PATENT REMEDY CLARIFICATION ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE ADMINISTRATION OF JUSTICE

OF THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 3886

PATENT REMEDY CLARIFICATION ACT

FEBRUARY 6, 1990

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PATENT REMEDY CLARIFICATION ACT

TUESDAY, FEBRUARY 6, 1990

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY,
AND THE ADMINISTRATION OF JUSTICE,
COMMITTEE ON JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2226, Rayburn House Office Building, Hon. Robert W. Kastenmeier (chairman of the subcommittee) presiding.

Present: Representatives Robert W. Kastenmeier, Howard L. Berman, Carlos J. Moorhead, and F. James Sensenbrenner, Jr.

Also present: Michael J. Remington, chief counsel; Elizabeth R. Fine, counsel; Veronica L. Eligan, clerk; and Joseph V. Wolfe, minority counsel

OPENING STATEMENT OF CHAIRMAN KASTENMEIER

Mr. KASTENMEIER. The committee will come to order.

The gentleman from California.

Mr. MOORHEAD. I make a motion that by unanimous consent that the subcommittee permit the meeting today to be covered in whole or in part by television broadcast, radio broadcast, and/or still photography, pursuant to rule 5 of the committee rules.

Mr. KASTENMEIER. Without objection, that will be agreed to.

This morning we are conducting a legislative hearing on the Patent Remedy Clarification Act of 1990, a bill abrogating State sovereign immunity in patent law.

[The bill, H.R. 3886, follows:]

I

101ST CONGRESS
2D SESSION

H. R. 3886

To amend title 35, United States Code, to clarify that States, instrumentalities of States, and officers and employees of States acting in their official capacity, are subject to suit in Federal court by any person for infringement of patents, and that all the remedies can be obtained in such suit that can be obtained in a suit against a private entity.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 24, 1990

Mr. KASTENMEIER (for himself and Mr. MOORHEAD) introduced the following bill; which was referred to the Committee on the Judiciary

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A BILL

To amend title 35, United States Code, to clarify that States, instrumentalities of States, and officers and employees of States acting in their official capacity, are subject to suit in Federal court by any person for infringement of patents, and that all the remedies can be obtained in such suit that can be obtained in a suit against a private entity.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Patent Remedy Clarification Act".

SEC. 2. LIABILITY OF STATES, INSTRUMENTALITIES OF STATES, AND STATE OFFICIALS FOR INFRINGEMENT OF PATENTS.

(a) LIABILITY AND REMEDIES.—(1) Section 271 of title 35, United States Code, is amended by adding at the end the following:

"(h) As used in this section, the term 'whoever' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.".

(2) Chapter 29 of title 35, United States Code, is amended by adding at the end the following new section:

"§ 296. Liability of States, instrumentalities of States, and State officials for infringement of patents

"(a) IN GENERAL.—Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title.

"(b) REMEDIES.—In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.".

(b) CONFORMING AMENDMENT.—The table of sections at the beginning of chapter 29 of title 35, United States Code, is amended by adding at the end the following new item:

"Sec. 296. Liability of States, instrumentalities of States, and State officials for infringement of patents.".

SEC. 3. EFFECTIVE DATE.

The amendments made by this Act shall take effect with respect to violations that occur on or after the date of the enactment of this Act.

O

Mr. KASTENMEIER. As State government agencies and universities have been increasingly involved in commercial ventures, it is important that they follow the same rules as everyone else in the marketplace. To this end, the gentleman from California, Mr. Moorhead, and myself, have introduced H.R. 3886 to assure that patent owners can recover damages from States that infringe their patents, notwithstanding the provisions of the 11th amendment.

Last year this subcommittee processed and the House passed similar legislation in the copyright area. The Copyright Remedy Clarification Act is now awaiting action in the Senate.

That bill clarifies Congress' intent that States be subject to damage suits in Federal court for their violations of the Copyright Act. The Patent Remedy Clarification Act assures that the same principle applies in patent law.

U.S. patent law provides a variety of remedies for patent owners against whoever infringes a patent. In the past, the courts interpreted the patent remedy provisions to allow patent holders to recover damages against all infringers, including States.

However, in 1985, the Supreme Court held in the *Atascadero State Hospital* v. *Scanlon* case that absent a clear expression of congressional intent to the contrary, the 11th amendment prohibits individuals from recovering damages against States in Federal court.

While *Atascadero* was not a patent case, last month, the U.S. Court of Appeals for the Federal circuit relied on *Atascadero* in ruling in *Chew* v. *California* that Congress has not clearly abrogated State sovereign immunity in the patent law and, therefore, the court held that States are immune from damage suits for patent infringement.

It is my belief that the Congress never intended to exempt the States from damages for copyright or patent infringement. Now, however, Congress must amend the patent law and specifically declare that States are monetarily liable for patent infringement if patent holders are to recover damages.

Yet, before we affirmatively abrogate State sovereign immunity in the patent area, we must determine whether the present circumstances evidence a need to divest the States of their 11th amendment protections and what effect this abrogation would have on the States and State entities such as land grant colleges and universities.

Our three witnesses this morning all strongly support the patent revisions in H.R. 3886. I would note that although I invited State attorneys general and representatives of State universities to testify, none have made themselves available to date.

Nevertheless, we may have the opportunity at some future time to hear the States' view on this legislation. As always, it is incumbent on Members of Congress to safeguard State interests. That responsibility is particularly important with regard to the legislation we are considering today.

I would further note that this is one of the several improvements to patent law that the committee is considering this Congress. Others include the patenting of transgenic animals and patents in space.

Here, as in the case of the patenting of animals, the subcommittee is responding to judicial and executive branch interpretations of the patent law and is revising the statute to assure the realization of congressional intent.

I would like to yield to the gentleman from California.

Mr. MOORHEAD. Well, thank you, Mr. Chairman.

I want to thank our chairman for the great work that he does in this area. I think we have had some outstanding leadership on our committee in revising the patent, copyright, and trademark laws of our country.

We have gotten a lot of pieces of legislation out in recent years, as you probably know, and it is because of the farsighted leadership that Bob has provided.

I would especially like to thank him now for introducing H.R. 3886, the Patent Remedy Clarification Act, which I am happy to be a cosponsor of.

H.R. 3886 is in many ways analogous to legislation processed earlier this Congress by the subcommittee, H.R. 3045, the Copyright Remedy Clarification Act, which would amend the Copyright Act to provide that a State may be sued in Federal court for infringement.

The need for both bills is occasioned by the U.S. Supreme Court's decision, as our chairman has pointed out, in *Atascadero State Hospital* v. *Scanlon*, which held that congressional intent to abrogate State sovereign immunity must be explicitly and unambiguously stated in the language of the statute itself.

I think that H.R. 3886 will meet the stringent legislative intent test enunciated in *Atascadero* and in so doing provide patent owners with the necessary protection they deserve.

I am pleased to note that the legislation is strongly supported by the administration and the patent community, and this great piece of legislation, along with the design protection bill will do a great job for our country.

Thank you.

Mr. KASTENMEIER. I thank the gentleman from California for his very generous remarks about the work of the subcommittee. But, obviously, much of that is due to his own contributions, and to his own vision of proprietary laws of the United States.

We, he and I, also depend on our colleagues to join with us. We have had relatively little controversy in the output of this committee for the last several Congresses and I thank him.

I would now like to welcome our first witness.

Mr. KASTENMEIER. If you think we do this routinely, we do not. [Laughter.]

Mr. MOORHEAD. It does not hurt though once in a while because in working together we can do a whole lot more than we can the other way around, as some subcommittees seem to do.

Mr. KASTENMEIER. I would now like to greet our first witness this morning, Mr. Jeffrey M. Samuels, the Acting Commissioner of Patents and Trademarks at the U.S. Department of Commerce.

Mr. Samuels, grateful to have the benefit of your testimony today. We have your statement. You may proceed as you wish, sir.

STATEMENT OF JEFFREY M. SAMUELS, ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. DEPARTMENT OF COMMERCE

Mr. SAMUELS. Thank you, Mr. Chairman.

The Department of Commerce supports enactment of H.R. 3886, the Patent Remedy Clarification Act, which would amend the Patent Act of 1952 to clarify Congress' intent that States and their instrumentalities are subject to suit in Federal court for infringements of patents.

By passing this bill, Congress would abrogate the sovereign immunity of States under the 11th amendment from suit from patent infringement.

The bill closely mirrors H.R. 3045, the Copyright Remedy Clarification Act, which was passed by the House last fall. The Department of Commerce supported that legislation, but urged that it be expanded to include patents. Mr. Chairman, we are pleased that you and Mr. Moorhead have introduced H.R. 3886.

In its landmark *Atascadero* decision in 1985, the Supreme Court established a strict test for determining whether Congress has abrogated the States' sovereign immunity under Federal statutes. Congress must make its intention unmistakably clear in the language of the statute. Some courts before *Atascadero* recognized that intellectual property rights are a form of property that States should not be able to take freely. But Federal courts after *Atascadero* have held consistently that States and their instrumentalities are immune from suit under the copyright and patent laws.

Only last month, the Federal circuit in *Chew* v. *California* decided that the patent statute does not evidence the unmistakable language of congressional intent required under *Atascadero.*

The Congress must answer three basic questions in considering this legislation. Does the Constitution permit Congress to abrogate sovereign immunity of States from suit for damages under the patent statute? Second, should the Congress abrogate sovereign immunity? And, third, what form should such legislation take?

The answer to the first two questions is clearly yes. In our view, the recent *Union Gas* decision of the Supreme Court makes it clear that Congress has the constitutional authority to enact legislation like H.R. 3886. The specific grant of power to Congress in the patent and copyright clause of the Constitution makes this authority even clearer.

The Department of Commerce believes strongly that Congress should abrogate State immunity from suit under the patent law. A major purpose of the patent system is to encourage innovation and to provide inventors with reasonable compensation for their inventions.

Moreover, Congress has granted the Federal courts exclusive jurisdiction over patent cases. Under current law, individuals and other legal entities may be sued for patent infringement in Federal court. Even the United States may be held liable for reasonable and entire compensation when it uses a patent invention without license from the patentee.

If States remain immune from suit, patent holders would be forced to pursue uncertain, perhaps nonexistent, remedies under

State law. I cannot believe that Congress ever contemplated such a result at the time the patent statute was enacted.

An absolute exemption for States may also undermine our efforts to improve intellectual property protection internationally. Our negotiators urge consistently that nonvoluntary licensing and governmental use provisions be minimized in the laws of our trading partners and that judicial review be provided. Immunity of American States from suit makes a mockery of these international efforts.

As to how legislation should be formulated, we believe that H.R. 3886 is appropriate to the task at hand. It would state expressly that States and their instrumentalities are not immune from suit under the 11th amendment or any other doctrine of sovereign immunity.

It would also provide that all legal and equitable remedies available currently in suits against private parties shall be available against States.

With regard to the section on remedies, Mr. Chairman, the Department does have one small suggestion. In light of the clear importance to patent owners of equitable remedies such as injunctions, we suggest that equitable remedies being included expressly in the list of remedies appearing in the bill. Our specific proposal appears in my full statement.

With that one minor qualification, Mr. Chairman, the support of the Department of Commerce and of the administration for H.R. 3886 is strong and unequivocal.

This bill and its companion, H.R. 3045, if enacted, will abrogate the immunity of States from suit under the U.S. patent and copyright laws.

We praise you and Mr. Moorhead's leadership and that of your subcommittee colleagues for taking this decisive, prompt, and very necessary action.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions.

Mr. KASTENMEIER. Thank you, Mr. Samuels.

[The prepared statement of Mr. Samuels follows:]

PREPARED STATEMENT OF JEFFREY M. SAMUELS, ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman, Mr. Moorhead, and members of the Subcommittee, it is with great pleasure that I appear before you today to express the Department of Commerce's strong support for H.R. 3886, the "Patent Remedy Clarification Act." This legislation would amend the U.S. patent law to make it clear that States and their officers may be sued in federal court for damages arising out of patent infringements. By passing this bill, Congress would abrogate the sovereign immunity of States under the Eleventh Amendment from suit for patent infringement.

This bill closely mirrors H.R. 3045, the "Copyright Remedy Clarification Act," which was passed by the House on October 16. In letters to you last June and August, Mr. Chairman, the Department of Commerce went on record in support of that legislation, but urged that it be expanded to include patents. The abrogation of State sovereign immunity for U.S. patent owners is equally as important as for copyright owners, and we are pleased that you and Mr. Moorhead have introduced H.R. 3886.

The United States Supreme Court has established a strict test for determining whether Congress has abrogated the States' sovereign immunity from suit under particular federal statutes. In Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985), reh. denied, 473 U.S. 926 (1985), the Court stated that "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." Id. at 242.

Before the Supreme Court decision in Atascadero, few courts had construed sovereign immunity of States under the Eleventh Amendment in relation to the patent and copyright laws. Where sovereign immunity defenses were presented, pre-Atascadero courts recognized that intellectual property rights are a form of property, and that States should not be able to take them freely.

In Hercules Inc. v. Minnesota State Highway Department, 337 F. Supp. 795 (D. Minn. 1972), the plaintiff owned a process patent for a weed-and-pest-control chemical compound. The Minnesota State Highway Department used the process without authorization, and plaintiff brought suit. The State defended on Eleventh Amendment grounds, but the court found the patent valid and infringed. "Neither the State ... nor its highway department or officers have any right to use a valid patent without license or compensation," the court noted, "and ... doing so constitutes a violation of constitutional protections of rights in property." Id. at 799. "[I]f the Federal courts cannot hear a claim of patent infringement by a state because of the [Eleventh] Amendment," the court continued, "a patentee will never have a forum for asserting the unconstitutionality of the taking of his patent" (footnote omitted). Id. The State was enjoined from further using the process, but damages were denied on Eleventh Amendment grounds.

In another pre-Atascadero case, Lemelson v. Ampex Corp., 372 F.

Supp. 708 (N.D. Ill. 1974), the plaintiff sued the Illinois Bureau of Investigation for the unauthorized use of a patented magnetic recording system for video document storage and retrieval. The court held that the State had impliedly consented to be sued, and stated that the State is liable for the patentee's damages in addition to injunctive relief. "If a state has taken property, a right of compensation exists," the court stated. "It would be unfair for the state to unjustly enrich itself and then be immune from repayment." Id. at 713.

The definitive statement on the interplay between the Eleventh Amendment and the patent and copyright laws prior to Atascadero came in a copyright case, Mills Music, Inc. v. State of Arizona, 591 F.2d 1278 (9th Cir. 1979). The plaintiff sued the State of Arizona for using its copyrighted song without permission as the theme for the Arizona State Fair. The Ninth Circuit rejected the State's defense, stating that "the Eleventh Amendment's sovereign immunity does not permit a [S]tate to nullify the rights reserved and protected by Congress, acting pursuant to the Copyright and Patent Clause [of the Constitution]." Id. at 1286.

All this has changed since Atascadero. With regularity, U.S. Courts of Appeals have held that States and their instrumentalities are immune from suit under federal statutes that do not contain the requisite "unmistakably clear" language indicating Congressional intent to abrogate sovereign immunity. The copyright law was held

to be so lacking in Richard Anderson Photography v. Radford University, 852 F.2d 114 (4th Cir. 1988); and in BV Engineering v. UCLA, 858 F.2d 1394 (9th Cir. 1988), cert. denied 109 S. Ct. 1557 (1989). And only last month, the Court of Appeals for the Federal Circuit found that States are immune from suit under the patent law. Chew v. California, Slip Opinion 89-1390 (Fed. Cir., January 3, 1990).

In the Chew case, the plaintiff owned a patent on a process to test automobile exhaust fumes. Plaintiff sued the State of California for unauthorized use of the process. The State moved to dismiss on Eleventh Amendment sovereign immunity grounds. Citing Atascadero, the district court granted the motion to dismiss. On appeal, the Federal Circuit affirmed. Noting that section 271(1) of the patent law states that "whoever without authority makes, uses or sells any patented invention ... infringes the patent," the court stated that "the general term 'whoever' is not the requisite unmistakable language of congressional intent necessary to abrogate Eleventh Amendment immunity." Id., Slip Opinion at page 8.

In my view, three basic questions must be answered by the Congress in deciding whether to legislate in this area. The first question is whether the U.S. Constitution permits the Congress to abrogate State sovereign immunity from suit for damages under the patent statute. Second, as a policy question, should Congress abrogate State sovereign immunity? And finally, if both of these questions

are answered in the affirmative, how should the legislation be formulated?

I believe the answer to the first two questions is "yes," that Congress can and should abrogate State sovereign immunity from suit under the U.S. patent law.

In Atascadero and other cases, the Supreme Court has made clear that Congress has the power to remove State sovereign immunity in cases arising under the Fourteenth Amendment. Until recently, however, it had not addressed the question of whether immunity can be abrogated in cases arising with respect to Congress' plenary powers under Article I -- that is, cases involving federal statutes like the patent and copyright laws.

Last June, the Court decided Pennsylvania v. Union Gas Co., 109 S. Ct. 2273 (1989) in which it held that the Constitution empowers Congress to override State immunity in cases arising under the Commerce Clause of Article I. The plurality opinion written by Justice Brennan did not address other Article I powers, but the reasoning it applied to commerce cases supports the authority of Congress to abrogate sovereign immunity with respect to the other plenary powers under Article I, including the power to enact patent and copyright laws under section 8, clause 8. Justice Scalia wrote a dissenting opinion, which expressed the view that Congress did not have authority under the Commerce Clause to override sovereign

immunity regardless of the statutory language. Nonetheless, Justice Scalia expressly declared that, "if the Article I commerce power enables abrogation of State sovereign immunity, so do all the other Article I powers." Id. at 2302.

Thus, we believe that the opinion in Union Gas lends support for the constitutional authority of Congress to enact legislation such as H.R. 3886. The patent area does not present a weaker case than Union Gas, given the Constitution's specific grant of power to Congress to "secur[e] ... to ... inventors the exclusive right to their ... discoveries." U.S. Constitution, article I, section 8, clause 8.

The second question, should Congress abrogate State immunity from suit for patent infringement, must also be answered in the affirmative.

As the Department of Commerce noted in its June 16, 1989, letter to you, Mr. Chairman, public policy supports the broad applicability of the patent laws. Under current law, individuals (including State employees acting outside the scope of their official duties) and private entities are liable for patent infringement. Very significant to our analysis here is the fact that even the United States has consented to be sued in this context. 28 U.S.C. § 1498. Only States and their instrumentalities are immune.

A major purpose of the patent system is to encourage innovation, and to provide inventors with the ability to recover investment costs and derive a reasonable profit from their inventions. The immunity of States from suit in federal court flies in the face of these important public policies.

Moreover, patent rights are exclusively federal in nature, and Congress has granted the federal courts exclusive jurisdiction over cases arising under the patent law. 28 U.S.C. § 1338(a). If States and their instrumentalities were immune from suit in federal court for patent infringement, patent holders would be forced to pursue uncertain, perhaps even non-existent remedies under State law. I simply cannot believe that Congress ever contemplated such a result at the time the patent statute was enacted.

I also believe that an absolute exemption for States from liability for patent infringement, if allowed to continue, will undermine our efforts to improve protection of intellectual property rights internationally. The patent laws of many nations contain non-voluntary licensing and governmental-use provisions that are little more than regimes for legalized expropriation. Our trade negotiators urge consistently that national governments minimize non-voluntary patent licensing regimes and implement governmental-use provisions in ways that protect intellectual property rights in conformity with relevant international norms. We also urge that

judicial review be provided for these licenses and governmental uses. The ability of American States to infringe patents, and any other intellectual property right for that matter, with no obligation to compensate the owners of those rights, makes a mockery of our efforts to raise levels of intellectual property protection abroad.

Mr. Chairman, the immunity of States and their instrumentalities from suit for patent and copyright infringement is a blight on the system of protection for intellectual property rights in this country. The House voted last October to close this dangerous loophole with respect to copyrights. It is now time for Congress to act speedily to close the equally-dangerous loophole in the patent system.

I turn now to the third question -- how should legislation abrogating State sovereign immunity for patent infringement be formulated, given the exacting standards that have emerged from the Supreme Court's recent decisions? These decisions include not only Atascadero and Union Gas, but three other cases decided last year, Hoffman v. Connecticut Department of Income Maintenance, 109 S. Ct. 2818 (1989); Dellmuth v. Muth, 109 S. Ct. 2397 (1989); and Will v. Michigan Department of State Police, 109 S. Ct. 2304 (1989). It now appears that, to abrogate State sovereign immunity under a particular statute, Congress must express its intention directly and explicitly in the text of the statute and in the clearest

possible language. Legislative history and permissible inferences from statutory purpose and suggestive language are not enough, and it may not be sufficient merely to include States in definitions or in classes of defendants.

I believe that H.R. 3886 is appropriate for the task at hand. Section 2(a)(1) of the bill would amend section 271 of the patent statute by including within the meaning of the term 'whoever' any State, instrumentality of a State, and any State employee or officer acting in official capacity. More importantly, section 2(a)(2) would add a new section 296(a) stating expressly that no State, instrumentality, officer or employee thereof shall be immune from suit under the Eleventh Amendment or any other doctrine of sovereign immunity.

A new section 296(b) would provide that "remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorneys' fees under section 285, and the additional remedy for infringement of design patents under section 289."

While I agree that all remedies available in suits against private entities should be available in suits against States, I am concerned that the reach of the expansive first sentence of

proposed section 296(b) may be limited by the illustrative list in the second sentence. The first sentence refers to "remedies both at law and in equity"; the illustrative list in the second sentence includes damages, costs, etc., but leaves out equitable remedies such as injunctions.

Injunctive relief is one of the most important weapons available to owners of U.S. intellectual property rights. It serves both to arrest infringing activity when it is discovered and to deter would-be infringers from engaging in illegal activity. Patent owners would be unfairly limited in their choice of remedies if injunctive relief against States and their instrumentalities were unavailable. I feel certain that such a result is not what is intended by this provision in H.R. 3886.

We respectfully suggest, therefore, that the phrase " ... , but are not limited to, injunctive and other equitable relief," be added before the word "damages" in the second sentence, which would then read: "Such remedies include, but are not limited to, injunctive and other equitable relief, damages, interest, costs and treble damages ... ", etc.

With that one qualification, Mr. Chairman, the support of the Department of Commerce for H.R. 3886 is strong and unequivocal. In Atascadero, Union Gas, and other cases, the Supreme Court has made crystal clear what Congress must do to abrogate State

sovereign immunity. This bill and its companion H.R. 3045, if enacted, will abrogate the immunity of States from suit under the U.S. patent and copyright laws. We praise your leadership and that of your colleagues on the Subcommittee for taking this decisive, prompt and very necessary action.

Mr. KASTENMEIER. Current 11th amendment jurisprudence really should enable patent holders to obtain injunctive relief against States without any change in the law.

Is that your understanding of current law? Are you aware of any cases since *Atascadero* in which patent owners have enjoined States from further infringement of a patent?

Mr. SAMUELS. I am not aware of any post-*Atascadero* cases which address that question. I think your statement as to the state of the law with respect to injunctive relief is probably correct. Under the 1905 decision of *Ex parte Young,* State officials are subject to injunctive relief.

Our recommendation for inclusion of injunctive relief in the bill is prompted by the first sentence in the section of the bill which addresses remedies which basically says that the States would be subject to all the remedies, both legal and equitable, that are set forth in the patent statute.

But then the second sentence goes on to specifically refer to those remedies and leaves out injunctions. Just to resolve any possible ambiguity, we recommend that injunctions be specifically included in the bill.

Mr. KASTENMEIER. My recollection, and I am not absolutely certain of this, is that the bill that was passed with respect to copyrights did not include that language. In other words, this bill is pretty much a mirror copy of that bill.

You are suggesting then that that bill too, as it rests in the Senate, be altered; is that right?

Mr. SAMUELS. Yes, I think the same ambiguity exists in that bill. And injunctive relief, as you know Mr. Chairman, is a vital importance to patentees and copyright owners.

Mr. KASTENMEIER. It is my understanding the Federal Government is not subject to treble damages for patent infringement. Is that not correct?

Mr. SAMUELS. That is correct. Under 28 U.S.C. 1498, when the Federal Government uses a patent invention without license of the patent owner, it is subject to what the statute refers to as reasonable and entire compensation. There is no provision for treble damages.

Mr. KASTENMEIER. Why wouldn't that measure of damages be appropriate for States?

Mr. SAMUELS. Well, in almost all of the cases that are brought against the Government under section 1498, the patented invention involves or relates to the maintenance of our national security. It usually has something to do with an invention that is used by the armed forces, for example.

And it is just a question that we are unaware of any State interests of sufficient magnitude or similar magnitude which would warrant similar treatment.

Mr. KASTENMEIER. I do not understand that. That is to say merely because national security is affected that the Government should get off at a lower level of damages than would otherwise be the case for any other infringer.

Mr. SAMUELS. Well, actually, Mr. Chairman, when the Government is sued under section 1498, technically it is not an infringer.

The laws treats it as an exercise of the eminent domain power that the Federal Government has.

And it is a policy decision for Congress to make, which it did make, in limiting the damage liability of the Federal Government to simply reasonable and entire cooperation, rather than treble damages or any other remedies like injunctions.

Mr. KASTENMEIER. One of the reasons I raised that question was because I think parenthetically that the same issue was raised in the context of the copyright bill. There State interests recognized the need to eliminate absolute immunity, but we suggest that States should not just be treated like any private sector infringer, but should instead be subject to the same liability as the Federal Government, or, in the alternative, should have a special status as a State.

We did not see it that way, but the issue was raised.

Mr. SAMUELS. Well, there is an important difference though, Mr. Chairman, in that the patent laws specifically provide for treble damages where the copyright laws do not.

Mr. KASTENMEIER. No, I know. Naturally it did not arise with respect to treble damages in the copyright context, but there was a suggestion that the States not be treated as a private sector infringer might be, but instead receive a qualified status somewhat analogous to the Federal Government's immunity from treble damages.

As I say, we did not agree to that because in essence it would provide for, I guess, really three different types of entities; normal infringers, State infringers, and then the Federal Government as an infringer.

We thought that the laws are complicated enough and we did not see the equities in the limited damage relief proposed by State interests.

I yield to the gentleman from California.

Mr. MOORHEAD. Thank you, Mr. Chairman.

The Intellectual Property Owners Association has submitted a written statement to the subcommittee urging that it consider clarifying the law with regard to trademarks as well as patents.

What are your thoughts on this recommendation?

Mr. SAMUELS. I think, Mr. Moorhead, that the problem that we are addressing here and that has been addressed earlier regarding copyrights also exists with respect to trademarks.

There is at least one Federal district court decision which held that the Lanham Act, the Federal trademark law, does not evidence that clear and unmistakable language that is needed under *Atascadero* to abrogate State immunity from suit for a trademark infringement.

There are, though, differences between trademarks and patents and copyrights. The most important difference is that the jurisdiction of the Federal courts over trademark matters is not exclusive as it is with respect to patent and copyright suits.

It is conceivable, therefore, that a trademark owner might have a remedy in State court, whereas the patent and copyright owner probably would not.

I guess my suggestion would be that the subcommittee explore this issue and study this issue further, but it not be added on to this particular bill.

Mr. MOORHEAD. I suppose there would be some opposition to this legislation for the adamant States' rights people who do not want the States to have to pay for anything that they can avoid.

Do you know of any other opposition to this legislation?

Mr. SAMUELS. I have heard of none.

Mr. MOORHEAD. Thank you very much.

Mr. KASTENMEIER. Let me ask you about the need for this legislation. We do not have any evidence of massive or widespread violation of patent laws by the States either with or without this State immunity.

Accordingly, could one argue that this legislation may be premature? We really do not know whether it will have any affect or not.

Mr. SAMUELS. Well, you are right, Mr. Chairman. There have not been many cases that have raised this issue. I guess our feeling is that it is a step that should be taken now because the possibility exists in light of *Atascadero* and in light of the *Chew* case that more States will get involved in infringing patents.

I guess as a general policy statement, we believe that those engaged—those who do engage in patent infringement should be subject to all of the remedies that are set forth in the Patent Act and that the rights of a patent owner should not be dependent upon the identity of the entity who is infringing, whether it be a private individual, or corporation, or State.

So just as a general philosophical matter, we believe that this law needs to be passed.

Mr. KASTENMEIER. Well, I know a year ago when we were dealing with 11th amendment immunities for the States with reference to copyright, it was thought at the time that this would not have any likely application to patents.

Now, there does seem to be a problem with respect to trademarks for different reasons, of course.

And I am just wondering, if we undertake no legislative action, what might unfold with respect to patentees inability to seek money damages for infringement against States or State entities. It is hard to know.

In your view, what, if any, effect would this change in law have on the research exemption in patent law as far as State universities are concerned?

Mr. SAMUELS. In my view, it would have no effect. The research exemption is subject to application on a case by case basis and it still could be applied by the court in any case that is brought before it.

Mr. KASTENMEIER. I thank you very much, Mr. Samuels. Your testimony is very helpful and your entire testimony, as submitted in your 11-page statement will be accepted and made part of the record as well.

Mr. SAMUELS. Thank you, Mr. Chairman.

Mr. KASTENMEIER. Thank you.

Now I would like to greet our second witness this morning who is Prof. Robert P. Merges. Professor Merges teaches contracts and intellectual property law at Boston University School of Law.

He has testified before this subcommittee on other patent issues in the past and we have certainly benefited from his expertise on intellectual property law.

Professor Merges, welcome, and please proceed as you wish, sir.

STATEMENT OF ROBERT P. MERGES, ASSOCIATE PROFESSOR, BOSTON UNIVERSITY SCHOOL OF LAW

Mr. MERGES. Thank you, Mr. Chairman.

I would like to thank you for the opportunity to give my views on the proposed bill, H.R. 3886. It is always an honor for me to be asked to share whatever I have to offer to the subcommittee.

I basically have three points to make about the abrogation of sovereign immunity in patent infringement suits. The first is that our intellectual property system has always been laudably democratic, by which I mean the same standards are applied to golf balls, and frisbees, and comic books as are applied to super computers, genetically engineered animals, and important literary works.

This is a feature of the patent system that carries over from the question of validity into the question of infringement.

It has always been the case that we try not to distinguish between classes of products, for purposes of validity, and classes of infringers, for purposes of infringement.

And I think at a basic level, that is the policy that should inform the abrogation of State sovereign immunity. Basically, by this I mean that from the point of view of the patentee, a State is no different than any other consumer of its product.

And for those products whose primary market is the State or is a series of States, for them the abrogation of sovereign immunity will effectively eliminate intellectual property protection for their inventions. I think the *Chew* case gives us a good example.

There are very few private firms that need to purchase emissions testing equipment. It is the kind of invention that is peculiarly adapted to States as consumers.

Because of that, State sovereign immunity will have a significant disparate impact on inventors like Ms. Chew. I see no reason, no rational policy reason, to distinguish between inventors whose primary markets are private firms and private individuals and those inventors whose primary markets are public entities, specifically, the States.

Likewise, of course, at a higher level the Federal Government is subject to the equivalent of an infringement action in the Court of Claims.

Therefore, it is a strange and quirky exception that only inventors whose products are purchased by specifically State governments are subject to a complete defense of sovereign immunity.

It is a special class of inventors and of inventions that I do not believe merits any special legislative protection.

I think sovereign immunity is an historic aberration in a sense and there is no rational reason to protect this particular class of inventors and of inventions.

To the extent that there is a public interest involved here, Congressman, it seems to me that the interest would be in favor of abrogating the doctrine.

I tried to think of a rational reason why we might want to allow States to have a defense—complete defense in a patent infringement suit. Perhaps there is inventions that are peculiarly adapted to the public interest, to the public purpose, to some pressing public safety requirements. But I really could not come up with any class of inventions that fit into that category that makes sense.

To the extent that something is important from a public interest point of view it would seem that the Federal Government will also want to take advantage of it and, of course, the Federal Government is subject to the equivalent of infringement suits.

On the other hand, the patentee, as I have mentioned, would suffer significantly from the sovereign immunity defense in those cases where the patentees primary market was States.

I tried to think of a number of adverse effects that the doctrine of sovereign immunity might have and I began by looking at the decided cases on this.

It seems to me that in these days of fiscal restraint a purchasing agent who is thinking about buying a product will obviously, like most of us, be price conscience when they are shopping.

If it turns out that one of the goods that they are shopping for is covered by a U.S. patent, it may well be the case that there are alternatives, infringing alternatives available on the market.

It seems to me that that purchasing agent will, of course, in some cases ask the Attorney General, "Gee, should we buy this infringing product? It seems like the wrong thing to do." We have historically recognized patent rights. It seems the Attorney General now after *Chew* v. *California* can give a very clear answer. This was not true, by the way, under the previous cases. The cases were somewhat split.

But now the Attorney General is going to give a fairly straightforward answer. The answer is, do not worry about it; we have a complete defense.

There are cases where purchasing agents might not only see that it is not a problem to purchase infringing goods, they might actually think that they have an affirmative duty to save the State money in these days of fiscal restraint and they may decide to go ahead and by the infringing product.

As I have said, I cannot really see any reason why we want to encourage that activity.

Another set of considerations that I think are important are that to a large extent the important State instrumentalities for purpose of patent rights are State universities and I can see two potential adverse effects of a wide availability of sovereign immunity on the research activities of State universities.

A private firm considering entering into a research and development agreement with a public university will have to be concerned that the public university will have a complete defense to a patent infringement suit.

The reason this might be a concern is the private firm entering into the agreement may well disclose some proprietary information, presumably some patentable information, and possibly some patented technology to the university.

The university has a complete defense to an infringement suit. I think the firm will think twice before entering into that research

project simply because once the disclosure is made then there is no remedy at all for the private firm.

There will not be any way to police these private firm/public university R&D project agreements, as there is now. And, as you know, these are becoming an important source of revenue for the State universities.

At the same time, on the other hand, in cases where State universities are competing with private universities for research projects, it may behoove the State university to mention to the private firm that to the extent the research may infringe competitors' products, the State university will be off limits to an infringement suit.

In that sense, sovereign immunity might give an incentive for a private firm to give the research contract to a public university because the competitors of the private firm would then not have a cause of action against the public university for any infringement that was carried on during the research and development agreement.

So it seems to me there are some potential problems with sovereign immunity. We have not seen it used very much as an affirmative weapon by State attorneys general, by public universities, or by private firms negotiating with public universities.

But, again, I want to emphasize that I think that is because it was not clear that sovereign immunity was available. The weapon was not well recognized. Now it is out there. The Federal circuit has spoken very clearly in light of Supreme Court doctrine, recent doctrine on the 11th amendment and I do not think there is any doubt about it that the practice of using sovereign immunity in these negative ways will likely grow.

I just want to conclude by saying that—by summarizing I see no rational reason to protect States from infringement liability and I do see these two potential negative possibilities that could grow out of the continued use of sovereign immunity.

Mr. KASTENMEIER. Thank you, Professor Merges.

[The prepared statement of Mr. Merges follows:]

PREPARED STATEMENT OF ROBERT P. MERGES, ASSOCIATE PROFESSOR OF LAW, BOSTON UNIVERSITY SCHOOL OF LAW

SUMMARY OF STATEMENT BY ROBERT P. MERGES

Legislation to abrogate sovereign immunity is a good idea for three reasons: (1) There is no genuine policy rationale for state sovereign immunity from patent infringement suits; (2) as universities continue to expand their involvement in commercial science and technology-related activities such as licensing and contract research, sovereign immunity, which applies to state universities, has the potential to create serious distortions, since immunity for the university insulates it from infringement suits by private firms; (3) in the competition to attract commercial licensees, sovereign immunity gives state universities an unwarranted advantage over private universities and research institutions.

Good morning Mr. Chairman [Congressman Kastenmeier], other distinguished members of the Subcommittee, and others invited to appear before you. The purpose of my testimony is to evaluate a proposal to abrogate state sovereign immunity for patent infringement cases. This is a good idea, for several reasons: (1) it would not violate the Constitution, nor frustrate any important state policy; (2) it is warranted by the confused state of the law; (3) and it is necessary to remove a potential unfair advantage to state universities in an era of increasing commercial activity by universities in general.

A. Constitutional Issues

At the outset, it must be recognized that there is no sound basis on which to distinguish infringement by a state government from infringement by a person, corporation, or federal government agency. The Constitutional provision setting out Congress' patent and copyright authority gives Congress the power to "promote the progress of science and the useful arts" by "securing to . . . inventors the exclusive rights to their . . . discoveries."[1] This makes no distinctions between classes of excludable persons.

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[1] U.S. Const. Art. I, § 8 (emphasis added).

The rationale for state sovereign immunity is based on the Eleventh Amendment to the Constitution, as interpreted.[2] This immunity may be abrogated by a clear statement from Congress.[3] Constitutional law experts believe that Congressional abrogation in the patent infringement context would be appropriate under the commerce clause, the Fourteenth Amendment, and possibly the patent and copyrights clause as well.[4]

The tension between the exclusive rights under the patent and copyright clause and the doctrine of sovereign immunity has led to a number of cases in recent years refusing to find a state government or agency liable for infringement of intellectual property rights.[5]

If there was any doubt about the status of the state sovereign immunity defense, it was eliminated in the recent decision of the Court of Appeals for the Federal Circuit in the case of Chew v. State of California.[6] There the Federal

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[2] See Hans v. Louisiana, 134 U.S. 1 (1890); Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985).

[3] See Atascadero, supra note 2.

[4] See Letter from Prof. Glenn H. Reynolds to Rep. Kastenmeier, Sept. 7, 1989.

[5] See, e.g., BV Engineering, Inc. v. UCLA, 657 F.Supp. 1246 (C.D. Cal. 1987), aff'd 858 F.2d 1394 (9th Cir. 1988), cert. denied 109 S.Ct. 1557 (1989).

[6] 58 U.S.L.W. 2400, 1990 Westlaw 108 (Fed. Cir., Filed January 3, 1990).

Circuit affirmed a district court ruling granting summary judgment for the State of California in a case alleging infringement of a patent on a method of testing automobile exhaust emissions. The Federal Circuit stated:

> The district court examined the text of the patent statute and rejected Chew's argument that 35 U.S.C. § 271(a) (1982) contains the requisite [Congressional] intent to abrogate sovereign immunity]. In pertinent part, § 271(a) reads: 'Whoever without authority makes, uses or sells any patented invention . . . infringes the patent' (emphasis added). We agree that the general term 'whoever' is not the requisite unmistakable language of congressional intent necessary to abrogate Eleventh Amendment immunity. The Supreme Court has rejected similar arguments based on general language within a federal statute authorizing suit in federal court which, when given its broadest interpretation, could conceivably subject states to suit. For example in Atascadero[State Hospital v. Scanlon], 473 U.S. [234 (1985)] at 245-46, it was urged that the language in the Rehabilitation Act [at issue there] providing for remedies against 'any recipient of Federal assistance' was broad enough to encompass suit against a 'recipient' state. In unequivocably [sic] rejecting that position, the Court held:
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> > General authorization for suit in federal court is not the kind of unequivocal statutory language sufficient to abrogate the Eleventh Amendment.
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> Amicus [American Intellectual Property Foundation, Inc.] and Chew urge that we should discern from decisions of the Court, the public policy in granting patents, the exclusivity of Congress's patent power and the statutory exclusiveness of federal courts' jurisdiction over patent cases, a basis on which to apply a modified, more liberal standard for abrogation of Eleventh Amendment immunity. Assuming that the constitutional and statutory goal of 'promot[ing] the Progress of Science and useful Arts . . . ,' U.S. Const. art. I, s 8, cl. 8, would be better effectuated by subjecting states to patent infringement suit in federal court, we cannot reach the result appellant urges. In Dellmuth [v. Muth, __ U.S. __], 109 S. Ct. [2397, 2400 (1989)] at 2400-01, the Supreme Court expressly rejected the nontextual argument that abrogation was ''necessary . . . to achieve the [Education of the Handicapped Act]'s goals,' and further expressly rejected an approach permitting resort to legislative history to aid in determining Congressional intent where the text of

> the federal legislation bore evidence of such an intention but not with unmistakable language.[7]

After the Chew case, there can no longer be an argument that state sovereign immunity is not a recognized doctrine in patent cases. The question is thus framed quite clearly: is this threat to the rights of patentees justifiable, for example, as a doctrine that operates in the interest of the general public? If not, Congress should of course demonstrate its explicit intent to eliminate sovereign immunity in this area, as the Supreme Court requires.

B. State Agencies and Commercial Activity

State agencies have always been involved in the stream of commerce, primarily as consumers. Naturally, a portion of the goods purchased by state agencies is covered by intellectual property rights. And just as naturally, a small portion of these transactions have given rise to charges of infringement. It may be helpful to review some of the decided cases to get a picture of the extent to which arms of the states are involved in commercial activity involving patented technology.

In Hercules, Inc. v. Minnesota State Highway Department,[8] the defendant was accused of infringing

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[7] 58 U.S.L.W. 2400, __, 1990 Westlaw 108, at pp. 3, 4.

[8] 337 F.Supp. 795, 172 U.S.P.Q. 644 (D. Minn. 1972).

plaintiff's patented explosive. Highway construction is, of course, an activity unique to government units, typically states and the federal government. The district court held that the highway department was subject to suit for injunctive relief but was not subject to liability damages or accounting, in the absence of a clear waiver by the state of its immunity under the Eleventh Amendment.

In another case, Lemelson v. Ampex Corp.,[9] the Illinois Bureau of Investigation (IBI) was joined as a defendant in an infringement action. Lemelson, the inventor of magnetic sound recording devices, claimed that the defendant Ampex manufactured, and defendant IBI purchased, infringing magnetic recorders. This is an example of state involvement in commerce in the role of a normal consumer; there were other purchasers of magnetic tape, to be sure. The district court dismissed IBI's sovereign immunity defense in the following passage:

> The bar against suits is not absolute, however. * * * In the present case, the applicability of the patent laws to the states would appear to have a firm[] basis in federal law. Article 1, 8 of the United States Constitution grants Congress the exclusive power to grant patents. Congress has enacted a complex statutory scheme to implement its power. 35 U.S.C. 1 et seq. Congress has further provided for exclusive federal jurisdiction over patent cases. 28 U.S.C. 1338(a). The entire structure of the patent laws is meant to provide a national, uniform system to provide the most meaningful protection for the inventor. Also, in granting to Congress the right to create exclusive patents, the states largely surrendered their sovereignty over patents. Furthermore, the patent act

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[9] 372 F.Supp. 708, 181 U.S.P.Q. 313 (N.D. Ill. 1974).

does not on its face exempt states from its operation. See 35 U.S.C. 271(a).[10]

While the Lemelsen case is no longer good law in light of Chew, it does demonstrate -- along with Hercules and Chew itself -- that states do occasionally find themselves in patent infringement suits. When they do, should they have a special defense not available to other accused infringers? In other words, is the sovereign immunity doctrine based on some rational policy?

The only defensible bases for such a policy would seem to be that (1) inventions of use to the state will be produced whether or not patents are available, either because their inventors need no incentives or because some state statutes perform the same function, or (2) there is a strong public interest in the ability of states to carry on their affairs without fear of patent infringement suits, so sovereign immunity is necessary to protect this public interest. I believe both of these are wrong.

There is no evidence that inventions of use to state governments and their agencies are any less expensive to produce, on average, than those whose primary consumers are private firms. Certainly the auto emissions testing process at issue in Chew is not a simple invention whose creation required no stimulus. There is simply no reason to believe

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[10] 372 F.Supp. 708, 711.

that "progress" in this branch of the "useful arts" would occur as quickly, or that the rewards to invention in this field would be as great, without patents.

Judge Nies, in her opinion for the Federal Circuit in Chew, suggested that the court was simply foreclosing one avenue of recovery for the patentee; the opinion mentions that the patentee in that case failed to pursue an administrative remedy against the state government available under a state statute.[11] This is misleading, however. The state administrative remedy appears to apply generally to any claim against the state or its employees; it seems designed especially for tort claims and the like. Thus a patentee such as Marian Chew would apparently have to draft her cause of action as a general tort claim -- or perhaps one for restitution -- to come within the statute. This might be impossible, ot at least difficult, under California law. Consequently, relief under statutes such as these may not be a true alternative avenue of recovery.

Furthermore, it is not clear whether a claim which is in substance a patent infringement claim would be heard by a state court, especially after the Supreme Court's decision last year in Bonito Boats, Inc. v. Thundercraft Boats, Inc.[12]

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[11] Chew, 58 U.S.L.W. 2400, __, 1990 Westlaw 108, at pp. 1, 6 fn.5.

[12] __ U.S. __, 109 S.Ct. 971 (1989).

A patentee could be caught in a catch-22, with her state law claims preempted by the federal patent statute (under Bonito Boats), but her patent suit blocked by a sovereign immunity defense.

Another problem with this approach is that it assumes that such state law remedies will be available in every state in which the patentee's product is sold. This may or may not be true. In any event, requiring a potential plaintiff (patentee) to ascertain the validity of her claims under the differing substantive and procedural laws of the fifty states may well prove a very substantial disincentive to the commencement of such suits. Moreover, it would vitiate a major goal of the federal intellectual property system: national uniformity.[13] In short, these remedies are simply no substitute for patent infringement actions.[14]

The second possible justification for a sovereign immunity doctrine in patent infringement suits is that there

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[13] This is mentioned in Bonito Boats. It was also one of the major reasons why Congress passed the first federal Patent Act two hundred years ago this April; many of the framers had heard complaints about the fragmented and contradictory state patent grants in the Colonial period and under the Articles of Confederation.

[14] Recall too that state court judges presumably have little experience in cases involving questions of invention and infringement; their decisions would not be reviewable by the Federal Circuit either (because not "arising under" the patent statute) -- hence the possibility that the uniformity that was a central goal of the Federal Circuit would be undermined in this area.

is a strong public interest in the ability of states to carry on their affairs without fear of patent infringement suits. Aside from the fact that patented technology does not seem central to the functioning of too many state agencies, this meets with two fairly straightforward objections: first, where there is a strong public interest at stake, licensing will usually allow it to be served without pirating from an inventor; and second, in cases of dire public emergency where a patentee refuses to license, a court could, under existing cases, simply refuse to enjoin the state from practicing the invention.[15] Moreover, in cases where a patentee refused to produce a product the public needed, a state could rely on a series of cases that take the patentee's lack of production into account when deciding whether or not to grant a patent.[16]

Finally, some inventions have government units as their primary markets. Inventions related to large public works, as in the Hercules case, and a wide variety of other products and processes are designed and sold with public agencies in mind. There is simply no reason to believe that these

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[15] See, e.g., Vitamin Technologists, Inc. v. Wisconsin Alumni Research Foundation, 146 F.2d 929 (9th Cir. 1945), and City of Milwaukee v. Activated Sludge, Inc., 69 F.2d 577 (7th Cir. 1934). In both these cases, the patentee's legitimate exercise of monopoly rights conflicted sharply with a clear and immediate threat to public welfare -- and the courts refused to issue an injunction.

[16] See, e.g., Foster v. American Machine & Foundry Co., 492 F2 1317 (2d Cir 1974).

inventions need less stimulus than others. And permitting the sovereign immunity defense does reduce the incentive to invent in these industries. Perhaps firms who operate in these industries would attempt to provide patent-like protection via contracts and other enforcement mechanisms; but that seems entirely wasteful in view of the fact that we already have a perfectly workable "contract" between all inventors and society in general -- the patent code. Why not simply enforce it in this context, as we do in all others?

1. Expected Increase in State-related Infringement Suits

Most importantly, the cases where sovereign immunity could be a defense are very likely to grow in number. State universities are joining the rush to commercialize the results of basic science in ever-growing numbers. This trend is especially apparent in the biotechnology industry,[17] and to a lesser extent in fields such as materials science[18] and

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[17] See, e.g., M. Kenney, Biotechnology: The UNiversity-Industry Complex (1986). See also Rebecca Eisenberg, Proprietary Rights and the Norms of Science in Biotechnology Research, 97 Yale L.J. 177, 177-180 (1987); Korn, Patent and Trade Secret Protection in University-Industry Research Relationships in Biotechnology, 24 Harv. J. Legislation 191, 201-208 (1987).

[18] See Robert Pool, Superconductor Patents: Four Groups Duke It Out, 245 Sci. 931 (1 September 1989) (describing patents on superconductor research conducted at several universities as well as at companies such as IBM).

computer software.[19] As the universities do so, they move further and further into the commercial realm, making it more likely that they will be involved in an increasing amount of patent litigation.[20]

Sovereign immunity would have a number of perverse effects in industries where state institutions such as universities are involved in significant commercial activity. Although most universities have restricted their activities to licensing so far, several have gone further down the "commercial chain." If and when universities begin to pursue more extensive development work, or actually become involved in production (via partnerships or joint ventures, for example), they may find it necessary to work with technology patented by other firms and even other universities. The sovereign immunity doctrine will give state universities in this position a very serious advantage: they will not be liable for patent infringement. Whether this would lead them

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[19] See Reichman, Computer Programs as Applied Scientific Know-How: Implications of Copyright Protection for Commercialized University Research, 42 Vand. L. Rev. 639 (1989).

[20] A quick review of reported cases provides evidence that such a trend is already under way. I found the number of cases involving universities to be on the increase in the 1970-1988 period. See, e.g., Water Technologies Corp. (and Kansas State Univ. Research Foundation) v. Calco, Ltd., 850 F.2d 660, 7 U.S.P.Q.2d 1097 (Fed. Cir. 1988); Intermedics Infusaid, Inc. v. The Regents of the University of Minnesota, 804 F.2d 129, 231 U.S.P.Q. 653 (Fed. Cir. 1986); Massachusetts Institute of Technology v. AB Fortia, 774 F.2d 1104, 227 U.S.P.Q. 428 (Fed. Cir. 1985); Watts v. University of Delaware, 622 F.2d 47, 206 U.S.P.Q. 106 (3d Cir. 1980).

to pursue this activity in the first place is difficult to predict; but if they do begin commercial operations, the availability of a complete defense to patent infringement suits will be a major -- and unwarranted -- advantage.

Second, sovereign immunity might tend to skew a state university's incentives to litigate its own patents. A major disincentive facing any patentee is the risk that its own product will be found to infringe a patent held by the defendant, or that its patent will be invalidated in the course of the litigation. But a state university would not appear to face the first risk, and it is doubtful whether it would face the second. (The resolution of this issue would turn on the interpretation of the Declaratory Judgement Act.) Thus it might have a tendency to litigate patents that a private party would decide not to. This has the potential to increase the amount of litigation.[21] And of course it once again illustrates the unfair advantage a state university research enterprise receives at the hands of the sovereign immunity doctrine.

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[21] See generally Robert Cooter & Daniel Rubinfeld, Economic Analysis of Legal Disputes and their Resolution, 27 J. Econ. Lit. 1067 (1989).

3. Effect of Sovereign Immunity on State vs. Private University Competition for Industry Funding

Sovereign immunity also gives an unwarranted advantage to state universities over private universities competing for research projects to be sponsored by industry. A private company looking to do research in an area where it knows competitors are active might tend to favor a state university as a research partner because that university would be immune from an infringement suit by competitors.[22] This would be unfair to private universities who are also willing to form partnerships in this field. It might also result in investment decisions which, at the margin, are inefficient, i.e., where a slightly less capable but legally immune state university research entity receives a project that would otherwise have gone to a private university.

While the health of our state universities is an important goal, this is not the way to carry it out.

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[22] This is conceivable in fields where a patent "tangle" is likely to occur. See generally Robert Pool, Superconductor Patents: Four Groups Duke It Out, 245 Science 931 (1 September 1989).

C. Conclusion

Thus the proposed legislation to clearly abrogate sovereign immunity is necessary at this time. I might add that the inference could be drawn by a court that abrogating copyright sovereign immunity, but not patent sovereign immunity implies that Congress intended the states to continue to enjoy patent sovereign immunity. For the reasons outlined above, I believe this would be a badly mistaken policy on grounds of both efficiency and fairness.

Mr. KASTENMEIER. I must say one of the factors we considered in the Copyright Remedy Clarification Act was the dilemma facing public officials. These officials would on the one hand try to avoid infringing any patents. But if legally the official could advance the cause of their State economically or fiscally by infringing a patent, they could be compelled to do so.

So the copyright and patent immunity put State officials in a very difficult situation and this legislation would make it clear that that infringement is not an option. They are not forced into the dilemma of whether to infringe where there is not a damage remedy for, in this case, the patentee or copyright holder. And I thought that that was an appropriate consideration.

I would like to review academically a little bit the situation we are in. What factors, Professor Merges, should the Congress consider before abrogating a State sovereign immunity?

Mr. MERGES. I think the primary factors should be whether the Federal Government has a supervening interest in the area; whether it is the kind of subject matter for which historic State federalism principles ought to allow States freedom of action.

And in this case I really have to say—I have to emphasize that I do not think there is any policy in favor of State sovereign immunity.

It seems the federalism issue is actually cut in favor of national uniformity. As you know, one of the primary considerations behind adoption of our intellectual property system almost exactly 200 years ago this spring was that under the Articles of Confederation there was quite a bit of confusion between competing State patent and copyright brands.

Inventors would run to various State legislatures and try to get special bills passed. There was a lot overlapping coverage. There was a lot of conflicting coverage. It was simply a matter of persuading the various legislatures to out legislate each other in certain cases.

National uniformity is expressly recognized in the equivalent of the legislative history to the original patent and copyright acts. And, of course, in the federalist papers that discuss the first patent and copyright acts an important consideration is we ought to have national uniformity.

So it seems to me to the extent that there is a federalism issue here, it really cuts in favor of national uniformity which cuts in favor of abrogating sovereign immunity in this case.

Mr. KASTENMEIER. Well, at the outset, as a matter of fact, you discussed the uniformity of the patent law system, but you were referring to the equality of classes of patentees protected by the patent laws. For example, all patent owners should have an equal ability to protect their intellectual property rights.

I am wondering, therefore, whether you can justify the fact that patent owners cannot recover treble damages from the Federal Government. That does not seem to fit in the mold you discussed. We raised this with the prior witness, who represents the Federal Government. Similarly, I would be interested to know whether the same principles apply in the international arena, such that each class of protected goods or works is treated the same in terms of the protections afforded by law.

This principle of equal treatment seems to have been violated with respect to the Federal Government and I am not sure that it is precisely equal with respect to the international community.

Mr. MERGES. Let me try to address that special provision for Government infringement first. First of all, I want to say that I think it would be desirable to say something in the legislative history to the effect that it should be very rare that a court finds willful infringement on the part of a State or State agency.

Normally, willful infringement is reserved for cases of egregious conduct typically where a competitor, a commercial competitor, knew about a patent and flagrantly violated it; made a copy for sale knowing full well that the device was covered by patent rights; ignored letters indicating that the device was covered by patent rights; this kind of activity.

I suppose there are two possible reasons why we might want to excuse the Government from those kinds of punitive damages.

One would be that it is not always clear in the Government that there is the same degree of intent. It is not always clear that with all of the products that they buy that anyone is really very aware of the patent status of any particular invention or device or product that they buy.

And so, if we leave the door open to wide use of the punitive damages, the treble damages device, we may wind up punishing people who in fact really did not intend to do anything wrong.

So perhaps that kind of provision in the Federal Government eminent domain statute is designed to recognize the fact that governments are huge entities with all kinds of diverse activities and cannot be expected to be aware of the patent rights of a few patentees.

When it is a competitor working in the same market I think you can hold them to a higher standard. They have a smaller universe of operation.

If you are selling toasters, it seems to me that you probably know something about the competing toasters out there. If you infringe a toaster patent, there seems to be a higher chance that you should have known that it was covered—that the device was covered by a patent.

There should be a higher standard of conduct because you have a smaller universe of operations.

In the Government the operations are so diverse. This is a reason I can think of to distinguish Government infringement.

In terms of sending a message to other infringers also, the Government really is a special class of infringers. Usually in the punitive damages area what you want to do is send the message to other competitors, "Hey, don't ignore patents. This is a strong public policy. We want you to recognize patents. We want you to take affirmative steps to investigate the patent status of a product before you copy it."

The Government really does not, as far as I can tell, engage in very much straightforward copying activity. They do a lot of buying of products and because of that it is not clear that even if treble damages did apply to the Government it would be found in very many cases that courts would award treble damages to a patentee where there has been Government infringement.

So I can think of a few ways that I might distinguish it. In the international sphere, the truth is that I have not undertaken any kind of comprehensive study in a comparative way. I would not be surprised if Government infringers had a special status under the patent laws of other countries, but it is an educated guess not based on any real research.

Mr. KASTENMEIER. Thank you.

I would like to pursue just one other line here. Do you have any doubt at all that, notwithstanding the availability of the 11th amendment affording States sovereign immunity, patentees do still have equitable rights, to injunctive and other equitable relief against infringers whether they be State entities or not? Do you have any doubt about that?

Mr. MERGES. I do have some doubt primarily because, again, the policy of uniformity seems to really be central here.

It is true that if you sell the product in 50 States and there is—and you sell to the States and there is sovereign immunity doctrine on the Federal level, it is true that you may have State remedies, alternative State remedies. The problem is you have got to investigate 50 State laws, 50 States that may have very different causes of action for the same general harm.

You may bring an unfair practice kind of suit. You could bring a deceit suit. You could try just a general unfair competition suit. A restitution is one that has occurred to me as a possible basis of recovery.

But the problem is that you have got 50 jurisdictions, 50 different sets of laws. And so it is difficult, I think, to tell the patentee that you do have a remedy when the patentee comes back and says, "But if I had a Federal remedy I only need to worry about one suit. I can join all of the States and I only have to understand one set of laws, the Federal patent law."

So in that sense I think uniformity again dictates that sovereign immunity is a mistake in this field because of the variance among the State's laws.

Mr. KASTENMEIER. Well, you are saying that you are not sure what the jurisprudence is with respect to the accessibility of equitable relief for patentees against State entities?

Mr. MERGES. Equitable relief is a different matter. I was talking about other substantive basis for damages.

I would say the problem with a decree in equity, of course, is that you have to meet the requirements for a preliminary injunction and it seems to me that that might be difficult in some cases involving State infringement. I am think especially of the balance of the harms and irreparable injury elements which are normal inquiries in a preliminary injunction hearing.

It just may turn out that because of the flexibility of equitable remedies a clear infringement might be permitted to go ahead by the court simply because the State has a very strong interest in continuing the infringement.

Maybe it is the State highway repair system or program, they are infringing a patent you have on asphalt mix. There is a very important public interest there. We have got to fix the highways.

The problem is the patentee is left out in the cold. The injunction hearing is all or nothing. Either they stop the State from laying the asphalt, or they get nothing at all.

It seems to me a court might be persuaded by the argument that we need to continue this highway repair program.

In a normal patent infringement suit, that is not the end of the patentee's remedies. Obviously, the patentee can then go forth and try a full hearing on validity and infringement and try for damages.

It is the preliminary injunction, I think, that causes problems for the patentee.

Mr. KASTENMEIER. As you had heard, Mr. Samuels had suggested amending the bill to make specific reference to the availability of injunctive relief.

Would you make the same recommendation?

Mr. MERGES. I do not think that—I think that that would probably be a good idea. I do not think that there is—I cannot see any problems with that certainly from a constitutional point of view and in terms of the principle of not distinguishing between groups of patentees, it makes perfect sense.

If that is a remedy available to all other patentees, why not to patentees selling to State governments?

So I really do not see any reason not to do it.

Mr. KASTENMEIER. Do you see any problem in the event that the Senate were to take up and pass the Copyright Remedy Clarification Act as is, send it to the President for signature, and subsequently this bill were to come along precisely the same excepting it does include an equitable remedy feature?

Mr. MERGES. I think the potential problem there would be that a court would draw a negative inference from the absence of such a provision in the copyright bill.

Mr. KASTENMEIER. Sure.

Mr. MERGES. They have so little to go on often in legislative directives, the courts I mean, that they want to draw inferences where maybe they should not. They peruse legislative history in a detailed way because they need information to decide cases.

Somebody may ask for a copyright—for an injunction in a copyright case and the courts says, "Well, gee, injunctions are provided for in the patent statute passed roughly at the same time, but not the copyright statute amendment. Therefore, maybe we should not recognize the availability of injunctions by States."

I would say that is especially dangerous. That is an especially problematic situation now because the Supreme Court is so very particular about 11th amendment issues.

In the post-*Atascadero* cases we have seen a sort of continued class—I would describe it as a sort of fetishism with being very clear about limiting the rights of States.

That is an example I can see where the court might draw a negative inference and prevent copyright holder from obtaining a remedy.

Mr. KASTENMEIER. Yes, I would agree and, furthermore, I think there is a tendency, if I am not mistaken, on the part of the courts, or at least on the part of some notable justices and others, not to look beyond statutory language. They do not, as part of a new view,

look for legislative history in reports and other supporting materials. If it is not in the language, it is not worth much.

Well, let me then just ask, do you think that trademarks pose any similar problem?

Mr. MERGES. I think trademarks do pose similar problems, but I think the solution would have to be specially tailored for the trademark situation partly because of the joint jurisdiction points. State courts have traditionally had trademark jurisdiction as well as Federal jurisdiction under the Lanham Act.

And partly because State entities, especially State universities, are even more active in holding trademarks and in asserting trademarks than they are in holding patents and asserting patents.

I think that, for instance, there are lots of private firms in say Madison that sell Badgers tee shirts and I know that many universities are trying to go after these private memorabilia companies.

So injecting a sovereign immunity fix into that situation I think would be to put yourself in the middle of a much more active and confrontational business situation. That would take, I think, some careful study.

I think that for the reasons I have outlined here sovereign immunity makes sense. It makes sense to abrogate sovereign immunity in all context where intellectual property is involved, but I think the trademark area might have some very special aspects to it because of this ongoing set of disputes.

I would recommend certainly that it not be thrown on as an add on to a bill essentially designed to abrogate sovereign immunity for patents.

Mr. KASTENMEIER. I think you are right. I do not necessarily agree with Mr. Samuels on that. I think you are right that while it is not the same problem, there may be problems with trademarks insofar as we are seeing universities, for example, typically—and it cuts both ways, as you have pointed out—try to protect whatever it is that signifies the university whether it is a trademark or anything else. Indeed we have also increasingly seen the intermix of Bud Light beer on campuses, in stadiums and a mix between State action, State activity, private enterprise, and trademarks.

And so one could conceive of problems arising at some point in time. So perhaps we ought to at least look at the issue.

We thank you, Professor Merges, for your help this morning, your appearance, and your testimony. You have been very, very helpful to the committee on this occasion as well as on other occasions. We thank you for coming, sir.

Mr. MERGES. Thank you.

Mr. KASTENMEIER. Now our final witness this morning is Mr. William S. Thompson. In addition to serving as President of the American Intellectual Property Law Association, on whose behalf he is testifying today, Mr. Thompson is the chief patent lawyer at Caterpillar, an industrial manufacturing company.

Mr. Thompson has practiced in the area of patent law for many years and we certainly thank him for testifying here today.

STATEMENT OF WILLIAM S. THOMPSON, PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Chairman, I have with me at the table today Mr. Blommer, who is the executive director of the American Intellectual Property Law Association.

As you know, that association, affectionately known as the AIPLA, consists of 6,000 attorneys practicing patent, trademark, copyright, unfair competition, and other intellectual property law areas.

Mr. KASTENMEIER. Incidentally, Mr. Blommer needs no introduction to this committee. We have known him for many, many years and we are delighted to have him back.

Thank you, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

I would like to start out by commending the committee and the chairman for having introduced this legislation, as well as the predecessor legislation on copyrights.

We are very prointellectual property rights oriented and we would like to see the remedial corrections that these two bills propose.

I believe the issue has been well stated in your opening, Mr. Chairman, and by the other witnesses. And I can take the opportunity to make my statement briefer by not going over that ground.

I would perhaps like to put it in a time perspective that in this year of 1990 we are about to celebrate the 200th anniversary of the first patent and copyright laws that were enacted and it was only the last 5 years that doubt has crept in as to whether actions under these laws could be brought against the States by virtue of the *Atascadero* case, which, of course, was not either a patent or a copyright case, but it did announce a very useful principle that there should be very clear clarification in statutes affecting State immunity.

This, of course, puts the burden on this committee and this Congress to now review all of the legislation that had existed before with certain implications and assumptions, as to whether they should continue in the manner that they had or whether they should be altered in some way.

It is very clear to us that now we have the issue in connection with patents since the decision in *Chew* v. *California*. And in regard to at least one point that you have raised and questioned, I think that the decision is so clear that there is likely not to be another patent litigation against the States unless there is remedial legislation.

So I do not think this is a premature time. You may not see another case.

We also believe that the principle mandate that should be followed is that of article I, section 8 of the Constitution, to give broad effect to patent and copyright rights.

We see no evidence in the history of either Congress or the courts that such rights should be abrogated with respect to the States.

Atascadero did not speak to this issue in a specific way regarding patents. Prior to that case, patents had been enforced against the States, for example, in the case of *Hercules* v. *Minnesota State Highway* and *Lemelson* v. *Ampex,* both of whom raised the 11th amendment defense and the patents in those cases were enforced.

We do not believe that the basic principle of the 11th amendment is violated. *Atascadero* comments that the 11th amendment purpose was essentially to strike a balance between the Federal Government and the States.

In this case there is no balance, since there are no—or at least there are not very effective patent remedies at the State level. The only effective remedies exist in the Federal courts.

In terms of the impact, we see that the impact in the patent area is perhaps even less than it is in the copyright area, since patent remedies do not provide for impoundment or seizure, or for criminal penalties, as do copyrights.

As you have pointed out, patent statutes do provide for treble damages, but that is not greatly different than the statutory damages in the copyright statutes which also may be enlarged for egregious actions.

So we think that on balance the remedies are probably lesser in many respects than in the copyright area.

We believe that continued immunity would be counterproductive. It extinguishes the stimulus needed to innovate.

In the case of Ms. Chew, we have important technology related to emissions testing. We certainly have not solved our clean air or clean water problems in this country and we need movement in technology to help us do that and we need to provide the incentives for people to devote their energies to coming up with better ways and better solutions to these kinds of problems.

The patent system provides that kind of incentive and in many cases in many products it is only the State application which offers an opportunity for one to get recompensation for their efforts.

The scope in the patent field is very broad. It can apply to these very specialized products that only States might use, such as emissions testings. It might apply to very staple items like innovations in pens, and pencils and office equipment that States might use as well as others.

In this latter category the States would probably be paying a royalty that would be disguised in the product. In the former category they would not.

I further believe that to carve out the States in terms of patent enforcement would be counterproductive with respect to our international trade efforts where we are making very strong efforts in trying to get other countries to limit exclusions to protections or diluting them in various ways. We have introduced very strong principles in the GATT proposals and elsewhere to overcome this.

To have 50-State carve outs in our country while we are trying to maintain that posture in these negotiations is not consistent.

In summary, Mr. Chairman, we strongly endorse H.R. 3886 and urge that you go forward with it.

Thank you.

Mr. KASTENMEIER. Thank you, Mr. Thompson.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF WILLIAM S. THOMPSON, PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

The American Intellectual Property Law Association (AIPLA) is a national association comprised of 6,000 attorneys engaged in the practice of patent, trademark, copyright, unfair competition and other laws affecting intellectual property.

The effect of recent judicial interpretations of the Eleventh Amendment to the Constitution on the rights of copyright and patent owners is a serious concern to our members. That same concern is obviously shared by the members of this subcommittee. We commend the subcommittee for securing passage of the Copyright Remedy Clarification Act (H.R. 3045) by the House of Representatives soon after the law was settled that states were immune from suits for copyright infringement. We also commend you for promptly considering whether similar clarification of the patent law is warranted now that the law is clear that states are immune from suits for patent infringement. I appreciate the opportunity to appear today to offer the subcommittee the views of the AIPLA on the Patent Remedy Clarification Act (H.R. 3886).

* * *

As the Subcommittee well knows, the Supreme Court has held that while Congress may enforce the Fourteenth Amendment by exercising its power to abrogate the immunity of the states from suit in federal courts, it must do so "by making its intention unmistakably clear in the language of the statute." *Atascadero State Hospital v. Scanlon*, 473 U.S. 234, 242 (1985). In the immediately subsequent years, three circuit courts of appeal applied the *Atascadero* reasoning or "test" to appeals from the dismissal of copyright infringement suits against states. Section 501(a) of the Copyright Act of 1976 provides a cause of action for

infringement against "anyone who violates the exclusive rights of the copyright owner...". In each case, the circuit court found that Congress' choice of the word "anyone" was not sufficient to abrogate state immunity from suit. See *Lane v. First National Bank of Boston*, 687 F. Supp. 11 (D. Mass 1988), aff'd, 871 F 2d 166 (1st Cir. 1989); *BV Engineering v. UCLA*, 657 F. Supp. 1246 (C.D. Cal 1987), aff'd, 858 F. 2 1394 (9th Cir. 1988), cert denied, 109 S.Ct. 1557 (1989); *Richard Anderson Photography v. Radford University*, 633 F. Supp. 1154 (W.D. Va 1986), aff'd, 852 F. 2d 114 (4th Cir. 1988), cert denied, 109 S.Ct. 1171 (1989).

The plaintiff in *Chew v. California*, Civil No. S-88-245 EJG (E.D. Cal. 1988) owned a patent on a method for testing automobile exhaust emissions. This suit alleged the State of California infringed the patent. The district court granted the state's motion to dismiss the complaint on Eleventh Amendment immunity grounds:

> Although the court is reluctant to reach a conclusion contrary to binding Ninth Circuit authority, recent Supreme Court decisions compel the court to conclude that *Mills Music, supra*, is no longer a correct statement of the law. Applying the two most recent pronouncements of the Supreme court in *Atascadero, supra,* and *Welch v. State Dept. of Highways & Transportation*, 107 S.Ct. 2941 (1987) to the facts of this case, the court finds that neither § 271 nor § 281 of Title 35 contain "unmistakable language" indicating congressional intent to abrogate the state's immunity under the Eleventh Amendment. Accordingly, defendant's motion must be granted.

The Court of Appeals for the Federal Circuit affirmed the district court. Section 271(a) of the Patent Act of 1952 provides a cause of action for infringement against "whoever without authority makes, uses, or sells any patented invention . . .". The Federal Circuit said:

> appellant refers us to no provision in the patent statute, and we find none,

> which specifically mentions states in conjunction with enforcing a patentee's right to exclude granted by the patent statute.

Marion F. Chew v. State of California, No. 89-1390 at 9 (Fed. Cir. Jan. 3, 1990). The Federal Circuit also relied on *Dellmuth v. Muth*, 109 S.Ct. 2397, 2401 (1989), as standing for the proposition that, because congressional intent must be both unequivocal and textual, resort to the legislative history of the statute is irrelevant, *Chew* at 10.

The Federal Circuit has exclusive jurisdiction of all appeals in patent infringement cases. 28 U.S.C. § 1295. Therefore, absent the Supreme Court reversal of the Federal Circuit in *Chew*, the law is settled that states are immune from patent infringement suits.

* * *

Congress has three possible courses of action; pass H.R. 3886, pass H.R. 3886 with amendments, or to do nothing. We will comment on each option in order.

AIPLA strongly supports H.R. 3886 and recommends that it be passed without amendment. The bill closely parallels the approach of H.R. 3045 which restored the rights of copyright owners. We believe H.R. 3886 and H.R. 3045 fully meet the Supreme Court rule that state sovereign immunity may only be abrogated if the text of the statute does so in unmistakably clear language.

In our opinion, Congress has always intended that states should be fully liable for patent and copyright infringement and subject to all of the remedies provided in the statutes. There is nothing in the legislation history of the original patent statute or any subsequent amendment which suggests that states should not be fully liable for patent infringement. Confirming that is the fact that, although patent infringement suits against

states have been rare, no court has ever held that Congress intended that states are immune from liability. Further, the Supreme Court in *Goldstein v. California*, 412 U.S. 546, 560 (1973) said in a copyright infringement case against a state, "when Congress grants an exclusive right or monopoly, its effects are pervasive; no citizen or State may escape its reach." (Emphasis added).

As a matter of fundamental legal policy, states should be fully liable for infringing a patent. In *Hercules, Inc. v. Minnesota State Highway Department*, 337 F. Supp. 795 (D. Minn, 1972), the plaintiff sued a state agency for unauthorized use of a patented process for using a chemical compound for weed and pest control. The court found infringement, enjoined the state from further use of the process, and assessed damages against a contributing infringer. The court said:

> Neither the State of Minnesota nor its highway department or officers have any right to use a valid patent without license or compensation and . . . doing so constitutes a violation of constitutional protections of rights in property.

337 F. Supp at 799.

In *Lemelson v. Ampex Corp.*, 372 F. Supp. 708 (N.D. Ill. 1974), the plaintiff sued the Illinois Bureau of Investigation and its supplier for the unauthorized use of a patented magnetic recording system for video document storage and retrieval. The court in denying the state's motion to dismiss on Eleventh Amendment grounds held that the state is liable for damages and injunctive relief if infringement is found and said:

> If a state has taken property, a right of compensation exists. It would be unfair for the state to unjustly enrich itself and then be immune from repayment.

372 F. Supp. at 713.

State liability for patent infringement does not conflict with the purposes of the Eleventh Amendment. A primary purpose of the Eleventh Amendment is to preserve state sovereignty. It serves to maintain "'the constitutionally mandated balance of power' between the states and the federal Government [that] was adopted by the Framers to ensure the protection of 'our fundamental liberties.'" *Atascadero*, 473 U.S. at 242. In the special area of intellectual property rights in the form of patents and copyrights, no such balance exists. Federal power to create and enforce such property rights is plenary once exercised. *Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 109 S.Ct. 971, (1989). State respect for the exclusive, federally-created rights of patent and copyright owners no more diminishes state sovereignty than state respect for other types of property rights, such as real estate.

Another purpose of the Eleventh Amendment is to prevent drains on state treasuries. Again, respect for intellectual property rights will "drain" state treasuries only in the sense that such treasuries are always drained to pay the price for goods and services that a state needs to carry out its activities. As the Ninth Circuit noted in *BV Engineering*, 858 F.2d at 1399-1400, "states can avoid a drain on the treasury from damage actions simply by complying with the federal copyright laws", a sentiment which applies equally to the patent laws.

A final policy to consider is that underlying Article I, Section 8, Clause 8 of the Constitution which grants Congress the power "[t]o promote the Progress of Science and

the useful Arts, by securing to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." The Report of the Committee on the Judiciary to accompany H.R. 3045 (H. Rept. 101-282) at 11 says:

> In sum, this Committee has carefully reconsidered the policy justifications for making States fully liable for copyright and mask work violations. It has concluded once again that no matter whether the defendant is a State or a private entity, effective remedies for such violations must be provided if the Constitutionally mandated incentive to create is to be protected. Abrogation of State sovereign immunity is therefore fully warranted.

In our opinion, the incentive to create, whether *in an author or in an inventor*, must be effectively protected.

During the hearings on the Copyright Clarification Act, several witnesses suggested to this subcommittee a variety of limitations which should be placed on the liability of states for infringement. They included providing only for injunctive relief, for money damages but not injunctive relief (see 28 U.S.C. § 1498(b)), or for money damages and injunctive relief but not for attorneys fees or statutory damages. This subcommittee correctly rejected these suggestions for reasons explained in the committee report. We will not discuss again the need of intellectual property owners for injunctions, money damages, and attorneys fees in suits against states. However, there are differences between the remedy provisions of the patent and copyright laws which merit discussion.

The patent statute does not provide for statutory damages, impoundment or seizure of infringing articles, or for criminal penalties for infringement as does the copyright statute. Also, the patent statute provides that attorney fees may only be awarded to the

prevailing party in "exceptional cases," 35 U.S.C. § 285, while the copyright statutes leaves the award of attorney fees to the discretion of the court without any specific limitation, 17 U.S.C. § 505. If the patentee prevails in a patent infringement suit against a state, attorneys fees would normally only be awarded if the state was found to have willfully infringed the patent or continued the litigation in bad faith. See generally 5 *Chisum, Patents*, § 20.03(4)(c).

The patent statute, in Section 284, provides for a remedy against an infringer which is not included in the copyright statute. The section provides the court with the discretion to "increase the damages up to three times the amount found or assessed." The Patent Acts of 1793 and 1800 provided for mandatory trebling of the damage. The Act of 1836 was amended to what is the current law. There is extensive case law on the circumstances which justify increasing damages. Under the current law of the Federal Circuit, increasing damages is considered a punitive remedy which normally may be exercised only if the court finds willful infringement by clear and convincing evidence. See generally 5 *Chisum, Patents* § 20.03(4)(b). While it is unlikely that a state would engage in conduct sufficient to justify the possibility that a court could invoke this remedy, if a state does so, increasing damages may be appropriate. We believe the courts should have the authority to apply this sanction if the circumstances of the case warrant it--just as courts have the power to award larger statutory damages in cases of willful copyright infringement. See 17 U.S.C. § 504(c)(2).

The final possibility is that Congress will not act and states will remain immune

from suits for patent infringement. This eventuality will certainly result in unjustifiable harm to patent owners and an unfortunate and perplexing problem in state courts.

The Register of Copyrights published a request for information to help assess, among other things, the harm to copyright owners should the states be immune from copyright infringement suits. A report from the Register to this subcommittee detailed the findings, and in his testimony, the Register reported that the 44 comments received "uniformly chronicled dire financial and other repercussions flowing from state immunity." We have these similar fears if states remain immune from patent infringement suits.

The comments regarding copyright centered on substantial use of copyrighted textbooks by state universities as well as state use of copyrighted music and computer software. State use of patented products is more diverse and more substantial. Patented inventions are involved in all manner of commonly used machines, tools, instruments, chemicals, compounds, materials, and devices of all description and purpose. Furthermore, patented processes are commonplace. States and state instrumentalities own and operate hospitals, universities, prisons, and libraries. States build and maintain roads. States provide facilities and equipment for large numbers of employees who perform all manner of state supported activities. Its difficult for us to identify a patented product or process which might not be used by a state.

As pervasive as state use of patented inventions is, we do not believe that states have ever had any untoward difficulty with patent rights. State officials, like all responsible business persons, purchase materials and machines from reputable sources. Certainly state

procurement contracts contain the same indemnification clauses against infringing goods as are standard in private sector business contracts.

States do, however, become enmeshed in patent infringement disputes. In *Paperless Accounting, Inc.* v. *Mass Transit Administration*, Civil No. HAR 84-2922 (D. Md. 1985), the plaintiff owned a patent on an automatic fare charging device and claimed the Mass Transit Authority (MTA), an agency of the State of Maryland, was using the patented device without authorization in the Baltimore Metro Subway system. A second defendant, Compagnie Generale D'Automatisme, a French corporation with a U.S. subsidiary, manufactured the machines in Europe and sold them to the state agency. The defendants moved to dismiss the complaint on the ground that the Eleventh Amendment immunized the State of Maryland from suit and therefore the court lacked jurisdiction. The court denied the motion. The parties then settled the claim and the case was not tried. This demonstrates to us that states are willing and able to respect patent rights. The fact that there are so few reported cases involving patent infringement claims against states underlines the point.

The attitude of states towards patents exists in circumstances in which, until *Chew,* states understood they are legally responsible for infringement. This should continue. If states are immune from infringement liability, we fear this attitude might change. Whatever might be said about an inherent respect for intellectual property rights, the Attorney Generals of California, Massachusetts, and Virginia successfully avoided infringement liability for their states in *BV Engineering, Lane, Richard Anderson*

Photography, and *Chew* because the Supreme Court gave them a valid legal defense. Our fear is that if current legal immunity continues, states will begin to disregard, perhaps carelessly, patent rights, and perhaps in time to knowingly infringe patent rights.

A second undesirable result would follow the failure of Congress to remedy this situation. Appellants in *BV Engineering*, *Lane*, and *Chew* argued that unless the rule of *Atascadero* were modified or distinguished, they would be left with *no forum* to assert their intellectual property rights against the state. Indeed the court in *BV Engineering* said that its decision "will allow states to violate the federal copyright laws with *virtual* impunity," *BV Engineering*, 858 F. 2d. at 1400. (Emphasis added). We must understand this to mean that these aggrieved parties would have no ***federal court*** forum to sue and would be deprived of some of the remedies Congress has provided for patent or copyright infringement. However, there does exist the possibility of relief in addition to injunctive relief.

The court in *Lane* pointed out that the appellant may be able to obtain money damages by recourse to the Massachusetts tort claims act or sue the state for deceit, conversion, or unfair competition under Massachusetts law. The court also noted a Massachusetts statute which provides that damages may be recovered from the state when private property is confiscated for a public purpose. While many states may have similar statutes, the courts' surmise that intellectual property infringement cases may be pursued in some state courts offer us little comfort.

The patent itself is at issue in virtually every suit for patent infringement. Typically

the accused infringer will claim and seek to prove that the patent asserted is invalid or unenforceable and for a variety of legal reasons that defense may be successful. While it may be possible for a patentee to frame a complaint and successfully invoke state court jurisdiction, the gravamen of the case will remain a patent infringement contest where the court must determine whether or not the patent is valid and infringed.

State courts are ill-equipped to deal with patent law. They have no experience or jurisprudence to guide them. While, as a practical matter they may look to the decisions of the Federal Circuit, they are not bound to do so. It is problematical how conflicts between state application of patent law and that of the Federal Circuit could be resolved. Congress recently determined that uniform enforcement of the patent laws is a desirable public policy by establishing the Federal Circuit. This policy should not be undermined by forcing patentees into state courts to seek relief for infringement claims.

* * *

In sum, AIPLA believes that H.R. 3886 should be passed by Congress and enacted into law. I would be pleased to answer any questions the subcommittee may have.

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
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The American Intellectual Property Law Association (AIPLA) is a national bar association of 6000 attorneys engaged in the practice of patent, trademark, copyright and other laws affecting intellectual property.

--AIPLA supports the enactment of the Patent Remedy Clarification Act (H.R. 3886) which reaffirms congressional intent that states are liable for the remedies provided for patent infringement.

--Recent Supreme Court cases interpreting the Eleventh Amendment to the Constitution make clear that Congress may abrogate by statute the immunity of states from damage suits in federal court only by doing so in unmistakeably clear language in the statute. The Court of Appeals for the Federal Circuit has recently applied those Supreme Court cases to the Patent Act of 1952 and held that states are immune from suits in federal court for patent infringement.

--A patent is a federal grant to inventors of the right to exclude all others from the unauthorized practice of the patented invention. Congress has provided remedies for violations of this right which may only be asserted in federal courts. Congress has never intended that a state is immune from these remedies.

--State immunity from patent infringement liability is inconsistent with the purposes of the patent and copyright clause of the Constitution (Article I, Section 8, Clause 8).

--The policies underlying the Eleventh Amendment do not justify state immunity from patent infringement suits in federal court.

--Forcing patentees with patent infringement claims against a state to seek relief in state courts is inconsistent with congressional policy that patent laws should be uniformly administered by federal courts.

Mr. KASTENMEIER. What could conceivably happen if nothing were done I guess as an option for us to consider. What caused me to ask this was your last phrase about 50 different jurisdictions.

Could we have many differing interpretations of liabilities in State responses to this issue?

In other words, do you think the States would ultimately all be forced into denying damage liability because of *Atascadero* and *Chew*?

Mr. THOMPSON. Well, I think you would get quite a range of reactions, but I would think the general trend would be for States to take advantage of this immunity exclusion and the trend would be to gradually deny protection even to the point that there might be—you might get into some gamesmanship in the sense that certain private testing labs might be taken over by the States to secure this extra advantage in cases.

But it sounds to me like it is a very difficult area to predict what would happen. There is a rich variety of potential causes of action, as the prior speaker pointed out.

Mr. KASTENMEIER. Now Congress has in the past limited the Federal Government's liability for patent infringement. We did reject a proposal to limit State liability for the copyright infringement.

But do you view the State interest in copyright and patent areas to be the same? Is there any rational that you can conceive of for limiting State liability for patent infringement in the way that the Federal liability is limited?

Mr. THOMPSON. No, Mr. Chairman. I perhaps come from a different perspective. I do not believe that the limitation that we have in the Federal statute works very well, at least as far as the treble damages is concerned.

I can understand in the military situation they cannot have injunctive delays, but my experience has been that the absence of treble damages leads to a very slow bureaucratic processing of administrative claims against the Federal Government with very poor compensation paid and usually with the result that the claimant is worn down and finally throws in the towel.

So I think if you want to fix a system, that is the system that I would suggest that you fix.

Mr. KASTENMEIER. You mentioned that you do not see the likelihood of further cases in this area since the *Atascadero* and *Chew* cases seem to be fairly definitive on this question, unless there were in fact remedial legislation. Do you anticipate that remedial legislation, such as the bill before us, if passed into law, would be the subject of litigation?

Mr. THOMPSON. No, I think it would be very clear. Your legislation is very clearly drawn. It seems to match the tests set forth in *Atascadero* of making it very clear that the patent statute is one that would qualify as an abrogation area in the 11th amendment.

I can never guarantee exactly how attorneys are going to read statutes, Mr. Chairman, but all of the sane ones would not bring an action.

Mr. KASTENMEIER. Now, of course, Mr. Samuels thought that we should add the phrase which would include injunctive and other equitable relief.

How do you feel about that? Your original presentation did not include a request that the language be changed.

Mr. THOMPSON. Well, the legislation, of course, would generally exempt the patent remedies, which includes injunctive relief and I think that perhaps it goes then without saying in the specific legislation.

So I do not see the need to include it, however, it is a clarification that could be added.

Mr. KASTENMEIER. You do not feel as strongly about it as Mr. Samuels.

Mr. THOMPSON. No, sir.

Mr. KASTENMEIER. But you do not think it would be—it would not cause any problem either. It would be a clarification.

Mr. THOMPSON. That is correct.

Mr. KASTENMEIER. With respect to trademark law, have you thought about whether or not we need to look at that question or need to pass similar trademark legislation?

Mr. THOMPSON. Well, I had not thought about it until today until I heard the prior speakers. But I do see that the problem of appropriation is the same in the sense that I can visualize the State of Illinois, for example, thinking that they should have an ad campaign that coming to Illinois is a better idea or something like that.

However, I also went to school on the conversations of the prior speakers and I can see that because of the actions in the State courts, which provide a remedy, that this is not the same situation as we are dealing with today in patents, where I believe the State actions are very much inferior to the Federal actions.

Mr. KASTENMEIER. Thank you.

One last question, to what extent do you feel time is of the essence with reference to this matter?

Mr. THOMPSON. Well, the case—there are not very many cases even prior to *Atascadero* that have come up in the patent area. I do not think the wheels are going to come off the country if it is not handled immediately, but on that same token I see very little controversy in it and we do have it before us and Congress is winding up this year and it seems like a good time to get the job done and get on to something else.

Mr. KASTENMEIER. Then your recommendation to us is that Congress should act on this definitively this year, 1990?

Mr. THOMPSON. Yes, Mr. Chairman.

Mr. KASTENMEIER. Thank you very much for your testimony this morning, Mr. Thompson.

Good to have you, Mr. Blommer.

And that concludes the hearing this morning on the Patent Remedy Clarification Act. We do expect one other day of hearings on this, but even that is not certain. I would think that one further day would certainly be all we would require for this legislation.

In any event, this concludes the hearing this morning. The committee stands adjourned.

[Whereupon, at 11:20 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

35-421 0 - 90 - 3

APPENDIXES

APPENDIX 1.—LETTERS FROM GOVERNMENT AGENCIES



GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

AUG 28 1989

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

Dear Mr. Chairman:

We were pleased to note that the Subcommittee on Courts, Intellectual Property and the Administration of Justice, in its markup of H.R. 1131, now reintroduced as H.R. 3045, the "Copyright Remedy Clarification Act," has added sections that make unmistakably clear Congress' intent that the Act abrogate States sovereign immunity under the Eleventh Amendment in actions for infringement of copyrights or registered semiconductor chip layout designs.

Decisions of the U.S. Supreme Court in Pennsylvania v. Union Gas Co., No. 87-1241, 57 U.S.L.W. 4662 (U.S. June 15, 1989); Dellmuth v. Muth, No. 87-1855, 57 U.S.L.W. 4720 (U.S. June 15, 1989); and Will v. Michigan Department of State Police, No. 87-1207, 57 U.S.L.W. 4677 (U.S. June 15, 1989) reveal that the Justices have varying opinions of what constitutes unmistakable clarity of intent which the Court requires under its holding in Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985). It is wise, therefore, to make express reference to Congress' intent to abrogate States' immunity under the Eleventh Amendment, as the Subcommittee has done in subsections (a)(2) and (b)(2).

It is unfortunate that, in its markup of the bill, the Subcommittee did not include an amendment to Title 35 of the United States Code to make States liable for patent infringement as well as for infringement of copyrights and registered semiconductor chip layout designs. As we stated in our June 16, 1989 letter to Chairman Kastenmeier, general applicability of the patent law serves an important public policy. Currently, individuals, including State employees, and private entities can be held liable for patent infringement. The United States has consented to be sued for damages for patent infringement. 28 U.S.C. § 1498. Only States are immune from suit under the Supreme Court's decision in Atascadero, cited above. Continued State immunity from liability for patent infringement, particularly if States are made liable for infringement of copyrights and registered semiconductor chip layout designs, could be seen as a shift in policy away from encouraging innovation. That would send the wrong signal both at home and abroad. Moreover, inventors are likely to be unwilling to devote time and resources to solving problems faced by State agencies

because there would be no prospect of reward offered by the patent system.

We continue to support H.R. 3045, but we recommend that its provisions be extended to eliminate States' immunity from suits for infringement of patents.

The Office of Management and Budget has advised that there is no objection to the presentation of these views to the Congress.

Sincerely,

Michael R. Levitt

Wendell L. Willkie, II
General Counsel

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D C 20230

JUN 16 1989

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

Dear Mr. Chairman:

The Department of Commerce supports the adoption of H.R. 1131, the Copyright Clarification Act, and recommends that its provisions be extended to include infringement of patents as well as copyrights and registered mask works.

The Supreme Court has declined to review Fourth and Ninth Circuit holdings that the Eleventh Amendment bars a damage suit in federal court against a state or state instrumentality for copyright infringement. BV Engineering v. University of California, Los Angeles, 858 F.2d 1394 (9th Cir. 1988), cert. denied, 109 S.Ct. 1557 (1989); Richard Anderson Photography v. Brown, 852 F.2d 114 (4th Cir. 1988), cert. denied, 109 S.Ct. 1171 (1989). The effect of these holdings had also been extended to patents. Chew v. California, No. S-88-245 EJG (E.D. Cal., decided October 13, 1988).

All three decisions turned on the lack of unmistakable congressional intent in the patent and the copyright laws to abrogate state sovereign immunity under Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985). House Bill 1131 is an effort to make congressional intent unmistakable, and we support that effort. We must note, however, that a pending Supreme Court case, Pennsylvania v. Union Gas Co., No. 87-1241 (argued October 31, 1988), could have important implications for the manner in which the Congress wishes to approach the problem of Eleventh Amendment immunity when it next considers intellectual property cases. Union Gas may resolve whether Congress has power under the commerce clause to abrogate state sovereign immunity in the Superfund Amendments. A ruling that Congress lacks such power could raise doubts as to whether Congress has power, under the copyright clause, to abrogate Eleventh Amendment immunity. If the decision in the Union Gas should raise Constitutional doubts about H.R. 1131, other alternatives should be considered, e.g., allowing copyright suits against states in state courts.

If, on the other hand, the Supreme Court's decision in Union Gas does not cast doubt on the constitutionality of H.R. 1131, webelieve that the bill's approach would be an appropriate way to address states' immunity from suit for infringement of patents, copyrights, or mask works.

General applicability of the patent laws serves important public policies. Presently, individuals (including state employees) and private entities are liable for copyright and patent infringement. Likewise, the United States has consented to be sued for copyright and patent infringement. 28 U.S.C. § 1498. Only states are immune from damage suits brought in the federal courts for copyright and patent infringement. State immunity from liability for patent infringement is not consistent with encouraging innovation and detracts from the ability of inventors to recover investment and profit from innovation. Moreover, inventors may not wish to devote time and resources to solving problems particularly faced by state agencies where there is no prospect of reward offered by the patent system.

The Office of Management and Budget advises that there is no objection to the presentation of these views to the Congress.

Sincerely,

Wendell L. Willkie, II
General Counsel

IPO INTELLECTUAL PROPERTY OWNERS, INC.

STATEMENT BY

INTELLECTUAL PROPERTY OWNERS, INC. (IPO)

SUBMITTED TO

HOUSE JUDICIARY SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE ADMINISTRATION OF JUSTICE

SUPPORTING ENACTMENT OF AND SUGGESTING AMENDMENT OF

THE PATENT REMEDY CLARIFICATION ACT, H.R. 3886

FEBRUARY 6, 1990

1255 TWENTY-THIRD STREET, N.W., SUITE 850, WASHINGTON, DC 20037 (202) 466-2396
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INTELLECTUAL PROPERTY OWNERS, INC.

Intellectual Property Owners, Inc. (IPO) is a nonprofit association representing owners of patents, trademarks, and copyrights. IPO's members include nearly 100 large businesses and several small businesses, universities, and independent inventors.

IPO members invest heavily in research and development and in commercialization and advertising of products and services. They depend on intellectual property laws to protect those investments.

In order for intellectual property laws to provide meaningful protection, it must be possible to obtain money damages and injunctions when suing infringers. Until recently, it was generally thought that an owner of any type of intellectual property protected by federal law could obtain damages and injunctions in suits against states and instrumentalities of states to the same extent that damages and injunctions can be obtained in suits against private parties.

The federal intellectual property laws providing damages and injunctive relief in suits against private parties are: (1) the copyright law; (2) the Semiconductor Chip Protection Act of 1984; (3) the patent law; (4) the Trademark Act of 1946 (also known as the Lanham Act); and (5) the Plant Variety Protection Act.

COPYRIGHTS AND SEMICONDUCTOR CHIP MASK WORKS

It became apparent last year that legislation is needed in the copyright area to make clear that states and instrumentalities of states are subject to suit money damages for copyright infringement. Following the 1985 ruling by the Supreme Court in *Atascadero State Hospital v. Scanlon* that the Eleventh Amendment sovereign immunity doctrine can be abrogated by Congress only with "unmistakably clear"

language, several federal courts of appeals held states were immune from suit for damages in copyright cases.

This subcommittee investigated the issue promptly and thoroughly with respect to copyright law and approved H.R. 3045, which has passed the House of Representatives. H.R. 3045 abrogates the Eleventh Amendment sovereign immunity doctrine with respect to copyright law and the related area of semiconductor chip mask works. IPO strongly supports enactment of H.R. 3045 for the reasons detailed by the Committee on the Judiciary in its report on that bill.

PATENTS

H.R. 3886, introduced by Chairman Kastenmeier on January 24, 1990 to abrogate the Eleventh Amendment sovereign immunity doctrine with respect to patent cases, is virtually identical to H.R. 3045, except that it contains references to patent law at the points where H.R. 3045 refers to copyright law. IPO also strongly supports enactment of H.R. 3886.

We believe the reasons supporting abrogation of the sovereign immunity doctrine with respect to patent cases are essentially the same as the reasons supporting abrogation with respect to copyright cases. Although patent cases involving the sovereign immunity doctrine have been infrequent, the stronger authority before *Atascadero* was that state governments were subject to suit for damages for patent infringement. The Ninth Circuit's 1979 opinion in *Mills Music, Inc. v. State of Arizona* viewed the issue of immunity as the same under copyright law and patent law.

The post-*Atascadero* decisions by federal courts of appeals in copyright cases appeared to have the effect of giving states immunity

from liability for damages in patent cases too. Now the January 3, 1990 opinion by the Court of Appeals for the Federal Circuit in *Chew v. State of California* has made it entirely clear that states are not liable for damages in patent cases.

Mrs. Chew is an independent inventor who resides in Ohio. Her patent is on a method for testing automobile exhaust emissions. We have no opinion on whether the State of California infringed the patent owned by Mrs. Chew. We do believe it is unwise policy to allow a state to hide behind the sovereign immunity defense in a suit for patent infringement. States should have available the same defenses, and only those, that can be raised by private parties.

States are major users of patented technology embodied in machinery, telephones, computers, software, drugs, and chemicals, for example. States have shown respect for patent rights in the past, and have rarely been named as defendants in patent infringement suits, but we fear the situation might change now that states are not liable for damages.

The question is not whether states will deliberately infringe patent rights. The question is whether states will take advantage of opportunities to obtain products at lower cost, realizing that they are under no legal obligation to pay any royalties or damages to owners of patents. After *Chew*, state governments will have less incentive to avoid purchasing products manufactured off shore by competitors of U.S. patent owners, and will have less incentive to investigate patent rights before practicing U.S. patented processes.

Competitors of a patent owner who are infringing the patent usually undersell the patent owner because they do not have to recover R&D costs. Patent owners must have effective legal remedies against

such infringing activity if the patent system is to provide meaningful incentives to invest in R&D.

TRADEMARKS

We did not raise the subject of trademarks when we wrote the Subcommittee some months ago to support abrogating the Eleventh Amendment sovereign immunity doctrine with respect to patents. Further study, however, causes us to recommend that Congress should also abrogate the Eleventh Amendment sovereign immunity doctrine with respect to trademark infringement suits under the Trademark Act of 1946.

States sell a wide variety of goods and services to the consuming public that are identified by trademarks. Many of these goods and services affect interstate commerce. Examples include magazines, restaurant services, travel services, and gift items.

We are aware of one trademark case in which an Eleventh Amendment sovereign immunity issue was raised. In that case, *Woelfer v. Happy States of America, Inc.*, decided in the Northern District of Illinois in 1985, the court decided the State of Illinois was immune from any damage claims under the Trademark Act of 1946 for using the slogan "Illinois, you put me in a happy state", in connection with the state's tourism campaign.

Trademark jurisdiction of the federal district courts under 28 U.S.C. 1338(a) is different from other intellectual property jurisdiction in that trademark jurisdiction is not exclusively federal. That is, a trademark infringement claim based on federal law can be brought in a state court.

Nevertheless, we believe Congress should take the present opportunity to abrogate the sovereign immunity doctrine with respect to federal trademark law. In some cases it will be to the advantage of a trademark owner to be able to sue a state or instrumentality of a state in a federal court. Trademark cases often involve multiple defendants in several states. Also, federal courts have much more experience than state courts in applying and interpreting federal trademark law.

Even in copyright and patent cases it may be possible to obtain a state court remedy against a state in some circumstances (see *Lane v. First National Bank of Boston*, 871 F.2d 166 (1st Cir. 1989)(suggesting possible state court suit under tort claims act or for deceit, conversion, unfair competition, or taking of property)), but this is not a reason for denying federal remedies when the defendant is a state or instrumentality of a state.

As a matter of national intellectual property policy, we believe states and instrumentalities of states should be liable to the same extent as private parties in trademark cases. Indeed, we cannot imagine that as a matter of policy any state would contend it should enjoy preferred status to engage in counterfeiting or other trademark infringement. Trademark infringement is likely to cause confusion of the consuming public. By the nature of litigation, however, once a state is charged with trademark infringement, its attorneys may feel compelled to raise every defense available to it.

States register some trademarks themselves under the federal trademark law. Several states, for example, register names and symbols used by state universities and their athletic teams. States derive revenue from licensing these marks to companies that sell pennants, sweatshirts, and the like.

As matter of fairness, states should be subject to the infringement provisions of the federal trademark law if they are obtaining the benefits of the law. It was suggested during the hearings on immunity in copyright cases that if states were entitled to immunity , they should be denied the ability to copyright their own works. The same reasoning applies for trademarks.

We therefore urge that H.R. 3886 be amended to cover trademarks. This can be done by amending the definition of "person" in section 45 of the Trademark Act of 1946. The definition already covers "a firm, corporation, union, association, or other organization capable of suing and being sued in a court of law." It should be expanded to specifically cover states and instrumentalities of states.

PLANT VARIETIES

Finally, we recommend amending H.R. 3886 to abrogate the Eleventh Amendment sovereign immunity doctrine with respect to the Plant Variety Protection Act (7 U.S.C. 2321 et seq). Under this act, the Plant Variety Protection Office of the U.S. Department of Agriculture issues plant variety certificates that afford legal protection somewhat similar to patents.

We do not know of any litigation about sovereign immunity under the Plant Variety Protection Act, but it is conceivable that a state or instrumentality of a state could be sued for damages under the act.

The policy arguments for abrogating the sovereign immunity doctrine with respect to plant variety protection are the same as the arguments for abrogation with respect to other areas of intellectual property law.

An appropriate amendment to the Plant Variety Protection Act would be nearly identical to the amendments to copyright law and patent law being made by H.R. 3045 and H.R. 3886. The amendment to the Plant Variety Protection Act could take the form of a paragraph at the end of the definition of infringement in section 111, plus an additional section stating that Congress intends to abrogate the doctrine of sovereign immunity in suits under the act.

CONCLUSION

IPO strongly supports enactment of H.R. 3886 in order to abrogate the doctrine of sovereign immunity with respect to patent cases. We commend the subcommittee for taking up this issue promptly.

We recommend amending H.R. 3836 to abrogate the doctrine of sovereign immunity also with respect to suits under the Trademark Act of 1946 and the Plant Variety Protection Act. With these amendments, Congress would be abrogating the Eleventh Amendment sovereign immunity doctrine with respect to all of the main federal intellectual property statutes.

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September 21, 1989

The Honorable Robert W. Kastenmeier
Chairman
Judiciary Subcommittee on Courts, Intellectual
Property, and the Administration of Justice
U.S. House of Representatives
2137 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I am responding to your letter seeking IPO's input on your draft bill to abrogate sovereign immunity in the patent area.

IPO believes a need exists for such legislation. At the last meeting of IPO's Board of Directors, it was decided that IPO favors legislation on patents along the lines of the copyright sovereign immunity bills now going forward in the House and Senate.

Although patent cases involving sovereign immunity issues have been infrequent, we believe the stronger authority until recently was that state governments were subject to suit for damages for patent infringement. The Ninth Circuit's 1979 opinion in *Mills Music, Inc. v. State of Arizona*, 591 F.2d 1278, viewed the issue of immunity as the same under copyright law and patent law. In *Mills Music* the court found Congress had abrogated state immunity under copyright law.

Because of several recent cases, however, including the Ninth Circuit's *BV Engineering v. University of California*, 858 F.2d 1394, n.1 (1988) ("...our decision in *Mills Music* has been overruled *sub silento*"), clarification of the sovereign immunity doctrine is needed for copyright law and for patent law.

We are aware of one recent district court case, *Chew v. State of California*, Civ. No. S-88-245 EJG (E.D. Cal. 1988), in which a state government has invoked sovereign immunity as a defense to an allegation it infringed a patent. That case, which is now on appeal to the Court of Appeals for the Federal Circuit (Appeal No. 89-1390), involves a patent on a method for testing automobile exhaust emissions.

States have rarely engaged in activities that infringe U.S. patents, but we fear the situation will change if it becomes clear states are not subject to suit for damages for patent infringement. States are major users of patented technology embodied in machinery, telephones, computers, software, drugs, and chemicals, for example. If Congress enacts the pending legislation to abrogate sovereign immunity in the copyright area without taking similar action in the patent area, state governments will be encouraged to purchase products manufactured offshore by competitors of U.S. patent owners, and will be encouraged to practice U.S. patented processes without paying royalties.

The policy arguments against allowing states to avoid liability for patent infringement are basically the same as the policy arguments against allowing them to avoid liability for copyright infringement. The question is not whether states will deliberately infringe patent rights. The question is whether states will feel compelled to take advantage of apparently lawful opportunities to obtain products at lower cost. Any competitor who does not have to recover R and D costs usually can undersell the patent owner.

Accordingly, we strongly endorse your proposed patent bill and urge passage at an early date, either as an amendment to the pending copyright bill H.R. 3045 or as a separate piece of legislation.

We also would like to offer technical comments on the draft bill. The draft bill is modeled after copyright bill H.R. 3045. In general we believe H.R. 3045 is a good model. Experts have testified before your Subcommittee that the language used in H.R. 3045 meets the requirement of the Supreme Court (e.g., *Pennsylvania v. Union Gas* Co., 57 U.S.L.W. 4662, decided June 15, 1989) for Congress to make its intention unmistakably clear if it wishes to abrogate sovereign immunity.

The language in the draft patent bill differs from H.R. 3045 in a few places. The patent bill at page 3, lines 8-9 says remedies are to be available against a state to the same extent such remedies are available "...in a suit against any private entity." The corresponding language in H.R. 3045, at page 3, lines 10-11, reads "...any public or private entity...."

We believe the patent bill is correct in omitting the words "public or" and related language later in the same sentence. If the words "public or" were retained, the bill could be read to mean remedies would be available against state governments only to the extent remedies are available against the federal government, assuming the federal government

is a "public entity". The considerations that cause remedies to be limited in patent suits against the federal government under 28 U.S.C. 1498(a) do not apply to state governments. Patent law remedies should be available against state governments to the same extent patent law remedies are available against private entities.

Another difference between the bills is that the patent bill at page 3, lines 9-13, correctly we believe, lists injunctions under section 283 as one of the remedies available in suits against a state. The corresponding language in H.R. 3045, at page 3, lines 13-17, does not list injunctions under section 502 of the Copyright Act as one of the remedies available in suits against a state. Since the bills enumerate remedies available against states "both at law and in equity" (patent bill, page 3, line 6 and copyright bill, page 3, lines 7-8), we do not understand why the copyright bill does not mention injunctions.

Our final comment on the draft bill is that new subsection 35 U.S.C. 271(h) should subject states to liability for every type of patent infringement covered in 35 U.S.C. 271. The first sentence of new subsection 271(h) says the term "whoever", which is used in several subsections of existing section 271, includes states. Existing subsection 271(e)(2), however, does not use the term "whoever" when referring to the party who infringes. Instead, it reads, "It shall be an act of infringement to...".

I hope these comments are helpful.

Sincerely,

Don

Donald W. Banner
President

DWB/vp

AIRI ASSOCIATION OF INDEPENDENT RESEARCH INSTITUTES

October 23, 1989

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Intellectual Property
and the Administration of Justice
Committee on the Judiciary
2137 Rayburn House Office Building
Washington, D.C. 20515-6219

Dear Mr. Chairman:

Thank you for your letter requesting the views of the Association of Independent Research Institutes (AIRI) regarding your proposed legislation to abrogate state sovereign immunity in the patent area. I have consulted with the members of the Association on this matter and I am authorized to express AIRI's views.

AIRI represents 75 nonprofit research institutes nationwide conducting quality research primarily in the biomedical and behavioral sciences. Nonprofit research institutes, established by private citizens and scientists to undertake focused research efforts, compete with major universities for Federal research support. Unlike universities, however, most independent research institutes are small and specialized; annual budgets range from $1 million to $30 million. The Federal government supports over 70 percent of the basic research conducted at AIRI institutions. Research institutions are both patent holders and users of patented subject matter.

Many of our institutes hold patents to important medical inventions of great life-saving value. AIRI is concerned that without your legislation, state courts will uphold claims by state-controlled entities regarding their unobstructed use of patented inventions. We understand that such a decision has been rendered by a California court. In our view, there is no constitutional justification for such acts of infringement.

WASHINGTON REPRESENTATIVE: APRIL BURKE, CHAMBERS ASSOCIATES INCORPORATED
SUITE 200, 1625 K STREET NW, WASHINGTON, DC 20006
TELEPHONE: (202) 857-0670 FAX: (202) 857-0688

Biomedical research depends on patent protection to encourage the investment of time, talent, and money needed to elicit patentable break throughs. Other types of intellectual property protection, such as trade secrets, would undermine the collaborative nature of such research and hamper the transfer of medical improvements to patients. If patent protection does not preclude state entities from making, using, and selling patented inventions, commitment to and investment in science will suffer and development of products by private enterprise will diminish. We support your draft legislation to prevent the erosion of vital patent protection by states.

Your leadership on this issue is greatly appreciated.

Sincerely,

April Burke

April Burke
Washington Representative

cc: AIRI Government Affairs Committee

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October 23, 1989

The Honorable Robert W. Kastenmeier
Chairman, Subcommittee on Courts,
Intellectual Property, and the
Administration of Justice
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515-6216

Dear Mr. Chairman:

This is in response to earlier correspondence from you to Al Burkman regarding proposed legislation to abrogate state sovereign immunity in the patent area.

At its February 1988 Midyear Meeting, the House of Delegates of the American Bar Association, upon recommendation of the Section of Patent, Trademark and Copyright Law, adopted the following resolution:

> RESOLVED, that the American Bar Association opposes in principle state exemption from liability for damages and/or equitable relief in private actions brought under United States patent, trademark and copyright laws.

A copy of the full report submitted in support of this resolution is enclosed for your information.

We have reviewed the draft legislation forwarded with your letter and find that it accomplishes the objective of the above ABA resolution insofar as it applies to the patent area. We also understand that a bill has recently passed the House which would accomplish the same objectives in the copyright field. We would hope that similar legislation could be introduced - or a combined bill - that would also prohibit state exemption from liability for damages and/or equitable relief on trademark issues as well.

If the bill enclosed with your letter is introduced, we would be pleased to appear at any hearings that might be scheduled in

support of this or similar legislation. Your continued support of legislation beneficial to intellectual property law is greatly appreciated.

Sincerely,

Robert D. Evans

Robert D. Evans

Enclosure

0370A

This report does not constitute ABA policy. Only the ABA resolution adopted by the House of Delegates constitutes policy. This report provided information to the House of Delegates when it adopted policy.

AMERICAN BAR ASSOCIATION
SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW

REPORT TO THE HOUSE OF DELEGATES

REPORT

Article 1, Section 8, Clause 8 of the United States Constitution states: "The Congress shall have Power ... 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." Pursuant to this clause, Congress has enacted Patent Laws (35 U.S.C. Sections 1, et seq.) and Copyright Laws (17 U.S.C. Sections 101, et seq.). Article 1, Section 8, Clause 3 of the Constitution states: "The Congress shall have Power ... To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes." Pursuant to this clause, Congress has enacted Trademark Laws (15 U.S.C. Sections 1051, et seq.)

The Eleventh Amendment of the Constitution bars suits in federal court against a state by citizens of another state. This amendment appears by its language to be limited to suits against states in diversity cases involving state law claims, since it does not refer to suits against a state by citizens of the same state. Nonetheless, it has been interpreted as barring suits based upon certain federal law claims as well. To the extent that the Eleventh Amendment bars suits in

federal court under the Lanham Act, the holder of a trademark or other rights thereunder may be denied access to the court where infringement of those rights is customarily litigated. To the extent that the Amendment bars suits in federal court for patent or copyright infringement, the patent or copyright holder is completely remediless since the federal courts have exclusive jurisdiction over patent and copyright suits under 28 U.S.C. Section 1338(a).

Almost all of the decided cases involving claims against states for patent or copyright infringement have recognized that the Eleventh Amendment does not bar prospective injunctive relief against state officials responsible for the infringement. However, in many patent, trademark and copyright cases injunctive relief alone may be inadequate either as compensation or as a deterrent. Until 1984, most of the decided cases also held that states were liable for damages for past infringement. Since 1984, however, five cases have held state sovereign immunity to bar monetary relief. Mihalek Corp. v. Michigan, 595 F. Supp. 903 (E.D. Mich. 1984), affirmed on other grounds 814 F. 2d 290 (6th Cir. 1987); Woelfer v. Happy States of America, Inc., 626 F. Supp. 499 (N.D. Ill. 1985); Richard Anderson Photography v. Radford University, 633 F. Supp. 1154 (W.D. Va. 1981); Cardinal Industries, Inc. v. King, (M.D. Fla. 1986), affirmed 811 F. 2d 609 (11th Cir. 1987), certiorari denied ___ U.S. ___ (1987); and BV Engineering v. UCLA, 657 F. Supp. 1246 (C.D. Cal. 1987).

Several of these cases have involved claims of infringement against state universities. State universities, like all universities, are substantial users of copyrighted materials. If the state universities are permitted to copy such materials without explicit authority (voluntarily given) by the copyright proprietors and non-discriminatory compensation to them, then these authors will be deprived of the exclusive right to these writings and of a significant source of compensation.

Even if the Eleventh Amendment applies to suits against states arising under federal law, there are a number of reasons why it should not apply to suits under the patent, trademark and copyright laws. For example, by giving Congress the power to legislate with respect to trademarks in Article 1, Section 8, Clause 3, and the exclusive power to legislate with respect to patents and copyrights in Article 1, Section 8, Clause 8, the states can be said to have consented to federal court jurisdiction in suits

arising under that legislation. Also, patents, trademarks and copyrights are property and uncompensated state infringement can be considered to be a taking in violation of the Fourteenth Amendment.

In the Federal Register of November 2, 1987 (52 Fed. Reg. 42045), the Copyright Office, as part of a study requested by Congressmen Kastenmeier and Moorhead to examine the interplay between copyright infringement and the Eleventh Amendment, has requested public comment on, inter alia, copyright problems of enforcement against state governments and practices with respect thereto.

This resolution was approved by the membership of the Section of Patent, Trademark and Copyright Law at its 1985 Annual Meeting in Washington (as to the United States Copyright Laws), at its 1986 Annual Meeting in New York (as to the United States Patent Laws) and at the 1987 San Francisco Annual Meeting (as to the United States Trademark Laws).

Respectfully submitted,

John K. Uilkema
Chairman

Feoruary 1988

0731P

THE UNIVERSITY OF TEXAS SYSTEM
Office of General Counsel
201 WEST SEVENTH STREET AUSTIN, TEXAS 78701
TELEPHONE (512) 499-4462

Ray Farabee
Vice Chancellor and
General Counsel

April 23, 1990

The Honorable Kastenmeier, Chairman
Subcommittee on Courts, Intellectual
Property and Justice
2137 Sam Rayburn House Office Building
Washington, D.C. 20515-4902

Dear Chairman:

Thank you for the opportunity to comment on H.R. 3996, The Patent Remedy Clarification Act. We appreciate the work the subcommittee has done in addressing this important issue. However, as an instrumentality of the State of Texas, we are concerned about what appear to be unintended consequences of the legislation.

The bill seeks to abrogate immunity of states for patent infringement under the Eleventh Amendment by extending the provisions of Section 271 of Title 35, United States Code, to include "any State, any instrumentality of a State, and any officer of employee of a State or instrumentality of a State acting in his or her official capacity." It also creates a new Section 296 to explicitly abrogate immunity.

We support the overall intent of the legislation, which is to protect the rights of patent holders. Not only is this wise and equitable public policy as seen from a broad perspective, but it could prove beneficial to The University of Texas, which holds hundreds of patents developed by its faculty.

However, the sweep of the bill is broad and contains no exceptions. Consequently, it will encompass basic research at state-supported colleges and universities which historically have not only immunity from suit for infringement, but also a defense under court decisions that have withheld infringement remedies in circumstances where the research was not motivated by profit potential. As universities increasingly turn to licensing of their technologies

for royalties to make up for reduced governmental funding of research organization vis-a-vis the patent laws, particularly if the proposed legislation is enacted.

Therefore, we propose that the bill be amended to affirmatively exclude research activities of institutions of higher education and non-profit research organizations from the ambit of patent infringement. This will restore the confidence of researchers that they may continue their basic research efforts without the threat of suits that would serve no purpose but disruption. It also will be consistent with other recent Congressional actions to strengthen U. S. competitiveness.

We also propose that H.R. 3886 be amended to clarify provisions continuing immunity for states with respect to activities that precede the effective date of the Act. While Section 3 of the bill speaks to this point, it does not specifically address, for example, buildings or other facilities built or constructed prior to the effective date and operated after that date. The bill's current language could eliminate immunity for use of such a facility after the effective date. We believe that it is not the intent of the legislation and that operation of such a facility after the effective date should not be subject to a charge of patent infringement.

Thank you for your attention to this matter; I hope this information has been helpful. Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

Ray Farabee

RF/sts

xc: The Honorable Jack Brooks
The Honorable John Bryant
The Honorable Lamar Smith
The Honorable Craig Washington

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May 17, 1989

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Chairman, Subcommittee on Courts,
Intellectual Property, and the
Administration of Justice
Committee on the Judiciary
2328 RHOB
United States House of Representatives
Washington, D.C. 20515-4902

Re: H.R. 1131

Dear Mr. Chairman:

The Subcommittee on Courts, Intellectual Property, and the Administration of Justice is now considering H.R. 1131 to amend the Copyright Act to provide that a state may be sued in federal court for infringement. AIPLA strongly supports prompt enactment of H.R. 1131 which addresses an important legal principle. Copyrights are personal property. The 14th Amendment to the Constitution prohibits states from depriving persons of property without due process of law. Since the current state of the law allows this to occur, the law must be amended.

Patents are also personal property. We urge the Subcommittee to recognize that the Supreme Court has certainly created the identical injustice for patent owners.. just as it has for copyright owners. We see absolutely no justification to allow a state to deprive a person of a copyright, patent right, or any other form of property in contravention of the 14th Amendment.

Article I, Section 8, Clause 8 of the Constitution gives Congress the power "[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." The First Congress exercised that power in 1790 by enacting both a patent statute and a copyright statute. Those statutes and the Supremacy Clause have made copyright and patent rights exclusively federal in nature. Sears, Roebuck & Co. v. Stiffel & Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964); Bonito Boats, Inc. v. Thunder Craft Boats, Inc., ____ U.S. ____, 109 S. Ct. 971 (1989).

Congress has granted the federal courts exclusive jurisdiction over copyright and patent cases arising under those statutes. 28 U.S.C. Section 1338(a). Therefore, the owners of such rights may only enforce them in federal courts.

Congress has recognized that the 5th Amendment to the Constitution prohibits the federal government from depriving persons of copyrights and patent rights without due process of law. Owners of such rights may sue the federal government and its agents for infringement. 28 U.S.C. 1498.

AIPLA filed an amicus curiae brief with the Supreme Court in Richard Anderson Photography v. Radford University, 109 S. Ct. 1171 (1988), and in BV Engineering v. UCLA, 109 S. Ct. 1557 (1988), urging the Court not to extend the doctrine enunciated in Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985), to cases where the only remedy available to a private party claiming tort injury by a state is a federal remedy. As the Subcommittee knows, the Supreme Court has never directly addressed the issue of 11th Amendment immunity in a context where exclusive jurisdiction rests in federal court. The Court in Atascadero said, "the issue is not the general immunity of the States from private suit... but merely the susceptibility of the State to suits before federal tribunals." However, when the Supreme Court denied petitions for a writ of certiorari in both Richard Anderson Photography and BV Engineering, the result was the general immunity of the states from private suit for copyright infringement. These property rights of the petitioners were effectively extinguished as to the states. As the 9th Circuit said in BV Engineering at 858 F.2d 1400:

> We recognize that our holding will allow states to violate the federal copyright laws with virtual impunity. It is for Congress, however, to remedy this problem.

The Subcommittee has received a report from the Register of Copyrights describing the legal development of the 11th Amendment. The last nine pages of the body of the report contains a discussion of the few reported cases involving the application of the 11th Amendment in copyright suits against states. Following is a discussion of patent cases involving the same issue.

In a pre-Atascadero case, Hercules, Inc. v. Minnesota State Highway Department, 337 F. Supp. 795 (D. Minn, 1972), the plaintiff owned a patent on a process of using a chemical compound for weed and pest control. The plaintiff sued a state agency for unauthorized use of the process and Dow Chemical Company for contributing to the infringement by

supplying the state agency with the chemical. The court said:

> Neither the State of Minnesota nor its highway department or officers have any right to use a valid patent without license or compensation and . . . doing so constitutes a violation of constitutional protections of rights in property.
>
> . . . Thus, if the Federal courts cannot hear a claim of patent infringement by a state because of the XI Amendment, a patentee will never have a forum for asserting the unconstitutionality of the taking of his patent.

337 F. Supp. at 799. The court found the patent valid and infringed. The state was enjoined from further use of the process, but damages were denied on 11th Amendment grounds. Damages were assessed against Dow Chemical for contributory infringement.

In Lemelson v. Ampex Corp., 372 F. Supp. 708 (N.D. Ill. 1974), also before Atascadero, the plaintiff sued the Illinois Bureau of Investigation and its supplier for the unauthorized use of a patented magnetic recording system for video document storage and retrieval. The court denied the Illinois Bureau of Investigation' motion to dismiss the complaint and held that the state had impliedly consented to be sued, relying on Parden v. Terminal Railway of Alabama, 377 U.S. 184 (1964). The court went on to also say that the state is liable for damages suffered by the patentee in addition to injunctive relief if infringement is found:

> If a state has taken property, a right of compensation exists. It would be unfair for the state to unjustly enrich itself and then be immune from repayment.

377 F. Supp. at 713.

Perhaps the most direct statement vis-a-vis the 11th Amendment for patent law and copyright law prior to the recent circuit court copyright cases applying the Atascadero test was in Mills Music Inc. v. Arizona 591 F.2d 1278 (9th Cir. 1979), where the court held a state liable for damages for copyright infringement. The court cited Lemelson as consistent with its decision. The court said, at 591 F.2d 1286:

> Accordingly, we conclude that the Eleventh Amendment's sovereign immunity does not permit a state to nullify the rights reserved and protected

by Congress, acting pursuant to the Copyright and Patent Clause.

However, Mills Music has been overruled. BV Engineering v. UCLA, 858 F.2d 1394, 1397-98 n.1 (9th Cir.), cert. denied 109 S. Ct. 1557 (1988).

In Paperless Accounting, Inc. v. Mass Transit Administration, Civil No. HAR 84-2922 (D. Md. 1985), the plaintiff owned a patent on an automatic fare charging device and claimed the Mass Transit Authority (MTA), an agency of the State of Maryland, was using the patented device in the Baltimore Metro Subway system. A second defendant, Compagnie Generale D'Automatisme, a French corporation with a U.S. subsidiary, manufactured the machines in Europe and sold them to the state agency. The defendants moved to dismiss the complaint on the ground that the 11th Amendment immunized the State of Maryland from suit and therefore the court lacked jurisdiction. The court denied the motion. The parties then settled the claim and the case was not tried.

The plaintiff in Chew v. California, Civil No. S-88-245 EJG (E.D. Cal. 1988), was not as fortunate. In this case, the plaintiff owns a patent on a process to test automobile exhaust fumes. The plaintiff sued the state for unauthorized use of the patented process. The state moved to dismiss the complaint on grounds identical to those urged in Paperless Accounting, Inc. The district court granted the motion to dismiss:

> Although the court is reluctant to reach a conclusion contrary to binding Ninth Circuit authority, recent Supreme Court decisions compel the court to conclude that Mills Music, supra is no longer a correct statement of the law. Applying the two most recent pronouncements of the Supreme Court in Atascadero, supra, and Welch v. State Dept. of Highways & Transportation, 107 S.Ct. 2941 (1987) to the facts of this case, the court finds that neither § 271 nor § 281 of Title 35 contain "unmistakable language" indicating congressional intent to abrogate the state's immunity under the Eleventh Amendment. Accordingly, defendant's motion must be granted.

The judgment on the order has been docketed for appeal in the Court of Appeals for the Federal Circuit.

We believe that Congress never intended that states should be free to deprive copyright and patent owners of their federally granted property rights. If that was the intent of Congress, it would be stated somewhere in the extensive legislative history of these 199 year old statutes,

or in the statutes themselves. Furthermore, we are not aware of any case where a court has held or even said that Congress intended that states are immune from copyright or patent infringement.

In the normal course, if a law is drafted ambiguously, courts have the responsibility to strive to determine congressional intent. In this situation, the tables are turned. As reflected in H.R. 1131, Congress must now meet the courts' approval in drafting statutes to indicate what Congress intends.

The Supreme Court in Atascadero said, "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." Later in the opinion the Court said Congress must express its intention "unequivocally," and still later "specifically." 473 U.S. at 242. In defining those liable for copyright infringement, Congress chose the term "anyone" in the 1976 Act. 17 U.S.C. § 501(a). Four circuit courts of appeals have decided that as Congress has failed to meet the Atascadero test, a fortiori, states are immune from damages claims for copyright infringement liability.

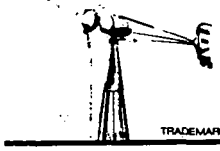
Congress chose the term "whoever" in the patent statute, 35 U.S.C. § 271, to define those liable for infringement. Some time in late 1989 or early 1990, the Federal Circuit is expected to decide in the Chew case whether the pronoun "whoever" meets the Atascadero test. Without wishing to prejudge that decision, especially since our full sympathies lie with Mrs. Chew, it appears to us that the pronouns "anyone" and "whoever" in this context are synonyms.

In sum, we urge the Subcommittee not to wait for further instruction from the courts on the inadequate drafting of the patent law, as well as the copyright law. Neither patent owners nor copyright owners should be granted a federal property right but denied the opportunity to enforce a claim for damages under that right against states. All of the compelling legal and equitable reasons which justify prompt clarification of the copyright law also fully justify the same clarification of the patent law.

Sincerely,

Jack C Goldstein

Jack C. Goldstein
President



Jacobs WIND ELECTRIC COMPANY, INC.
WIND ENERGY SYSTEMS
wind electric plant research & engineering from 1922
manufacturing and world wide sales since 1931

February 27, 1990

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

Re: Recent Court Rulings and Correspondence Concerning the Need to Amend H.R. 3886 to Better Safeguard the Rights of U.S. Patent Holders.

Dear Congressman Kastenmeier:

We are another U.S. Patent holder, who like Chew has had their U.S. Patent property rights unfairly taken by a state government that feels it can infringe our tidal flushing patent with impunity under the 11th Amendment. Our attorney has forwarded to us the enclosed BNA Patent Journal summary of your hearing on HR 3886 held on February 6th. We strongly concur with Commissioner Samuels' testimony that without your bill "patent holders would be forced to pursue uncertain, perhaps nonexistent remedies under state law". We certainly have.

In our case we have U.S. Patent # 3,733,830 which was issued in 1973 and was first infringed by the State of Florida in late 1982. Note that this was 3 years before Atascadero. The infringement continues to date. We discovered their installation in 1987, tried to negotiate in 1988 with the State, and were rebuffed. In Spring 1989 we filed in U.S. Court in Tampa, Florida. The State immediately filed for dismissal based on the 11th Amendment. Two days after your hearing on February 8th the District Court granted the State's motion to dismiss. The enclosed copy of the ruling clearly shows that the Court acknowledges under Lemelson v. Ampex in 1974 and Mills Music v. Arizona in 1979 that the courts had been abrogating a states 11th Amendment immunity prior to Atascadero. In short this infringement if detected and litigated prior to Atascadero would have not been dismissed on 11th Amendment grounds.

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Concurrently with your hearing on February 6th, the Secretary of DOT in Florida finally responded to our letter request for administrative relief (copy enclosed). In it he does agree that his department should not steal our property. But, he then claims there is no "identifiable violation" of our patent rights. He further states he has no authority to settle our claim without "documented justification". Finally he suggests we wait for the "legal system to hear and rule". If it is not stealing to take one's property and not pay for it, what is it? Further DOT by its actions in requesting a dismissal in court has prevented our proving the details of the infringement. DOT has created a catch 22 for us.

Briefly, our 1989 Federal Court filing specifically aimed at establishing the very "identifiable violation", that DOT denies. Instead of addressing this infringement issue, they filed only a motion to dismiss on immunity grounds and then ignored our Interrogatory requests. To date, in spite of repeated requests, DOT has never offered any specific written evidence that our patent is invalid in this case. Since we have a valid patent we already have "documented justification". Now that the court has dismissed the case we have no proper forum to provide more forcefully the explicit "documented justification" that the DOT secretary cites as his starting basis to negotiate. In essence they deny any liability under U.S. Patent law. Our State court remedy in Florida is both limited as to the grounds and the compensation in part because of Federal Preemption.

As Professor Merges at you hearing on the 6th testified, "Permitting a soverign immunity defense...reduces the incentive to invent" in areas like Chew or ours where the invention is used to help states clean or prevent pollution of their air and water resources. Clearly, the State of Florida by its actions in our case refuses to even discuss their liability for infringement. The cost to us out of pocket to pursue the matter is now in the $30 - $40 thousand range. We had intended in 1988 to use a quick settlement with the 40% discounted license fee we offered DOT as the basis to then market further our technology and expertise in the remaining years of our patent and also develop new systems. The legal vacuum created by Atascadero and the intentional decision by Florida DOT to use this new loophole to stonewall us for two years has done just what Professor Merges predicted. It has virtually driven us out of this business.

We would also like to comment on your observations quoted in BNA that "there has been no 'massive violation' of patent law by the states". We have heard orally of one other case and conclude that more instances of infringement certainly exist. The reason the matter in 1990 has not appeared massive at the court level is that Chew and cases like ours discourages prudent patent holders from pouring scarce operating capital into an attempt to individually fix the broken patent system the Courts created in 1985 with Atascadero. How many after all can afford to spend money on attorneys when the cost of operations usually absorbs most inventors cash flow anyway? Further, states as shown by the DOT Secretary's letter of the 6th feel they cannot even negotiate in good faith or settle with "taxpayer's money without documented justification". Thus what we feel is happening here is analogous to rape cases where only a few victims publicity file charges. Right now the Chew patent holders, our group, and others feel that the Federal Patent System, Congress, and the Courts, have allowed us to be raped of our intellectual properties by none other that state cops. Might we ask how many rapes does it take to get the attention of Congress? Need it be massive? What about the victim's Constitutional rights under the 5th and 14th Amendments? Does the Constitution require quantity to obtain redress?

Finally and most importantly, if H.R. 3886 is passed as presented at your recent hearing, what is Congress going to do to protect the rights of patent holders already victimized by the 1985 overturning of state liability under the patent law? If as you observe, we are few, we still have Constitutional rights to be secure in our property. As Commissioner Samuals apparently referenced, what we really have here is a defacto "eminent domain" situation. Should not states have to pay for all the property they take from citizens including patent rights? DOT condemns property every day for public purposes. Why can't they pay fairly for patent right takings? These takings by California in the Chew case and by Florida in our case have occurred in the legal window between Atascadero and the effective date of your bill. An impartial reading of the 18th Century effort to create patents as an encouragement to innovation, the nearly 200 year patent law history prior to 1985, and Commissioner Samuels' stated testimony that Atascadero "undermines U.S. efforts to improve intellectual property rights aboard" all clearly show that it is the long term intent of Congress and the American people to have everyone, including the States, under the law and liable therefore. The past five years of alleged state immunity to patents is

an aberration that should be cured by making the effective date of your clarification language retroactive to Atascadero in 1985.

The State of California should not be rewarded in defacto fashion by leaving Chew caught in the twilight zone of the breakdown of the U.S. Patent law process. In our case we think we can prove the State of Florida had ample knowledge before it infringed our patent and it continues to do so with the imperious attitude of its officers that the 11th Amendment immunity doctrine breeds. While you might be right to question Professor Merges about the wisdom of making states liable for treble damages, it would be very poor public policy to let the states get off free with no liability to Chew, ourselves, or others victimized by blatant State theft of their patented property. What kind of message would that send to Commissioner Samuels advisaries in his "efforts to raise the level of intellectual property aboard?" Does such a failure to protect all U.S. Patent holders not imply that it is O.K. to infringe U.S. Patent if one can legally craft a cynical technical argument and then the ethics be damned? The patent clause was in the Constitution almost 10 years before the 11th Amendment was added. Please enforce it.

In short we would specifically request that Congress solve the entire problem of uncompensated infringement of U.S. Patent holders rights by the states by making the law retroactive. In our case the Federal District Court already ruled that Florida must hold our Patent to be valid. We only were dismissed on the immunity issue. Florida should be held liable to pay for what it took from us just as certainly as if it condemned our home for a highway. We see no inequity in states paying for rights to use patented technology to help clean our environment any more than if they pay home owners who lose land to new public usage. The issue is not the need for public betterment. The issue is whether states can steal private rights with no compensation for a public purpose. Even the Communist Governments of Europe and the Soviet Union are now attempting to respect the principal that all are under the law even the state. Is it too much to require as much of our 50 states?

Thank you for your efforts to focus on this problem with your Committee. We could appreciate being updated on your progress. If we can be of help, please let me know.

Yours truly,
Jacobs Wind Electric Co., Inc.

Paul R. Jacobs

Paul R. Jacobs
President

Enclosures:
cc: The Honorable Gerry Sikorski

FLORIDA
BOB MARTINEZ
GOVERNOR

DEPARTMENT OF TRANSPORTATION
605 Suwannee Street, Tallahassee, Florida 32399-0450
BEN G. WATTS
SECRETARY

February 6, 1990

Mr. Paul R. Jacobs
President
Jacobs Wind Electric Co., Inc.
8020 Strehler Road
Corcoran, MN 55340

Dear Mr. Jacobs:

I received your letter of January 30 concerning settlement of your suit against the Department of Transportation for our alleged patent infringement.

You are correct on one point. I do not take the position that the Department can steal another's property. If this issue were that simple we would not be corresponding.

Based on the information provided me by the Department's General Counsel, Mr. Tom Bateman, I am not in a position to settle your claim at this time. We feel that there is not identifiable violation of your patent rights by the Department. In such a case I do not see it to be within my authority to spend the taxpayer's money without documented justification. You obviously feel otherwise. Therefore I suggest that the legal system hear and rule on the issue.

Sincerely,

Ben G. Watts, P.E.
Secretary

BGW:oc

CARLTON, FIELDS, WARD, EMMANUEL, SMITH & CUTLER, P.A.
ATTORNEYS AT LAW

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FIRST FLORIDA BANK BUILDING
P. O. DRAWER 190
TALLAHASSEE, FLORIDA 32302
(904) 224-1585
FAX (904) 222-0398

PLEASE REPLY TO:

Tampa

February 9, 1990

RECEIVED
FEB 12 1990
CARLTON, FIELDS - TALLAHASSEE
JACOB D. VARN

RECEIVED
FEB
CARLTON, FIELDS, TALLAHASSEE
JACOB D. VARN

Mr. Paul Jacobs
8020 Strehler Road
Corcoran, Minnesota 55340

Re: Jacobs v. DOT

Dear Paul:

Enclosed please find a copy of the decision and order from the United States District Court dismissing this action.

Should you have any questions regarding the enclosed documents, please feel free to give me a call.

Sincerely,

Nancy

Nancy Faggianelli

NJF/imd
Enc.
cc: Jacob D. Varn, Esquire
Chris S. Coutroulis, Esquire

AO 450 (Rev. 5/85) Judgment in a Civil Case

FILED

90 FEB -8 PM 4:45

United States District Court

MIDDLE DISTRICT OF FLORIDA

JACOBS WIND ELECTRIC COMPANY, INC. and PAUL R. JACOBS
V.
FLORIDA DEPARTMENT OF TRANSPORTATION

JUDGMENT IN A CIVIL CASE

CASE NUMBER: 89-411-Civ-T-13B

☐ Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

☒ Decision by Court. This action came to ~~trial or hearing~~ before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED : the instant Action is DISMISSED.

February 8, 1990
Date

DAVID L. EDWARDS
Clerk

Deborah K. Carey
(By) Deputy Clerk

M'FILM ROLL # 97
DOCUMENT # 1807

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

JACOBS WIND ELECTRIC COMPANY, INC. and PAUL R. JACOBS,

Plaintiffs,

v. Case No. 89-411-CIV-T-13B

FLORIDA DEPARTMENT OF TRANSPORTATION,

Defendant.

O R D E R

The defendant's motion to dismiss is granted for the reasons set forth herein.

Plaintiff brings this action for patent infringement against the Florida Department of Transportation. The Department moves to dismiss on the ground that it is immune from suit under the eleventh amendment to the United States Constitution. That amendment states:

> The judicial powers of the United States shall not be construed to extend to any suit in law or equity commenced or prosecuted against one of the United States by citizens of another state, or by citizens or subjects of any foreign state.

This prohibition bars an action against a state by one of its own citizens. See e.g., Welch v. State Department of Highways and Public Transportation, 438 U.S. 468, 107 S.Ct. 2941, 97 L.Ed.2d 389 (1987); and Hans v. Louisiana, 134 U.S. 1, 10 S.Ct. 504, 33 L.Ed.2d 842 (1890). And the bar is absolute unless Congress or the state has waived the immunity. See Edelman v. Jordan, 415 U.S. 651, 94

S.Ct. 1347, 39 L.Ed.2d 662 (1974). Abrogation of a state's immunity must be unequivocally expressed be it by the state itself or by Congress in the statutory language. Atascadero State Hospital v. Scanlon, 473 U.S. 234, 105 S.Ct. 3142, 87 L.Ed.2d 171 (1985); and Welch v. State Department of Highways and Public Transportation, 107 S.Ct. 2941 (1987). There is no such express waiver applicable to the instant case.

The best plaintiff can do is to cite to that part of §271 of Title 35 which states "... whoever without authority makes, uses or sells any patented invention ... infringes the patent." Brief in Opposition, at 3. The plaintiff claims that the state is not exempt because the statute does not purport to exempt it. Such a claim fails in the face of the unequivocal requirement that any such waiver be express. See Atascadero and Welch. The plaintiff also cites Lemelson v. Ampex Corporation, 372 F.Supp. 708 (N.D. Ill. 1974) which held that, while there was no express waiver by Congress or the State of Illinois, the State was not immune from a suit for patent infringement since (a) the federal courts have exclusive jurisdiction over such suits; (b) in granting Congress the right to create exclusive patents, the states had "largely surrendered" their sovereignty over patents; and (c) the patent act did not on its face exempt states from its operation. Id. at 711. The plaintiff might also have cited Mills Music, Inc. v. Arizona, 591 F.2d 1278 (9th Cir. 1979) wherein the court held that:

> the abrogation of a state's Eleventh Amendment immunity is inherent in the Copyright and Patent Clause and the Copyright Act.

Id. at 1285.

The fact is, neither decision retains much weight. Mills has been expressly overruled. BV Engineering v. UCLA, 858 F.2d 1394, 1399 (9th Cir. 1988), cert. denied, ___ U.S. ___, 109 S.Ct. 1557, 103 L.Ed.2d 859 (1989). And Atascadero and Welch leave Lemelson no longer tenable. In Atascadero, 473 U.S. at 239 - 40 (cites omitted) the Supreme Court reiterated the two rules regarding waiver of a state's eleventh amendment immunity: (a) a State will be found to have waived its immunity only where it has done so "'by the most express language or by such overwhelming implication from the text as [will] leave no room for any other reasonable construction;'" and (2) Congress will be found to have waived a state's immunity only if it has done so through an "'unequivocal expression of congressional intent.'" Atascadero holds that Congress can waive a state's immunity only if it expresses such an intent by "unmistakable language in the statute itself." Id. at 243.

In Welch v. State Department of Highways and Public Transportation, 107 S.Ct. 2941 (1987), the Court held again that the waiver of a state's 11th amendment immunity, whether effectuated by Congress or a state, must be express, unmistakable, unequivocal. In doing so, Welch expressly overruled Parden v. Terminal Railway of Alabama, 377 U.S. U.S. 184, 84 S.Ct. 1207; 12 L.Ed.2d 233 (1964). Welch, 107 S.Ct. at 2948. The Lemelson decision, on which plaintiff relies, relied almost exclusively on reasoning it found in Parden.

Recently, the United States Court of Appeals for the 1st Circuit considered the import of Atascadero and Welch to the question of whether the federal Copyright Act abrogated a state's immunity under the 11th amendment. See Lane v. First National Bank of Boston, 871 F.2d 166 (1st Cir. March 22, 1989). Therein, the plaintiff argued that the Act stripped states of their immunity; but the Court held that the Act did not contain language sufficient to satisfy the precision required by Atascadero and Welch and characterized the plaintiff's conclusion as "the elevation of hope over reason." Id. at 168 - 69. The 1st Circuit noted that the two other circuits which had considered the question had reached the same conclusion, id. citing to BV Engineering, and Richard Anderson Photography, 852 F.2d 114, 117 (4th Cir. 1988), as had every district court which had considered the question, including this one. Id. citing, inter alia, Cardinal Industries, Inc. v. Anderson Parrish Assoc., No. 83-1038-CIV-T-13 (M.D. Fla. 1985), aff'd mem., 811 F.2d 609 (11th Cir.) cert. denied ___ U.S. ___, 108 S.Ct. 88, 98 L.Ed.2d 50 (1987).

The fact that the federal courts retained original and exclusive jurisdiction over suits arising under the Copyright Act did not alter the 1st Circuit's conclusion. Lane, 871 F.2d at 173, citing to Madruga v. Superior Court, 346 U.S. 556, 560, 74 S.Ct. 298, 300, 98 L.Ed.2d 290 (1954) (in rem admiralty suits against unconsenting states barred by the 11th amendment even though the federal courts have exclusive jurisdiction); see also Charley's Taxi Radio Dispatch Corporation v. Sida of Hawaii, Inc., 810 F.2d 869 (9th Cir.

1987) (anti-trust actions against an unconsenting state barred by the 11th amendment even though the federal courts have exclusive jurisdiction over suits arising under the Sherman Anti-Trust Act).

The analysis is no different for suits that arise under Title 35. The precedents on which the plaintiff relies have been overturned. Neither the State of Florida nor the United States Congress has waived eleventh amendment immunity with respect to suits arising against the state under Title 35. No such waiver can be implied; therefore the instant action must be, and is, hereby DISMISSED.

DONE AND ORDERED in Chambers in Tampa, Florida this 8th day of February, 1990.

UNITED STATES DISTRICT JUDGE

UNIVERSITY OF WISCONSIN LAW SCHOOL
Madison, Wisconsin 53706

The Honorable Robert W. Kastenmeier, Chair
Subcommittee on Courts, Intellectual Property and the
Administration of Justice
Judiciary Committee
House of Representatives
Washington, D.C.

February 5, 1990

Dear Representative Kastenmeier:

Thank you for inviting me to comment on whether states and their employees should be vulnerable to suits for patent infringement. This has become a lively question in light of the Federal Circuit's recent decision in Chew v. California The court held that the Eleventh Amendment bars patent infringement suits against states. The decision is, in many ways, an unsurprising extension of Atascadero State Hospital v. Scanlon, 473 U.S. 234 (1985) and BV Engineering v. UCLA 858 F2d 1394 (CA 9 1988). The question now is whether, following Chew, Congress should pass legislation to amend the patent statute and provide the explicit abrogation of state sovereign immunity called for in Atascadero. Legislation to reverse the result in the BV Engineering case in the copyright arena is already under consideration, and there seems to be support for similar action with respect to patent law. This is evidenced by the draft legislation which you provided me, and which I interpret as intended to overturn the decision in Chew. I would like to suggest that although complete state immunity for patent infringement is inappropriate, consideration should be given to amending the existing draft to allow states to acquire nonexclusive patent licenses by eminent domain. Although further study may be necessary to confirm this, states may presently have such power (though they may not exercise it) and that if the purpose of the proposed legislation is to restore the pre-Chew situation, then the proposal goes too far.

First, it is important to remember that inventors have no "natural right" to capture the economic value of their inventions.[1] Patent law exists to benefit the public. The award of a limited monopoly is believed to be the best way to produce that public benefit. The extent of the subsidy conferred by means of the patent monopoly should be just sufficient to generate optimal investment in innovation, and to encourage the dissemination of the fruits of inventive effort. Arguments that states should sacrifice their immunity because it would be "unfair" for them to benefit from the efforts of inventors must prove unpersuasive. Attention must be on the interests of the states and the public, not the interests of inventors -- though of course inventors may be incidental beneficiaries of a policy pursued because it is in the public interest.

The question, then, is whether states and their citizenry will be better off if states have no immunity. In the short term, of course, it is in the interests of states to be free-riders. In the long run, however, states also have an interest in the availability of new technology -- and so the question becomes whether allowing states to share the benefits of technology without shouldering a share of the cost of development would materially retard that development. Some development will occur without the added incentive of the patent law -- in fact, probably a lot of development -- and the burden of proof that patent protection is necessary should be on those who seek it. The award of a monopoly is a tax on users to subsidize invention. It is politically tempting to extend such a subsidy: to do so requires no appropriations bill, and the beneficiaries of the monopoly can be expected to couch arguments for it in terms of public, rather than self, interest. Those who pay monopoly prices are less often heard from.

If the contributions states make to the enhanced profits of inventors (by virtue of the benefits of monopoly) have no significant effect on incentives of inventors, the states should

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1. Graham v. John Deere Co., 383 U.S. 1 (1965)

be allowed to "ride for free". With respect to most technologies, my hunch is that states could be allowed to ride for free without (to continue the metaphor) any effect on the number of available trains. But although the monopoly profits attributable to states' activities are probably insignificant as to most technologies, for some states may be major factors. Ironically, in light of the "free-rider" metaphor, transportation technologies are the most evident example. States are major factors in the market for technology relating to bridges, roads, airports, subways, and traffic control. States are probably also major beneficiaries of advances in medicine and education. Since states probably are significant purchasers of some technologies, they should be willing (and required) to sacrifice their immunity to encourage appropriate investment in those technologies and fulfill the Constitutional mandate for progress in the useful arts.

The next question is whether that abrogation should be complete. The federal government has chosen to yield its absolute immunity for acts of patent infringement, but its waiver is less than absolute.[2] Patent owners may not try to enjoin the U.S. from exploiting a patent, but can only request damages in the Court of Claims. The result is essentially acquisition of a compulsory license by the exercise of eminent domain, and the suit one in inverse condemnation.[3]

The federal policy could have two effects on amounts paid patent owners. It probably increases the costs associated with collection efforts, making it less likely patent owners will pursue the claim to its conclusion and slightly more likely they will settle for an amount less than they would demand in a bargaining session. Second, because injunctive relief is not

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2. 28 U.S.C. Sec. 1498

3. The court in Motorola, Inc. v. United States, 729 F.2d 765 (CAFC 1984) held that the theoretical basis for claims under Sec. 1498 was eminent domain. In the same paragraph they indicated that the United States was not in the position of an infringer, but rather was a compulsory, nonexclusive licensee.

available and so the owner cannot threaten to refuse to license the technology except at the owner's price, the return to patent owners will be less than if they could threaten to holdout unless their terms were met. Congress has apparently concluded the rationale justifying governmental exercise of the eminent domain power applies to patents, and warrants any resulting diminution in patentee reward.

Should states be granted the same advantages in dealing with patent owners as the U.S. government? One might imagine either the creation of a new mechanism empowering patent owners or states to initiate actions in federal district courts to establish a reasonable royalty for use of the patent, or one might imagine the use of the state's existing, or specially modified, eminent domain procedures to acquire a license. I can see no conceptual problems with the application of eminent domain procedures by states in patent cases, and some of the legal encyclopedias and works on eminent domain assert, with little elaboration, that eminent domain may be used with respect to personal property interests, including patent rights. A brief review of available treatises and cases suggests that eminent domain law is presently being used only in the federal context. This does not, of course, mean that it is not, or should not be, available to states. Space and time do not permit me to present the case for and against use of eminent domain by states as to patent rights, and I don't wish to suggest that I can foresee the result of a careful study of the issue; I do suggest such a study.

I urge, therefore, that serious consideration be given to amending the draft proposal to provide explicitly that nothing in the law is intended to prohibit states from using the law of eminent domain to acquire non-exclusive licenses to utilize patented technology. If the intent of the amendment under consideration is simply to re-create the situation that people believed to exist before Chew, then the proposal may go too far. It seems to place states in the same position as non-governmental entities insofar as patents are concerned. If this is

interpreted as pre-empting the state power of eminent domain as to patent rights then it may go further than is intended, or than is wise.

I can imagine a number of arguments which patent owners might make opposing my suggestion. While I don't wish to suggest ultimate rejection of those arguments, I do suggest further study. It may be that the existing Court of Claims procedure in federal cases works poorly and that it would be foolish to adopt a similar procedure for the states. Or it might be that the rationale for the federal system is rooted in a concern that the U.S. be able to utilize defense technology without risking delays arising from negotiations with patent owners and that no such concerns arise with respect to states. Finally, even if such a system is workable as to the federal government, it might be unworkable as to states because of the increased costs associated with the fact that there are 50 states and only one federal government. A final argument, not to be minimized, is that patent owners and states have been operating on the assumption that states had no sovereign immunity as to patent infringement, and apparently have not been using any eminent domain powers that they might now possess, and that legislation would merely return us to the operational status quo. In essence, a vote to amend would honor the principle, "If it ain't broke, don't fix it."

In conclusion, although I appreciate the need to proceed with dispatch to resolve the question, I also believe that there is sufficient time available to study the wisdom of explicitly reserving to states the power to use their eminent domain powers as to patent rights, and I urge such a study. If the matter is regarded as more urgent, then I advocate an amendment to the proposal explicitly reserving to states the power of eminent domain as to patent rights.

Yours truly,

John A. Kidwell

John A. Kidwell
Professor of Law

HARVARD LAW SCHOOL
CAMBRIDGE · MASSACHUSETTS · 02138

March 21, 1990

The Honorable Robert W. Kastenmeier, Chairman
Judiciary Subcommittee on Intellectual Property
House of Represetatives
2137 Rayburn Office Building
Washington, D.C. 20515

Dear Congressman Kastenmeier:

I am writing to support the suggestion made by Professor Ralph S. Brown in a letter to you on February 16th concerning the present problems relating to copyright and patent lawsuits against state agencies. I am writing from the vantage point of someone who has taught, written and litigated in both the copyright and federal procedure fields for approximately 30 years. Indeed, I have taught both subjects at Minnesota Law School, Michigan Law School, and for the past 19 years, at Harvard Law School.

Professor Brown's suggestion about extending jurisdiction over copyright and patent suits involving state instrumentalities to state courts makes a great deal of sense and would avoid many of the complications of Eleventh Amendment jurisprudence. In a perfect world, one might continue to prefer to have all copyright and patent cases in the federal courts; unfortunately, the Eleventh Amendment problem makes it less than a perfect world. Thus, granting concurrent jurisdiction to state and federal courts in a limited category of cases seems to be a viable compromise.

Professor Brown's proposal is quite workable and does not jeopardize federal interests. There is no reason to believe that state courts would shirk their responsibilities in these copyright actions or would not prove capable of interpreting and applying federal law. There are, after all, instances in which copyright and patent issues do arise in state court litigation and I am not aware of any failure on the part of state court judges that suggested a need to alter the practice.

I believe that Professor Brown's letter to you states the case for his position quite admirably. If I can be of any additional assistance on this matter, please do not hesitate to request it.

Sincerely,



Arthur R. Miller
Bruce Bromley Professor of Law

ARM/ls
cc: Ralph Brown

THE UNIVERSITY OF TENNESSEE
KNOXVILLE

September 12, 1989

College of Law
Faculty

Hon. Robert W. Kastenmeier
Chairman, Subcommittee on Courts,
Intellectual Property, and the
Administration of Justice
House Judiciary Committee
2138 Rayburn House Office Building
Washington, DC 20515-6216

Dear Representative Kastenmeier:

Here, in response to your letter of August 21 requesting comments, are my thoughts on your proposed legislation abolishing state sovereign immunity protection from money damages for patent infringement. Although my thoughts are presented here in rather summary form, I will be happy to expand upon them at a later date if you or your staff would find that helpful.

First, as a policy matter, the bill is certainly warranted. There is no valid reason why states should be immune from damages for infringing intellectual property rights. Although such immunity might at first blush appear to benefit state governments at the expense of private industry (and hence serve as a sort of hidden "tax"), it is not that simple. State universities are major holders of patents, and a policy that state governments may infringe with impunity is as likely to harm them as to help them. Furthermore, an inability to successfully prosecute infringement suits is likely to deter innovation in niche markets where the primary customers are state universities and state governments, depriving them of potentially useful technology. And where development of products for universities in general is chilled, private universities will suffer therefrom without even the dubious benefit of being permitted to infringe themselves. Although it would require armies of economists, perhaps equipped with supernatural talents, to unravel the distributional consequences of unrestrained state infringement of intellectual property rights, it seems highly unlikely that those consequences are beneficial for the nation as a whole, or even for the state governments themselves.

1505 W. Cumberland Avenue / Knoxville, Tennessee 37996-1800 / (615) 974-4241

I assume, however, that I was contacted primarily in my capacity as teacher of constitutional law, with an eye toward whether the statute as currently drafted would pass muster in light of federalism concerns and state sovereign immunity under the Eleventh Amendment. I believe that the bill would be constitutional, but suggest additions be made -- either to the bill or to the legislative history -- that will minimize the likelihood that a reviewing court would find otherwise.

Analysis

Because our Constitution creates a limited government of enumerated powers, for the bill to be constitutional it must be within a power granted to Congress by the Constitution proper or by one of the amendments.[1] This bill could be characterized as an exercise of Congress's power to regulate interstate commerce,[2] as an exercise of Congress's power "to promote the Progress of Science and useful arts" (more commonly known as the patents and copyrights power),[3] or as an exercise of Congress's powers under the Fourteenth Amendment, which among other things authorizes Congress to pass "appropriate legislation" to prevent states depriving persons of life, liberty, or property without due process of law or denying them the equal protection of the laws.[4]

I believe that this bill logically falls within all of the above powers. The tremendous importance of the patent system to our national economy cannot be contradicted, and Congress's regulation of patent-related matters is certainly appropriate not only as an exercise of the patents power but as a regulation of commerce among the states. Furthermore, given that intellectual property is well-recognized as a form of property, state infringement of patents should certainly be regarded as a deprivation of property without due process of law, something that Congress is empowered by the Fourteenth Amendment to prohibit through appropriate legislation.

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1 See generally McCulloch v. Maryland, 17 U.S. 316 (1819).

2 U.S. Const., Art. I Sec. 8 cl.3.

3 U.S. Const., Art. I, Sec. 8 cl.8.

4 U.S. Const., Amdt. XIV, Secs. 1, 5.

The question that remains is what impact, if any, state "sovereign immunity" under the Eleventh Amendment has on the constitutionality of this bill. The short answer is that if the bill is regarded only as an exercise of the Congress's Article I commerce and patents powers the matter is debatable (though probably in favor of the bill), while if the bill is regarded as an exercise of the Congress's Fourteenth Amendment powers the Eleventh Amendment should pose no problems.

Article I Powers

In a case decided only last term, Pennsylvania v. Union Gas Co., ___ U.S. ___, 109 S.Ct. 2273 (1989), the Supreme Court, by a plurality consisting of Justices Brennan, Marshall, Blackmun, and Stevens, stated that the commerce clause permits Congress to abrogate state sovereign immunity; Justice White joined in this statement, although not in the reasoning that supported it. While this might be read as demonstrating that there are now five votes on the Supreme Court in favor of Congressional abrogation of state sovereign immunity under the commerce clause, Supreme Court vote-counting is an inherently risky business. Furthermore, there is some risk, in the context of this bill, that the Court would (at least in the absence of explicit statements to the contrary) find only an exercise of the patents power.

At the moment, it is an entirely open question whether the patents power would support abrogation of state sovereign immunity. Logically, the same kinds of arguments that support abrogation under the commerce power -- the national character of the subject, need for uniformity, etc. -- would seem to have as much or more force in the patents context. The patents clause, after all, was included in the Constitution because the individual patent systems of the separate states under the Confederation produced an unworkable patchwork of laws, and because a patent system was considered an inherently national concern.[5] These are the same kinds of concerns that led to the commerce clause. However, there is no guarantee that the same sort of analysis would be applied.

For one thing, the Supreme Court has recently stated that:

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5 See, e.g., J. Story, Commentaries on the Constitution Secs. 557-559 (J. Nowak & R. Rotunda eds. 1987).

> the Patent and Copyright Clauses do not, by their own force or by negative implication, deprive the States of the power to adopt rules for the promotion of intellectual creation within their own jurisdictions. ... Nor does the fact that a particular item lies within the subject matter of the federal patent laws necessarily preclude the States from offering limited protection which does not impermissibly interfere with the federal patent scheme.

Bonito Boats v. Thunder Craft Boats, ___ U.S. ___, 109 S.Ct 971, 985 (1989). See also Goldstein v. California, 412 U.S. 546 (1973) (states remain free to legislate intellectual property protection where they do not intrude into areas preempted by Congress). Of course, states retain some power to regulate interstate commerce as well, so long as they do not run afoul of either existing Congressional regulations or of the "dormant commerce clause." See generally L. Tribe, American Constitutional Law 401-41 (2d ed. 1988). The fact that the patent clause does not preempt state regulation is viewed by some as an argument against the patent power's support of abrogation of state sovereign immunity, particularly as there seems to be no "dormant patent clause," but this view seems unconvincing to me.

First, note that the Court in Bonito Boats refers to states having the "power to adopt rules to promote intellectual creation within their own jurisdictions." Such rules are a far cry from a state policy of refusing to obey federal laws intended to promote intellectual creation nationally. Furthermore, the consequences of holding otherwise create such obvious problems with other constitutional provisions that the patent clause -- despite whatever concurrent state power may be left thereunder -- cannot plausibly have been intended to support such a reading.

To the extent that a state judges that its own refusal to obey federal law promotes the interest of intellectual creation more effectively than compliance would, it is second-guessing Congress on a matter of national concern and runs afoul of the Supremacy Clause. Should the state on the other hand adopt a policy of paying royalties only to in-state inventors and relying on sovereign immunity to fend off the claims of all others, it would be discriminating against out-of-staters in violation of (at least) the 14th amendment's equal protection clause and the commerce clause. The prevention of such problems is obviously the reason for having a national patents clause in the first place.

Fourteenth Amendment Power

Article I matters aside, it appears clear to me that Congress can validly abrogate state sovereign immunity in this context pursuant to the Fourteenth Amendment. It is entirely settled that Congress has the authority to override the states' sovereign immunity, whether characterized as a creation of the Eleventh Amendment or of common-law prudential doctrines,[6] in the exercise of its authority to implement the Fourteenth Amendment's restrictions on the states through "appropriate legislation."[7] It seems plain that patent rights, though classed as "intellectual property," should be regarded as "property" within the ambit of the Fourteenth Amendment,[8] and that Congress may prohibit the states from infringing such rights pursuant to its Fourteenth Amendment powers.

Under any of the above rationales, basic structural considerations of federalism make the exercise of Congressional power appropriate in this context. If states are free to infringe patents, every state -- whether it gains or loses from the practice generally -- will have an incentive to cheat wherever it can. The result will be a "race for the bottom" in respect for intellectual property rights that will leave everyone worse off. Any state that chooses to respect intellectual property rights will be marginally worse off than its neighbors that do not do so, and state government officials may face complaints from

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6 See Justice Stevens' concurrence in Pennsylvania v. Union Gas, supra, 109 S.Ct. at 2286-89 (distinguishing between immunity conferred by the Eleventh Amendment, which Congress may not override in exercise of Article I powers, and immunity conferred by federal common law, which Congress may override). I assume that this conception is the reason for the all encompassing language concerning "any other doctrine of sovereign immunity" contained in the bill. See also Atascadero State Hospital v. Scanlon, 473 U.S. 234, 262-79 (Brennan, J., dissenting) (1985).

7 See Fitzpatrick v. Bitzer, 427 U.S. 445 (1976).

8 "Property" under the Fourteenth Amendment need not be tangible. See, e.g., Goldberg v. Kelly, 397 U.S. 254 (1970) ("property" interest in welfare benefits). And, unlike welfare benefits, intellectual property can be bought, sold, and inherited.

taxpayers that they are paying out royalties unnecessarily. It was precisely to prevent such "beggar thy neighbor" incentives that a strong national government was formed to begin with.[9]

Recommendations

One would hope that a reviewing court would recognize the above arguments on its own and uphold the bill based on a facial review. In fact, I believe that any sensible court would do so. However, it might be wise to explicitly declare, either in a series of findings at the outset of the bill, or in the legislative history, that this bill is enacted pursuant to all of the above powers of Congress, and for the kinds of reasons I have discussed. Although such a declaration might seem unnecessary, the Supreme Court's recent enthusiasm for requiring explicit legislative declarations of the obvious[10] suggests that it is better to err on the side of caution.

Thank you for presenting me with this interesting question. I hope that these comments have been helpful, and I would be happy to discuss them with you further.

Sincerely,

Glenn Harlan Reynolds
Associate Professor of Law

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9 See generally C. Black, Structure and Relationship in Constitutional Law (1969); McLaughlin, The Articles of Confederation, in Essays on the Making of the Constitution 44-60 (2d ed. 1987). Cf. M. Olson, The Logic of Collective Action (1965).

10 See, e.g., Atascadero State Hospital v. Scanlon, 473 U.S. 234, 243 (1985).

THE UNITED STATES TRADEMARK ASSOCIATION
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EXECUTIVE OFFICES

February 6, 1990

The Honorable Robert Kastenmeier
Chairman, Subcommittee on Courts,
Intellectual Property and the
Administration of Justice
2137 Rayburn HOB
Washington, D.C. 20515

Re: February 6, 1990 hearing on the "Patent Remedy Clarification Act"

Dear Chairman Kastemeier:

The United States Trademark Association (USTA), a not-for-profit association representing over 2100 corporations, law firms, professional associations and others interested in the protection and development of trademarks, would like to go on record as supporting an analysis of whether legislation similar to the recently-passed Copyright Remedy Clarification Act and the subject of today's hearing, the Patent Remedy Clarification Act, should be proposed for trademarks.

As you know, trademarks differ in some important respects from patents and copyrights. In particular, trademark rights have not been federally preempted and regulation of trademark matters is the subject of both Federal and State laws. Also, Federal regulation of trademarks is based on the Commerce Clause, rather than on specific Constitutional provisions, as are patents and copyrights. However, many of the concerns relating to infringement by States, officers of States and officers and employees of States acting in their official capacity, may apply equally to trademarks, as they do to other intellectual property matters.

USTA currently is analyzing the need for a possible amendment of the Lanham Act which would abrogate the 11th Amendment. It does believe that if any legislation is desirable, it should be considered separately from that for patents and copyrights. The Association hopes that the Subcommittee will study this issue and offers its assistance to you and other members of the Subcommittee.

Sincerely,

Robin A. Rolfe
Executive Director

RAR:mg