20 House Report No. 96-1307, 96th Cong., 2d Sess. (1980) *

[Part 1]

AMENDING THE PATENT AND TRADEMARK LAWS

September 9, 1980--Ordered to be printed

Mr. Kastenmeier, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H.R. 6933]

[Including cost estimate and comparison of the Congressional Budget Office]

The Committee on the Judiciary to whom was referred the bill (H.R. 6933) entitled: "To amend the patent and trademark laws", having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendment to the text of the bill is a complete substitute therefor and appears in italic type in the reported bill.

The title of the bill is amended to reflect the amendment to the text of the bill.

STATEMENT

The Need for the Legislation

Many analysts of the U.S. economy have warned that the roots of the current recession lie in a longer term economic malaise which arises out of a failure of American industry to keep pace with the increased productivity of foreign competitors.n1

According to the Committee for Economic Development, "the slowing of productivity improvement during the past few years parallels the discouraging decline in the rate of investment in plant and equipment."n2 The rate of investment as a proportion of GNP has averaged about one half the rate for France and Germany and about one third the rate for Japan. Further, the situation does not appear to be improving. There has been an especially significant decline in total U.S. expenditures for research and development, as measured in constant dollars since 1970.n3 Since the primary means of improving productivity lies in the creation of new technologies, the decline in expenditures for research and development is especially significant to the health of the overall economy.

Testimony presented to the Subcommittee on Courts, Civil Liberties and the Administration of Justice also indicates that the Federal Government is bearing an ever increasing share of the burden of financing basic research and development.n4 This means that the effective commercialization of government financed research is becoming an ever more important issue for those who are concerned with industrial innovation. The patent policies governing the utilization of government funded research will become even more important when the research expected to flow out of recent Congressional enactments such as the Energy Security Act of 1980n5 begins to produce usable new technologies. It is highly likely that the fuel which powers our automobiles and the boilers which heat our homes will owe part of their chemical composition or mechanical operation to patented research developed in part by government funds. At the present time U.S. companies desiring to use government funded research to develop new products and processes must confront a bewildering array of 26 different sets of agency regulations governing their rights to use such research. This bureaucratic confusion discourages efficient use of taxpayer financed research and development.

HISTORY OF THE BILL

The crisis in U.S. productivity and the governmental role in it has not gone unnoticed, however. In May of 1978 the President called for a major policy review of industrial innovation as the key to increased productivity in the United States. This White House call to action resulted in the creation of an advisory Committee of more than 150 senior

representatives from the industrial, public interest, labor, scientific, and academic communities. The work of the Advisory Committee was overseen by a cabinet level coordinating committee chaired by the Secretary of Commerce. The Committee studied all the areas in which federal government policy impacts on productivity and innovation in the private sector. These fields of inquiry included: economic and trade policy; environmental, health and safety regulations; anti-trust enforcement; federal procurement policies, and federal patent and information policies.

When the advisory committee issued its 300 page report last year, a key segment contained recommendations on government patent policy. These recommendations, in turn, were received by the President, and formed the basis of a major legislative proposal which was conveyed to the Congress. Special emphasis was placed on the role of the patent system and the patent policy regarding government funded research in promoting industrial innovation. These patent related recommendations were forwarded to the Committee on the Judiciary and are embodied in H.R. 6933 and H.R. 3806.

H.R. 6933 has three major thrusts. First, it strengthens investor confidence in the certainty of patent rights by creating a system of administrative reexamination of doubtful patents. Secondly, it strengthens the financial resources of the Patent Office to provide fast and accurate processing of patent applications by revising the fee structure of the Office. Finally, the existing melange of 26 different agency policies on vesting of patent rights in government funded research is replaced by a single, uniform national policy designed to cut down on bureaucracy and encourage private industry to utilize government funded inventions through the commitment of the risk capital necessary to develop such inventions to the point of commercial application.

H.R. 3806 embodies another recommendation of the Advisory Committee and the President. It grants jurisdiction over appeals in patent cases to a single court of appeals--ending the current legal confusion created by 11 different appellate forums, all generating different interpretations of the patent law. The new court will do a great deal to improve investors' confidence in patented technology.

In addition to the three broad areas already outlined, H.R. 6933 addresses the special needs of Universities and small businesses when they attempt to deal with Patent issues arising out of government contracts. Both of these groups lack the resources to cope with the bewildering regulatory and bureaucratic problems associated with transfer of patent rights pursuant to government contracts; and the university sector in particular is an important link to the private sector.

The Subcommittee on Courts, Civil Liberties and the Administration of Justice held seven days of hearings on H.R. 6933 and related patent law proposals. In all, over thirty witnesses from Government, the private Bar, industry, education, small business, and the judiciary offered testimony on the various legislative proposals before the subcommittee. Hearings were followed by four days of markup, during which H.R. 3806, creating a new Court of Appeals for the Federal Circuit, H.R. 6933, containing reforms in patent policy and procedures, and H.R. 6934, clarifying the law of copyright of computer programs, were reported favorably. Each bill was reported unanimously. The unanimous votes, particularly on H.R. 6933, were cast only after careful examination of the legislation in light of the criticisms made during the hearings and after consultation with members of the Committee on Science and Technology, which shares jurisdictional interest. During the course of markup H.R. 6933 was amended substantially to respond to criticisms raised during the hearing.

SUMMARY OF THE BILL

H.R. 6933, as amended, addresses four major issues. Section 1 provides for a system of administrative reexamination of patents within the patent office. This new procedure will permit any party to petition the patent office to review the efficacy of a patent, subsequent to its issuance, on the basis of new information about preexisting technology which may have escaped review at the time of the initial examination of the patent application. Reexamination will permit efficient resolution of questions about the validity of issued patents without recourse to expensive and lengthy infringement litigation. This, in turn, will promote industrial innovation by assuring the kind of certainty about patent validity which is a necessary ingredient of sound investment decisions.

The cost incurred in defensive patent litigation sometimes reaches $ 250,000 for each party, an impossible burden for many smaller firms. The result is a chilling effect on those businesses and independent inventors who have repeatedly demonstrated their ability to successfully innovate and develop new products. A new patent reexamination procedure is needed to permit the owner of a patent to have the validity of his patent tested in the Patent office where the most expert opinions exist and at a much reduced cost. Patent office reexamination will greatly reduce, if not end, the threat of legal costs being used to "blackmail" such holders into allowing patent infringements or being forced to license their patents for nominal fees.

The reexamination of issued patents could be conducted with a fraction of the time and cost of formal legal proceedings and would help restore confidence in the effectiveness of our patent system.

The bill does not provide for a stay of court proceedings. It is believed by the committee that stay provisions are unnecessary in that such power already resides with the Court to prevent costly pretrial maneuvering which attempts to circumvent the reexamination procedure. It is anticipated that these measures provide a useful and necessary alternative for challengers and for patent owners to test the validity of United States patents in an efficient and relatively inexpensive manner.

Sections 2 through 5 of H.R. 6933 provide for a new fee structure for the patent office. At the present time patent examination fees are established by statute, last revised in 1967. When enacted, the present fee structure provided revenues which met 67 percent of the costs of operating the Patent Office. Inflation has now reduced the impact of those fees to the point where they generate only 27 percent of the funding necessary to the operation of the office.

At the present time patent fees average about $ 239 per application.n6

H.R. 6933 would entirely revise the fee structure. It grants the Commissioner the power to establish fees. As introduced, the bill provided that the fee level would be revised yearly to generate 60 percent of the revenue needed to operate the office. However, the subcommittee amended the bill to reduce that level to 50 percent. This was in response particularly to criticism from small business and individual inventors that the fees would place too great a burden on those groups.

In order to further soften the impact on small business and individual inventors, the fees are to be paid in four installments over the life of the patent. This system, known as maintenance fees, is in use in most advanced industrial nations and has the advantage of deferring payment until the invention begins to return revenue to the inventor.

Should the invention prove to have no commercial value, the inventor has the option of permitting the patent to lapse, thus avoiding all further fees.

Section 6 of H.R. 6933 provides for a uniform policy governing the disposition of patent rights in government funded research.

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SECTION-BY-SECTION ANALYSIS

Reexamination

Section 1 of the bill would add seven new sections to the patent laws to establish a patent reexamination system. These seven new sections would constitute chapter 30 of title 35 of the United States Code.

Section 301. Citation of prior art

Section 301 provides statutory authority for the citation to the Patent and Trademark Office (PTO) of prior art consisting of patents or printed publications which a person believes to have a bearing on the patentability of any claim of a particular patent. Section 301 would make clear that a citation of prior art is not to be included in the official file on a patent unless the citer submits a written statement as to the pertinency and applicability to the patent. Section 301 also would require the PTO to keep the identity of the citer of prior art confidential if the citer so requests in writing. Without the confidentiality provision, competitors of a patent owner might be reluctant to cite prior art to the PTO.

Section 302. Request for reexamination

Section 302 provides authority for any person to seek reexamination by the PTO on the basis of the patents and printed publications cited under section 301. Such a person need not be the one who cited prior art under section 301. The person could even be the patentee.

Section 302 requires that the person seeking reexamination pay a fee established by the Secretary. Under section 2 of this bill, the Secretary would be required to establish a fee to recover the estimated average cost of a reexamination proceeding. Thus, those who request reexamination would pay for it.

Section 302 requires the Commissioner to send a copy of the request promptly to the patent owner, as shown by the records of the Office. The patent owner would have to see that his ownership and current address are recorded properly so that the request is not sent to a previous owner.

Section 303. Determination of issue by Commissioner

Subsection 303(a) requires the Commissioner to determine if a "substantial new question of patentability" is raised in connection with any claims of the patent against which a patent or printed publication is cited and to order reexamination upon a positive determination. Further, it would permit the Commissioner to initiate reexamination without a request upon a determination that a substantial new question of patentability is raised by patents or publications discovered by him or cited under the provisions of section 301. This authority to initiate reexamination without a request is not intended to abrogate in any way the right of the United States to sue to cancel a patent obtained by fraudulent means.

This "substantial new question" requirement would protect patentees from having to respond to, or participate in unjustified reexaminations. Further, it would act to bar reconsideration of any argument already decided by the Office, whether during the original examination or an earlier reexamination.

Subsection 303(b) requires that the Commissioner's determination be recorded in the file of the patent and a copy promptly sent to the patent owner and the person requesting the reexamination.

Subsection 303(c) makes final and nonappealable a decision by the Commissioner not to conduct reexamination. In such a case, however, a portion of the reexamination fee could be returned.

No one would be deprived of any legal right by a denial by the Commissioner of a request for reexamination. A party to a reexamination proceeding could still argue in any subsequent litigation that the PTO erred and that the patent is invalid on the basis of the cited prior art.

Section 304. Reexamination order by Commissioner

Section 304 specifies the initial steps to be taken where the Commissioner determines that reexamination should be ordered. Upon issuance of a determination ordering reexamination, the patent owner would be given the opportunity to file a statement with the Office and, if he wishes, to propose an amendment to the specification or claims of his patent as well as a new claim or claims in response to the Commissioner's determination. The patent owner would be required to serve a copy of any such statement and any proposed amendment on the person requesting reexamination, who would be permitted to file a reply with the Office, with service required on the patent owner.

Section 305. Conduct of reexamination proceedings

Section 305 governs the conduct of the actual reexamination proceeding. Section 305 specifies that after the initial exchange permitted under section 304, the PTO will utilize the same procedures it uses for the initial examination of patent applications under patent law sections 132 and 133 . The patent owner could propose an amendment to his patent specification or claims, as well as propose a new claim or claims, to distinguish his invention from the prior art cited under section 301. However, the bill would prohibit the Commissioner from granting during reexamination any amended or new claim that enlarges the scope of a claim of the original patent. Also, the bill would require reexamination to be promptly handled, so as to make it as helpful as possible.

Section 306. Appeal

Section 306 grants a patent owner the right to pursue the same appeal routes available to patent applicants. An adverse decision on reexamination by the primary examiner could be appealed to the Board of Appeals. Adverse final decisions on reexamination by the Board of Appeals or by the Commissioner could be appealed to the U.S. Court of Customs and Patent Appeals or de novo review of the reexamination decision could be sought in the United States District Court for the District of Columbia.

Section 307. Certificate of patentability, unpatentability, and claim cancellation

Section 307(a) requires the Commissioner at the conclusion of reexamination to cancel any patent claim found to be unpatentable, confirm any patent claim found to be patentable, and add any amended or new claims found to be patentable.

Subsection 307(b) provides intervening rights similar to those provided by patent law section 252 with respect to reissued patents. Thus, a person practicing a patented invention would not be considered an infringer for the period between issuance of an invalid patent and its conversion through reexamination to a valid patent.

It ordinarily is in the interests of both parties to expedite the disposition of patent litigation. A party discovering new prior art on which reexamination might be conducted ordinarily will reveal it promptly to the patent owner. If he does not, the court may exercise its equity power by allowing the patent owner to request reexamination later in the trial, or precluding the party from relying on such prior art or by other appropriate measures.

Administrative Fee Setting

Section 2 of the bill would restructure and modernize completely section 41 of title 35, United States Code--the basic fee provision of the patent laws.

The committee recognizes that the PTO, in issuing patents and registering trademarks, performs a significant public service in implementing the Federal patent and trademark laws and also confers benefit on private persons who seek to protect their intellectual property. The Committee, therefore, supports the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the PTO by the payment of fees. However, the Committee has made certain amendments to the formula which empowers the Commissioner to set these fees. Certain costs of operating the PTO confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law. For example, the cost of executive direction and administration of the office, including the Office of the Commissioner and certain agency offices involved with public information, legislation, international affairs and technology assessment. Maintaining the public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. The contribution to the World Intellectual Property Organization relative to the Patent Cooperation Treaty is a treaty obligation. These costs should be paid for entirely from appropriated funds.

The committee inserted the word "actual" in this legislation to describe those costs which should be assumed 50 percent by applicants. Patent applicants should bear through the payment of fees, 25 percent in processing of fees, and 25 percent in maintenance fees, the costs of the patent examiners and their clerical support, as well as quality review, appeals, interferences, and patent printing including internal PTO printing costs. Also, "actual" is intended to exclude from such costs the acquisition or replacement of equipment where such acquisition or replacement involves substantial capital outlays. Such expenditures would be paid from the Patent and Trademark Office's appropriation. The cost of data and document retrieval systems, however, to the extent that these expenditures goes toward the reclassification of the patent search file, should be borne 50 percent by the public. These are the actual costs of processing patent applications, and activity which confers certain direct benefits on private persons.

The committee notes that the PTO furnishes to the public copies of issued patents for a fee. The costs to the PTO of such copies should be charged to applicants.

The trademark examiners and their clerical support, the trial and appeal process, and trademark printing should be paid for to the extent of 50 percent by applicants for the registration of trademarks.

Some of the cost of operating the PTO confers no direct benefit to the general public, but rather goes to providing services to private parties. The cost of customer services such as providing copies should be recovered 100 percent in fees. Also, in the patent process, drafting and assignment should be self-supporting.

Illustrative Example of PTO Recovery Policy--Based on Fiscal
Year 1981 Budget

I. Government 100 percent: Commissioner (includes Office of Information Services); Office of Legislation and International Affairs; Management planning; Administrative services; Automatic data processing; and Search room.

II. Government 50 percent/users 50 percent: Examination--professional staff; Quality review; Clerical force; Appeals; Interferences; Patent printing; Solicitor; Data and document retrieval; publication services; Examination of trademarks; Trademark trial and appeals; and Trademark printing.

III. Users 100 percent: Customer services; drafting; and assignment.

Section 41. Patent fees

Subsection 41(a) authorizes the Secretary of Commerce to set fees administratively for processing a patent application, for maintaining a patent in force, and for providing all other patent services and materials.

Subsection 41(b) requires the Secretary of Commerce to establish fees for processing patent applications, from filing to disposition by issuance or abandonment, equal in aggregate to 25 percent of the estimated average cost of

actually processing an application. As fee revenues and costs change, the Secretary would adjust fees to achieve the specified recovery rate once every three years. These fees are those of the type now specified in paragraphs 1, 2, 3, and 6 of existing subsection 41(a) of the patent laws. The Secretary would have authority to eliminate or change the amounts of any of the present fees and establish others, so long as a fee charged directly relates to the actual processing of patent applications and the aggregate fees for an application effect the specified 25 percent recovery rate.

Subsection 41(b) would treat design patent processing fees differently than fees for other types of patents. Since the costs to the Office of processing design patent applications are significantly lower and maintenance fees will not be imposed, design patent applicants would be charged fees equal in aggregate to 50 percent of the estimated cost of processing such an application.

Subsection 41(c) requires the payment of maintenance fees three times in a patent's life--six months prior to the fourth, eighth and twelfth anniversaries of the patent's seventeen-year term. As required by the Paris Convention for the Protection of Industrial Property, subsection 41(c) permits late payment during a six-month grace period. Failure to pay an applicable maintenance fee by the end of the grace period would result in expiration of the patent on the date the grace period ends.

Subsection 41(c) also requires the Secretary to establish maintenance fees at levels that recover 30 percent of the costs to the Office for the year in which such maintenance fees are received of processing all applications for patents other than design patents, from filing through disposition by issuance or abandonment, by the fifteenth year following enactment of the Act.

Subsection 41(d) requires the Secretary to establish fees for all other patent-related services and materials at levels which will recover the full costs to the Office of performing those services or providing those materials. Fees would be adjusted as costs vary. Subsection 41(d), however, would maintain the existing subsection 41(a)(9) fee of $ 50 for providing a despository library with uncertified printed copies of the specifications and drawings for all patents issued in a year.

Subsection 41(e) allows the Commissioner to waive any fee for a service or product provided to a government agency. This authority now is provided in existing subsection 41(c).

Subsection 41(f) limits the adjustment of patent application processing fees and maintenance fees to once every three years.

Subsection 41(g) imposes a notice requirement on effective date of new or adjusted fees.

Crediting of Fee Revenue to the PTO Appropriation Account

Section 3 of this bill would amend section 41 of title 35, United States Code, by completely rewriting it.

Section 42. Patent and Trademark Office funding

Subsection 42(a) makes all fees for Patent and Trademark Office services and materials payable to the Commissioner of Patents and Trademarks. This provision is carried over from existing section 42.

Subsection 42(b) requires all fee revenues and all Patent and Trademark Office appropriations to be credited to the Patent and Trademark Office Appropriation Account in the Treasury of the United States. At present, Patent and Trademark Office fee revenues are deposited in the general fund of the Treasury and are unavailable for directly funding PTO activities.

Subsection 42(c) makes fee revenues credited to the PTO Appropriation Account available to the Secretary of Commerce to carry out the activities of the Patent and Trademark Office. Budgetary control is maintained since the PTO would continue to receive appropriations and the use of fee revenues would be limited "to the extent provided for in an appropriations Acts."

Subsection 42(d) authorizes the Secretary to refund any fee paid by mistake or any account paid in excess of that required. This authority is found in existing section 42.

Technical Amendment

Section 4 of the bill is a technical amendment to section 154 of the patent laws necessitated by creation of the maintenance fee system.

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Transitional Provisions

Section 8. Effective date

Section 8 provides for the taking effect of the bill's various provisions.

Section 8(a) specified and that the fee setting authority provisions of the bill and the conforming technical amendment take effect upon enactment. Nevertheless, these fees need not be set to recover the levels specified in the bill (25 percent recovery for patent processing and full recovery for providing materials and services in patent and trademark cases) until the first day of the first fiscal year beginning one calendar year after enactment. This will provide at least a year to determine the amounts and natures of fees needed.

Subsection 8(b) provides that the reexamination provisions of this bill take effect six months after enactment and apply to patents then in force or issued thereafter.

Subsection 8(c) provides that the authority to credit fee revenues to the Office's Appropriation Account take effect as of the first day of the first fiscal year beginning one calendar year after enactment. Thus, at least one year would be available to obtain needed administrative approval and implement an appropriate accounting system. However, until section 3 takes effect, the Secretary, in order to pay reexamination costs, may credit the Patent and Trademark Office Appropriation Account with the revenues from collected reexamination fees.

Subsection 8(d) continues existing fees until new fees are established.

Subsection 8(e) provides that maintenance fees shall not be applicable to patents applied for prior to the day of enactment of this Act.

Subsection 8(f) provides that sections 6 and 7 of this bill which establish a uniform patent policy and make necessary conforming amendments to existing laws take effect six months after enactment.

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Estimated Cost of the Legislation

It is estimated that there will be no additional costs to the United States due to the provisions of H.R. 6933. As the statement of the Congressional Budget Office indicates, there will be a substantial savings to the United States as a result of the legislation.

Statement of the Congressional Budget Office

Click here to view image.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974 , the Congressional Budget Office has prepared the attached cost estimate for H.R. 6933, a bill to amend the patent and trademark laws.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely, James Blum
(For Alice M. Rivlin, Director).

CONGRESSIONAL BUDGET OFFICE--COST ESTIMATE, AUGUST 28, 1980

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Reexamination of patents

H.R. 6933 would allow any party to petition the PTO to reexamine a patent for validity. The cost of reexamination would be paid by the party based on a fee structure established by the Commissioner of Patents. It is anticipated that the number of patent applications for reexaminations will be limited by the cost involved and the potential for commercial development. Based on rates currently available in foreign countries for similar procedures, as well as estimates provided by the PTO, it is estimated that the number of appeals will be approximately 500 in fiscal year 1981, increasing to 2,000 by 1982, and remain relatively stable thereafter.

Although the bill does not specifically authorize funding for this purpose, it is assumed that additional staff will be required to handle the reexamination procedures. Based on PTO data, it is estimated that the average cost per employee, including overhead and benefits, would be approximately $ 40,000 in fiscal year 1981. Assuming approximately 30 hours per reexamination, plus clerical support, it is estimated that approximately 55 appeals could be reviewed annually by a professional staff member. It is estimated that the cost of this procedure would be approximately $ 0.4 million in fiscal year 1981, which reflects six month's activity. Costs are estimated to be $ 1.4 million in fiscal year 1982, increasing to $ 2.5 million by fiscal year 1985. It is assumed, however, that the full amount required by the PTO for salaries and expenses would be recovered by fees set at the beginning of the fiscal year and adjusted annually for inflation and anticipated workload. It is assumed that fees would be included with the request for reexamination and reflected as a reimbursable to the agency, resulting in a net outlay of around zero in each fiscal year.

Revision of fee structure

H.R. 6933 would restructure the current fee structure for patents and trademarks. Currently, the PTO recovers approximately 20 percent of the cost of processing patents and approximately 30 percent of the cost of issuing trademarks. These fees are deposited in the general fund of the Treasury.

The bill would allow the PTO to recover up to 25 percent of the average processing costs and 25 percent of the maintenance costs for patents, the latter fee collected in four installments over the life of the patent. In addition, the PTO would be allowed to recover a maximum of 50 percent of the cost of issuing trademarks. All fees for patents and trademarks could be adjusted no more than once every three years and would be credited to the PTO as a reimbursable to the agency, rather than as a revenue to the Treasury.

It is assumed that the revised fee structure for trademarks would be implemented early in the second quarter of fiscal year 1981, and for patents beginning in fiscal year 1982. It is assumed that the agency costs for processing patents and trademarks from which recovery could be made would be approximately $ 84 million in fiscal year 1982, increasing to approximately $ 109 million by fiscal year 1985. It is assumed that an average recovery rate of 25 and 50 percent, adjusted every third year, would be established for processing fees for patents and for trademarks, respectively. Patent maintenance fees would be collected three times in a patent's life--around the forth, eighth, and twelfth year. Since the first payment would not be made until fiscal year 1986, it is not reflected in the table below.

[By fiscal years, in millions of dollars]

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Committee Vote

H.R. 6933 was approved by the Committee on the Judiciary on August 20, 1980, by a voice vote.

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CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

TITLE 35, UNITED STATES CODE

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PART I--PATENT AND TRADEMARK OFFICE

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CHAPTER 4--PATENT FEES

Sec.

41. Patent fees.

42. Payment of patent fees; return of excess amounts.

[§ 41. Patent fees

[(a) The Commissioner shall charge the following fees:

[1. On filing each application for an original patent, except in design cases, $ 65; in addition on filing or on presentation at any other time, $ 10 for each claim in independent form which is in excess of one, and $ 2, for each claim (whether independent or dependent) which is in excess of ten. For the purpose of computing fees, a multiple dependent claim as referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. Errors in payment of the additional fees may be rectified in accordance with regulations of the Commissioner.

[2. For issuing each original or reissue patent, except in design cases, $ 100; in addition, $ 10 for each page (or portion thereof) of specification as printed, and $ 2 for each sheet of drawing.

[3. In design cases:

[a. On filing each design application, $ 20.

[b. On issuing each design patent: For three years and six months, $ 10; for seven years, $ 20; and for fourteen years, $ 30.

[4. On filing each application for the reissue of a patent, $ 65; in addition, on filing or on presentation at any other time, $ 10 for each claim in independent form which is in excess of the number of independent claims of the original patent, and $ 2 for each claim (whether independent or dependent) which is in excess of ten and also in excess of the number of claims of the original patent. Errors in payment of the additional fees may be rectified in accordance with regulations of the Commissioner.

[5. On filing each disclaimer, $ 15.

[6. On appeal for the first time from the examiner to the Board of Appeals, $ 50; in addition, on filing a brief in support of the appeal, $ 50.

[7. On filing each petition for the revival of an abandoned application for a patent or for the delayed payment of the fee for issuing each patent, $ 15.

[8. For certificate under section 255 or under section 256 of this title, $ 15.

[9. As available and if in print: For uncertified printed copies of specifications and drawings of patents (except design patents), 50 cents per copy; for design patents, 20 cents per copy; the Commissioner may establish a charge not to exceed $ 1 per copy for patents in excess of twenty-five pages of drawings and specifications and for plant patents printed in color; special rates for libraries specified in section 13 of this title, $ 50 for patents issued in one year. The Commissioner may, without charge, provide applicants with copies of specifications and drawings of patents when referred to in a notice under section 132.

[10. For recording every assignment, agreement, or other paper relating to the property in a patent or application, $ 20; where the document relates to more than one patent or application, $ 3 for each additional item.

[11. For each certificate, $ 1.

[(b) The Commissioner may establish charges for copies of records, publications, or services furnished by the Patent and Trademark Office, not specified above.

[(c) The fees prescribed by or under this section shall apply to any other Government department or agency, or officer thereof, except that the Commissioner may waive the payment of any fee for services or materials in cases of occasional or incidental requests by a Government department or agency, or officer thereof.]

§ 41. Patent fees

(*a*) *The Commissioner of Patents will establish fees for the processing of an application for a patent, from filing through disposition by issuance or abandonment, for maintaining a patent in force, and for providing all other services and materials related to patents. No fee will be established for maintaining a design patent in force.*

(*b*) *By the first day of the first fiscal year beginning on or after one calendar year after enactment of this Act, fees for the actual processing of an application for a patent, other than for a design patent, from filing through disposition by issuance or abandonment, will recover in aggregate 25 per centum of the estimated average cost to the Office of such processing. By the first day of the first fiscal year beginning on or after one calendar year after enactment, fees for the processing of an application for a design patent, from filing through disposition by issuance or abandonment, will recover in aggregate 50 per centum of the estimated average cost to the Office of such processing.*

(*c*) *By the fifteenth fiscal year following the date of enactment of this Act, fees for maintaining patents in force will recover 25 per centum of the estimated cost to the Office, for the year in which such maintenance fees are received, of the actual processing all applications for patents, other than for design patents, from filing through disposition by issuance or abandonment. Fees for maintaining a patent in force will be due three years and six months, seven years and six months, and eleven years and six months after the grant of the patent. Unless payment of the applicable maintenance fee is received in the Patent and Trademark Office on or before the date the fee is due or within a grace period of six months thereafter, the patent will expire as of the end of such grace period. The Commissioner may require the payment of a surcharge as a condition of accepting within such six-month grace period the late payment of an applicable maintenance fee.*

(*d*) *By the first day of the first fiscal year beginning on or after one calendar year after enactment, fees for all other services or materials related to patents will recover the estimated average cost to the Office of performing the service or furnishing the material. The yearly fee for providing a library specified in section 13 of this title with uncertified printed copies of the specifications and drawings for all patents issued in that year will be $ 50.*

(*e*) *The Commissioner may waive the payment of any fee for any service or material related to patents in connection with an occasional or incidental request made by a department or agency of the Government, or any officer thereof. The Commissioner may provide any applicant issued a notice under section 132 of this title with a copy of the specifications and drawings for all patents referred to in that notice without charge.*

(*f*) *Fees will be adjusted by the Commissioner to achieve the levels of recovery specified in this section; however, no patent application processing fee or fee for maintaining a patent in force will be adjusted more than once every three years.*

(*g*) *No fee established by the Commissioner under this section will take effect prior to sixty days following notice in the Federal Register.*

[§ 42. Payment of patent fees; return of excess amounts

[All patent fees shall be paid to the Commissioner who, except as provided in sections 361(b) and 376(b) of this title, shall deposit the same in the Treasury of the United States in such manner as the Secretary of the Treasury directs, and the Commissioner may refund any sum paid by mistake or in excess of the fee required by law.]§ 42. Patent and Trademark Office funding

(*a*) *All fees for services performed by or materials furnished by the Patent and Trademark Office will be payable to the Commissioner.*

(*b*) *All fees paid to the Commissioner and all appropriations for defraying the costs of the activities of the Patent and Trademark Office will be credited to the Patent and Trademark Office Appropriation Account in the Treasury of the United States, the provisions of section 725e of title 31, United States Code, notwithstanding.*

(*c*) *Revenues from fees will be available to the Commissioner of Patents to carry out, to the extent provided for in appropriation Acts, the activities of the Patent and Trademark Office.*

(*d*) *The Commissioner may refund any fee paid by mistake or any amount paid in excess of that required.*

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PART II--PATENTABILITY OF INVENTIONS AND
GRANT OF PATENTS

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CHAPTER 14--ISSUE OF PATENT

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§ 154. Contents and term of patent

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of [issue] fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

* * * * *

CHAPTER 30--PRIOR ART CITATIONS TO OFFICE AND REEXAMINATION OF PATENTS

Sec. 301. 301. Citation of prior art.

Sec. 302. Request for reexamination.

Sec. 303. Determination of issue by Commissioner.

Sec. 304. Reexamination order by Commissioner.

Sec. 305. Conduct of reexamination proceedings.

Sec. 306. Appeal.

Sec. 307. Certificate of patentability, unpatentability, and claim cancellation.

§ 301. Citation of prior art.

Any person at any time may cite to the Office in writing prior art consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent. If the person explains in writing the pertinency and manner of applying such prior art to at least one claim of the patent, the citation of such prior art and the explanation thereof will become a part of the official file of the patent. At the written request of the person citing the prior art, his or her identity will be excluded from the patent file and kept confidential.

§ 302. Request for reexamination

Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title. The request must be in writing and must be accompanied by payment of a reexamination fee established by the Commissioner of Patents pursuant to the provisions of section 41 of this title. The request must set forth the pertinency and manner of applying cited prior art to every claim for which reexamination is requested. Unless the requesting person is the owner of the patent, the Commissioner promptly will send a copy of the request to the owner of record of the patent.

§ 303. Determination of issue by Commissioner

(*a*) *Within three months following the filing of a request for reexamination under the provisions of section 302 of this title, the Commissioner will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On his own initiative, and at any time, the Commissioner may determine whether a substantial new question of patentability is raised by patents and publications discovered by him or cited under the provisions of section 301 of this title.*

(*b*) *A record of the Commissioner's determination under subsection (a) of this section will be placed in the official file of the patent, and a copy promptly will be given or mailed to the owner of record of the patent and to the person requesting reexamination, if any.*

(*c*) *A determination by the Commissioner pursuant to subsection (a) of this section that no substantial new question of patentability has been raised will be final and nonappealable. Upon such a determination, the Commissioner may refund a portion of the reexamination fee required under section 302 of this title.*

§ 304. Reexamination order by Commissioner

If, in a determination made under the provisions of subsection 303(a) of this title, the Commissioner finds that a substantial new question of patentability affecting any claim of a patent is raised, the determination will include an order for reexamination of the patent for resolution of the question. The patent owner will be given a reasonable period, not less than two months from the date a copy of the determination is given or mailed to him, within which he may file a statement on such question, including any amendment to his patent and new claim or claims he may wish to propose, for consideration in the reexamination. If the patent owner files such a statement, he promptly will serve a copy of it on the person who has requested reexamination under the provisions of section 302 of this title. Within a period of two months from the date of service, that person may file and have considered in the reexamination a reply to any statement filed by the patent owner. That person promptly will serve on the patent owner a copy of any reply filed.

§ 305. Conduct of reexamination proceedings

After the times for filing the statement and reply provided for by section 304 of this title have expired, reexamination will be conducted according to the procedures established for initial examination under the provisions of sections 132 and 133 of this title. In any reexamination proceeding under this chapter, the patent owner will be permitted to propose any amendment to his patent and a new claim or claims thereto, in order to distinguish the invention as claimed from the prior art cited under the provisions of section 301 of this title, or in response to a decision adverse to the patentability of a claim of a patent. No proposed amended or new claim enlarging the scope of a claim of the patent will be permitted in a reexamination proceeding under this chapter. All reexamination proceedings under this section, including any appeal to the Board of Appeals, will be conducted with special dispatch within the Office.

§ 306. Appeal

The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 145 of this title, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent.

§ 307. Certificate of patentability, unpatentability, and claim cancellation

(*a*) *In a reexamination proceeding under this chapter, when the time for appeal has expired or any appeal proceeding has terminated, the Commissioner will issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent any proposed amended or new claim determined to be patentable.*

(*b*) *Any proposed amended or new claim determined to be patentable and incorporated into a patent following a reexamination proceeding will have the same effect as that specified in section 252 of this title for reissued patents on the right of any person who made, purchased, or used anything patented by such proposed amended or new claim, or who made substantial preparation for the same, prior to issuance of a certificate under the provisions of subsection* (*a*) *of this section.*

* * * * *

[Part 2]

SEPTEMBER 23, 1980.--Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Brooks, from the Committee on Government Operations, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H. R. 6933]

[Including cost estimate of the Congressional Budget Office]

The Committee on Government Operations, to whom was referred the bill (H.R. 6933) entitled "To amend the patent and trademark laws," having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

* * * * *

It was determined that Sections 1 through 5, dealing with certain procedures and fees, were not within the jurisdiction of the committee. The committee's jurisdiction does cover those sections dealing with Government policies for retaining or disposing of contract inventions developed during the course of or under Government contracts and related matters, and those sections dealing with the reorganization or transfer of individual units of Government.

* * * * *

FOOTNOTES:

[n1] Footnote 1. Report of the President's Advisory Committee on Industrial Innovation, Sept., 1979.

[n2] Footnote 2. *Stimulating Technological Progress.* A statement by the Research and Policy Committee of the Committee for Economic Development, Jan. 1980, pp. 2-7.

[n3] Footnote 3. *Science Indicators,* National Science Board, 1976, pp. 108-115.

[n4] Footnote 4. Testimony of Pindaros Roy Vagelos, M.D., before the subcommittee on Courts, Civil Liberties and the Administration of Justice, April 15, 1980, transcript p. 14.

[n5] Footnote 5. P.L. 96-294 .

[n6] Footnote 6. Testimony of Honorable Sidney Diamond, Commissioner of Patents, April 24, 1980--p. 50.

*. The following is the text of those portions of the House Report by the Committee on the Judiciary (Part 1) and Committee on Government Operations (Part 2) relating to patent fees and patent reexamination. Those portions dealing with section 6 of H.R. 6933 and with other matters are omitted in view of the substantial amendments made to section 6 by the Senate.

26 Patent Misuse Reform

Discussion of Amendment By Rep. Kastenmeier and Rep. Moorehead on House Floor, Congressional Record H10646-49, October 20, 1988

CONCURRING IN SENATE AMENDMENT TO H.R. 4972. PATENT AND TRADEMARK OFFICE AUTHORIZATION, WITH AN AMENDMENT

Mr. KASTENMEIER. Mr. Speaker, I move to suspend the rules and agree to the resolution (H. Res. 597) to take from the Speaker's table the bill, H.R. 4972, Patent and Trademark Office Authorization, with the Senate amendment thereto, and concur in the Senate amendment to the text with an amendment.

The Clerk read as follows:

H. Res. 597

In lieu of the Senate amendment to H.R. 4972 insert the following:

Strike out all after the enacting clause and insert the following:

TITLE I--PATENT AND TRADEMARK OFFICE AUTHORIZATIONS

SEC. 101. AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated to the Patent and Trademark Office--

(1) for salaries and necessary expenses, $ 117,504,000 for fiscal year 1989, $ 125,210,000 for fiscal year 1990, and $ 111,984,000 for fiscal year 1991; and

(2) such additional amounts as may be necessasry for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

SEC. 102. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 and following) may remain available until expended.

SEC. 103. OVERSIGHT OF AND ADJUSTMENTS TO TRADEMARK AND PATENT FEES.

(a) Trademark Fees.--The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(b) Patent Fees.--The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(c) Report to Congress.--The Secretary of Commerce shall, on the day on which the President submits the annual budget to the Congress, provide to the Committees on the Judiciary of the Senate and the House of Representatives--

(1) a list of patent and trademark fee collections by the Patent and Trademark Office during the preceding fiscal year;

(2) a list of activities of the Patent and Trademark Office during the preceding fiscal year which were reported by patent fee expenditures, trademark fee expenditures, and appropriations;

(3) budget plans for significant programs, projects, and activities of the Office, including out-year funding estimates;

(4) any proposed disposition of surplus fees by the Office; and

(5) such other information as the committees consider necessary.

SEC. 104. PUBLIC ACCESS TO PATENT AND TRADEMARK OFFICE INFORMATION.

(a) Repeal.--Section 4 of Public Law 99-607 (35 U.S.C. 41 note) is repealed.

(b) Maintenance of Collections.--The Commissioner of Patents and Trademarks shall maintain, for use by the public, paper or microform collections of United States patents, foreign documents, and United States trademark registrations arranged to permit search for and retrieval of information. The Commissioner may not impose fees for use of such collections, or for use of public patent or trademark search rooms or libraries. Funds appropriated to the Patent and Trademark Office shall be used to maintain such collections, search rooms, and libraries.

(c) Fees for Access to Search Systems.--Subject to section 105(a), the Commissioner of Patents and Trademarks may establish reasonable fees for access by the public to automated search systems of the Patent and Trademark Office in accordance with section 41 of title 35, United States Code , and section 31 of the Trademark Act of 1946 (15 U.S.C. 1113). If such fees are established, a limited amount of free access shall be made available to all users of the systems for purposes of education and training. The Commissioner may waive the payment by an individual of fees authorized by this subsection upon a showing of need or hardship, and if such waiver is in the public interest.

SEC. 105. FUNDING OF AUTOMATED DATA PROCESSING RESOURCES.

(a) Allocations.--Of amounts available to the Patent and Trademark Office for automatic data processing resources for fiscal years 1989, 1990, and 1991, not more than 30 percent of such amounts in each such fiscal year may be from fees collected under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) and section 41 of title 35, United States Code . The Commissioner of Patents and Trademarks shall notify the Committees on the Judiciary of the Senate and the

House of Representatives of any proposed reprogrammings which would increase or decrease the amount of appropriations expended for automatic data processing resources.

(b) Use of Revenues by Patent and Trademark Office.--Except as otherwise specifically provided in this title, Public Law 99-607, and section 42(c) of title 35, United States Code , the Patent and Trademark Office is authorized to use appropriated or apportioned fee revenues for any of its operations or activities.

SEC. 106. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, enter into any agreement for the exchange of items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data), and the Commissioner may not, on or after the date of the enactment of this Act, continue existing agreements for the exchange of such items or services. The preceding sentence shall not apply to an agreement relating to data for automation programs which is entered into with a foreign government or with an international intergovernmental organization.

TITLE II--PATENT MISUSE REFORM

SEC. 201. PERMISSIBLE ACTS BY PATENT OWNER.

Section 271(d) of title 35, United States Code, is amended by striking out the period at the end thereof and inserting in lieu thereof the following: "; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.".

SEC. 202. EFFECTIVE DATE.

The amendment made by this title shall apply only to cases filed on or after the date of the enactment of this Act.

The SPEAKER pro tempore. Is a second demanded?

Mr. MOORHEAD. Mr. Speaker, I demand a second.

The SPEAKER pro tempore. Without objection, a second will be considered as ordered.

There was no objection.

The SPEAKER pro tempore. The gentleman from Wisconsin [Mr. Kastenmeier] will be recognized for 20 minutes, and the gentleman from California [Mr. Moorhead] will be recognized for 20 minutes.

The Chair recognizes the gentleman from Wisconsin [Mr. Kastenmeier].

Mr. KASTENMEIER. Mr. Speaker, I yield myself such time as I may consume.

(Mr. KASTENMEIER asked and was given permission to revise and extend his remarks.)

Mr. KASTENMEIER. Mr. Speaker, I once again bring before the House the bill, H.R. 4972, to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for the next 3 fiscal years. The bill authorizes appropriations for salaries and necessary expenses up to the following amounts: $ 117,504,000 for fiscal year 1989; $ 125,210,000 for fiscal year 1990; and finally $ 111,984,000 for fiscal year 1991.

The House previously passed H.R. 4972 on October 5, unanimously by voice vote under suspension of the rules. On October 14, the Senate passed H.R. 4972 with a nongermane amendment. Today, we simply are sending title I of H.R. 4972 back to the Senate in exactly the same form as previously passed by the House. Title II of the bill relates to patent misuse, and reflects a compromise with the other body.

The authorization levels are necessary to ensure an effective Patent and Trademark Office, which of course is the cornerstone for a reliable and effective intellectual property system in this country. A well-functioning Office can have as significant an impact on this Nation's inventiveness as any substantive changes to our patent and trademark laws.

H.R. 4972 is the work-product of my subcommittee--the Subcommittee on Courts, Civil Liberties and the Administration. I would like to signal the efforts of the ranking minority Member of the subcommittee, Mr. Moorhead,

and the chairman of the House Committee on Government Operations, Mr. Brooks, who also is a Member of the Committee on the Judiciary. H.R. 5972 represents a joint effort, and without the input of these two respected Members, a bill would not be before us today.

I described the bill during my floor remarks on October 5, and I will not repeat my previous statement.

Suffice it to say that the bill before us is largely a carryover of the current law. I hope that my colleagues can support this bill and promote the effective administration of this Nation's patent system.

In addition to the PTO authorization bill, I am pleased to bring before the House an important intellectual property measure relating to patent misuse. The title II of the bill before us is the product of excellent legislative work done in the other body by Senators Leahy, DeConcini, and Hatch. Senator Leahy, in particular, has taken the lead in advancing the legitimate interests of high technology businesses in bringing innovative products to the American people. We are in debt to Senator Leahy for his leadership on this issue.

The measure before us today is the House response to the Senate bill S. 438, see Senate Report 100-492, as passed by the Senate on October 4, 1988. The Senate bill contains two titles; one relating a presumption of market power arising under the antitrust laws and the other relating to patent misuse. The bill before us only address the misuse issue.

Before describing the detailed statutory language in title II of the bill, let me briefly describe to my colleagues the legislative background for this bill. During the 100th Congress the Senate Committee on the Judiciary adopted S. 1200 which contained a provision relating to patent misuse. The text of S. 1200 was then added as an amendment to the Omnibus Trade Reform Act, H.R. 3.

In conference on H.R. 3, the provisions relating to patent misuse were deleted at the insistence of the House conferees. Subsequently on March 3, 1988, I introduced H.R. 4086 which, as the Department of Justice put it, "takes an analytically different approach to misuse challenges, but may nonetheless produce results in individual cases very similar to (S. 1200)".n1

The Subcommittee on Courts, Civil Liberties and the Administration of Justice, which I chair, conducted a hearing on May 11, 1988, on the various misuse bills. At that hearing the subcommittee heard from witnesses form the Department of Commerce, Patent and Trademark Office, Department of Justice, Antitrust Division, American Bar Association as well as a leading practicing lawyer and an academic expert. After the hearing practicing lawyer and an academic expert. After the hearing the committee members and staff continued discussions with interested parties about how to narrow the provisions of the Senate bill to meet the objectives urged by the proponents of reform without undoing the entirety of patent misuse. The measure before us today is the product of those discussions.

BACKGROUND

Patent misuse is a judicially developed doctrine of patent law.n2 The general rules of equity applicable to the enforcement of patents currently hold that a person who is found to be guilty of misuse is not permitted to enforce his or her patent. The underlying policy for this doctrine has been an effort by the courts to prevent a person who has obtained a Government granted right to exclude competition from overreaching the scope of a patent.n3 The doctrine has been applied to a wide variety of circumstances including extension of a patent term beyond 17 years, use of covenants not to compete, price fixing, resale price maintenance, and licenses that involve certain types of exclusive grant backs. Once misuse has been found by the court, then the patent owner is not entitled to any relief until the abusive practice has been eliminated.

The underlying complaint about current law with respect to patent misuse is that it was developed to address allegedly anticompetitive effects of patent licensing arrangements. To address this problem the Senate-passed bill requires that the court find a violation of the antitrust laws, after undertaking an economic analysis, before it can find a patent holder guilty of misuse.

The proposal before the House today does not adopt such a sweeping and inflexible view. Instead the bill before us proceeds on the basis of consensus about two categories of misuse that the Committee on the Judiciary concluded should not be the subject of a rigid per se rule.

The two subject matters affected by the proposed amendment are "refusal to use or license" a patented invention and the tying of a patented product to another separate product. Codification of the "refusal to use or license" as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy.n4

Modification of the patent misuse rules with respect to trying addresses one of the most important areas of licensing practice. More significantly, the proposed modifications should have a pro-competitive effect, insofar as they require some linkage between the patent licensing practice and anticompetitive conduct. Hopefully, through enactment of this bill the rules about permissible licensing pratices will be clarified and the licensing of innovations will be facilitated.

The provisions of the patent law that will be amended by this measure are amendments to section 271 of title 35. The proposed language relating to patent misuse is as follows:

[It is not an act of patent misuse to condition] ... the license of any rights to the patent or the sale of a patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

It is important to provide the courts with some guidance about the intention of Congress with respect to the terms used in the proposed amendment. The underlying principle being advanced by this proposal is the elimination of any vestiges of a per se or automatic inference of patent misuse from certain tying practices. While there has been some movement in this direction by the courts,n5 the legislation clarifies the basic congressional policy in this area.

The proposed amendment requires that the person who engages in tying conduct must possess "market power in the relevant market." The term "market power" is used in this context in order to permit the courts to reasonably assess the potential for anticompetitive effect of a particular practice. We have chosen not to explicitly guide the courts as to the level of "market power" required for a finding of misuse. We do expect, however, that the courts will be guided--though not bound--by the post and future decisions of the Supreme Court in the context of antitrust analysis of unlawful tie-ins. See *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984); *United States v. E. I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956).

We have chosen not to adopt a specific modifier to "market power," such as "substantial." This does not mean, however, that the courts would not reach this result. In many of the recent cases courts have developed various approaches to the question of substantiality of "market power," including the use of specific percentages.n6 The absence of a modifier is designed to avoid the use of inflexible rules. Courts should not use rigid percentage of market share as either a floor or ceiling in the determining of "market power." Courts should evaluate the question of "market power" in the context of the patent, where a patent license is involved, the product and the market in which the tie-in occurs. This type of fact specific contextual analysis should make the fact-finding process more sensitive to the realities of the marketplace.

The use of the term relevant market is designed to import into the courts' analysis the idea that the scope of the product involved focuses the court's attention on the nature of the property right. If a patented product is unique because no practical substitutes exist, the scope of the relevant market would be coextensive with the patent. In the situation where the product is sold in a marketplace context where there are substitute products, the scope of the market should resemble the typical antitrust analysis of relevant market.

The use of the term in view of the circumstances, is again designed to give the courts the requisite flexibility to exercise their equitable powers. See 35 U.S.C. section 283 . This phrase is designed, in part, to allow the courts to assess the potentially competitive or anticompetitive effects of the tie-in practice. In making this assessment the courts may wish to look at whether the tied product is a staple or a nonstaple. In the case of tying a patented product to a nonstaple the net effect of such an arrangement may serve to expand the economic rights of the patent owner. This result, however, is generally appropriate because in most situations involving high technology the market for the nonstaple product would not exist but for the existence of the patented product.

On the other hand, courts that apply a rule of reason analysis to the tie-in of a patented product involving a staple may evaluate it in a slightly different manner. The ability of a party with a patented product to require that the purchaser or the licensee of that product to use a particular staple could have an anticompetitive effect. Thus, for cases involving the tie-in of staple products, the courts should be sensitive to the potential anticompetitive burden on commerce such a practice may have if the maker of a competing staple has its market substantially diminished as a result of the tie-in.

It is also our intention to avoid the use of inflexible rules once a court has found that market power exists. There may be circumstances in which there is market power and a tie-in, but where a finding of misuse would be inappropriate. One example would be where the patent owner has a business justification for the licensing practice.n7 In real world situations where the only practical way to meter output is to tie the sale of a patented product to the sale of

another separate product, then such a practice would be legitimate, unless such a practice--on balance--has a generally anticompetitive effect.

In closing, I want to urge my colleagues to support this measure. Title II of this bill is a careful balance of the interests of proprietors while simultaneously furthering the goals of stimulating the dissemination of innovation through the freer use of licensing agreements for patented products.

[ ] 1800

Mr. MOORHEAD. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I rise in support of House Resolution 597. As pointed out, this bill passed the House 2 weeks ago without objection. As it is known to happen during this time of year, the other body chose to decorate this bill with a couple of items that remain controversial.

The Patent and Trademark Office performs a service that is important to the industrial strength and well being of our country. The bill before us provides a 3-year authorization for that Office. It would also permit the long overdue computerization of the search rooms.

This legislation has the strong support of the Department of Commerce and the Patent and Trademark Office. I hope the other body will pass the bill and send it to the President. There will be no time to attach new matter and send it back here. If that happens the Patent and Trademark Office will be without an authorization for this year.

I urge a favorable vote on the bill.

In addition to the Patent and Trademark Office reauthorization we are adding as an amendment a portion of the Senate-passed bill S. 438 dealing with the important issue of patent misuse. In 1983 I introduced on behalf of the Reagan administration the National Product and Innovation Act. That four title bill contained a landmark proposal to revise and reform the Federal law on patent misuse. Unfortunately, no favorable action was taken on that proposal in either the 98th or 99th Congress. I am pleased that today at least a portion of that legislation is being included in the PTO reauthorization.

As I understand the amendment it would not be patent misuse for a refusal to license a patented product. Also, as I understand the amendment if you engage in a tying arrangement, that in and of itself is not patent misuse unless you can show market power. This is an important amendment to our patent laws and I am happy we are able to include it in House Resolution 597. In closing I would like to commend the ranking member of the Judiciary Committee, Mr. Fish, for his leadership on this issue.

Mr. Speaker, I have no further requests for time, and I yield back the balance of my time.

Mr. KASTENMEIER. Mr. Speaker, I have no further requests for time, and I yield back the balance of my time.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from Wisconsin [Mr. Kastenmeier] that the House suspend the rules and agree to the resolution, House Resolution 597.

The question was taken; and (two-thirds having voted in favor thereof) the rules were suspended and the resolution was agreed to.

A motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. KASTENMEIER. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks on House Resolution 597, the resolution just agreed to.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

Discussion of Amendment By Senator Deconcini on Senate Floor, Congressional Record S17146-49, October 21, 1988

PATENT AND TRADEMARK OFFICE AUTHORIZATION ACT

Mr. BYRD. Mr. President, I ask that the Chair lay before the Senate a message from the House of Representatives on H.R. 4972.

The PRESIDING OFFICER laid before the Senate the following message from the House of Representatives:

Resolved, That the House agree to the amendment of the Senate to the bill (H.R. 4972) entitled "An Act to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes," with the following amendment:

In lieu of the matter inserted by said amendment, strike out all after the enacting clause, and insert:

TITLE I--PATENT AND TRADEMARK OFFICER AUTHORIZATIONS

SEC. 101. AUTHORIZATION OF APPROPRIATIONS.

There are authorized to be appropriated to the Patent and Trademark Office--

(1) for salaries and necessary expenses, $ 117,504,000 for fiscal year 1989, $ 125,210,000 for fiscal year 1990, and $ 111,984,000 for fiscal year 1991; and

(2) such additional amounts as may be necessary for each fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

SEC. 102. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 and following) may remain available until expended.

SEC. 103. OVERSIGHT OF AND ADJUSTMENTS TO TRADEMARK AND PATENT FEES.

(a) Trademark Fees.--The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(b) Patent Fees.--The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(c) Report to Congress.--The Secretary of Commerce shall, on the day on which the President submits the annual budget to the Congress, provide to the Committees on the Judiciary of the Senate and the House of Representatives--

(1) a list of patent and trademark fee collections by the Patent and Trademark Office during the preceding fiscal year;

(2) a list of activities of the Patent and Trademark Office during the preceding fiscal year which were supported by patent fee expenditures, trademark fee expenditures, and appropriations;

(3) budget plans for significant programs, projects, and activities of the Office, including out-year funding estimates;

(4) any proposed disposition of surplus fees by the Office; and

(5) such other information as the committees consider necessary.

SEC. 104. PUBLIC ACCESS TO PATENT AND TRADEMARK OFFICE INFORMATION.

(a) Repeal.--Section 4 of Public Law 99-607 (35 U.S.C. 41 note) is repealed.

(b) Maintenance of Collections.--The Commissioner of Patents and Trademarks shall maintain, for use by the public, paper or microform collections of United States patents, foreign patent documents, and United States trademark registrations arranged to permit search for and retrieval of information. The Commissioner may not impose fees for use

of such collections, or for use of public patent or trademark search rooms or libraries. Funds appropriated to the Patent and Trademark Office shall be used to maintain such collections, search rooms, and libraries.

(c) Fees for Access to Search Systems.--Subject to section 105(a), the Commissioner of Patents and Trademarks may establish reasonable fees for access by the public to automated search systems of the Patent and Trademark Office in accordance with section 41 of title 35, United States Code , and section 31 of the Trademark Act of 1946 (15 U.S.C. 1113). If such fees are established, a limited amount of free access shall be made available to all users of the systems for purposes of education and training. The Commissioner may waive the payment by an individual of fees authorized by this subsection upon a showing of need or hardship, and if such waiver is in the public interest.

SEC. 105. FUNDING OF AUTOMATED DATA PROCESSING RESOURCES.

(a) Allocations.--Of amounts available to the Patent and Trademark Office for automatic data processing resources for fiscal years 1989, 1990, and 1991, not more than 30 percent of such amounts in each such fiscal year may be from fees collected under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) and section 41 of title 35, United States Code . The Commissioner of Patents and Trademarks shall notify the Committee on the Judiciary of the Senate and the House of Representatives of any proposed reprogrammings which would increase or decrease the amount of appropriations expended for automatic data processing resources.

(b) Use of Revenues by Patent and Trademark Office.--Except as otherwise specifically provided in this title, Public Law 99-607, and section 42(c) of title 35, United States Code , the Patent and Trademark Office is authorized to use appropriated or apportioned fee revenues for any of its operations or activities.

SEC. 106. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, enter into any agreement for the exchange of items of services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data), and the Commissioner may not, on or after the date of the enactment of this Act, continue existing agreements for the exchange of such items or services. The preceding sentence shall not apply to an agreement relating to data for automation programs which is entered into with a foreign government or with an international intergovernmental organization.

TITLE II--PATENT MISUSE REFORM

SEC. 201. PERMISSIBLE ACTS BY PATENT OWNER.

Section 271(d) of title 35, United States Code, is amended by striking out the period at the end thereof and inserting in lieu thereof the following: "; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.".

SEC. 202. EFFECTIVE DATE.

The amendment made by this title shall apply only to cases filed on or after the date of the enactment of this Act.

- Mr. DeCONCINI. Mr. President, I am pleased to see that the Senate today is visiting for the last time during this Congress the issue of patent misuse, as we approve H.R. 4972. As chairman of the Subcommittee on Patents, Copyrights, and Trademarks, I have had the opportunity to shepherd this proposal, in one form or another, through the Senate during this Congress. I want to recognize up front the immense contributions made by my colleague from Vermont [Mr. Leahy], chairman of the Subcommittee on Technology and the Law, first in advocating for inclusion of patent misuse reform legislation as part of last year's trade package and most recently for pressing for its enactment as part of S. 438 and the subsequent bills to which it has been appended.

Also, Mr. President, I want to acknowledge the work of the Congressman from Wisconsin [Mr. Kastenmeier] who chairs the House subcommittee with jurisdiction over patent laws. His interest in this subject has been responsible for moving the bill forward in the House.

The provision we are approving today is a narrow portion of what my subcommittee originally approved as title II of S. 1200. That bill would have provided that a patent owner cannot be guilty of misuse unless the court finds that the conduct being challenged constituted a violation of the antitrust laws. That bill, in turn, grew out of a proposal by the administration to enact into law a list of activities that do not constitute patent misuse. The American Intellectual Property Law Association proposed the general antitrust standard instead of the administration's specific list, and the Senate adopted that view in my legislation.

While I support the bill before us, I emphasize, Mr. President, that it deals only with a small piece of the patent misuse problem--tying arrangements--and leaves the rest for us to address in the future. I am aware that application of the misuse doctrine to tying is an acute problem area and believe this legislation should not be the last word on the subject.

I also believe it is important to point out some of the essential features of the patent misuse provision in this legislation, so that there will be no mistaking congressional intent. Let me focus on three points.

First, this bill moves away from a per se approach used in the past by the courts in applying patent misuse principles to tying arrangements. While not mandating an antitrust test, the legislation nonetheless imposes a rule-of-reason-type analysis before a court can conclude that a tie-in is misuse.

Second, the bill establishes a market power threshold test to precede any misuse finding involving tying. If the alleged infringer cannot prove that the patent owner has market power in the relevant market for the patent or patented produce, the tying product, then there can be no patent misuse by virtue of the tie-in, and that is the end of the inquiry.

Third, even if the defendant in a patent infringement action proves that the patent owner has market power, this does not automatically mean that the court must find that the patent owner has misused the patent. The patent owner may still argue that any substantially anticompetitive impact of the tie-in is outweighed by benefits of the arrangement, including both procompetitive benefits and other potential business justifications. This will constitute the heart of this misuse rule-of-reason analysis, but, as I indicated above, it will not even be reached if the patent owner does not wield market power by virtue of his or her patent.

Mr. President, this is a modest provision but a good one. A strong case has been made before the Congress that the patent misuse laws must be changed. Today we take the first step to do this regarding how the misuse doctrine applies to tying. Perhaps, after further study in the next Congress, we will be able to replace even this modest change by a more generic antitrust approach.-

Mr. LEAHY. Mr. President, I am pleased that the Senate today is taking this opportunity to support enhancement of intellectual property rights by providing for statutory reform of the patent misuse doctrine. This change is included as an amendment to the Patent and Trademark Office authorization legislation, H.R. 4972. This amendment is similar to the one I offered and which the Senate approved on October 14 as an amendment to H.R. 5347 (134 Congressional Record S16320). Of course, it finds its lineage in the patent misuse legislation approved by the Senate first as part of S. 1200 last year and again as title II to S. 437 earlier this month.

Patent misuse is a defense in patent infringement suits. It penalizes a patent holder who attempts to extend the patent beyond the limited statutory monopoly. The sanction of misuse is harsh: A patent owner loses the right to enforce his patent, at least until the conduct that has constituted misuse has ceased and its effects have been purged.

As outlined in the Judiciary Committee's report on S. 437, courts have been inconsistent in their application of the misuse doctrine to analogous practices. Misuse has been found even where the conduct has no anticompetitive effect or where it has not injured the infringing party who raises misuse as a defense.

Reform of patent misuse will ensure that the harsh misuse sanction of unenforceability is imposed only against those engaging in truly anticompetitive conduct. Currently, courts impose the misuse doctrine using vague and shifting public policy grounds. As Prof. Donald Chisum has recognized:

Unfortunately, decisions considering analogous practices are not always consistent. In part, this is attributable to the absence of a clear and general theory for resolving the problem of what practices should be viewed as appropriate exercises of the patent owner's statutory patent rights. 4 D. Chisum, Patents 19-91 (1987).

There is ample legislative history on the need to reform the patent misuse doctrine. Much of it is detailed in the Senate Judiciary Committee report on S. 438, Report No. 100-492 and before that, the report on S. 1200, Report No. 100-83.

Patent misuse reform legislation has been the subject of hearings in the House and in the Senate. Reform efforts were initiated by the administration and have been endorsed by the American Bar Association and the Association of Intellectual Property Lawyers. As a general proposition, reform of the misuse doctrine is supported by high technology trade associations, including the Computer and Business Equipment Manufacturers Association and the Semiconductor Industry Association and by companies like Digital Equipment Corp. I thank those groups for their tireless efforts in bringing this legislation to the point we are today.

The language of the patent misuse provision appearing in H.R. 4972 has been changed by our counterparts in the House. The purpose of the legislation has remained the same throughout.

This legislation differs from previous proposals in two important respects: First, the patent misuse doctrine is no longer reformed across the board, but only as it relates to refusals to license or use patents, and to tying arrangements. Second, as the misuse doctrine is applied to tying, the generic antitrust violation standard adopted by the Senate has been replaced by a market power test. That is, there can be no patent misuse by virtue of a tie-in unless, among other things, the patent owner has market power in the market for the patented tying product.

While this approach is indeed different from our original patent misuse proposal, it does not mean that Congress has rejected the earlier Senate proposal and now believes that the traditional misuse doctrine should be retained intact in the many other areas in which it may be applied by courts. It only means that, because of the short time available at the end of this Congress, the House and Senate committees interested in this issue were able to agree on a narrower reform.

I expect this issue to be back on our desks in the next Congress. But this reform is important because courts have gone farthest astray in applying the patent misuse doctrine to tying arrangements.

Courts' current application of the misuse doctrine has become increasingly troublesome to the creation, distribution, and enforcement of intellectual property rights in the high technology arena. While courts have relied on the policy of the antitrust laws to find patent misuse with respect to tying arrangements, they have refused to confine misuse to antitrust violations and unfortunately apply the doctrine to a variety of practices, including tying, without regard to competitive implications. The leading case in this respect is *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). Thus, although the misuse doctrine is supposed to be an equitable doctrine, applied where the patent owner has "unclean hands," it has been applied to tying in a per se manner, foreclosing any evaluation of factors that courts of equity would otherwise consider.

This legislation makes absolutely clear that the misuse doctrine must not be applied to tying arrangements in a per se or inflexible manner, without regard to an evaluation of the effects of the practice in the marketplace and the business justifications for the tie-in.

While the courts, especially the Federal circuit, have been moving toward a more flexible, fact-oriented approach to tying generally, there is a need for Congress to step in now. As I indicated earlier, this amendment will be especially important for high technology companies whose products' life cycles are far shorter than the full patent term and often shorter than the life of a patent infringement action in our Federal courts.

Inflexible and per se misuse rules work to the benefit of infringers and unnecessarily raise litigation costs and risks to patent owners. This legislation makes its most important contributions by requiring alleged patent infringers to prove--and courts to evaluate--that the patent owner, under all of the circumstances in which the patent is utilized, wields market power in the relevant market for the tying patent or patented product. It is true that this approach falls short of a strict antitrust standard--the Senate approach, which I prefer. But it does at least require a threshold showing that conditions exist under which anticompetitive results are likely to occur; that is, that market power exists, before a tying arrangement may be condemned under patent misuse principles.

In short, by requiring proof of a patent owner's actual market power with respect to the tying product, this legislation continues to reject the notion that a patent can be rendered unenforceable based on allegations that the patent owner has acted in some way "beyond the scope of the patent." Through the use of the phrase "in view of the circumstances," Congress is making clear that courts are never automatically to conclude that a tie-in constitutes misuse, even where market power is present, unless the court has considered and assessed all of the circumstances surrounding, the justifications for, and the impact of, the tie-in in the marketplace. The equitable nature of the misuse doctrine is thereby plainly restored by this amendment.

The approach taken by this amendment was first contained in a Senate amendment constituting title II of H.R. 5347, the municipal bankruptcy bill. That Senate amendment, which has been slightly modified by the House in form

but not in objective, would have stated more clearly on its face that market power is but one element of a tying misuse offense--a necessary but, standing alone, insufficient element. The House sponsor of the amendment, Chairman Kastenmeier, apparently did not want to limit the court's inquiry to business justification. So the bill does not state what else the court is to consider besides market power. Chairman Kastenmeier does mention business justification, among other considerations, in his explanation of the provision.

It therefore seems to me that the statute's use of the words "in view of the circumstances" means that after the alleged infringer has proven that the patent owner has market power, a balancing test of circumstances, including business justification, must be employed. Courts will have to go through the process of evaluating the patent owner's market power--the ability to raise prices or exclude competition--and must consider the availability of substitutes, and the existence of any business justifications or ther benefits, before concluding that a patent has been misused.

I want to make clear, Mr. President, that the term "market power" is used in the provision on misuse in no new or unique way. Congress is definitely not attempting to create a definition or usage of the term by statute that would bind courts in either patent misuse or antitrust litigation. We are neither directing nor guiding the courts with regard to the level of nature of "market power" required for a misuse finding.

One of the purposes of this bill is to deter misuse claims that unnecessarily burden infringement litigation. It would thus be a tragedy if this legislation made patent infringement actions more complicated and protracted, rather than simpler and shorter. We would therefore expect any "market power" determination made for patent misuse purposes to be the same as that used with respect to an antitrust matter relating to the same factual circumstances.

Mr. President, I want to applaud the leadership and commitment provided by the Senator from Arizona [Mr. DeConcini], the Senator from Utah [Mr. Hatch], and the Congressman from Wisconsin [Mr. Kastenmeier] in bringing about enactment of this important patent misuse reform legislation.

Recognizing that it addresses only part of the problem, however, I will look forward to working with them in the next Congress to complete our work in this area.

Mr. President, the Congress will soon adjourn with a number of matters of unfinished antitrust business. The Senate must take responsibility for our failure to enact S. 430, to facilitate enforcement of the antitrust proscription against vertical price fixing. The House approved legislation on this subject some time ago, and the Senate Judiciary Committee favorably reported the compromise legislation Senators Metzenbaum, DeConcini, Grassley, and I worked out last summer. That bill would have ensured consumers access to competitively priced products at the retail level. A filibuster against this bill by Senators on the other side of the aisle has doomed the legislation this Congress, but I am confident that we have not seen the last of this subject.

Four antitrust provisions approved by the Senate, will also see their demise when the Congress adjourns. Two of them S. 431 and S. 432 would amend the Hart-Scott-Rodino Act. Another, S. 1068, amends section 8 of the Clayton Act relating to interlocking directorates. All three of these valuable, noncontroversial bills, authored by the chairman of the Antitrust Subcommittee, Senator Metzenbaum, will no doubt return when the Senate reconvenes for the 101st Congress.

Finally, Mr. President, I would like to spend a moment on my Intellectual Property Antitrust Protection Act (S. 438). The Antitrust and Technology and the Law Subcommittees--indeed, the whole Judiciary Committee--worked extraordinarily hard on this legislation. Title I of the bill as reported by the Judiciary Committee, would eliminate any presumption of market power arising from the existence of an intellectual property right in antitrust litigation. I regret that the House did not have time to consider and approve this measure, but I look forward to seeing it become a public law early in the next Congress.

S. 438 has been broadly supported by a bipartisan effort in the Senate and widely endorsed by technology companies and experts in intellectual property and antitrust law. Senators Hatch, Thurmond, Humphrey, Baucus, DeConcini, Kennedy, and Metzenbaum, all cosponsor this bill. I thank them for working with me this Congress on this important legislation.

In passing S. 438 three times, the Senate is clearly sending a message to the courts that they would be mistaken to continue to apply any presumption of market power involving intellectual property rights as automatically granting meaningful economic power over a particular market in antitrust cases. Commentators writing on the subject and witnesses before our joint hearing in the Antitrust and Technology and the Law Subcommittees denounced that presumption.

The courts themselves might well purge this erroneous notion as the law evolves, but the need for legislative action has been made manifest by some cases that appear to insist on perpetuating it. This is especially important for high technology industries selling technologically related products with short life expectancies. That is why the Technology and the Law Subcommittee focused so much of its attention on this subject this year, and why I intend to see this market power legislation enacted early in the next Congress.

Mr. President, in closing I would like to thank the following Judiciary Committee staff members for their fine work in getting this legislation to this point: Randy Rader now at the Court of Claims after working for many years for Senator Hatch, and Abby Kuzma, counsel to Senator Hatch; Patricia Vaughan and Terry Wooten with Senator Thurmond; George Smith with Senator Humphrey; Diana Huffman and Jeff Peck with Senator Biden; Ed Baxter and Tara McMahon with Senator DeConcini; Eddie Correia and Priscilla Budeiri with Senator Metzenbaum. Finally, I would like to thank my own staff on this legislation: Milo Cividanes who recently returned to private practice and my chief counsel, Ann Harkins.

Let me also thank Chairman Kastenmeier, and Mike Remington and David Beier of his staff for their hard work in the House on this important legislation.

And speaking of hard work, special thanks and tribute go to Congressman Ham Fish who first introduced the House companion measure to S. 438, and his chief counsel, Alan Coffey, who deserves a great deal of credit for his work on this legislation as well.

Mr. BYRD. Mr. President, I move that the Senate concur in the House amendment.

The PRESIDING OFFICER. The question is on agreeing to the motion.

The motion was agreed to.

FOOTNOTES:

[n1] Footnote 1. The bill H.R. 4086, adopted an approach that listed licensing practices that were not patent misuse and some practices that were. Analytically the bill followed a similar pattern to the rules of the European Economic Community in the context of applying Article 85(3) of the relevant EEC Treaty to certain categories of patent licensing agreements. Letter from Hartmut Johannes to Congressman Robert W. Kastenmeier, April 26, 1988 (1988). See also Marks, Patent Licensing and Antitrust in the United States and European Economic Community, 35 am. univ. L. rev. 963 (1986).

[n2] Footnote 2. See generally D. Chisum, Patents, Section 19.04. The Supreme Court put it well in Hazel-Atlas Glass Co. v. Hartford Co., 322 U.S. 2467, when it said that enforcement of patents is of "great moment to the public".

[n3] Footnote 3. The reasoning of the courts from the initial misuse cases, including Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917), has been to recognize the different nature of the property rights involved when a patent has been granted. A patent is a government created right to exclude others from making, using or selling an invention for a period of 17 years. Congressional authority to legislate in this area is derived from the Constitution, Article, I, section 8, clause 8. An important element of any intellectual property legislation is the balance of interests required and to the furtherance of the public interest. Sony Corp. of America v. Universal City Studios, 316 U.S. 417, 429 (1984) (public interest test for copyright); accord United States v. Masonite Corp., 316 U.S. 265, 278 (1942) (same with respect to patents); see also Pennock v. Dialogue, 27 U.S. (2 Pet.) 1, 9, (1829); see generally Kastenmeier and Remington, The Semiconductor Chip Protection Act of 1984: A Swamp or Firm Ground, 70 Minn. L. Rev. 417-422-23 (1985).

When an inventor has created an innovation there are a number of options available, including trade secret protection as well as patent protection. When innovators decide to pursue patent protection they agree to a bargain that furthers the public interest. Any patent holder obtains the property right to exclude others from practicing the invention as well as protection against competition from persons who have independently created the same innovation.

In exchange for patent protection the public obtains a disclosure of the technology involved in the patent and a limited term (17 years) followed by expansion of the public domain when the patent expires. In response, the nature of the property right involved in a patent is fundamentally different from that involved in non-patent situations. Thus, the courts have tended to focus on the illegal extension of the patent term or scope of the patent in order to determine misuse, see Senza-Gel v. Seiffart, 803 F. 2d 661, 231 U.S.P.Q. 363 (Fed. Cir 1986), rather than merely the nature of the

economic transaction involved. Focus on the scope of the patent has been a central element of the reasoning in many misuse cases.

[n4] Footnote 4. See *SCM Corp. v. Xerox*, 695 F. 2d 1195 (2d Cir. 1981); see generally *Continental Paper Bag Co. v. Eastern Paper Bag. Co.*, 210 U.S. 405, 426-430 (1908).

[n5] Footnote 5. See *Windsurfing Int'l, Inc. v. AMF*, *Inc.* 782 F. 2d 995, 1001-02 (Fed. Cir. 1986).

[n6] Footnote 6. See, e.g., *Boadway Delivery Corp. v. United Parcel Service of America, Inc.*, 651 F. 2d 122, 126-29 (2d cir.), cert. denied, 454 U.S. 968 (1981); *Syufy Enterprises v. American Multicinema, Inc.*, 793 F. 2d 990, 995 (9th Cir. 1986), cert. denied, 107 S. Ct. 876, 884 (1987).

[n7] Footnote 7. For example, one court in a non-tie-in patent misuse case appears to have applied a business justification-type defense. *Duplan Corp. v. Deering Milliken, Inc.,* 444 F. Supp. 648, 700 (D.S.C. 1977), aff'd, 594 F. 2d 979 (4th Cir. 1979).