in the long run, be economically ruinous and that, for this reason, short range competitive interests should be sacrificed to long range competitive objectives." Goldstein, *supra* note 25, at 877 (footnotes omitted); *see* P. AREEDA, *supra* note 33, at 11–12.

45. W. BOWMAN, JR., *supra* note 27, at 1.

46. Baxter, *supra* note 27, at 274–75.

jective of the competitive mandate is output expansion, no basis exists for asserting that the competitive mandate and the patent mandate are in fundamental conflict.[47] The economic rationale underlying the congressional policy decision to provide a patent monopoly assumes that by accepting the cost of a temporary monopoly, that is, its output restrictive consequences, a profit incentive that otherwise would be missing is supplied, and that this incentive results in greater innovative output in the long run. Therefore, insofar as the patent monopoly is designed to further innovative output and the competitive mandate is intended to further output generally, there is basic compatibility between them.[48]

The Court in *Deepsouth* nonetheless viewed the patent monopoly as an exception to the competitive mandate, thus implying that some tension exists between an aberrant monopoly privilege and traditional American competitive values.[49] Perception of the patent monopoly as an aberration in turn suggests that the Court should uphold the patent only where the patentee's attempt to exclude falls precisely within the phraseology of the Patent Act. If the two mandates are not in conflict, however, it is not necessary that the courts read the Act as narrowly as possible to prevent the establishment of monopolies.[50] The appropriate rule of statutory construction

47. *See* W. BOWMAN, JR., *supra* note 27, at 3.

48. In discussing the basic compatibility of the patent and competitive mandates Professor Goldstein suggests that there exists a "modern premise that competition can be maintained only through government interference in enterprise conduct" and that such interference has traditionally included "the grant of legal monopolies—patent, copyright, trademark, trade secrets, common law copyright and unfair competition." Goldstein, *supra* note 25, at 874.

49. A conclusion that the Court perceived a tension between the monopoly privilege granted under the Patent Act and the competitive mandate can be drawn from the tone of the Court's *Deepsouth* opinion. The Court declared that it was required to consider Laitram's infringement claim "in light of this Nation's historic antipathy to monopoly and of repeated congressional attempts to preserve and foster competition." 406 U.S. at 530. The *Deepsouth* Court quoted its language in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 230 (1964), to the effect that "the prerequisites to obtaining a patent are strictly observed, and when a patent has issued the limitations on its exercise are equally strictly enforced." 406 U.S. at 531. Still further in the opinion the Court characterized the *Deepsouth* question as one of determining if the "beachhead of privilege is wider, and the area of public use narrower, than the courts had previously thought." *Id.* at 531. Taken together these statements would appear to reflect some hostility on the part of the Court toward the patent monopoly. *See* note 50 *infra*. Furthermore, one might draw from the language employed an inference that the Court, when confronted by an ambiguity in the language of the Act, felt that its responsibility was to resolve that ambiguity against the patentee. This Note argues that the Court in *Deepsouth* struck a new balance, one not in accord with the balance intended by Congress when it created the Act. Given the Court's characterization of the *Deepsouth* problem, it is not unreasonable to suggest that the Court chose this new balance because it believed the competitive mandate compelled rigid containment of the patent monopoly "beachhead."

50. Certainly patents have not fared well in the courts despite the fact that the Patent Act presumes that once a patent is issued it is valid. 35 U.S.C. § 282 (1970). During the 1940's the number of patents held valid and infringed dropped as low as 7% of those tested in court. *See* discussion following presentation of Cooch, *The Standard of Invention in the Courts*, in DYNAMICS OF THE PATENT SYSTEM 34, 56 (W. Bell ed. 1960). By 1957 the percentage had risen, but only to 30%. *Id.* Former Justice Fortas, noting a Senate survey of patent cases adjudicated over a 2-year period which found that 72% of the patents involved had been held invalid, declared that "[c]andor requires us to recognize that judicial nullification of patents and denial of their enforcement are the order of the day—the rule and not the exception." Fortas, *supra* note 27, at 811.

While there are, no doubt, a variety of reasons for the relatively low percentage of patents which the courts are willing to protect, it does seem reasonable to assume that the statistics in part reflect

the Patent Act should instead be shaped by recognition of the output-expansive objective of the Act and its compatibility with the competitive mandate.

The statute in effect strikes a balance between short-range competitive interests, which benefit from immediate public access to technological innovation, and long-range competitive interests, which benefit from the new products introduced into the market as a consequence of the patent monopoly incentive to innovation.[51] The mechanism employed in the Act to strike that balance is the exclusive right to make, use, and sell an invention conferred by the Act upon the patentee as his patent grant. Therefore, if that balance is to be maintained, the patentee's exclusive right must be preserved. At the same time, however, the statutory balance requires that the patentee be protected only as to his exact contribution. Therefore the Act's terminology is given appropriate meaning by construing it, in Professor Baxter's words, "neither narrowly nor broadly but rather to achieve its obvious purpose—the subsidization of innovative activity."[52]

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hostile attitude on the part of the federal judiciary toward the patent monopoly. There is anecdotal support for such an inference in the observation of former Justice Fortas: "Many federal appellate judges—perhaps most of them—approach patents with the kind of suspicion and hostility that a well-bred boy feels when he must traverse a jungle full of snakes." *Id.* at 810.

Citing statistics similar to those just noted, Professor Dewey attributes such hostility to the failure of judges and administrators to agree upon the standards of originality that an inventor must meet in order to gain a valid patent." D. DEWEY, *supra* note 27, at 173. It is his belief that the Supreme Court has found itself confronted with so many trivial patents that the experience has left it with a poor opinion of the Patent Office and a suspicion of patent grants in general. *Id.* at 175.

The triviality of the patents which have come before the courts is open to dispute. As Professor Bowman suggests: "Cases reaching the courts, especially those reaching the higher courts, usually involve products or processes of substantial value to users. This is to say that the 'monopoly' value of these patents—the differential advantage to consumers over alternative products or methods—is likely to be much higher than for patents as a whole. That high litigation costs are borne by the parties to the action is strong testimony to their usefulness." W. BOWMAN, JR., *supra* note 27, at 46.

Whatever its own opinion of patents and the Patent Office might be, the Court's role in interpreting the Patent Act is not one of making policy. Given the apparent hostility of the Court to patents, an argument can be made that Justice White's invocation of the alleged conflict between the two mandates in fact reflects nothing more than the traditional hostility perceived by Dewey and Fortas. Use of a nonexistent conflict as a guise through which the Court can change congressional policy goes far beyond the Court's statutory interpretation function.

51. *Cf.* Goldstein, *supra* note 25, at 886.

52. Baxter, *supra* note 27, at 312. The proper role for the courts in interpreting the patent laws is to implement the statutory balance and not—as was done in *Deepsouth*—to attempt to strike a balance of their own. Courts in fact sometimes do adopt an approach to statutory interpretation of the patent laws which seeks to uphold the congressional balance rather than to strike a new one. This process can be readily seen from the interplay of the judicially created doctrines of equivalents and file-wrapper estoppel. The doctrine of equivalents gives the patentee something beyond that which clearly lies within his claims, whereas file-wrapper estoppel works to restrict the claims. The "polestar" of the law of patent infringement "is the rule that [it is] the claim [that] measures the [patent] grant," Koykka, *Infringement of Patents*, 42 F.R.D. 43, 51 (1968), and the interplay between the two doctrines is crucial to the proper maintenance of the balance struck by Congress.

The doctrine of equivalents is designed to provide enough leeway in the patent law to protect the patentee from unduly harsh construction of his claims. In the words of Judge Learned Hand, the doctrine is "in misericordiam to relieve those who have failed to express their complete meaning." Claude Neon Lights, Inc. v. E. Machlett & Son, 36 F.2d 574, 576 (2d Cir. 1929), *cert. denied*, 281 U.S. 741 (1930). The doctrine essentially holds that the courts, in interpreting the patentee's claim, will permit those claims to embrace more than is found in the words of the claims alone, where the patentee's device and that of his competitor do the same work in substantially the same way and

Giving content to a term like "making" requires recognition by the Court of the balance struck within the Act through the grant to the patentee of a right to exclude—that is, to prevent others from appropriating his innovation. The "make, use, and sell" language is a general description of that right, and the appropriate meaning to be given those terms may be expected to vary with different market contexts. Imposing a single, unalterable definition on the making term in light of these possible variations may not preserve the patentee's right to exclude, and, consequently, the Act's balance may be altered or destroyed.

III. PRECEDENT: THE LACK OF UNANIMITY

A primary reason for the *Deepsouth* Court's rejection of the Fifth Circuit's conclusion that substantial assembly is a direct infringement in export

accomplish the same result even though they differ in name, form, or shape. Koykka, *supra* at 55–56.

The doctrine of file-wrapper estoppel, on the other hand, is designed to prevent the defrauding of the public by barring the patentee from asserting those claims which he surrendered in order to obtain his patent. *Id.* at 67. The file wrapper is the Patent Office file of papers relating to the patent containing all papers, arguments, explanations, and rulings which led to the grant of the patent. *Id.* at 66. If the inventor gives up or restricts a claim in the process of winning his patent grant, the doctrine of file-wrapper estoppel binds him to that surrender. *Id.* at 66–75.

Without the expansionary impact of the doctrine of equivalents, the polestar rule of restricting the patentee to his claims would severely limit the incentive afforded by the Patent Act. The doctrine of equivalents is not designed to give the inventor anything beyond his invention. Instead it eliminates rigidities in the Act which might well provide competitors with an opportunity to appropriate the benefit of the patentee's invention. By the same token, file-wrapper estoppel protects the public's interest in access to all that is not the patentee's invention. Were the patentee permitted to exclude others from claims that he had conceded were invalid when he sought the patent, the patent monopoly would impose a burden upon the public for which no benefit would be received. Viewed together these doctrines suggest a balancing process by the courts designed to interpret the Patent Act in a manner calculated to assure the incentive for invention while also assuring the public that it will receive the benefit of innovation in exchange for bearing a monopoly burden.

The judicial process of upholding the congressional balance rather than striking a new one is also illustrated by the development of the doctrine of contributory infringement. For a definition of contributory infringement *see* note 57 *infra* and accompanying text. As discussed in note 75 *infra*, prior to 1952 there was no definition of infringement in the Patent Act. The courts were left to their own devices to interpret the Act's grant to the patentee of an exclusive right to make his invention. Had they interpreted "make" to mean operable assembly, competitors of a combination patentee could make the essential element of the invention, omit operable assembly, and thereby escape liability. Just as the courts created the doctrine of equivalents to protect the patentee from the incentive-reducing consequences which would have flowed from a literal reading of his claims, so the courts fashioned the doctrine of contributory infringement to protect patentees from those who would appropriate the economic advantage ascribable to their inventions by omitting operable assembly. Neither the courts' rules of patent claims construction nor the doctrine of contributory infringement were designed to give the patentee anything more than an exclusive right to the benefit of his invention; no new monopoly burden was placed on the public thereby. Instead the courts in each instance recognized the balance struck by Congress and interpreted the Act's language in a manner which preserved the patentee's right to exclude.

The evolution of the doctrine of contributory infringement is particularly instructive because it demonstrates congressional approval of this balance. In Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 669 (1944), the Court handed down an opinion which indicated to some that the doctrine of contributory infringement had been eliminated. *See* notes 76 & 101 *infra* and accompanying texts. Congress responded by placing the doctrine in the Act. 35 U.S.C. § 271(c) (1970); *see* notes 76 & 101 *infra*. In adding § 271(c) to the Act, Congress clearly indicated that the balance which the doctrine of contributory infringement embodies is the balance Congress intended to strike in the Act.

The approach to statutory interpretation which the courts have utilized to create the rules of claims interpretation and the doctrine of contributory infringement is the approach most in keeping with the decision of Congress to induce increased innovation through creation of short-term monopoly incentives.

markets was the Court's conviction that such an analysis "collides head on with a line of decisions so firmly embedded in our patent law as to be unassailable absent a congressional recasting of the statute."[53] This Part contends that the Court's evaluation of precedent was incorrect. While some cases have maintained that operable assembly is necessary for a direct patent infringement, this position has not been accepted elsewhere. Good arguments for the inadequacy of the reasoning behind the operable assembly standard exist. Furthermore, there is some precedent for adopting a substantial assembly rule in appropriate market contexts as the determinant of whether a competitor has directly infringed a combination patent. Thus, had the Court seen its duty to be the full implementation of the patentee's right to exclude, as advocated in Part II, it might very well have interpreted the existing precedent differently from the way it did in *Deepsouth*.

A. Andrea I *and* II

In support of his construction of sections 271(a) and (c), Justice White cites five Supreme Court cases[54] and three court of appeals cases[55] that preceded the Fifth Circuit's *Deepsouth* holding. In essence, however, his analysis is borrowed from what he characterizes as the "leading case" on the issue of operable versus substantial assembly: the first *Radio Corporation of America v. Andrea* case.[56]

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53. 406 U.S. at 526.

54. *See id.* The cases are: Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1961); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944); Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 325 (1909); Brown v. Guild, 90 U.S. (23 Wall.) 181 (1874).

55. *See* 406 U.S. at 529. These cases are: Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & F'dry Co., 235 F.2d 224 (3d Cir. 1956); Radio Corp. of America v. Andrea, 79 F.2d 626 (2d Cir. 1935).

56. 79 F.2d 626 (2d Cir. 1935), *cited in* Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 520 (1972).

Of the five Supreme Court cases cited, *see* note 54 *supra*, all but *Aro* could have been justifiably distinguished had the Court wished to do so. While these decisions clearly do stand for the proposition that only a competitor who makes, uses, or sells the combination in its entirety is liable to the patent holder for direct infringement of a patented combination, it is not clear that one must read direct infringement to mean operable assembly. In none of the cited cases is such a definition offered.

Failure to do so in these cases is easily understood given their facts. Each involved products which were to be used in the United States. Such use required by its very nature operable assembly of the combination. In those situations where a competitor attempted to avoid infringement liability by making only an essential element of the combination, leaving operable assembly to a domestic purchaser, the patentee could look to the doctrine of contributory infringement for relief. *See* text accompanying note 57 *infra*. Since use in the United States requires operable assembly of the combination at some point, operable assembly in the cited cases, all of which involved use in the United States, was an unstated given. When use takes place outside the United States, however, a competitor can defeat the patentee's exclusive right to the benefit of his combination patent—if an operable assembly definition of "making" is employed—by failing to complete assembly of the combination. *See* note 63 *infra*.

A requirement of operable assembly produces consequences in the export context which could not have been foreseen by the Court when it was called upon to decide the cited cases. The authority of the previous Supreme Court decisions for an operable assembly rule, where use is to take place outside the United States, is therefore not self-evident.

The fifth Supreme Court case cited by the Court in *Deepsouth* as precedent for its position

1. *The* Andrea I *argument.*

The relationship between contributory and direct infringement. Contributory infringement is triggered when a competitor supplies a "material part" of a patented combination to someone else who in turn directly infringes the patent on the combination.[57] The doctrine of contributory infringement provides a remedy for some situations in which a competitor less than operably assembles a patented combination. In *Andrea I*, a case involving substantial assembly in the export context which closely parallels *Deepsouth*, Second Circuit Judge Swan inferred from the existence of the doctrine of contributory infringement that direct infringement applies only to operable assembly of a patented combination.[58] Thus he reasoned, even a competitor who makes all of the parts of a patented combination and substantially assembles them does not infringe the patent directly if he does not complete operable assembly in the United States.[59] Phrased conversely, the judge apparently argued that since the doctrine of contributory infringement applies to degrees of assembly less than operable assembly, it is the only doctrine which so applies, regardless of market context.[60]

Contributory infringement in the export context. Holding that substantial assembly can never be more than contributory infringement does not deprive the patentee of exclusive domestic rights to his combination because operable assembly in the United States by the domestic purchaser of a material part is a direct infringement. In the export context, however, the competitor sells the less-than-operably assembled combination to a purchaser who completes assembly in a foreign country. Since the Patent Act is applicable only in the territory of the United States,[61] the operably assembling foreign purchaser does not directly infringe the patent. Thus, runs the Swan argument, if the purchaser does not directly infringe, the American competitor cannot contributorily infringe because direct infringement is a prerequisite for contributory infringement.[62] Hence, equat-

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was the first of the two *Aro* cases, Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1961). As will be discussed below, *see* text accompanying notes 82–90 *infra*, this case actually supplies some support for the substantial assembly approach rather than supporting the operable assembly rule.

Of the three court of appeals cases cited, *see* note 55 *supra*, only *Andrea I* contains an in-depth analysis of the issues involved. The other two cases depend completely on *Andrea I* and are thus of little value in themselves.

57. 35 U.S.C. § 271(c) (1970).

58. *See* 79 F.2d at 628. The definition of direct infringement is contained in 35 U.S.C. § 271(a) (1970). Contributory infringement was originally a judicial doctrine, *see* note 75 *infra*, and had not yet become part of the Act at the time of *Andrea I*. The statutory definition of contributory infringement is identical to the original judicial definition. *See* notes 75–76 *infra*.

59. 79 F.2d at 627–28.

60. *See id.*

61. 35 U.S.C. §§ 154, 271(a) (1970).

62. 79 F.2d at 628: "[The patentee's] monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is

ing less-than-operable assembly with the concept of contributory infringement makes protection of the combination patentee turn on who his competitors' buyers are.[63]

2. *Reconsideration of the* Andrea I *argument in* Andrea II.

In analyzing *Andrea I* it should be noted that *Deepsouth*'s characterization of *Andrea I* as the leading case on operable versus substantial assembly in the export context is misleading. As Justice Blackmun noted in his *Deepsouth*[64] dissent, the significance of *Andrea I* was largely eclipsed by the second *Andrea* case[65] handed down 2 years later. In *Andrea I* Judge Swan wrote that a patented combination is "not made or sold . . . unless the elements [of the combination] are physically connected in an operable relationship."[66] When the Second Circuit reconsidered the case in *Andrea II*, however, it found this conclusion to be unsatisfactory—so much so that Judge Swan himself was forced to conclude in dissent that his *Andrea I* opinion had been overruled.[67] Far from supporting the operable assembly definition of "making" put forward by Judge Swan, the Second Circuit in *Andrea II* declared in dictum: "Where the elements of an invention are . . . sold in substantially unified and combined form infringement may not be avoided by a separation or division of parts which leaves to the purchaser a simple task of integration. Otherwise a patentee would be denied adequate protection."[68]

done outside the territory for which the monopoly was granted. This is the basis for the doctrine of contributory infringement, which permits the elements of a patented combination to be sold in this country with the intent that the purchaser shall make and use the invention abroad."

63. The unique consequences of exportation can perhaps be best illustrated through an example. Where X holds a patent on his new combination $A+B+C$, it is $A+B+C$ as a whole which represents his invention. Competitor Y who makes, uses, or sells A, or $A+B$, or any combination less than $A+B+C$, where use of the smaller combination is to take place in the United States, cannot be said to have gotten the benefit of $A+B+C$, with the exception of those makings that constitute contributory infringement or reconstruction in the replacement part context. *See* notes 75 & 82–90 *infra* and accompanying texts. In such a case an operable assembly definition of "making" protects X from appropriation by others of his $A+B+C$ invention, maintaining his incentive, but it also protects the public from attempts by X to exclude others from making, using, or selling the component parts of $A+B+C$.

Different considerations arise where competitor Y is an exporter. Y can sell $A+B+C$ to foreign buyer Z by shipping him separate parts A, B, and C. After minor final assembly in Z's country, Z gets full use, and both he and Y reap the benefit of X's invention. If infringement of X's patent is contingent upon operable assembly of $A+B+C$ in the United States, both Y and Z escape liability for infringement despite benefiting from $A+B+C$. Should the courts in the export situation carry over the operable assembly rule which works so admirably in those situations where use of $A+B+C$ is to occur in the United States, they will no longer be merely limiting X to his invention but will also be permitting Y to enjoy the full benefit of X's invention.

64. 406 U.S. at 533: "I . . . suspect the Court substantially overstates when it describes Radio Corp. of America v. Andrea . . . as a 'leading case'. . . . Andrea was seriously undermined only two years after its promulgation, when the Court of Appeals modified its decree on a second review."

65. Radio Corp. of America v. Andrea, 90 F.2d 612 (2d Cir. 1937), *aff'g* 15 F. Supp. 685 (E.D.N.Y. 1936).

66. 79 F.2d at 628.

67. 90 F.2d at 615.

68. *Id.* at 613. *Andrea II* cannot be said to have overruled the holding in *Andrea I* because the court in *Andrea II* found that the patentee's competitor had operably assembled the combination to

3. *Critique of the* Andrea I *argument.*

Two significant criticisms can be made of the argument in *Andrea I*. First, the cases on which Judge Swan relies arguably are wrongly decided. Second, even if they are to be followed, the precedents do not necessarily lead to the conclusion reached in *Andrea I*.

The authorities are wrongly decided. Judge Swan's contributory infringement argument springs from two earlier court of appeals cases, *Computing Scale Co. v. Toledo Computing Scale Co.*[69] and *Bullock Electric & Manufacturing Co. v. Westinghouse Electric & Manufacturing Co.*,[70] which considered the problem of contributory infringement in the export context. Both cases held that contributory infringement can be triggered only "when somewhere and somehow in this country there is completed infringement to which contribution can be made."[71] The patentees in *Computing Scale* and *Bullock* claimed contributory infringement by competitors who made a material part of the patented combination in the United States, shipped it to Canada, and there combined it with parts made in Canada to form the patented combination. Since the making of the combination did not occur within the territorial limits of the Act, no direct infringement occurred, and since no direct infringement occurred, no contributory infringement took place.[72]

The conclusion of Part II was that the courts should attempt to give full effect to the congressional determination that a patentee be allowed to reap the benefits of his invention. From this standpoint the holdings in *Computing Scale* and *Bullock* are not satisfactory. By definition a material part of a combination is a part which has no other use except as an element of the combination.[73] Thus, the only benefit an American competitor gets from making and selling a material part either to an American or a foreign purchaser is a benefit attributable to the patentee's invention itself. Since the material part is made within the United States, one could argue that there is sufficient contact with the American market to hold the material part maker liable for infringement even when he sells that part to a foreign

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test it before disassembling for export. The court held that the testing constituted a making and use within the United States. *Id.* at 614. It therefore did not have to reach the substantial assembly question, and its commentary on Judge Swan's substantial assembly observations was dictum.

69. 279 F. 648 (1921), *decree aff'd*, 281 F. 488 (7th Cir. 1922), *aff'd*, 261 U.S. 399 (1923).

70. 129 F. 105 (6th Cir.), *cert. denied*, 194 U.S. 636 (1904).

71. 279 F. at 678.

72. *See* text accompanying notes 58–60 *supra.*

73. A material part, as defined in 35 U.S.C. § 271(c) (1970), is a part "especially made or especially adapted" for use in the patented invention and is distinguished from a "staple article or commodity of commerce." *Computing Scale* and *Bullock* were, of course, decided long before the enactment of § 271(c). *See* note 75 *infra.* Congress worked no change in the doctrine of contributory infringement in codifying § 271(c). *See* note 102 *infra.* Consequently the considerations weighed in these two cases and the conclusions reached remain valid even after the enactment of § 271(c). *See* note 76 *infra.*

purchaser.[74] *Bullock* and *Computing Scale* reached a contrary conclusion because they exalted the direct infringement prerequisite for contributory infringement above the policies which in fact underlie the doctrine. Had they looked instead to those policies they might have reached a conclusion which preserved the patentee's right to exclude.[75]

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74. Under the Patent Act, the patentee's right to exclude extends only to the making, using, or selling of the patented combination within the United States. 35 U.S.C. §§ 154, 271(a) (1970). Where a foreign-made combination is to be used abroad, or where a foreign manufacturer makes a material part that is to be used in the combination abroad, there is no contact with the United States. Given the territorial limitations in §§ 154 and 271(a), the patentee can make no claim that he has been denied the Act-granted benefit of his invention as a result of these foreign actions. Thus, there is a clear cut-off point where the patentee's right to exclude ends, namely the point at which there is no contact between the making, use, or sale of the combination and the United States. One way of viewing the problem in both *Andrea I* and *Deepsouth* is to ask how great the contact must be with the United States before the patentee can assert his right to exclude under the Act.

If the patent and competitive mandates were in conflict, as *Deepsouth* suggests, the courts might be justified in keeping a tight rein on a suspect monopoly privilege by requiring extensive contact with the United States. If, on the other hand, the two mandates are compatible, as argued in Part II, the emphasis shifts to one of preserving the patentee's right to exclude. Phrased another way, the effort to construe the Act becomes one of giving the fullest effect to the patentee's right to exclude within the possible meanings that might be given to the terminology the Act employs. Under this approach a liberal view of the required contact is appropriate. For a proposed test *see* notes 114–20 *infra* and accompanying text.

75. Traced to its origins, the doctrine of contributory infringement reflects nothing more than an attempt by the courts to protect the patentee's exclusive right to the benefit of his patent in those instances where American competitors seek to appropriate that benefit without actually operably assembling the patented device. The direct infringement prerequisite, at its inception, was in fact nothing more than a shorthand way of limiting the patentee's right to exclude to the economic advantage ascribable to his invention.

Prior to the recodification of the Patent Act in 1952 there was no statutory definition of either direct or contributory infringement. The only statutory expression of the patentee's exclusive right was that contained in the predecessor of today's § 154 which said only that the patentee had an exclusive right to "make, use and vend" his patented invention. *See* Federico, *Commentary on the New Patent Act*, 35 U.S.C.A. 1, 51 (1954). Consequently at a very early stage in the development of patent law, the courts were confronted with a statutory construction problem similar to that posed by the substantial assembly problem found in *Andrea I* and *Deepsouth*. If the courts adopted an operable assembly definition of making, then competitors could manufacture the essential element of the invention, omit operable assembly, and escape liability. The patentee, of course, could go against remote purchasers who completed operable assembly, but it was readily apparent that in a great many cases such a remedy was without value due to the large number of remote purchasers. If the patentee's right to exclude was to be preserved, he needed the right to reach competitors who were manufacturing his invention short of operable assembly.

Professor Roberts' 1898 commentary on contributory infringement is particularly helpful in outlining the considerations which gave rise to the doctrine of contributory infringement. With regard to patented combinations the general rule then as now was that the patentee's exclusive right went only to the whole of the combination and not to its parts. *See* Roberts, *Contributory Infringement of Patent Rights*, 12 HARV. L. REV. 35, 36 (1898). Recognizing the inadequacy of limiting the patentee to an action against remote purchasers of devices manufactured to some degree less than operable assembly by the patentee's competitors, the courts modified the general rule to permit the patentee "to stop the trespass at its origin rather than compel him to take a course which practically opposes an impossibility to his effort toward establishing or enforcing his right." *Id.* at 40. The problem, however, was to devise a rule that protected the patentee's exclusive right while limiting his right so that it pertained only to those economic benefits attributable to his invention. The test Roberts devised was: "Will the injunction asked for deprive the defendant of any business which he would enjoy in case all the persons who wrongfully use the thing sold were enjoined against continuance of the immediate infringement?" *Id.* at 41. The distinction Roberts was attempting to draw was between the taking by another of the benefit of the patentee's invention and the taking by another of a benefit not attributable to the invention. *See id.* Roberts' rule focuses on the patentee's benefit, but the rule is phrased in terms of direct infringement by the remote purchaser. One must assume that Roberts did not have the export context in mind. In the domestic context a distinction between direct infringement by remote purchasers and failure to infringe directly is convenient shorthand for describing what the present § 271(c) calls a material part. If, in the domestic context, a

Authorities do not compel the Andrea I *result.* Although the authorities relied upon by Judge Swan in *Andrea I* arguably are wrongly decided, they are now precedents of long standing. Moreover, their result has now apparently been codified in section 271(c).[76] Despite the unavailability of a

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part can be used by the remote purchaser for something other than completing the patented invention, then the part has a potential benefit not attributable to the invention and hence is not material. However, in the export market a material part which meets the Roberts test with regard to the attributes of the economic benefit received will not be used in an infringement. This is not because the part has some other use but simply because completion of the combination takes place outside the United States.

The difficulty with the direct infringement prerequisite for contributory infringement, and indeed the difficulty with characterizing the making of a material part as a contribution to an infringement, is that it causes the making of a material part to be viewed as something other than infringement itself. The benefit received by the competitor is identical whether a competitor operably assembles or assembles only a material part, a point Roberts recognized when he declared that contributory infringement is "tantamount" to direct infringement. *Id.* at 44. If, as Roberts indicates, it is this sameness of benefit which is the ultimate concern, then where operable assembly takes place should be irrelevant so long as the making of the part which creates that benefit occurs in the United States. On that basis the makers of material parts for operable assembly abroad should be liable for infringement as are their brethren who sell material parts to be operably assembled by domestic purchasers in the United States. Had the courts deciding *Bullock* and *Computing Scale* recognized that the purpose of the doctrine of contributory infringement was to protect the patentee's right to the economic advantage of his invention while limiting protection to that economic advantage alone, they could have avoided the incentive-reducing implications of the direct infringement prerequisite in the export context by restricting the prerequisite to its domestic-context origins.

76. The Court in *Deepsouth* employed what amounts to the *Bullock-Computing Scale* analysis of contributory infringement in the export context, *see* notes 69–75 *supra* and accompanying text, in its analysis of the relationship between §§ 271(a) and (c). *See* 406 U.S. at 526–27. In doing so it made no reference to *Bullock* or *Computing Scale*, and in fact no such reference was necessary since the statutory language appears to compel the *Bullock-Computing Scale* result. Section 271(c) defines contributory infringement in terms of a material part "especially made or especially adapted *for use in an infringement.*" 35 U.S.C. § 271(c) (1970) (emphasis added). Section 271(a), in turn, defines infringement as the making, using, or selling of a patented invention "within the United States." *Id.* § 271(a). Thus while *Bullock* and *Computing Scale* were in essence judicial efforts to give meaning to the then undefined infringement concept, *Deepsouth* involved construction of two fairly explicit definitions placed in the Act by Congress. In effect Congress in enacting § 271(c) placed the Roberts shorthand into the Act, and in so doing placed its imprimatur on a characterization of the contributory infringement problem which failed to consider the export context. *See* note 75 *supra.* Once contributory infringement was placed in the Act the possibility of evolving, by judicial construction, the doctrine of contributory infringement into a doctrine capable of protecting patentees in the export context was foreclosed.

An argument can be made that the consequences of § 271(c) for the export context were not anticipated by Congress. Indeed Congress appears to have had the same blind spot with regard to contributory infringement in the export context as did Roberts. *See* note 75 *supra.* Congress enacted § 271(c) in response to the Court's apparent evisceration of the doctrine of contributory infringement in Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 669 (1944). *See* notes 101–02 *infra.* Both the relevant hearings and the House and Senate reports accompanying the legislation demonstrate a keen awareness by Congress of the *Mercoid* opinion. *See* H.R. REP. No. 1923, 82d Cong., 2d Sess. 5, 9 (1952); S. REP. No. 1979, 82d Cong., 2d Sess. 8, 28 (1952); *Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary,* 82d Cong., 1st Sess., ser. 9, at 150–59 (1951). Perhaps more significant, the Congress was aware of Justice Frankfurter's dissent to *Mercoid,* and in fact the House report borrows from Frankfurter his characterization of the doctrine as "an expression both of law and morals." *Compare* Mercoid Corp. v. Mid-Continent Inv. Co., *supra* at 677, *with* H.R. REP. No. 1923, *supra* at 9. Frankfurter's analysis of the doctrine was in turn borrowed largely from Roberts. *See* Mercoid Corp. v. Mid-Continent Inv. Co., *supra* at 677. Thus one might suggest that Congress evidenced the same blind spot as did Roberts at least in part because it took its characterization of the doctrine from Roberts.

That Congress' characterization of the doctrine excluded the export context inadvertently can be postulated not only from the fact that the export problem appears neither in the hearings nor in the reports but also from the policies Congress articulated to justify the legislation. The House report recognized that "one who makes a special device constituting the heart of a patented machine . . . is obviously appropriating the benefit of the patented invention." H.R. REP. No. 1923, *supra*

contributory infringement remedy in *Andrea I*, however, the result in that case depends on still a further assumption—that the doctrine of direct infringement is not applicable because it applies only when the elements of a patented combination are fully assembled in operable form in the United States. Judge Swan made this assumption in *Andrea I* without citing any cases to support his position.[77] Instead he relied on a general assertion that the combination patentee's monopoly "does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention."[78] Insofar as Judge Swan was indicating that the combination patent goes to the invention itself and not to its parts, he was traveling well-trodden ground.[79] His assertion standing by itself, however, would not have been sufficient to carry him to his operable assembly conclusion because manufacture of a material part is distinguishable from substantial assembly.

The substantial assembly approach goes to the question of making the invention itself. It assumes that the near congruence of an operably assembled combination with a substantially assembled one is sufficient to establish the substantially assembled combination *as the invention itself*.[80] The domestic competitor who makes the substantially assembled combination for export may still be guilty of direct infringement if one were to consider that competitor to be more like the manufacturer of an operably assembled combination than like the manufacturer of a material part. It is a case of linedrawing, and *Andrea I* draws the line without analysis. The Court in *Deepsouth* simply relies on *Andrea I* for the validity of its statement that direct infringement is inapplicable.[81]

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at 9. As discussed in note 75 *supra* it makes no difference whether the patentee's competitors appropriate the benefit of his invention by selling to domestic purchasers or foreign customers. Therefore, if in fact Congress was concerned with protecting the patentee's exclusive right to the benefit of his invention, there is no reason to distinguish between the domestic and export contexts, since the benefit appropriated in either case is attributable solely to the patented invention and the competitor's contact with the United States is sufficient to satisfy territorial considerations. *See* note 74 *supra* and accompanying text.

To conclude, the *Deepsouth* construction of §§ 271(a) and (c) with regard to contributory infringement in the export context may indeed be technically correct. Thus the *Bullock-Computing Scale* rule has continuing vitality. But one can certainly suggest that the *Deepsouth* construction of contributory infringement was not anticipated by Congress and is not in keeping with the policy justifications Congress offered for § 271(c) when the 1952 recodification was passed.

77. *See* 79 F.2d at 628.

78. *Id.*

79. One early commentator stated the general rule of combination patent construction as follows: "Broadly speaking, the manufacture, sale, or use of an element of the combination, or of any number of elements in combination short of the complete whole recited in the claim, is innocent." Roberts, *supra* note 75, at 36. All of the Supreme Court cases cited by Justice White in *Deepsouth* articulate a similar rule. *See* Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 344 (1961); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 676 (1944); Mercoid Corp. v. Minneapolis-Honeywell Regulator Corp., 320 U.S. 680, 684 (1944); Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 301, 318 (1909); Brown v. Guild, 90 U.S. (23 Wall.) 181, 223 (1874).

80. *See* note 5 *supra*.

81. *See* note 56 *supra* and accompanying text.

B. Aro I *and* II

The holdings in *Andrea I* and *Deepsouth* that substantial assembly in the export context does not qualify as direct infringement depends on the unstated conclusion that, since the doctrine of contributory infringement applies to degrees of assembly less than operable assembly, a patentee may look only to the doctrine of contributory infringement when he is confronted by a competitor who less-than-operably assembles his combination.[82] Since substantial assembly is less than operable assembly, the *Andrea I* and *Deepsouth* courts were unwilling to recognize that it might be sufficient for a finding of direct infringement. Actually, however, precedent does exist for the proposition that in those market contexts where substantial assembly by a competitor would permit the competitor to appropriate for himself the benefit of the patentee's invention the courts will construe the Patent Act in a manner which preserves the patentee's right to exclude. This precedent can be found in the two *Aro Manufacturing Co. v. Convertible Top Replacement Co.* cases.[83]

The *Aro* cases were concerned with the right of the purchaser of a patented combination to repair that combination.[84] Taken together the two cases hold that a purchaser of a patented combination has an implied license to repair his patented combination, even if the part he uses to make the repairs is a "material part," so long as he purchased the combination from a manufacturer authorized by the patentee to make the combination. Where the purchaser buys the patented combination from a manufacturer

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82. *See* notes 58–60 *supra* and accompanying text.

83. 377 U.S. 476 (1964); 365 U.S. 336 (1961). The patentee in the *Aro* cases held the patent on a combination for an automobile top. Because of wear the fabric in the top had to be replaced every 3 years. Convertible Top Replacement Company was licensed to enjoy the rights of the patentee with regard to the patent within a specified territory. Convertible's competitor, Aro, manufactured and sold replacement fabric cut to fit the combination top embodied in the patent. Convertible brought an action against Aro seeking an injunction against Aro's infringement of the patent, arguing that the fabric sold by Aro constituted a material part and that consequently Aro had contributorily infringed.

In *Aro II* the fact situation developed further. The patented convertible top was manufactured as original equipment on automobiles assembled by General Motors Corporation and the Ford Motor Company. General Motors was licensed to make the convertible top; Ford was not. 377 U.S. at 478–79. The Court in *Aro II* held that the *Aro I* decision applied only to the General Motors automobiles. *See id.* at 464.

84. Traditionally the purchaser of a combination patent is said to receive with his purchase the right to repair worn-out parts. He does not, however, have a right to "reconstruct" the combination anew. The repair versus reconstruction distinction turns on the degree of assembly required.

As noted by the dissenters to *Aro I*: "For more than a hundred years it has been the law that the owner of a device covered by a combination patent can, without infringing, keep the device in good working order by replacing, either himself or through any source he wishes, unpatented parts, but that he may not, without rendering himself liable for infringement, reconstruct the device itself, whether because of its deterioration or for any other reason, and even though all of the component parts of the device are themselves unpatented." 365 U.S. at 369 (Harlan, Frankfurter & Stewart, JJ.), *citing* the following five cases: Heyer v. Duplicator Mfg. Co., 263 U.S. 100, 101–02 (1923); Leeds & Catlin Co. v. Victor Talking Mach. Co., 213 U.S. 325, 336 (1909); Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co., 152 U.S. 425, 434–35 (1849); Cotton-Tie Co. v. Simmons, 106 U.S. 89, 93–94 (1882); Wilson v. Simpson, 50 U.S. (9 How.) 58, 61–62 (1849).

who is not authorized, however, he has no implied license to repair. In that situation the repairing purchaser directly infringes, and the supplier of the material part used in making the repair is liable to the patentee for contributory infringement.[85]

The substantial assembly implications of the *Aro* cases arise through Justice Brennan's concurring opinion in *Aro I* and his opinion for the Court in *Aro II*. In *Aro I* Justice Brennan indicated that one who purchases a patented combination from an authorized manufacturer has an implied license to replace some parts of that combination but not others. The distinction rests on the degree to which the part in question resembles the patented combination itself. Where the part added is so like the patented combination that a "reconstruction" is in fact taking place, that reconstruction would constitute an infringement of the patentee's patent.[86] Justice Brennan's implied license approach was adopted by the Court in *Aro II*.[87] The Court in *Aro II* held liable for contributory infringement the supplier of a material part to a purchaser having no implied license to repair.[88] At the same time it indicated no disagreement with its holding in *Aro I* that the same supplier of the identical part was not so liable when his purchaser had an implied license.[89] Therefore it is reasonable to infer that Brennan's dictum in *Aro I* on the requirements for finding a reconstruction would have been sympathetically received had the Court been confronted with the greater degree of assembly Brennan contemplated in his *Aro I* reconstruction dictum.

85. The construction of the *Aro* cases offered in the text is that employed by Justice Brennan in *Aro II*. Brennan's reading of *Aro I* exhibits in fact a considerable degree of judicial creativity. There is no mention of the implied license concept in Justice Whittaker's *Aro I* opinion for the Court. Instead Justice Whittaker relied heavily on the *Mercoid* cases to reach the rather sweeping conclusion that "[n]o element, not itself separately patented, that constitutes one of the elements of a combination patent is entitled to patent monopoly, however essential it may be to the patented combination and no matter how costly or difficult replacement may be." 365 U.S. at 345, *citing* Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944), *and* Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 580 (1944). According to Whittaker only a "second creation of the patented entity" would be sufficient to trigger either direct or contributory infringement. *Id.* at 346. As Justice Brennan pointed out in his concurring opinion to *Aro I*, the Whittaker test "plainly would not heed the congressional mandate [expressed in § 271(c)]." *Id.* at 366. The groundwork for the implied license approach employed in *Aro II* was laid in reality in Brennan's *Aro I* concurring opinion. *See id.* at 362–68.

86. *Id.* at 362: "[T]here are circumstances in which the replacement of a single unpatented component of a patented combination short of a second creation of the patented entity may constitute reconstruction." It is not altogether clear that Justice Brennan was fully conscious of a distinction between mere material parts and a higher degree of assembly sufficient to constitute a reconstruction when he offered his *Aro I* concurring opinion. Brennan took pains to note in *Aro I* that the "shape of the fabric was . . . not the essence of the device . . . ." *Id.* at 368. Nonetheless Brennan held that this very same part was sufficiently unique to give rise to contributory infringement in *Aro II*. The inference to be drawn, then, is that while the part was sufficiently unique to create contributory infringement where it was purchased by customers having no implied license to repair, a higher degree of assembly would be required to constitute a reconstruction of the patent sufficient to overcome the protection given by an implied license.

87. *See* note 85 *supra*.

88. 377 U.S. at 483–85.

89. *Id.* at 479–80.

The implication to be drawn from the dictum in Brennan's *Aro I* opinion and the holdings of the *Aro* cases is that while a purchaser of a combination from an authorized manufacturer has an implied license to replace even a material part of his combination, he has no implied license to reconstruct the patented combination. The significance of Brennan's *Aro I* dictum lies in its suggestion that, in the repair-reconstruction context, the courts will recognize a distinction between the making of a material part and the making of a part which so closely resembles the patented combination itself that even a purchaser possessing an implied license to repair will be considered to be an infringer when he adds such a part to his previously purchased combination.

In essence, then, Brennan's repair-reconstruction construct turns on his recognition that there is a degree of assembly greater than the making of a material part but less than operable assembly. The intermediate degree of assembly he recognizes is analogous to substantial assembly in the export context. It matters little whether the consequences for the parts supplier in such a reconstruction are termed "direct" or "contributory" infringement.[90] Just as this intermediate degree of assembly would trigger an infringement in the repair-reconstruction context, so should substantial assembly in the export context be considered an infringement. The policy basis for such a rule is the same in both market contexts. One who supplies a part, which is in essence the patentee's combination, to a purchaser who adds a minor part from a previously purchased combination gets the benefit of what amounts to a new making of the combination. Similarly, one who supplies a substantially assembled combination to a foreign purchaser is so benefited. In either case failure by the courts to recognize the trans-

90. Where the purchaser of a patented combination intends to use the patented combination within the United States, operable assembly is a prerequisite to such use. *See* notes 56 & 63 *supra*. It therefore makes no difference whether one characterizes the supplier of a part sufficiently similar to the patented combination to trigger Justice Brennan's reconstruction doctrine as a direct infringer or as a contributor to the direct infringement by a reconstructing purchaser. Either approach would be equally valid. One could say either that the part supplier himself had directly infringed when he created the reconstruction part or that he contributorily infringed when his purchaser added that part to a minor part from a previously purchased combination. The first characterization would, of course, be directly analogous to substantial assembly in the export context. In the second case one might suggest that the purchaser had gone beyond the implied license he received when he bought the previously purchased combination from an authorized manufacturer. The significant point to note in the second case, however, is that even if one adopts the contributory infringement characterization of the transaction, it is the degree of assembly by the part supplier that eliminates the implied license protecting both purchaser and supplier. If the purchaser with an implied license had purchased a mere material part sufficient to trigger contributory infringement absent his implied license, neither he nor his supplier would have any liability to the patentee. Instead he purchased a part representing a greater degree of assembly, though less than operable assembly, and, under Justice Brennan's *Aro I* analysis, both he and his supplier are liable, implied license or no. It is the degree of assembly which determines the protective value of the purchaser's license, a degree of assembly distinguishable from and greater than that required of a mere material part under the contributory infringement doctrine. Thus, even under the contributory infringement characterization, recognition of something akin to substantial assembly is present in Justice Brennan's reconstruction approach.

action as an appropriation of the patentee's invention denies the patentee his exclusive right to the benefit of his combination. Brennan's approach to the problem in *Aro I* and *II*, recognizing as it does a distinction between substantial assembly and the making of a material part, thus provides support for the argument that direct infringement should be found both for operable and substantial assembly in those market contexts where an operable assembly definition of "making" would defeat the patentee's exclusive right to the benefit of his patented combination.

C. *Conclusions*

The *Aro* cases, when coupled with the specific application of the substantial assembly approach to the export context made in *Andrea II*[91] and the Fifth Circuit's *Deepsouth* opinion,[92] offer a way around the "conceptual box" created by the doctrine of contributory infringement.[93] The substantial assembly alternative breaks the link between direct infringement and contributory infringement forged by Judge Swan in *Andrea I* and Justice White in *Deepsouth*.[94] It opens up the possibility of focusing on degrees of assembly, allowing one to escape the conclusion that any amount of assembly less than operable assembly creates a material part subject to the limitations of the doctrine of contributory infringement. The substantial assembly approach these cases suggest also preserves the patentee's benefit and hurdles the territorial limitations of the Patent Act[95] by defining substantial assembly as making, making that occurs within the United States. In addition it maintains the result as to contributory infringement in the export context which appears to be required by the phrasing of section 271(c).[96] Since substantial assembly presumes a degree of assembly greater than that required for a material part, the foreign purchaser need only make a negligible effort to operably assemble the combination and enjoy its benefits. The contacts with the United States are greater, or conversely, the degree of making required is less than that which would be required in a foreign country for the foreign purchaser to enjoy the benefit of a material part. Therefore there is less reason to suggest that protecting

91. *See* notes 64–68 *supra* and accompanying text.

92. *See* notes 11–15 *supra* and accompanying text.

93. The Court of Appeals for the Fifth Circuit suggested in its *Deepsouth* opinion that the Second, Third, and Seventh Circuits "worked themselves into . . . a conceptual box" by focusing on the direct infringement prerequisite for contributory infringement. 443 F.2d at 938. That box, of course, is in essence the conclusion implicit in the opinions of Justice White and Judge Swan that any degree of assembly less than operable assembly must fit within the confines of § 271(c) before the patentee can assert any right to exclude. To avoid that dilemma the Fifth Circuit chose to give the word "makes" the meaning "it ordinarily connotes—the substantial manufacture of the constituent parts of the machine." *Id.* at 939.

94. *See* notes 56–63 *supra* and accompanying text.

95. *See* notes 61–63 *supra* and accompanying text.

96. *See* note 76 *supra* and accompanying text.

the patentee through a substantial assembly rule gives the Patent Act impermissible extraterritorial effect.[97]

IV. The Evidence of Congressional Intent

A. *Sub Silentio Approval of the Operable Assembly Rule*

Quite apart from the merits of the precedents relied upon by the majority opinion in *Deepsouth*, the Court asserted that the *Andrea I* operable assembly rule was firmly established by the recodification of the Patent Act in 1952. Had Congress disagreed with the operable assembly approach, reasoned the Court, it would have amended the Act. Consequently, its failure to do so must be interpreted as acquiescence in the judicial decision.[98] This conclusion is open to serious criticism.

Even if Congress had been aware of the operable versus substantial assembly problem in 1952, it would have found only two opinions discussing the question directly—*Andrea I* and *Andrea II*. As previously noted, those two cases can by no means be regarded as clearly resolving the question.[99] Moreover, there is absolutely no evidence that Congress considered the issues involved in the *Andrea* cases.[100] Consequently, Congress can hardly be said to have implicitly sanctioned any particular view.

Furthermore, while Congress for the most part did not intend recodification to change the existing law, the committee reports accompanying the legislation make it clear that Congress viewed as unacceptable the Court's suggestion in *Mercoid Corp. v. Mid-Continent Investment Co.*[101] that contributory infringement was no longer a vital doctrine. By giving

97. In *Deepsouth* Justice White reached a contrary conclusion on the extraterritorial impact, in the export context, of a substantial assembly definition of direct infringement. *See* notes 103–08 *infra* and accompanying text.

98. 406 U.S. at 530. The Court in *Deepsouth* made the case as to congressional intent as follows: "The prevailing law in this and other courts as to what is necessary to show a patentable invention when a combination of old elements is claimed was clearly evident from the cases when the [Patent Act of 1952] was passed; and at that time Andrea, representing a specific application of the law of infringement with respect to the export of elements of a combination patent, was 17 years old. When Congress drafted § 271, it gave no indication that it desired to change either the law of combination patents as relevant here or the ruling of Andrea." *Id.*

99. *See* text accompanying notes 69–81 *supra*.

100. For a discussion of the legislative history of the 1952 Patent Act, see Federico, *supra* note 75, at 6–9. Federico does not mention the problem of substantial versus operable assembly of combinations in the export context, nor is any mention of the problem contained in the relevant hearings. *See* H.R. Rep. No. 1923, *supra* note 76; S. Rep. No. 1979, *supra* note 76; *Hearings on H.R. 3760*, *supra* note 76.

101. 320 U.S. 661 (1944). Though the *Mercoid* case was decided on the basis of the patentee's misuse of his patent, Justice Douglas, writing for the Court, declared that "[t]he result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement." *Id.* at 669. Justice Frankfurter vigorously criticized the Court's reflections on contributory infringement in his dissent to *Mercoid*, declaring that "litigants and lower courts ought not to be embarrassed by gratuitous innuendos against a principle of law which, within its proper bounds, is accredited by legal history as well as ethics." *Id.* at 678.

Douglas' language did lead the Sixth Circuit to conclude "that nothing has been left of the doctrine [of contributory infringement] as formerly it had been applied." Landis Mach. Co. v. Chase Tool Co., 141 F.2d 800, 801 (6th Cir. 1944).

a statutory base to the contributory infringement doctrine, Congress disapproved the only judicial decision it considered which had the effect of limiting the protection accorded to patentees.[102] Without evidence that Congress considered *Andrea I*, the argument that *Andrea I*'s holding was silently approved is less than compelling.

B. *Congressional Intent and Foreign Patents*

As a parting shot at the substantial assembly rule the majority opinion in *Deepsouth* declared that the territorial limitations contained in sections 154 and 271(a) reveal a "congressional intent to have [the patentee] seek [protection in markets] abroad through patents secured in countries where his goods are being used."[103] While the sections themselves and the precedent cited by the Court[104] support the argument that the Patent Act is not intended to have extraterritorial effect, they do not substantiate the contention that Congress intended patentees to seek foreign patents if they wish to protect themselves from American competitors in the export market.

102. The Court in *Deepsouth* said that Congress had intended no change in patent law when it drafted § 271. 406 U.S. at 530; *see* note 98 *supra*. During the Senate debate on the 1952 Act, the Chairman of the Senate Judiciary Committee, Senator McCarran, was asked what if any changes in patent law would result from the Act. In his majority opinion in *Deepsouth*, Justice White quoted Senator McCarran as responding that the proposed act merely "codifies the present patent laws." *Id.* at n.10. But Justice White failed to point out that McCarran amended his response in a prepared statement submitted subsequently. The Senator's amended response declared: "In view of the decisions of the Supreme Court and others as well as trial by practice and error *there have been some changes in the law of patents* as it now exists and some new terminology used." 98 CONG. REC. 9323 (1952) (emphasis added).

Justice White's suggestion that Congress did not intend to change the Act when it passed the 1952 recodification simply will not square with the legislative history of the recodification. The immediate predecessor of the House bill which became the 1952 Act revision was H.R. 3760, which was introduced in the first session of the 82d Congress. *See* H.R. REP. No. 1923, *supra* note 76, at 3–4. During the hearings on H.R. 3760, considerable attention was devoted to its proposed § 231(c), the forerunner of the present § 271(c). It is clear from those hearings that the contributory infringement section was proposed in direct response to the decision in Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944), and that its purpose, in the words of Representative Rogers, was to "point out to the court . . . that it was the sense of Congress that we remove this question of confusion as to whether contributory infringement existed at all, and state in positive law that there is such a thing as contributory infringement . . . ." *Hearings on H.R. 3760*, *supra* note 76, at 159. Similarly the House and Senate reports accompanying the recodification legislation refer to the "doubt and confusion" left in *Mercoid*'s wake. *See* H.R. REP. No. 1923, *supra* note 76, at 5, 9; S. REP. No. 1979, *supra* note 76, at 8, 28. The House Report specifically declares: "Although the principal purpose of the bill is the codification of title 35 . . . there are a number of changes in substantive statutory law. . . . The major changes . . . consist of incorporating a requirement for invention in § 103 and the judicial doctrine of contributory infringement in § 271." H.R. REP. No. 1923, *supra* note 76, at 5.

In his article on the new patent act the then Examiner in Chief of the U.S. Patent Office, P.J. Federico, indicated that it was his understanding that Congress felt § 271 to be "one of the major changes or innovations in the title." Federico, *supra* note 75, at 51.

In *Aro II* the Court itself recognized that Congress had intended to change the patent laws through § 271. It specifically held that "Congress enacted § 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid*, and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions." 377 U.S. at 492.

103. 406 U.S. at 531.

104. *Id.*, *citing* Brown v. Duchesne, 60 U.S. (19 How.) 183, 195 (1857).

Earlier in the majority opinion Justice White showed his concern with extraterritorial effect by arguing that a substantial assembly rule gives the Patent Act extraterritorial effect by conferring "flagship" status on the patentee.[105] According to this argument a substantial assembly rule, because it would permit a patentee to exclude American competitors from the export market, enables the American patentee to operate in international commerce free of American competition. Even if one concedes that there is some validity in the Court's flagship characterization, it does not follow that a substantial assembly rule is an impermissible extension of the territorial sweep of the Act.

Examining substantial and operable assembly in terms of their relative extraterritorial effects does little to support the Court. A patentee may exclude from international commerce a competitor who operably assembles the patentee's combination, and in that sense an operable assembly rule also gives extraterritorial effect to the Patent Act and confers flagship status on the patentee. Once it is recognized that an operable assembly rule has extraterritorial consequences just as does a substantial assembly rule, the inappropriateness of attempting to distinguish between operable and substantial assembly in terms of their extraterritorial effects is apparent. The patentee can exclude from the export market the competitor who operably assembles the patented product, and he should not be barred by considerations of extraterritorial impact from likewise excluding the competitor who resorts to substantial assembly. The extraterritorial effect, or lack of it, is the same in either case. Since the substantial assembly rule should no more fail because of extraterritorial impact than does the operable assembly rule, one cannot read into sections 154 and 271(a) a congressional intent that the patentee protect himself from substantially assembling American competitors by obtaining foreign patents—particularly when the only evidence of congressional intent cited by the Court is the wording of the Act itself.[106]

Since including the substantially assembling competitor within the ambit of the American patent grant does not extend the territorial sweep of the Act, and since the benefit which would be received by the patentee if his substantially assembling competitor were excluded from the export market would be solely attributable to the patentee's invention,[107] the mere fact that foreign patents are available adds nothing to the argument because those same foreign patents are available to protect the patentee from operably assembling American competitors. The negative consequence of the operable assembly rule upon the patentee's incentive is apparent: acquisi-

105. *See id.* at 523.
106. 406 U.S. at 523, 531, *citing* 35 U.S.C. §§ 154, 271 (1970).
107. *See* note 63 *supra*.

tion and enforcement of foreign patents is costly.[108] The effect of the Court's argument is that the patentee's subsidy is reduced by either the cost of foreign patents or a loss of profits to competitors who substantially assemble. Congress has the power to limit the patentee's subsidy, but there is nothing in the Court's argument which compels a conclusion that Congress intended to impose a limitation in this context. If the Court limits the patentee's subsidy without congressional direction to do so, it is engaged in policymaking based on misinterpretation of congressional intent.

V. A Proposal for Legislation

The foregoing discussion has contended that *Deepsouth* is inconsistent with Congress' balancing of the need for invention against the competitive mandate. Although the opinion's result was compelled neither by precedent nor by any specific indications of congressional intent, *Deepsouth* is now the law. Congress, however, has the power to change the rule established by the Supreme Court through amendment of the relevant statutes. This Part proposes a statutory amendment that would establish a substantial assembly rule for patented combinations in the export context.

A. *Rejection of the Fifth Circuit Approach*

The Fifth Circuit offered a substantial assembly rule when it considered the *Deepsouth* case. Its rule would have required that all parts of a patented combination be produced in the United States and that the combination be finally assembled for its intended use in a foreign country in all but "minor respects."[109] The Fifth Circuit rule, however, is only slightly less mechanical than the Supreme Court's operable assembly approach. While applying to the *Deepsouth* situation, the rule would have posed only a minor barrier to the competitors determined to export the patentee's combination: if even small parts used in assembling the combination were made abroad the exported combination arguably would not fall within the substantial assembly rule.[110]

108. Professors Fulda and Schwartz have noted the costs of acquiring foreign patents and the impact those costs can have. In particular they make reference to the complaint of a small engineering firm which was unable to meet the competition of a larger corporation because the latter was able to invest the $1 million required to protect an invention in the 50 foreign countries where the market appeared promising. C. Fulda & W. Schwartz, Regulation of International Trade and Investment 540 (1970).

109. 443 F.2d at 939.

110. Such artfulness must be expected from those who stand to benefit from avoiding the patent laws. For example, Deepsouth's president wrote to a Brazilian customer that "we can manufacture *the entire machine* without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil." 406 U.S. at 523 n.5 (emphasis added). Clearly Deepsouth was not offering mere parts, but rather the entire patented invention to foreign customers. Similar practices could be expected if the

tory infringement is designed to limit the contributory infringement rule to those cases where the competitor is consciously making an effort to appropriate the patentee's invention. It protects the supplier who builds a part to order not knowing that the part is unique to a patented combination that his customer intends to infringe.

Since this Note proposes that with respect to patented combinations in the export context, substantial assembly ought to be made an alternative definition of the making requirement in section 271(a), the rule should be patterned after that section and might be articulated as follows:

> Whoever, for export and without authority, knowingly makes and/or sells, within the United States and for use in a foreign country, but for minor final assembly and/or minor parts, any patented combination during the term of the patent therefor, infringes the patent.

C. *Analysis of the Proposal*

The proposed rule may be visualized as a corollary to the operable assembly requirement implicit in the direct infringement concept as it functions in the domestic market. As noted, operable assembly is a prerequisite to enjoyment of the patented invention where use of the invention is to take place in the United States.[115] Operable assembly is not a prerequisite to appropriation of the benefit of the invention when it is sold for use abroad.[116] Since the rule is not intended to expand the patentee's monopoly beyond his invention, it is limited to the export market where appropriation of the invention's benefit without operable assembly is uniquely possible.

The rule, like its section 271(a) counterpart, is also limited to those who make or sell the patentee's invention "without authority."[117] This provision maintains the patentee's ability to license others to make and sell his invention. The knowledge requirement has been discussed above and is taken from the considerations that presumably are reflected in the contributory infringement section.[118]

Unlike section 271(a), however, the proposed rule is limited to those who would make or sell the patentee's invention. A prohibition of use is not necessary since use in the domestic market is adequately covered by section 271(a). Both selling and making are included because a competitor intending to appropriate the benefit of the patentee's invention could separate the two functions and thereby evade the proposed rule.

The "minor final assembly and/or minor parts" language creates some

115. *See* notes 56 & 63 *supra* and accompanying texts.
116. *See* note 63 *supra* and accompanying text.
117. 35 U.S.C. § 271(a) (1970).
118. *See* note 114 *supra* and accompanying text.

difficulty since those terms in themselves lack content. A similar problem is encountered in the existing contributory infringement section with regard to its "material part" requirement.[119] Given its context, however, the intent of the language is clear. The patentee's competitor should come within the rule only when the combination possesses a high degree of similarity to the patented invention. Granting that the proposed substantial assembly rule would be more difficult to administer than an automatic operable assembly rule, the problems of application would not appear to be greater than those associated with many other legal concepts. Moreover, the need to tailor the definition of infringement to the precise contours of the patentee's contribution justifies the increased complexity of application.

As noted above,[120] contributory infringement is not applicable in the absence of direct infringement. Where operable assembly occurs abroad, domestic makers of material parts are thus immune to contributory infringement claims. Under the proposed substantial assembly rule, however, the maker of a material part might commit contributory infringement if substantial assembly occurred in the United States before the product was exported. Thus the proposed rule would provide better protection for the patentee under both the direct and contributory infringement doctrines.

VI. Conclusion

In the short run at least, patents are undoubtedly anticompetitive. Nevertheless, Congress has made a decision, specifically permitted by the Constitution, that short-term patent monopolies are worthwhile devices whose benefit outweighs their burden on free competition. In interpreting the language of the patent laws, the task of the courts is to give full effect to that congressional determination and not to strike the balance between encouraging inventiveness and promoting competition anew in each case. Unfortunately, the Supreme Court in *Deepsouth* failed to follow its congressional mandate in interpreting the meaning of direct infringement. In addition, perhaps because the Court misconceived its role in the administration of the patent laws, it found clear and prevailing precedent for the operable assembly rule in a body of law that is unsettled at best. Finally, the Court misinterpreted congressional actions as seeming to support its interpretation of the statute.

The problem with the operable assembly rule is that in the export context it does not protect the patentee's right to the benefit of his invention. The rule enables domestic manufacturers to circumvent the protection accorded to patentees under the Patent Act by taking simple evasive tactics

119. 35 U.S.C. § 271(c) (1970).
120. *See* note 57 *supra* and accompanying text.

in the *Deepsouth* case. Had the Court adopted a substantial assembly ... such technical and evasive actions would have been rendered fruitless without protecting the patentee to any extent greater than the benefit of his invention. Unless the Court overrules its *Deepsouth* holding, Congress should adopt a statute designed to preserve the patentee's incentive-generating right to exclude while neither imposing an additional monopoly burden on the public nor extending the extraterritorial scope of the patent laws. The statute proposed above would accomplish these objectives.

Charles M. Kerr

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PATENT AND LICENSING

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

March 10, 1982

Dr. Pauline Newman
Director, Patent and Licensing
Department
FMC Corp.
2000 Market Street
Philadelphia, Pennsylvania 19103

Dear Polly:

I am writing in regard to some questions that came up during your recent meetings.

Ken Cage, Director of the PTO's Security Group, informed me that a United States patent application under secrecy order may be filed in other NATO countries, and NATO nationals may file "secret" applications here. The NATO treaty (copy enclosed) allows the exchange of secret material between its member countries under controlled conditions.

Ken knew of no public information about the foreign filing procedures involved, except the brief directive in 37 C.F.R. §5.5. (copy enclosed). This directive concerns the applying for and granting of a permit for the foreign filing of an application under secrecy order, although it does not make this purpose very clear.

The foreign filing procedure is somewhat roundabout. An applicant wishing to file such an application in a foreign country first petitions the PTO for a permit. The petition is referred to the Armed Services Patent Advisory Board (ASPAB) for further referral to the government agency that imposed the secrecy order. If that agency authorizes the requested foreign filing, it notifies the PTO through ASPAB that a permit may be issued. Permits are issued by the PTO. No special forms are used for obtaining these permits.

The attorney (or applicant) as a condition for receiving the permit must assure the PTO in the petition that every person expected to handle the application possesses the necessary security clearance (see §5.5(c)). The application is transmitted overseas by diplomatic pouch (all classified material is handled this way). An embassy official or foreign attorney (also having the necessary security clearance) then delivers the application to the security branch of the foreign patent office, to complete the transmittal.

If you have further questions about this procedure, I would suggest that you call Ken Cage directly at (703) 557-2877.

In conncetion with the efforts of the Ad Hoc Working Group to overturn the Deepsouth case, I indicated that I would forward information about legislative attempts to do this. There were attempts during the 93rd and 94th Congresses (S. 473, S. 2255 and S. 23, all in the 94th Congress, 1st Session, and S. 2504 in the 93rd Congress, 1st Session). Enclosed is a copy of section 271 of each of these bills, where the relevant provision appears.

We have very little background information on this issue, but I have enclosed what we do have. As I recall, the reason there is so little in our files is because the legislative activity on these bills was concerned with far more controversial issues. The Shoup statement filed with the Judiciary Committee's Subcommittee on Patents, Trademarks and Copyrights is quite informative. The Houston Patent Law Association statement succinctly presents the problem and a solution. The internal PTO paper (identified as VIII.C.2.) was developed for discussion with the Justice Department in preparing an Administration position on S. 2504.

Replying to your final inquiry, the budget for the Board of Interferences for both FY 1982 and FY 1983 calls for nine professional and ten clerical positions.

Please let me know if we can provide further information.

Best personal regards.

Sincerely,

Mike

Michael K. Kirk, Director
Office of Legislation and
International Affairs

Enclosures

Calendar No. 612

94TH CONGRESS
1ST SESSION

S. 2255

[Report No. 94-642]

S. 1308 Add. B.11
S. 21 [illegible]

IN THE SENATE OF THE UNITED STATES

JULY 31, 1975

Mr. MCCLELLAN (for himself, Mr. BURDICK, Mr. PHILIP A. HART, and Mr. HUGH SCOTT) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

FEBRUARY 24, 1976

Reported by Mr. MCCLELLAN, with amendments

[Omit the part struck through and insert the part printed in italic]

A BILL

For the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in accordance with the authority granted by article 1, section 8, clause 8 of the United States Constitution, title 35 of the United States Code entitled "Patents", is hereby amended in its entirety to read as follows:

"TITLE 35—PATENTS

"PART	Sec.
"I. PATENT AND TRADEMARK OFFICE	1
"II. PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS	100
"III. PATENTS AND INFRINGEMENT OF PATENTS	261
"IV. PATENT COOPERATION TREATY	351

"PART I—PATENT AND TRADEMARK OFFICE

"CHAPTER	Sec.
"1. ESTABLISHMENT, OFFICERS, FUNCTIONS	1
"2. PROCEEDINGS IN THE OFFICE	21
"3. PRACTICE BEFORE THE OFFICE	31
"4. OFFICE FEES	41

"Chapter 1.—ESTABLISHMENT, OFFICERS, FUNCTIONS

"Sec.
"1. Establishment.
"2. Seal.
"3. Commissioner and other officers.
"4. Restrictions on officers and employees as to interest in patents.
"5. Board of Examiners-in-Chief.
"6. Library.
"7. Classification of patents.
"8. Certified copies of records.
"9. Publications.
"10. Research and studies.
"11. Annual report.

to three years, when an application for patent or patents has become the property of the United States and the head of the appropriate department or agency of the Government has certified to the Commissioner that the subject matter disclosed therein is important to the armament or defense of the United States.

"Chapter 28.—INFRINGEMENT OF PATENTS

"Sec.
"271. Infringement of patent.
"272. Temporary presence in the United States.

"§ 271. Infringement of patents

"(a) Except as otherwise provided in this title, whoever without authority makes, uses, or sells any patented subject matter, within the United States after the issuance of the patent therefor and during its term, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the patented subject matter, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; or (3) sought to enforce the patent against infringement or contributory infringement.

"(e)(1) Subject to paragraph (3) of this subsection, whoever imports a product made in a foreign country into the United States shall be liable as an infringer, if—

"(A) he has entered into an exclusive *or primary* sales or distribution agreement for such product, with the person who made it in the foreign country, or one who purchased it from such person, and

"(B) such person made the product in the foreign country by a process patented in the United States.

"(2) Subject to paragraph (3) of this subsection, any subsidiary, or other organization under the legal control, of the manufacturer or vendor specified in paragraph (1)(A) of this subsection, that actively induces conduct proscribed by paragraph (1) of this subsection shall be liable as an infringer.

"(3) Paragraphs (1) and (2) of this subsection shall not apply if the patentee has authorized the persons identified in paragraphs (1) and (2), or any of them, to engage in such conduct.

"(f) Whoever, without authority, makes or sells, within the United States, substantially all of the components of a patented machine, manufacture, or composition of matter, uncombined, intending that such components will be combined outside the United States to constitute the patented subject matter, knowing that if such components were combined within the United States, the combination would be an infringement of the patent, shall be liable as an infringer.

"§ 272. Temporary presence in the United States

"The use of any patented subject matter in any vessel, aircraft, or vehicle entering the United States temporarily or accidentally shall not constitute infringement of any patent, if such subject matter is used exclusively for the needs of the vessel, aircraft, or vehicle, and is not sold in or used for the manufacture of anything to be sold in or exported from the United States, and if the country of registration of such vessel, aircraft or vehicle affords similar privileges to vessels, aircraft or vehicles of the United States.

"Chapter 29.—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS

"Sec.
"281. Remedy for infringement of patent.
"282. Presumption of validity; defenses.
"283. Injunction.
"284. Damages.
"285. Attorney fees.
"286. Time limitation on damages.
"287. Limitation on damages, marking and notice.
"288. Action for infringement of a patent containing an invalid claim.
"289. Additional remedy for infringement of design patent.
"290. Notice of patent suits.
"291. Priority of invention between patentees.
"292. False marking.
"293. Nonresident patentee; service and notice.
"294. Voluntary arbitration.
"295. Challenge to validity by assignor.
"296. Challenge to validity by licensee.
"297. Removal in validity challenge cases.
~~"298. Challenge to validity by the United States.~~

"§ 281. Remedy for infringement of patent

"A patentee shall have remedy by civil action for infringement of his patent.

94TH CONGRESS
1ST SESSION

S. 23

IN THE SENATE OF THE UNITED STATES

January 15, 1975

Mr. McCLELLAN introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

For the general revision of the Patent Laws, title 35 of the United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in accordance with the authority granted by article 1, section 8, clause 8 of the United States Constitution, title 35 of the United States Code entitled "Patents", is hereby amended in its entirety to read as follows:

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"5. Board of Examiners-in-Chief.
"6. Library.
"7. Classification of patents.
"8. Certified copies of records.
"9. Publications.
"10. Research and studies.

patent, or patents, to the whole or any specified part of the United States.

"(c) A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

"(d) An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

"§ 262. Joint owners

"In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, or sell the patented subject matter without the consent of and without accounting to the other owners.

"Chapter 27.—GOVERNMENT INTERESTS IN PATENTS

"Sec.
"267. Time for taking action in Government applications.

"Notwithstanding the provisions of sections 41, 133, and 151 of this title, the Commissioner may extend the time for taking any action to three years, when an application for patent or patent has become the property of the United States and the head of the appropriate department or agency of the Government has certified to the Commissioner that the subject matter disclosed therein is important to the armament or defense of the United States.

"Chapter 28.—INFRINGEMENT OF PATENTS

"Sec.
"271. Infringement of patent.
"272. Temporary presence in the United States.

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"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in

practicing a patented process, constituting a material part of the patented subject matter, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; or (3) sought to enforce the patent against infringement or contributory infringement.

"(e)(1) Subject to paragraph (3) of this subsection, whoever imports a product made in a foreign country into the United States shall be liable as an infringer, if—

"(A) he has acquired such product from the person who made it in the foreign country, or from one who purchased it from such person, and

"(B) such person made the product in the foreign country by a process patented in the United States.

"(2) Subject to paragraph (3) of this subsection, any subsidiary, or other organization under the legal control, of the manufacturer or vendor specified in paragraph (1)(A) of this subsection, that actively induces conduct proscribed by paragraph (1) of this subsection shall be liable as an infringer.

"(3) Paragraphs (1) and (2) of this subsection shall not apply if the patentee has authorized the persons identified in paragraphs (1) and (2), or any of them, to engage in such conduct.

"(f) Whoever, without authority, makes or sells, within the United States, substantially all of the components of a patented machine, manufacture, or composition of matter, uncombined, intending that such components will be combined outside the United States to constitute the patented subject matter, knowing that if such components were combined within the United States, the combination would be an infringement of the patent, shall be liable as an infringer.

"§ 272. Temporary presence in the United States

"The use of any patented subject matter in any vessel, aircraft, or vehicle entering the United States temporarily or accidentally shall

94TH CONGRESS
1ST SESSION

S. 473

IN THE SENATE OF THE UNITED STATES

JANUARY 29, 1975

Mr. HART of Michigan introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

For the general reform and modernization of the Patent Laws, title 35 of the United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in accordance with the authority granted by article 1, section 8, clause 8 of the United States Constitution, title 35 of the United States Code entitled "Patents", is hereby amended in its entirety to read as follows:

"TITLE 35—PATENTS

"PART	Sec.
"I. PATENT AND TRADEMARK OFFICE	1
"II. PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS	100
"III. PATENTS AND INFRINGEMENT OF PATENTS	261
"IV. PATENT COOPERATION TREATY	351

"PART I—PATENT AND TRADEMARK OFFICE

"CHAPTER	Sec.
"1. ESTABLISHMENT, OFFICERS, FUNCTIONS	1
"2. PROCEEDINGS IN THE OFFICE	21
"3. PRACTICE BEFORE THE OFFICE	31
"4. OFFICE FEES	41

"Chapter 1.—ESTABLISHMENT, OFFICERS, FUNCTIONS

"Sec.
"1. Establishment.
"2. Seal.
"3. Commissioner and other officers.
"4. Restrictions on officers and employees as to interest in patents.
"5. Board of Examiners-in-Chief.
"6. Library.
"7. Classification of patents.
"8. Certified copies of records.
"9. Publications.
"10. Research and studies.
"11. Annual report to Congress.

"Chapter 28.—INFRINGEMENT OF PATENTS

"Sec.
"271. Infringement of patent.
"272. Temporary presence in the United States.
"273. Unauthorized practice of subject-matter prior to issuance of patent.

"§ 271. Infringement of patents

"(a) Except as otherwise provided in this title, whoever without authority makes, uses, or sells any patented subject matter, within the United States after the issuance of the patent therefor and during its term, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the patented subject matter, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; or (3) sought to enforce the patent against infringement or contributory infringement.

"(e) Whoever, without authority, makes or sells, within the United States, all of the components of a patented machine, manufacture, or composition of matter, uncombined, intending that such components will be combined outside the United States to constitute the patented subject matter, knowing that if such components were combined within the United States, the combination would be an infringement of the patent, shall be liable as an infringer.

"§ 272. Temporary presence in the United States

"The use of any patented subject matter in any vessel, aircraft, or vehicle entering the United States temporarily or accidentally shall not constitute infringement of any patent, if such subject matter is used exclusively for the needs of the vessel, aircraft, or vehicle, and is not sold in or used for the manufacture of anything to be sold in or exported from the United States, and if the country of registration of

[COMMITTEE PRINT]

MAY 8, 1974

93D CONGRESS
2D SESSION

S. 2504

IN THE SENATE OF THE UNITED STATES

OCTOBER 1, 1973

Mr. SCOTT of Pennsylvania introduced the following bill; which was read twice and referred to the Committee on the Judiciary

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

For the general reform and modernization of the Patent Laws, title 35 of the United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in accordance with the authority granted by article 1, section 8, clause 8 of the United States Constitution, title 35 of the United States Code entitled "Patents", is hereby amended in its entirety to read as follows:

"TITLE 35—PATENTS

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"Chapter 1.—ESTABLISHMENT, OFFICERS, FUNCTIONS

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"6. Library.
"7. Classification of patents.
"8. Certified copies of records.
"9. Publications.
"10. Research and studies.
"11. Annual report to Congress.

"Chapter 27.—GOVERNMENT INTERESTS IN PATENTS

"Sec.
"267. Time for taking action in Government applications.

"Notwithstanding the provisions of section 41, 132, 133, and 151 of this title, the Commissioner may extend the time for taking any action to three years, when an application for patent or patent has become the property of the United States and the head of the appropriate department or agency of the Government has certified to the Commissioner that the subject matter disclosed therein is important to the armament or defense of the United States.

"Chapter 28.—INFRINGEMENT OF PATENTS

"Sec.
"271. Infringement of patent.
"272. Temporary presence in the United States.
"273. Unauthorized practice of subject matter prior to issuance of patent.

"§ 271. Infringement of patents

"(a) Except as otherwise provided in this title, whoever without authority makes, uses, or sells any patented subject matter, within the United States after the issuance of the patent therefor and during its term, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the patented subject matter, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; or (3) sought to enforce the patent against infringement or contributory infringement.

"(e) (1) Subject to paragraph (3) of this subsection, whoever imports a product made in a foreign country into the United States shall be liable as an infringer, if—

"(A) he has entered into an exclusive sales or distribution agreement for such product, with the person who made it in the foreign country, or one who purchased it from such person, and

"(B) such person made the product in the foreign country by a process patented in the United States.

"(2) Subject to paragraph (3) of this subsection, any subsidiary, or other organization under the legal control, of the manufacturer or vendor specified in paragraph (1)(A) of this subsection, that actively induces conduct proscribed by paragraph (1) of this subsection shall be liable as an infringer.

"(3) Paragraphs (1) and (2) of this subsection shall not apply if the patentee has authorized the persons identified in paragraphs (1) and (2), or any of them, to engage in such conduct.

"(f) Whoever, without authority, makes or sells, within the United States, all of the components of a patented machine, manufacture, or composition of matter, uncombined, intending that such components will be combined outside the United States to constitute the patented subject matter, knowing that if such components were combined within the United States, the combination would be an infringement of the patent, shall be liable as an infringer.

"§ 272. Temporary presence in the United States

"The use of any patented subject matter in any vessel, aircraft, or vehicle entering the United States temporarily or accidentally shall not constitute infringement of any patent, if such subject matter is used exclusively for the needs of the vessel, aircraft, or vehicle, and is not sold in or used for the manufacture of anything to be sold in or exported from the United States, and if the country of registration of such vessel, aircraft or vehicle affords similar privileges to vessels, aircraft, or vehicles of the United States.

"§ 273. Unauthorized practice of subject matter prior to issuance of patent

"(a) After the issuance of a patent, a patentee may obtain damages, as set forth in subsection (c) of this section pursuant to the provisions of chapter 29 of this title, for any unauthorized making, using, or selling of the subject matter of a claim in the patent (referred to hereafter in this section as 'unauthorized practice'), that occurred during the interim period specified in subsection (b) of this section.

"(b) Such interim period shall begin after the occurence of each of the following events:

"(1) the publication, pursuant to sections 122 or 132(c) of this title, of the application containing such claim;

PATENT LAW REVISION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

Pursuant to S. Res. 56

ON

S. 1321

SEPTEMBER 11, 12, AND 14, 1973



Printed for the use of the Committee on the Judiciary

U.S. GOVERNMENT PRINTING OFFICE
23-032 WASHINGTON : 1973

I believe the argument is misplaced. The Constitution mandates patents for unobvious inventions in toys as well as electronics and permits no lower standard for one than another. However, the principal vice of deferred examination I have pointed out above would not apply to a patent which expires four or five years after filing.

From my own experience, I can testify that, given an option, a substantial number of inventors would choose an immediately granted, initially unexamined, short term, and less expensive patent, which would be subject to recall, and examination over its term, should a conflict develop.

Such a statutory scheme, in addition to its other benefits would perhaps eliminate the filing and examination of from 10 to 20,000 applications per year.

DEFENSIVE APPLICATIONS

A fairly common occurrence for a patent attorney is to have a client show him a development which he is using and state he does not wish a patent on it but does not wish to disclose it to his competition and certainly does not wish for his competition to obtain a patent on it. A very sound reason for this last concern is that it is often far easier to prove you "invented" something before your competition than it is to prove the invention is not patentable.

Unfortunately, the only way at present to achieve these objectives is to file an application for defensive purposes. These applications are at present examined like all others in due course.

If the defensive application were used solely to prevent the issuance of a patent to another on one's own prior invention, then deferring the examination in perpetuity would do no harm, and indeed it might be unnecessary to require the filing of the application within the one year time limits of Section 102(b).

CONCLUSION

These three proposals, patents of additions, short term patents and defensive applications, go considerably beyond the subject of deferred examination, the current enquiry.

They would, however, have, I believe, the currently relevant effect of eliminating about a third of the current workload of examination, roughly the same as the projections for deferred examination.

WYATT, GERBER & SHOUP,
New York, N.Y., September 25, 1973.

The Honorables JOHN L. MCCLELLAN, HUGH SCOTT, PHILIP S. HART, QUENTIN L. BURDICK, HIRAM FONG,
Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, U.S. Senate Russell Office Building, Washington, D.C.

DEAR SIRS: I enclose a proposed amendment to the Patent Act of 1952 (Title 35, United States Code), which I believe deserves close and careful consideration in connection with any amendments to be made to the Patent Laws. My belief is buttressed by substantial support from the objective academic community.

The amendment is designed to meet a recent 5–4 Supreme Court decision holding that a United States patent evader could copy *exactly* a patented machine when the machine is made for, or sold to, a foreign customer, so long as *one part* is not "finally" bolted to the machine in the United States.

Thus, having disclosed his invention to the public in his United States patent, and "[promoted] the Progress of Science and the useful Arts" (United States Constitution, Article I, §8, cl. 8), the American inventor gets nothing for his invention.

The 5-4 majority held, remarkably, the United States patents may be evaded in making and selling patented items for export merely by packaging one part or ingredient of the item separately or by telling the foreign customer where to obtain that one part or ingredient.

The proposed amendment is enclosed as Appendix A to this letter. The amendment is designed to overturn the Supreme Court majority opinion. Until there is an enforceable international patent, some domestic legislation of this type is necessary to protect United States inventors from the transparent evasion that the Supreme Court majority countenanced. An attempt has been

made to track present statutory language as closely as possible, specifically 35 U.S.C. §271(b) and §271(c). An amendment alternative to the one enclosed could have been drafted to directly meet the Supreme Court majority. This amendment could have referred to making or selling "substantially all" of the material parts of the invention.

The central purpose of the proposed amendment is to meet the ramifications of the 5-4 decision of the Supreme Court in *Deepsouth Packing Co., Inc.* v. *The Laitram Corporation*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (May 30, 1972), motion for leave to supplement Petition for Rehearing granted, rehearing denied, 409 U.S. 902,93 S.Ct. 94, 34 L.Ed.2d 165 (October 10, 1972). A copy of the majority and dissenting opinions in *Deepsouth* v. *Laitram* is enclosed as Exhibit B to this letter.

The majority opinion is a fairly stunning example of the triumph of form over substance.

Perhaps the most practical test of the inequities of the bare majority opinion is to put the question to a general lawyer, unfamiliar with patent law, or a layman, as to whether or not the fact situation in *Deepsouth* v. *Laitram* is patent infringement—the *inevitable* reaction is *yes*, it is infringement.

But that is not what the Supreme Court held.

The unfortunate results of this 5-4 decision are as follows:

(1) Total emasculation of United States patent protection for items made of more than one part and intended for export.

(2) Placement of great financial burden on a fledgling United States business enterprise (or on individual inventor) making an invention which may be of great value and not having the $10,000 to $50,000 (or knowledge or foresight) to obtain patent protection for that one invention in the more than 100 countries where it is available.

(3) Discrimination, insofar as patent protection is concerned, between United States inventors of physically large machines which are impossible to assemble at the manufacturing site, e.g. oil drilling rigs, and physically small machines or items, e.g. kitchen implements.

(4) Requiring a United States patentee to bring patent infringement actions against prospective, (current or past) foreign customers who have bought from the United States patent evader. Does a businessman want to sue a prospective customer? No!

(5) Where the patent evader is a United States company, it is impossible to bring suit directly against that evader, in the United States, or anywhere, if that United States evader has no place of business in any foreign country.

(6) As for infringement suits in foreign jurisdictions, there is great uncertainty in result, because, generally, there is no comity given to decisions on patent validity by the courts of one country to those of another.

(7) The addition of a new dimension to the "knowledge" requirement of §271(c) of the present patent law. The patent owner-plaintiff must now *know*, in order to bring an infringement suit, that the last screw on an infringing item will be tightened within the United States. This is impossible. There is no way of knowing when a storeowner sells a patented "knocked-down" child's doll house or a coaster wagon in Detroit, whether the doll house or coaster wagon will be finally assembled in Honolulu, Bismarck, Mexico or Japan.

There are, additionally, two ironical legal inconsistencies resulting from the decision:

(1) United States court decisions are *unanimous* in the protection of the other Constitutionally based and intellectually created property right—copyright—in analogous situations. See *Sheldon* v. *Metro-Goldwyn Pictures Corporation, et al*, 106 F.2d 45, 52(2nd Cir. 1939, Learned Hand, C.J.), aff'd. 309 U.S. 390 (1940); *Famous Music Corporation* v. *Secco Records, Inc.*, 201 F.Supp. 560,564, 568–569(S.D.N.Y. 1961); *G. Ricordi & Co., Inc.* v. *Columbia Graphophone Co.*, 270 Fed. 822, 826(S.D.N.Y. 1920); Fishel, *et al* v. *Lueckel, et al*, 53 Fed. 499, 501(C.C.S.D.N.Y. 1892).

(2) the acts performed in the foreign country in *Deepsouth* v. *Laitram* ("final" assembly of the machine) would *not* be enough to constitute "working" of an invention under the patent laws of at least the United Kingdom or Canada. "Working", in general, are legal requirements in certain foreign countries that keep a patent in good standing. *Johnson's Patent*, 26 R.P.C. 52,56(1909) (United Kingdom); *Hill's Patent*, 23 R.P.C. 475(1915) (United Kingdom); 552-553 Fox, *Canadian Patent Law and Practice* (4th Ed., Toronto, 1969).

I was principal counsel for *The Laitram Corporation* at all stages of *Deepsouth* v. *Laitram*, discovery, hearing in the District Court, proceedings in the Court of Appeals and briefing and argument before the Supreme Court.

There have been to this date five comments on the Supreme Court decision in law reviews:

(1) *Vanderbilt Law Review*, Vol. 26, No. 1, p. 201 (January, 1973)
(2) *Fordham Law Review*, Vol. XLI, No. 2, p. 458 (December, 1972)
(3) *Houston Law Review*, Vol. 10, No. 1, p. 216 (October, 1972)
(4) Lipman, "Deepsouth Packing Co. v. Laitram—How to Succeed in Reveining Without Really Trying" *Journal of the Patent Office Society*, Vol. 54, No. 11, p. 605 (November, 1973)
(5) *Law and Policy in International Business*, Vol. 5, No. 1, p. 319 (1973)

Comments (1) through (4) were critical of the Supreme Court majority opinion; Comment (5) was not critical of it.

I enclose, as Appendix C to this letter, a copy of the comment from the Vanderbilt Law Review; my thanks to the Editors of the Vanderbilt Law Review for their permission to include it in this submission.

I have information that the Stanford Law Review will soon publish another comment on the Supreme Court decision; my information is that the Stanford Law Review comment will be critical of the Supreme Court majority opinion.

It is my understanding that the California Law Review planned to publish a comment critical of the Supreme Court majority opinion, but the California Law Review indicated that it could not improve on the arguments made in the Brief for the Respondent (the losing party) filed in the Supreme Court or an Iowa Law Review comment (enclosed as Appendix D to this letter). I also have information that the Georgetown Law Journal planned to publish a comment critical of the results of the Supreme Court opinion but that comment was scrapped when pre-empted by the prior publication of Comment (5), supra, another publication of the same law school.

A recent article in Fortune said that the majority opinion in *Deepsouth* v. *Laitram* could be described as an "obvious end run around the patent law." Hummerstone, "How the Patent System Mousetraps Inventors", Fortune, May, 1973, pp. 202-263.

There were five comments on the unanimous Court of Appeals decision, *Laitram Corporation* v. *Deepsouth Packing Co., Inc.*, 443 F.2d 936, 170 U.S.P.Q. 196 (5th Cir. 1971), (which the Supreme Court majority reversed):

(1) Iowa Law Review, Vol. 57, No. 3, p. 889 (February, 1972)
(2) Texas International Law Journal, Vol. 7, No. 2, p. 325 (Winter, 1972)
(3) Texas Tech University Law Review, Vol. 3, No. 1, p. 216 (Fall, 1971)
(4) Houston Law Review, Vol. 9, No. 2, p. 379 (November, 1971)
(5) Washington and Lee Law Review, Vol. XXIX, No. 1, p. 174 (Spring, 1972)

Comments (1) through (4) were favorable to the Court of Appeals decision holding in favor of the patent owner (which the Supreme Court majority reversed) and Comment (5) adverse. I enclose, as Appendix D to this letter, a copy of the comment from the Iowa Law Review; my thanks to the Editors of the Iowa Law Review for their permission to include it in this submission.

The arguments made in the two (out of ten) academic journals favorable to the bare Supreme Court majority are of no substance and are easily rebutted, but the details of rebuttal do not warrant treatment here, although they would be available on short notice.

This "box score" of academic comment is significant, as law students often are prone to attack property rights—even property rights created by intellectual activity. Yet the law students have chosen to recognize the equities the United States inventor needs to adequately protect his invention.

United States patents are "personal property" (35 U.S.C. §261). Yet the Supreme Court majority seems to say that patents are property which may be stolen at will, merely by separately wrapping a screw.

This "end run" around the patent laws, which allows the patent evader to tell his customer he has manufactured a machine, which the Supreme Court majority now tells us is not a machine, should be cut down by remedial legislation.

Respectfully,

GUY W. SHOUP.

APPENDIX A.—PROPOSED PATENT LAW AMENDMENT.

The following section to be added to §271 ,Title 35, U.S. Code (preferably as §271(d), with present §271(d) being relettered as §271(e)).

§271.(d): Whoever makes or sells, or actively induces the making or selling of, within the United States, for use outside the United States, a material component of a patented machine, manufacture, or composition of matter, constituting a material part of the invention, and not a staple article or commodity of commerce, knowing the component to be especially made or especially adapted for use in a machine, manufacture, or composition of matter, which, if made within the United States, would be an infringement of the patent, shall be liable as an infringer.

APPENDIX B

Notice: This opinion is subject to formal revision before publication in the preliminary print of the United States Reports. Readers are requested to notify the Reporter of Decisions, Supreme Court of the United States, Washington, D.C. 20543, of any typographical or other formal errors, in order that corrections may be made before the preliminary print goes to press.

SUPREME COURT OF THE UNITED STATES
No. 71-315

Deepsouth Packing Co., Inc., Petitioner, *v.* The Laitram Corporation. On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit. [May 30, 1972].

MR. JUSTICE WHITE delivered the opinion of the Court.

The United States District Court for the Eastern District of Louisiana has written:

"Shrimp, whether boiled, broiled, barbecued or fried, are a gustatory delight, but they did not evolve to satisfy man's palate. Like other crustaceans, they wear their skeletons outside their bodies in order to shield their savory pink and white flesh against predators, including man. They also carry their intestines, commonly called veins, in bags (or sand bags) that run the length of their bodies. For shrimp to be edible it is necessary to remove their shells. In addition, if the vein is removed, shrimp become more pleasing to the fastidious as well as more palatable." [1]

Such "gustatory" observations are rare even in those pescatorily favored federal courts blissfully situated on the Nation's Gulf Coast, but they are properly recited in this case. Petitioner and respondent both hold patents on machines which devein shrimp more cheaply and efficiently than competing machinery or hand labor can do the job. Extensive litigation below has established that respondent, the Laitram Corporation, has the superior claim and that the distribution and use of petitioner Deepsouth's machinery in this country should be enjoined to prevent infringement of Laitram's patents. *Laitram Corporation* v. *Deepsouth Packing Co., Inc.*, 443 F. 2d 928 (CA5 1971). We granted certiorari, 404 U.S. 1037 (1972), to consider a related question: Is Deepsouth, barred from the American market by Laitram's patents, also foreclosed by the patent laws from exporting its deveiners, in less than fully assembled form, for use abroad?

I. A rudimentary understanding of the patents in dispute is a prerequisite to comprehending the legal issue presented. The District Court determined that the Laitram Corporation held two valid patents for machinery used in the process of deveining shrimp. One, granted in 1954,[2] accorded Laitram rights over a "slitter" which exposed the veins of shrimp by using water pressure and gravity to force the shrimp down an inclined trough studded with razor blades. As the shrimp descend through the trough their backs are slit by the blades or other knife-like objects arranged in a zig-zag pattern. The second patent, granted in 1957, covers a "tumbler," "a device to mechanically remove substantially all veins from shrimp whose backs have previously been slit." App. 127, by the machines described in the 1954 patent. This invention uses

[1] *The Laitram Corporation* v. *Deepsouth Packing Co., Inc.*, 301 F. Supp. 1037, 1040 (1969).

[2] This patent expired shortly before argument in this court and is therefore not relevant to Laitram's claim for injunctive relief. It is described, however, because Laitram claims damages for Deepsouth's asserted past exportation of the parts of this machine.

streams of water to carry slit shrimp into and then out of a revolving drum fabricated from commercial sheet metal. As shrimp pass through the drum the spoked "lips" of the punched metal, "projecting at an acute angle from the supporting member and having a smooth rounded free edge for engaging beneath the vein of a shrimp and for wedging the vein between the lip and the supporting member," App. 131, engage the veins and remove them.

Both the slitter and the tumbler are combination patents. That is,

"None of the parts referred to are new, and none are claimed as new; nor is any portion of the combination less than the whole claimed as new, or stated to produce any given result. The end in view is proposed to be accomplished by the union of all, arranged and combined together in the manner described. And this combination, composed of all the parts mentioned in the specification, and arranged *with reference to each other, and to other parts of the* machine] in the manner therein described, is stated to be the improvement, and is the thing patented." *Prouty v. Ruggles*, 16 Petrs. 336, 341 (1842).

The slitter's elements as recited in Laitram's patent claim were: an inclined trough, a "knife" (actually, knives) positioned in the trough, and a means (water sprayed from jets) to move the shrimp down the trough. The tumbler's elements include a "lip," a "support member" and a "means" (water thrust from jets). As is usual in combination patents, none of the elements in either of these patents were themselves patentable at the time of the patent, nor are they now. The *means in both inventions, moving* water, was and is, of course, commonplace. (It is not suggested that Deepsouth infringed Laitram's patents by its use of water jets.) The cutting instruments and inclined troughs used in slitters were and are commodities available for general use. The structure of the lip and support member in the tumbler were hardly novel: Laitram concedes that the inventors merely adapted punched metal sheets ordered from a commercial catalog in order to perfect their invention. The patents were warranted not by the novelty of their elements but by the novelty of the combination they represented. Invention was recognized because Laitram's assignors[3] combined ordinary elements in an extraordinary way—a novel union of old means was designed to achieve new ends.[4] Thus, for both inventions "the whole in some way exceed[ed] the sum of its parts." *Great A&P Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147, 152 (1950).

II. The lower court's decision that Laitram held valid combination patents entitled the corporation to the privileges bestowed by 35 U. S. C. § 154, the keystone provision of the patent code. "For the term of seventeen years" from the date of the patent, Laitram had "the right to exclude others from making, using or selling the invention throughout the United States . . . ." The § 154 right in turn provides the basis for affording the patentee an injunction against direct, induced, and contributory infringement, 35 U. S. C. § 283, or an award of damages when such infringement has already occurred, 35 U. S. C. § 284. Infringement is defined by 35 U. S. C. § 271 in terms which follow those of § 154:

"(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, [directly] infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

As a result of these provisions the judgment of Laitram's patent superiority forecloses Deepsouth and its customers from any future use (other than a use

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[3] The machines were developed by two brothers who are now president and vice-president of the Laitram Corporation. The patents are in their names, but have been assigned to the corporation.

[4] The District Court wrote:

"Def. urges that the [1957] patent is invalid as aggregative, anticipated by the prior art, obvious, described in functional language, overbroad, and indefinite. While it is clear that the elements in the . . . patent, especially the punch lip material, had been available for a considerable period of time, when combined they coact in such a manner to perform a new function and produce new results." 301 F. Supp. 1037, 1063 (1969).

approved by Laitram or occurring after the Laitram patent has expired) of its develners "throughout the United States." The patent provisions taken in conjunction with the judgment below also entitle Laitram to the injunction it has received prohibiting Deepsouth from continuing to "make" or once made, to "sell," develners *throughout the United States*." *Further*, Laitram may recover damages for any past unauthorized use, sale or making "throughout the United States." This much is not disputed.

But Deepsouth argues that it is not liable for every type of past sale and that a portion of its future business is salvagable. Section 154 and related provisions obviously are intended to grant a patentee a monopoly only over the United States market; they are not intended to grant a patentee the bonus of a favored position as a flagship company free of American competition in international commerce. Deepsouth, barred from itself using its develning machines, or from inducing others to use them "throughout the United States," barred also from making and selling the machines in the United States seeks to make the parts of develning machines, to sell them to foreign buyers, and to have the buyers assemble the parts and use the machines abroad.[5] Accordingly, Deepsouth seeks judicial approval, expressed through a modification or interpretation of the injunction against it, for continuing its practice of shipping develning equipment to foreign customers in three separate boxes, each containing only parts of the one and three quarter ton machines, yet the whole assemblable in less than one hour.[6] The company contends that by this means both the "making" and the "use" of the machines occur abroad and Laitram's lawful monopoly over the making and use of the machines throughout the United States is not infringed.

Laitram counters that this course of conduct is based upon a hyper-technical reading of the patent code which it tolerated will deprive it of its right to the fruits of the inventive genius of its assignors. "The right to make can scarcely be made plainer by definition . . . ," *Bauer* v. *O'Donnell*, 229 U.S. 1, 10 (1913). Deepsouth in all respects save final joinder of the parts "makes" the invention. It *does so with the intent of having the foreign user effect the combination* without Laitram's permission. Deepsouth sells these components as though they were the machines themselves; the act of assembly is regarded, indeed advertised, as of no importance.

The DistrictCourt, faced with this dispute, noted that three prior circuit courts had considered the meaning of "making" in this context and that all three had resolved the question favorably to Deepsouth's position. See *Howitt-Robins, Inc.* v. *Link-Belt Co.*, 371 F. 2d 225 (CA7 1966), *Cold Metal Process Co.* v. *United Eng'r Foundry Co.*, 235 F. 2d 224 (CA3 1956), and *Radio Corporation of America* v. *Andrea*, 79 F. 2d 620 (CA2 1935). The District Court held that its injunction should not be read as prohibiting export of the elements of a combination patent even when those elements could and predictably would be combined to form the whole.

"It may be urged that [this] result is not logical. . . . But it is founded on twin notions that underlie the patent laws. One is that a combination patent protects only the combination. The other is that monopolies—even those conferred by patents—are not viewed with favor. These are logic enough." *The Laitram Corp.* v. *Deepsouth Packing Co., Inc.*, 310 F. Supp. 926, 929 (1970).

The Fifth Circuit Court of Appeals reversed, thus departing from the established rules of the Second, Third, and Seventh Circuits. In the Fifth Circuit panel's opinion, those previous courts which considered the question "worked themselves into . . . a conceptual box" by adopting "an artificial, technical construction" of the patent laws, a construction, moreover, which in the opinion of the panel, "[subverted] the Constitutional scheme of promoting (the Prog-

[5] Deepsouth is entirely straight-forward in indicating that its course of conduct is motivated by a desire to avoid patent infringement. Its president wrote a Brasilian customer:

"We are handicapped by a decision against us in the United States. This was a very technical decision and we can manufacture the entire machine without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil."

Quoted in *Laitram Corp.* v. *Deepsouth Packing Co.*, 443 F. 2d 928, 938 (CA5 1971).

[6] As shipped, Deepsouth's tumbler contains a develning belt different from Laitram's support member and lip. But the Laitram elements are included in a separate box and the Deepsouth tumbler is made to accommodate the Laitram elements. The record shows that many customers will use the machine with the Laitram parts.

ress of Science and the useful Arts)" by allowing an intrusion on a patentee's rights, 443 F. 2d 936, 938–939 (1971), citing U.S. Constitution, Art. I, § 8.

III. We disagree with the Fifth Circuit Court of Appeals.[7] Under the common law the inventor had no right to exclude others from making and using his invention. If Laitram has a right to suppress Deepsouth's export trade it must be derived from its patent grant, and thus from the patent statute.[8] We find that 35 U.S.C. § 271, the provision of the patent laws on which Laitram relies, does not support its claim.

Certainly if Deepsouth's conduct were intended to lead to use of patented devolnere inside the United States its production and sales activity would be subject to injunction as an induced or contributory infringement. But it is established that there can be no contributory infringement without the fact or intention of a direct infringement. "In a word, if there is no [direct] infringement of a patent there can be no contributory infringer." *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U.S. 661, 667 (1944) (Justice Frankfurter dissenting on other grounds). *Aro Manufacturing* v. *Convertible Replacement Top Co.* 365 U.S. 336, 341–342 (1961), succinctly articulates the law:

"It is plain that § 271(c)—a part of the Patent Code enacted in 1952—made no change in the fundamental precept that there can be no contributory infringement in the absence of a direct infringement. That section defines contributory infringement in terms of direct infringement—namely the sale of a component of a patented combination or machine for use 'in an infringement of such patent.'"

The statute makes it clear that it is not an infringement to make or use a patented product outside of the United States. 35 U.S.C. § 271. See also *Dowagiac Mfg.* v. *Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915), *Brown* v. *Duchesne*, 19 How. (60 U.S.) 183 (1856). Thus in order to secure the injunction it seeks Laitram must show a § 271(a) direct infringement by Deepsouth in the United States, that is, that Deepsouth "makes," "uses," or "sells" the patented product within the bounds of this country.

Laitram does not suggest that Deepsouth "uses" the machines. Its argument that Deepsouth sells the machines—based primarily on Deepsouth's sales rhetoric and related indicia such as price[9]—cannot carry the day unless it can be shown that Deepsouth is selling the "patented invention." The sales question thus resolves itself into the question of manufacture: did Deepsouth "make" (and then sell) something cognigable under the patent law as the invention, or did it "make" (and then sell) something which fell short of infringement?

The Court of Appeals, believing that the word "makes" should be accorded "a construction in keeping with the ordinary meaning of that term," 443 F. 2d, at 938, held against Deepsouth on the theory that "makes" "means what it ordinarily connotes—the substantial manufacture of the constituent parts of the machine." *Id.*, at 939. Passing the question of whether this defintion more closely corresponds to the ordinary meaning of the term than that offered by Judge Swan in *Andrea* 35 years *earlier* (some thing is made when it reaches the state of final "operable" assembly), we find the Fifth Circuit's definition unacceptable because it collides head-on with a line of decision so firmly embedded in our patent law as to be unassailable absent a congressional recasting of the statute.

We cannot endorse the view that the "substantial manufacture of the constituent parts of a machine" constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. "For as we pointed out

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[7] For simplicity's sake, we, like the lower courts, will discuss only Deepsouth's claim as to permissible future conduct. It is obvious, however, that what we say as to the scope of the injunction in Laitram's favor applies also to the calculation of damages which Laitram may recover.

[8] "But the right of property which a patentee has in his invention, and his right to its exclusive use, is derived altogether from these statutory provisions; and this court have always held that an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the Acts of Congress; and that his rights are to be regulated and measured by these laws, and cannot go beyond them." *Brown* v. *Duchesne*, 19 How. (60 U. S.) 183, 195 (1856).

[9] Deepsouth sold the less than completely assembled machine for the same price as it had sold fully assembled machines. Its advertisements, correspondence, and invoices frequently referred to a "machine" rather than to a kit or disassembled parts. See respondents brief, pp. 8–11.

in *Mercoid* v. *Mid-Continent Investment Co.*, [320 U.S. 661, 676] . . . a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944). See also *Leeds and Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 301:

"A combination is a union of elements, which may be partly old and partly new, or wholly old or wholly new. But whether new or old the combination is a means—an invention—distinct from them. *Id.*, 318.

* * * * * *

"[O]ne element is not the combination. Indeed, all the elements are not. To be that,—to be identical with the invention of the combination,—they must be united by the same operative law." *Id.*, at 320.

And see *Brown* v. *Guild*, 90 U.S. 181 (1874). In sum,

"[I]f anything is settled in the patent law, it is that the combination patent covers only the totality of elements in the claim and that no element, separately viewed, is within the grant. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 344 (1961)."

It was this basic tenet of the patent system which led Judge Swan to hold in the leading case, *Radio Corp. of America* v. *Andrea*, 79 F. 2d 628 (1935), that unassembled export of the elements of an invention did not infringe the patent.

"[The] relationship is the essence of the patent. . . . No wrong is don ethe patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted." *Id.*, at 628.

See also *Cold Metal Process Co.* v. *United Engineer and Fdry, Co.*, 235 F. 2d 224, 230 (CA3 1956) ("We are in full accord with the rule thus laid down in the Andrea case and we think that the master and the District Court were right in applying it here"), *Hewitt-Robins Inc.* v. *Link Belt Co.*, 371 F. 2d 225, 229 (CA7 1966) (to the same effect).

We reaffirm this conclusion today.

IV. It is said that this conclusion is derived from too narrow and technical an interpretation of the statute and that this Court should focus on the constitutional mandate

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"To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . . Art. I, § 8.

and construe the statute in a manner that would, allegedly, better reflect the policy of the framer.

We cannot accept this argument. The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress. We are here construing the provisions of a statute passed in 1952. The prevailing law in this and other courts as to what is necessary to show a patentable invention when a combination of old elements is claimed was clearly evident from the cases when the Act was passed; and at that time *Andrea*, representing a specific application of the law of infringement with respect to the export of elements of a combination patent, was 17 years old. When Congress drafted § 271, it gave no indication that it desired to change either the law of combination patents as relevant here or the ruling of Andrea.[10] Nor has it on any more recent occasion indicated that it wanted the patent privilege to run farther than it was understood to run for 35 years prior to the action of he Cour of Appeals for the Fifth Circuit.

Moreover, we must consider petitioner's claim in light of this Nation's historical antipathy to monopoly [11] and of repeated congressional efforts to pre-

[10] When § 271 was drafted and submitted to the Senate in 1952, Senator Saltonsall asked: "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran, Chairman of the Judiciary Committee, responded: "It codifies the present patent laws." 98 Cong. Rec. 9323 (July 4, 1952).

[11] See the discussion in *Graham* v. *John Deere*, 383 U. S. 1, 7ff (1966).

serve and foster competition. As this Court recently said without dissent:

"[I]n rewarding useful invention, the 'rights and welfare of the community must be fairly dealt with and effectually guarded.' *Kendall* v. *Winsor*, 21 How. 322, 329 (1859). To that end the prerequisites to obtaining a patent are strictly observed, and when the patent has issued the limitations on its exercise are equally strictly enforced." *Sears, Roebuck and Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964).

It follows that we should not expand patent rights by overruling or modifying our prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language. We would require a clear and certain signal from Congress before approving the position of a litigant who, as respondent here, argues that the beachhead of privilege is wider and the area of public use narrower, than courts had previously thought. No such signal legitimizes respondent's position in this litigation.

In conclusion, we note that what is at stake here is the right of American companies to compete with an American patent holder in foreign markets. Our patent system makes no claim to extraterritorial effect, "these acts of Congress do not, and were not intended to, operate beyond the limits of the United States," *Brown* v. *Duchesne*, 19 How. 183, 195 (1856), and we correspondingly reject the claims of others to such control over reject the claims of others to such control over our markets. Cf. *Boesch* v. *Graff*, 133 U.S. 697, 703 (1890). To the degree that the inventor needs protection in markets other than those of this country, the wording of 35 U.S.C.§§ 154 and 271 reveal a congressional intent to have him seek it abroad through patents secured in countries where his goods are being used. Respondent holds foreign patents; it does not adequately explain why it does not avail itself of them.

V. In sum: the case and statutory law resolves this case against the respondent. When so many courts have so often held what appears so evident—a combination patent can be infringed only by combination—we are not prepared to break the mould and begin anew. And were the matter not so resolved, we would still insist on a clear congressional indication of intent to extend the patent privilege before we could recognize the monopoly here claimed. Such an indication is lacking. Accordingly, the judgment of the Court of Appeals for the Fifth Circuit is reversed and the case is remanded for proceedings consistent with this opinion.

It is so ordered.

SUPREME COURT OF THE UNITED STATES

No. 71-315

Deepsouth Packing Co., Inc., Petitioner, v. The Laitram Corporation. On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit. [May 30, 1972].

MR. JUSTICE BLACKMUN, with whom THE CHIEF JUSTICE, MR. JUSTICE POWELL, and MR. JUSTICE REHNQUIST join, dissenting.

Because our grant of certiorari was limited, 404 U.S. 1037 (1972), the customarily presented issues of patent validity and infringement are not before us in this case. I necessarily accept, therefore, the conclusion that the Laitram patents are valid and that the Deepsouth deveining machine, when manufactured and assembled in the United States, is an infringement. The Court so concedes. The Court, however, denies Laitram patent law protection against Deepsouth's manufacture and assembly when the mere assembly is effected abroad. It does so on the theory that there then is no "making" of the patented invention in the United States even though every part is made here and Deepsouth ships all the parts in response to an order from abroad.

With all respect, this seems to me to be too narrow a reading of 35 U.S.C. §§ 154 and 271(a). I. In addition, the result is unduly to reward the artful competitor who uses another's invention in its entirety and who seeks to profit thereby. Deepsouth may be admissive and candid or, as the Court describes it, *ante*, at 6 n. 5, "straightforward," in its sales "rhetoric," *ante*, at 9–10, but for me that rhetoric reveals the very iniquitous and evasive nature of Deepsouth's operations. I do not see how one can escape the conclusion that the Deepsouth machine was *made* in the United States, within the meaning of the protective language of §§ 154 and 271(a). The situation, perhaps, would be different were

parts, or even only one vital part, manufactured abroad. Here everything was accomplished in this country except putting the pieces together as directed (an operation which, as Deepsouth represented to its Brazilian prospect, would "take less than one hour"), all much as the fond father does with his little daughter's doll house on Christmas Eve. To say that such assembly, accomplished abroad, is not the prohibited combination and that it avoids the restrictions of our patent law, is a bit too much for me. The Court has opened the way to deny the holder of the United States combination patent the benefits of his invention with respect to sales to foreign purchasers.

I also suspect the Court substantially overstates when it describes *Radio Corp. of America* v. *Andrea*, 70 F. 2d 626 (CA2 1035), as a "leading case," *ante*, at 11, and when it imputes to Congress, in drafting the 1052 statute, an awareness of *Andrea's* "prevailing law," *ante*, at 12. *Andrea* was seriously undermined only two years after its promulgation, when the Court of Appeals modified its decree on a second review. *Radio Corp. of America* v. *Andrea*, 90 F.2d 612 (CA2 1037). Its author, Judge Swan himself, somewhat ruefully allowed that his court was overruling the earlier decision. *Id.*, at 615. I therefore would follow the Fifth Circuit's opinion in the present case, 443 F. 2d 936 (1971), and would reject the reasoning in the older and weakened *Andrea* opinion and in the Third and Sevent Circuit opinions that merely follow it.

By a process of only the most rigid construction, the Court, by its decision today, fulfills what Judge Clark, in his able opinion for the Fifth Circuit, distressingly forecast:

". . . To hold otherwise [as the Court does today] would subvert the Constitutional scheme of promoting 'the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.' U.S. Const., Art. I, § 8, Cl. 8. It would allow an infringer to set up shop next door to a patent-protected inventor whose product enjoys a substantial foreign market and deprive him of this valuable busines. If this Constitutional protection is to be fully effectuated, it must extend to an infringer who manufactures in the United States and then captures the foreign markets from the patentee. The Constitutional mandate cannot be limited to just manufacturing and selling within the United States. The fringer would then be allowed to reap the fruits of the American economy —technology, labor, materials, etc.—but would not be subject to the responsibilities of the American patent laws. We cannot permit an infringer to enjoy these benefits and then be allowed to strip away a portion of the patentee's protection." 443 F. 2d, at 939.

I share the Fifth Circuit's concern and I therefore dissent.

APPENDIX C

Vanderbilt Law Review, Vol. 26, No. 1 (January, 1973)

PATENT LAW—INFRINGEMENT OF COMBINATION PATENT—A PATENTED MACHINE WHOSE PARTS ARE PRODUCED IN THE UNITED STATES IS NOT "MADE" WITHIN THE UNITED STATES WITHIN THE MEANING OF SECTION 271(A) OF THE PATENT ACT IF ITS COMPONENT PARTS ARE EXPORTED IN UNASSEMBLED FORM

Appellant, Deepsouth Packing Company, sought modification[1] of an injunction preventing it from manufacturing and exporting component parts of a shrimp-cleaning device upon which appelle, the Laitram Corporation, held a combination patent.[2] Appellant contended that its manufacture of the elements of a combination patent within the United States and subsequent exportation of those parts in unassembled form was not an infringement under section

[1] The injunction prevented Deepsouth from manufacturing and exporting the device in unassembled form. Appellant sought to modify the injunction so that it could export the machine in unassembled form.

[2] A combination patent is one in which "[n]one of the parts referred to are new, and none are claimed as new; nor is any portion of the combination less than the whole claimed as new, or stated to produce any given result. The end in view is proposed to be accomplished by the union of all, arranged and combined together in the manner described. And this combination, composed of all parts mentioned in the specification, and arranged with reference to each other, and to other parts of the [machine] in the manner therein described, is stated to be the improvement, and is the thing patented." Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 520-21 (1072), *citing* Prouty v. Ruggles, 41 U.S. (16 Pet.) 336, 341 (1842).

271(a) of the Patent Act,[3] because the patented invention itself was not "made" within the United States,[4] and that an injunction prohibiting such practices therefore is not authorized by the Patent Act. Appellee maintained that an apparatus is made within the United States within the meaning of section 271(a) if the component parts are manufactured in the United States and exported with the intention of having the foreign user assemble those parts into the patented object. The district court found that no enjoinable patent violation had occurred and modified the injunction.[5] The United States Court of Appeals for the Fifth Circuit reversed, applying a "substantial manufacture" test to hold that a device is considered to be "made" within the United States if its parts are produced in this country and can be transformed into the patented combination through a relatively simple assembly process.[6] On appeal to the United States Supreme Court, *held*, reversed. Under section 271(a) of the Patent Act, an invention with a combination patent whose parts are produced in the United States is not "made" within the United States if those parts are exported in unassembled form. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972).

At common law, inventors had no legal means of excluding other manufacturers from making, using, or selling their inventions.[7] In order to "promote the progress of the useful arts," the drafters of the Constitution provided Congress with the power to establish a patent system and to grant inventors the exclusive right to control the use of their discoveries for a limited period of time.[8] Congress implemented this constitutional mandate early in American jurisprudence through the passage of patent acts in 1790, 1836, and 1870.[9] Presently, the Patent Act of 1952 provides protection to patent holders from those who seek to infringe upon the rights afforded by the act.[10] The protection afforded by a patent benefits both the inventor and society because it encourages the inventor to disclose his novel idea to the public and, at the same time, protects the inventor's discovery from being stolen and capitalized upon by another. In the last 50 years, however, because of the antimonopoly philosophy expressed in antitrust legislation, the courts have re-evaluated the impact of the protection provided by patent laws in general,[11] and have begun to construe strictly the scope of combination patents.[12] Because only the combination[13] itself is protected by the patent laws, the public has the privilege of using, manufacturing, and selling the individual elements of the combination without violating the patentee's legal rights.[14] The patent holder's monopoly has been narrowed further by the liberal attitude that the courts have taken toward a patentee's competitors who export the patented invention. Although a patent holder may exclude others from making or using the patented apparatus in the domestic market, the courts have held that domestic

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[3] 35 U.S.C. § 271(a) (1970): "Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."

[4] Deepsouth was barred by Laitram's patents from selling its shrimp-cleaning machines on the American market, but it sought to avoid the patents by selling the machines to foreign buyers in subassemblies that required less than one hour for installation.

[5] Laitram Corp. v. Deepsouth Packing Co., 310 F. Supp. 926 (E.D. La 1970).

[6] Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936 (5th Cir. 1971).

[7] Note, *The Nature of a Patent Right*, 17 COLUM. L. REV. 668 (1917).

[8] U.S. CONST. art. I, § 8, provides that Congress shall have the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . ."

[9] R. CALVERT, PATENT PACTICE & INVENTION MANAGEMENT, 304-404 (1964).

[10] 35 U.S.C. § 251 (1970).

[11] *E.g.*, Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942) (patent cannot be used to secure any monopoly beyond that contained in the patent); IBM v. United States, 298 U.S. 131 (1936) (the patent monopoly may not be used in disregard of the antitrust laws); United Shoe Mach. Corp. v. United States, 258 U.S. 451 (1922) (a patent secures the right to exclude others from making, using, or vending the thing patented without the permission of the patent holder, but it does not exempt him from regulations consistent with those rights, made by Congress in the public interest, forbidding agreements that may lessen competition or build up monopoly in interstate trade); Faber, *Contributory Infringement—A Limited Tort*, 42 CHI.-KENT L. REV. 1 (1965).

[12] "For if anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant." Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 344 (1961); *accord*, Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1944); Brown v. Guild, 90 U.S. (23 Wall.) 181 (174).

[13] Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1961); Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 48 (1942).

[14] *E.g.*, Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1961).

competitors do not infringe a combination patent if they merely manufacture the component parts within the United States and ship those parts overseas before assembling them into "operable" condition.[15] This position was reached by construing very strictly the word "makes" in section 271(a) of the Patent Act.[16] The leading case interpreting this provision of the Patent Act is the Second Circuit's decision in *RCA v. Andrea*.[17] In that case, RCA had a combination patent on a type of radio receiver and Andrea began to manufacture similar radio sets for export abroad. The parts for these receivers—with the exception of vacuum tubes that were not placed in the sets prior to exportation—were manufactured and assembled by Andrea in its American plant. To make the set operable, the oversees buyer merely had to insert the vacuum tubes into the radio.[18] The court held that RCA's combination patent did not cover the manufacture and sale of separate elements of the patented apparatus that never were combined to form the invention itself and that no direct or contributory infringement could occur unless the receivers were "made" operable within the United States.[19] The *Andrea* case came before the Second Circuit for a second time,[20] because of additional evidence introduced by the plaintiff. In its final disposition of this case, the court found that prior to exportation the tubes had been inserted into the radios for testing purposes and that this constituted the requisite "combination" for holding Andrea liable for patent infringement.[21] The court, however, did not overrule the position it had taken previously, but rather based its finding of infringement upon the factual distinction between nonassembly and temporary assembly for testing purposes.[22] A number of cases with similar factual situations have arisen in the Third and Seventh Circuits since the *Andrea* decision. Based upon the underlying concepts that a combination patent protects only the combination and that monopolies conferred by patents are not to be viewed with favor,[23] these circuits have followed the "final assembly test" articulated by the court in the first *Andrea* decision, and have held that no patent infringement can occur in the absence of a complete assembly of the device within the United States.[24]

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[15] Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966) (combination patent covers only totality of elements in claim and no element, separately viewed, is within the grant), Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 324 (3rd Cir. 1956) (in the case of a combination patent, the combination is not to be regarded as made until all its elements are completed); RCA v. Andrea, 79 F.2d 628 (2d Cir. 1935) (doctrine of contributory infringement permits elements of patented combination to be sold in the United States with intent that buyer make and use the invention abroad).

[16] 35 U.S.C. § 271(a) (1070).

[17] 79 F.2d 620 (2d Cir. 1935).

[18] *Id.* at 627.

[19] "No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted." *Id.* at 628; *see* K. W. Ignition Co. v. Temco Elec. Motor Co., 283 F. 873 (6th Cir. 1922) (defendant held liable for patent infringement for exporting patented shock absorbers wholly made and assembled in the United States); Computing Scale Co. v. Toledo Computing Scale Co. 270 F. 648 (7th Cir. 1921) (defendant not liable for exporting parts of a patented scale to Canada when parts were assembled in Canada to form the combination and sold there); Bullock Elec. & Mfg. Co. v. Westinghouse Elec. & Mfg. Co., 120 F. 105 (6th Cir. 1904) (the making and selling of a single element of a patented combination, with the purpose that such element will be exported abroad and there used in combination with other elements, is not contributory infringement).

[20] RCA v. Andrea, 90 F.2d 612 (2d Cir. 1937).

[21] The court held that the tests were made to see if the radio receivers were marketable. Because this was a commercial use, the court stated that this violated the patent. *Id.* at 614.

[22] In his dissent, Judge Swan, author of the first *Andrea* decision, states: "In holding that the sale in this country of the disassembled parts of the invention for assembly and use abroad is a direct infringement, I think we overrule our prior decision . . . ." *Id.* at 615 (Swan, J., dissenting).

[23] Laitram Corp. v. Deepsouth Packing Co., 310 F. Supp. 926 (E.D. La. 1970).

[24] In Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966), the Seventh Circuit concluded that manufacture and sale in this country of parts for a "reclaimer" device to be assembled outside the territorial limits of the United States do not fall within the purview of 35 U.S.C. § 271 (1970); therefore no patent infringement resulted. The court followed that a combination patent covers only the totality of the elements comprising the invention and that no element, separately viewed, is within the protection of the patent. The Third Circuit in Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 224 (3d Cir. 1956), held that the monopoly of the patient extends only to the making of the patented device within the United States; therefore steel rolling mills manufactured in the United States, but shipped unassembled to foreign countries, did not constitute patent infringement.

In the instant decision, the Court recognized that, in enforcing the patent laws, courts must consider not only the protection of the patent holder's invention but also the preservation of competition by restricting the growth of monopoly power through the patent device.[25] In addition, the majority noted that, because the statute in question [26] clearly indicates that it is not an infringement to "make" or use a patented product outside the United States, the patentee, in order to establish a violation of the patent laws, must prove that the alleged infringer made or used the invention within the United States.[27] Having found that the *Andrea* standard for determining when a patented apparatus is "made" within the United States represents the overwhelming weight of authority [28] and having concluded that existing patent rights should not be expanded in the absence of a clear directive to do so from Congress, the Court held that the export of a patented machine in less than fully assembled form does not infringe the combination patent. The dissent maintained that the Court had construed too narrowly the meaning of to "make" in section 271(a) and had erred in applying the *Andrea* rule, since the status of the first *Andrea* decision as controlling authority was weakened considerably by the Court's disposition of the case on rehearing. In addition, the dissent argued that the adoption of the *Andrea* standard would subvert the constitutional scheme of patent protection.[29]

Although the Court's definition of the term "made" as used in section 271(a), adequately protects the patentee when the combination is assembled completely within the United States, it affords no protection at all to the patent holder when a competitor manufactures all the elements of the combination within the United States and has them assembled abroad. Under these circumstances, the technical *Andrea* rule adopted by the Court in the instant case subverts the constitutional policy of promoting the sciences and the useful arts through affording an inventor the opportunity to control the use of his discovery for a limited period of time because it allows another producer to deprive the inventor of his right to the exclusive use of his patented product when that product is traded in the international market. By basing its decision on the premise that the patent should only protect the completed machine and not its individual unassembled elements, the Court failed to recognize that the ultimate purpose of the patent laws is to protect the inventor's unique idea and not just to control the use of the physical object that is constructed from that idea. An examination of cases that involve similar factual situations but fall under the copyright laws further indicates the inappropriateness of the Court's decision.[30] In those cases, the courts generally proceed on the assumption that the copyright laws were designed to protect the copyright owner at the expense of the infringer and do not emphasize the anticompetitive effect of those laws.[31] There does not appear to be any sound reason for drawing a distinction between the property rights created under the copyright laws and those created under the patent laws. Furthermore, the property right of the patent holder should be protected by giving the word "makes" an interpretation in keeping with the ordinary meaning of the term instead of a technical construction. This result could be achieved by utilizing the "substantial manufacture" test, which would involve balancing the public's right to use the constituent parts against the patent holder's right to control the use of his invention, for determining whether a patented object was made within the United States rather than the "final assembly" test that was applied in the *Andrea* case. Although the substantial manufacture test is more subjective and, as such, more difficult to apply than the final assembly test, it would provide the patent holder with considerably more protection than the *Andrea* rule. In addition, adoption of the final assembly test by the courts would force the American patent holder to pay patent fees and to bring infringement actions in

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[25] *See* cases cited note 12 *supra*.
[26] 35 U.S.C. § 271 (1070).
[27] *See* note 3 *supra*.
[28] *See* note 12 *supra*.
[29] 408 U.S. at 532-34.
[30] *See* Mazer v. Stein, 347 U.S. 201 (1054).
[31] *E.g.*, Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390 (1040) (defendant held liable for copyright infringement for making negatives of a motion picture here and exhibiting the positives abroad); Famous Music Corp. v. Seeco Records, Inc., 201 F. Supp. 560 (S.D.N.Y. 1961) (defendant's preparation of tapes that were sent to persons abroad to be used to manufacture phonograph records containing renditions of copyrighted musical compositions violated copyright law and involved company as joint tort-feasor in "manufacture").

numerous foreign countries, whereas, under the substantial manufacture test, one court could make a final determination of the patentee's rights.

APPENDIX D

Iowa Law Review, Vol. 57, No. 3 (February, 1972)

COMMENTS—TIGHTENING THE SCREWS ON MINOR ASSEMBLIES ABROAD: THE MEANING OF "MAKES" UNDER THE PATENT INFRINGEMENT STATUTE

In the recent case of *Laitram Corp. v. Deepsouth Packing Co.*,[1] the United States Court of Appeals for the Fifth Circuit, despite directly conflicting authority in three other circuits,[2] upheld the validity of a company's patents for certain shrimp-deveining machinery, by ruling that a minor final assembly, in a foreign country, of an identical machine manufactured by a rival company could not escape the reach of the federal patent infringement statute, 35 U.S.C. section 271.[3] This section of the patent law provides that anyone who without authority makes any patented invention within the United States during the term of the patent, infringes the patent.[4] Since the patent laws do not prohibit the manufacture of a patented article in another country,[5] the question of patent infringement involved in *Laitram* goes directly to the heart of what constitutes the "making of an invention within the United States." [6]

The answer to this interpretive dilemma is of paramount importance to the area of patent law. It is determinative of what comes within the reach of a patent claim and, therefore, will dictate substantial industrial policy in this Country. If "making within the United States" is construed so that a company, in order to escape liability under section 271, is permitted to manufacture the constituent elements of a patented invention leaving only a minor final assembly to be performed overseas, the result will be that the protection afforded a manufacturer, with a United States patent for inventions marketable overseas, is substantially less than that provided a manufacturer who sells a patented invention marketable solely within the United States. Thus, this interpretation of "making within the United States" will protect a manufacturer against patent infringement only where the patented invention is totally assembled within the United States prior to its sale or use in a foreign nation.

This Comment will examine the *Laitram* decision to see what it adds to the development of the legal standards of patent infringement, urge its affirmance as in accordance with the congressional mandate in enacting section 271, and discuss policy arguments as to why the interpretation of the statute, which the case advances, should be upheld. Prior to this analysis of *Laitram*, however, it will be necessary to ascertain the state of the prior case law on the issue of patent infringement in similar fact situations where an alleged infringer has manufactured the constituent elements but does not complete final assembly until after the parts were shipped to a foreign country.

As indicated, three previous decisions have considered a patent infringement issue similar to that hypothesized and each reached a result opposite to that in *Laitram*.[7] These cases permitted a manufacturer to make the constituent elements of a patented machine in the United States, assemble the elements once they arrive overseas, and sell the assmbled machine without being held in violation of section 271's prohibition against making a patented invention within the United States.[8] Analysis of these decisions will show, however, that each reached an incorrect result in concluding that mere minor assembly of

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[1] 443 F.2d 936 (5th Cir. 1971).

[2] Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.3d 224 (3rd Cir. 1956); Radio Corp. of America v. Andrea, 79 F.2d 628 (2d Cir. 1935).

[3] 443 F.2d 936, (5th Cir. 1971).

[4] 35 U.S.C. § 271 (1970).

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent. *Id.*

[5] *E.g.*, Brown v. Duchesne, 60 U.S. 183, 195 (1856); Radio Corp. of America v. Andrea, 79 F.2d 627, 628 (2d Cir. 1935); Bullock Elec. & Mfg. Co. v. Westinghouse Elec. & Mfg. Co., 139 F. 105, 109 (6th Cir.), *cert. denied*, 304 U.S. 573 (1904).

[6] 35 U.S.C. § 271 (1970).

[7] *See* authority cited note 2 *supra*.

[8] *Id.*

the component parts in a foreign nation avoided direct infringement of the patent.

In the first of these infringement decisions, *Radio Corp. of America v. Andrea*,[9] the defendants raised no question as to the validity or title of the plaintiff's patents.[10] Nor did they dispute that they would have "directly" infringed [11] the plaintiff's patent if the elements which they had manufactured had been totally assembled for use in the United States.[12] Rather, the defendants contended that the patented combination they had sold was incomplete and unassembled until it was out of the jurisdiction of the United States and the reach of its patent laws.[13] Thus, they denied direct infringement.[14] Additionally they argued that since they did not fall within the doctrine of contributory infringement,[15] they were not liable for infringement.[16]

In accepting the defendant's assertion that they did not infringe the plaintiff's patent the court relied extensively on the contributory infringement test.[17] The court stressed that the defendants escaped infringement because the elements which they manufactured had not been completely assembled within the United States, since they were shipped overseas for assembly.[18] Thus, the court apparently adopted the theory that a manufactuer could escape infringement merely by sending the elements of the patented combination to a foreign country to be assembled even if it had the intent that the element be used there in combination with the other elements of the original patented invention.[19]

Even though the *Andrea* court held that there was neither direct nor contributory infringement, the ruling was substantially undermined in a modified opinion by the same court when confronted with the same fact situation.[20] At this second trial [21] (*Andrea II*) new facts were admitted into evidence which showed that the component elements had been assembled for testing purposes in the United States and then disassembled for shipment overseas.[22] Although the *Andrea II* court appeared to put major emphasis on the fact that the defendant had assembled the constituent elements in order to test the machine before shipment, it nevertheless explicitly recognized that the contributory infringement doctrine relates only to the aiding of another person by the sale of an element of the patented combination.[23] The doctrine does not apply to the sale by a single manufacturer of all of the elements of the machine which are to be assembled abroad.[24] The modified decision recognized, therefore, that the doctrine of contributory infringement was totally irrelevent to a factual situation where all of the constituent parts of a patented combination were shipped to a foreign nation for mere minor final assembly there.[25] Based upon this analysis, it is readily apparent that the contributory infringement test is also irrelevent to the facts in the *Laitram* case since, in that case, more than a single element of a patented combination was manufactured by Deepsouth.[26]

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[9] 79 F.2d 626 (2d Cir. 1935).
[10] *Id.* at 627.
[11] To constitute direct infringement "it is essential that there be present in the infringing device or combination every element of such [patent] claim . . . so combined as to produce substantially the same result operating in substantially the same way." Safety Car Heating & Lighting Co. v. Gould Coupler Co., 280 F. 848, 851 (D.C.N.Y. 1910).
[12] Radio Corp. of America v. Andrea, 70 F.2d 626, 627 (2d Cir. 1935).
[13] *Id.*
[14] *Id.*
[15] 35 U.S.C. § 271(c) (1070).
(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same part to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity suitable for substantial noninfringing use, shall be liable as a contributory infringer. *Id.*
[16] Radio Corp. of America v. Andrea, 79 F.2d 626, 627 (2d Cir. 1935).
[17] *Id.* at 628–20.
[18] *Id.* at 628.
[19] More recent decisions have stated that there can be no contributory infringement without a direct infringement. 35 U.S.C. § 271 (c) (1070); Aro Mfg. Co., Inc. v. Convertible Top Replacement Co., Inc., 365 U.S. 336, 341 (1061); Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 677 (1944) (Frankfurter, J. dissenting).
[20] Radio Corp. of America v. Andrea, 00 F.2d 612 (2d Cir. 1937).
[21] *Id.*
[22] *Id.* at 613.
[23] *Id.* at 614.
[24] *Id.*
[25] *Id.*
[26] Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 937 (5th Cir. 1071).

To further undermine the precedential value of *Andrea I*, the *Andrea II* court went on to state explicitly that if the components of a patented invention are sold in a substantially unified and combined form, direct infringement cannot be avoided by leaving a minor final integration to the purchaser.[27] This statement describes the exact situation which was presented to the *Laitram* court. After an injunction was issued which prohibited Deepsouth and its affiliate Skrmetta Machinery Corporation from "making, using, or selling the infringing apparatus,"[28] Skrmetta subsequently wrote a prospective foreign customer as follows:

We are handicapped by a decision against us in the United States. This was a very technical decision and we can manufacture the entire machine without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil. This assembly will take less than one hour.[29]

It is obvious then that the Court of Appeals for the Fifth Circuit in deciding *Laitram* must have recognized that it was the clear intent of Deepsouth and its affiliate company Skrmetta to try to use a technicality of minor assembly overseas to escape the protection given to the original patentee by the United States patent laws. The Fifth Circuit thus correctly recognized that regardless of whether the deveining machine had been assembled for testing purposes, it was the expectation of the foreign customer when it paid Skrmetta Machinery Corporation in United States currency that it would receive a "complete machine" not just a component part or parts. Therefore, in reality, Deepsouth was selling Laitram's patented machine with the commercial result for Laitram of the deprivation of a possible sale on a machine which, according to its patent, it had the right to exclude others from making and selling in the United States.[30]

There are only two other cases which deal with the infringement issues presented in the *Andrea* and *Laitram* cases. In *Cold Metal Process Co. v. United Engineering & Foundry Co.*,[31] the Third Circuit followed the first Andrea case stating:

We are in full accord with the rule thus laid down in the Andrea case and we think that the master and the district court were right in applying it here. Its force, in our view, is not impaired by the later opinion of the court after final hearing in the same case . . . which held that the defendant had infringed the combination patent there sued on in view of evidence that the radio sets in question had been completely assembled in this country and tests of operation made after which they were disassembled and shipped to purchasers abroad. We do not quarrel with the conclusion of the court that such assembling and testing constituted a making and use of the patented combination in this country. In the present case, however, no such assembling or testing in this country took place. Accordingly, the rule laid in the first Andrea opinion applies here rather than that stated in the second.[32]

Therefore, the Third Circuit in *Cold Metal* was merely following what has already been shown as an incorrect reading of the *Andrea II* case.[33] The court in the *Andrea II* decision did not rely entirely on the testing aspect of the assembly to hold that the manufacturing involved constituted infringement.[34] This latter decision in the case recognized that direct infringement could not be avoided by a separation or division of parts which leaves to the purchaser a simple task of integration.[35]

The last of the cases which deals directly with the patent question raised in *Laitram* is *Hewitt-Robins, Inc. v. Link-Belt Co.*[36] which involved substantial, not merely minor, assembly overseas.[37] In that case the Seventh Circuit stated that:

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[27] Radio Corp. of America v. Andrea, 90 F.2d 612, 613 (2d Cir. 1937).
[28] Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 938 (5th Cir. 1971).
[29] *Id.*
[30] Although none of the cases concerned with the activity dealt with in this Comment consider the infringement of a patent by "selling" the manufactured parts that are not completely assembled, this activity is also prohibited if done within the United States. 35 U.S.C. § 271(a) (1970).
[31] 235 F.2d 224 (3rd Cir. 1956).
[32] *Id.* at 230.
[33] See text accompanying notes 19-29 *supra*.
[34] Radio Corp. of America v. Andrea, 90 F.2d 612, 613 (2d Cir. 1937).
[35] *Id.*
[36] 317 F.2d 225 (7th Cir. 1966).
[37] *See id.* at 227-28.

If anything is settled in the patent law, it is that a combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant . . . We deem it equally clear that unassembled elements of a combination patent do not constitute the "patented invention." [38]

There was no cited authority, however, to substantiate the second statement. The Court relied entirely on the decisions in *Andrea I* and *Cold Metal*, merely quoting from them with no new analysis. Thus, *Hewitt-Robins* rests solely upon the precedential value of *Andrea I* and *Cold Metal*. As the prior analysis has shown, it may be strongly argued that the precedential weight of these cases decided before *Laitram* is of little value.[39] *Cold Metal* and *Hewitt-Robins* relied upon the analysis used by the Second Circuit in the *Andrea I* case.[40] These cases, however, failed to consider the fact that the holding in *Andrea I* was substantially undermined by the modified opinion of *Andrea II* which dealt with the same factual situation and which pointed out the inapplicability of the infringement analysis used by the court in *Andrea I*.

By considering, in *Laitram*, the economic reality of Deepsouth's manufacture of the constituent elements of the deveining machine and subsequent sale to a foreign company for minor final assembly, the Court of Appeals for the Fifth Circuit not only correctly interpreted case-law precedent, but also followed the legislative intent and history behind section 271 of the patent statute.[41] In order to prove direct infringement under section 271(a) the patentee must prove that the alleged infringer "makes" the article within the United States.[42] The controversy turns around what definition Congress intended to be given "makes"; a technical one of complete and full assembly, or a realistic one of completed manufacture of constituent parts with only minor final assembly remaining, as was Deepsouth's practice.

In this analysis of congressional intent it is important to note that section 271 is a new section which was not in force when the two *Andrea* cases were decided.[43] Prior to that time there was no congressional declaration of what constituted infringement under the old statutes.[44] Although *Cold Metal* and *Hewitt-Robins* were decided after the statute was passed in 1952, neither discussed the impact of the new statute but merely followed the decision reached in the *Andrea I* case.[45] Therefore, *Laitram* is the first independent analysis of the scope of the patent statute.

Considering this state of affairs together with an analysis of the legislative history behind section 271, reveals that the decision reached in the *Laitram* case represents an attempt by the Fifth Circuit to follow the congressionally expressed mandate of expanding the protection against patent infringement. The legislative documents concerned with section 271(a) evidence an intent by Congress to implement a more realistic infringement policy than that laid down in *Andrea I* and followed in *Cold Metal* and *Hewitt-Robins*. The senate reports on the legislative hearing expressly declare that, because there had been a number of conflicting and contradictory decisions in the infringement area, Congress felt it was necessary to codify the principles of patent infringement which most effectively aid the purpose for patents.[46] This congressional purpose was to extend the scope of the right to exclude infringers from making, using, or selling the patented invention for the duration of the patent.[47]

Specific evidence supporting this congressional expression of protection against patent infringement is offered by section 271's contributory infringement provisions.[48] It is clear from the hearings on section 271 that Congress

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[38] *Id.* at 220.
[39] *See* text accompanying notes 19-20, 30-34 *supra*.
[40] *See* Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 224 (3rd Cir. 1956).
[41] 35 U.S.C. § 271 (1971).
[42] 35 U.S.C. § 271 (1970).
[43] Act of July 19, 1952, Pub. L. No. 593, ch. 28, § 271, 66 Stat. 811 (1952).
[44] H.R. Misc. Rep. No. 1923, 82d Cong., 2d Sess. 9 (1952).
[45] *See* text accompanying notes 30-39 *supra*.
[46] S. Misc. Rep. No. 1979, 82d Cong., 2d Sess. 8 (1952).
[47] *See id.*
[48] 35 U.S.C. §§ 271(c), (d) (1970).

specifically rejected a number of court decisions which had severely limited the doctrine of contributory infringement.[49] Despite the fact that it was specifically pointed out to Congress that the proposed provisions were contrary to prior case law which had limited the doctrine,[50] section 271 was passed without amendment.[51] Thus, it is readily apparent from this passage of section 271 that Congress intended to broaden the protection offered a patentee against contributory infringement.

In keeping with this congressional protection against infringement is the reasonable inference that if Congress had not intended to codify the decision reached in *Andrea II*, they would have specifically passed a provision which would have overruled that decision. As evidenced by its treatment of contributory infringements, when Congress intended to overturn the existing law they passed a specific statute to accomplish that purpose. This failure, however, to overrule the existing law of the *Andrea II* case is additional evidence of congressional acceptance of its expressed treatment of the problem of the manufacture of constituent elements with a mere minor assembly abroad.[52] Thus, it is reasonable to conclude that *Laitram* was the correct interpretation of direct patent infringement which Congress wished to codify when they passed section 271.

However, even if the legislative intent arguments concerning contributory infringement and its effect on the direct infringement of section 271[53] are ignored, any policy need to protect the public's right to be able to use the ordinary and staple constituent elements of a patented machine does not justify the activity involved in *Laitram*.[54] This need to protect the public's right to constituent parts would be an inappropriate and inadequate defense to an infringement by Deepsouth. The defendants did not manufacture one or even two of the constituent elements to be used independently from the patented invention. Instead, they manufactured the entire machine.[55] Deepsouth merely failed to assemble the parts into a whole within the United States in an attempt to escape the protection offered to the original patentee, *Laitram*, by the patent law.[56] Therefore, the policy of making the independent elements of a patented machine available to the public is of no relevance to activities such as Deepsouth's.

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[49] *Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82nd Cong., 1st Sess., ser. 0, at 159 (1951). To fully understand how Congress intended to clarify this situation, however, it is necessary to understand the pre-1952 case law on how the doctrine of contributory infringement developed. The doctrine made its appearance in Whitney v. Nw York Scaffolding Co., 224 F. 452 (8th Cir.), *cert. denied*, 239 U.S. 640 (1915). This case held that one who makes and sells one element of a patented combination, with the intention and for the purpose of bringing about its use in a patented combination is guilty of contributory infringement, and is equally liable with the one who in fact organizes the completed combination. *Id.* at 459. Therefore, the intent of the manufacturer is the decisive factor in showing a contributory infringement. However, the doctrine of contributory infringement is limited to situations where the articles sold were either components of a patented invention, or had no independent use from the patented combination, or were so used as to constitute infringement. Cortelyou v. Charles E. Johnson & Co., 145 F. 933, 934-35 (2d Cir. 1906). It has not been extended to apply to ordinary and staple articles of commerce used in connection with the patented machine; either by case law, *id.* at 935, or by the present statute, 35 U.S.C. § 271(c) (1970). Thus, an article which has a use independent of its use in the patented invention would not fall within the contributory infringement doctrine unless sold with the intent that it be used in the patented invention.

In 1944, the Court in Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944), however, completely destroyed the significance of the doctrine of contributory infringement. That case held that the owner of a system patent may not use it to secure a limited monopoly of an unpatented device employed in practicing the invention even *though the unpatented device is itself an integral part of the patented system and has* no use independent of the patented combination. *Id.* at 665. Thus even if another company manufactured the unique and vital components of a patented machine, they could escape infringement after the *Mercoid* decisions, as long as they did not manufacture all of the elements of the patented invention. No longer was intent to manufacture and sell an integral component of a patented combination in violation of the contributory infringement doctrine. The *Mercoid* rule was still in effect and being followed by some of the lower courts when Congress resurrected the doctrine of contributory infringement in section 271(c). *See* Stokes & Smith Co. v. Transparent-Wrap Mach. Corp., 156 F.2d 198 (2d Cir. 1946); Stroco Prods., Inc. v. Mullenbach, 67 U.S.P.Q. 168 (S.D. Cal. 1944).

[50] *Id.* at 158-62.

[51] Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 378 n.7 (1961) (Harlan, J., dissenting).

[52] Radio Corp. of America v. Andrea, 90 F.2d 612, 613 (2d Cir. 1937).

[53] 35 U.S.C. § 271(a) (1970).

[54] *See* 35 U.S.C. § 271(c) (1970); Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 939 (5th Cir. 1971).

[55] 443 F. 2d at 937-38.

[56] *Id.*

Another basic policy consideration which militates against allowing a manufacturer such as Deepsouth to use the technicality of minor final assembly abroad in order to avoid the patent-infringement laws is that this would destroy the purpose behind the protection afforded by the patent laws. The patent laws are designed to assure the patentee the privilege of excluding infringers from making, using, or selling the patented invention for the duration of the patent.[57] If the technicality of minor final assembly abroad is permitted, the patentee would be effectively deprived of its exclusive sales privilege.[58] An infringer, such as Deepsouth, would be able to manufacture all of the component parts of the patented machine with the intent that they be used to form the patented invention. Even though the machine is essentially manufactured solely within the United States, mere assembly in a foreign country would avoid the prohibition of section 271. Consequently, the patentee's rights are substantially diminished with regard to machines made within the United States; a result the patent laws are designed to prevent.

Patent law commentators agree with these arguments supporting the congressional policy that realistically a combination is "made within the United States" when all of its components are finished and ready to be united in a final assembly.[59] Thus, according to these authorities, Deepsouth and its affiliate would more than meet the definition of "makes" by their activities of manufacturing the entire machine and leaving only final assembly of two parts.[60]

In light of these considerations, the Court of Appeals in the *Laitram* case correctly recognized the reality of the transaction in which Deepsouth used the technical point of nonassembly in final form to deprive the original patentee of the protection offered by the United States patent law. Previous conflicting case law in this area can be effectively distinguished. The Third and Seventh Circuits in *Cold Metal* and *Hewitt-Robins* presented no new analysis and merely followed the original case in this area—*Radio Corporation of America v. Andrea*.[61] This case failed to take into account the commercial results of the activity involved and relied upon an inappropriate application of the doctrine of contributory infringement. Furthermore, in a second opinion the *Andrea* court distinguished the line of cases used in the first opinion to support the result reached and stated that if the elements of the invention are sold in substantially unified and combined form, infringement is not avoided by packaging the parts together and leaving a minor final assembly to the foreign purchaser.[62]

In refusing to follow the previous decisions of the Second, Third, and Seventh Circuits, the Fifth Circuit realized that section 271 was expressive of a congressional intent to explicitly provide extensive protection against patent infringement. By effecting a liberal interpretation of what constitutes "makes," the court only reinforces substantial arguments related to legislative intent which reveal a desire against infringement afforded by Congress to extend the protection the patentee. In balancing the need to protect the patentee and the right of the public to utilize the unpatented constituent elements of the patented machine, the Fifth Circuit correctly decided that the public's right extends only to those cases where the elements are ordinary and staple articles of commerce or are elements manufactured for other legitimate purposes. The intent and knowledge can not be to manufacture the patented machine in its entirety and leave only a minor assembly operation in order to escape the protection offered to the original patentee by the infringement statute. While the law as expounded in *Laitram* remains the minority view in the circuits, it articulates the sounder policy in this narrow but important area of patent law and should be adopted and followed as the better rule.

STATEMENT OF THE SOCIETY OF PATENT CLASSIFIERS

The Society of Patent Classifiers is the professional organization of substantially the entire force in the U.S. Patent Office concerned with the administration and creation of patent search systems. The Society has 63 members. Our

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[57] U.S. CONST. art. I, § 8(8); 35 U.S.C. § 154 (1970).
[58] *See* Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 939 (5th Cir. 1971).
[59] 3 W. ROBINSON, THE LAW OF PATENTS § 924, at 101 (1890); *see* H. TOULMIN, HANDBOOK OF PATENTS 613-14 (1954).
[60] Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 938 (5th Cir. 1971).
[61] 79 F.2d 626 (2d Cir. 1935).
[62] Radio Corp. of America v. Andrea, 90 F.2d 612, 613 (2d Cir. 1937).

HOUSTON PATENT LAW ASSOCIATION

COMMENTS AND RECOMMENDED CHANGES

SENATE BILL 2504

"The Patent Reform and Modernization Act of 1973"

HOUSTON, TEXAS
DECEMBER 24, 1973

Chapter 28 - Infringement of Patents

Section 271. Infringement of patent

271(c)(1)(A), Page 67, line 9. There would not appear to be any fundamental reason for limiting the sales or distribution agreement to one that is "exclusive" for an infringement to occur by the importing of a product into the United States which is made by a process in a foreign country which would be an infringement in the United States if the process had been performed in the United States. If the "exclusive" limitation is retained in this subsection, avoidance of the intent of this subsection would be extremely easy. For example, distribution agreements could be made with parties on opposite sides of the United States or in marketing areas which are geographically remote from each other so that, technically, there would not be an "exclusive" agreement with anyone. The term "exclusive" as thus used in this subsection would, in the majority of the cases, render this provision a nullity.

New 271(f). This new subsection is proposed in view of the decision and opinion by the United States Supreme Court in Deepsouth Packing Company v. Laitram Corp. 406 U.S. 518 (1972). The Court specifically noted that Congress had not provided legislation to protect a patentee from the situation wherein an infringer obtained the benefit of the patent by selling the components of a patented combination in an unassembled form to a foreign purchaser for assembly outside of the United States. The United States Supreme Court has thus specifically directed this matter to Congress for consideration.

Section 273. Unauthorized practice of subject matter prior to issuance of patent

273(c), Page 68, lines 12-18. Since the "interim period" is defined as requiring the entry of a final decision of allowability of a claim, and "actual notice" to the person allegedly engaged in the unauthorized practice, no reason is seen for limiting the damages to royalties. Since the term of the patent under S.2504 runs from the filing of the patent application, the damages should begin as soon as the allowability of the claim is determined and actual notice has been received by the infringer. To limit the recovery to royalties is to impose a form of compulsory licensing on the inventor during the interim period.

his consent would constitute infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute infringement of the patent; or (3) sought to enforce the patent against infringement or contributory infringement.

"(c)(1) Subject to paragraph (3) of this subsection, whoever imports a product made in a foreign country into the United States shall be liable as an infringer, if—

"(A) he has entered into an exclusive sales or distribution agreement for such product, with the person who made it in the foreign country, or one who purchased it from such person, and

"(B) such person made the product in the foreign country by a process patented in the United States.

"(2) Subject to paragraph (3) of this subsection, any subsidiary, or other organization under the legal control, of the manufacturer or vendor specified in paragraph (1)(A) of this subsection, that actively induces conduct proscribed by paragraph (1) of this subsection shall be liable as an infringer.

"(3) Paragraphs (1) and (2) of this subsection shall not apply if the patentee has authorized the persons identified in paragraphs (1) and (2), or any of them, to engage in such conduct.

"§ 272. Temporary presence in the United States

"The use of any patented subject matter in any vessel, aircraft, or vehicle of any country which affords similar privileges to vessels, aircraft, or vehicles of the United States temporarily or accidentally, shall not constitute infringement of any patent, if such subject matter is used exclusively for the needs of the vessel, aircraft, or vehicle and is not sold in or used for the manufacture of anything to be sold in or exported from the United States.

"§ 273. Unauthorized practice of subject matter prior to issuance of patent

"(a) After the issuance of a patent, a patentee may obtain damages, as set forth in subsection (c) of this section pursuant to the provisions of chapter 29 of this title, for any unauthorized making, using, or selling of the subject matter of a claim in the patent (referred to hereafter in this section as 'unauthorized practice'), that occurred during the interim period specified in subsection (b) of this section.

"(b) Such interim period shall begin after the occurence of each of the following events:

(f) Except as otherwise provided in this title, whoever without authority supplies or causes to be supplied, unassembled in the United States, or delivery outside of the United States, the essential components of any patented invention, during the term of the patent therefor, knowing or intending that the components are to be assembled, so that when assembled, the assembly, if it had occurred in the United States, would constitute infringement in the United States, infringes the patent.

VIII.C.2. SHIPMENT OF UNASSEMBLED PARTS OF AN INVENTION FOR ASSEMBLY ABROAD MADE INFRINGEMENT

The purpose of the Commerce proposal is to overrule the recent five to four Supreme Court decision in Deepsouth Packing Co. v. Laitram Corp., 92 S. Ct. 1700 (1972), which held that the manufacturing and exporting of all the component parts of a patented combination for assembly outside the territorial United States--in less than complete or final assembly--is not patent infringement under 35 U.S.C. 271.

The Department of Justice proposes to abide by the Supreme Court ruling.

The Court's majority narrowly and rigidly interpreted the patent law in order to rule in favor of the defendant-infringer. The Fifth Circuit below had reversed the District Court to hold that Deepsouth's activity constituted a "making" of the invention under section 271(a), based on the ordinary meaning of the word and the fact that any other interpretation would subvert the constitutional purpose of promoting technology.

The Court's majority disagreed. It found the Fifth Circuit's definition of "making" unacceptable because it was contrary to a line of decisions (see RCA v. Andrea, 27 USPQ 364 (2d Cir. 1935); Cold Metal Process Co. v. United Engineering and Found Co., 110 USPQ 332 (3d Cir. 1956); and Hewitt-Robins v. Link-Belt Co., 151 USPQ 670 (7th Cir. 1966)) and ran counter

to its consistent position that a combination patent protects only against the operable assembly of the whole and not the manufacture of the consitituent parts. (Aro Manufacturing Co. v. Convertible Top Replacement Co., 365 US 366, 344 (1961)).

The Court's hyper-technical approach ignored the equities in the Deepsouth situation as well as the obvious purpose of the statute in question. The decision is basically unfair to the patentee and gives a free ride to the seller of the unassembled combination. The unassembled subterfuge works the same kind of constructive fraud on the patentee that the Supreme Court refused to permit in its Graver Tank decision (Graver Tank v. Linde Air-Prod. Co., 339 US 605 (1950)) by invoking the doctrine that equivalents of the invention defined in a patent claim are also accorded protection. (VIII.B.)

Congress, pursuant to the constitutional mandate in Article I, section 8, clause 8, has continuously provided, since 1790, a comprehensive system of protection for inventions. This being the case, when a worthwhile invention has been granted protection the patents securing that protection should be enforced by the courts in a rational and reasonable manner. Such enforcement is not in derogation of any identifiable public policy.

In his dissent, Justice Blackman stated:

> ". . .[T]he result is unduly to reward the artful competitor who uses another's invention in its

> entirety and who seeks to profit thereby. . . . Everything was accomplished in this country except putting the pieces together as directed (an operation which, as Deepsouth represented to its Brazilian prospect, would 'take less than one hour'). . . ." (173 USPQ at 774-75).

The Court's decision would raise no problem if the combination was eventually assembled in the United States, for then there would be a direct infringement and a party such as Deepsouth would be liable as a contributory or an inducing infringer. But where the components are exported, the result is inequitable and the patentee suffers economic harm--i.e., lost profits from the sale of his invention abroad by another. In industries that are export-oriented, a very real part of a patentee's protection is jeopardized. In an era where exports must play an ever-growing role, this hole in the patentee's protection should be filled. A patentee who has borne the expenses of research, development and marketing for his new product cannot compete with an infringer who has had only a fraction of these expenses.

Under the Deepsouth holding, American industry is encouraged to construct "finishing plants" overseas, thus depriving the American labor force of needed jobs and the American economy of needed dollars. This situation would allow an infringer to set up shop next door to a patent-protected inventor whose product enjoys a substantial foreign market and deprive him of valuable business. The infringer would be allowed to reap the

fruits of the American economy--technology, labor, materials, etc.--but would not be subject to the responsibilities of the American patent laws.

Furthermore, the holding in Deepsouth will force patentees to obtain and enforce foreign patents in all countries that might provide a market for their inventions--a task that is expensive for large businesses and impossible for small ones. In certain cases the patentee will not be able to obtain foreign patent protection for his invention, such as in Italy which prohibits patent for drugs. In all cases enforcement of foreign patents would involve multiple law suits against foreign customers instead of one law suit against the American supplier.

It could be argued that the effect of overruling Deepsouth would be to encourage firms who are now manufacturing components of a patented invention in this country to shift their manufacturing operations abroad. Any such effect, however, is highly unlikely since the Commerce proposal would make manufacturers of components liable for infringement only when they make or acquire "substantially all" of the components of the patented combination--i.e., the bill is directed only at the narrow type of situation present in the Deepsouth case. The component manufacturer could continue to make part of the components without becoming an infringer.

(See Computing Scale Co. v. Toledo Computing Co., 279 F. 648 (7th Cir. 1921), cert. denied 257 U.S. 652 (1922); Bullock Elec. & Mfg. Co. v. Westinghouse Elec. & Mfg. Co., 129 F. 105 (6th Cir. 1904), cert. denied 194 U.S. 636 (1904)). The impact of the bill would likely be that manufacturers like Deepsouth would simply elect to take a license under the patent, providing the patent owner with his just reward.

The need to provide patent owners with a complete remedy and to preserve confidence in the fairness of the patent system clearly outweighs the danger that manufacturing operations might be shifted abroad in isolated situations.

In addition to overruling the Deepsouth case, which involved the final assembly abroad of a patented product, the Commerce bill would provide analogous benefits for holders of process patents where a competitor substantially carries out a patented process in this country. The Deepsouth holding was extended to a process patents by the recent decision in Mohr & Sons v. Vacudyne Corp., 177 USPQ 307 (D.C.Ill. 1973). No reasons exist for treating process patents differently from product patents in this regard, and therefore, the Mohr case should also be overturned.

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