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# The Process Patent Amendments Act of 1988: Solving an Old Problem, But Creating New Ones

## I. INTRODUCTION

The Process Patent Amendments Act of 1988 (the Act), which is incorporated into the Omnibus Trade and Competitiveness Act (Trade Bill),<sup>1</sup> provides added protection for U.S. process patents. Under the Act, the unauthorized importation into the U.S. of a product made by a U.S. patented process is an infringement of the process patent. The Act fills a gap in the federal patent statutes<sup>2</sup> which has allowed U.S. companies to lose large profits in the U.S. market to foreign competitors using U.S. patented manufacturing processes.<sup>3</sup>

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1. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, §§ 9001-9007, (102 Stat.) 1563-66, (to be codified as amended at 35 U.S.C §§ 271, 287, and 295) [hereinafter Trade Bill].

2. 35 U.S.C. § 154 (1982) defines patent exclusion rights; before the passage of the Act, the federal patent statutes specified that a patent grants to an inventor the exclusive right to make, use, or sell the invention only in the U.S. Section 9002 of the Trade Bill amends § 154 to specify that a patent on a process is the right to exclude the unauthorized use or sale within or importation into the U.S. of any products made by the patented process. Trade Bill, *supra* note 1, § 9002. 35 U.S.C. § 271(a) (1982) defines patent infringement; before the Act, the definition included only the unauthorized manufacture, use, or sale of a patented invention within the United States. Section 9003 of the Trade Bill amends § 271 by adding § 271(g) which specifies that anyone importing, using or selling a product made by a process patented in the United States shall be liable as an infringer. Trade Bill, *supra* note 1, § 9003.

3. Other countries restrict this type of infringement. For example, Japanese and European patent laws allow patent holders to seek stiff penalties if goods are made from processes that infringe those countries' patents, even if the goods are manufactured abroad. See Rhein, *Setting the Stage for Stronger U.S. Patents*, CHEMISTRY WK., May 6, 1987, at 18.

The following examples illustrate how U.S. companies have been affected by this gap in U.S. patent law. See *id.* at 17, 18 (Allied-Signal spent 15 years and \$100 million creating and developing a patented process for manufacturing amorphous metals only to lose out to German and Japanese companies who used Allied's patented process to make and legally import such a product into the U.S.); Rhein, *U.S. Ready to Pass Law Protecting Process Patents*, CHEMICAL ENGINEERING, Sept. 14, 1987, at 29 (Schering-Plough Corp. was licensed to use a patented gene-splicing process for making alpha interferon but was unable to prevent Boehringer Ingelheim Zentrale GmbH from selling alpha interferon in the U.S. domestic market which they allegedly made by the same process in their plant in Austria.); Sims, *Wounded by Patent Piracy*. . . , N.Y. Times, May 13, 1987, at D1, col. 3 (Corning Glass Works spent more than \$200 million to develop a manufacturing process to make optical fiber, only to discover that Sumitomo Electric Industries of Japan was using, without permission, their patented manufacturing process

The Act includes several provisions which are intended to ease the patent holder's burden of proving foreign process patent infringement and to limit the remedies against U.S. parties,<sup>4</sup> such as importers and sellers, who often play an indirect role in such infringement.<sup>5</sup> However, these provisions create new problems not anticipated by the original proponents of the Act. This comment will first examine these provisions in relation to one another. Second, it will examine the problems created by these provisions. Finally, this comment will conclude by suggesting ways in which the Act might be improved to alleviate the problems.

## II. THE PRESUMPTION AND THE LIMITATIONS: AN ATTEMPT TO PROTECT BOTH SIDES' INTERESTS

The drafters of the Act wanted to lighten the patent holder's burden of proving infringement of his patented process; so they created the presumption of infringement provision.<sup>6</sup> This provision led to added burdens on infringers, which the drafters then attempted to remove by limiting the remedies that can be used against such infringers. These limitations are included in three main provisions: the limitation of damages, the notice of infringement and request for disclosure provisions.<sup>7</sup> However, this attempt to balance protection for both sides has created

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and could not be prevented from selling their product in the U.S.); Rhein, *Patent Pirates May Soon Be Walking the Plank*, Bus. Wk., June 15, 1987, at 62 (Standard Oil Engineered Materials Inc. (Sohio) in 1975 created a process for making high-tech ceramics for the heat seals on turbine engines but ended up losing at least \$8.6 million to Japan's Kyocera Corporation who entered the market with a process that looked amazingly similar to Sohio's.).

4. A National Retail Merchants Association spokesman explained why retailers opposed the Trade Act: "It must be remembered that, under current law, retailers have no liability at all for the processes used by their suppliers. To impose liability, would result in higher costs of doing business, which would be passed along to consumers." *Witnesses Argue Over Accommodations To Retailers In Process Patent Bills*, 33 Pat. Trademark & Copyright J. (BNA) No. 828, at 715 (Apr. 30, 1987). Further, the generic drug industry opposed increased protection for process patents because it would make it more difficult to import certain chemical ingredients and thus undermine one of the objectives of the previously passed Drug Price Competition and Patent Term Restoration Act of 1984. *Measure Introduced To Block Imports Of Goods Covered By Patent Process*, 1985 Daily Rep. For Executives (BNA) No. 34, at L-9 (Feb. 20, 1985).

5. The provisions discussed in this comment are all contained in three sections of the Act: Trade Bill, *supra* note 1, §§ 9002, 9004-05.

6. See *infra* notes 8-9 and accompanying text.

7. See *infra* notes 10-22 and accompanying text.

new burdens and potential problems especially for the patent holder.

#### A. *The Presumption of Infringement Provision*

The drafters knew that it would often be futile for a patent holder to use the discovery procedures of a foreign manufacturer's country in order to gain evidence to prove infringement of his process patent.<sup>8</sup> Therefore, the Act creates a rebuttable presumption that a process is being infringed if (1) there is a substantial likelihood of an infringement, and (2) the patent holder has made a reasonable effort to prove infringement.<sup>9</sup>

However, rebutting the presumption of infringement is difficult for an importer or seller who did not directly use the patented process but bears liability for the infringement of the process under the Act. Proving that a particular process was not used by the manufacturer of a product involves proving a negative. Unless the importer or seller knows precisely what process was used, it becomes almost impossible to prove what process was not used. Accordingly, even though the primary rationale behind the presumption of infringement is valid (to make it easier to prove a foreign manufacturer had infringed a U.S. process patent), the potential side effects of such a shifting of the bur-

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8. Senator Mathias, original sponsor of Process Patent Amendment legislation in the Senate, indicated that a presumption of infringement should arise "in cases where it would be futile for the plaintiff to use the discovery procedures of the country where the foreign producer operated to demonstrate the process patent violation." *Senate Subcommittee Approves Bills On Process and Agrichemical Patents*, 1986 Daily Rep. For Executives (BNA) No. 48, at A-2 (Mar. 12, 1986). See also Adelson, *Narrower Exclusion Orders Likely in Trade Cases*, 1982 Legal Times of Wash. at 14 (Feb. 8, 1982) (Article mentions briefly the special difficulties the Customs Service encounters when determining process patent infringement by imported items in International Trade Commission (ITC) § 337 actions.).

9. Section 9005 of the Trade Bill contains the Presumption of Infringement Provision which says:

In actions alleging infringement of a process patent based on the importation, sale, or use of a product which is made from a process patented in the United States, if the court finds—

- (1) that a substantial likelihood exists that the product was made by the patented process, and
- (2) that the plaintiff has made a reasonable effort to determine the process actually used in the production of the product and was unable so to determine,

the product shall be presumed to have been so made, and the burden of establishing that the product was not made by the process shall be on the party asserting that it was not so made.

Trade Bill, *supra* note 1, § 9005.

den necessitates the creation of a series of limitations on remedies, the first of which involved limitation of damages.

### B. *The Limitation of Damages Provisions*

Some of the limitation of damages provisions contained in early proposed bills, which were precursors of the Act but not included in the final version of the Act, are helpful in revealing the purpose of the provisions that eventually prevailed. Among the most controversial proposals that were eliminated from the final Act are the "reasonable royalty" provisions. These provisions limited damages to the amount of a reasonable royalty fee for the use of the patented process.<sup>10</sup> Another related proposal, that was eliminated from the final Act, would have completely exempted from liability importers who have binding commitments to purchase prior to receiving notice of infringement from the patent holder.<sup>11</sup> Both of these proposed concepts were in-

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10. See, e.g., *Senate Judiciary Committee Approves Process Patent Legislation*, 1986 Daily Rep. For Executives (BNA) No. 186, at A-6 (Sept. 25, 1986); *Kastenmeier Introduces Bills On Process Patents And § 337 Reform*, 33 Pat. Trademark & Copyright J. (BNA) No. 822, at 492 (Mar. 19, 1987); *House Panel Approves Process Patent, § 337 Reform, And Patents In Space Bills*, 33 Pat. Trademark & Copyright J. (BNA) No. 824, at 586 (Apr. 2, 1987); *Witnesses Argue Over Accommodations To Retailers In Process Patent Bills*, 33 Pat. Trademark & Copyright J. (BNA) No. 828, at 714-15 (Apr. 30, 1987).

Further, when the Commissioner of the Patent and Trademark Office (PTO) testified before the Senate, he said that "reasonable royalties" represent the imposition of a compulsory license, which would have a damaging effect on small U.S. businesses and efforts by the U.S. to improve patent protection for U.S. inventions in developing countries. *Witnesses Argue Over Accommodations To Retailers In Process Patent Bills*, 33 Pat. Trademark & Copyright J. (BNA) No. 828, at 714, 715 (Apr. 30, 1987).

11. Rep. Moorhead, in remarks before the House April 20, 1988, said:

[O]ne of the most important compromises was reached when the Senate agreed to delete its language that would have allowed an infringer to sell products for "which the party has made a binding commitment to purchase and which has been partially or wholly manufactured before the party had notice of infringement." . . . The patent owner would never be certain as to what was "partially or wholly manufactured, before the party had notice of infringement." An infringer could put together "a binding commitment" with the foreign manufacturer that could last for years.

*Floor Remarks On Intellectual Property Provisions Of H.R. 3*, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 581 (Apr. 28, 1988)(quoting the Senate version of the Trade Bill).

The "binding commitment to purchase" language was in the Senate version of the Trade Bill passed by the Senate in July 1987. The Senate agreed to delete this language in a compromise with the House just before the passage of the House version of the Trade Bill passed in April 1988. *House And Senate Approve Trade Bill With Intellectual Property Provisions*, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 551 (Apr. 28, 1988); *Floor Remarks On Intellectual Property Provisions Of H.R. 3*, 35 Pat.

tended to give importers, who ordered a product before they received notice of infringement, a reasonable time to sell the product after they received notice.

Both of the proposed concepts were rejected in the final version of the Act because they closely resembled compulsory licensing laws found in developing countries<sup>12</sup> and they did not provide strong enough incentives for importers to avoid infringement.<sup>13</sup> Without a strong enough incentive, the value of a process patent itself would diminish.<sup>14</sup> In the final version of the Act, to receive damages, the patent holder must prove that the infringer had notice of the infringement.<sup>15</sup>

Trademark & Copyright J. (BNA) No. 878, at 581 (Apr. 28, 1988).

12. For a discussion of compulsory licensing laws abroad, see Oddi, *The International Patent System and Third World Development: Reality or Myth?*, 1987 DUKE L.J. 831, 861-65.

13. Rep. Hyde, in remarks about the Trade Bill before the House, said:

The conferees made a major improvement by adopting language that has the effect of deleting from the Senate amendment an exemption for goods which a "party has made a binding commitment to purchase and which has been partially or wholly manufactured." This agreement addresses one of the principal objections raised by industry and the administration, and eliminates the appearance of compulsory licensing.

The conference agreement [which became the enacted version of the Act] allows an infringing entrepreneur to sell off all the inventory he has on hand and any product in transit to him. This agreement strikes a reasonable balance between the need to provide effective enforcement of process patent rights and the need to avoid undue hardship to importers and other parties who make commitments without knowledge of infringement by their manufacturers or suppliers.

*Floor Remarks On Intellectual Property Provisions Of H.R. 3*, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 579 (Apr. 28, 1988).

14. Rep. Hyde said in remarks before the House:

[T]he strength of incentives for invention and investment provided by U.S. patent rights depends upon providing rights to the patent owner to exclude competitors from practicing the invention. A right merely to receive a royalty from others who practice the patented invention is a much weaker incentive for future research and development.

*Id.*

15. Section 9004 of the Trade Bill connects remedies and notice in the following clause which is the compromise version of the rejected "binding commitment to purchase" clause:

(2) No remedies for infringement under 271(g) of this title shall be available with respect to any product in the possession of, or in transit to, the person subject to liability under such section before that person had notice of infringement with respect to that product. The person subject to liability shall bear the burden of proving any such possession or transit.

Trade Bill, *supra* note 1, § 9004.

### C. *The Notice of Infringement Provisions*

This concern with actual knowledge of infringement made it necessary to establish in detail what constitutes "notice."<sup>16</sup> The Act places the burden on the patent holder to establish that the infringing party has received notice of the infringement by giving to the infringer "information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States."<sup>17</sup> The standard for proving sufficient notice is not as rigid as the standard for presumption of infringement.<sup>18</sup> Giving sufficient notice merely allows the patent holder to take action against the infringer without being barred by the defense of lack of notice.<sup>19</sup> In order to give an initial advantage to one who infringes a process patent in good faith, the Act creates the request for disclosure provisions which

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16. Commerce Secretary Malcolm Baldrige, in discussing his opposition to "reasonable royalty" provisions in S. 1543, an earlier proposed version of the Process Patent Amendments Act, said: "Notice itself will be ineffective in triggering these delayed or limited damages unless it contains much more information than is now required in patent infringement cases." *Senate Judiciary Committee Approves Process Patent Legislation*, 1986 Daily Rep. For Executives (BNA) No. 186, at A-6 (Sept. 25, 1986).

17. Section 9004 of the Trade Bill includes the following definition of notice of infringement:

(5)(A) For purposes of this subsection, notice of infringement means actual knowledge, or receipt by a person of a written notification, or a combination thereof, of information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States.

(B) A written notification from the patent holder charging a person with infringement shall specify the patented process alleged to have been used and the reasons for a good faith belief that such process was used. The patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder's belief, except that the patent holder is not required to disclose any trade secret information.

Trade Bill, *supra* note 1, § 9004.

18. A proposed version of the Act, S. 568, placed a much heavier burden on a patent holder, requiring him to give the infringer notice that there was a "substantial likelihood" that the product was made by the infringing process, which, in the words of PTO Commissioner Quigg, may turn process patents into "second class patents." *Effects Of Process Patent Bills On Retailers Disputed At Hearing*, 1987 Daily Rep. For Executives (BNA) No. 84, at A-15 (May 4, 1987).

19. There is some question about whether filing an action for infringement constitutes sufficient notice. Some earlier proposed versions of the Act specified that it did. *E.g.*, *Intellectual Property Provisions Of Administration's Competitiveness Bill And Section-By-Section Analysis*, 33 Pat. Trademark & Copyright J. (BNA) No. 819, at 406, Feb. 26, 1987. In one of the versions, it was specified that the pleadings must contain sufficient information to satisfy the notice standard, *Senate Judiciary Committee Approves Process Patent Legislation*. 1986 Daily Report for Executives (BNA) No. 186, at A-6, (Sept. 25, 1986).

shift the burden of proving good faith from the infringer to the patent holder.

#### *D. The Request for Disclosure Provisions*

The request for disclosure provisions allow a potential infringer of a patented process the opportunity to avoid infringement by requesting that a patent holder disclose the patented processes used in creating a product.<sup>20</sup> The drafters of the Act apparently thought that this requirement would encourage potential infringers to prevent infringements from actually materializing.<sup>21</sup> Disclosing patented processes when requested becomes an essential element illustrating the good faith of the patent holder.<sup>22</sup>

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20. Section 9004 of the Trade Bill defines request for disclosure in the following language:

(4)(A) For purposes of this subsection, a "request for disclosure" means a written request made to a person then engaged in the manufacture of a product to identify all process patents owned by or licensed to that person, as of the time of the request, that the person then reasonably believes could be asserted to be infringed under section 271(g) if that product were imported into, or sold or used in, the United States by an unauthorized person. A request for disclosure is further limited to a request—

(i) which is made by a person regularly engaged in the United States in the sale of the same type of products as those manufactured by the person to whom the request is directed, or which includes facts showing that the person making the request plans to engage in the sale of such products in the United States;

(ii) which is made by such person before the person's first importation, use, or sale of units of the product produced by an infringing process and before the person had notice of infringement with respect to the product; and

(iii) which includes a representation by the person making the request that such person will promptly submit the patents identified pursuant to the request to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the person making the request, and will request from that manufacturer or supplier a written statement that none of the processes claimed in those patents is used in the manufacture of the product.

Trade Bill, *supra* note 1, § 9004.

21. Rep. Hyde, in remarks made before the House about the Trade Act, said: "The purpose of requests for disclosure is to give information to importers and distributors that might assist them in avoiding infringement." *Floor Remarks On Intellectual Property Provisions of H.R. 3*, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 579 (Apr. 28, 1988).

22. Section 9004 of the Trade Bill contains the following provision about good faith and a request for disclosure:

(3)(A) In making a determination with respect to the remedy in an action brought for infringement under section 271(g), the court shall consider—

(i) the good faith demonstrated by the defendant with respect to



### III. POTENTIAL PROBLEMS AND PROPOSED SOLUTIONS

#### A. *Potential Problems Created by the Limitations Provisions*

Of all the provisions discussed, the presumption of infringement provision is easiest to justify because, without a less rigid standard of proof, establishing that the foreign manufacturer infringed the process patent will often be impossible. On the other hand, the notice of infringement and request for disclosure provisions negate any advantage the patent holder might initially gain under the presumption of infringement provision.

In addition, the strong emphasis placed on actual notice that the patent is being infringed makes the patent holder responsible to prove both that the infringement occurred and that it occurred knowingly. The notice of infringement and request for disclosure provisions are an attempt to make the burden of proving such knowledge less difficult, but they result in forcing the patent holder to provide patent information<sup>23</sup> which the potential infringer is capable of finding on public record at the Patent and Trademark Office (PTO).<sup>24</sup>

a request for disclosure,

(ii) the good faith demonstrated by the plaintiff with respect to a request for disclosure, and

(iii) the need to restore the exclusive rights secured by the patent.

(B) For purposes of subparagraph (A), the following are evidence of good faith:

(i) a request for disclosure made by the defendant;

(ii) a response within a reasonable time by the person receiving the request for disclosure; and

(iii) the submission of the response by the defendant to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the defendant, together with a request for a written statement that the process claimed in any patent disclosed in the response is not used to produce such product.

The failure to perform any acts described in the preceding sentence is evidence of absence of good faith unless there are mitigating circumstances. Mitigating circumstances include the case in which, due to the nature of the product, the number of sources for the product, or like commercial circumstances, a request for disclosure is not necessary or practicable to avoid infringement.

Trade Bill, *supra* note 1, § 9004.

23. See *Process Patent Holders Get New Allies: Lawyers*, CHEMISTRY WK., Feb. 17, 1988, at 66. The American Bar Association wanted Congress to eliminate the request for disclosure provisions because they put too heavy a burden on U.S. process patent holders by requiring them to supply great amounts of information to the alleged infringer.

24. Rep. Fish, in remarks before the House about the Act, said:

The launching of a new business or a new product imposes certain obligations, responsibilities, and liabilities on the entrepreneur. Among the liabilities is in-

These provisions have been criticized as unfairly shifting the burden of proving good faith to the patent holder by requiring him to evaluate the scope of his patent even before litigation has begun.<sup>25</sup> Assuming that both sides act in good faith, such a request still amounts to an unprecedented intrusion.<sup>26</sup> The request for disclosure provisions may actually invite bad faith on the part of both the patent holder and the infringer.<sup>27</sup>

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fringement of another person's patents or trademarks. To ensure against economic loss due to patent infringement, a reasonable business practice is to do a patent search in the Patent and Trademark Office and to routinely include indemnity clauses in contracts.

U.S. manufacturers who plan to export their products investigate the status of foreign patents to avoid infringement. Foreign manufacturers should be required to do at least as much to protect U.S. patents as our manufacturers do to avoid infringing foreign patents.

*Floor Remarks On Intellectual Property Provisions Of H.R. 3, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 583 (Apr. 28, 1988).*

25. This criticism was voiced before Congress by two representatives of the American Intellectual Property Owners, Inc. *Witnesses Argue Over Accommodations To Retailers In Process Patent Bills*, 33 Pat. Trademark & Copyright J. (BNA) No. 828, at 714 (Apr. 30, 1987).

26. There is no similar precedent in patent law which requires a patent holder to supply patent information to a potential competitor at the competitor's request. The only similar procedure under prior law is found in 35 U.S.C. § 287 (1982) which allows a patent holder to give notice to the public of his patent by labeling the patented article or its package with the patent number.

Under the Trade Bill this method still suffices to give notice of infringement. Section 9004 of the Trade Bill specifies:

(C) A person who has marked, in the manner prescribed by subsection (a), the number of the process patent on all products made by the patented process which have been sold by that person in the United States before a request for disclosure is received is not required to respond to the request for disclosure.

Trade Bill, *supra* note 1, § 9004.

27. Rep. Hyde said:

It should be clearly understood that the act of identifying all process patents owned or licensed by a person, in response to a request for disclosure under the bill does not serve as a basis for the party who requested disclosure to institute a declaratory judgement action to litigate infringement or validity issues. Identification of a process patent in response to a request for disclosure is not a threat to enforce the patent against the party requesting disclosure.

*Floor Remarks On Intellectual Property Provisions Of H.R. 3, 35 Pat. Trademark & Copyright J. (BNA) No. 878, at 579 (Apr. 28, 1988).* The mere fact that the drafters addressed such a point suggests the strong potential for misuse of the request for disclosure provisions.

One possible misuse would be for a competitor to use the information disclosed on request to copy the process but with slight changes and improvements which would technically make the copying fall outside of infringement, thus gaining the benefit of the patent holder's research without the cost or the liability.

*B. Solution: Restrict the Limitation Provisions*

The limitations of remedies in the Act are intended to protect innocent infringers. Perhaps the solution to the problems created by the limitation provisions is to limit the reach of those provisions to individuals who are truly innocent. Individuals who will use the lack of notice defense as an excuse will most often be those who have both the means and the motivation to discover the patent status of the processes used to manufacture the goods they are importing or selling.<sup>28</sup> Accordingly, those importers and sellers who order goods from a foreign party and put them in the U.S. market should be responsible for knowledge of the patent status of those goods.<sup>29</sup> The Trade Bill attempts to restrict broad applications of the limitations by excluding from the limitations of remedies (including the notice of infringement and request for disclosure provisions) those who (1) practice the patent, (2) own or control (or are owned or controlled by) those who practice the patent, or (3) know that the patented process was used before notice was given.<sup>30</sup> A fourth group that was not

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28. Such an importer/seller party will likely, in the course of entering into a contract with the foreign manufacturer, have good reason to find out exactly what kind of technology is used in making the product simply as a reasonable business practice. In the words of Rep. Moorhead:

Conferees realized that parties may have access to many sources of information in addition to whatever written communication might originate from the patent holder. This bill is not intended to condone a practice of "putting one's head in the sand" or shutting one's eyes to suspicious business practices. Thus, the legislation requires a court to consider what other information was available to the infringer which would heighten a reasonable person's concern that he might be infringing.

*Id.* at 582.

29. Individuals who enter into agreements with foreign manufacturers to produce items they intend to import should be responsible to make themselves aware of such information because: (1) they stand to make a profit from the contract; (2) they choose the manufacturer whom they buy from; and (3) they have the power to place conditions in their contract with such parties to protect themselves from potential lawsuits of all kinds including process patent infringement lawsuits. Whether or not the importer is really able to obtain such information depends on the individual facts of each case.

In this regard, Rep. Moorhead said in remarks before the House:

Since patent infringement cases are tried in courts of equity, the conferees expect courts will balance the notice requirements with the degree to which infringers elected not to use their leverage in ascertaining what processes were in fact used or to avail themselves of heretofore normal contractual terms which protect them against infringement liability.

*Id.* at 581.

30. Section 9004 of the Trade Bill contains the following provision specifying those who are exempt from limitation of remedies:

(b)(1) An infringer under section 271(g) shall be subject to all the provisions of

specifically excluded, but that should be excluded are those who directly import the goods made by the patented process.<sup>31</sup> This group usually deals directly with the foreign manufacturer and is, therefore, in the best position to apply pressure on the foreign manufacturer to ensure that a U.S. patented process is not being infringed. By including indemnification clauses in their contracts with the manufacturers, importers may protect themselves against any potential damages resulting from infringement. To the extent that retailers act as importers, they also should be subject to this exclusion from the limitations of remedies.<sup>32</sup>

The Act specifically excludes from the limitations those who control users of the patented process or know that the process is being used. A broad judicial interpretation of the language of the Act might find that when an importer enters into a contract with a manufacturer, he *controls*<sup>33</sup> those who directly use the

this title relating to damages and injunctions except to the extent those remedies are modified by this subsection or section 9006 of the Process Patent Amendments Act of 1988. The modifications of remedies provided in this subsection shall not be available to any person who—

- (A) practiced the patented process;
- (B) owns or controls, or is owned or controlled by, the person who practiced the patented process; or
- (C) had knowledge before the infringement that a patented process was used to make the product the importation, use, or sale of which constitutes the infringement.

Trade Bill, *supra* note 1, § 9004.

31. Rep. Hyde said: "The conferees do not intend for this provision to exempt importers and other infringers from significant damage liability." *Floor Remarks On Intellectual Property Provisions of H.R. 3, Pat. Trademark & Copyright J.* (BNA) No. 878 at 580 (Apr. 28, 1988).

32. Many retailers have nothing to do with the importation of the goods and are several parties down the stream of commerce from the foreign manufacturer. Such retailers warrant special protection which they get in the noncommercial/retailer clause in § 9003 of the Trade Bill which says:

In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use or sale of that product.

Trade Bill, *supra* note 1, § 9003.

33. By analogy to tort law, to the extent that the manufacturer, working as an independent contractor, is controlled by the importer, the importer should be liable for the infringement of any patented process that the manufacturer uses in fulfilling the terms of the contract. See W. KEETON, D. DOBBS, R. KEETON, & D. OWEN, *PROSSER AND KEETON ON TORTS* 510 (5th Ed. 1984).

Rep. Moorhead anticipated such a situation when he said: "[I]f the party contracted for goods to be made abroad by a specific process and that process was covered by a current, valid U.S. process patent, the party is liable for infringement as a party with

patented process, and should not be protected by the limitations of remedies. Also, because an importer has direct contact with the manufacturer through the contract, courts might presume that the importer knows what he is ordering even to the extent of knowing what patented processes are used by the manufacturer.<sup>34</sup> If a court could thus find either control or knowledge, the importer might be excluded from the protection of the limitations. It may take such an interpretation to apply the needed unrestricted liability on importing parties.

#### IV. CONCLUSION

Analysis of the Trade Act's Process Patent Amendments Act of 1988, particularly the provisions which limit liability for patent infringement to those who have knowledge that the patent is being practiced, reveals that U.S. parties who contribute to the infringement have a somewhat protected status. The notice of infringement provisions require the patent holder to prove not only infringement of his patent but that the infringing party received timely notice of such infringement. The request for disclosure provisions even require the patent holder to disclose the patents allegedly infringed at the outset in order to prove his good faith. Such requirements are unprecedented and ignore the function of public notice which the filing and publication of patents at the PTO serves. In addition, these requirements force the process patent holder to diminish his patent protection by disclosing his patented process and carrying the burden for notice of possible infringement.

A possible solution to these problems is to apply the same standards of liability to U.S. importers as are applied to those who actually use the patented process. Such an extension of liability is warranted because an importer can apply pressure on the manufacturer and can provide for adherence to U.S. patent law by contract. Better adherence by the foreign manufacturer will better serve to accomplish the overall purpose of the Process Patent Amendments Act of 1988.

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knowledge just as if he had practiced the process himself." *Floor Remarks On Intellectual Property Provisions Of H.R. 3*, 35 Pat. Trademark & Copyright J. (BNA), No. 878, at 581 (Apr. 28, 1988).

34. See *supra* note 28 and accompanying text.