

Statement of

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***“International Patent Issues: Promoting a Level
Playing Field for American Industry Abroad”***

Introduction

Chairman Goodlatte, Ranking Member Watt and Members of the Subcommittee, thank you for the opportunity to appear before you this morning to discuss international patent issues. I am sincerely honored and humbled to testify before the Subcommittee today on an issue of utmost importance to our national economy. I have a strong academic interest in this area but also as a citizen of the United States, I, along with every other person in this country, have a personal interest in ensuring a level playing field globally for American industry.

My testimony today will focus on three points (1) the importance of intellectual property to the United States economy; (2) steps the Congress and the Administration have taken in the past, including the Special 301 list, to level the playing field globally; and (3) additional challenges posed to American industry.

The Importance of Intellectual Property to the United States Economy

It is particularly apt that today is World Intellectual Property Day. Annually on April 26th, we celebrate innovation and creativity and how the limited protections that intellectual property confers fosters and encourages innovative and creative endeavors.

World IP Day 2012 focuses on visionary innovators – individuals whose ingenuity and artistry have broken molds, opened new horizons and made a lasting impact. We lost one such visionary this past October, Stephen Paul Jobs, to pancreatic cancer. “Steve” Jobs the co-founder, chairman, and chief executive officer of Apple Inc., was widely recognized as a visionary and one of the pioneers of the personal computer revolution.

The Steves - Steve Jobs and Steve Wozniak - who co-founded Apple Computer together in Steve Job’s parent’s garage,¹ are a prime example of how the economy of the 21st century is founded in intellectual property. The economy of the United States in the 21st century is and will remain based on the ingenuity of we, the people. The currency and the jobs of this century, especially for the United States, are dependent on effective and efficient protection and enforcement of intellectual property of all forms but particularly patents. iPhones are made in China by a Taiwanese company. The Steves and others built their American empire not upon manufacturing but upon the intellectual property laws that helped to protect the fruits of their labor from outright theft. Without the incentive to invent and innovate that recognition of intellectual property provides with the grant of the limited monopoly, would we have an iPhone 4 or the remarkably similar Samsung

¹ Apple was established on April 1, 1976 by Steve Jobs, Steve Wozniak, and Ronald Wayne. Apple was incorporated January 3, 1977 without Wayne, who sold his share of the company back to Jobs and Wozniak for \$800.

Galaxy S2? For the Steve Jobs of the future to flourish, ingenuity must be protected from theft and surreptitious free-riding.

According to the Office of the United States Trade Representative (USTR) fighting intellectual property theft in overseas markets is critical to the livelihoods of an estimated 18 million Americans who work in intellectual property intensive industries.^{2,3} With that realization, it is clear that the United States has a significant ongoing challenge to maintain or enhance global respect for and enforcement of intellectual property. The ability of United States companies to compete in foreign (and national) markets depends to a large degree on whether other governments provide adequate and effective protection of our intellectual property and fair and equitable access to their markets. Offshore piracy, infringement and counterfeiting remain challenges for United States companies in countries where the local government is complicit with intellectual property theft with either ineffective laws or lax enforcement.

Steps the Congress and the Administration have taken in the past, including the Special 301 list, to level the playing field globally

Of course nothing that I have just noted about intellectual property's importance to the economy and American jobs is a newsflash to Congress. Practically every Congress in the latter half of the 20th Century and every one in the 21st Century has taken some step toward leveling the playing field for American ingenuity abroad. Five such steps are discussed below: (1) the implementation of Trade Related Aspects of Intellectual Property, (2) the creation of Special 301, (3) passage of the Prioritizing Resources and Organization for Intellectual Property Act, (4) creation of a quasi-judicial proceeding at the International Trade Commission and (5) passage of the Smith-Leahy America Invents Act.

TRIPs

Global international intellectual property conversations culminated in the 103rd Congress with the TRIPs Agreement – Trade Related Aspects of Intellectual Property.

TRIPs was negotiated in the 1986-94 Uruguay Round and introduced intellectual property rules into the multilateral trading system for the first time. It

² USTR Press release May 2011 USTR Releases Annual Special 301 Report on Intellectual Property Rights <http://www.ustr.gov/about-us/press-office/press-releases/2011/may/ustr-releases-annual-special-301-report-intellectual-p> accessed April 21, 2012.

³ A recent report, prepared by the Economics and Statistics Administration and the United States Patent and Trademark Office, calculated a higher value of intellectual property to employment within the United States. This report estimated that intellectual property intensive industries directly accounted for 27.1 million American jobs or 18.8 percent of all employment in the United States economy in 2010. This study included trademark, patent and copyright intensive industries. Intellectual Property and the U.S. Economy: Industries in Focus. March 2012. http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf Last accessed April 23, 2012.

was head and shoulders above previous intellectual property agreements, such as the Berne and Paris Conventions, in that TRIPs established minimum standards that all members must respect regarding intellectual property. Moreover, TRIPs encapsulated intellectual property issues together with other trade issues to allow countries to penalize violations of intellectual property protection with sanctions in other trade areas.

TRIPs was a giant step toward global recognition and respect for the intellectual and creative endeavors of others, irrespective of the innovators home country (*e.g.* most favored nation and national treatment requirements).

It has been 17 years since the TRIPs agreement, with full implementation for most of the developed WTO member countries occurring on January 1, 1995 and for developing countries in 2005.⁴ There have been many strides toward creating a more leveled playing field for intellectual property around the world but there is still a lot of work to be done.

In many countries there is a glaring gap between what their intellectual property laws state and the customary practices within that same country. Moreover, many countries have laws, that while they are technically compliant with TRIPs, they remain seriously deficient in intellectual property rights protection generally. An example, in the area of trademark protection, is the lack of provisions barring bad faith registration of another party's trademark. This is a reoccurring theme that subverts the hard work of the innovator company, permitting foreign copies to free ride on the good will of the originator. International cybersquatting also called "registry pirates" often results in costly and lengthy civil litigation over obvious bad faith registrations. This behavior directly harms the consumer who is likely to be confused/fooled into purchasing products of inferior quality. This activity also harms the brand, which is diluted by inferior quality products sold by the free rider that pirate the innovator's trademark.

It is important for the United States to identify those countries that deny adequate and effective protections of intellectual property rights or deny fair or equitably market access to United States industries that rely upon intellectual property protection. This is the function of the Special 301 list.

Special 301

In 1988 Congress enacted Special 301, in its current form, as part of the 1988 Trade and Competitiveness Act. Special 301 was created in an environment when

⁴ The self-identified developing countries had until 2005 to implement the provisions of the TRIPs agreement within their national laws. The Least Developed Nations, as listed in the agreement, were given an extension until 1 July 2013 to provide protection for trademarks, copyright, patents and other intellectual property. However, under the transition period for patents for pharmaceutical products, which was agreed on in 2002, least-developed countries will not have to protect pharmaceutical patents until 2016.

United States intellectual property owners were facing piracy and theft at levels insurmountable for individual companies to combat. It was unknown at that time if the negotiations for TRIPs would bear fruit but it was clear that at a high level in the Administration country to country level discussions were necessary.

The Act requires the United States Trade Representative to undertake an annual survey of foreign countries' intellectual property laws and polices and issue a "Special 301" report. The Special 301 report has been completed for every year starting in 1988, with the first issuance in 1989, to identify particularly egregious country-level concerns with intellectual property enforcement.⁵ The report is intended to encourage and maintain effective intellectual property rights protection and enforcement worldwide.

The Special 301 report divvies up countries judged to have inadequate intellectual property right protection or enforcement into "priority watch list" countries and "watch list" countries. In 2011, 12 countries were on the Priority Watch List⁶ and 28 on the Watch list.⁷ By annually publically listing the outlier countries, the Special 301 list shines a spotlight and brings pressure to bear through

⁵ 19 USC § 2242 - IDENTIFICATION OF COUNTRIES THAT DENY ADEQUATE PROTECTION, OR MARKET ACCESS, FOR INTELLECTUAL PROPERTY RIGHTS

(a) In general

By no later than the date that is 30 days after the date on which the annual report is submitted to Congressional committees under section 2241 (b) of this title, the United States Trade Representative (hereafter in this section referred to as the "Trade Representative") shall identify—

(1) those foreign countries that—

(A) deny adequate and effective protection of intellectual property rights, or

(B) deny fair and equitable market access to United States persons that rely upon intellectual property protection, and

(2) those foreign countries identified under paragraph (1) that are determined by the Trade Representative to be priority foreign countries.

(b) Special rules for identifications

(1) In identifying priority foreign countries under subsection (a)(2) of this section, the Trade Representative shall only identify those foreign countries—

(A) that have the most onerous or egregious acts, policies, or practices that—

(i) deny adequate and effective intellectual property rights, or

(ii) deny fair and equitable market access to United States persons that rely upon intellectual property protection,

(B) whose acts, policies, or practices described in subparagraph (A) have the greatest adverse impact (actual or potential) on the relevant United States products, and

(C) that are not—

(i) entering into good faith negotiations, or

(ii) making significant progress in bilateral or multilateral negotiations, to provide adequate and effective protection of intellectual property rights.

⁶ Algeria, Argentina, Canada, Chile, China (PRC), India, Indonesia, Israel, Pakistan, Russian Federation, Thailand, and Venezuela.

⁷ Belarus, Bolivia, Brazil, Brunei, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Finland, Greece, Guatemala, Jamaica, Kuwait, Lebanon, Malaysia, Mexico, Norway, Peru, Philippines, Romania, Spain, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan, and Vietnam. Additionally Italy was on the Watch List but on an out of cycle review.

the potential of economic sanctions on those countries whose law and actions are not in comportment with the international agreements that bind both them and us.

In four days, on April 30th, the United States Trade Representative will release the 2012 Special 301 list.

Since 1989, some countries, such as South Korea and the Bahamas, have laudably instituted measures to ameliorate the concerns articulated in their Special 301 listing and these countries have been removed from the list. Unfortunately, many more countries have been on some combination of the priority watch list and the watch list since the inception of Special 301 (*e.g.* Argentina, Chile, Colombia, India, and Indonesia). These “repeat offenders” provide a special challenge with which the United States Administration continues to struggle.

PRO-IP

Congress passed the Prioritizing Resources and Organization for Intellectual Property Act, better known as “PRO-IP” in 2008. The bill was introduced by then House Judiciary Chairman Conyers and Ranking Member Smith and co-sponsored by now Subcommittee Chairman Goodlatte and Ranking Member Watt. Among many other endeavors to protect intellectual property rights, the PRO-IP created the position of the Intellectual Property Enforcement Coordinator as the point person to coordinate the United States’ intellectual property protection efforts. This raised attention to the requisite level to meet the economic importance of intellectual property for the United States. Subsequently, President Obama created a cabinet level committee chaired by the Intellectual Property Enforcement Coordinator to further the Administration’s IP protections efforts on a national and international level.

International Trade Commission

In the same time period as the TRIPs negotiations and the creation of the Special 301, Congress created a quasi-judicial entity, through the Trade and Competitiveness Act of 1988. This entity is housed within the International Trade Commission and exists specifically to address imports of foreign goods from producers engaged in unfair trade or in violation of United States patent or copyright law. To date, the International Trade Commission has initiated over 800 investigations and is currently maintaining 32 ongoing exclusion orders for items found to be in violation of United States intellectual property laws. The International Trade Commission provides an effective and relatively quick process for preventing goods infringing intellectual property rights from entering the United States.

Smith-Leahy America Invents Act

Most recently, the Smith-Leahy America Invents Act was passed by this Congress and signed into law by President Barack Obama on September 16, 2011. One of the hallmarks of this law is the transition of the United States from a “first to invent” country to a “first inventor to file” system. This reform, in changing how the

United States determines who is entitled to patent rights, provides a necessary procedural harmonization that will enable the United States to further the goal of consistency and uniformity in international patent law. Harmonization reduces costs and permits increased efficiencies for innovators.

Additional Hurdles for International Intellectual Property

The Administration and Congress have undertaken multiple initiatives to confront international intellectual property theft. Several of these initiatives are detailed above; however, further challenges exist. In my opinion, the following are additional hurdles that require attention: (1) Limitations on Updating TRIPs, (2) Compulsory Licensing, (3) Complications of Obtaining and Enforcing Patents Internationally, and (4) Uncertainty in the Law of “Patentability” within in the United States.

Limitations on Updating TRIPs

As discussed *supra* the TRIPs agreement was a great step forward in providing respect for and international uniformity in intellectual property rights. However, TRIPs may no longer be an effective mechanism to address the residual concerns. Just as TRIPs was born out of frustrations on the limitations of the Berne and Paris Trade Agreements and the Berne and Paris Agreements themselves were born out of frustration on the limitations with smaller multilateral agreements. To move forward the United States is following in the footsteps of history to work outside of the confines of TRIPs in order to devise new trade agreements that transcend the limitation of the current ones. Lessons learned from the successes and failures of TRIPs can be negotiated into more effective agreements without the limitations of prior iterations or the calcified positions of intellectual property outliers. Negotiations on the Trans-Pacific Partnership and the Anti-Counterfeiting Trade Agreement are two such endeavors.

Compulsory Licensing

One of the central tenets of intellectual property law is that the intellectual property rights owner has near complete control over the use of their property. Compulsory licensing turns that right on its head. In specific circumstances most countries have laws permitting their governments to allow the use of the patent rights without the permission of the patent rights holder, mostly in cases of national emergency. TRIPs specifically permits countries to allow for compulsory licensing provided that the use complies with Article 31 which stipulates, *inter alia*, that (1) each compulsory license should be considered on its individual merits, (2) reasonable efforts must have been made to secure a license, and (3) the scope and duration of the compulsory license must be limited and with adequate compensation to the patent rights holder.

While few would argue that compulsory licenses are not justifiable in exigent circumstances, Article 31 and compulsory licensing clearly have the potential of negating the minimum protections hard won in TRIPs.⁸

For example, on March 12, 2012, India gave a license to an Indian company to sell a generic version of a patented Bayer drug. Bayer had a valid and enforceable Indian patent for the drug but the Indian government justified the compulsory license by stating that the cost was too high and the drug was imported into India as opposed to manufactured in country. This was the first such compulsory license in India. If the criteria cited by the Indian government in this case is to become the standard, many other patents are subject to a similar fate. Such conduct can effectively eviscerate all effectiveness from the existing international property agreements. Compulsory licenses have also previously issued in Brazil and Thailand.

Complications of Obtaining and Enforcing Patents Internationally

While the Patent Cooperation Treaty and the United States Patent and Trademark Office's (USPTO) Patent Prosecution Highway have streamlined the process for inventors to obtain rights, the burden of needing to traverse a patchwork of applications, requirements, fees, regulations, and laws inherent in having to obtain patents country by country is extraordinarily burdensome and costly. The complexity is only compounded once rights are established because then the rights must be protected under another patchwork of laws, enforcement mechanisms, regulation, local authorities and judicial procedures on a country-by-country basis.

The Smith Leahy America Invents Act was a necessary part of a process which may one day culminate in a process for granting a global patent - one stop shopping - granted in all member countries and enforceable in all member countries. The USPTO is working within the current international framework to assist rights holders to more efficiently obtain rights internationally. The work sharing program holds great promise. Programs such as this should be expanded but first more international patent law harmonization must occur. In my opinion, the United States should work continuously toward that ultimate goal.

Of course, obtaining rights, while fundamentally important is a hollow victory if there is no effective means of enforcement. As I say to my law students, all

⁸ TRIPs contains multiple potentials for countries to limit the rights conferred, such as: Article 30. Exceptions to Rights Conferred.

Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

Compulsory licensing is just one avenue that could negate the minimum standards of the TRIPs agreement.

a patent gives you is the right to sue. Too often when the violation occurs in a foreign country, that is a right without a remedy. The United States should continue to strive to bring harmonization in enforcement of rights and the utilization of international crime authorities in the pursuit. Entities such as Interpol and Europol have been essential in enforcement. Greater resources in those areas may prove effective for combating intellectual property theft on the international scale.

Uncertainty in the law of 'patentability' within the United States

Over the last 10 years, the United States Supreme Court has become increasingly active in the field of intellectual property law. In the past, the Supreme Court rarely granted certiorari in intellectual property cases.⁹ Absent Supreme Court review, the Court of Appeals for the Federal Circuit, the court with specialized and exclusive nationwide jurisdiction over patent and trademark matters, was, by default, the last word on patent matters. Thus, the Federal Circuit effectively determined the interpretation of most of the nation's intellectual property laws.

The recent attention of the Supreme Court to intellectual property, particularly to patent matters, has upset some previously settled notions of the scope of intellectual property.

In March 2012, the Supreme Court put a question mark in academia and industry's understanding of what is worthy of a patent right – so called “patentable subject matter”.¹⁰ *Mayo v. Prometheus*, is the Supreme Court's second decision concerning patentable subject matter in two years. In this case, the Supreme Court interpreted Congressional intent to be narrower than the practice of the United States Patent and Trademark Office and the Court of Appeals for the Federal Circuit over the last decade. Perhaps the Supreme Court's interpretation of Congress's intent is correct; however, since 1972, the Court has been begging for more clarity from Congress on the matter of patentable subject matter.

*If these [computer] programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed.*¹¹

When that clarity was not forthcoming, the courts, including the Court of Appeals for the Federal Circuit “found” it in places and in ways that arguably Congress did not intend. This is clearly a case of the Court's directing policy through

⁹ From 1970-1979, the Supreme Court decided 4 patent cases; from 1980-1989, 7 patent cases; from 1990-2000, 10 patent cases; from 2000-2009, 12 patent cases; from 2010-2012, 6 cases thus far.

¹⁰ *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (U.S. 2012)

¹¹ *Gottschalk v. Benson*, 409 U.S. 63 (1972), pg. 409

broad interpretations of legislative intent that were not stated directly in the statute.

Such narrowing of intellectual property *within* the United States has implications internationally. The narrowing of patentable subject matter within the United States could be utilized by other countries to justify their narrowing of the scope of inventions entitled to patents - for example laws in India and the Philippines denying patentability on new formulations of existing medicines.¹²

The Supreme Court is not at fault. Particularly in the area of patentable subject matter, the Court has been attempting to fill a void while waiting for Congress to speak directly on these issues. The Constitution states in Article 1 Section 8 Clause 8 that “The Congress shall have power...[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” For decades, the Courts, not Congress, have been deciding what realm of activities “promote the progress of science and useful arts.”

In my humble opinion, Congress speaking directly on the issue of patentable subject matter within the United States is an often overlooked but essentially important component of international intellectual property protection and enforcement. It is not the role of the Courts to make these determinations. However without further direction from Congress, the Courts are forced to determine the appropriate balance for the grant of these limited government monopolies.

Conclusion

International intellectual property is very important to this nation. For the United States to maintain our leadership in the global economy, Congress, the Courts, and the Administration must remain ever vigilant nationally and internationally for the good not only of the people of the United States but also for the benefit of the citizens of the world. We all benefit from American technological advances. Intellectual property rights keep those advances coming.

I look forward to further action by Congress in evaluating the equities and determining the appropriate balance that meets the constitutional challenge of promoting the progress of science and the useful arts in a way that is effective for

¹² Similarly, in the area of copyright, just last week, the Supreme Court granted certiorari on a copyright case addressing the “first sale doctrine.”¹² This is the second time in less than two years that the Supreme Court has examined this issue of whether legally obtained foreign copies of copyrighted materials may be legally imported and sold within the United States without infringing United States copyrights. Copyright owners already believed this to be settled law; however, there is a split among the circuits and in this case it is very possible that bad facts may result in bad law. The result could possibly narrow copyright and patent holders’ rights.

the needs of technology and the progress of culture and human kind in the 21st Century. The “Steves” of the future are dependent upon it.

Thank you for this opportunity to present an academic view on these issues.