

STATEMENT OF

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on

**STATE SOVEREIGN IMMUNITY UNDER THE ELEVENTH AMENDMENT AND ITS
EFFECTS ON INTELLECTUAL PROPERTY ENFORCEMENT**

before the

**SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY**

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Mr. Chairman, Members of the Subcommittee, it is a pleasure to be here today to discuss state sovereign immunity under the Eleventh Amendment and its impact on the enforcement of federally-protected intellectual property rights.

I want to thank you, Mr. Chairman, and the ranking member of the Subcommittee for organizing today's hearing. I believe that the Supreme Court's decisions last year on state sovereign immunity pose a critically important issue for intellectual property policy. I also want to recognize Senator Hatch's and Senator Leahy's leadership on this issue. In fact, the very first question I faced in my confirmation hearing was from Senator Hatch about the *Florida Prepaid* decisions. Moreover, Senator Leahy has already introduced legislation to address the effect of these Supreme Court decisions -- something I will talk about further today.

Professors Daniel Meltzer from Harvard and Mark Lemley from UC Berkeley, both of whom have participated in the USPTO's efforts in this area, will be offering testimony shortly. They are so knowledgeable about the legal doctrines involved that any discussion of the constitutional and jurisprudential problems from me would be neither as succinct nor as clear as what these scholars will have to say. Accordingly, I would like to focus my remarks on describing the Administration's efforts in this area, what we see as the major issues, and our hopes for action in the next Congress. Let me be clear that my remarks do not necessarily reflect the Administration's position, however, as the USPTO continues to consult within the Administration on sovereign immunity issues.

To summarize briefly, our goal from the intellectual property (IP) perspective is to ensure that the States and state instrumentalities are subject to sufficient enforcement mechanisms to deter infringement and adequately protect IP. It may be stating the obvious, but there's no point in passing effective legislation that the Supreme Court will ultimately find infirm under the Constitution. Moreover, there is no point in passing legislation that will pass constitutional muster, but not give effective remedies against intellectual property infringements.

The Florida Prepaid Cases

In 1999, the U.S. Supreme Court issued a series of opinions addressing the right of States to assert sovereign immunity. Two of these cases directly concerned Federal intellectual property statutes. In *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 119 S. Ct. 2199 (1999), a 5-4 majority of the Court held that States could assert sovereign immunity to shield themselves from suits under the Patent Act. The Court recognized that Congress has the power to abrogate sovereign immunity under section 5 of the Fourteenth Amendment. However, the Court reasoned that Congress' passage of the Patent and Plant Variety Protection Remedy Clarification Act in 1992 did not validly abrogate state sovereign immunity. The Court cited two reasons for this conclusion. First, Congress had failed to sufficiently identify state infringements of patents that constituted conduct transgressing the Fourteenth Amendment's substantive provisions. Second, Congress had failed to tailor its legislative abrogation of state sovereign immunity to remedy or prevent such Constitutional violations.

In a companion case, *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 119 S. Ct. 2219 (1999), the Court considered whether states can be sued for unfair competition under § 43(a) of the Lanham Act (15 U.S.C. 1125(a)) where the Trademark Remedy Clarification Act (TRCA) had: (1) amended § 43(a) by defining "any person" to include state and state instrumentalities; and (2) expressly abrogated state sovereign immunity for § 43(a) suits. The same 5-4 majority as in *Florida Prepaid* held that TRCA had not validly abrogated the state sovereign immunity and concluded that Florida had not voluntarily waived its sovereign immunity through its activities in interstate commerce. While the Court has not directly considered whether States enjoy sovereign immunity against claims of either trademark or copyright infringement, the *Florida Prepaid* cases have been interpreted by both courts and commentators as leading to that conclusion, and the Attorney General has determined, and informed Congress, that the current legislative record will no longer support a defense of the constitutionality of the abrogation provisions in the current copyright and trademark statutes.¹

The *Florida Prepaid* and *College Savings* cases (the *Florida Prepaid* decisions) followed the Court's earlier ruling in *Seminole Tribe v. Florida*, 517 U.S. 44 (1996), which established that Congress may authorize suits against states in Federal court only pursuant to its authority under section 5 of the Fourteenth Amendment and not pursuant to any Article I power. These results have produced, to say the least, a complex and daunting legal landscape.

The Administration's Efforts

The U.S. Patent and Trademark Office (USPTO) has been looking at the problems arising from the *Florida Prepaid* decisions since last fall. This includes participating in an informal discussion group on the cases with private industry, the Copyright Office, and both House and

Senate staff, among others and hosting an all-day conference on March 31, 2000, in cooperation with American Intellectual Property Law Association (AIPLA) and the Intellectual Property Section of the American Bar Association (ABA). The conference discussed the various legislative options and constitutional issues that face the intellectual property community in the wake of the *Florida Prepaid* decisions. I'm proud to say that we assembled probably the most high-caliber collection of legal thinkers yet to congregate in one room to discuss these cases.

Our panelists on March 31 included Professors Meltzer and Lemley, who will be addressing the Subcommittee later in this hearing. In addition, the conference's scholars included Erwin Chemerinsky from USC; Rochelle Dreyfuss from NYU; Daniel Farber from the University of Minnesota; Jane Ginsburg from Columbia; Marci Hamilton from Cardozo Law School; Tom Lee from Brigham Young; Peter Menell from Berkeley; and Ernie Young from the University of Texas. People who follow legal academic journals may note an outpouring of law review articles on the *Florida Prepaid* cases now and in the coming monthsⁱⁱ -- and a large chunk of that scholarship is from law professors who participated in the conference and who are continuing to provide advice to the USPTO on this issue. To ensure that the States' perspective was adequately represented, we also had the Solicitors-General of New York and Kansas as well as the Supreme Court counsel of the National Association of Attorneys-General on our panel.

In addition to the panelists, the conference had approximately 100 attendees. Most intellectual property trade associationsⁱⁱⁱ and many individual companies were represented at the conference, including Dow Chemical, Glaxo Wellcome, McGraw-Hill, Merck, Reed Elsevier, and Time/Warner. There were also attendees from several state institutions (George Mason University, State of South Dakota Regents, University of Maryland, Virginia Polytechnic), as well as from the State of Texas Attorney General's Office and the Wisconsin Department of Justice. Attendees affiliated with the Federal Government came from the Court of Federal Claims, the Senate Judiciary Committee staff, the House Judiciary Committee staff, the Copyright Office, the Federal Trade Commission, the Department of Commerce, the Department of Education, and the National Institutes for Health.

The USPTO will be issuing a report summarizing the ideas and proposals discussed at the conference and making some initial recommendations on how to address the legal landscape created by the *Florida Prepaid* decisions. A lot of energy and thought is going into that report. Therefore, let me talk a little bit about what the USPTO's thinking is, why the Administration believes that Congressional action in this area is warranted, and how we currently see the general framework of a solution.

Why the Administration Believes that Congressional Action is Warranted

As a first principle, the Administration is committed to work with Congress to ensure that States and state entities are liable, in some form, for money damages when they infringe federally-protected intellectual property. At the same time, we are committed to respecting the Court's views of federalism and the majority's interpretation of the Eleventh Amendment and other Constitutional sovereign immunity doctrines.

We have two important reasons to believe that States and state entities should be liable for money damages when they infringe federally-protected intellectual property. First, the post-

Florida Prepaid situation is inequitable and presents a potential windfall for states. Second, if left unaddressed, the *Florida Prepaid* decisions could make it more difficult for the United States to advocate strong intellectual property protection internationally.

An Inequitable Situation

We view the present, post-*Florida Prepaid* situation as very inequitable. State and state institutions are active participants in the federal intellectual property system, with extensive patent and trademark holdings. Yet, while they enjoy all the rights of an intellectual property plaintiff, they are shielded from significant financial liability as intellectual property defendants.

We have done some initial research into the extent of state holdings of intellectual property. For example, we know that public colleges and universities -- that is, state institutions -- acquired over 13,000 U.S. patents between 1969 and 1997 -- roughly 60% of the total 22,551 patents issued to all institutions of higher learning during the period. As a rough calculation, state academic institutions received approximately 2.5% of all U.S. utility patents issued to non-federal government, U.S. entities in 1997 and 1998.^{iv} It is important to note that these figures count only issued patents where the assignor at the time of issuance was identifiably a state college, university, or research institution. In addition, these numbers do not count the patents held by state hospitals, state agricultural services, and the like.

Our initial look at trademark registrations suggests that state institutions, particularly universities, have scores of federally-protected trademarks -- which they are more and more aggressively protecting. In short, the States enjoy an enormous collection of federally-granted intellectual property rights, each and every one of which will be enforced by federal courts.

We believe that there is a real inequity that state institutions profit from federally-protected intellectual property and can be plaintiffs in the federal intellectual property system, but can avoid most of the liability of being defendants. This is the same sense of equity that underpinned Judge Shubb's recent decision in the *New Star Lasers v. Regents of California* litigation, 63 F.Supp. 2d 1240 (E.D. Cal. 1999). In that case, the University of California had settled litigation in Massachusetts over a patent held by the university. Then, when New Star Lasers sought a declaratory action invalidating the UC patent, the University of California argued that it should have sovereign immunity. Judge Shubb's opinion is worth quoting:

“The Regents wish to take the good without the bad. The court can conceive of no other context in which a litigant may lawfully enjoy all the benefits of a federal property or right, while rejecting its limitations.” *Id.* at 1244.

This, then, is the issue. States now enjoy all the prerogatives of being the owners of federally-protected property, but aren't obliged to give the same respect to the property of others.

At the same time, we have to recognize that the federal government bears some responsibility for making the states possessors of large portfolios of intellectual property. Indeed, we bear that responsibility proudly. Since the Bayh-Dole Act was passed in 1980, the federal government has encouraged (and underwritten) acquisition of intellectual property by state institutions. Of course, at the time Bayh-Dole was passed, it was believed that state instrumentalities were

amenable to damage suits for violation of intellectual property on the same terms as private actors, so there was no awareness that we were entitling the state entities to be plaintiffs in damage suits for federally-protected intellectual property while permitting them to avoid being defendants.

The Bayh-Dole Act represents a major success story in American technology policy, providing a mechanism for commercializing the results of government-sponsored research through the patent system. Prior to Bayh-Dole, hundreds of valuable inventions from federally-funded research had been shelved, due to lack of industry involvement and an incentive for further investment to bring the inventions to commercial application. Under Bayh-Dole, patent rights resulting from federally-funded research accrue to universities and research centers undertaking the research. The irony is that many of those universities and research centers are State instrumentalities which now enjoy sovereign immunity under the *Florida Prepaid* cases.

I mention this because there are proposals to condition the ability of state institutions to obtain federal protection for intellectual property on their waiver of sovereign immunity. I believe that this is a reasonable and equitable approach. However, we must make sure that it does not significantly disrupt our country's extraordinarily successful system of federal funding of research and development, with the subsequent commercialization of research results by the private sector. A legislative solution which elicits state waiver of sovereign immunity in exchange for the right to own federally-protected intellectual property must respect, and be in harmony with, the commercialization goals of the Bayh-Dole legislation.

International Concerns

A second area of concern for the Administration is how the *Florida Prepaid* decisions affect our ability to promote intellectual property rights globally. Simply put, the *Florida Prepaid* decisions could make it more difficult for the United States to advocate effective enforcement of intellectual property rights in other countries.

Although the *Florida Prepaid* analysis is based on Constitutional issues concerning the balance of power in our federal system, we cannot expect foreign officials to be conversant in the subtleties of American constitutional law. Officials in other countries are likely to say, 'what is good for the goose, is good for the gander.' For example, if the state superintendent of schools in California or Texas or Iowa were to order 100,000 copies of a third grade textbook to be printed without any risk of monetary damages in a suit by the publisher, how can the United States complain when there is rampant photocopying of textbooks of the campus of a public university in a foreign country? If the highway department in Ohio or South Dakota or Florida can use a patented form of bridge construction without any financial liability for infringement, it is more difficult for the United States to complain about patent infringements by another government's highway or health department. When we criticize another country for having financial penalties against patent, trademark, and copyright infringers that are too low, that country may point out that we have no financial penalties at all when the infringer is a state university, hospital, prison, or government office.

In short, other countries might use the *Florida Prepaid* decisions to justify aspects of their own intellectual property laws, such as compulsory licensing, which the United States has criticized. Armed with awareness of the *Florida Prepaid* decisions, countries that have intellectual property laws that are weak and/or inconsistent with the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement could become increasingly resistant to American pressure to improve those laws.^v

At the extreme, some countries may even argue that the post-*Florida Prepaid* situation puts us in violation of our own TRIPs obligations to provide effective enforcement. In fact, in the World Trade Organization's TRIPs Council, the United States has already been asked formally about the *Florida Prepaid* decisions, whether "states and state agencies cannot be sued in federal court for [intellectual property] infringements" and to "explain how the United States complies with Article 44(2)" of TRIPs.^{vi} For these reasons, we think that some legislative response to the *Florida Prepaid* cases is appropriate.

What is to be Done?

The very nature of the *Florida Prepaid* decisions has focused attention on three basic routes for state liability in intellectual property cases: injunctive relief under *Ex parte Young*, abrogation of state immunity from damage suits through the power given to Congress by Section 5 of the Fourteenth Amendment, and waiver of state immunity in exchange for participation in some federal program. The USPTO is now consulting with the Department of Justice and additional agencies and parties on these matters. In the meantime, I would be happy to share the preliminary thoughts of the USPTO on each of these three approaches, and on other possible mechanisms that Congress may wish to consider.

Ex Parte Young

Ex parte Young relief is still available against state infringements of intellectual property. Nonetheless, based on the views of our conference panelists, we are likely to recommend that Congress' intent that the doctrine be available for intellectual property suits be reaffirmed.

Abrogation

On the topic of abrogation, we are likely to recommend that Congress not attempt as broad abrogation as was struck down in the *Florida Prepaid* cases until further, meaningful empirical work has been done on: (1) the extent and nature of state violations of intellectual property; and (2) the nature of remedies available to private intellectual property owners in state courts. In this respect, we welcome the request Senate Judiciary Chairman Hatch made to the General Accounting Office to work on both these issues.

At the same time, we are also very interested in the thoughtful and creative proposal Senator Leahy has put forward in S. 1835 -- which provides what might be called "limited" abrogation -- allowing a case-by-case determination by federal district courts as to whether the conditions have been met for abrogation of Eleventh Amendment immunity under Section 5 of the 14th Amendment.

Waiver

In light of the Court's reaffirmation of *South Dakota v. Dole*, 483 U.S. 203, 107 S. Ct. 2793, 97 L. Ed.2d 171 (1987) and *Petty v. Tennessee-Missouri Bridge Commission*, 359 U.S. 275, 79 S. Ct. 785, 3 L. Ed.2d. 804 (1959), much attention has been given to whether Congress can craft legislation that will prompt states to waive their sovereign immunity in intellectual property suits without being unduly coercive. At our March conference, the panelists gave considerable attention as to how participation in some federal spending programs could be conditioned on waiver of sovereign immunity.

The Administration, however, is not convinced of the desirability of putting such conditions on any key federal spending program. Instead, we are likely to recommend that Congress look carefully at the possibility of eliciting waivers of sovereign immunity in exchange for the states' ability to participate in the federal intellectual property system. To avoid Constitutional difficulties, we believe that there must be clear notice to the states of how participation triggers waiver. There may be other complexities and Constitutional questions that need further examination, as well.

Senator Leahy's bill offers one model for such a waiver system -- a model that deserves careful attention as we move forward in this discussion. Let me also say that we appreciate Senator Leahy's staff including both the USPTO and the Copyright Office in discussing different aspects of his proposal for a waiver system. Many of the people in this room are familiar with a draft revision of S. 1835, which the Senator's staff has been circulating and which includes input from the USPTO and the Copyright Office. We look forward to working with the House members in the same process of developing and refining legislation on these issues, and to the Department of Justice's involvement in providing its views on how best to address the Constitutional questions.

Conclusion

While waiver, abrogation, and *Ex parte Young* are the "big three" theories for holding states liable for intellectual property infringements, we may also have to consider other options. For example, those options might include looking at the possibility and Constitutionality of *qui tam* suits. Another possibility is adjusting state liability for intellectual property infringements so that it better parallels that of the federal government.

Mr. Chairman, that is a final point worth emphasizing. The States are now in an enviable position of having their cake and eating it too. We don't think that the State governments and state universities are full of people who are suddenly going to start running on "pro-piracy" platforms or engaging in wholesale, intentional piracy. But States instrumentalities are becoming more and more involved in commerce -- particularly through the educational and research sectors. The federal government accepts that it may be liable for money damages if it infringes intellectual property rights; indeed, while the federal government is precluded by statute from asserting copyright domestically on works created by its employees, the federal government can be liable for copyright infringement.

Thank you very much.

i The Fifth Circuit has already considered the issue of immunity from copyright infringement suits in *Chavez v. Arte Publico Press* and *Rodriguez v. Texas Commission on the Arts*. In *Chavez*, a copyright owner sued the University of Houston Press for copyright and trademark violations. After a Fifth Circuit panel initially concluded that the University of Houston had impliedly waived its sovereign immunity, *Chavez v. Arte Publico Press*, 59 F.3d 539, 548 (5th Cir. 1995), the University of Houston petitioned for certiorari. The Supreme Court remanded the case for reconsideration in light of its decision in *Seminole Tribe*. See *University of Houston v. Chavez*, 517 U.S. 1184 (1996). On remand, the Circuit panel majority concluded that Congress could not condition a state's activities that are regulable by Federal law upon their "implied consent" to be sued in Federal court, 157 F.3d 282, 287 (5th Cir. 1998), and that Congress could not use the Fourteenth Amendment to enforce the copyright and trademark laws, 157 F.3d at 287, 290. The *Florida Prepaid* decisions prompted the Circuit to return the case once again to the original panel for further consideration. The United states withdrew its intervention in *Chavez* in light of the Attorney General's conclusion that the constitutionality of the statutory abrogation could no longer be defended. Earlier this year, that court decided that the University of Houston enjoyed sovereign immunity against suit in Federal court for copyright violations. *Chavez v. Arte Publico press*, No. 93-2881, 2000 U.S. App. LEXIS 2490 (5th Cir. Feb. 18, 2000)

ii See e.g. Marci A. Hamilton and David Schoenbrod, *The Reaffirmation of Proportionality Analysis Under Section 5 of the Fourteenth Amendment*, 21 CARDOZO L. REV. 469, 472 (1999); Daniel J. Meltzer, *State Sovereign Immunity: Five Authors in Search of a Theory*, 75 NOTRE DAME L. REV. 1011 (2000) (hereinafter Meltzer, *Five Authors*); Peter S. Menell, Economic Implications of State Sovereign Immunity from Infringement of Federal Intellectual Property Rights, 33 LOYOLA OF LOS ANGELES L. REV. ____ (forthcoming 2000); Eugene Volokh, *Sovereign Immunity and Intellectual Property*, 73 SO. CAL. L. REV. ____ (forthcoming September 2000); Ernest A Young, *State Sovereign Immunity and the Future of Federalism*, 1999 Sup Ct. Rev. 1.

iii Including the American Society of Composers, Authors, and Publishers [ASCAP]; Broadcast Music, Inc. [BMI]; the Business Software Alliance [BSA]; International Business Machines, Inc. [IBM]; The McGraw-Hill Companies; the Motion Picture Association of America [MPAA]; the National Music Publishers' Association; the Recording Industry Association of America [RIAA]; Reed Elsevier, Inc.; Software and Information Industry Association [SIAA]; the West Group; and Time-Warner, Inc.

iv

These numbers are from OFFICE FOR PATENT AND TRADEMARK INFORMATION, U.S. PATENT AND TRADEMARK OFFICE, TECHNOLOGY ASSESSMENT AND FORECAST REPORT: U.S. COLLEGES AND UNIVERSITIES -- UTILITY PATENT GRANTS 1969 - 1997 (September 1998) and TECHNOLOGY ASSESSMENT AND FORECAST REPORT: U.S. COLLEGES AND UNIVERSITIES -- UTILITY PATENT GRANTS 1969 - 1998 (September 1999).

v

Gardner, *supra* note ___ at 102.

vi

World Trade Organization Trade Policy Review, document WT/TPR/56/Add,1, 9 March 2000. The United States formally responded to this query by stating, "As you know, this is a recent decision by our Supreme Court. Therefore, we are still analyzing it fully. However, we believe that adequate remedies, as required by the TRIPS Agreement, are available in the United States."