GS&C/OLS Form (Rev 10/86)

CONGRESSIONAL RECORD

PROCEEDINGS AND DEBATES OF THE 100TH CONGRESS

SENATE

BILL	DATE	PAGE(S)
H.R.4972	Oct 21, 1988 151	S17146-49

ACTION:

Patent and Trademark Office Authorizations: Senate concurred in the amendment of the House to H R 4972, to authorize funds for the Patent and Trademark Office in the Department of Commerce

Page S17146

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 KASTEN-

MEIER] 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