STATEMENT OF SENATOR PATRICK LEAHY
ON "INTELLECTUAL PROPERTY PROTECTION RESTORATION OF 1999"
October 29, 1999

MR. LEAHY. Mr. President, today I am introducing the Intellectual Property Protection Restoration Act of 1999, a bill to restore federal remedies for violations of intellectual property rights by States.

Innovation and creativity have been the fuel of our national economic boom over the past decade. The United States now leads the world in computing, communications and biotechnologies, and American authors and brand names are recognized across the globe.

Our national prosperity is, first and foremost, a tribute to American ingenuity. But it is also a tribute to the wisdom of our Founding Fathers, who made the promotion of what they called "Science and the Useful Arts" a national project, which they constitutionally assigned to Congress. And it is no less of a tribute to the successive Congresses and Administrations of both parties who have striven to provide real incentives and rewards for innovation and creativity by providing strong and even-handed protection to intellectual property rights. Congress passed the first federal patent law in 1790, and the U.S. Government issued its first patent the same year -- to Samuel Hopkins of my home State of Vermont. The first federal copyright law was also enacted in 1790, and the first federal trademark laws date back to the 1870s.

The Supreme Court has long recognized that intellectual property rights bear the hallmark of true constitutional property rights -- the right of exclusion against the world -- and are therefore protected against appropriation both by individuals and by government. Consistent with this understanding of intellectual property, Congress has long ensured that the rights secured by the federal intellectual property laws were enforceable against the federal government by waiving the government's immunity in suits alleging infringements of those rights.

No doubt Congress would have legislated similarly with respect to infringements by State entities and bureaucrats had there been any doubt that they were already fully subject to federal intellectual property laws. But there was no doubt. States had long enjoyed the benefits of the intellectual property laws on an equal footing with private parties. By the same token, and in accordance with the fundamental principles of equity on which our intellectual property laws are founded, the States bore the burdens of the intellectual property laws, being liable for infringements just like private parties. States were free to join intellectual property markets as participants, or to hold back from commerce and limit themselves to a narrower governmental role. The intellectual property right of exclusion meant what it said and was enforced even-handedly for public and private entities alike.

This harmonious state of affairs ended in 1985, with the Supreme Court's announcement of the so-called "clear statement" rule in *Atascadero State Hospital v. Scanlon*.[1] The Court in *Atascadero* held that Congress must express its intention to abrogate the States' Eleventh

Amendment immunity "in unmistakable language in the statute itself." A few years later, in *Pennsylvania v. Union Gas Co.*,[2] the Supreme Court assured us that if the intent to abrogate were expressed clearly enough, it would be honored.

Following *Atascadero*, some courts held that States and State entities and officials could escape liability for patent, copyright and trademark infringement because the patent, copyright and trademark laws lacked the clear statement of congressional intent that was now necessary to abrogate State sovereign immunity.

To close this new loophole in the law, Congress promptly did precisely what the Supreme Court had told us was necessary. In 1990 and 1992, Congress passed three laws -- the Patent and Plant Variety Protection Remedy Clarification Act, the Copyright Remedy Clarification Act, and the Trademark Remedy Clarification Acts. The sole purpose of these Clarification Acts was to make it absolutely, unambiguously, 100 percent clear that Congress intended the patent, copyright and trademark laws to apply to everyone, including the States, and that Congress did not intend the States to be immune from liability for money damages. Each of the three Clarification Acts passed unanimously.

In 1996, however, by a five-to-four vote, the Supreme Court in *Seminole Tribe of Florida v. Florida*[3] reversed its earlier decision in *Union Gas* and held that Congress lacked authority under article I of the Constitution to abrogate the States' Eleventh Amendment immunity from suit in federal court.

Then, on June 23 this year, by the same bare majority, the Supreme Court in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*[4] told us that it did not really mean what it said in Atascadero and invalidated the Patent and Plant Variety Protection Remedy Clarification Act. In a companion case decided on the same day, the same five Justices held that the Trademark Remedy Clarification Act also failed to abrogate State sovereign immunity.[5]

The Court's latest decisions have been the subject of bipartisan criticism. In a floor statement on July 1, I highlighted the anti-democratic implications of the approach of the activist majority of the Supreme Court, who have left constitutional text behind, ripped up precedent, and treated Congress with less respect than that due to an administrative agency in their haste to impose their natural law notions of sovereignty as a barrier to democratic regulation. I also noted that "the Court's decisions will have far-reaching consequences about how ... intellectual property rights may be protected against even egregious infringements and violations by the States." RECORD, 7/1/99, at S8070.

One of my Republican colleagues on the Judiciary Committee, Senator Specter, expressed similar concerns in a floor statement on August 5. He noted that the Court decisions "leave us with an absurd and untenable state of affairs," where "States will enjoy an enormous advantage over their private sector competitors." RECORD, 8/5/99, at S10361.

Not surprisingly, alarm has also been expressed in the business community about the potential of the Court's recent decisions to harm intellectual property owners in a wide variety of ways. A commentary in Business Week on August 2, 1999, gave these examples:

> "'Watch out if you publish software that someone at a State university wants to copy for free' ... 'Watch out if you own a patent on a medical procedure that some doctor in a State medical school wants to use. Watch out if you've invested heavily in a great trademark, like Nike's Swoosh, and a bureaucrat decides his State program would be wildly promoted if it used the same mark.'"

Charles Fried, a professor at Harvard Law School and former Solicitor General during the Reagan Administration, has called the Court's decisions in Florida Prepaid and College Savings Bank "truly bizarre." He observed, in a July 6 opinion editorial in the New York Times:

> "[The Court's decisions] did not question that States are subject to the patent and trademark laws of the United States. It's just that when a State violates those laws -- as when it uses a patented invention without permission and without paying for it -- the patent holder cannot sue the State for infringement. So a State hospital can manufacture medicines patented by others and sell or use them, and State schools and universities can pirate textbooks and software, and the victims cannot sue for infringement."

I believe that these concerns are very real. As Congress realized when it waived federal sovereign immunity in this area, it would be naive to imagine that reliance on the commercial decency of the government and its myriad agencies and officials would provide the security needed to promote investment in research and development and to facilitate negotiation in the exclusive licensing arrangements that are often necessary to bring valuable products and creations to market.

The issue is not whether State infringement has been frequent in the past, but rather whether we can assure American inventors and investors and our foreign trading partners that, as State involvement in intellectual property becomes ever greater in the new information economy, U.S. intellectual property rights are backed by guaranteed legal remedies. It is a question of economics: our national economy depends on real and effective intellectual property rights. It is also a question of justice: in conceding that the States are constitutionally bound to respect federal intellectual property rights but invalidating the remedies Congress has created to enforce those rights, the Court has jeopardized one of the key principles that distinguishes our Constitution from the Constitution of the old Soviet Union -- the principle that where there is a right, there must also be a remedy.

Some have suggested that a constitutional amendment may be the only way to restore protection to patent, copyright and trademark owners as against States. But even if Congress were to adopt such an amendment, I do not expect that we will see a lot of States rushing to ratify an amendment that forces them to pay for things that they can currently get for free.

Fortunately, however, while the implications of the Court's decisions for our constitutional scheme are serious, we can restore the guarantees of our intellectual property laws without resorting to a constitutional amendment. After close consideration of *Florida Prepaid* and the other recent Supreme Court precedents, I have no doubt that they leave several constitutional mechanisms open to us to restore substantial protection for patents, copyrights and trademarks through ordinary legislation. The Supreme Court's hyper-technical constitutional interpretations require us to jump through some technical constitutional hoops of our own, but that the exercise is now not merely worthwhile, but essential to safeguard both U.S. prosperity and the continued authority of Congress.

The Intellectual Property Protection Restoration Act is based on a simple supposition -- that there is no inherent entitlement to federal intellectual property rights. In discussing the policies underlying the patent laws, the Supreme Court has emphasized that "[t]he grant of a patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts,'" and that "[i]t is the public interest which is dominant in the patent system."[6] Similarly, in discussing the copyright laws, the Court has underscored that "the monopoly privileges that Congress has authorized, while 'intended to motivate the creative activity of authors and inventors by the provision of a special reward,' are limited in nature and must ultimately serve the public good."[7]

The Constitution empowers but does not require Congress to make intellectual property rights available, and Congress should do so on in a manner that encourages and protects innovation in the public and private sector alike.

States and their institutions, especially State universities, benefit hugely from the federal intellectual property laws. All 50 States own or have obtained patents -- some hold many hundreds of patents. States also hold other intellectual property rights secured by federal law, and the trend is toward increased participation by the States in commerce involving intellectual property rights.

Principles of State sovereignty tell us that States are entitled to a free and informed choice of whether or not to participate in the federal intellectual property schemes, subject only to their constitutional obligations. Equity and common sense tell us that one who chooses to enjoy the benefits of a law -- whether it be a federal grant or the multimillion-dollar benefits of intellectual property protections -- should also bear its burdens. Sound economics and traditional notions of federalism tell us that it is appropriate for the federal government to assist and encourage the sovereign States in their sponsorship of whatever innovation and creation they freely choose to sponsor by giving them intellectual property protection and, on occasion, funding, so long as the States reciprocate by assisting the federal government to keep its promise of guaranteed exclusive rights to intellectual property owners.

The IPPRA builds on these principles. In order to promote cooperative federalism in the intellectual property arena, it provides a mechanism for States to affirm their willingness to participate in our national intellectual property project and so "opt in" as full and equal

participants. A State would opt in to the federal intellectual property system every time it applied for protection under a federal intellectual property law, by promising to waive its sovereign immunity from any subsequent suit against the State arising under such a law.

States take their commitments seriously. We can therefore expect that a State, having promised to waive its immunity if called upon to do so, would take whatever steps were necessary to fulfill that promise. At least in theory, however, a State could assert its immunity regardless of any assurance to the contrary.

The IPPRA addresses this problem by conditioning a State's intellectual property rights on its adherence to its promise to waive immunity. Thus, a State's refusal to waive immunity in an intellectual property suit after it has accepted benefits under an intellectual property law would have a number of consequences. Most significantly, it would give private parties the right to assert an immunity-like defense to damages claims in any action to enforce an intellectual property right that is or has been owned by the State during the five years preceding the State's assertion of immunity. This quid pro quo provision restores the level playing field by putting States that assert immunity in essentially the same position as private parties who seek to enforce federal intellectual property rights against them.

The IPPRA does this without coercing the State to waive by threatening pre-existing benefits. The quid pro quo provision only affects those intellectual property rights that the State acquired by virtue of its promise to waive immunity. To ensure that State waivers are voluntary, State intellectual property rights that pre-date the passage of the IPPRA are preserved regardless of waiver.

This scheme is consistent with the spirit of federalism, as interpreted by the Supreme Court, because it gives the States a free, informed and meaningful choice to waive or not to waive immunity at any time. It is also plainly authorized by the letter of the Constitution. Article I empowers Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Incident to this power, Congress may attach conditions on the receipt of exclusive intellectual property rights. Indeed, we have always attached certain conditions, such as the requirement of public disclosure of an invention at the Patent and Trademark Office in order to obtain a patent.

Congress may attach conditions on States' receipt of federal intellectual property protection under its Article I intellectual property power just as Congress may attach conditions on States' receipt of federal funds under its Article I spending power. Either way, the power to attach conditions to the federal benefit is an integral part of the greater power to deny the benefit altogether. Either way, States have a choice -- to forgo the federal benefit and exercise their sovereign power however they wish subject to the Constitution, or to take the benefit and exercise their sovereign power in the manner requested by Congress. In *South Dakota v. Dole,*[8] for example, the Supreme Court held that Congress may condition federal highway funds on a State's agreement to raise its minimum drinking age to 21. The condition imposed on receipt of federal benefits by the IPPRA

– submitting to suit under laws that are already binding on the States -- is not onerous, nor does it co-opt any State resources to the service of federal policy.

Given the choice between opting in to the intellectual property laws and forgoing intellectual property protection under the federal laws, most States are likely to choose to former. The benefits secured by those laws far outweigh the burdens. Most States already respect intellectual property rights and will seldom find themselves in infringement suits. To deny the States the choice that the IPPRA offers them would amount to penalizing States that play by the federal intellectual property rules for the free-riding violations of the minority of States that refuse to commit to do so. As is normally the case in a federal system, cooperation between the States and the federal government is likely to be beneficial to all concerned.

However, some States and some State entities and officials have infringed patents and violated other intellectual property rights in the past, and the massive growth of both intellectual property and State participation in intellectual property that we are seeing as we move into the next century give ample cause for concern that such violations will continue. Now that the Supreme Court has seemingly given States and State entities *carte blanche* to violate intellectual property rights free from any adverse financial consequences so long as they stand on their newly augmented sovereign immunity, the prospect of States violating federal law and then asserting immunity is too serious to ignore.

The IPPRA therefore also provides for the limited set of remedies that the Supreme Court's new jurisprudence leaves available to Congress to enforce a non-waiving State's obligations under federal law and the United States Constitution. The key point here is that, while the Court struck down our prior effort to enforce the intellectual property laws themselves by authorizing actions for damages against the States, it nonetheless acknowledged Congress' power to enforce *constitutional* rights related to intellectual property.

First, for the avoidance of doubt, the IPPRA ensures the full availability of prospective equitable relief to prevent States from violating or exceeding their rights under federal intellectual property laws. As the Supreme Court expressly acknowledged in its *Seminole Tribe* decision in 1996, such relief is available, notwithstanding any assertion of State sovereign immunity, under what is generally known as the doctrine of *Ex parte Young*.[9]

Second, to address the harm done to the rights of intellectual property owners before they can secure an injunction, the IPPRA also provides a damages remedy against non-consenting States, to the full extent of Congress' power to enforce the constitutional rights of intellectual property owners. Under the Supreme Court's recent decisions, this remedy is necessarily limited to the redress of constitutional violations, not violations of the federal intellectual property laws themselves. However, as I have already noted, the Supreme Court has reaffirmed on many occasions that the intellectual property owner's right of exclusion is a property right fully protected from governmental violation under the Fifth Amendment's Takings Clause and under the Fourteenth Amendment's Due Process Clause.

Under the Fifth Amendment, a State can be sued for damages for taking an intellectual property right. Although States can normally take a property right constitutionally, so long as they do so for a "public purpose" and provide "just compensation," the Supreme Court held in 1984 that the "public purpose" requirement for a lawful taking means that the taking must be a valid exercise of the State's eminent domain powers.[10] Because of the uniquely federal nature of federal intellectual property rights of exclusion, States have no eminent domain or other sovereign power over them. "When Congress grants an exclusive right or monopoly, its effects are pervasive; no citizen or State may escape its reach."[11] Therefore, every State taking of an intellectual property right, with or without some promise of subsequent compensation, is a constitutional violation ripe for congressional enforcement under section five of the Fourteenth Amendment.

Strangely, and I think improperly, the Supreme Court declined to decide in *Florida Prepaid* whether our earlier Clarification Acts could be sustained as an enforcement of the Takings Clause. The Court also did not resolve when a violation of intellectual property rights amounts to an unconstitutional taking. Because the Court emphasized that the resolution of such constitutional questions is its job, and not ours, the IPPRA simply provides a federal cause of action for an unconstitutional taking of intellectual property rights, leaving the courts to make the final determination of what is a constitutional violation and what remedy is constitutionally authorized. The IPPRA does, however, instruct the courts to interpret both the right and the remedy as broadly as constitutionally permissible. At the same time, by excluding treble damages from the remedies provided and by adopting the same standard of compensation -- "reasonable and entire compensation" -- that is currently available against the federal government for patent infringements, the bill respects the States' dignity and responds to the Court's objection that the Clarification Acts provided identical remedies against States and private parties.

Finally, in order to ensure the full availability of constitutionally permissible remedies if the courts adopt a narrow view of the Takings Clause in this context, the IPPRA adopts a similar approach in providing the fullest remedies constitutionally available, up to and including "reasonable and entire compensation" but excluding treble damages, for State violations of a federal intellectual property owner's Fourteenth Amendment right not to be deprived of her property without due process of law.

In sum, the constitutional remedy provided by the IPPRA closely resembles the remedy that Congress provided decades ago for deprivations of federal rights by persons acting under color of State law. The bill does not expand the property rights secured by the federal intellectual property laws -- these laws are already binding on the States -- nor does the bill interfere with any governmental authority to regulate businesses that own such rights. It simply restores the ability of private persons to sue in federal court to enforce such rights against the States.

I view this bill as an exercise in cooperative federalism. Clear, certain and uniform national rules protecting federal intellectual property rights benefit everyone: consumers, businesses, the federal government and the States. The IPPRA preserves States' rights, and gives the States a free choice. At the same time, it ensures effective protection for individual constitutional rights, and

fills the gap left by recent Supreme Court decisions in which there are federal rights unsupported by effective remedies.

There are, to be sure, other approaches that Congress could take to address the problems created by the Court's decisions. For example, Congress could condition a State's receipt of federal funds -- including federal research funds used to generate intellectual property -- on the State's waiver of immunity from any suit arising under the federal intellectual property laws. As I previously discussed, this approach is squarely supported by the Court's decisions in the spending cases. In my view, however, such an approach would be less respectful of State sovereignty than the opt-in scheme proposed by the IPPRA. It would also impede the States' ability to conduct research in a manner that the IPPRA would not.

There is another approach that remains open to Congress that would provide a remedy for intellectual property owners against States, respect State sovereignty, and restore some degree of uniformity and consistency in the construction of the federal intellectual property laws. That is, Congress could give State courts jurisdiction over intellectual property suits or just compensation claims against the States, and then require the United States Supreme Court to exercise appellate review of the resulting State court judgment. There is no possible constitutional objection to this approach; the Eleventh Amendment does not defeat the Supreme Court's appellate jurisdiction over suits brought against the States.[12] We should not, however, burden the Supreme Court in this manner when, as the IPPRA demonstrates, there are efficient and proper ways to bring these claims into the lower federal courts in which intellectual property expertise resides.

Intellectual property is the currency of the new global economy. As we move into the 21st century, we should not allow that currency to be devalued by abstruse 18th century legal formalities. For that reason, I believe that legislation is imperative to minimize the ill effects of the Supreme Court's latest attack on our ability to protect our national economic assets. The IPPRA restores protection for violations of intellectual property rights that may, under current law, go unremedied, and so provides the certainty and security necessary to foster innovation and creativity. We unanimously passed more sweeping legislation earlier this decade, but were thwarted by Supreme Court technicalities. The IPPRA is designed to restore the benefits we sought to provide intellectual property owners while meeting the Supreme Court's technical requirements. We should move to consider this legislation as soon as we return next year.

I ask unanimous consent that the bill and a section-by-section summary of the bill be printed in the RECORD following my remarks.

1.473 U.S. 234 (1985).

2.491 U.S. 1 (1989).

3.517 U.S. 44 (1996).

4.119 S. Ct. 2199 (1999).

5. See *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 119 S. Ct. 2219 (1999).

6.*Mercoid Corp. v. Mid-Continent Invest Co.*, 320 U.S. 661, 665 (1944) (quoting U.S. Const., Art. I, §8). See also *United States v. Univis Lens Co.*, 316 U.S. 241, 251-52 (1942) ("The patent is a privilege. But it is a privilege which is conditioned by a public purpose.").

7.*Fogerty v. Fantasy, Inc,* 510 U.S. 517, 526 (1994) (quoting *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984)).

8.483 U.S. 203 (1987).

9.209 U.S. 123 (1908).

10.*Hawaii Housing Auth. v. Midkiff*, 467 U.S. 229 (1984).

11.*Goldstein v. California*, 412 U.S. 546 (1973).

12.See *McKesson Corp. v. Division of Alcoholic Beverages and Tobacco*, 496 U.S. 18 (1990).