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SOVEREIGN IMMUNITY AND THE PROTECTION OF INTELLECTUAL PROPERTY

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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SOVEREIGN IMMUNITY AND THE PROTECTION OF INTELLECTUAL PROPERTY

WEDNESDAY, FEBRUARY 27, 2002

UNITED STATES SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The committee met, pursuant to notice, at 10:28 a.m., in Room SD–226, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chairman of the Committee, presiding.

Present: Senators Leahy and Brownback.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Chairman LEAHY. The committee will come to order. And I thank everybody for being here. The delay, as Under Secretary Rogan understands, when the lights go on, we have votes on, and in typical precision our 10 o'clock vote began at about quarter after, so I apologize for that.

It is good to have you all here, because we are going to focus on a pair of Supreme Court cases from 1999, what they mean for our national system of intellectual property, referring of course to *Florida Prepaid* v. *College Savings Bank* and its companion case *College Savings Bank* v. *Florida Prepaid*. The Supreme Court ruled in these cases that States and their institutions cannot be held liable for damages for patent infringement and other violations of the Federal intellectual property laws, even though those same States can and do enjoy the full protection of the laws for themselves.

The *Florida Prepaid* cases were both decided by the same 5 to 4 majority of the justices. The slim majority of the Court threw out three Federal statutes that Congress passed unanimously in the early 1990s, to reaffirm that the Federal patent, copyright and trademark laws apply to everyone, including the States. I should note that Senator Hatch was one of the two principal sponsors of these statutes in the Senate, along with former Senator DeConcini.

About four months after what I believe was a very activist Court ruling in the *Florida Prepaid* cases, I introduced a bill that responded to the Court's decisions. The Intellectual Property Protection Restoration Act of 1999 was designed to restore Federal remedies for infringements of intellectual property rights by the States.

It has been nearly three years since the Court issued its decisions, and this hearing is actually overdue. I believe there is an urgent need for the Congress to address this issue, for two reasons.

First, the decisions open up a huge loophole in our Federal intellectual property laws. The Supreme Court actually created signifi-

cant new law. If we truly believe in fairness, we cannot tolerate a situation in which some participants in the intellectual property system get legal protection, but are told they do not have to adhere to the law themselves. They can get the benefits with none of the obligations. If we truly believe in the free market, we cannot tolerate a situation where one class of market participants have to play by the rules and others do not. As the Senator from Pennsylvania said in August 1999 in a floor statement that was highly critical of these decisions, he said, they "leave us with an absurd and untenable state of affairs," where "States will enjoy an enormous advantage over their private sector competitors."

This concern is not just abstract. Consider this. In one recent copyright case the University of Houston was able to avoid any liability by invoking sovereign immunity. The plaintiff in that case, a woman named Denise Chavez, was unable to collect a nickel in connection with the University's unauthorized publication of her short stories. Just a short time later, another public university funded by the State of Texas is suing Xerox for copyright infringement.

There are other reasons why we should respond. Over the past decade in a series of 5 to 4 decisions that might be called examples of judicial activism, the current Supreme Court majority has overturned Federal legislation with a frequency unprecedented in American constitutional history. In doing so, the Court has more often than not relied on notions of State sovereign immunity that have little if anything to do with the text of the Constitution.

Some of us have liked some of the results, some have liked others, but that is not the point. You have an activist Court that is whittling away at the legitimate constitutional authority of the Federal Government. We are faced with a choice. We can respond in a careful measured way by reinstating our democratic policy choices in legislation crafted to meet what the Court currently claims are its objections. Or we can run away, abdicate our democratic policy-making duties to the unelected Court and go down in history as the incredibly shrinking Congress. I pose what the alternatives are. You can probably guess which way I feel.

Just last week the Court decided to intervene in another copyright dispute to decide whether Congress went too far in 1998 when we extended the period of copyright protection for an additional 20 years. Many of us on the committee cosponsored that legislation, and it passed unanimously in both the House and the Senate. A decision that the legislation is unconstitutional could place further limits on congressional power. Some would say that the Supreme Court has decided that it can ignore Congress, can ignore the electorate, and really set itself up as an amazingly activist Court, certainly the most activist in my lifetime.

In November of last year I introduced the Intellectual Property Protection Restoration Act of 2001, S. 1611. It builds on my earlier proposal. I am proud to have the House leaders on intellectual property issues, Representatives Coble and Berman, as the principal sponsors of the House bill. And we have support from such organizations as the American Bar Association, the American Intellectual Property Law Association, the Intellectual Property Owners Association, the International Trademark Association, the Profes-

sional Photographers of America Association, and the Chamber of Commerce.

I have a lot more on here, but to save time I will put my full statement in the record, and a statement from Senator Hatch will also be placed in the record.

And I would emphasize we are having this hearing to 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 legal remedies. I want to emphasize the international ramifications here. American trading interests have been well served by our strong and consistent advocacy of effective intellectual property protections in treaty negotiations. These efforts can be jeopardized by the loophole in U.S. intellectual property enforcement the Supreme Court has created, and I want to get us back to a case where we have not arbitrary fiats from across the street, but rather well thought-out and well-crafted legislation that follows not only the Constitution, but constitutional history.

[The prepared statement of Senator Leahy follows:]

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

I want to welcome everyone to today's hearing on sovereign immunity and the protection of intellectual property. Thank you all for coming.

Today's hearing will focus on a pair of Supreme Court cases from 1999 and what they mean for our national system of intellectual property protection. I am referring to *Florida Prepaid* v. *College Savings Bank* and its companion case, College Savings Bank v. *Florida Prepaid*. The Court ruled in these cases that States and their institutions cannot be held liable for damages for patent infringement and other violations of the federal intellectual property laws, even though they can and do enjoy the full protection of those laws for themselves.

The Florida Prepaid cases were both decided by the same five-to-four majority of the justices. This slim majority of the Court threw out three federal statutes that Congress passed, unanimously, in the early 1990s, to reaffirm that the federal patent, copyright, and trademark laws apply to everyone, including the States. I should note that Senator Hatch was one the two principal sponsors of these statutes in the Senate, along with former Senator DeConcini.

About four months after the Court ruled in the Florida Prepaid cases, I introduced a bill that responded to the Court's decisions. The Intellectual Property Protection Restoration Act of 1999 was designed to restore federal remedies for infringements of intellectual property rights by States.

Today's hearing is overdue; it has been nearly three years since the Court issued its decisions in the Florida Prepaid cases. I believe that there is an urgent need for Congress to respond to those decisions, for two reasons.

First, the decisions opened up a huge loophole in our federal intellectual property laws. If we truly believe in fairness, we cannot tolerate a situation in which some participants in the intellectual property system get legal protection but need not adhere to the law themselves. If we truly believe in the free market, we cannot tolerate a situation where one class of market participants have to play by the rules and others do not. As Senator Specter said in August 1999, in a floor statement that was highly critical of the Florida Prepaid decisions, they "leave us with an absurd and untenable state of affairs," where "States will enjoy an enormous advantage over their private sector competitors."

This concern is not just abstract. Consider this. In one recent copyright case, the University of Houston was able to avoid any liability by invoking sovereign immunity. The plaintiff in that case, a woman named Denise Chavez, was unable to collect a nickle in connection with the University's alleged unauthorized publication of her short stories. Now, just a short time later, another public university funded by the State of Texas is suing Xerox for copyright infringement.

The second reason why Congress should respond to the Florida Prepaid decisions is that they raise broader concerns about the roles of Congress and the Court. Over the past decade, in a series of five-to-four decisions that might be called examples

of "judicial activism," the current Supreme Court majority has overturned federal legislation with a frequency unprecedented in American constitutional history. In doing so, the Court has more often than not relied on notions of State sovereign immunity that have little if anything to do with the text of the Constitution.

Some of us have liked some of the results; others have liked others; but that is not the point. This activist Court has been whittling away at the legitimate constitutional authority of the federal government. At the risk of sounding alarmist, this is the fact of the matter: We are faced with a choice. We can respond—in a careful and measured way—by reinstating our democratic policy choices in legislation that is crafted to meet the Court's stated objections. Or we can run away, abdicate our democratic policy-making duties to the unelected Court, and go down in history as the incredible shrinking Congress.

Just last week, the Court decided to intervene in another copyright dispute, to decide whether Congress went too far in 1998, when we extended the period of copyright protection for an additional twenty years. Many of us on the Committee cosponsored that legislation, and it passed unanimously in both Houses. A decision that the legislation is unconstitutional could place further limits on congressional power.

In November of last year, I introduced the Intellectual Property Protection Restoration Act of 2001, S.1611, which builds on my earlier proposal. I am proud to have the House leaders on intellectual property issues, Representatives Coble and Berman, as the principal sponsors of the House companion bill, H.R. 3204. Our approach has garnered broad support from such organizations as the American Bar Association, the American Intellectual Property Law Association, the Intellectual Property Owners Association, the International Trademark Association, the Professional Photographers of America Association, and the Chamber of Commerce.

This bill has the same common-sense goal as the three statutes that Senator Hatch championed a decade ago and the Supreme Court overturned: To protect intellectual property rights fully and fairly. But the legislation has been re-engineered, after extensive consultation with constitutional and intellectual property experts, to ensure full compliance with the Court's new jurisprudential requirements.

Most importantly, our bill presents States with a choice. It creates reasonable incentives for States to waive their immunity in intellectual property cases, but it does not oblige them to do so. States that choose not to waive their immunity within two years after enactment of the bill would continue to enjoy many of the benefits of the federal intellectual property system; however, like private parties that sue States for infringement, States that sue private parties for infringement could not recover any money damages unless they had waived their immunity from liability in intellectual property cases.

This arrangement is clearly constitutional. Congress may attach conditions to a State's receipt of federal intellectual property protection under its Article I intellectual property power just as Congress may attach conditions on a State's receipt of federal funds under its Article I spending power. Either way, the power to attach conditions to the federal benefit is part of the greater power to deny the benefit altogether. And no condition could be more reasonable or proportionate than the condition that in order to obtain full protection for your federal intellectual property rights, you must respect those of others.

I hope we can all agree on the need for corrective legislation. A recent GAO study confirmed that, as the law now stands, owners of intellectual property have few or no alternatives or remedies available against State infringers—just a series of dead ends. I commend Senator Hatch for initiating that GAO study when he was Chairman of the Committee.

We need to 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 legal remedies. I want to emphasize the international ramifications here. American trading interests have been well served by our strong and consistent advocacy of effective intellectual property protections in treaty negotiations and other international fora. Those efforts could be jeopardized by the loophole in U.S. intellectual property enforcement that the Supreme Court has created.

I look forward to hearing from our witnesses, and again thank you all for coming.

Mr. James Rogan is the Under Secretary of Commerce of Intellectual Property and Director of the U.S. Patent and Trademark Office, formerly in the House of Representatives, where among other things he was a member of the Judiciary Committee, Subcommittee on Courts and Intellectual Property. He has the distinc-

tion of having served in every branch of State Government, as a prosecutor, a judge and a legislator. Being a prosecutor is the best job anybody could have, and Under Secretary Rogan, please come forward.

And Marybeth Peters is the Register of Copyrights. She has held that position since 1994, has been with the Copyright Office since 1966, has taught copyright as an adjunct at the University of Miami and at Georgetown, has written and spoken extensively on copyright matters, and is probably one of the best-known people before this committee. And, Ms. Peters, please come forward.

And why do we not start with you, Secretary Rogan?

STATEMENT OF JAMES E. ROGAN, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE, WASHINGTON, D.C.

Mr. ROGAN. Mr. Chairman, thank you. In fact, in listening to your repetition of my biography, I noted to Marybeth that I am now on my second go-round in an Executive Branch job. So hopefully I will have merited the confidence of this committee, and especially you, Mr. Chairman, for the courtesies that you extended me last year. I appreciate your support, and before I begin I wanted to thank you once again.

Chairman LEAHY. Well, I am pleased that you were willing to take the position you have. I think the President made a wise choice, and I am glad to have you here.

Mr. ROGAN. Thank you, Mr. Chairman. After 9 months in the private sector, I only wish my wife would join you with that delight.

[Laughter.]

Mr. ROGAN. Anyway, turning to the issue at hand, Mr. Chairman, I also want to congratulate you and Senator Hatch for the leadership both of you have shown on this rather complex issue concerning State sovereign immunity. The Supreme Court's *Florida Prepaid* decisions pose critically important issues for our Nation's intellectual property system, and it is gratifying to see that Congress is concerned about the situation and looking to bipartisan solutions.

In the time since I was confirmed as Under Secretary for Intellectual Property, I have surveyed many in the IP community about the State sovereign immunity problem. These conversations have made clear that the inequitable impacts resulting from *Florida Prepaid* decisions need to be addressed. State and State institutions are active and invaluable participants in the Federal intellectual property system. University hospitals and research centers patent their latest innovations. State public television and radio stations produce copyrighted programming. And State universities have valuable merchandising rights in the marks associated with their sport teams. As State entities become increasingly involved in commerce, particularly through the educational and research sectors, they naturally desire to protect and enforce their own intellectual property rights.

Presently, however, under the *Florida Prepaid* decisions, they are shielded from real accountability if they infringe on the intel-

lectual property rights of others. This inequity skews our system of IP protection. The *Florida Prepaid* decisions also had implications for enforcing America's intellectual property abroad. IP protection is critical for U.S. exports with about one-half now dependent on some form of protection.

As we advocate stronger enforcement abroad to secure these assets, we must also demonstrate our respect for intellectual property rights here at home. That means providing robust means of enforcement against any infringer.

Mr. Chairman, our reading of the Supreme Court's *Florida Prepaid* decisions suggests that a legislative remedy is appropriate. While the administration is not yet prepared to endorse any particular bill, we very much appreciate your introduction of S. 1611 as a basis for discussion of these issues.

The administration trusts that the hearings involving representatives of private and State holders of intellectual property, legal experts in IP and State immunity, and the administration, will enable this committee to fashion appropriate legislative remedies. To that end the U.S. PTO and the administration look forward to continuing to work with you and the members of this distinguished committee to ensure that the rights of all IP owners are protected through equitable and robust enforcement.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rogan follows:]

STATEMENT OF JAMES E. ROGAN, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY, DIRECTOR OF THE U.S. PATENT AND TRADEMARK OFFICE, WASHINGTON, D.C.

Chairman Leahy and Members of the Committee, it is a pleasure to join your discussion of State sovereign immunity and its impact on the enforcement of intellectual property rights. I want to thank you and Senator Hatch for the leadership you have shown on this very complex issue. Like both of you, I recognize that the Supreme Court's decisions in 1999 on State sovereign immunity pose a critically important issue for intellectual property policy.

Intellectual property owners view the current situation as inequitable. In their view, State institutions profit from federally protected intellectual property and are permitted to bring suit to protect their own intellectual property, but are shielded from monetary damages as defendants. This inequity skews our system of intellectual property protection, because the penalties in place to discourage infringement do not apply to State entities. The Administration shares some of these concerns.

However, the subject of today's hearing rests at a critical intersection of two fundamental Constitutional principles. On the one hand, the Eleventh Amendment recognizes that each State is a sovereign entity in our federal system. On the other hand, Article 1, Section 8 of the Constitution creates the foundation for our intellectual property system by granting Congress "the power 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."

The Commerce Department supports the objective of ensuring that owners of intellectual property rights have a proper remedy when a State infringes upon those intellectual property rights. As such, we believe that a legislative answer to the questions raised by the Florida Prepaid cases is appropriate. At the same time, however, we respect the Supreme Court's decisions on federalism. We support this committee's efforts to strike a balance between these competing interests in carefully crafting responsive legislation.

THE FLORIDA PREPAID CASES

In the 1980's and 1990's, however, the Supreme Court ruled that Congress must make explicit its intent to abrogate sovereign immunity. Under this test, the language of many statutes that had been assumed to abrogate sovereign immunity (such as the Patent Act, the Lanham Act, and the Copyright Act) failed to achieve

that purpose. Intellectual property owners then feared that States might be immune to suits for damages under federal intellectual property laws.

In order to make explicit its intent to abrogate State sovereign immunity in such infringement suits, Congress enacted the Patent and Plant Variety Remedy Clarification Act (1992), the Trademark Remedy Clarification Act (1992), and the Copyright Remedy Clarification Act (1990). However, in a 1996 decision, *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), the Supreme Court ruled 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 power under Article I of the Constitution.

In 1999, the U.S. Supreme Court applied this same reasoning in two opinions addressing the right of States to assert sovereign immunity in suits concerning federally protected intellectual property. In *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*, 527 U.S. 627, 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*, 527 U.S. 666, 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 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. Again, the Court held that Trademark Remedy Clarification Act 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.

In my conversations with intellectual property owners, I have learned that they find the current situation post-*Florida Prepaid* to be unfair. States 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 accountability as infringers of the intellectual property of others.

In light of this potential problem, Senator Hatch asked the General Accounting Office (GAO) last year to research and prepare a report to: determine the extent to which States have been accused of intellectual property infringement; identify the alternatives or remedies available to protect intellectual property owners against State infringement after the *Florida Prepaid* ruling; and obtain the views of the intellectual property community on what States could and should do, if anything, to protect intellectual property owners against infringement.

The GAO discovered fifty-eight lawsuits brought against States for intellectual property infringement since 1985. Although the GAO labeled this number as "few," this finding provides some evidence of the extent to which States have been accused of violating the intellectual property laws. Until 1999, the States were thought to be liable for damages for infringing another's intellectual property. Because of this potential liability, State entities had every reason to avoid infringement, to negotiate settlements or to enter into licensing arrangements.

Furthermore, based on self-reporting by State attorneys general and State universities, the GAO found that most State entities handle accusations of intellectual property infringement through administrative processes. If the majority of such accusations are handled through such processes, then the fifty-eight cases filed in court represent only a small number of the total accusations against States.

In reality, too little time has elapsed since the 1999 *Florida Prepaid* decisions for the GAO to statistically gauge whether immunity from suits for damages has led to States relaxing their standards for the use of intellectual property. Given all of these considerations, 58 cases naming States as defendants may be evidence of a much larger problem.

In addition to the fifty-eight allegations of infringement by States, the GAO report revealed an absence of any viable alternative remedy against State infringement.

The GAO lists a number of legal theories under which an intellectual property owner might be able to seek monetary damages in State courts. But the potential usefulness of any of these theories is largely unknown. The intellectual property laws of the United States have been carefully crafted to provide appropriate incentives to authors and inventors. Requiring an intellectual property owner to resort to untested legal theories in State courts in order to remedy an infringement damages the integrity of the U.S. intellectual property system.

Furthermore, 28 U.S.C. section 1338 gives federal courts exclusive jurisdiction over any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights, mask works, and designs. The federal courts have original jurisdiction over trademark infringement suits and over unfair competition claims when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws. The Copyright Act preempts all State legal rights that are equivalent to any of the exclusive rights in the Copyright Act after January 1, 1978. Thus, it is difficult to imagine any sufficient and practical alternative State remedy for State infringement of a copyright. All actions relating to patent and trademark applications are heard either through an administrative body in the USPTO or a federal court and are appealable only to a federal court. Finally, many States will have sovereign immunity in their own courts as well as in federal courts. Consequently, the alternatives to bringing an infringement suit against a State in federal court are, at best, uncertain.

The *Florida Prepaid* decisions may also have implications for enforcing America's intellectual property rights abroad. As the Committee is well aware, intellectual property protection is critical for U.S. exports, with about one-half of all of our exports dependent on some form of intellectual property protection. In fact, America loses more than $11 billion a year just from international software piracy alone. To combat this problem, we are reaching out to our foreign trading partners to encourage their support for strong intellectual property laws and enforcement systems. However, as we advocate strong enforcement abroad, we must also demonstrate our respect for intellectual property rights here at home and provide robust means of enforcement against any infringer.

LEGISLATIVE OPTIONS

Because the *Florida Prepaid* decisions raised a critical issue of intellectual property policy, the U.S. Patent and Trademark Office (USPTO) has been closely examining this matter since the decisions were issued in 1999. This includes participating in an informal discussion group on the cases with private industry, the Copyright Office, and House and Senate staff as well as hosting an all-day conference in March 2000 in cooperation with American Intellectual Property Law Association (AIPLA) and the Intellectual Property Section of the American Bar Association (ABA). The conference studied various legislative options and constitutional issues that face the intellectual property community in the wake of the *Florida Prepaid* decisions. At the conference, scholars, State representatives, and intellectual property owners focused their attention on three basic routes for State liability in intellectual property cases: the abrogation approach, injunctive relief under the *Ex Parte Young* doctrine, and waiver of State immunity in exchange for participation in some federal program.

THE ABROGATION APPROACH

Mr. Chairman, Section 5 of your Bill, S. 1611, would abrogate State sovereign immunity in cases where a State's infringement rises to the level of a constitutional violation under the Due Process Clause or the Takings Clause, and where the State cannot demonstrate that its own procedures are adequate to remedy such violations. While this limited abrogation would appear to be constitutional under *Florida Prepaid*, it is unclear to what extent Section 5 of the bill would address the full range of State infringements of intellectual property. As *Florida Prepaid* indicates, however, a broader abrogation statute would raise quite serious constitutional questions: it would, at a minimum, need to be crafted as a remedy or disincentive that is proportional and congruent to those instances of State infringement that are, in fact, unconstitutional.

THE INJUNCTIVE RELIEF APPROACH

In light of the constitutional problems inherent in crafting an abrogation statute that would reach all instances of State infringement, legal scholars have suggested two other approaches to balancing State sovereign immunity against the concerns of intellectual property owners: (1) injunctive relief under the *Ex Parte Young* doc-

trine and (2) requiring a waiver of sovereign immunity as a condition of receiving some federal benefit.

Based on the GAO's findings, it appears that members of the intellectual property community believe it is possible to go to federal court to get an injunction against a State preventing future infringement. In *Ex Parte Young*, the Supreme Court ruled that Eleventh Amendment immunity does not bar certain suits seeking declaratory and injunctive relief against State officers in their official capacities. 209 U.S. 123 (1908). Supreme Court decisions have clarified that the *Ex Parte Young* exception to State sovereign immunity must be interpreted narrowly and cannot be applied so as to allow all federal court actions against State officers in their official capacities to proceed. See e.g., *Edelman* v. *Jordan*, 415 U.S. 651 (1974). Therefore, under *Ex Parte Young*, it may be possible to bring suit against a State official for injunctive relief to stop continuing intellectual property infringement. It may not be possible, however, to obtain monetary damages. (Although a suit for money damages may be prosecuted against a State official in his individual capacity for unlawful conduct fairly attributable to the officer himself, such relief must come from the officer personally rather than from the State treasury, and therefore is not often an adequate or appropriate remedy for State infringement.) Based on our discussions with the intellectual property community, we believe that intellectual property owners would prefer a remedy that would allow them to collect monetary damages from the State for infringement. Intellectual property owners feel that the availability of monetary damages would provide a stronger disincentive to infringement.

THE WAIVER APPROACH

The third possible approach is to seek a waiver of State sovereign immunity. State officials are unlikely to voluntarily waive sovereign immunity because doing so is not in the State's interest. Therefore, much attention has been given to whether Congress can craft legislation that will, in a constitutionally sound manner, prompt States to waive their sovereign immunity in intellectual property suits. Congress may want to look carefully at the possibility of eliciting waivers of sovereign immunity in exchange for the States' ability to benefit from 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.

Mr. Chairman, your bill offers one model for addressing these issues - a carefully crafted model that deserves close attention as we move forward in this discussion. As noted above, section 5 of S. 1611 would abrogate State sovereign immunity in cases where a State's infringement constituted a constitutional violation under the Due Process Clause or the Takings Clause, and where the State cannot demonstrate that its own procedures are adequate to remedy such violations. Section 4 of the bill would clarify that actions, including *Ex Parte Young* suits, can be brought against State officials. And under section 3 of S. 1611, a State could not obtain damages in federal courts for infringements of its patents, trademarks or copyrights unless the State had waived its immunity in federal court in any action for "infringement of intellectual property protected under Federal law." The Commerce Department supports the objective of ensuring that owners of intellectual property rights have a proper remedy when a State infringes upon those intellectual property rights. The Administration believes that legislation to achieve that objective must (1) be consistent with the Constitution, (2) properly respect the roles of the States in our Federal system, and (3) facilitate creation of and commerce in intellectual property. While the Administration is not yet prepared to endorse a particular bill, we appreciate very much your introduction of S. 1611 as a basis for discussion of these issues. We believe that hearings involving representatives of private holders of intellectual property, States, State holders of intellectual property, the Administration, and legal experts in intellectual property and in State immunity, will enable this Committee to fashion appropriate legislation for further consideration.

Before closing, I raise one technical issue with respect to S. 1611. If S. 1611 or comparable legislation is pursued, the USPTO would recommend that plant variety protection and integrated circuit designs be added to the category of intellectual property for which States can obtain no infringement damages unless the States waive sovereign immunity. Although a State would be required to waive its sovereign immunity in infringement suits involving all types of federally protected intellectual property in order to obtain patent, trademark, or copyright damages, it is not clear under the current draft bill that a State owner of a semiconductor chip design or plant variety would be required to waive immunity in order to obtain damages for infringement of this intellectual property. Mr. Chairman, we would be happy to work with your staff to add the appropriate text ensuring that States own-

ing integrated circuit designs or protected plant varieties be held to the same standards as States owning other forms of intellectual property.

CONCLUSION

The Administration believes that, as State instrumentalities become increasingly involved in commerce, particularly through the educational and research sectors, they must accept the responsibility that comes with their desire to protect and enforce their own intellectual property rights. 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 held liable for copyright infringement. 28 U.S.C. § 1498 (2002).

Similarly, the federal government can be held liable for patent and trademark infringement and has, in fact, been ordered to pay damages for patent infringement. See, e.g. *Hughes* v. *U.S.*, 271 F.3d 1060 (CAFC 2001). In light of *Florida Prepaid*, the States are not subject to the same liability as the federal government. Our reading of the Supreme Court's decisions in the *Florida Prepaid* cases suggests that a legislative remedy is appropriate to address this concern.

Mr. Chairman, the USPTO and the Administration look forward to continuing to work with you and the members of this distinguished Committee to ensure proper protection for intellectual property.

Chairman LEAHY. Thank you very much.

Ms. Peters?

STATEMENT OF MARYBETH PETERS, REGISTER OF COPYRIGHTS, UNITED STATES COPYRIGHT OFFICE, WASHINGTON, D.C.

Ms. PETERS. Mr. Chairman, thank you for inviting the Copyright Office to present its views on this important issue. Let me begin by thanking you, Mr. Chairman, for your leadership in this area.

You began work to rectify the imbalance created by the Supreme Court's June 1999 ruling shortly after the decisions were announced. You consulted extensively with all interested parties, kept an open mind throughout that process, and you went to great lengths to accommodate all concerns. The result is a carefully-balanced bill providing copyright owners with effective tools to restore their ability to obtain appropriate remedies for infringement by States while remaining within Congress's constitutional authority. The Copyright Officer strongly supports S. 1611.

Copyright owners are unable to obtain monetary relief under the Copyright Act against a State, a State entity or a State employee unless the State waives its immunity. And the availability of monetary awards in State courts is highly doubtful.

The ability of copyright owners to protect their property and to obtain complete relief when their rights are violated is central to the balance of interest in the Copyright Act. By denying that opportunity to copyright owners in cases where the infringes are within the umbrella of a State's sovereign immunity, the Supreme Court's rulings dilute the incentive for authors, for performers and producers to create and disseminate works for the benefit of the public.

I do not accept the proposition that copyright owners must or should endure future infringements without adequate and just remedies. If the Supreme Court's decisions have effectively blocked Congress from directly abrogating the State's immunity except in the narrowest of circumstances, then it is appropriate for Congress to consider other legislative responses such as those in S. 1611,

providing incentives to States to waive immunity voluntarily by conditioning the receipt of a gratuity from the Federal Government on such waiver. Only in this way can the proper balance and basic fairness be restored.

Your layered approach, designed to protect copyright owners with the best chance of getting their day in court is a balanced approach, respectful of States and carefully crafted to comply with the most recent Supreme Court rulings, contains three main components: a system designed to encourage States to waive their immunity from Federal Court suits seeking monetary relief for infringement of intellectual property. It does this by granting the benefit of fully enforceable intellectual property rights only to those states that do so. Second, there is a carefully circumscribed abrogation of State sovereign immunity in the intellectual property field to provide a remedy against States that choose not to waive their immunity. And finally, a codification of the judicially-made rule that notwithstanding a State's sovereign immunity, the employees of a State may be enjoined by a Federal court from engaging in illegal action.

I believe the most important part of the bill is the waiver provisions, which would deny States that do not waive their immunity, the ability to recover monetary relief when they seek to enforce their own intellectual property rights. Where a State waives its immunity, it can seek monetary relief. This approach is reasonable, proportionate and appropriate.

I am hopeful that this incentive will be successful. States derive significant revenue from commercial exploitation of their intellectual property. The price of being unable to obtain monetary relief for the infringement of future intellectual property should give States good cause to consider accepting the bargain that Congress offers with this legislation. It is only logical to expect that without an alteration of the status quo, infringements by States are likely to increase, especially in our digital online environment.

The Supreme Court's rulings and the rights of States must surely be respected, but the current state of affairs is unjust and unacceptable, and it is appropriate for Congress to use its authority to prevent State sovereign immunity from becoming a tool of injustice. This bill does that, and I look forward to its enactment.

[The prepared statement of Ms. Peters follows:]

STATEMENT OF MARYBETH PETERS, REGISTER OF COPYRIGHTS, U.S. COPYRIGHT OFFICE, WASHINGTON, D.C.

Mr. Chairman, Senator Hatch, Members of the Committee, good morning. It is always a pleasure to appear before this Committee and I thank you for inviting the Copyright Office to present its views today on this very important issue.

I would like to begin by thanking you, Mr. Chairman, for your leadership in this area. You began working on legislation to rectify the imbalance created by the Supreme Court's June, 1999 rulings almost immediately after the decisions were announced. You consulted extensively with my office, other agencies, the intellectual property community, legal scholars, another interested parties. In that process, you kept an open mind to all views and went to great lengths to accommodate all concerns that were raised. The product of your efforts, S. 1611, the Intellectual Property protection Restoration Act, is a carefully balanced bill. It provides copyright owners with effective tools to restore their ability to obtain appropriate remedies for infringement by States while remaining, I believe, within Congress' constitutional authority. The Copyright Office supports enactment of S. 1611.

I. BACKGROUND

The broadened interpretation of state sovereign immunity and its resulting application to remedies available under the Copyright Act is a relatively recent phenomenon. The United States enacted the first Copyright Act in 1790. There is no judicial decision in the ensuing 172 years that failed to subject States to the full range of remedies available under the copyright Act on the grounds of sovereign immunity.

Then, in 1962, the United States Court of Appeals for the Eighth Circuit dismissed a copyright infringement suit against a state agency on sovereign immunity grounds.[1] However, that case did not usher in a new era for state sovereign immunity. Just two years later, the Supreme Court issued its ruling in *Parden* v. *Terminal Railway of Alabama (Parden)* in which it held that "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation."[2]

Over time, the decision in Parden was gradually eroded. More than twenty years after Parden, in *Atascadero State Hospital* v. *Scanlon (Atascadero)*,[3] the Court reversed itself on the legislative requirements necessary to find congressional intent to abrogate state sovereign immunity. The Court held that in the instant case, the Eleventh Amendment barred recovery from the States because a "general authorization for suit in federal court is not the kind of unequivocal language sufficient to abrogate the Eleventh Amendment."[4] Rather, what is required for congressional abrogation of state sovereign immunity is that the federal statute be "unmistakably clear" that States are included in the defendant class.[5]

The decision in Atascadero created great uncertainty as to which federal laws were unmistakably clear in their intent to subject States to liability and which were not. Applying this standard to the Copyright Act, some courts held in favor of the States' immunity,[6] to the great distress of copyright owners.

In 1987, Congress requested that the Copyright Office produce a report on the current state of the law in the area of the enforcement of copyright against state governments. On June 27, 1988, the Copyright Office submitted its report, Copyright Liability of States and the Eleventh Amendment. That report noted that copyright owners "caution that injunctive relief is inadequate—damages are needed. And if states are not responsible for remunerating copyright owners, as are all other users subject to limited statutory exceptions, proprietors warn that: marketing to states will be restricted or even terminated; prices to other users will increase; and the economic incentives, even ability, to create works will be diminished." Given these concerns and the analysis of the case law as it stood at that time, the report concluded that "copyright proprietors clearly demonstrate the potential for immediate harm to them."

In 1990, Congress responded to the situation created by the ruling in Atascadero by enacting the descriptively-named Copyright Remedy Clarification Act (CRCA).[7] That law added provisions to Title 17 which clearly provide that States "shall not be immune, under the Eleventh Amendment of the Constitution. . .or any other doctrine of sovereign immunity, from suit in Federal Court. . .for a violation of the exclusive rights of a copyright owner. . . ."[8] This clear statement left little doubt that Congress intended to make States liable for infringement and to abrogate their sovereign immunity. Thus, once again, the apparent uncertainty about the immunity of States from suits for damages for copyright infringement was removed. A similar law for patents and one for trademarks were enacted two years later.

That brings us to the Supreme Court's triad of opinions on June 23, 1999.[9] It is worth noting that all three of these cases were decided by the same 5–4 vote and all three engendered strong dissenting views.

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[1] *Wihtol* v. *Crow* 309 F.2d 777 (8th Cir. 1962).
[2] 377 U.S. 184, 196 (1964).
[3] 473 U.S. 234 (1985).
[4] *Id.* at 246.
[5] Id. at 242.
[6] *See Woelffer* v. *Happy States of America, Inc.*, 626 F. Supp. 499 (N.D. Ill. 1985); *BV Engineering* v. *UCLA*, 657 F. Supp. 1246 (C.D. Cal 1987), *aff'd*, 858 F.2d 1394 (9th Cir. 1988), *cert. den.,* 109 S. Ct. 1557 (1989).
[7] Pub. L. No. 101–553
[8] 17 U.S.C. § 511.
[9] *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.,* 527 U.S. 666 (1999) (*College Savings*); *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Savings Bank,* 527 U.S. 627 (1999) (*Florida Prepaid*); *Alden v. Maine*, 527 U.S. 706 (1999) (*Alden*).

The decision in Alden undergirded the other two decisions. In that case,John Alden and other employees of the State of Maine filed suit in state court in Maine against that state for violation of the overtime provisions of the Fair Labor Standards Act, a federal law. The U.S. Supreme Court affirmed the decision of the Maine Supreme Judicial Court that the State's sovereign immunity barred the suit, holding that:

> the States' immunity from suit [in the State's own courts and in federal courts] is a fundamental aspect of the sovereignty which the States enjoyed before the ratification of the Constitution, and which they retain today . . . except as altered by the plan of the Convention or certain constitutional Amendments.[10]

In the second of the June 23 cases, College Savings, the Court considered whether Congress had the authority to abrogate state sovereign immunity from lawsuits under section 43(a) of the Lanham Act. Under the Court's earlier holding in *Seminole Tribe of Florida* v. *Florida*,[11] there is only one source of constitutional authority from which Congress may abrogate state immunity: the enforcement power in Section 5 of the Fourteenth Amendment.[12]

The Fourteenth Amendment instructs in relevant part that "No State shall . . . deprive any person of . . . property, without due process of law."[13] Because the Court held that College Savings did not allege deprivation of a property right within the meaning of the Fourteenth Amendment, the avenue of congressional abrogation of state immunity was closed.[14]

Next, the Court turned to the question of implied state waiver of immunity. Invoking the precedent of Parden, Petitioner College Savings sought to show that Florida had impliedly waived its immunity by participating in a scheme that is enforceable in federal court.[15] Not only did the Court reject this argument, but it overruled Parden and renounced the doctrine of implied waiver of state immunity.[16]

The Court's holding requires that a state's waiver be explicit and voluntary in order to be effective. However, Congress may provide incentives to the State by conditioning use of its discretionary authority such as that found in the Spending Clause and the Compact Clause on state waiver.[17]

In the third of the three opinions issued on June 23, Florida Prepaid, the Court considered whether Congress had the authority to abrogate state sovereign immunity from lawsuits under the Patent Act. The Court acknowledged that patents are property within the meaning of the Fourteenth Amendment.[18] However, the Court held that the legislative enactment at issue in this case did not fall within Congress' Fourteenth Amendment power for three reasons.

First, Congress "must identify conduct transgressing the Fourteenth Amendment's substantive provisions, and must tailor its legislative scheme to remedying or preventing such conduct."[19] The Court found that Congress failed to meet this burden because it did not identify a pattern of patent infringement by states.[20]

Second, the Court recognized that patent infringement by a state is not a violation of the Fourteenth Amendment if the state provides a remedy, that is, due process.[21] Because the statute was drafted to apply to all States,without regard to state-provided remedies, the Court held that it went beyond the power conveyed by the Fourteenth Amendment.[22]

Third, the Court noted that "a state actor's negligent act that causes unintended injury to a person's property does not 'deprive' that person of property within the meaning of the Due Process Clause."[23] Because a claim for patent infringement requires no showing of intent in order for the plaintiff to prevail, the Court held that the legislative enactment a tissue in this case was again overbroad.

Although the Supreme Court has not ruled directly on the constitutionality of the CRCA, the Fifth Circuit applied the Supreme Court's recent rulings in *Chavez* v.

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[10] *Id* at 713.
[11] 517 U.S. 44 (1996).
[12] *College Savings* at 670.
[13] U.S. Const., amend. XIV.
[14] *College Savings* at 673.
[15] *Id*. at 676.
[16] *Id*. at 680.
[17] *Id*. at 686–87.
[18] *Florida Prepaid* at 637.
[19] *Id*. at 639.
[20] *Id*.
[21] *Id*. at 642–43.
[22] *Id*. at 646–47.
[23] *Id*. at 645 (Citing *Daniels* v. *Williams* 474 U.S. 327, 328 (1986)).

Arte Publico Press (Chavez).[24] That case involved a suit by an author claiming copyright infringement of her book by the University of Houston, a state university.

The court followed the analysis in Florida Prepaid, first inquiring whether Congress identified a pattern of infringement by States. While noting that the legislative history in support of the CRCA, which included the 1988 report of the Copyright Office, was somewhat more substantial than that of the PRCA, the court found that the record was still inadequate to support the legislative enactment. Second, the court noted that in adopting the CRCA, Congress "barely considered the availability of state remedies for infringement."[25] That the legislative history did not meet requirements the Court articulated a decade after the law was enacted is not surprising. Thus, the Fifth Circuit refused to enforce the CRCA.

The same result was reached in another Fifth Circuit case, *Rodriguez* v. *Texas Comm'n on the Arts*,[26] in a brief opinion that presumably is based upon the same rationale as that circuit's decision in *Chavez*. Given the current Supreme Court precedent, it is difficult to find fault with the ruling in *Chavez*, and we believe that the CRCA would most likely be held unconstitutional by the current Supreme Court.

Thus, like the recent, brief periods in the early 1960's and the late1980's, we are again faced with the issue of state sovereign immunity being interpreted and applied in a manner which inhibits the proper functioning of the Copyright Act.

The most recent development has been a report issued by the General Accounting Office, at the request of Senator Hatch, which surveyed there cent legal landscape for the number of infringement actions against states and the availability of remedies for infringements by States.[27] That report reached the conclusions that there are relatively few infringements of intellectual property rights by States and that there are few if any remedies available to right holders whose rights are infringed.

That report also contains the text of a letter that the Copyright Office sent to the GAO regarding the study and report. In that letter we expressed no surprise at the relatively low number of infringements found.We were not surprised because we recognized the difficulties in obtaining accurate and complete records of claims against states and the relatively recent phenomenon of state sovereign immunity trumping copyright liability. We believe, however, that even a few acts of infringement by States, if unremedied, should be sufficient to justify congressional abrogation of state sovereign immunity. Moreover, the Congress is entirely within its authority to condition the exercise of its discretionary authority to provide a State what amounts to a federal gratuity on a waiver of sovereign immunity by that State regardless of the extent of a record of known infringements.

II. The Current Imbalance

At the outset, we acknowledge that the problems addressed by S. 1611 apply to all forms of intellectual property. However, as Register of Copyrights,my remarks will be confined to intellectual property covered by Title 17of the U.S. Code. The effect of the Court's 1999 decisions is that copyright owners are unable to obtain monetary relief[28] under the Copyright Act against a State, state entity, or state employee unless the State waives its immunity. The availability of monetary awards through lawsuits filed in state courts is highly doubtful.[29] Actions such as takings claims and tort are not designed to apply to intellectual property and courts may not be willing to expand those areas of law. Further, the States have immunity in their own courts as well as in Federal court,[30] so the State would have to waive its immunity in any event.

The ability of copyright owners to protect their property and to obtain complete relief when their rights are violated is central to the balance of interests in the Copyright Act. By denying that opportunity to copyright owners in cases where the infringers are under the umbrella of a State's sovereign immunity, the Supreme Court's decisions dilute the incentive for authors, performers, and producers to create. If the diminution of incentives to create results in a diminution of creative output, as may reasonably be assumed, the American economy and culture will be poorer for it.

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[24] 204 F.3d 601 (5th Cir. 2000).

[25] *Id*. at 606.

[26] 199 F.3d 279 (5th Cir. 2000).

[27] *Intellectual Property: State Immunity in Infringement Actions*, GAO–01–811 (Sept. 2001).

[28] Monetary relief for copyright infringement may consist of some combination of actual damages, defendant's profits, statutory damages, litigation costs, and attorney's fees. 17 U.S.C. §§ 504,505.

[29] *Id*. at 613–24.

[30] *Id*. at 23–24; *Alden* at 712.

We would like to think that States and State employees will respect the copyright laws despite the unavailability of any monetary remedy when they infringe, but we are concerned that in light of the Supreme Court's 1999rulings the available legal remedies will be insufficient to ensure that result.

We do not mean to suggest by this that States and their employees are any less willing to abide by the law than the American public as a whole.However, recent experiences in the internet environment suggest that some segments of the public do not view copyright as sacrosanct. Further, logic dictates that if a segment of people will not be held fully accountable for certain actions, they may be less likely to restrict themselves in those actions. As it was stated in Federalist No. 51, albeit in a different context, "[i]t may be a reflection on human nature, that such devices should be necessary to control the abuses of government. . . .If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary."

In sum, we do not accept the proposition that copyright owners must or should endure future infringements without an adequate and just remedy. If the Supreme Court's decisions have effectively blocked Congress from directly abrogating the State's immunity, then it is appropriate for Congress to consider other legislative responses, such as those in this bill—providing incentives to States to waive their immunity voluntarily by conditioning the receipt of a gratuity from the Federal Government on such waiver. Only in this way can the proper balance, and basic fairness,be restored.

III. Elements of S. 1611

The Copyright Office is gratified that you have undertaken to remedy this situation, Mr. Chairman. S. 1611, is a layered approach, designed to provide copyright owners with the best chance of getting their day in court. It is also a balanced approach, respectful of States and carefully crafted to comply with the most recent Court rulings.

S. 1611 contains three main components: a system designed to encourage States to waive their immunity from federal court suits seeking monetary relief for infringement of intellectual property by granting the benefit of fully enforceable intellectual property only to those States that do so, a carefully circumscribed abrogation of State sovereign immunity in the intellectual property field to provide a remedy against States that choose not to waive their immunity, and a codification of the judicially-made rule that notwithstanding a State's sovereign immunity,the employees of a State may be enjoined by a Federal court from engaging in illegal action.

A. Incentive to Waive

The bill provides significant incentives for a State to waive its immunity, but does so in a way that is inherently proportional and fair to the States and copyright owners. The bill is designed so that a State which chooses not to waive its immunity from monetary damages in intellectual property infringement cases is unable to obtain damage awards when it seeks to enforce its own intellectual property rights. If a State does waive its immunity, then it obtains the benefit of being able to seek monetary relief. This approach is reasonable, proportionate, and appropriate.

We are optimistic that this incentive will be successful in encouraging states to level the playing field by waiving their immunity. States derive significant revenue from the commercial exploitation of their intellectual property. The price of being unable to obtain monetary relief for the infringement of future intellectual property should give States good cause to consider accepting the bargain that Congress offers with this legislation. Of course, States would have even greater incentive to waive their immunity if their ability to obtain injunctive relief was also conditioned on such waiver. But out of concern for not crossing the line between encouragement to the States and coercion of the States, Mr.Chairman, you elected to follow a symmetrical approach—to deny a State exactly what is denied to other right holders if the State refuses to waive its immunity. We respect that choice, and I believe that the bill can effectively accomplish its goals as written.

We feel confident that the bill is within Congress' constitutional authority. The Supreme Court has made clear that the sovereign immunity of a State is "a personal privilege which it may waive at its pleasure."[31] Further, the Court wrote that Congress may properly seek to induce States to waive their immunity by condi-

[31] *College Savings*, at 675 (Quoting *Clark* v. *Barnard*, 108 U.S. 436, 447 (1883)).

tioning "the denial of a gift or gratuity. . .",[32] such as approval of an interstate compact[33] or its grant of funds to a State,[34] on such waiver. That is precisely what this bill does.

The Constitution grants to Congress the authority "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. . . ."[35] Of course, we recognize this as the authority by which Congress may provide copyright protection for qualifying works. This authority is entirely permissive. Congress may choose not to extend copyright protection at all, it may extend that protection subject to certain conditions, or it may extend that protection only to certain classes of authors. A particularly relevant example is the choice that Congress has made to withhold copyright protection from "any work of the United States Government. . . ."[36] Similarly, Congress may withhold copyright protection from any work of any state government. That it has chosen not to do so to date represents a gift from the Congress to the States. And, as the Supreme Court has opined, Congress may condition the grant of such a gratuity upon a State's waiver of its sovereign immunity in the directly related field of suits for monetary relief under the Federal intellectual property laws.[37]

The fact that Congress has allowed States to enjoy copyright protection for their works for so long in no way alters the fact that such protection remains a gift from the Federal Government or diminishes its constitutionally granted discretion to change that policy. S. 1611 would effectuate a change in that policy, offering States an opportunity to receive full copyright protection for their works in the future in exchange for waiver of sovereign immunity to infringement claims.

This system is closely analogous to the changes made by the Telecommunications Act of 1996. That Act altered the long-standing regime of federal acquiescence to state regulation of local telephone service. The Act provided that a State could continue to play a role in such regulation, but conditioned that gratuity on a waiver by the State of its immunity to suits arising under the procedures set forth in the Act. This condition has been challenged in federal court and upheld by four of the five appeals courts to hear such cases.[38]

B. Abrogation

While we are optimistic that most States will waive their immunity under the system this bill provides, there is a distinct possibility that some States, perhaps more than a few, will not. In that case, it is necessary to provide copyright owners with at least a chance to have their day in court. You were therefore wise, Mr. Chairman, to have included the second element of the bill; a provision for the abrogation of state sovereign immunity, pursuant to Congress' authority under the Fourteenth Amendment.

The Supreme Court's decision in Florida Prepaid leaves Congress almost no lee way to accomplish an abrogation of State sovereign immunity that will place copyright owners on the same footing they were prior to the Court's ruling. Not only must Congress have an extensive record of infringements, but the record must also include proof that adequate remedies in state court are not available, and possibly also that the infringements were willful.[39] This standard appears nearly impossible to reach. We are baffled at the Court's apparent decision that the Fourteenth Amendment requires the denial of copyright owners' constitutional rights at epidemic proportions before it allows Congress to fully restore those rights.

Nonetheless, Mr. Chairman, you made full use of the few tools left to you in this area. The result is an abrogation provision that traces the outlines of the Fourteenth Amendment precisely. The Court has held that such narrowly-tailored abrogations do not require the support of the factual record that broader abrogations would.[40] Unfortunately, the burden of establishing a constitutional violation merely

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[32] *College Savings* at 687.
[33] *Petty* v. *Tennessee-Missouri Bridge Comm'n* 349 U.S. 275 (1950).
[34] *South Dakota* v. *Dole,* 483 U.S. 203 (1987).
[35] U.S. Const. Art I, sec. 8.
[36] 17 U.S.C. § 105.
[37] See *supra*, note 17.
[38] *See MCI Telecomms. Corp* v. *Illinois Bell Tel. Co.* 222 F.3d 323 (7th Cir. 2000); *Southwestern Bell Tel Co.* v. *Brooks Fiber Communications of Okla., Inc.*, 235 F.3d 493 (10th Cir. 2000); *Southwestern Bell Tel. Co.* v. *Public Util. Comm'n*, 208 F.3d 475 (5th Cir. 2000); but see *Bell Atlantic MD, Inc.* v. *MCI Worldcom, Inc.*, 240 F.3d 279 (4th Cir. 2001), T3cert. granted, 121 S. Ct 2448 (2001).
[39] See *supra*, notes 19–23.
[40] *Kimel* v. *Florida Board of Regents*, 528 U.S. 62, 81 (2000).

shifts to the individual right holder/plaintiff. Thus, the abrogation provision in this bill is helpful only to those who can meet these additional burdens of proof beyond what is normally necessary to establish a prima facial case of infringement. In the final analysis, given the restrictions the Court has placed on Congress' exercise of its Fourteenth Amendment authority, we believe that this is the best abrogation provision that courts will sustain under the precedent of *Florida Prepaid*.

B. CODIFICATION OF INJUNCTIVE RELIEF

The third and final element of the bill is a codification of the judicially-made rule that notwithstanding the State's immunity, state employees may be enjoined by Federal courts from engaging in illegal activity, such as infringement of copyrights. This doctrine was first articulated by the Supreme Court in *Ex Parte Young*.[41] The reasoning the Court followed was that state employees are covered by the umbrella of the State's sovereign immunity only to the extent they are acting within the scope of their official duties. Because a state employee may not violate Federal law in carrying out his duties, if he does so, he is by definition operating outside the scope of his official duties. And because he is acting outside the scope of his official duties, he is no longer protected by the State's sovereign immunity and the court may enjoin him from that activity.[42]

Despite the long-standing recognition of this doctrine, some fear that the recent judicial supercharging of state sovereign immunity may be extended to nullify this venerable rule. Thus, we believe that it is wise to codify this doctrine in federal law.

IV. CONCLUSION

It is only logical to expect that without an alteration of the status quo, infringements by States are likely to increase. Only Congress has the power to remedy the existing imbalance. The Supreme Court's rulings and the rights of States must surely be respected, but the current state of affairs is unjust and unacceptable. It is appropriate for Congress to use its authority to prevent state sovereign immunity from becoming a tool of injustice. S. 1611 achieves the necessary goals within the constitutional limits and I look forward to its enactment.

Chairman LEAHY. Well, thank you very much, Ms. Peters. Nobody is more protective of State sovereignty than I. I appreciate very much the fact that our own State of Vermont is able to make many decisions for itself, and whether others like it or not, we have that ability. But I also believe very much if you own property, somebody should not be able to steal it, and if you own a copyright, if you put your work into it, someone should not be able to just take it. You put yourself into it. You have value in that. The same as if you drive your car on a State road, somebody cannot just walk over and say, "I am from the State," and take it. By the same token, the States, of course, want to protect their own things. If they have a State University that spent a great deal of money in developing a medical procedure or developing a mechanical procedure or something else, they want to be able to protect their investment, but they should not have it—it should not be an either/or. They should be able to protect their investment, but then they have to be responsive to other people's investments.

I am wondering, speaking of that, if I might ask, Mr. Rogan, can you give us any estimate of how many patents and trademarks are currently owned by States and State institutions?

Mr. ROGAN. Mr. Chairman, we actually had tried to look at that quickly, and found that our databases just are not set up to retrieve all of that information. It would actually involve a hand-held search. Although I did take the liberty of bringing a bit of data that we did have available. This actually, I think, came from the GAO

[41] 209 U.S. 123 (1908).
[42] *Id*. at 159–60.

report that this committee had requested from a year or so ago. There is an indication on page 42 and 43 that State institutions of higher education had in force, at the end of 1999, almost 12,000 patents, so that is over two years ago.

Those institutions also had, as of February of last year, over 2,000 registered trademarks, and over 650 pending applications, and finally, with respect to copyrights over the last 20 years, there were over 32,000 registrations. So you can see that even in those dated figures, the amounts we are talking about are fairly substantial.

Chairman LEAHY. So this is not just an academic exercise. We are talking about a great number of them. But yet, I believe that same GAO study mentions a relatively small number of cases of infringement by the States. Does that indicate in any way that legislation in this area is not necessary?

Mr. ROGAN. I do not think so, Mr. Chairman. In fact, looking at the GAO study, my recollection was it surveyed back from 1985. The *Florida Prepaid* cases did not even come down until 1997, so essentially, for the bulk of the period reviewed, there was a period of time where there was an expectation that intellectual property rights had to be reciprocally respected, and so I am not sure you can look at those numbers pre 1997 and make any determination as to whether what the GAO determined was a limited number is essentially a fair snapshot of the environment we are in right now, and since 1999 it has probably been too close in time for us to get a fair legal analysis.

Chairman LEAHY. I cannot help but think if you have a State that—if they are looking at it and say, "Well, we have immunity, but we are going to be good guys here. We will talk to a property owner, intellectual property owner, and we will let them have a licensing deal with us." But basically a case like that, the State has all the leverage. I mean they could say, "If you are licensing this property or this intellectual property to a corporation at $5 per whatever unit, well, you can license it with us, but it would be $1 per unit." Now, if they have sovereign immunity, there is not much that the intellectual property owner could do about that, is there?

Mr. ROGAN. I think you probably carry the same bias for Vermont that I carry for my home State of California in not expecting our home States or the other States to be sitting around looking for ways to become intellectual property pirates. However, the sheer uncertainty of the remedies available now for intellectual property owners creates a skewed environment, that as I said in my testimony, calls for a legislative remedy.

And I think that Ms. Peters is absolutely right when she says that merely looking to possible injunctive relief without monetary damages really takes any enforcement provision, any meaningful enforcement provision for the copyright owner out of the mix.

Chairman LEAHY. Well, I understand the administration's position that *Florida Prepaid* has created an inequitable situation, and there should be a legislative solution, but at some point the administration has got to endorse something, a particular piece of legislation, when it has been three years since *Florida Prepaid*. I think it was two years ago PTO had an all-day conference to look at some of the different options. It has been four months since I introduced

this legislation. I mean, are you guys in favor of it or opposed to it?

Mr. ROGAN. Mr. Chairman, I can assure you, when the administration decides which vehicle is the best one to approach, you will be the first one to know.

Chairman LEAHY. Well, right now this is the only vehicle.

Mr. ROGAN. And that is why we think it is a good starting point, Mr. Chairman.

Chairman LEAHY. Well, I would hope the day would come that the administration might take a position on it, because we are going to have to move something. I mean if you do not take a position on it, we could end up in a limbo, and nobody is helped by that. We have an awful lot of concerned parties ranging from the ABA to the Chamber of Commerce, the Professional Photographers, to everybody else who are saying, "Do something." This is not a Democratic or Republican issue. This is just a good common sense issue. We have got to—I mean I hear all kinds of suggestions. One says that Congress should withhold Federal funding for academic research grants to institutions of higher education, unless there is a State agreement to waive sovereign immunity. I think our colleges and universities in many instances are strapped for those kind of funds anyway, and I am reluctant to withhold that as a method of operation.

Do you have a feeling on that?

Mr. ROGAN. Mr. Chairman, first, with respect to your previous comments, as you know, *Florida Prepaid* came down I think about two years before this administration came into existence. I have been on the job for about 9 weeks I think. There are an awful lot of stakeholders in various areas that we would like to hear from. But clearly we agree with you in the sense that there is an inequity that has been created. Just what is the perfect fix, I am not quite sure what that is.

Chairman LEAHY. I do not know to beat that, but we can keep on it. You and I know each other well enough, I would hope you just pick up the phone and call me as you see areas that the administration is getting interested in, and please just do that because I do want to move something on this.

And, Ms. Peters, I would assume that you might have a feeling about whether we should do a carrot and stick approach in the form of withholding money from universities or colleges. How do you feel about that?

Ms. PETERS. I honestly think that is not the better way to go. Actually, the virtue of S. 1611 is that there is a direct nexus between the conditional benefit and the subject of the desired waiver, so that copyright owners can get monetary damages if the States waive, and the States can get monetary damages also. So there is a real nexus and a real proportionality to your solution. I think that putting it with Federal funds, the nexus is further away from the benefit. And I think there is a problem with Federal funds because your solution, once enacted, it is over. But when you have Federal funds, there is a question with regard to whether or not the Federal funds and the waiver carry forward, or whether or not you have to enact legislation every year in order to accomplish the

result that you want. So that would not be a way that we would like to see you go.

Chairman LEAHY. Let me ask you about another area because you deal with international matters on this too. This sudden move by the Supreme Court in articulating this new vision of State sovereign immunity, does that create difficulties for us in our international intellectual property relations?

Ms. PETERS. Certainly. The United States is the largest owner of intellectual property, and it is something that we gain a lot of money from, from exports. And we ask countries around the world to provide adequate and effective protection. And since we are the one who is asking that, they are certainly looking at us for the example, and already one of the countries that we are negotiating with raised the issue of the Supreme Court's decision as a possible source of noncompliance with TRIPS.

But for me the real issue that having this loophole gives countries an opportunity, in other words, and excuse to not rise to the level of adequate and effective protection that they should have, and we should basically have a law that meets the requirements that we are seeking in others.

Chairman LEAHY. How many copyrighted works do States own, a lot?

Ms. PETERS. They probably own a tremendous number, although we cannot document it that way. Unlike patents and trademarks, copyright is created upon the actual fixing of a work. So there are unpublished unregistered works. Even with regard to registrations, it is really hard to search them because you do not know who is a State entity and who is not, even with universities. As pointed out in the GAO report, Auburn is a State university, but Cal Tech is not. We did do a survey of our records, just looking at four-year, no other, four-year State colleges and universities, and Secretary Rogan referred to the 32,000 just in monographs. That did not cover serials, it did not cover all other types of works. I think States, in their variety of activities in the educational arena, the hospital arena, the university presses, the radio stations, they own a tremendous amount of copyrighted works, though I am not sure that it is necessarily as important to them commercially as perhaps patents and trademarks.

Chairman LEAHY. Is Congress constitutionally required to let the States create, own, and enforce intellectual property right?

Ms. PETERS. Is the Congress?

Chairman LEAHY. Do we have to let States create, own, enforce intellectual property rights?

Ms. PETERS. Could you do something like you do to the U.S. Government works; could you deny protection to State works? You certainly have that power.

Chairman LEAHY. Well, I thank you. We will be continuing to work on this.

I want to submit a number of questions for the record, a number of letters, statements by other senators.

But I want to move legislation of this nature this year. And I want the President to sign it. I want our intellectual property owners to know what the playing field is, and I want a level playing field. I want States to be able if they create intellectual property,

they have the rights for it. After all the taxpayers paid for it, the taxpayers should get the benefit of it. But if private parties are working, on their own they deserve the protection.

So let us work together, let us keep in touch on this, but we have a short session ahead of us, and this is one thing that I think will have some strong bipartisan support, and we should try to get it passed. So thank you both for being here.

Mr. ROGAN. Thank you, Mr. Chairman.

Chairman LEAHY. Somebody mentioned that—I do not know where anybody ever got the impression that sometimes there are contentious hearings here in the Judiciary Committee, but I thought this one has been very easygoing.

[Laughter.]

Chairman LEAHY. Mike Kirk is Executive Director of the American Intellectual Property Law Association, and before doing that, he served as Deputy Assistant Secretary of Commerce and Deputy Commissioner of Patents and Trademarks, capping off a career of more than 30 years in USPTO. While there he led and served on numerous U.S. Government intellectual property delegations. He was the Chief U.S. negotiator on the TRIPS agreement. Of course, no stranger to this committee.

Keith Schraad is the Western Regional Manager of National Information Consortium. That is a Kansas-based eGovernment company. He is a native of Kansas. He is a former aide to Senator Bob Dole. A State Senator yourself, were you not, in the 11th District?

Mr. SCHRAAD. That is correct.

Chairman LEAHY. I know that Senator Brownback wanted to be here to introduce you, and he is held up at another thing, but he made it very clear that he wanted you to be here, and of course, Senator Brownback is a valued member of this committee, and we want to have you here.

William Thro is General Counsel at Christopher Newport University, Virginia's newest public university. He is Special Assistant Attorney General for the Commonwealth of Virginia. He has represented institutions of higher education as an Assistant Attorney General in Colorado and Virginia, served as Interim General Counsel at Old Dominion University, written extensively on issues of sovereign immunity and handled numerous cases involving sovereign immunity issues, and Mr. Thro, we are delighted to have you here.

Paul Bender is a Professor of Law at Arizona State University College of Law. He is counsel to Meyer & Klipper, a Washington, D.C. law firm, a well-respected firm. He has served as Assistant to U.S. Solicitors General Archibald Cox and Thurgood Marshall, General Counsel to the Federal Commission on Obscenity and Pornography, and most recently as Principal Deputy Solicitor General under Solicitor General Drew Days. He has argued more than 20 cases before the U.S. Supreme Court, and has written extensively in the areas of constitutional law and civil rights.

I go through these various backgrounds as a way of saying how much I appreciate that all of you would take the time to come here to the Judiciary Committee.

We will start with you, Mr. Kirk.

STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, ARLINGTON, VIRGINIA

Mr. KIRK. Thank you, Mr. Chairman. AIPLA appreciates your efforts to develop a constitutionally sound solution to the inequities and unfairness presented by the inability of intellectual property owners to enforce their rights against States and State entities. We believe that S. 1611 is a balanced and appropriate response to the Eleventh Amendment sovereign immunity shield available to States that infringe Federal intellectual property rights.

As the previous panel noted, until relatively recently, it was perceived by IP rights owners that States were liable for the infringement of their rights. Following the Atascadero decision in 1985 that congressional intent to abrogate had to be explicitly and unambiguously stated, Congress reacted and adjusted the Federal intellectual property laws to provide such clear language. Seven years later, however, the Supreme Court once again shifted the goal post in Seminole, ruling that the Eleventh Amendment restricts judicial power under Article III, and that Article I cannot be used to circumvent the constitutional limitations placed on Federal jurisdiction. The Court completed the evisceration of Congress's earlier effort to hold States accountable for infringing Federal IP rights in College Savings and *Florida Prepaid*.

While severely circumscribing Congress' options to enact legislation to abrogate sovereign immunity against suits by private parties to enforce their IP rights, the Court in College Savings did leave open an approach involving voluntary waiver. The Court acknowledged that Congress could condition the grant of a gratuity to States upon their taking certain action that Congress could not require them to take.

S. 1611 adopts this approach. It offers States the right to obtain damages in suits to enforce their IP rights if they voluntarily waive their sovereign immunity to suits by private parties to enforce their IP rights against the States. Certainly Congress can exercise its Article I powers to promote the general public well-being by encouraging States to participate fully in the Federal intellectual property system.

The wisdom of S. 1611 is further underscored by the GAO report requested by Senator Hatch. We agree fully with the comments made by Under Secretary Rogan that the fact that only 58 lawsuits were found is not surprising, given the fact that for most of the recent history, it was thought that intellectual property rights were enforceable against the States. While we would not argue that States will knowingly infringe intellectual property rights of others, too little time has really passed between College Savings and *Florida Prepaid* and now to fully judge that impact.

Let me say one word about the international ramifications of these cases that you raise with Ms. Peters. This involves the potential vulnerability of the United States under the TRIPS agreement. One of the most significant contributions to the protection of intellectual property internationally was the inclusion in TRIPS of provisions for effectively enforcing intellectual property rights. This was a very significant breakthrough, obligating member nations to have the authority to order a party to desist from infringement and

to have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury suffered because of an infringement.

There was no question whether the enforcement and other obligations of TRIPS will apply to subdivisions of members (States in our context). The obligations would apply unless an exception was crafted into the text. There are specific exceptions to TRIPS obligations in Article 31(b) and 44.2 that extend to members at the Federal level. This was not the case with respect to subdivisions or States. Since Congress had addressed the problems in Atascadero during the Uruguay Round, there was no reason for the United States to seek exceptions for States to the rules set forth for enforcing intellectual property rates. A failure of the United States to fully meet its TRIPS obligations not only risks the possibility of an adverse dispute settlement decision, it also sets a regrettable example for other nations whose laws we seek to improve, as Ms. Peters noted.

For these reasons: fairness, equity and self-interest, AIPLA strongly supports S. 1611. We look forward to working with this committee to make that bill a reality.

Thank you.

[The prepared statement of Mr. Kirk follows:]

STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, ARLINGTON, VIRGINIA

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on S. 1611, the "Intellectual Property Protection Restoration Act of 2001."

The AIPLA is a national bar association of more than 13,000 members engaged in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

We appreciate your efforts, Mr. Chairman, to develop a constitutionally-sound solution to the inequities and problems presented by the inability of intellectual property owners to enforce their rights against States and State entities. You initiated this process with the introduction of S. 1835, the Intellectual Property Protection Restoration Act of 1999 shortly after the Supreme Court's decision in *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999) and *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*, 527 U.S. 627 (1999). The discussion and debate which this legislation generated have resulted in what we believe is a balanced and appropriate response to the Eleventh Amendment sovereign immunity shield available to States that infringe property rights.

BACKGROUND

Prior to 1985, it was generally perceived by patent, trademark and copyright owners, rightly or wrongly, that States were liable for the infringement of their rights (*Lemelson* v. *Ampex Corp.*, 372 F. Supp. 708 (N.D.Ill. 1974); *Mills Music Inc.* v. *State of Arizona*, 591 F.2d 1278 (9th Cir 1979)). In *Lemelson*, the court, relying upon *Parden* v. *Terminal Railway Co.*, 377 U.S. 184 (1964), ruled that, in granting Congress the exclusive right to grant patents, the states had largely surrendered their sovereign immunity to patent suits and allowed the recovery of damages.

In 1985, however, the Supreme Court held in *Atascadero State Hospital* v. *Scanlon*, 473 U.S. 234 (1985) that Congressional intent to abrogate State sovereign immunity must be explicitly and unambiguously stated in the language of the statute itself. In that case, the plaintiff charged that a state hospital had refused to hire him solely because of his physical handicaps in violation of the Rehabilitation Act of 1973. In rejecting plaintiff's suit, the Supreme Court found neither an unequivo-

cal waiver by the state of its Constitutional immunity nor an unequivocal expression by Congress of its intention to abrogate the Eleventh Amendment. Shortly after Atascadero, courts began applying its reasoning to the patent and copyright laws (*Chew* v. *California*, 893 F.2d 331 (Fed. Cir. 1990); *BV Engineering* v. *UCLA*, 858 F.2d 1394 (9th Cir. 1988)).

Congress moved quickly to remedy this newly-identified omission in the federal intellectual property laws. The Copyright Remedy Clarification Act (CRCA) (Pub. L. 101–533), enacted in 1990, based its abrogation of State sovereign immunity on Article I, § 8, cl.8. The CRCA was followed in 1992 by the Patent and Plant Variety Protection Clarification Act (PRA) (Pub. L. 102–560) and the Trademark Remedy Clarification Act (TRCA) (Pub. L. 102–561) which abrogated State sovereign immunity by reliance on Article I, § 8, cl.8 and Article I, § 8, cl.3 respectively, as well as § 5 of the 14th Amendment.

Congress relied on *Pennsylvania* v. *Union Gas Co.*, 491 U.S. 1 (1989) in basing its abrogation of State sovereign immunity on Article I in the three Clarification Acts. Union Gas involved a third party complaint against the State under the Comprehensive Environmental Response, Compensation and Liability Act to recover costs associated with the clean up of a coal tar deposit. In a plurality decision, the Court had ruled that the Commerce Clause gave Congress the power to abrogate States' immunity (though the majority did not agree on the reasoning). In a dissent, four Justices disagreed that the Commerce Clause provided such authority.

Seven years later, however, the Supreme Court ruled in *Seminole Tribes of Fla.* v. *Florida*, 517 US 44 (1996) that the Eleventh Amendment restricts the judicial power under Article III and that Article I cannot be used to circumvent the Constitutional limitations placed on federal jurisdiction. Seminole involved a suit under the Indian Gaming Regulatory Act to compel the State to negotiate in good faith a compact allowing certain gaming activities. The Court observed that Congress' authority to abrogate State sovereign immunity had been found only in two Constitutional provisions: the Commerce Clause and the Fourteenth Amendment. Stating that never before *Union Gas* had the Court held that its Article III jurisdiction could be expanded by other than the 14th Amendment, the Court found Union Gas to be based on a misreading of precedent, wrongly decided, and overruled it.

With this pillar of the TRCA removed, the Court in *College Savings* quickly dispensed with any suggestion that these legislative responses to Atascadero could be grounded in Congress' Article I powers. The Court in *College Savings* then considered whether *Florida Prepaid had constructively waived its immunity under Parden* v. *Terminal Railway Co.*, 377 U.S. 184 (1964). It ruled that Congress did not have the power to effect a constructive waiver of a State's Eleventh Amendment immunity, expressly overruling *Parden*.

In *Florida Prepaid*, the Court considered whether the PRA could be founded on the Fourteenth Amendment's protection against deprivation of property without due process of law. Relying on the test it enunciated in *City of Boerne* v. *Flores*, 521 US 507 (1997), that the propriety of any § 5 legislation "must be judged with reference to the historical experience . . . it reflects," the Court ruled that the PRA could not be so justified. The Court relied heavily on the lack of examples in the Congressional hearings of States hiding behind their Eleventh Amendment sovereign immunity as well as the scarcity of evidence that patentees were left without a remedy under state law.

Thus, the options available to Congress to enact legislation to abrogate state sovereign immunity against suits by private parties to enforce their patent, copyright and trademark rights, while not entirely eliminated, have been severely circumscribed by the Supreme Court's rulings. As noted by Professor Daniel J. Meltzer, the application of the Supreme Court's precedents in *Florida Prepaid* might lead one 'to surmise that the majority's powerful commitment to the proposition that states should not be liable at the behest of private parties may shape its application of related constitutional doctrine' (Notre Dame Law Review, page 1011, Vol. 75:3 (2000)).

Nonetheless, the Court in the *College Savings* case did leave open the prospect for an approach involving voluntary waiver by a State of its sovereign immunity. In rejecting College Savings Bank's argument that *Florida Prepaid* had impliedly or constructively waived its immunity from Lanham Act suit, the Court in the *College Savings* case acknowledged that Congress may 'condition the grant of funds to the states upon their taking certain action that Congress could not require them to take, and that acceptance of the funds entails an agreement to the actions.' (*South Dakota* v. *Dole*, 483 U.S. 203 (1987) (an act authorizing the withholding of a percentage of federal highway funds to any State where alcoholic beverages were sold to any person younger than 21 found to be Constitutional even if Congress could not regulate drinking ages directly); see also *Petty* v. *Tennessee-Missouri Bridge*

Comm'n, 359 U.S. 275 (1959) (the grant of approval by Congress of the creation of an interstate compact (where the approval required a consent to suit) was considered a gratuity)).

S. 1611

The elegance of S. 1611 is that its major premise is to offer States a gratuity—the right to obtain damages in suits to enforce their patent, copyright and trademark rights—if they voluntarily waive their sovereign immunity to suits by private parties to enforce their patent, copyright and trademark rights against the waiving state. Certainly Congress can exercise its Article I powers in a manner calculated to promote the general public purpose of stimulating the creation of intellectual property and consumer choice by encouraging States to participate in the Federal intellectual property system.

In this respect, the incentive to waive in S. 1611 is considerably weaker than the incentive to waive in its predecessor, S. 1835. In the earlier bill, a State would have been totally precluded from acquiring a Federal intellectual property right unless it waived its sovereign immunity to suits arising under those laws. A strong argument can be made that the level of inducement for States to waive their sovereign immunity in S. 1835 was comfortably within "the appropriate powers of Congress" (*Florida* v. *Mellon*, 273 U.S. 12 (1927) (an 80% credit against a federal estate tax for payments on State inheritance taxes which induced 36 States to amend their laws upheld as valid)). While both bills proceed on the basis of offering States a gratuity—rights under the Federal intellectual property laws to which states have no entitlement—the differences are noted to emphasize the fairness of S. 1611. Under S. 1611, Congress is giving States the right to obtain patents, copyrights, and trademarks and to obtain injunctive relief in federal courts even if they never waive their sovereign immunity.

We are aware that some rights holders would go further and deny non-waiving States the ability to obtain injunctive relief to enforce their Federal intellectual property rights. While clearly this would enhance the incentives for States to waive their sovereign immunity and which for that reason has obvious attractions, we do not ask for this added incentive at this time. It is our hope that the proportional incentive reflected in SEC. 3 will be sufficient to encourage States to waive their sovereign immunity. Should this incentive not prove adequate, however, we believe there is considerable latitude short of totally denying States the right to obtain federal intellectual property rights as proposed in S. 1835.

We also appreciate the codification in SEC. 4 of S. 1611 of the Supreme Court's decision in *Ex parte Young*, 209 US 123 (1908) that the Eleventh Amendment does not preclude an action against a state official to enjoin the official from doing an act he had no legal right to do. Specifically, SEC. 4 enshrines the right of a patent, copyright or trademark holder to obtain remedies against an officer or employee of a State to the same extent that such remedies would be available against a private individual. While the injunctive relief Congress extends to non-waiving States to enforce their Federal intellectual property rights under S. 1611 is perhaps a more effective remedy than an *Ex parte Young* suit against a state official, the two remedies can be argued to be rough equivalents.

We also support SEC. 5 of S. 1611 which seeks to comport with the Supreme Court's more narrow construction of Congressional power to abrogate sovereign immunity after *College Savings* and *Florida Prepaid*. It provides that Constitutional due process and takings violations of intellectual property rights are actionable. SEC. 5's exclusion of treble or other enhanced damages for either a due process or a takings violation should contribute to ensuring that "Congress' means are proportionate to ends legitimate" under the Fourteenth Amendment (*City of Boerne* v. *Flores*, 521 U.S. 507 (1997).

We especially endorse paragraph (c)(2) of SEC. 5 which places the burden of proof upon a State to prove that it provides an adequate remedy for any deprivation of intellectual property rights suffered by a rights holder. The court in *Florida Prepaid*, relying on *Parratt* v. *Taylor*, 451 U.S. 527 (1981) and *Hudson* v. *Palmer*, 468 U.S. 517 (1984) held that "only where the State provides no remedy, or only inadequate remedies, to injured patent owners for its infringement of their patent could a deprivation of property without due process result." Where a State defends a Constitutional violation of an intellectual property owner's right on the basis that the owner has adequate state remedies, certainly it is fair to require that State to disclose what those adequate remedies are.

The wisdom of S.1611 is further underscored by the Report of the General Accounting Office. In June 2000, then Judiciary Committee Chairman Hatch requested the GAO to conduct a review of State Eleventh Amendment immunity in intellectual

property infringement actions to identify the extent and outcome of such actions. The GAO released the results of its study this past September. As one might expect, the GAO did not find extensive evidence of infringement of federal intellectual property rights by States and state entities, identifying only 58 lawsuits in which a State was a defendant. This is not surprising, however, in light of the recent history of the enforceability of federal intellectual property rights against States which clearly demonstrates that States and state entities have been (or were at least thought to be) liable for infringing such rights. Moreover, while we would not argue that States and state entities knowingly infringe the intellectual property rights of others, too little time has passed since *College Savings* and *Florida Prepaid* to fully judge their impact. We believe that it is for these reasons that GAO was unable to find large numbers of state infringements.

In summary, AIPLA finds S. 1611 to be a thoughtful and carefully-crafted response to the problems facing intellectual property owners in the post-*College Savings* and *Florida Prepaid era.*

THE NEED FOR EQUITY

Having observed that GAO uncovered relatively limited evidence of past infringements of intellectual property rights by States for the reasons noted, we nonetheless believe that the post—*College Savings* and *Florida Prepaid* climate is highly inequitable and will get more so. State institutions can create, protect and profit from federally protected intellectual property. A 1999 Licensing Survey by the Association of University Technology Managers (AUTM) found that its member institutions (which are both State and private institutions) introduced 417 new products in 1999 and received $40.9 billion from licensing health care, software, and agricultural products as well as research reagents and tools used by industry and academia. AUTM members filed 5,545 patent applications (up 15% over 1998) and received 3,661 patents (up 14% from 1998). Tellingly, academic institutions received an equity interest in 243 transactions in 1999 and reported holding equity interests in a total of 886 start-up companies at the end of 1999.

In addition, state institutions, particularly universities, have scores of federally-protected trademarks which they are becoming increasingly aggressive in enforcing according to testimony given by former USPTO Director, Q. Todd Dickinson, before the House Judiciary Subcommittee on the Courts and Intellectual Property on July 27, 2000. At that same hearing, the Register of Copyrights, Marybeth Peters, testified that state colleges and universities had obtained copyright registrations for over 32,000 monographs since 1978. Clearly, states are obtaining increasing numbers of federal intellectual property rights which they presently can fully enforce in the federal court system.

But these same states that profit and benefit from obtaining and enforcing their intellectual property rights in the federal system can avoid any financial exposure when they infringe the intellectual property rights of others. This blatant inequity was well stated by the court in New Star Lasers v. *Regents of California litigation*, Supp. 2d 1240 (E.D. Cal. 1999). The University of California had settled litigation in Massachusetts involving a patent held by the university, but when New Star Lasers sought a declaratory action invalidating that same patent, the University of California argued that it should have sovereign immunity. The court observed: '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.'

While S. 1611 would not require states to waive their sovereign immunity, it would provide reasonable incentives for them to voluntarily do so, thereby encouraging the elimination of the existing inequitable situation among states and their non-immune competitors. Fairness demands at least this much.

INTERNATIONAL RAMIFICATIONS

There is another cloud on the horizon resulting from the *College Savings* and *Florida Prepaid* decisions: the potential vulnerability of the United States under the Agreement on Trade-Related Aspects of Intellectual Property Rights or TRIPs. One of the most significant contributions to the protection of intellectual property internationally was the inclusion in TRIPs of provisions for effectively enforcing intellectual property rights in member states, both internally and at the border. This was a very significant breakthrough, obligating member nations to Ahave the authority to order a party to desist from infringement@ (Article 44.1) and "to have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury . . . suffered because of an infringement . . ." (Article 45.1)

There was no question of whether the enforcement and other obligations of TRIPs would apply to subdivisions of members (States in the context of the United States): the obligations would apply unless an exception was crafted into the text. There are specific exceptions to TRIPs' obligations that extend to members at the Federal level. Article 31(b) excuses governments from seeking a voluntary license prior to using a patented invention in cases of public non-commercial use. Article 44.2 allows remedies for unauthorized government use to be limited to payment of remuneration. This is not the case with subdivisions or States. Since Congress had enacted the CRCA, PRA, and TRCA before the end of 1992, there was no reason when the negotiations concluded in 1993 for the United States to seek exceptions for States to the rules set forth for enforcing intellectual property rights.

A failure of the United States to fully meet its TRIPs obligations not only risks the possibility of an adverse dispute settlement decision, it also sets a regrettable example for other nations whose laws we seek to improve. As noted by former Director Dickinson "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." (Hearing, House Judiciary Subcommittee on the Courts and Intellectual Property, July 27, 2000) Again, S. 1611 will not guarantee compliance with these obligations, but it offers attractive incentives for states to enter fully into the Federal intellectual property system.

CONCLUSION

For these reasons—fairness, equity, and self-interest—we believe S. 1611 should be endorsed by this Committee. We do not doubt that improvements can be made, but we find S. 1611 to be an acceptable remedy to the problems created by *College Savings* and *Florida Prepaid*. We look forward to working with this Committee to make S. 1611 a reality.

Chairman LEAHY. Thank you very much, Mr. Kirk.

Mr. Schraad.

STATEMENT OF KEITH SCHRAAD, WESTERN REGIONAL DIRECTOR, NATIONAL INFORMATION CONSORTIUM, LAWRENCE, KANSAS, ACCOMPANIED BY WILLIAM PATRIE, LEGAL COUNSEL FOR NATIONAL INFORMATION CONSORTIUM, LAWRENCE, KANSAS

Mr. SCHRAAD. Thank you, Chairman Leahy, for the opportunity to testify before this committee today. I am accompanied today by our legal counsel, William Patrie, in the event that you have legal questions, but I am happy here to testify about our actual experiences in this matter.

As a former State Senator, I understand and am very sympathetic to the needs of State Government. At the same time the interests of private companies, who create at great expense, copyrighted works for use by State Governments must also be protected. The interests of States and copyright owners need not and should not be in conflict.

NIC is an eGovernment business. We are a Kansas company. Together with the State of Kansas in 1991 we developed the first self-supporting online access to State Government. We continue to work with that State and 15 others, as well as counties and cities in 28 different States.

We work behind the scenes with our government clients to create and maintain Internet-based portals, delivering electronic government services to constituents. Through our experience working with States over the years, we have developed a component system of software development which permits reuse for all of our State clients. This free use ensures higher reliability since the compo-

nents have been repeatedly tested. It also serves to reduce costs. We do not have to reinvent the wheel for each State, and States do not have to pay for a completely customized software solution.

It is a good situation for all parties, but only so long as we maintain copyright in the software. Our contracts carefully ensure that we retain our copyright, while protecting the State's interest through a generous license. Given our limited client base we go to great lengths to keep our clients happy. We have to in order to survive. We thrive only by being the best partner that State Government ever had.

Georgia is the first client that we have sued in our entire 10-year history, and we did so with tremendous reluctance. It is bad business to sue your clients, and it is counter to everything we built our company on, healthy long-term partnerships. Litigation is also expensive. As a small company, we, like many companies, have been affected by the current economy. Allocating scarce resources to suing a client is at the bottom of our list of priorities.

We had a great relationship with Georgia for 4 years, 11 months and 30 days of a 5-year contract. On the day before that contract expired, the State claimed that they, not us, owned the software that we had developed for them. The State also threatened to sue us for infringement if we used our own material, and told us that if they did consent to our use, we would then have to pay them royalties for using our own software.

This is completely inconsistent with our contract, but completely consistent with the agenda that Georgia's new chief technology officer, who took over in the last year of our contract with Georgia, has advocated publicly. Secure in Georgia's sovereign immunity, he has been quite vocal about creating a pool of software that can be shared among all the States, all of whom enjoy sovereign immunity.

We tried for over 6 weeks after our contract ended to work out an agreement. We repeatedly offered Georgia a perpetual royalty-free license to use our software for all internal online Georgia State purposes. All we asked in return is that Georgia acknowledge that we were the copyright owners of our software. Georgia refused. We were, therefore, forced to file suit.

Due to the Supreme Court's sovereign immunity decisions, we filed a very simply one-count Ex Parte Young claim for declaratory judgment that we owned our software. The State took a scorched-earth approach in answering our complaint. Not only did it challenge our ownership, but it also asserted four counterclaims, two Federal and two State. The two State claims seek monetary damages. The damages, of course, which we are prohibited from seeking.

In a final insult, the State simultaneously moved to dismiss our claim on sovereign immunity grounds.

We have been forced to spend a tremendous amount of time and money protecting the core asset of our company, our software, resources that could be better used helping other States serve their citizens.

However meritorious or unmeritorious Georgia's plan for a common state pool of copyrighted works immune from damages under sovereign immunity, will significantly harm if not destroy not only

our business, but those of all software developers working with the States.

As I speak to you today, we have hope that we will be able to reach a satisfactory agreement with Georgia, but the fact remains that because of sovereign immunity, Georgia fought with virtual impunity, while we are forced to fight with one hand or two tied behind our back.

Sovereign immunity substantially increased the cost and complexity of our litigation, unfairly increased the risk to our business, and emboldened Georgia in a way that it would not have been emboldened without immunity.

We do not seek an advantage over our State clients, only a level playing field. We appreciate your efforts to create that necessary balance. Thank you.

[The prepared statement of Mr. Schraad follows:]

STATEMENT OF KEITH SHRAAD, WESTERN REGIONAL DIRECTOR, NATIONAL INFORMATION CONSORTIUM, LAWRENCE, KANSAS

INTRODUCTION

On behalf of the National Information Consortium (NIC), I appreciate the opportunity to testify in support of S. 1611, "The Intellectual Property Protection Restoration Act of 2001." Legislation is urgently needed to prevent States from misusing the sovereign immunity protections granted under recent Supreme Court decisions. I can testify from personal experience that misuse has occurred.

QUALIFICATION

I am currently Regional Manager for NIC, a Kansas-based eGovernment company. I was born and raised in Kansas. I was an aide to former Senate Majority Leader Bob Dole, and was an elected State Senator in Kansas, representing the 11th Senate District in Johnson County, a suburb of Kansas City.

As a former State Senator, I have seen the other side. I am very sympathetic to the needs of State governments. Nevertheless, the interests of private companies who create, at great expense, copyrighted works for use by State governments, must also be protected. Our current legal situation is unbalanced, unfair, and leads to states taking advantage of their immunity from damages.

NIC'S BUSINESS

NIC is in the Government business. We are a Kansas company. Together with the State of Kansas, in 1991 we developed the first self-supporting on-line access to State government. We continue to work with the State of Kansas and 15 others, as well as counties and cities in a total of 28 states. Sustainable eGovernment was born not in the dot-com frenzy of Silicon Valley, but in the heartland of America.

We work behind the scenes with our government clients to create and maintain their Internet-based portals, delivering electronic government services to constituents. We employ a common look and feel to the websites in order to make them appealing and easy to use.

Through our experience over the years working with States, we have developed a component approach to software development which permits re-use and adaptive re-use of those components. This re-use ensures higher reliability since the components have been repeatedly tested. It also reduces costs.

If NIC were required to develop from scratch software for each of its State clients, the costs and time required would be prohibitive. It is, therefore, imperative to NIC's success that NIC own copyright in the software it develops. At the same time, in order to ensure that its State clients derive maximum benefit and flexibility, should a State terminate its contract with NIC, NIC grants the State a perpetual, free, non-exclusive license to use, within the State for state purposes, the project software, as well as the right to make future modifications. Until the present dispute with the State of Georgia, this arrangement has proved highly satisfactory to NIC and its State clients.

Given our limited client base, we go to great lengths to keep our clients happy. We have to in order to survive. We thrive only by becoming the best partner each

State government has ever had. Each state officer typically belongs to a national association of similar state officers. For example, all state Chief Information Officers belong to the National Association of States' Chief Information Officers, called NASCIO. The same is true for secretaries of state, purchasing officers, and really, any state officer you can think of. For most of those organizations, there are only fifty members, one for each state. So word travels fast among such organizations, good or bad, with companies such as ours.

THE GEORGIA DISPUTE

In 1996, under a perceived threat of abolition of the GeorgiaNet Authority by the Georgia legislature due to GeorgiaNet's unsatisfactory performance in providing eGovernment services on-line, NIC was brought in to quickly remake and refocus the GeorgiaNet under a one-year contract that was extended four times for what became a five-year contract period. I was the successor to the original NIC manager of this project and thus have first hand knowledge about it. The existing Georgia staff had little experience and thus NIC engaged in considerable training of Georgia's staff.

As with almost all State websites NIC has developed or remade, the GeorgiaNet was supported entirely without tax dollars, relying on user fees to fund itself. The NIC-designed system contributes approximately $14 million annually to the Georgia treasury, after cost deductions, including payment of NIC's fees. It also won numerous awards, including #1 (by the Center of Digital Government) among all states for the state's use of technology; 2000 Best of the Web, 2d Place by Government Technology magazine; 1999 Best of the Web, 2d Place, Government Technology magazine; 1998 Best of the Web, 3d Place, Government Technology magazine.

Near the end of NIC's contract with Georgia, the Georgia Technology Authority (successor to the GeorgiaNet Authority) received a new director, Larry Singer, who also serves as Georgia's Chief Information Officer. Mr. Singer brought strong and controversial views about copyright to his position and to the existing NIC-Georgia contract, which he had no role in negotiating. Mr. Singer has been vocal in creating a software-sharing cooperative among states, which would require that the States own the software developed for them by private companies, including NIC. NIC's contract with Georgia is an obstacle to Singer's plan since it did not transfer to or vest rights in Georgia.

In June 2001, NIC was informed that it would no longer be providing services to Georgia at the end of its five-year contract. At Singer's request, NIC supplied Georgia with its usual terms for licensing the existing NIC software which included a perpetual, royalty-free license to use our software for all on-line government purposes inside Georgia, as originally provided in our contract. We did not hear back from Singer. On September 12, 2001, the last business day of the five-year contract, NIC received a letter from Singer, claiming for the first time that NIC had performed its work for Georgia as a "work for hire" (and that NIC's software was therefore owned by Georgia, not NIC). Singer also stated that if NIC wanted to use its own software, it would need Georgia's permission and would have to pay Georgia license fees. Georgia also claimed the right to license NIC's software to third parties.

Despite these startling claims and what NIC believed to be an intentional misreading of the contract, NIC provided Georgia with NIC's source code and worked throughout the weekend with Georgia's staff in order to ensure a smooth transition. NIC spent countless hours getting Georgia's employees up to speed on operation of the sites.

NIC also retained counsel to attempt a settlement. Counsel informed us that due to recent Supreme Court decisions on sovereign immunity, we would not be able to collect damages, but would be limited to declaratory and injunctive relief under *Ex Parte Young*. The lack of ability to collect damages is a significant disincentive in bringing any litigation. Moreover, NIC was greatly concerned about the effect litigation against one of its State clients would have on both existing and potential future State clients. NIC was, therefore, highly reluctant to bring suit.

As a result, NIC engaged in six weeks of intensive correspondence, phone calls, and negotiations. NIC offered once again to grant Georgia a perpetual, free-non-exclusive license to use NIC's software within the Georgia system, coupled with a right to make future modifications. All NIC asked in return was that Georgia acknowledge NIC's exclusive right to market NIC's own software outside of Georgia. Georgia refused and still refuses. NIC therefore had no choice but to file a declaratory judgment action. NIC believes that sovereign immunity played a very important role in Georgia's recalcitrance.

NIC'S SIMPLE COMPLAINT

Mindful of its relations with other States and out of a desire to settle the matter amicably, NIC took a minimalist approach to its complaint. NIC asserted a single claim for declaratory judgment of ownership of its own software under *Ex Parte Young*. A copy of that complaint is attached as Appendix 1. NIC did not ask for a single penny from Georgia, only for acknowledgment that we owned what we created.

GEORGIA'S COUNTERCLAIM AND MOTION TO DISMISS

Georgia took a scorched earth approach to NIC's simple declaratory judgment action. Attorney General Baker, on behalf of Georgia Technology Authority, not only answered NIC's single claim complaint, but asserted four counterclaims, including two state claims for monetary damages. A copy of the answer and counterclaims are attached as Appendix 2. Then, in a separate motion on behalf of himself, the Attorney General, the same day, asserted sovereign immunity as a defense. See Appendix 3. We have opposed this motion. See Appendix 4.

UNFAIRNESS OF GEORGIA'S ACTIONS

NIC is appalled, as it trusts Congress will be, by Georgia's behavior. Having obtained the full benefit of the five-year contractual bargain, Georgia at the last minute laid claim to ownership of NIC's software, threatened NIC with litigation if it licensed its own software without Georgia's permission, and demanded license fees. When NIC attempted to settle the matter short of expensive litigation, Georgia refused, and then escalated the stakes even more by filing aggressive counterclaims, including requests for money damages, damages which it well knew NIC is denied under sovereign immunity, even while it was simultaneously asserting claiming sovereign immunity for its actions. Since the suit was initiated, Georgia has shifted its legal theories numerous times as the facts turn out to be contrary to its original answer and counterclaims.

LEGISLATION IS URGENTLY NEEDED

Georgia is the first client we have sued and we did so with tremendous reluctance. It's bad business to sue clients. It's counter to everything we've built our company on: a healthy, long-term partnership. Litigation is also expensive. As a small company, we, like many companies, have been affected by the current economy. Allocating scarce resources to suing a client is at the bottom of our list of priorities.

The present law encourages Georgia to take advantage of the lack of a level playing field. We have been forced to spend a tremendous amount of time and money protecting the core asset of our company, our software, against a baseless claim by a State, whose Chief Technology Officer is on a jihad against our company and private copyright in general. Sovereign immunity significantly helps him in that effort. It has forced us to waste valuable resources which could better be used helping other States serve their citizens. However meritorious or unmeritorious, Georgia's plan for a common state pool of copyrighted works immune from damages under sovereign immunity will significantly harm, if not destroy, not only our business, but those of all software developers working with states.

As I speak to you today, we have some hope that we will be able to reach a satisfactory settlement with Georgia. But the fact remains that because of sovereign immunity, Georgia fought with virtual impunity, while we were forced to fight with one or both hands tied behind our back. Sovereign immunity substantially increased the cost and complexity of our litigation, unfairly increased the risk to our business, and emboldened Georgia in a way that it would not have been emboldened without immunity.

NIC therefore supports S. 1611 and urges passage.

Thank you for the opportunity to testify.

Chairman LEAHY. Thank you, Mr. Schraad.

Mr. Thro.

STATEMENT OF WILLIAM E. THRO, GENERAL COUNSEL, CHRISTOPHER NEWPORT UNIVERSITY, NEWPORT NEWS, VIRGINIA

Mr. THRO. I want to begin by thanking you, Chairman Leahy, for giving me an opportunity to speak before you today. Although I am

speaking as a scholar of sovereign immunity and as someone who has litigated sovereign immunity issues on behalf of State universities, I am not representing Virginia Attorney General Kilgore. But nevertheless, I think it is imperative that you hear from someone who both embraces the Court's current sovereign immunity jurisprudence, and at the same time has experience representing institutions of higher education in Federal Court litigation.

Quite simply, with all due respect, Mr. Chairman, I believe that Senate Bill 1611 is flawed in two respects. First, from a policy perspective, I believe it addresses a problem that quite simply does not exist. The GAO report found very little evidence that the States were infringing upon intellectual property rights. As I think everyone has conceded, it is too short after the *Florida Prepaid* decisions to really make any judgments about what the States have done in the new era, but I think we can assume that all states like Vermont, like Virginia, like Mr. Rogan's State of California, will try and act in good faith and will not go out and intentionally infringe.

Moreover to the extent that the infringement of intellectual properties might constitute a taking under the Fifth Amendment of the Constitution, there is of course a remedy available.

But I would like to talk more about what I see as the constitutional problems with 1611. Quite frankly, I believe that under the Supreme Court's current jurisprudence, 1611 will be declared unconstitutional.

In order to explain the basis of my view, I think it is important that first we begin with the assumption that the Court seems to have adopted that the States are in fact sovereign entities. They share sovereignty with the National Government. Sovereignty is divided between the States and the National Government, and the sovereignty of the States is an essential aspect of our constitutional system, much like the separation of powers between the Executive and the Legislative Branch.

With that assumption, we then easily come to the conclusion that there are certain things that the Federal Government cannot do to interfere with the State sovereignty. For example, Congress could not force a State to move its State Capital, but instead would have to respect the State's choices as to where the State Capital would be.

There are two basic problems from a constitutional standpoint with this legislation. First, in *Kimel* v. *Florida Bd. of Regents*, the Supreme Court said that Congress's powers under Article I of the Constitution do not include the power to subject the States to suit by private parties. Yet that is exactly what this legislation does. Using the Article I Intellectual Property Clause, this legislation attempts to say to the States that they have a choice of either waiving their sovereign immunity or giving up their right to enforce their intellectual property rights. Second, and perhaps more significantly, I believe this legislation violates the Doctrine of Unconstitutional Conditions. Under that doctrine, the State cannot force an individual to surrender his or her constitutional rights as a condition of receiving a public benefit. Yet that is exactly what this legislation does. It says to the States, "You must surrender your sovereign immunity as the price of enforcing the intellectual property rights which you already have."

This I believe it is severely constitutionally flawed, and I will be happy to take any questions.

Chairman LEAHY. Even *South Dakota* v. *Dole* would not apply?

Mr. THRO. *South Dakota* v. *Dole* does not apply to this instance, Mr. Chairman, because *South Dakota* v. *Dole* is a Spending Clause case. It has to do with conditions that are imposed upon the State as a condition of receiving Federal funds.

As you noted, one approach might be to say that no State university could receive Federal research funds unless that State waived its sovereign immunity. As you hinted, and as Ms. Peters pretty much explicitly said in her response, there are severe problems with that, notably that it is probably unrelated to the purpose for which the grant is given, and also it is coercive. One of the exceptions carved out in *South Dakota* v. *Dole* was if the grant of money was so great that the State really had no choice but to comply with the grant, it ceased being a gratuity and became a form of coercion. And I believe that if you were to say State universities, "If you wish to receive Federal research funds, you must waive sovereign immunity," that would be unconstitutionally coercive, and I believe your——

Chairman LEAHY. Under your views if Christopher Newport University, for example, wanted to make tee shirts and put, say, Ralph Lauren's logo name on them, made money out of this, they could do that, and nobody could do anything about it. On the other hand, if Ralph Lauren wanted to make tee shirts and put Christopher Newport University on it, they could sue Ralph Lauren.

Mr. THRO. Well, first, Mr. Lauren would be able to go into Federal Court and to get an injunction against my president, Paul Trible, your former colleague, to prohibit him from having tee shirts with the Ralph Lauren mark, assuming, of course, that the Ralph Lauren mark, that we were infringing. So he would be able to stop it. He would not be able to get money damages. With respect to——

Chairman LEAHY. On the other hand, Christopher Newport University could get money damages.

Mr. THRO. Yes, we could get money damages from Mr. Lauren, yes. Absolutely.

[The prepared statement of Mr. Thro follows:]

STATEMENT OF WILLIAM E. THRO,[1] GENERAL COUNSEL, CHRISTOPHER NEWPORT UNIVERSITY

At the outset, I would like to thank Chairman Leahy and the members of the Committee for inviting me to testify before you today. Although I am speaking as a scholar of sovereign immunity and as someone who has litigated sovereign immunity issues rather than as an official representative of Virginia Attorney General Kilgore, I think it is imperative that this Committee hear the views of someone who embraces the Court's current sovereign immunity and who has represented state agencies and state institutions of higher education in litigation.

Quite simply, I believe that Senate Bill 1611 has flaws from both a policy perspective and a constitutional perspective. With respect to a policy perspective, Senate Bill 1611 attempts to resolve a problem that does not exist. The General Accounting Office study found that there were only a few dozen lawsuits against the States over a fifteen-year period and most of those cases were resolved in favor of the States. In short, the objective evidence shows fifty States are not engaged in a widespread practice of abusing intellectual property rights. There is no need for this body to

[1] The views expressed in this testimony are the personal views of Mr. Thro and do not necessarily represent the views of the Honorable Jerry W. Kilgore, Attorney General of the Commonwealth of Virginia, or the Rector and Visitors of Christopher Newport University.

enact legislation that benefits a narrow special interest while burdening the taxpayers of the fifty States.

However, while I think Senate Bill 1611 is unwise public policy, the major thrust of my remarks today is its constitutional flaws. Quite simply, I believe that the Supreme Court has adopted a constitutional theory of "dual sovereignty" and that Senate Bill 1611 violates the fundamental tenants of "dual sovereignty." In order to explain my position, it is first necessary to articulate what I mean by the Supreme Court's jurisprudence of dual sovereignty. Having accomplished that, I will demonstrate why Senate Bill 1611 is contrary to the Court's current jurisprudence of dual sovereignty.

I. THE COURT'S JURISPRUDENCE OF DUAL SOVEREIGNTY

The Supreme Court's current jurisprudence begins with the assumption that when the original thirteen colonies declared their independence in 1776, they effectively created thirteen sovereign nations.[2] Each State retained the "Full Power to levy War, conclude Peace, contract Alliances, establish Commerce, and to do all other Acts and Things which Independent States may of right do."[3] Indeed, The Articles of Confederation explicitly recognized that each State "retains its sovereignty, freedom, and independence, which is not by this confederation expressly delegated to the United States, in Congress assembled."[4] In sum, before the ratification of the United States Constitution, the States were sovereign entities.[5]

The adoption of the Constitution in 1788 brought about a transformation.[6] Although the People could easily have transferred all sovereignty vested in the States to the new National Government, they did not do so. Moreover, while the People could have allowed the States to retain all sovereignty and, thus, made the United States nothing more than a compact among States, they did not do so. Instead, the People, for the first time in the history of government, divided sovereignty between two separate sovereigns.[7] As Justice Kennedy observed:

> The Framers split the atom of sovereignty. It was the genius of their idea that our citizens would have two political capacities, one state and one federal, each protected from incursion by the other. The resulting Constitution created a legal system unprecedented in form and design, establishing two orders of government, each with its own direct relationship, its own privity, its own set of mutual rights and obligations to the people who sustain it and are governed by it.[8]

Justice Kennedy's idea of dividing power between dual sovereigns is not new. As early as 1768, John Dickinson, in Letters From A Pennsylvania Farmer, suggested that sovereignty was divided between the British Parliament and the Colonial Legislatures.[9] James Madison, writing in The Federalist, made the same point when he stated:

> "In the compound republic of America, the power surrendered by the people is first divided between two distinct governments, and then the portion al-

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[2] *See Declaration of Independence* ("these United colonies are and of right ought to be free and independent states").

[3] *See Id.*

[4] *Articles of Confederation*, art. II.

[5] *See Blatchford* v. *Native Village of Noatak*, 501 U.S. 775, 779 (1991).

[6] Under the terms of the Constitution, it went into effect when nine of the thirteen States ratified it, but only for those States that had ratified it. New Hampshire became the Ninth State to ratify in the spring of 1788. Virginia and New York subsequently ratified before the National Government became operational in April of 1789. North Carolina ratified late in 1789 and Rhode Island consented in 1970.

[7] As the Court explained:

Although the Constitution established a National Government with broad, often plenary authority over matters within its recognized competence, the founding document "specifically recognizes the States as sovereign entities." Various textual provisions of the Constitution assume the States' continued existence and active participation of the fundamental processes of Governance. The limited and enumerated powers granted to the Legislative, Executive, and Judicial Branches of the National Government, moreover, underscore the vital role reserved to the States by the constitutional design. Any doubt regarding the constitutional role of the States as sovereign entities is removed by the Tenth Amendment, which, like the other provisions of the Bill of Rights, was enacted to allay lingering concerns about the extent of the national power. The Amendment confirms the promise implicit in the original document: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

Alden v. *Maine*, 527 U.S. 706, 713–14 (1999)(citations omitted).

[8] *U.S. Term Limits* v. *Thornton*, 514 U.S. 779, 838 (1995) (Kennedy, J. concurring).

[9] *See* Alfred H. Kelly, Winfred A. Harbison, & Herman Belz, *The American Constitution: Its Origins and Development 48–51 (6th ed. 1985).*

> lotted to each subdivided among distinct and separate departments. Hence, a double security arises to the rights of the people. The different governments will control each other, at the same time that each will control by itself.[10]

In other words, as the Court observed in 1992, "the Constitution protects us from our own best intentions: It divides power among sovereigns and among branches of government precisely so that we may resist the temptation to concentrate power in one location as an expedient solution to the crisis of the day."[11] Although the States surrendered many of their sovereign powers to the new National Government, they retained "a residuary and inviolable sovereignty."[11] That the Constitution divides power between dual sovereigns, the States and the National Government, is reflected throughout the Constitution's text particularly in the Constitution's conferral upon Congress of not all-governmental powers, but only discrete, enumerated ones.[13] Thus, "the States retain substantial sovereign powers under our constitutional scheme, powers with which Congress does not readily interfere."[14]

This division of sovereignty between the States and the National Government is preserved and reinforced by the Constitution's structure.[15] These structural limitations, which are above and beyond the limitations imposed by the text of the Bill of Rights or other constitutional provisions, restrict the power of the National Government so as to preserve the sovereignty of the States and vice versa.[16] Thus, although the Constitution gives vast power to the National Government, the National Government remains one of enumerated, hence limited, powers.[17] For example, in recent years, the Court, relying exclusively on the structural limitations of the Constitution, has struck down the National Government's attempts to require the States to pass particular legislation,[18] commandeer state and local officials to enforce federal law,[19] force the States to adhere to Congress' interpretation of substantive constitutional rights,[20] and regulate local matters under the guise of interstate commerce.[21] Conversely, while the Constitution recognizes the sovereign character of the States, it also limits the States. These structural limitations on the States have led the Court to invalidate the States' attempts to impose term limits on members of Congress,[22] discourage the migration of people between the States by giving lower welfare benefits to new residents,[23] undermine the Nation's foreign policy,[24] and ex-

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[10] *The Federalist No.* 51, at 291 (James Madison) (Clinton Rossiter ed. 1961, 1999 prtg.)

[11] *New York* v. *United States*, 505 U.S. 144, 187 (1992).

[12] *Printz* v. *United States*, U.S. 898, 918–19 (1997).

[13] *See id.* at 919.

[14] *Gregory* v. Ashcroft, 501 U.S. 452, 461 (1991).

[15] As the Supreme Court Recently Noted:

> The federal system established by our Constitution preserves the sovereign status of the States in two ways. First, it reserves to them a substantial portion of the Nation's primary sovereignty, together with the dignity and essential attributes inhering in that status. The States "form distinct and independent portions of the supremacy, no more subject, within their respective spheres, to the general authority than the general authority is subject to them, within its own sphere."
>
> Second, even as to matters within the competence of the National Government, the constitutional design secures the founding generation's rejection of "the concept of a central government that would act upon and through the States" in favor of "a system in which the State and Federal Governments would exercise concurrent authority over the people-who were, in Hamilton's words, 'the only proper objects of government.'" In this the founders achieved a deliberate departure from the Articles of Confederation: Experience under the Articles had "exploded on all hands" the "practicality of making laws, with coercive sanctions, for the States as political bodies."
>
> The States thus retain "a residuary and inviolable sovereignty." They are not relegated to the role of mere provinces or political corporations, but retain the dignity, though not the full authority, of sovereignty.

Alden v. *Maine*, 527 U.S. 706, 714–15 (1999).

[16] For a more detailed discussion of this point, see generally J. Harvie Wilkinson III, *Federalism for the Future*, 74 S. Ca. L. Rev. 523 (2001). Chief Judge Wilkinson notes that the Court's so called "federalism" jurisprudence has restricted both the National Government and the States.

[17] *See McCulloch* v. *Maryland*, 17 U.S. (4 Wheat.) 316, 405 (1819).

[18] *See New York* v. *United States*, 505 U.S. 144 (1992).

[19] *See Printz* v. *United States*, 521 U.S. 898 (1997).

[20] *See City of Boerne* v. *Flores* 521 U.S. 507 (1997).

[21] *See United States* v. *Morrison*, 529 US.598 (2000); *United States* v. *Lopez*, 514 U.S. 549 (1995).

[22] *See U.S. Term Limits* v. *Thornton*, 514 U.S. 779 (1995).

[23] *See Saenz* v. *Roe*, 526 U.S. 489 (1999).

[24] *See Crosby* v. *National Foreign Trade Council*, 530 US.363 (2000).

empt themselves from generally applicable regulations of interstate commerce.[25] In sum, both sovereigns are limited by the Constitution's structure.[26] Indeed, "that those limits may not be mistaken, or forgotten, the constitution is written."[27]

One of these structural limitations imposed by the Constitution is the sovereign immunity of both the National Government[28] and the individual States in the Union.[29] As the Supreme Court recently observed:

> the sovereign immunity of the States neither derives from nor is limited by the terms of the Eleventh Amendment. Rather, as the Constitution's structure, and its history, and the authoritative interpretations by this Court make clear, the States' immunity from suit is a fundamental aspect of the sovereignty which the States enjoyed before the ratification of the Constitution, and which they retain today (either literally or by virtue of their admission into the Union upon an equal footing with the other States) except as altered by the plan of the Convention or certain constitutional Amendments. . .[30]

In effect, the preservation of sovereign immunity is essential to the continued existence of the States as sovereign entities and the continued existence of the States as sovereign entities is essential to the structure of the American constitutional system.[31]

Given the importance of the States to "the delicate equilibrium that is dual sovereignty,"[32] it is impossible to equate the States with the private parties that own intellectual property. The States, as sovereign entities, play a vital role in the governance of the Republic and the ultimate preservation of freedom. If the State treasury can be raided by powerful groups interested only in profits or if valuable State resources must be devoted to defending frivolous lawsuits on the merits, then the ability of the State to provide education, roads, and other essential services is undermined. Although the well-being of a corporation is of great concern to its employees and shareholders, the well-being of the States is of great concern to all citizens. Because the States and the private parties are not analogous, there is no need to

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[25] *See Reno* v. *Condon*, 528 US.141 666 (2000)

[26] Although a majority of the Court seems to agree with this proposition, the individual justices approach these issues in subtly different ways. *See generally* Byron Dailey, Note, The Five Faces of Federalism: A State-Power Quintet Without a Theory, 62 Ohio St. L.J. 1243 (2001)

[27] *Marbury* v. *Madison*, 5 U.S. (1 Cranch) 137, 176 (1803)

[28] *Marbury* v. *Madison*, 5 U.S. Blue Fox, 525 U.S. 255,260 (1999)

[29] *See Alden* v. *Main*, 527 U.S. 706, 713–15 (1999).

[30] *Id* at 713.

[31] As the Supreme Court observed:

Underlying constitutional form are considerations of great substance. Private suits against nonconsenting States—especially suits for money damages—may threaten the financial integrity of the States. It is indisputable that, at the time of the founding, many of the States could have been forced into insolvency but for their immunity from private suits for money damages. Even today, an unlimited congressional power to authorize suits in state court to levy upon the treasuries of the States for compensatory damages, attorney's fees, and even punitive damages could create staggering burdens, giving Congress a power and a leverage over the States that is not contemplated by our constitutional design. The potential national power would pose a severe and notorious danger to the States and their resources.

A congressional power to strip the States of their immunity from private suits . . . would pose more subtle risks as well. "The principle of immunity from litigation assures the states and the nation from unanticipated intervention in the processes of government." When the States' immunity from private suits is disregarded, "the course of their public policy and the administration of their public affairs" may become "subject to and controlled by the mandates of judicial tribunals without their consent, and in favor of individual interest." While the States have relinquished their immunity from suit in some special contexts—at least as a practical matter—this surrender carries with it substantial costs to the autonomy, the decisionmaking ability, and the sovereign capacity of the States.

A general federal power to authorize private suits for money damages would place unwarranted strain on the States' ability to govern in accordance with the will of their citizens. Today, as at the time of the founding, the allocation of scarce resources among competing needs and interests lies at the heart of the political process. While the judgment creditor of the State may have a legitimate claim for compensation, other important needs and worthwhile ends compete for access to the public fisc. Since all cannot be satisfied in full, it is inevitable that difficult decisions involving the most sensitive and political of judgments must be made. If the principle of representative government is to be preserved to the States, the balance between competing interests must be reached after deliberation by the political process established by the citizens of the State, not by judicial decree mandated by the Federal Government and invoked by the private citizen. "It needs no argument to show that the political power cannot be thus ousted of its jurisdiction and the judiciary set in its place."

Id. at 714–15 (citations omitted).

[32] *South Carolina State Ports Auth* v. *Federal Maritime Comm'n* 243 F.3d 165, 179 (4th Cir. 2001), *cert. granted*, 122 S. Ct. 392 (2001).

level the playing field. Indeed, to suggest otherwise is to ignore the vital and unique role of the States.

II. HOW SENATE BILL 1611 VIOLATES THE SUPREME COURT'S DUAL SOVEREIGNTY JURISPRUDENCE

Having presented a brief and general overview of the constitutional theory of dual sovereignty, I would like to turn to how Senate Bill 1611 contradicts the Supreme Court's dual sovereignty. In other words, I would like to explain why I believe that Senate Bill 1611 is unconstitutional. There are two reasons for my conclusion.

First, "Congress' powers under Article I of the Constitution do not include the power to subject States to suit at the hands of private individuals."[33] Indeed, the Court, in holding that the mere participation in interstate commerce was not a waiver of sovereign immunity, observed:

> Recognizing a congressional power to exact constructive waivers of sovereign immunity through the exercise of Article I powers would also, as a practical matter, permit Congress to circumvent the anti abrogation holding of Seminole Tribe. Forced waiver and abrogation are not even different sides of the same coin—they are the same side of the same coin. . . . There is little more than a verbal distinction between saying that Congress can make Florida liable to private parties for false or misleading advertising in interstate commerce of its prepaid tuition program, and saying the same thing but adding at the end "if Florida chooses to engage in such advertising."[34]

In other words, although Congress may use its powers under § 5 of the Fourteenth Amendment to abrogate sovereign immunity,[35] it may not use Article I powers to exact waivers of sovereign immunity from the States. Congress may not say that if the States wish to engage in a particular activity or to enforce the States' legal property rights, then the States have waived sovereign immunity.

Yet, that is exactly what Senate Bill 1611 does. This Bill uses the Article I intellectual property clause[36] to force the States to choose between waiving sovereign immunity and enforcing the State's legitimate intellectual property rights. If my institution, Christopher Newport University, wishes to stop the unauthorized use of our name and logo on t-shirts, then we must agree to give up our best defense to frivolous lawsuits designed to exact a quick settlement from the deep pocket of the State treasury. If, as the Supreme Court held, Congress cannot abrogate the sovereign immunity of the States for intellectual property claims, then Congress cannot accomplish the same objective through forced waiver.

Of course, it is theoretically possible to change Senate Bill 1611 so that it uses § 5 of the Fourteenth Amendment, rather than the Article I intellectual property clause, to strip the States of their sovereign immunity. However, as a practical matter, this cannot be done. In recent cases, the Court has repeatedly emphasized that, before the § 5 power can be invoked, Congress must make findings that the States themselves have engaged in a pattern of unconstitutional conduct. As the General Accounting Office report unequivocally demonstrates, this is not the case.

Second, Senate Bill 1611 violates the doctrine of unconstitutional conditions. Quite simply, this doctrine holds that "the government may not require a person to give up a constitutional right . . . in exchange for a discretionary benefit conferred by the government . . ."[37] For example, the government generally may not require a property owner to give up a portion of his property rights as a condition of receiving a building permit.[38] The reason for such a doctrine is clear. If government "may compel the surrender of one constitutional right as a condition of its favor, it may, in like manner, compel surrender of all. It is inconceivable that guaranties embedded in the Constitution of the United States may be thus manipulated out of existence."[39] Moreover, while the doctrine generally applies in the context of individual rights, it should be equally applicable to the fundamental aspects of a States' sovereignty. This is particularly true given the importance of the States' sov-

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[33] *Kimel* v. *Florida Bd. of Regents*, 528 U.S. 62, 80 (2000)

[34] *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Fund,* 527 U.S. 666, 683–84 (1999) (citations omitted).

[35] *See Fitzpatrick* v. *Bitzer*, 427 U.S. 445, 456 (2976).

[36] *See* U.S. Const. art. I, § 8, cl. 8.

[37] *Dolan* v. *City of Tigard*, 512 U.S. 374, 385 (1994).

[38] *See Id* at 394–95. Of course, such conditions can be imposed if it can be demonstrated that (1) there is an "essential nexus" between the permit condition and a legitimate interest of government; and (2) there is a rough proportionality between the condition and the impact of the new project. *See Id.* at 386.

[39] *Frost & Frost Trucking Co.* v. *Railroad Comm'n*, 271 U.S. 583, 594 (1926).

ereignty to maintaining the constitutional balance. Thus, Congress may not require the surrender of the States' sovereignty as a condition of receiving a benefit from the National Government.[40]

Yet, this is exactly what Senate Bill 1611 requires. The States learn that unless they surrender their sovereign immunity, they will be "sanctioned" by losing all ability to enforce their intellectual property rights. Threatening to exclude the State from enforcing its legitimate intellectual property rights transforms the supposed "choice" into outright coercion. As the Court, observed:

> In the present case, however, what Congress threatens if the State refuses to agree to its condition is not the denial of a gift or gratuity, but a sanction: exclusion of the State from otherwise permissible activity. Justice Breyer's dissent acknowledges the intuitive difference between the two, but asserts that it disappears when the gift that is threatened to be withheld is substantial enough. Perhaps so, which is why, in cases involving conditions attached to federal funding, we have acknowledged that "the financial inducement offered by Congress might be so coercive as to pass the point at which' pressure turns into compulsion.' In any event, we think where the constitutionally guaranteed protection of the States' sovereign immunity is involved, the point of coercion is automatically passed—and the voluntariness of waiver destroyed—when what is attached to the refusal to waive is the exclusion of the State from otherwise lawful activity.[41]

If it is unconstitutional for Congress to exclude the States from otherwise lawful activity as a "sanction" for refusing to waive sovereign immunity, then it is equally unconstitutional to exclude the States from enforcing their legitimate intellectual property rights as a "sanction" for refusing to waive sovereign immunity.

CONCLUSION

At the end of day, Senate Bill 1611 has significant policy and constitutional problems. From a policy perspective, it attempts to solve a problem that is largely nonexistent. From a constitutional perspective, it undermines the principles of "dual sovereignty." By using Article I to bring about a waiver of sovereign immunity, it contradicts recent Supreme Court precedents. By forcing the States to choose between waiving sovereign immunity and being able to enforce their own intellectual property rights, it violates the doctrine of unconstitutional conditions.

Chairman LEAHY. Senator Brownback, as I said earlier, is a valued member of this committee, and was tied up with another matter when I introduced Mr. Schraad, and I want to yield to Senator Brownback.

STATEMENT OF HON. SAM BROWNBACK, A U.S. SENATOR FROM THE STATE OF KANSAS

Senator BROWNBACK. Thank you very much, Senator Leahy, Mr. Chairman. Thank you for holding the hearing. And I welcome a fellow Kansan, Keith Schraad. He is with the group National Infor-

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[40] Of course, some of the lower federal courts have held that Congress may require the States to waive sovereign immunity a condition of receiving federal funds. *See, e.g. Cherry* v. *University of Wisconsin*, 265 F.3d 541 (7th Cir. 2001); *Jim C.* v. *United States*, 235 F.3d 1079 (8th Cir. 2000) (*en banc*), *cert. denied* 121 S. Ct. 2591 (2001); *Sandoval* v. *Hagan*, 197 F.3d 484 (11th Cir. 1999), *rev'd on other grounds sub nom. Alexander* v. *Sandoval*, 121 S. Ct. 1511 (2001); *Litman* v. *George Mason University*, 186 F.3d 544, 557 (4th Cir. 1999) (*Litman II*), *cert. denied,* 120 S. Ct. 1220 (2000); *In re Innes* 529 U.S. 1037 (2000). *But see Koslow* v. *Pennsylvania*, 158 F. Supp. 2d 539, 542, 543–44 (E.D. Pa. 2001); *Pugliese* v. *Arizona Dep't of Health & Human Serv., 147 F. Supp. 2d 985, 990–91 (D. Ariz. 2001). to date, the Supreme Court has not addressed the question.*

However, if the Supreme Court were to uphold required waivers, then, of all practical purposes, the holdings of the recent cases reviving sovereign immunity would be eviscerated. To illustrate, because the standard for abrogation pursuant to § 5 of the Fourteenth Amendment is so high, Congress generally will not be able to abrogate sovereign immunity. Yet, Congress can easily pass a statute that requires the States to waive sovereign immunity as a condition of receiving federal funds. Indeed, through the enactment of 42 U.S.C. § 2000d–7, Congress has already done this for many anti-discrimination statutes. Thus, if the Court were to approve such required waivers, it seems almost inevitable that Congress would soon require waivers for all federal claims. In sum, the law of sovereign immunity would return to its pre-*Seminole Tribe* status.

[41] *College Savings Bank*, 527 U.S. at 687 (emphasis added) (citation's omitted).

mation Consortium that is providing some leading edge e-technology, eGovernment solutions, and I am delighted to have him here.

Mr. Chairman, I have a full statement to put in the record. I am delighted you are holding the hearing. It is a complex topic. I think it is an important one. I was pleased to see how you are moving this topic on forward. I appreciate you accommodating my home town—I should say home State, it feels like hometown—witness that is here, and also the question on what you are putting forward, to try to fashion a legislation remedy in light of the Supreme Court decision. I think it is an important way in what you are doing here.

So I just ask unanimous consent this full statement be included in the record, and I want to apologize to the witnesses for not being able to stay for more of the hearing.

[The prepared statement of Senator Brownback follows:]

STATEMENT OF HON. SAM BROWNBACK, A U.S. SENATOR FROM THE STATE OF KANSAS

Thank you Mr. Chairman for holding this important hearing. The question of whether or not a state should abide by the same laws as a private individual or company in the area of intellectual property rights has been a complex one for both Congress and the Courts.

But before I get to the issue, allow me to first commend you, Mr. Chairman, for the quality and depth of the witnesses you've invited for this hearing and for your work in this area. I'm especially pleased that we have a native Kansan, Keith Schraad, testifying before this Committee on behalf of a Kansas company, the National Information Consortium or NIC. You may be surprised to know Mr. Chairman that NIC is just one of many leading technology companies that one can find among the wheatfields of Kansas.

There are two sides this issue and both are compelling. For individuals and companies who make the investment and take the risk in creating new products and services, their property rights are at stake when a state infringes upon their intellectual property. States on the other hand also want to protect their sovereignty under the Constitution and want to assert their intellectual property rights especially in the context of private/public partnerships where ownership issues may not be as clear.

This inherent conflict demands congressional action. Especially in the context of the digital revolution where exact copies and reproductions can be made, this is an important economic issue for individuals and companies trying to compete in the marketplace. The question is how to fashion a legislative remedy in light of recent Supreme Court decisions that struck down previous attempts to bring clarity to the issue.

I believe Chairman Leahy's bill is a good attempt to find some compromise solution without running afoul of the constitutional issues highlighted by the Supreme Court in *Seminole Tribe* and the *Florida Pre-Paid* cases.

I would also like to add that this matter has repercussions which extend far beyond the domestic realm. The US is one of the leading proponents for the enforcement of intellectual property rights throughout the world. That's why it cannot afford to be inconsistent in its own observance of intellectual property rights. Through international agreements such as TRIPS and NAFTA, the United States has vigorously challenged international institutions and other nations to adopt and enforce more extensive intellectual property laws. When states assert sovereign immunity for the purpose of infringing upon intellectual property rights, it damages the credibility of the United States internationally, and could possibly even lead to violations of our treaty obligations. Any decrease in the level of enforcement of intellectual property rights around the world is likely to harm American businesses, because of our position as international leaders in industries like pharmaceuticals, information technology, and biotechnology.

Again, Mr. Chairman, thank you for holding this hearing and for accommodating a witness from my home state of Kansas.

Chairman LEAHY. I appreciate you being here, and I also appreciate your suggestion on Mr. Schraad, and it has been very helpful.

And we have one more witness before we go into questions, of course, and that is Mr. Bender.

STATEMENT OF PAUL BENDER ON BEHALF OF THE PROPERTY OWNERS REMEDY ALLIANCE, WASHINGTON, D.C.

Mr. BENDER. Thank you, Chairman Leahy and Senator Brownback, and thank you, Chairman Leahy especially for your leadership on this issue and moving this bill to solve what most of the witnesses and yourself have said is a really important and dangerous situation of unfairness.

I am here representing the Property Owners Remedy Alliance, PORA, which is an ad hoc alliance of a group of copyright owners and associations of copyright owners that cover a very large range of copyrightable material, music, performance, films, software, publishing. We strongly support the passage of Senate Bill 1611 because it is necessary to remedy the unfairness that has been mentioned.

An additional example of that we just learned about yesterday. The State of Maryland had infringed, has infringed a software copyright and we are negotiating with the copyright owner, and acknowledge $270,000 in damages, and recently, just within the last few days, instead of continuing with those, what seemed to be good-faith negotiations, suddenly wrote a letter and said, "We have sovereign immunity, we are not going to talk about damages any more." And we will talk about perhaps a license for the future, but as you recognized, their bargaining position on that license price is a very strong one because they cannot be sued for damages.

Congress faced this situation once before in 1985 in the *Atascadero* case. The Supreme Court held that if Congress wanted to abrogate immunity, it had to do so really explicitly, assuming that Congress could abrogate immunity using its Article I powers, and lower courts began to hold that intellectual property suits could not be maintained against states because the abrogation was not explicit enough.

So Congress enacted, in order to remedy exactly the unfairness you are dealing with today, Congress enacted a series of remedies clarification acts. Now, in 1999, as you pointed out, the Supreme Court has changed the rules of the game again, and said, "Well, even if you make it completely explicit, the abrogation is not constitutional unless it is to remedy violations of the Fourteenth Amendment."

The need for the legislation is even greater than it was in 1990 given the enormous transformation of informational technology through the digital process, which makes it much easier to infringe intellectual property. And the really substantial increase in States both using others' intellectual property and commercially exploiting their own intellectual property, and so you have the situation, as you pointed out, where a State can at one and the same time, without this legislation, sue others for damages for violating the State's property and assert immunity against the claims against it, and the property can be exactly the same kind of property.

We think that 1611 is both an effective, will be an effective and is a completely constitutional way of dealing with this. It has three parts, and I think all three parts are important. It abrogates State

immunity in cases where the State infringement constitutes a constitutional violation, a deprivation of property without due process of law, or taking without just compensation.

In its 1999 trilogy the Supreme Court invited Congress to enact that kind of legislation, and no such legislation exists today. That is legislation specifically making the States liable for deprivations of property without due process through the infringement of intellectual property.

So the constitutionality of that part, since it turns on the plaintiff showing a constitutional violation, it seems to me is unquestioned.

Then the bill also explicitly recognizes the continued existence of the *Ex Parte Young* doctrine. I think that is really important also, although the *Ex Parte Young* doctrine has been there for a long time, because in *Seminole* the Supreme Court said that if Congress passed a comprehensive remedial scheme, *Ex Parte Young* might not apply, and it is really important for the Congress to say that it wants *Ex Parte Young* to continue to apply.

And as to the waiver provision, which I think is central and really important, to me the important thing there is that Congress is not taking anything away from the States. It is simply conditioning the States obtaining a future benefit on the States' waiving their immunity, so that they participate in the electoral property systems on the same basis as other people. So I disagree with Mr. Thro that there is any deprivation here of any rights that the States have. And we are talking about Federal intellectual property rights which are granted by Congress, that Congress does not have to grant, and the bill is prospective only. And so it will simply say to States, "If in the future you want to get Federal rights for your future property, then you have to participate in the system on the same basis as private people."

The one substantive suggestion we would make is that the committee seriously consider adding to the remedies bar a provision that says that the States cannot get injunctive relief as well as damages. I think that Congress has the power to do that. And I think it is unfair—it is not as unfair as the present situation, but it is still unfair to permit the States to get injunctions without being liable for damages, whereas no private property participating in this system can do that. So we would suggest that you consider that, because that seems to me a substantial aspect of unfairness as well.

Thank you very much.

[The prepared statement of Mr. Bender follows:]

STATEMENT OF PAUL BENDER, PROFESSOR , ARIZONA STATE UNIVERSITY COLLEGE OF LAW COUNSEL TO MEYER & KLIPPER, PLLC

Mr. Chairman, the Property Owners Remedy Alliance (PORA) welcomes the opportunity to present its views on your bill, S. 1611, the "Intellectual Property Protection Restoration Act of 2001." PORA's members greatly appreciate your and Mr. Hatch's interest in this important issue, as well as the time and effort that Committee staff has devoted to crafting this important legislation.

PORA is an ad hoc group composed of a number of copyright-based companies and trade associations.[1] Copyrights are at the core of the business of PORA's members. They market copies—or license the public performances—of millions of copyrighted works. They often sell or license works to States and their instrumentalities, which are prodigious users of copyrighted materials.

In 1990, with the support of many of PORA's current members, Congress passed the Copyright Remedy Clarification Act (CRCA) as a response to Supreme Court cases. The CRCA—and its subsequent patent and trademark counterparts—were enacted to redress the inequity of a situation where states as intellectual property owners may avail themselves of the full array of remedies as plaintiffs, but enjoy immunity to damage awards as defendants. In 1999, the Supreme Court moved the goalposts yet again in a series of sovereign immunity decisions that resulted in the Fifth Circuit's striking down the CRCA two years ago. The Supreme Court's decisions and their progeny have immunized States from damage awards when they infringe the federal intellectual property rights of others, while leaving them free to obtain all statutory remedies—including injunctions and damages—when their own intellectual property rights are violated. This is the exact same situation that existed in 1990. Thus, the reasons that we are here are not substantive so much as technical.

State immunity from money damage awards for copyright violations is of great concern to copyright owners—especially at a time when the digital revolution is dramatically increasing the scope and gravity of the piracy threat copyright owners face. PORA's members are grateful to the Committee for the responsiveness that it has shown in enacting prophylactic legislation in the past—such as the Digital Millennium Copyright Act, the NET Act and the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999—to deal with new piracy threats caused by digital technology. PORA views S. 1611 as part and parcel of these legislative efforts.

We believe that an effective and constitutional sovereign immunity bill should have three components: (1) a provision that provides an incentive for states to voluntarily waive their immunity in exchange for access to the full remedies under the intellectual property system; (2) a provision abrogating state sovereign immunity for constitutional violations; and (3) codification of the *Ex parte Young* doctrine, which permits injunctions against state officials. S. 1611 contains all three of these important elements.

For this reason, we strongly support S. 1611. Additionally, We urge the Committee, however, to carefully consider strengthening the 'remedies bar' to preclude the award of injunctions or damages to non-waiving states. An amendment of this nature will strengthen the incentive for states to make themselves full and equal participants in the marketplace.

Mr. Chairman, the Property Owners Remedy Alliance (PORA) welcomes the opportunity to present its views on your bill, S. 1611, the "Intellectual Property Protection Restoration Act of 2001." PORA's members greatly appreciate your interest in this important issue, as well as the time and effort that you and your staff have devoted to crafting this important legislation. We also want to thank Senator Hatch for his long-standing interest in this issue, dating back to the original Copyright Remedy Clarification Act in the 101st Congress.

PORA is an ad hoc group composed of a number of copyright-based companies and trade associations. It's members include the American Society of Composers, Authors, and Publishers; Broadcast Music, Inc.; the Business Software Alliance; The McGraw-Hill Companies; the Motion Picture Association of America; National Music Publishers' Association; the Recording Industry Association of America; Reed Elsevier Inc.; the Software and Information Industry Association; the West Group; and AOL Time Warner Inc. PORA was formed in early 2000 in response to the Supreme Court's 1999 sovereign immunity decisions, *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*[2] *and College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*.[3] These and other decisions[4] have created a fundamentally unfair situation in which States remain immune from financial responsibility for any harm that their infringements cause to

[1] PORA's members include the American Society of Composers, Authors, and Publishers; Broadcast Music, Inc.; the Business Software Alliance; The McGraw-Hill Companies; the Motion Picture Association of America; National Music Publishers' Association; the Recording Industry Association of America; Reed Elsevier Inc.; the Software and Information Industry Association; the West Group; and AOL Time Warner Inc.

[2] 527 U.S. 627 (1999).

[3] 527 U.S. 666 (1999).

[4] *See, e.g., Chavez* v. *Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000); *Rodriguez* v. *Texas Comm'n on the Arts*, 199 F.3d 279 (5th Cir. 2000).

copyright owners, while at the same time being free to obtain all statutory remedies—including injunctions and damages—against those who trespass on their rights. The inequity of States being able to play by two sets of rules caused Congress to change the law in 1990, and these new decisions make it even more important that it does so today.

Copyrights are at the core of the business of PORA's members. They market copies—or license the public performances—of millions of copyrighted works. They often sell or license works to States and their instrumentalities, which are prodigious users of copyrighted materials. As a result, State immunity from money damage awards for copyright violations is of great concern to copyright owners—especially at a time when the digital revolution is dramatically increasing the scope and gravity of the piracy threat copyright owners face. In the past few years, Congress has recognized repeatedly the threat posed to copyright owners by new digital technology and has acted accordingly.[5] Enactment of remedial legislation in light of the Supreme Court's 1999 sovereign immunity decisions is entirely consistent with these past congressional efforts.

Our members' goal is to secure the passage of federal legislation that: (1) eliminates the inherent unfairness of the present situation, in which States and their instrumentalities—which are increasingly participating as competitors in the commercial marketplace—are able to enjoy the full benefits of the copyright law without shouldering one of its most important responsibilities; and (2) complies with the newly articulated constitutional boundaries established by the Supreme Court while effectively protecting rightsholders against State violations of their copyrights.[6]

PORA urges the enactment of legislation that would:

Condition the availability to States of certain judicial remedies under the federal intellectual property system on State waivers of sovereign immunity from suit for state infringements from private intellectual property rights;

Abrogate State sovereign immunity when State infringements of federal statutory rights also violate constitutional rights; and

Codify the doctrine of *Ex parte Young*,[7] thereby affirming the continued availability of injunctive and monetary relief against State officials who violate federal intellectual property laws.

Mr. Chairman, we are pleased that S. 1611 contains provisions addressing each of these important goals and PORA therefore strongly supports your bill. In our testimony, we will explain why we support the inclusion of these provisions in S. 1611. We will also suggest one particular, substantively important enhancement to the text of S. 1611 regarding the scope of remedies denied non-waiving States that we believe will improve the bill, and urge the Committee to give careful consideration to this suggested change. We will first discuss the legal and constitutional developments that have made S. 1611 a necessity in the first place.

I. The 101st Congress and the Copyright Remedy Clarification Act

In November of 1990, President George Bush signed into law the Copyright Remedy Clarification Act (CRCA).[8] Drafted in response to a number of federal court decisions,[9] that legislation expressly abrogated state sovereign immunity from money

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[5] In light of the threat posed to copyright owners by digital technology, Congress enacted the Digital Millennium Copyright Act, Pub. L. No. 105–304, 112 Stat. 2860 (1998), which, in part, makes it illegal to circumvent copy protection technology, or to alter copyright management information. In 1997, Congress passed the No Electronic Theft Act, Pub. L. No. 105–147, 111 Stat. 2678 (1997), in order to fill a gap in U.S. law regarding the criminal liability of those who engage in harmful copyright infringement for non-commercial purposes. The legislative history of that Act reveals congressional concern that additional penalties were needed to combat electronic copyright piracy. *See generally* H.R. Rep. No. 105–339, at 4 (1997). Most recently, Congress enacted the digital Theft deterrence and copyright Damages Improvement Act of 1999, Pub. L. No. 106–160, 113 Stat. 1774, which significantly increases that statutory damages for copyright infringement as a means of deterring copyright piracy in a digital environment. *See* H.R. Rep. No. 106–216, at 3 (1999) (noting that "copyright piracy of intellectual property flourishes, assisted in large part by today's world of advanced technologies," and that "the potential for this problem to worsen is great. By the turn of the century the Internet is projected to have more than 200 million users. . . .").

[6] While our comments are offered from the perspective of copyright owners, we recognize that other federal intellectual property owners have been adversely affected by these decisions and we urge the enactment of legislation that protects the interests of patent and trademark owners as well.

[7] 209 U.S. 123 (1908).

[8] Pub. L. No. 101–553, 104 Stat. 2749 (1990).

[9] In 1985, the Supreme Court decided *Atascadero State Hospital* v. *Scanlon*, 473 U.S. 234 (1985), holding that a federal law seeking to abrogate State sovereign immunity must contain "unequivocal statutory language" evincing Congress' intent to abrogate immunity and must spe-

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damage awards in copyright infringement suits. Two years after passage of the CRCA, Congress enacted its patent and trademark counterparts: the Patent and Plant Variety Protection Clarification Act (PRA)[10] and the Trademark Remedy Clarification Act (TRCA).[11]

When it passed the CRCA in 1990, the 101st Congress believed that it had the power to abrogate State immunity under Article I, Section 8, Clause 8 of the Constitution—the Patent/Copyright Clause. In reaching this conclusion, Congress relied on the Supreme Court's decision in *Pennsylvania* v. *Union Gas Co.*[12] in which the Court by a 5–4 vote ruled that Congress could use its Article I powers to abrogate State immunity if Congress made its intention to abrogate unmistakably clear. When the 102nd Congress enacted the PRA and the TRCA in 1992, it referenced two Article I powers (the Patent/Copyright and Commerce Clauses), as well as its authority under Section 5 of the Fourteenth Amendment, as the constitutional basis for the legislation.

Now, twelve years later, the 107th Congress finds itself revisiting this issue because, in the interim, the United States Supreme Court has changed the constitutional landscape in a way that has frustrated Congress' purpose in enacting the CRCA, PRA and the TRCA. Thus, in a real sense, the task before this Committee is technical in nature: to draft a new law to fill the gap in State responsibility created by these judicial rulings—a law that meets the Court's newly articulated constitutional understanding and is an effective means of deterring State infringements of federal intellectual property rights and compensating those who are the victims of such violations.

The reasons that prompted Congress to enact the CRCA in 1990 (and the PRA and TRCA in 1992) remain compelling today. It is instructive to review briefly the history surrounding the enactment of the CRCA.

Congress began its work in this area in 1987, by requesting and receiving from the United States Copyright Office a study examining State immunity from infringement actions.[13] Specifically, Congress asked the Copyright Office to examine two issues: (1) the practical problems relative to the enforcement of copyright law against State entities; and (2) the presence, if any, of unfair business practices by copyright owners vis-á-vis State governments.[14] The Copyright Office's detailed examination revealed that copyright owners had suffered and would continue to suffer harm if Congress did not abrogate State immunity from suit for State copyright infringements.[15]

The Copyright Office Report uncovered evidence of unremedied State copyright infringements. Those who filed comments with the Office "almost unanimously chronicled dire financial and other repercussions that would flow from State Eleventh Amendment immunity from damages in copyright infringement suits."[16] The Copyright Office concluded that "copyright owners have demonstrated that they will suffer immediate harm if they are unable to sue infringing States in federal court for money damages."[17]

Congress' own consideration of the issue confirmed the Copyright Office's findings and conclusions. This Committee declared that "[s]tate immunity from damages critically impairs creative incentives and business investments in the country's copyright businesses that deal with State entities."[18] Similarly, the House Judiciary Committee concluded that "actual harm has occurred and will continue to occur if

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cifically include States within the class of defendants subject to statutory remedies. Subsequently, a number of federal courts determined that the Copyright Act lacked the necessary "unequivocal statutory language." *See, e.g., BV Engineering* v. *UCLA* 858 F.2d 1394 (9th Cir. 1988), *cert. denied*, 489 U.S. 1090 (1980).

[10] Pub. L. No. 102–560, 106 Stat. 4230 (1992).

[11] Pub. L. No. 102–542, 106 Stat. 3567 (1992).

[12] 491 U.S. 1 (1989).

[13] United States Copyright Office, *Copyright Liability of States and the Eleventh Amendment* (1988) [hereinafter Copyright Office Repot].

[14] Letter from Representatives Kastenmeier and Moorhead, Chairman and Ranking Minority Member, Subcomm. of Courts, Civil Liberties and the Admin. of Justice of the House Comm. on the Judiciary, to Ralph Oman, Register of Copyrights (August 3, 1987), *reprinted in* Copyright Office Report, supra note 13; *see also id*. at iii-iv, 5.

[15] *See* copyright Office report, *supra* note 13, at vii, 103; H.R. Rep. No. 101–282, at 8 (1989); S. Rep. No. 101–305, at 10 (1990).

[16] Copyright Office Report, *supra* note 13, at vii, 103; H.R. Rep. No. 101–282, at 8 (1989); S. Rep. No. 101–305, at 10 (1990).

[17] Copyright Office Report, *supra* not 13, at vii.

[18] S. Rep. No. 101–305, at 9 (1990). The Senate Judiciary Committee also noted that "[c]ontinued State immunity from damage suits will result in such adverse consequences as increases in the prices charged non-State users, diminution in the economic incentive to create new works, and decline in the quantity an quality of published works." *Id* at 10.

this legislation is not enacted."[19] Congress also recognized that the harm emanating from State copyright immunity was not limited to copyright owners. The Senate Report recognized that "[i]t is not only business enterprises that are hurt by State infringements, but individuals, primarily students and public colleges and universities, who pay the price of State immunity through higher prices and lower quality of materials."[20] Thus, when Congress passed the CRCA, it acted on a record that documented the seriousness of the problem and the need for prompt legislative intervention in response to recent court decisions holding States immune from damages in copyright cases because of the failure of existing legislation to abrogate state immunity.[21]

Several additional factors motivated Congress in enacting the CRCA.

First, the 101st Congress was deeply troubled by the fact that sovereign immunity confers an unfair commercial advantage on States and their instrumentalities. It permits States to operate by two sets of rules: one when their copyrights are infringed and another when they infringe the copyrights of others. When States are victims of infringement, they have at their disposal all of the remedies available under the Copyright Act; when States infringe, however, they are shielded from a key copyright remedy—monetary damages. The 101st Congress[22] concluded that States thus unfairly received a "free ride" by being able to obtain all of the benefits conferred by the copyright law without bearing one of its most important responsibilities.[23]

The 101st Congress' concern over this unfair situation was heightened by its recognition that States are frequent and important users and owners of copyrighted works. With respect to State uses of copyright materials, a former Register of Copyrights told the 101st Congress:

States and their instrumentalities are major users of copyrighted material of all sorts—not only the familiar forms of printed books and periodicals but the whole range of creative expression in the 1980's: dance and drama, music and sound recordings; photographs and filmstrips; motion pictures and video recordings; computer software and chips; pictorial and graphic material, maps and architectural plans, and so forth, ad infinitum. State exploitation of copyrighted works is by no means limited to uses that can be called educational or nonprofit. They include publishing enterprises, computer networks, off-air-taping, public performance and dis-

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[19] H.R. Rep. No. 101–282, at 8 (1989).

[20] S. Rep No. 101–305, at 9 (1990). In addition, Congress received testimony that State immunity from damage actions adversely impacts individual authors whose markets center on college campuses. *See id.*

[21] These cases contravened earlier decisions holding States subject to damage awards in copyright infringement cases. *Compare BV Engineering* v. *UCLA*, 858 F.2d 1394 (9th Cir. 1988) (1979 copyright Act—pre-CRCA—held *not* to abrogate Eleventh Amendment immunity) *with Mills Music, Inc.* v. *Arizona*, 591 F.2d 1278 (9th Cir. 1979) (claim of Eleventh Amendment immunity rejected). When it enacted the CRCA, Congress was aware of a number of other copyright infringement suits brought in federal court against States. *See, e.g., Richard Anderson Photography* v. *brown*, 852 F.2d 114 (4th Cir. 1988), *cert. denied*, 489 U.S. 1033 (1989); *Lane* v. *First Nat'l Bank of Boston*, 871 F.2d 166 (1st Cir. 1989); *Howell* v. *Miller*, 91 F. 129 (6th Cir. 1898); *Cardinal Indus., Inc.* v. *Anderson Parrish, Inc.*, 230 U.S.P.Q. (BNA) 678 (M.D. Fla. 1986); *Johnson* v. University of Virginia, 606 F. Supp. 321 (W.D. Va. 1985); *Woelffer* v. *Happy States of America, Inc.*, 626 F. Supp. 499 (N.D. Ill. 1985).

[22] The Senate Judiciary Committee stated the issue in these terms:

The current state of law has resulted in the anomalous situation that public universities can infringe copyrighted material of private universities [and for that matter, of private parties] without liability for damages, but private universities cannot similarly infringe with impunity on the works created by public institutions. Thus, UCLA can sue USC for damages from copyright infringement but USC cannot collect damages from UCLA [Moreover, f]or a copyright proprietor who sells his or her products to educational institutions, it is puzzling that State schools cannot be sued for damages for their systematic unauthorized copying, but private institutions can be. A substantial segment of these companies' market is beyond the reach of the most important remedy provided by the Copyright Act.

S. Rep No. 101–305, at 9 (1990).

[23] *See generally* H.R. Rep. No. 101–282, at 10 (1989); S. Rep No. 101–305, at 6 n.3 (1990). Less than two years ago, the ranking member of the House Judiciary Subcommittee on courts and Intellectual Property echoed this concern:

[I]t is our goal as well as our responsibility to ensure that our intellectual property system remains fair and balanced, while still being constitutional in the eyes of the Supreme Court. To the extent that the law protects the intellectual property of one class of actors, but does not correspondingly require that class of actors to respect intellectual property right of others, the law is distinctly unfair and imbalanced. *Oversight Hearing on "State Sovereign Immunity and the Protection of Intellectual Property" Before the house Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property* 106th Cong. (2000) (statement of Rep. Berman) *available at http://www.house.gov/judiciary/courts.htm.*

play, radio and television broadcasting and cable transmissions, to name only the most obvious [examples]. . . .[24]

Moreover, the 101st Congress knew that, unlike the federal government which cannot generally assert copyright in the works of its employees,[25] States are free to claim copyright in works created by their employees and to reap the commercial benefits that result from such rights.[26]

Second, while acknowledging the importance of *Ex parte Young* injunctions as a remedial tool under the copyright law, Congress concluded that injunctive relief, standing alone, was inadequate to protect the interests of copyright owners against State infringers.[27]

Third, the 101st Congress knew that because federal courts have exclusive jurisdiction over federal copyright cases, sovereign immunity means "the choice [in copyright cases] is . . . between the federal forum and no forum."[28]

The reasons that drove enactment of the CRCA in 1990 are, if anything, even stronger in 2002. State use of copyrighted works is even more frequent than twelve years ago. This is certainly true on college campuses; public institutions currently house nearly 80% of the students attending institutions of higher learning in the United States.[29] Copyrighted software is used in every university setting, public or private. Moreover, State university systems' Intranets (computer networks linking classrooms, libraries, media centers and dormitory rooms) now make it possible for a university to distribute copies or performances of copyrighted works to unlimited numbers of faculty, students, and even members of the general public.

The problems posed today by State immunity are not limited to the university environment. Copyrighted software, music, motion pictures, sound recordings and other works are used by many State departments and agencies. Computer software programs are found in virtually every governmental entity performing specialized tasks or general office administration functions. Copyright users include State departments of education, taxation, and transportation.

Finally, in assessing the unfairness of the current state of the law, it is also critical to take into account the fact that today States are major owners of intellectual property. As owners, they increasingly act not as sovereigns, but as commercial competitors. For example, in Florida Prepaid, the State allegedly infringed College Savings' patent in a program when it offered a competing service using the patented method. Moreover, like corporations in the public sector, States have begun to centralize the management of their intellectual property assets so that they may successfully exploit their creations.[30]

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[24] *See Copyright Remedy Clarification Act: Hearing on H.R. 1131 Before the House Comm. on the Judiciary, Subcomm. on Courts, Intellectual Property, and the Admin. of Justice*, 101st Cong. (1989) (statement of Barbara Ringer).

[25] 17 U.S.C. § 105 ("Copyright protection under this title is not available for any work of the United States Government, but the United States Government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise.")

[26] A number of courts have ruled, however, that neither the federal government nor States can claim copyright protection in judicial opinions, State statutes, legislative histories and similar official documents. *See Wheaton* v. *Peters*, 33 U.S. 591 (1834) (holding that reporters of Supreme Court decisions cannot claim copyrights in those decisions); *Building Officials & Code Adm.* v. *Code Technology Inc., 628 F.2d 730 (1st Cir. 1980) (giving reasons why copyright in a womk such as a building code might not be fully maintained after that work is officially adopted by the State as law); see also M. Nimmer and D. Nimmer, Nimmer on Copyright, § 5.06. Nonetheless, some States continue to assert copyright or copyright-like protection in official documents.*

[27] *See* S. Rep. 101–305, at 12 (1990) ("Injunctive relief for copyright violations does not provide adequate compensation or effective deterrence for copyright infringement . . . . Injunctions only prohibit future infringements and cannot provide compensation for violations that have already occurred."). *See also* H.R. Rep. No. 101–282, at 8 (1989) ("[injunctive relief] . . . deters only future conduct, and does not compensate for past harm.").

[28] *BV Engineering* v. *UCLA*, 858 F.2d 1394, 1400 (9th Cir. 1988). The same is true today. *See* 28 U.S.C. § 1338(a).

[29] Although we have not yet obtained state-by-state statistics, the gross numbers below indicate the nationwide scope of state employee and student populations. For example, as of Fall, 1995, nearly 80% of higher education students were enrolled in public institutions-11.1 million out of 14.2 million. *U.S. Dept of Educ., Digest of Educational Statistics* 1997, Table 172. Over the past half century the percentage of students enrolled in public vs. private has increased dramatically. In fact, in 1947, a roughly equal number of students were enrolled in public and private institutions of higher learning. *Id*. In addition, as of July, 1999, according to the Bureau of Labor Statistics, the number of state employees is 4.7 million. U.S. Bureau of Labor Statistics, Aug., 1999. Moreover, as of the fall of 1993, 71% of all non-graduate student instructors in institutions of higher learning were employed by public versus private institutions. *U.S. Dept of Educ., Digest of Educational Statistics* 1997, Table 225 (1997).

[30] *See infra* note 31 (noting a nonexhaustive list of states that have created entities to market State intellectual property more effectively).

In addition, for years many States have aggressively registered their works with the Copyright Office and they continue to do so. This point was underscored in 2000 by the Register of Copyrights in testimony before the House Judiciary Subcommittee on Courts and Intellectual Property:

We do have some sense of the extent to which States make use of the Copyright Office's registration function. The Copyright Office reviewed the registrations issued to four-year state colleges and universities for monographs since 1978. Over 32,000 such registrations were found. That is an average of 645 registrations for each State. Put differently, on average the Copyright Office has issued a registration for a work by a State (not including State entities other than four-year colleges and universities, and not including serials) once every twelve calendar days for the last twenty-two years. Clearly, States are availing themselves of the copyright protection provided by federal law.[31]

Furthermore, universities increasingly are moving away from the practice of allowing professors, rather than the State or the university, to claim copyright in faculty-created works. This development is motivated in part by the upsurge in the commercial value of technologically-oriented faculty creations such as computer software and multimedia works.[32]

Today, States are routinely reaping all the benefits of the Copyright Act—without having to expose themselves to financial liability for their infringing acts. This disparity creates an inequitable situation in the intellectual property marketplace. It should be corrected. S. 1611 would help do just that.

II. The CRCA, the PTA and the TRCA Under Constitutional Attack

In *Seminole Tribe of Florida* v. *Florida*[33] *the Supreme Court* overruled the Union Gas case, upon which Congress had relied in enacting the CRCA, the PRA, and the TRCA. In Seminole Tribe, the Court held that Congress could not use its Article I powers to abrogate State immunity from suit for violation of legislation passed pur-

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[31] *Oversight Hearing on "State Sovereign Immunity and the Protection of Intellectual Property" Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property*, 106th Cong. (2000) (Testimony of Marybeth Peters) available at http://www.house.gov/judiciary/courts.htm. It is worth noting that these numbers do not take into account the innumerable unregistered copyrights that States are free to exploit. *Cf.* 17 U.S.C. § 408(a).

Moreover, at the same hearing, the head of the Patent and Trademark Office told the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property:

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. 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—note 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.

Oversight Hearing on "State Sovereign Immunity and the Protection of Intellectual Property" Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property, 106th Cong. (2000) (Testimony of Todd Dickinson) (July 27, 2000) available at http://www.house.gov/judiciary/courts.htm In addition, State governments have begun to set up corporations for the purpose of commercially exploiting intellectual property created at their institutions of higher learning, and State laws have begun directing and empowering State instrumentalities to exploit creative works and inventions. *See, e.g.*, 2001 Pa. Laws 77, §§ 1701 *et seq*. (2001) (establishing biotechnology research centers, and nonprofit corporations to operate those centers, with the apparent goal of attracting venture capital and implementing the commercial development of new research discoveries); Haw. Rev. Stat. § 307–3 (2001) (establishing the Research Corporation of the University of Hawaii); Va. Code Ann. § 2.2–2221 (2001) (setting forth the powers of the Innovative Technology Authority); Ariz. Rev. Stat. § 15–1635 (2001) (giving Arizona Board of Regents power to organize corporations and to "enter into research and development agreements [etc.] . . . concerning the research, development, production, or storing or marketing of new products developed or to be developed through university research "); *see also* http://www.yamacraw.cor:, (describing a multimillion dollar fund created by Georgia designed to encourage investment through public/private partnerships that exploit intellectual property).

[32] *See* Sunil R. Kulkarni, *All Professors Create Equally: Why Faculty Should Have Complete Control Over the Intellectual Property Rights In Their Creations*, 47 Hastings L. J. 221 (Nov. 1995); *see also Robert A. Gorman, The Rights of Faculty as Creators and Users,* Academe, May-June 1998, at 14–18.

[33] 517 U.S. 44 (1996).

suant to Congress' Article I powers.[34] This surprising decision removed Article I as a basis for the CRCA, PRA and TRCA. After Seminole Tribe, the constitutionality of these statutes turned on whether they could be sustained under either Section 5 of the Fourteenth Amendment or under the so-called Parden doctrine,[35] under which States could waive their sovereign immunity by participating voluntarily in certain commercial activities.

Ultimately, the PRA, CRCA and the TRCA (to the extent it abrogated State immunity for false advertising claims) were found unconstitutional. In June 1999, the Supreme Court invalidated the PRA and the false advertising provisions of the TRCA in *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*[36] and *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*.[37] In addition to finding that neither the PRA nor the challenged portions of the TRCA were proper exercises of Congress' Section 5 power, the Court overruled the Parden doctrine as well. Subsequently, relying on the two College Savings Bank cases, two separate panels of the United States Court of Appeals for the Fifth Circuit voided the CRCA.[38]

At the same time that the Court handed down the two College Savings Bank cases, June 23, 1999, it also decided *Alden* v. *Maine*.[39] In *Alden*, the Court held that Congress could not use its Article I powers to subject nonconsenting States to private suits for damages in State court. Taken together, *Seminole Tribe* and *Alden* mean that Congress cannot rely on its Article I powers to abrogate State sovereign immunity from suit in either State or federal court. Because of the critical place they occupy in the current sovereign immunity landscape, each of these three post-*Seminole Tribe* decisions—the two *College Savings* rulings and *Alden*—warrant some further elaboration.

A. FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD V. COLLEGE SAVINGS BANK ("THE PATENT CASE")

In *Florida Prepaid*,[40] the Supreme Court, by a 5–4 vote, struck down the PRA. Relying on the PRA, College Savings Bank had filed a patent infringement suit against defendant, Florida Prepaid, alleging that the defendant had infringed College Savings Bank's patent in the financing methodology used in its college savings program. After the Supreme Court handed down Seminole Tribe, the defendant moved to dismiss the suit. The district court denied the motion[41] and the Court of Appeals for the Federal Circuit affirmed.[42] The Supreme Court, however, reversed.

At the outset, the Court held that, because Seminole Tribe prohibited Congress from abrogating State sovereign immunity pursuant to its Article I powers, the PRA could not be sustained under either the Commerce or Patent/Copyright Clauses. Next, although the Court recognized that Congress has the power to abrogate State immunity by enacting "appropriate legislation" under Section 5 of the Fourteenth Amendment,[43] it determined that the PRA was not a proper exercise of Congress' Section 5 power. Several aspects of the Court's Section 5 discussion bear special mention.

First, the majority found that patents are property for purposes of the Due Process Clause:

> Patents . . . have long been considered a species of property . . . . As such, they are surely included within the "property" of which no person may be deprived by a State without due process of law. And if the Due Process Clause protects patents, we know of no reason why Congress might not legislate against their deprivation without due process under § 5 of the Fourteenth Amendment.[44]

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[34] *See id*.
[35] *See Parden* v. *Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964).
[36] 527 U.S. 627 (1999).
[37] 527 U.S. 666 (1999).
[38] *See Chavez* v. *Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000), and *Rodriguez* v. *Texas Comm'n on the Arts*, 199 F.3d 279 (5th Cir. 2000).
[39] 527 U.S. 706 (1999).
[40] 527 U.S. 627 (Fed. Cir. 1999).
[41] 948 F. Supp. 400 (N.J. 1996).
[42] 148 F.3d 1343 (1998).
[43] As it had in Seminole Tribe, 517 U.S. at 59, the Court reaffirmed its holding in *Fitzpatrick* v. *Bitzer*, 427 U.S. 445 (1976), that Section 5 of the Fourteenth Amendment permitted Congress to abrogate State sovereignty in order to enforce rights protected by the Amendment. *Florida Prepaid*, 527 U.S. at 636–37.
[44] *Florida Prepaid*, 527 U.S. at 642 (emphasis added) (internal citations omitted).

Second, the Court noted that, while patents are property for purposes of the Due Process Clause, that clause does not protect against every State patent infringement. It only encompasses those infringements that unconstitutionally deprive patent owners of their property such as infringements that deprive owners of property without due process of law. The Court further seemed to hold that due process is violated only if intentional acts of infringement occur for which the State has failed to provide an adequate State remedy.[45]

Third, the Court found that the PRA was not "appropriate legislation" under Section 5 because (1) it included all statutory infringements, not only those infringements that amount to constitutional violations, and (2) Congress had made no record showing a need for it to reach beyond constitutional violations in order to protect constitutional rights. The Court noted in this connection that:

> In enacting the Patent Remedy Act . . . Congress identified no pattern of patent infringement by the States, let alone a pattern of constitutional violations. Unlike the undisputed record of racial discrimination confronting Congress in the voting rights cases . . . Congress came up with little evidence of infringing conduct on the part of the States. The House Report acknowledged that "many states comply with patent law" and could provide only two examples of patent infringement suits against the States. The Federal Circuit in its opinion identified only eight patent-infringement suits prosecuted against the states in 110 years between 1880 and 1990 . . . . At most, Congress heard testimony that patent infringements by States might increase in the future . . . and acted to head off this speculative harm.[46]

B. COLLEGE SAVINGS BANK V. FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD ("THE TRADEMARK CASE")

In *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999), the Court sustained the Third Circuit's decision[47] that the portions of the Trademark Remedy Clarification Act (TRCA), which subject States to suits under Section 43(a) of the Lanham Act[48] for false and misleading advertising, are unconstitutional.[49]

In College Savings, the bank alleged that Florida Prepaid had violated Section 43(a) of the Lanham Act by making misstatements about Florida Prepaid's postsecondary tuition savings plan in its brochures and annual report.[50] Florida Prepaid moved to dismiss the case on the basis that the State's sovereign immunity barred the suit. Both the District Court for the District of New Jersey and the Court of Appeals for the Third Circuit agreed.[51] The Supreme Court granted certiorari and affirmed by a 5–4 vote.[52]

The Court rejected the petitioner's assertion that the TRCA was valid Section 5 legislation. It found that neither the right to be free from a business competitor's false advertising about the competitor's own product, nor a general right to be se-

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[45] See 527 U.S. at 646–47.

[46] Florida Prepaid, 527 U.S. at 640–41 (internal citations omitted). Justice Stevens wrote a dissenting opinion joined by Justices Souter, Ginsburg and Breyer. The dissent criticized the majority for retroactively imposing a heavy evidentiary burden on Congress:[T]his Court has never mandated that Congress must find "widespread and persistent deprivation of constitutional rights" . . . in order to employ its § 5 authority. It is not surprising, therefore, that Congress did not compile an extensive legislative record analyzing the due process (or lack thereof) that each state might afford for a patent infringement suit retooled as an action in tort. In 1992, Congress had no reason to believe it needed to do such a thing; indeed, it should not have to do so today.Florida Prepaid, 527 U.S. at 660 (Stevens, J., dissenting) (internal citation omitted).

[47] 131 F. 3d 353 (3rd Cir. 1997).

[48] 15 U.S.C. § 1125(a).

[49] Section 43(a) creates a private cause of action against "[a]ny person" who uses false descriptions or makes false representations, in commerce. The TRCA amends 43(a) to define "any" person to encompass "any State, instrumentality of a State, or employee of a State or instrumentality of a State acting in his or her official capacity." 15 U.S.C. § 1125(a)(2). The TRCA also amends the Lanham Act to make explicit that such State entities "shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for any violation [of this Act]" and that remedies shall be available against such State entities "to the same extent as such remedies are available . . . in a suit against [a non-state entity.]" 15 U.S.C. § 1122(b)-(c).

[50] *See College Savings*, 527 U.S. at 670–71.

[51] *See College Savings Bank* v. *Florida Prepaid Postsecondary Education Board*, 948 F. Supp. 400 (D. N.J. 1996), affd, 131 F.3d 353 (3'd Cir. 1997).

[52] 527 U.S. 666 (1999) (Scalia, J.).

cure in one's business interests, constituted "property" for due process purposes.[53] Because no deprivation of property occurred, the Court saw no need to inquire "whether the prophylactic measure taken under purported authority of § 5 . . . was genuinely necessary to prevent violation of the Fourteenth Amendment."[54] The Court acknowledged, however, that the Lanham Act may protect other interests that qualify as property under the Due Process Clause: "The Lanham Act may well contain provisions that protect constitutionally cognizable property interests—notably, its provisions dealing with the infringement of trademarks, which are the 'property' of the owner because he can exclude others from using them."[55]

The Court then addressed the argument that the State of Florida had voluntarily waived its immunity from federal court jurisdiction in false advertising cases. Finding that Florida Prepaid had not expressly consented to suit in federal court, the Court considered whether the law could be sustained under the constructive-waiver doctrine enunciated in Parden.[56] After asserting that the Court had narrowed Parden over the years, Justice Scalia's opinion for the Court "drop[ped] the other shoe" and expressly overruled Parden's constructive waiver doctrine.[57]

Finally, the College Savings Bank Court suggested the possibility that Congress could constitutionally use its Spending Clause power to require a State to waive its immunity from suit in order to receive its federal funds, as long as "the financial inducement offered by Congress [is not] so coercive as to pass the point at which 'pressure turns into compulsion.'"[58]

C. ALDEN V. MAINE

Alden v. *Maine*[59] presented the Court with the question whether Congress can use its Article I powers to subject nonconsenting States to private suits for damages in State court.

In Alden, a group of probation officers sued the State of Maine, alleging that it had violated the overtime provisions of the Fair Labor Standards Act of 1938 (FLSA).[60] Relying on Seminole Tribe, the district court dismissed the lawsuit on sovereign immunity grounds, and the Court of Appeals for the First Circuit affirmed.[61] Subsequently, the probation officers brought the same claim in Maine State court, which also dismissed on sovereign immunity grounds. The Maine Supreme Court affirmed,[62] and the United States Supreme Court granted certiorari.[63]

By another identical 5–4 division, the Court held that the State immunity from suit recognized in Seminole Tribe applied in State as well as federal court.[64] Thus, after Alden, even if Congress were to give State courts concurrent jurisdiction over federal patent or copyright statutory infringement suits,[65] nonconsenting States would nonetheless be immune from such actions.

The combination of these three Supreme Court decisions set the stage for the invalidation of the CRCA.

D. CHAVEZ V. ARTE PUBLICO PRESS

Several months after the Supreme Court rendered its opinions in the two College Savings Bank cases and Alden, the Fifth Circuit found the CRCA invalid in *Chavez* v. *Arte Publico Press*.[66] The litigation in Chavez commenced in 1993, when an au-

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[53] *See College Savings*, 527 U.S. at 673. ("The Lanham Act's false-advertising provisions . . . bear no relationship to any right to exclude; and Florida Prepaid's alleged misrepresentations concerning its own products intruded upon no interest over which petitioner had exclusive dominion.").

[54] *College Savings*, 527 U.S. at 673.

[55] *Id*. at 673.

[56] 377 U.S. 184 (1964).

[57] *College Savings*, 527 U.S. at 680.

[58] *Id*. at 687.

[59] 527 U.S. 706 (1999).

[60] 29 U.S.C. § 201 et seq.

[61] *See Mills* v. *Maine*, 853 F. Supp. 551 (D. Me. 1994), *affd*, 118 F.3d 37 (1st Cir. 1997).

[62] *Alden* v. *Maine*, 715 A.2d 172 (Me. 1998).

[63] *See* 527 U.S. 706 (1999).

[64] *Id*.

[65] During deliberations on the CRCA, Congress expressly considered a proposal to give State courts concurrent copyright jurisdiction, but rejected that idea because such State court jurisdiction would be at odds with the uniform system of copyright protection that was a key goal of Congress in enacting the Copyright Revision Act of 1976. Such concurrent jurisdiction "creates the potential for differing standards and results . . . . H. R. Rep. No. 101–282, at 9 (1989).

[66] 204 F.3d 601 (5th Cir. 2000). A separate panel of the Fifth Circuit also found the CRCA to be unconstitutional in *Rodriguez* v. *Texas Comm'n on the Arts*, 199 F.3d 279 (5th Cir. 2000). Rodriguez involved a claim that the State of Texas had violated plaintiffs copyright by using his design for State license plates without authorization. Relying on College Savings Bank, the

thor, Denise Chavez, filed suit against the University of Houston Press—a State entity—for copyright infringement arising out of a dispute regarding her publishing agreement with the University. Previously, a Fifth Circuit panel had found the CRCA to be constitutional in *Chavez* v. *Arte Publico Press*.[67] That decision was based on the subsequently discarded Parden constructive-waiver theory. The Supreme Court vacated and remanded for reconsideration in light of Seminole Tribe.[68] After a second panel decision,[69] the case was again remanded to the panel [70] for reconsideration in light of College Savings Bank and Florida Prepaid. The Fifth Circuit panel then held that the CRCA "was doomed" in light of Florida Prepaid.[71]

III. Congress' Legislative Options After The College Savings Bank and Alden Cases

Congress must now assess how it can respond to these decisions in a constitutional and effective manner. Despite the fact that Congress can no longer use its Article I powers to abrogate State sovereign immunity, we believe that Congress has sufficient tools at its disposal to fashion legislation that fits within the contours of the Court's recent decisions and also effectively implements Congress' desire to remove the harm to copyright owners caused by States' freedom to infringe copyrighted works without having to pay damages.

As noted above, in PORA's view, any forthcoming legislation should:

- Condition the State's ability to obtain judicial remedies available under the federal intellectual property system on State waivers of sovereign immunity from suit in federal court for state infringements of private intellectual property rights;
- Abrogate State sovereign immunity in suits brought to redress unconstitutional infringements of federal intellectual property rights; and
- Codify the doctrine of *Ex parte Young*, thereby affirming the availability of injunctive and monetary relief in infringement suits brought against state officials and employees.

A. Conditioning Certain Federal Intellectual Property Benefits on State Waivers of Sovereign Immunity

Mr. Chairman, we agree with you that it is critical that any forthcoming legislation should contain a "waiver" provision that conditions a State's ability to obtain judicial remedies under the federal intellectual property system on the State's waiver of its sovereign immunity from such remedies. We believe that Congress has power to condition a State's ability to obtain a federal judicial remedy upon the State's waiver of its own immunity.

1. The Remedies Bar

Section 3 of S. 1611 would deny a non-waiving State the ability to recover monetary damages when it sues to protect its own intellectual property rights, but leave it free to obtain injunctions.[72] We wholeheartedly agree that non-waiving States should not be eligible to obtain money damages. While we strongly support this provision of the bill, we respectfully question whether permitting States to retain their sovereign immunity while still allowing them to obtain injunctive relief is fair or would provide many States with a sufficient reason to waive their immunity. For that reason, we urge the Committee to give careful consideration to amending S. 1611 so as to bring both injunctive relief and damages within the remedies bar for non-waiving States.

In deciding whether to expand the reach of the remedies bar to include injunctions, we urge you to keep in mind that S. 1611—unlike S. 1835, from the prior Congress—does not condition a State's ownership of intellectual property rights on a waiver of its sovereign immunity. Rather, under S. 1611, non-waiving States would be free both to obtain these rights and to exploit them in the marketplace.[73] We

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court, in a very brief opinion, found the copyright claim to be indistinguishable from the patent claim in *College Savings Bank* and held the PRA unconstitutional.

[67] 59 F.3d 539 (5th Cir. 1995).

[68] *University of Houston* v. *Chavez*, 517 U.S. 1184 (1996).

[69] *Chavez* v. *Arte Publico Press*, 157 F.3d 282, 287 (5th Cir. 1998).

[70] *Chavez* v. *Arte Publico Press*, 180 F.3d 674 (5th Cir. 1999).

[71] *Chavez* v. *Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000).

[72] As discussed below, under certain circumstances the "remedies bar" would affect non-State pplaintiffs as well.

[73] With respect to copyrights, States would be afforded Copyright in their original works and would be free to register those works at any time after creation.

propose only that they (or their assignees) lose the ability to obtain judicial remedies unless the State waives its immunity from such remedies.

2. Straightforward Process

College Savings and Florida Prepaid made clear that a waiver of State sovereign immunity must be both knowing and voluntary.[74] Thus, the waiver provision must offer States a clear and unambiguous choice between waiving their immunity from suit or foregoing access to certain judicial remedies. The waiver provision must clearly spell out the consequences for the State in making this choice. We believe that Section 3 of S. 1611 achieves that goal.

S. 1611 also sets forth in clear and straightforward language the procedural steps governing the waiver process. Most importantly, the bill:

- Specifies that, if a State chooses to waive its immunity, the waiver is to be made in accordance with the constitution and laws of the State; and
- Gives States a reasonable amount of time—up to two years—to make the decision to waive without any risk of losing existing rights.

3. Safeguards Against End-Runs

We share your goal of incorporating language into the voluntary waiver provision to help prevent "end runs" around the remedies bar applicable to non-waiving States. We certainly do not want States to be free to easily evade making the choice required by the Act. A non-waiving State should therefore be subject to the remedies bar, regardless of whether it acquired ownership by being the author of the work (by virtue of its creation by an employee or pursuant to a valid work-made-for-hire agreement),[75] or by exclusive license or assignment.

We also agree that this bar should not only affect States bringing suits, but also those plaintiffs who exclusively license or assign works to or from the State under certain circumstances. Otherwise, for example, a State could evade the bar by assigning its exclusive rights to a private party for a one-time payment. Without an anti-end-run provision, the private party would, on the State's behalf, have access to all available remedies. By barring remedies where the State "is or was at anytime the legal or beneficial owner,"[76] S. 1611 provides a useful way to thwart unfair circumvention of the remedies bar.

At the same time, we agree that the bill should not unfairly prejudice private parties; Section 3 of your bill appears to achieve that important goal. It makes the remedies bar inapplicable in two instances where to do otherwise would be extremely unfair to a private party where: (1) applying the remedies bar "would materially and adversely affect a legitimate contract based expectation that was in existence before January 1, 2002"; and (2) a downstream bona fide purchaser of an intellectual property right did not know that a State was once the legal or beneficial owner of that right.

B. ABROGATION OF IMMUNITY IN SUITS BASED ON CONSTITUTIONAL VIOLATIONS

1. The Scope of Abrogation

Section 5 of the Fourteenth Amendment gives Congress the power to remedy unconstitutional State deprivations of life, liberty and property through "appropriate legislation" and in the past few years, the Supreme Court has repeatedly stated that Congress has the power to abrogate State immunity by invoking this authority.[77] Yet, in College Savings and Florida Prepaid, the Court voided congressional efforts

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[74] *See College Savings*, 527 U.S. at 679–681.

[75] Section 101 of the Copyright Act allows a commissioning party of a work to be deemed the author of a work if the work falls within certain specified categories. *See* 17 U.S.C. 101.

[76] Section 502(a) of the Copyright Act gives.the "legal or beneficial owner" standing to sue for infringement. *See* 17 U.S.C. 502(a). Thus, copyright suits typically arise in two situations. The first involves the legal owner, or the person who holds title to the rights. The second category enables someone who used to own the rights to sue, if she retains a beneficial interest in the rights-for example, in the form of a continuing royalty obligation. Thus, an author who assigned a copyright to a publishing house for a continuing royalty would no longer be the legal owner, but would not have to watch her asset evaporate if the publisher decided not to bring suit. If, however, the author assigns the copyright for a one-time payment, the author is neither the beneficial nor the legal owner and has no standing to sue for infringement. *See Hearn* v. *Meyer*, 664 F. Supp. 832, 840–41 (S.D.N.Y. 1987); *Cavallo, Ruffolo & Fargnoli* v. *Torres*, 1988 U.S. Dist. LEXIS 16881 (C.D. Cal. 1988).

[77] *See, e.g., Seminole Tribe*, 517 U.S. at 59 (1996); *Flores*, 521 U.S. 507, 507–508 (1997); *Florida Prepaid*, 527 U.S. at 635–39 (Rehnquist, J.); *College Savings*, 527 U.S. at 669–70 (Scalia, J.).

to do this, holding that the federal laws involved were not "appropriate" legislation under Section 5.

We believe that, by closely adhering to the Court's opinions—particularly that in Florida Prepaid—Congress can craft a constitutional and effective abrogation provision.

As S. 1611 recognizes, the key to fashioning an appropriate abrogation provision is to have it remove State immunity only in those cases where State infringements constitute unconstitutional deprivations of the property rights of intellectual property owners. Thus, unlike the CRCA which applied to all State copyright infringements, S. 1611 is expressly limited to unconstitutional violations of federal intellectual property rights—i.e., those violations that violate either the due process or the takings clause. Such an approach directly follows the central teaching of Florida Prepaid that not every infringement of a federal intellectual property right violates the Fourteenth Amendment.

In July 2000, before the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, Harvard Law School Professor Daniel Meltzer suggested enactment of this form of abrogation legislation.[78] At that time, and again in a subsequent law review article,[79] Professor Meltzer suggested that such a form of abrogation was not dependent upon Congress making a record of widespread unconstitutional activity by States:

> I do not read these recent decisions as holding that any exercise of Section 5 power is valid only upon such a showing of widespread violations; that showing is demanded, rather, only when the congressional measure reaches broadly to regulate conduct that is not independently unconstitutional. For in each of the cases in which the Supreme Court has found a federal statute regulating the States to fall beyond the scope of Section 5 power, the enactment regulated at least some conduct that itself did not violate Section 1 of the Fourteenth Amendment. Thus, in Florida Prepaid, for example, the Court found that the statute—by regulating patent infringement that was unintentional, and whether or not state post-deprivation remedies were available—regulated conduct that did not itself constitute a deprivation of due process. Where Congress does reach beyond regulating actual constitutional violations, these recent decisions clearly require a strong showing of legislative need . . . . By contrast, the proposed legislative measure just discussed would be tailored so that it, unlike the statutes recently invalidated by the Court, extends only to instances of constitutional violations. Such a measure is more easily viewed as "remedial," and in my view the validity of a statute that merely regulates unconstitutional conduct itself should not require an additional showing of widespread violations by the states. Examination of the record of state violations is significant only when a statute reaches well beyond the scope of constitutional violations.[80]

At least one federal appeals court has acted in a manner consistent with S. 1611's treatment of abrogation and Professor Meltzer's suggested approach. In *Cherry* v. *University of Wisconsin System Board of Regents*,[81] the Seventh Circuit upheld Congress' abrogation of state sovereign immunity from suits brought under the federal Equal Pay Act (EPA). In finding the congressional abrogation under the EPA to be constitutional, the appeals court, citing *Kimel* v. *Florida Board of Regents*,[82] noted that "the lack of [evidentiary] support in the legislative record 'is not determinative of the § 5 inquiry"'[83] and went on to distinguish the situation in Cherry from recent Supreme Court rulings where the Court found the absence of evidence critical:

> But unlike the statutes at issue in City of Boerne, Kimel, Florida Prepaid, and Garrett, all of which pervasively prohibit constitutional State action, the EPA 'prohibits very little constitutional conduct.' Precisely because the EPA essentially targets only unconstitutional gender discrimination, the importance of congressional findings of unconstitutional State action is 'greatly diminished.' (emphasis added) (internal citations omitted).[84]

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[78] *See Oversight Hearing on "State Sovereign Immunity and the Protection of Intellectual Property" Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property*, 106th Cong. (2000) (Testimony of Professor Daniel Meltzer) available at http://www.house.gov/judiciary/ courts.htm.

[79] *See Daniel Meltzer, Overcoming Immunity: The Case of Federal Regulation of Intellectual Property Rights*, 53 Stan. L. Rev. 1331 (2001).

[80] *Id.* at 1347–48 (emphasis added).

[81] 265 F. 3d. at 541 (7th Cir. 2001).

[82] 528 U.S. 62,73 (2000).

[83] *Cherry*, 265 F.3d at 553.

[84] *Id.* at 553.

In its recent decisions, the Supreme Court has held that State infringements are unconstitutional only if: (1) they are intentional or non-negligent; and (2) the State provides no adequate remedy for them. S. 16l1 makes specific reference to the inadequacy-of-remedies element of unconstitutionality, but not to the scienter element.[85] While we believe that a case can be made for including express reference in the statute to both elements, in our view it is especially important that the statute make clear that the State, not the plaintiff, has the burden of demonstrating that it provides an adequate remedy and that this determination should be made by the judge in the federal proceeding.[86] Section 5(d)(2) of S. 1611 correctly places this critical burden on the State or its instrumentality.

2. The Breadth of the Evidentiary Record

As Professor Meltzer observes, although perhaps not constitutionally necessary, it is advisable for Congress to "assemble the most complete record possible of instances in which state governments have violated federal intellectual property laws and, beyond that, of instances in which those violations appear also to constitute violations of the Due Process Clause."[87] In part to help develop such a record, in June 2000, then-Chairman Hatch requested that the GAO undertake a study[88] that, among other things, would compile instances of alleged State infringements of intellectual property rights.[89]

In September 2001, GAO issued its report entitled "Intellectual Property: State Immunity in Infringement Actions." As to instances of past state infringements, GAO was able to document 58 instances of unauthorized use of intellectual property

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[85] With respect to the scienter issue, the legislative history should indicate that it would be overly burdensome and restrictive to require the plaintiff to show that the State knew that the harm amounted to a constitutional violation. *See Oversight Hearing on "State Sovereign Immunity and Intellectual Property" Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property*, 106th Cong. (2000) (Testimony of Professor Daniel Meltzer) available at http://www.house.gov/judiciary/courts.htm.

[86] Federal courts routinely examine the adequacy of State remedies in areas much more central to the State's power as a sovereign. For example, under the Tax Injunction Act, 28 U.S.C. § 1341, the District Courts may enjoin the levy or collection of any tax where no "plain, speedy and efficient" remedy exists under State law. *See generally* Annotation, *Supreme Court's construction and application of Tax Injunction Act (28 USCS § 1341, and similar predecessor provisions), restricting Federal District Courts from interfering with assessment, levy, or collection of state taxes*, 132 L. Ed. 2d 997 (1999). Other forms of review of the adequacy of State remedies occur routinely in the habeas corpus context. In both the tax and the habeas areas, the State's sovereign interest is far stronger than in the intellectual property context where the Constitution gives Congress exclusive control over the extent of those rights and the form they might take.

[87] Daniel Meltzer, *Overcoming Immunity: The Case for Federal Regulation of Intellectual Property*, 53 Stan. L. Rev. 1331 at 1353 (2001).

[88] Letter from Sen. Orrin G. Hatch, Chairman, United States Senate Committee on the Judiciary, to Mr. David Walker, Comptroller General, General Accounting Office (June 23, 2000) (on file with the author). Specifically, Chairman Hatch requested that the GAO examine:

(1) the extent to which States have been the subject of claims of patent, trademark, or copyright infringement in the past,

(2) the remedies-including waiver of sovereign immunity-that States have adopted or employed to protect intellectual property owners against state infringements, and

(3) the extent to which States are participating in the Federal intellectual property system as intellectual property owners.

Id. Chairman Hatch also asked GAO "to gather information from the states and the intellectual property community on the role that states do or should play in protecting the rights of intellectual property owners." *Id.*

[89] PORA has attempted to gather evidence of the manner in which States are using the federal copyright system. For example, SIIA, one of PORA's members, undertook a review of its records in order to determine whether and to what extent State entities were believed to be infringing its members' copyrights. SIIA was *extremely conservative* in determining which entities were "state entities." Because of its confidentiality agreements, SIIA cannot reveal the identity of the parties in these matters, and can make this information available only in the aggregate. In the six years covered by the review, SIIA identified 77 matters involving infringements by State entities. Of these 77 matters, approximately 50% involved State institutions of higher learning. The other 50% consisted of State hospitals, bureaus, public service commissions, and other instrumentalities. In the overwhelming majority of cases, no litigation actually resulted. After SIIA learns of a possible infringement, it contacts the infringing entity to request an audit of its existing software, and attempts to bring that entity into compliance with the law. The SIIA study covers only those matters reported to SIIA. Drawing on PORA's experience in dealing with both private and public entities, we have no doubt that a far greater number of infringements than SIIA detected go undetected and unreported. In addition, SIIA reports that on more than one occasion, a State threatened legal sanctions against SIIA for attempting to either: (1) enjoin further infringing acts; or (2) obtain damages for unauthorized use of software.

by a State since 1985.[90] GAO based its findings on a review of published case law and a survey of the States.

While GAO felt compelled to characterize the number of accusations of state infringements as "few,"[91] this characterization fails to take into account a number of critical factors. First, GAO itself acknowledged that it faced substantial difficulties in attempting to come up with an accurate assessment of all past accusations of state infringements of intellectual property, in part because "there are no summary databases providing such information."[92] In addition, GAO acknowledged that:

- "The published case law is an incomplete record, because (1) both the federal and state courts report only those cases in which decisions were rendered and (2) state courts usually report only appellate decisions. Thus, lawsuits that were dropped or settled by any court prior to a decision as well as those decided by state trial courts might not appear in the published case law";[93]
- Accusations set forth in cease and desist letters are often resolved administratively, do not result in the filing of a lawsuit, and thus are not reflected in published case law;[94] and

Some lawsuits are not easily identified as either involving (1) unauthorized use of intellectual property, or (2) a state entity that could claim sovereign immunity.[95]

Second, in reviewing GAO's findings, it is imperative to keep in mind two critical factors: (1) too short a period of time has elapsed since the decisions by the Supreme Court and the Fifth Circuit to assess whether they will result in changed State practices; and (2) States were considered fully liable for copyright infringement for the vast majority of the last twenty-five years. This latter point deserves some elaboration.

Until the Court's 1986 decision in Atascadero,[96] it was widely understood that when Congress passed the 1976 Copyright Revision Act, it intended States to be liable for their acts of infringement just like any other party, except in those circumstances where they were expressly exempted from liability. This was, for example, the view set forth in the House and Senate Committee Reports on the CRCA.[97] It was also the position of Representative Kastenmeier, who chaired the House Judiciary Subcommittee involved in the consideration of both the CRCA and the 1976 Act,[98] and of the Registers of Copyrights at the time of the passage of the CRCA and the 1976 Act.[99]

This general understanding of the 1976 Act's reach was not drawn into question until after the Supreme Court's decision in Atascadero. Indeed, just prior to Atascadero, one federal court ruled that the 1976 Act had effectively abrogated State copyright immunity.[100] After Atascadero, federal courts started reaching the opposite result.[101] This change from full State liability to immunity was short-lived, however. As noted above, the 101st Congress moved quickly after Atascadero, and, in November, 1990, the CRCA became law. As a result, between late 1990 and the Supreme Court's 1999 decisions, States were once again subject to the full panoply of remedies available under the Copyright Act.

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[90] United States General Accounting Office, *Intellectual Property: State Immunity in Infringement Actions*, at 7 (2001) (Rep. No. GAO–01–0811) [hereinafter GAO Report].

[91] *Id.* at 7.

[92] *Id.*

[93] *Id.*

[94] *Id.* at 7–8.

[95] *Id.* at 8. Given these inherent difficulties, GAO sought to supplement its database of accusations of state infringements by surveying state institutions of higher education and state attorneys general. *Id.* at 8–9. Thirty-six of the 50 attorneys general and 99 out of 140 institutions responded to GAO's survey. But, as acknowledged by GAO, the responses to these surveys "offered no assurance that we had identified all the accusations . . . as the respondents themselves did not always have such information." *Id.* at 9.

[96] 743 U.S. 234 (1985).

[97] *See* H.R. Rep. No. 101–282, at 5 (1989); S. Rep. 101–305, at 5 (1990).

[98] *See* H.R. Rep. No. 101–282, at 11 (1989) (statement of Rep. Kastenmeier) (quoting 135 CONG. REC. E525).

[99] In response to a question from Chairman Kastenmeier as to whether it was her understanding that States were and knew that they were liable for infringement under the 1976 Act, Barbara Ringer, former Register of Copyrights, replied: "Absolutely." H.R. Rep. No. 101–282, at 6 (1989) (*quoting Copyright Remedy Clarification Act and Copyright Office Report on Copyright Liability of States: Hearings on H.R. 1131 Before the Subcomm. on Courts, Intellectual Property, and the Admin. of Justice of the House Comm. on the Judiciary*, 101st Cong. 97 (1989)); see also *Id.*, at 6 (statement of Ralph Oman, Register of Copyrights).

[100] *Johnson* v. *University of Virginia*, 606 F. Supp. 321, 324 (W.D. Va. 1985).

[101] *See, e.g., BV Engineering* v. *UCLA*, 858 F.2d 1394, 1396–1398 (9th Cir. 1988); *Richard Anderson Photography* v. *Brown*, 852 F.2d 114, 118 (4th Cir. 1988).

In sum, from 1976 until 1985, and from 1990 until at least 1999, States have necessarily operated under the assumption that they were fully liable for copyright infringements. The States may just be beginning to grasp the potential impact of the College Savings Bank decisions in the copyright context. It is entirely reasonable for the 107th Congress to conclude that State infringements will become commonplace in the absence of the enactment of remedial legislation by Congress—especially given the ease with which digital copies can be made and disseminated and the growth of State university and agency Intranets.[102] When viewed against this background, one can better understand why the Patent and Trademark Office did not view the 58 documented cases identified by GAO as few in number,[103] and the Copyright Office[104] expressed no surprise at the number of cases identified in the GAO's report.

3. Due Process and Takings Violations

PORA agrees that the new statute should expressly provide for abrogation of State immunity in suits for State infringements that constitute violations of either the Due Process or the Takings Clauses. In our view, Section 5 of S. 1611 wisely sets forth these two bases for abrogation in separate provisions so that the statute's severability clause can preserve one should the other be held unconstitutional.

4. Congressional Review of the Adequacy of State Remedies

In his opinion for the Court in Florida Prepaid, Chief Justice Rehnquist chided Congress for not thoroughly examining the availability of State remedies with respect to patent infringements.[105] In the CRCA context, however, Congress had before it, as part of the Copyright Office Report, the aforementioned Congressional Research Service study. That study revealed the very limited, inconsistent nature of State remedies available to copyright owners victimized by State infringements.[106] A more recent analysis of the sovereign immunity practices in fourteen States made by an amicus curiae in Florida Prepaid demonstrated the limited, haphazard remedies those States afford for State patent infringements (and presumably for State copyright infringements as well).[107] In the same vein, the recent GAO report concluded that intellectual property owners have few alternatives or remedies against state infringement remaining after Florida Prepa*Id.*[108]

The GAO report recognizes that a State currently cannot be sued for damages in federal court except in the unlikely event that the State waives its Eleventh Amend-

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[102] In this regard, Congress may take notice of the number of takedown notices under Section 512 of the DMCA issued to state institutions.

[103] See Letter from Nicholas P. Godici, Acting Under Secretary of Commerce For Intellectual Property and Acting Director of the United States Patent and Trademark Office, to Jim Wells, Director, National Resources and Environment, General Accounting Office (September 5, 2001), reprinted in GAO Report at 69.

[104] See letter from David Carson, General Counsel, United States Copyright Office, to Jim Wells, Director, National Resources and Environment, General Accounting Office (August 28, 2001) reprinted in GAO Report at 72. (Noting that in the Copyright Office's view, too little time had passed since the Supreme Court's rulings to assess possible increases in infringing activity and that "from the enactment of the first Copyright Act in 1790 until the Supreme Court's decisions in June, 1999, States had good reason to believe that they were subject to the full range of remedies if they infringed a copyright.") In addition, the Copyright Office agreed with the shortcomings that the GAO had acknowledged with respect to the methodology GAO employed:

> [T]he public case law is an inadequate record of infringement litigation because it includes only reported cases, and the surveys of the state attorneys general, universities and bar associations are limited by the inability of the respondents to identify all claims of infringement or even lawsuits alleging infringement by States or State entities. For these reasons we are not surprised that this study yielded relatively few examples of infringements by States.

Id.

[105] "Congress. . . barely considered the availability of state remedies for patent infringement and hence whether the States' conduct might have amounted to a constitutional violation under the Fourteenth Amendment." *Florida Prepaid*, 527 U.S. at 643.

[106] Copyright Office Report, *supra note* 13, at CRS 1–23.

[107] Brief of Amicus Curiae Association of American Railroads (AAR) in Support of Respondents, *Florida Prepaid Postsecondary Education Expense board* v. *College Savings Bank*, No. 98–531 at [appendix] la-19a (1999) (AAR Brief). "Based on the state law existing at the time of enactment, Congress could easily have found that some states did not provide adequate process to parties injured by a state's patent infringement. In some cases, state legal remedies for patent infringement were nonexistent, while in others, they were seriously questionable or otherwise inadequate." AAR Brief at 13.

[108] *See* GAO Report, *supra note* 90, at 2. (Intellectual property owners appear to have few proven alternatives or remedies against state infringement available if they cannot sue the states for damages in federal court.")

ment immunity.[109] Absent such a waiver, the GAO states accurately that the intellectual property owner is limited to seeking an injunction in federal court against the infringing official. GAO correctly terms such injunctions as an "incomplete remedy."

With regard to the state court proceedings, the GAO's study questioned whether litigants would obtain damage awards in such cases because of a number of factors: federal preemption of state claims; exclusive federal court jurisdiction over federal patent and copyright (but not trademark) claims; the absence of recognized causes of action under state laws; and the fact that, in addition to their Eleventh Amendment immunity, States typically enjoy immunity from suit in their own courts via statutory or constitutional provisions.[110]

5. Recital of Congressional Authority

We urge that the statute, or at least the accompanying legislative history, state in unambiguous and unequivocal terms that Congress is relying on its 14th Amendment enforcement powers in abrogating State sovereign immunity. The Court's treatment of the just compensation issue in *Florida Prepaid*[111] raises some concern that, in the future, the Court may formally break away from its "no recital" rule[112] and require Congress expressly to refer to the relevant constitutional provisions when seeking to enact "appropriate" remedial legislation under Section 5 of the 14th Amendment. To avoid any such problem here, Congress should clearly and explicitly state its reliance on its Section 5 power to enforce the due process and takings clauses.

6. "Property" For Purposes of the Due Process and Takings Clauses

The Court's Florida Prepaid and College Savings decisions leave little doubt that copyrights, patents and, presumably, trademarks are considered property for purposes of the Due Process Clause. Nonetheless, out of an abundance of caution, the accompanying legislative history should: (1) refer to the Court's discussion of the "property" issue in both Florida Prepaid and College Savings; and (2) review the general treatment in law of intellectual property as property.[113]

C. CODIFICATION OF THE *ex parte young* doctrine

S. 1611 properly calls for the codification of the *Ex parte Young* doctrine. Under this doctrine, an injured party can sue to enjoin a State official from violating federal law, even though the State itself remains immune from suit. In *Ex parte Young*, the Court held that State officials are stripped of any sovereign immunity when they perform acts that violate valid federal law:

> If the Act which the state Attorney General seeks to enforce be a violation of the Federal Constitution, the officer in the proceeding under such enactment comes into conflict with the superior authority of that Constitution,

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[109] *See Id.* at 15. In this regard, the GAO noted that it did not identify any cases in which state defendants in infringement cases had waived their immunity in federal court. Thus, without the type of incentive built into S. 1611, it should not be anticipated that such waivers will be forthcoming.

[110] *See Id.* at 3.

[111] In *Florida Prepaid*, the majority refused to consider the Just Compensation Clause as a basis for upholding the PRA because Congress had explicitly invoked its Article I and Due Process Clause powers and had made no reference to the Just Compensation Clause. *Florida Prepaid*, 527 U.S. at 642 n. 7.

[112] Prior to Florida Prepaid, long-standing precedent held that Congress is not required to recite the source of the constitutional power on which it relies. *See Woods* v. *Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948) ("(t)he constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise"). Accord *EEOC* v. *Wyoming*, 460 U.S. 226, *243 n. 18 (1983). Under this precedent, it was of no consequence that Congress did not allude expressly to Section 5 when it enacted the CRCA, but did explicitly invoke Section 5 when it passed the PRA.

[113] For example, the legislative history might set forth Congress' understanding that property is properly viewed as a bundle of rights which, in general, have three characteristics-the right to assign, the right to exclude others from use and the right to inherit-and that copyrights, patents and trademarks possess all three of these characteristics. *Cf. College Savings*, 527 U.S. at 673 (casting trademarks as property); *Florida Prepaid*, 527 U.S. at 642 (casting patents similarly). With respect to copyrights, *see, e.g., Holmes* v. *Hurst*, 174 U.S. 82, 84–86 (1899) (describing the ancestry of copyright in the common law as a species of property); *Paige* v. *Banks*, 80 U.S. 608, 614 (1871) ("Independent of any statutory provision the right of an author in and to his unpublished manuscripts is full and complete. It is his property . . . ."); *Mitchell Bros. Film Group* v. *Cinema Adult Theater*, 604 F.2d 852, 858 n. 8 (5th Cir. 1979) (stating that "the large amounts of capital presently invested in disseminating information and thought in newspapers, magazines, books, movies, and other forms of copyrightable material would flow elsewhere if there were no property right to protect the value of these investments.") (emphasis added).

and he is in that case stripped of his official or representative character and is subject in his person to the consequences of his individual conduct.[114]

The Court has frequently alluded to the *Ex parte Young* doctrine as a means by which private parties can obtain relief against State officials for violations of federal law. Most recently, the Court in *Alden* v. *Maine*, citing *Ex parte Young*, noted that sovereign immunity "does not bar certain actions against State officers for injunctive or declaratory relief."[115] Nonetheless, two recent Court decisions, *Seminole Tribe of Florida* v. *Florida*,[116] and *Idaho* v. *Coeur d'Alene Tribe of Idaho*,[117] have raised concerns that, in some situations, the doctrine may not continue to provide the scope of relief it has afforded private parties in the past.

In *Seminole Tribe*, the Court found the doctrine inapplicable where Congress creates a detailed remedial scheme for the enforcement of a particular federal right. In such instances, the Court "hesitates" to allow a different and potentially broader remedial path under *Ex parte Young*.[118] Thus, there is concern that the more elaborate the remedial scheme accompanying a federal statute, the less likely a court will be to find the doctrine applicable. To avoid that result here, Section 4 of S. 1611 simply codifies the *Ex parte Young* doctrine so as to ensure its continued applicability in the future.

In *Idaho* v. *Coeur d'Alene Tribe of Idaho*, the Court found the *Ex parte Young* doctrine inapplicable to "special circumstances" affecting a State's sovereignty.[119] Moreover, two members of the Court stated that, in their view, the Court should engage in an exacting case-by-case review before approving an *Ex parte Young* injunction.[120] Chief Justice Rehnquist and Justice Kennedy opined that each potential grant of *Ex parte Young* jurisdiction should be evaluated by balancing the interests served by permitting federal jurisdiction against a State's interests in keeping the federal forum closed.[121] Section 4 of S. 1611 is designed to: (1) prevent future judicial reliance on a "special sovereignty" exemption to the doctrine; and (2) preclude the adoption by a Court majority of a case-by-case approach in intellectual property infringement cases.

CONCLUSION

Mr. Chairman, PORA supports the enactment of a constitutional and effective response to the Supreme Court's 1999 sovereign immunity/intellectual property decisions. Your bill, S. 1611, contains the three components that we believe should be part of any forthcoming legislation in this area—waiver, constitutional abrogation and codification of the *Ex parte Young* doctrine. We also believe that the effectiveness of the bill's waiver provision can be enhanced by precluding non-waiving States from obtaining damages and injunctions when they bring intellectual property infringement suits. We urge the Committee to act favorably on this legislation and to take the steps necessary to help ensure its enactment in the 107th Congress.

Chairman LEAHY. So you disagree with Mr. Thro's opinion regarding the—let me ask you a couple of things, and you, I answering this, may want to respond to some of the arguments Mr. Thro has made. You have followed the Supreme Court for a long time. I saw in your resume you were the Supreme Court note editor of the Harvard Law Review, the clerk for Justice Frankfurter. You have been in the Office of the U.S. Solicitor General. Taught constitutional law for many years. So how do you look at the Court's new sovereign immunity jurisprudence? Are you surprised at what appears to be a lack of deference they have shown to Congress or what?

Mr. BENDER. A number of things. It is really startling because it just comes out of the blue. It has no textual foundation, and it comes from a Court which people have thought was a court that

[114] 209 U.S. at 159–160.
[115] *Alden*, 527 U.S. at 757.
[116] 517 U.S. 44 (1996).
[117] 521 U.S. 261 (1997).
[118] *See Seminole Tribe*, 517 U.S. at 74.
[119] 521 U.S. 261 (1997).
[120] *Id.* at 280.
[121] *Id.* at 278.

was not an activist court, as you said, and I completely agree, that the invention of this sovereign immunity jurisprudence, without any textual basis is about as activist a step as the Court has ever taken.

And another aspect of what the Court has been doing recently—and I think this is really an important characteristic of the Court—is that they seem to have decided that it is really important to show control over Congress, and the normal kind of deference that we have been used to seeing on the Court's part toward congressional legislation just is not there any more. You could see it perhaps most prominently in a case like *Morrison*, striking down as unconstitutional part of the Violence Against Women Act, where you had explicit congressional findings that violence against women, gender motivated violence, had a substantial effect on interstate commerce. That is the kind of finding which we were brought up to think the Court would always defer to. It was not just offhand. It was based on lots of hearings, and it was quite explicit. And yet the Court said, "That is what you think, and we will decide whether this is substantial enough effect upon commerce."

The Court's entry into that field again is startling and also dismaying, because our experience with that in the early part of the 20th century was a very unhappy one, the Court striking down State and Federal legislation because of a disagreement over a matter of social policy. And it really is dismaying to see the Court getting into that area again. So both in terms of invention of doctrines that I did not think anybody thought existed, especially in light of the Supremacy Clause. The Supremacy Clause seems to be a text that is directly contrary to the Supreme Court's 1999 trilogy, and yet they do not make reference to it.

Chairman LEAHY. After all the discussions about activist Supreme Courts, I have not seen anything quite this activist, and especially some of these pieces of legislation. I have sat through hour upon hour upon hour of hearings, and know that there have been hours beyond that. The Court, which lives in, by choice, is a very rarified atmosphere, made that decision on 30 minutes worth of arguments and the briefs that were filed. It is an interesting view of things. But it is the law. I respect it. I mean no matter how wacky the decision of the Supreme Court might seem to me—that is nonlegal terminology—I respect the Court's decision as being the law of the land, but that does not mean that I feel that I do not have the right to suggest ways to change it.

Mr. BENDER. Well, that is what I think is so good about 1611, is that it completely adheres to the Supreme Court's rules, no matter whether you think the Court is right or wrong, I think it is your obligation, all of our obligation to conform to what they said, and I think 1611 does that. It follows the Court's suggestion abrogation, that Congress can abrogate for constitutional violations. It puts into a statute explicitly *Ex Parte Young*, which is the Court's doctrine, and does it for a reason that the Court said Congress should respond do. That is, if you are setting up remedies in an area and you want *Ex Parte Young* to continue to apply, say so in the legislation, and it does that. And it conditions the Federal benefit, intellectual property rights, on the State's waiving its immunity from remedies under those rights, and that seems to me to be a com-

pletely reasonable condition on a Federal benefit. It is not a taking away from the State anything. It is simply saying, "You want to enter this system, you need to do so on the same basis as other people. If you do not want to enter the system, you do not have to enter the system."

So I think it conforms to the Court's rules in every respect, and we hope that it will solve the problem.

Chairman LEAHY. Thank you very much. Let me ask Mr. Kirk, because unlike the Supreme Court we have to deal with some of the real world issues caused by this, and I am thinking of the international ramifications of the *Florida Prepaid* decisions. After all, the United States is the largest economy in the world. It is involved in international commerce in virtually ever state, and our laws and our abilities to enter into international agreements on our laws is extremely important. I wonder if you think that the loophole created by these decisions could make it more difficult for the U.S. to advocate the really effective enforcement of intellectual property rights in other countries.

Mr. KIRK. Mr. Chairman, absolutely. We heard from Ms. Peters indicating that there has already been this question raised in one bilateral discussion. Former Director Dickinson, in the year 2000, in testifying on this, indicated that one of the members of the TRIPS agreement had questioned the United States about whether or not it was in full compliance with TRIPS due to the *College Savings*, *Florida Prepaid* cases. What this hole does is it takes away the moral high ground of the United States to urge other nations to protect intellectual property as strongly as we would like to see I protected, and as strongly as we should protect it here ourselves, and as long as this is out there, we are giving those nations an out to use to point to, to obfuscate what we are trying to achieve.

Chairman LEAHY. I ask the question because during this week I will be meeting with some of the CEOs during this week and next of some of our largest holders of intellectual property involved in a lot of international dealings. Each one of them, I know just from past experience, are going to talk to me about the concerns of piracy and unauthorized use of their product in other parts of the world. On the one point you want international commerce for a number of reasons, both for own good, but often for good of the other countries, but you do not want international piracy, and especially when it gets into—well, just take the entertainment world. Music, movies, things of that nature, we are talking about billions upon billions of dollars. Piracy, which becomes even easier in a digital age, becomes more pervasive, actually becomes a lot better and a lot more effective in digital age, with everything from pirating software to pirating entertainment. At the same time it is incumbent upon us and our trade negotiators and even the President of the United States, often in meetings with other leaders, to argue against piracy, to have the kind of protections that can be uniform and forceful so this does not happen. So that is why I asked the question. I share your feeling, that this creates a real problem for us, and I have been told, both publicly in testimony today, but also privately by a lot of our negotiators in the administration that it creates a problem for them.

Now, Mr. Schraad, we mentioned this morning the GAO study that identified, my notes say 58 lawsuits since January 1985, in which a State was a defendant in an action involving the unauthorized use of intellectual property. They issued this report September 2001. Do you know whether your lawsuit against the State of Georgia is reflected in that study?

Mr. SCHRAAD. Mr. Chairman, it would not be. Our suit was filed in November of that same year, so after that report.

Chairman LEAHY. In my legislation, I create this incentive for States that waive their immunity in intellectual property cases. If they waive their immunity within two years after enactment of the bill, then they get all the benefits of the Federal intellectual property system. If they choose not to waive their immunity, they would be denied the ability to recover money damages when their own intellectual property is infringed.

Now, let us say you are back there, Senator Schraad, in the Kansas legislature, and this bill was signed into law. What do you think your response would be as a State legislator?

Mr. SCHRAAD. I think I would have to be supportive of it. I mean, after all, Mr. Chairman, I think that one of the responsibilities of a State legislator is to encourage its constituents to follow the law, and that includes copyright law. So I think that for a State to use sovereign immunity as a shield that would allow them to violate that very same law would be—it would not seem fair to me.

Chairman LEAHY. Because I think this question is going to be raised more and more, and I want states to have the benefit of their own intellectual property rights. If my State university uses whatever combination of money, private money and State money to develop a technique to—or to develop software, develop whatever else on their own, and they have got something that is not only usable for them, but they might be—the University of Kansas might want to buy it, and the University of Texas or anywhere else, but also maybe the XYZ Corporation, then they ought to be able to get paid for that, and they ought to be able to license it and be protected on it. But on the other hand, if the XYZ Corporation has developed that, I do not think they should be able to just rip it off and use it, and say, "Hey, sovereign immunity."

Now, Mr. Thro was talking about the importance of dual sovereignty in our constitutional system, and I must say, Mr. Thro, I agree with much of what you said. I come from a very small State, the second population, the second smallest in the country, but it is a proud State. We are the 14th State in the Union. The history is both New Hampshire and New York wanted Vermont, so we declared ourselves as an independent republic, and then said we would be willing to join the Union. Thomas Jefferson told George Washington in a letter that he thought that might not be a bad idea because he knows the nature of Vermonters. It would start a war to get in our way. And having won some of the major Revolutionary War battles on Lake Champlain and elsewhere, this was not an idle threat.

So we care about our State. Now, we sometimes do things that people might think are a little bit out of the mainstream. I cannot think of anything recently, but I am sure we have.

But an argument that States should not have to play be the same rules as private rules, I do not agree with that when you are talking about an intellectual property context. If a state is going to participate in our IP system, whether by patenting or licensing their own inventions, or by stealing the intellectual property of somebody else, Mr. Schraad's company or anything else, they are not performing a sovereign governmental function. I think they are participating in the market, and they ought to be subject to the same rules of the markets. If they act as market participants, not as sovereigns, why should they not be subject to the same rules as anybody else? I mean this is like, you know, a church might have certain constitutional privileges on taxation and everything else, but if they said, "We are going to buy a Holiday Inn franchise and put it up in our parking lot and make money on it," all of a sudden the rules are a little bit different. I mean, why should it not be the same with a State?

Mr. THRO. Because I do not think you can properly analogize the States to private parties. The States——

Chairman LEAHY. Whoa, whoa, whoa, whoa. If they are out there buying, selling intellectual property, if they are trying to keep protected in their own rights in that, if they want to say that the next state cannot rip off something that they have a copyright, why are they not acting as private parties?

Mr. THRO. I think the better analogy is to the other sovereign, to the National Government itself, and just as the National Government can make determinations as to whether or not it is going to assert copyright over, say, U.S. Supreme Court reports, and whether or not to enforce its various patents and other intellectual properties, the States, as sovereigns, have the right to waive sovereign immunity, to decide whether or not they wish to assert copyright and patent rights over products which are produced with State resources, and the policy on that of course varies among the 50 States. The better analogy is not to the private parties, but to the other sovereign, the National Government.

Chairman LEAHY. But you mean so they can walk in and say, "Look, I want all the rules and protections because it benefits me, but if you want to walk in that same court, you can go straight to hell because I am a sovereign?"

Mr. THRO. In effect——

Chairman LEAHY. I mean it is a nice deal if you can get it. I just do not—I see something a little bit inherently unfair. Let us put it another way. You have the William Thro software company, and you are working to design something, and you have it designed, and the Commonwealth of Virginia is doing the same thing. And they just take a look at yours and say, "We can save a whole lot of time here. We will just reverse engineer what the William Thro Corporation did, and we will market it at 12 percent less. And we are going to copyright it."

Mr. THRO. I think under those circumstances I would have a claim for a constitutional violation. What you have just described is no different than the Commonwealth of Virginia saying, "We are going to take your house," which is also my property, at least to the extent that I have any equity in it. The Constitution itself——

Chairman LEAHY. But they can do that under certain circumstances.

Mr. THRO. They can, but they must give me compensation for it. And just as if the Commonwealth of Virginia took my new software in the manner that you just described, which I believe would be a constitutional violation, I would be entitled to compensation. Now, whether compensation would be the same as what I could get under the Federal intellectual property remedies, I think is an open question, but they could not just take my property any more than they could just take my house. To do so is a constitutional violation and the Constitution itself, in the Fifth Amendment and also in the 14th Amendment's Due Process Clause, makes the States liable for just compensation when they take the property of someone for a public purpose, such as taking a farm to build a road.

Chairman LEAHY. As a vendor, do you want to hop into this one?

Mr. BENDER. Yes. Well, one thing that Mr. Thro stated which I think cuts in favor of your bill rather than against it, is that the right analogy is the Federal Government. The Federal Government does not claim property and cannot claim property in its employees' creations. And if you took that analogy, you would say the States could not claim property either, and I think it is completely within Congress's power, since it is a Federal benefit, to not give the States that. So I do not think there is anything wrong with saying to the States, "Look, we do not have to give you intellectual property rights at all. We are willing to give them to you, but you have to do them on the same terms as everyone else."

With regard to the takings point, it might be that the Supreme Court will ultimately say that, the Takings Clause can be used to deal with a lot of these infringements. The problem is we just do not know that, and we probably will not know that for a long time. In the *College Savings* Bank trilogy the Court refused to consider the takings ground.

By the way, another example of the changing attitude of the Court, normally in the past, the Court has considered all constitutional bases on which legislation might be premised, even if Congress did not mention those bases. Here the Court said, in *College Savings* Bank, "Well, there might be a takings violation, a takings problem here, but we are not going to consider it because Congress did not say it was acting under the Takings Clause." We do not know what the Court is going to do with that. Conceivably, it might turn out in 10 years that the Takings Clause would solve most of these problems, but in the interim everything would be uncertain, and so I think it is wise to put in the waiver provision in order to encourage States to enter the system on the same basis as everyone else so that you do not have to explore the difficulties of takings.

And even with regard to the a due process violation, the Court is unclear about exactly what amounts to a due process violation. An example that you gave of the State knowing that something was copyrighted and deliberately taking it may or may not be a constitutional violation under the Court's present jurisprudence. The unknown is whether the State has to not only know that what it is taking is copyrighted, but know that the copyright is valid and what it is taking constitutes an infringement. That is, that they

have to make a legal judgment in order to violate the Constitution, and the Court is unclear about that as well.

So the waiver provision makes those things much less important. If you are left just with abrogating for constitutional violations the rules would be extremely unclear, and it would be up to the Court over the next years to clarify those.

Chairman LEAHY. Thank you. Well, I guess I am going to let you have that as the last word.

But I also want all of you to know that the record stays open. Certainly, you see your own testimony. If you look at that and you think that there is something that you meant to have said, add a citation or clarify the point when you get your testimony. This is not a "gotcha" kind of a hearing. Just be sure and add that. Just note that you are adding something to it.

I appreciate the amount of time all of you have taken, and also all the amount of time you have taken with Ms. Katzman in my office, who has spent a tremendous amount of time putting this hearing together, which I also appreciate.

But thank you for doing that. Look at what we have here. Do not hesitate, any one of you, to add further material for this. I do want the legislation. I do want constitutional legislation. I do want also though to put us in the position where if we are going to be negotiating with 100 plus other countries on enforcement of our intellectual property laws, I want to make sure we are able to do it in the strongest possible way.

So we stand in recess and I thank you all very much.

[Whereupon, at 11:46 a.m., the committee was adjourned.]

[Questions and answers and submissions for the record follow.]

QUESTIONS AND ANSWERS

Responses of Paul Bender to questions submitted by Senator Leahy

Question 1: In your view, is Congress constitutionally required to let States create, own, and enforce intellectual property rights? Please explain your response.

Answer: Congress is not constitutionally required to enact any federal intellectual property laws, nor is it required to give the States the ability to create, own and enforce federal intellectual property rights under those laws. Congress has the power, if it wishes, to create such rights pursuant to Article I, Section 8, clauses 3 and 8 of the Constitution, but it has no obligation to do so. Moreover, when Congress does decide, as it has, to establish federal intellectual property rights, it need not extend these rights to governmental materials. Congress has, for example, made federal statutory copyright protection unavailable for works of the United States government. See 17 U.S.C. § 105. Congress could accord similar treatment to the works of State governments.

Question 2: Please elaborate on your hearing response to Mr. Thro's constitutional analysis of S. 1611. In particular, how do you response to Mr. Thro's arguments that S. 1611 (1) impermissibly forces states to waive their sovereign immunity and (2) violates the doctrine of unconstitutional conditions.

Answer: S. 1611 does not force States to waive their sovereign immunity. Pursuant to S. 1611, any State may, if it wishes, retain its full immunity simply by declining to waive it. Rather than forcing the States into waiver or any other action, S. 1611 gives the States the *option* of participating in the federal intellectual property system on the same basis as all other participants. States remain entirely free to choose to not to participate. If they do, their immunity remains in full force.

The defect in Mr. Thro's analysis lies in his incorrect assumption that States have an inherent right to federal intellectual property protection. He reasons from this assumption that S. 1611 would require the States to choose between forfeiting that inherent property right or waiving their constitutional sovereign immunity right.

States, however, have no inherent right to federal intellectual property protection—such protection is a federal benefit that Congress may or may not choose to

make available to individuals, entities and governmental units. Nor is any unconstitutional condition imposed by offering States the opportunity to obtain the benefits of the federal intellectual property system on the same basis as those benefits are unconstitutional "depends on whether government may properly demand sacrifice of the ed. 1988). The requirement that States that wish to obtain to benefits of the federal intellectual property system agree to bear the responsibilities of that system is both reasonable and proper.

Question 3: Please explain why you believe that the constitutional abrogation provision of S. 1611 need not be supported by the type of extensive record of violations that the Court has found necessary to support abrogation of sovereign immunity in other contexts.

Answer: The abrogation provision of S. 1611 removes State sovereign immunity only for specific, proven violations of the Fourteenth Amendment. Section 5 of the Fourteenth Amendment expressly gives Congress the power to provide appropriate remedies for such violations. Section 5 remedies may override State immunity because the Fourteenth Amendment was specifically intended to permit Congress to limit State action. See *Fitzpatrick* v. *Bitzer*, 427 U.S. 445 (1976). Congress' Section 5 enforcement authority therefore clearly extends to the provision of remedies imposed directly on the States for proven, specific State constitutional violations.

The cases in which the Supreme Court has held that congressional abrogation of State sovereign immunity must be supported by a record of constitutional violations have, by contrast, involved federal legislation that sought to abrogate State immunity for all violations of the statute in question, not merely for unconstitutional violations of that statute. In those circumstances-i.e., where the abrogating legislation seeks to provide remedies for State actions that are not themselves unconstitutional-the Court has required a legislative record of constitutional violations in order to ensure that the Congressional response is appropriate and proportional to the constitutional problem. *City of Boerne* v. *Flores*, 521 U.S. 507 (1997). No such requirement exists where the remedies provided by Congress apply only to specific, proven State Fourteenth Amendment violations.

Responses of Paul Bender to questions submitted by Senator Hatch

Question: As I understood your testimony, Professor Bender, the operative question for Congress is not whether members of Congress agree with the Court's sovereign immunity/intellectual property decisions, but whether the legislation as drafted is consistent with those rulings. Is that correct?

Answer: Whether or not one agrees with the Supreme Court's 1999 sovereign immunity decisions, the task before Congress is to craft legislation that is consistent with those decisions. S. 1611 is fully consistent with the Court's sovereign immunity decisions and can be supported by Senators who agree with the Court's sovereign immunity jurisprudence. S. 1611's abrogation provision follows the Court's *Florida Prepaid* and *College Savings* decisions that Congress may abrogate State immunity for specific, proven State violations of the Fourteenth Amendment. S. 1611's codification of the doctrine of *Ex parte Young*, 209 U.S. 123 (1908), conforms to the Court's view that Congress may decide whether or not a new statutory remedial scheme is to supplant the *Ex parte Young* remedy. See *Seminole Tribe of Fla.* v. *Fla.*, 517 U.S. 144 (1997). Finally, S. 1611's voluntary waiver provisions are consistent with the Court's repeated holdings that States may, if they wish, waive their immunity so long as they do so knowingly and voluntarily.

Question 1: Some have suggested that no legislation is needed because rights holders can obtain injunctive relief against an offending state actor. Please indicate whether you agree and explain why you believe such injunctive relief is or is not adequate.

Answer: There are two critical reasons why *Ex parte Young* injunctions are not standing alone-an adequate remedy for rights holders whose works are infringed by States.

First, injunctions by themselves do not adequately protect the interests of rights holders. This is the conclusion that the 101th Congress reached when it enacted the Copyright Remedy Clarification Act in 1990. The legislative history of that Act is replete with statements underscoring that conclusion. For example, this Committee found that:

Injunctive relief for copyright violations does not provide adequate compensation or effective deterrence for copyright infringement. . . . Injunctions only prohibit fu-

ture infringements and cannot provide compensation for violations that already occurred. S. Rep. No. 101–305, at 12 (1989).

The reasons that motivated the 101th Congress to conclude that injunctions are not, alone, an adequate remedy are equally applicable today. In fact, it is fair to say that the inability to obtain money damages is even more problematic today than in 1990. Today, the Internet enables immediate worldwide distribution of copyrighted works. Rights holders whose markets are eviscerated by digital piracy can take little solace in an injunction that takes effect after the damage is done. Well before the digital sea change, Congress recognized that compensation to copyright owners was of sufficient importance that it created a statutory damage system compensating the owner even when the plaintiff cannot establish the fact or amount of damages.

Second, as discussed in greater length in my written statement, it is unfair for rights holders to be limited to injunctive relief against States while States can avail themselves of the full panoply of remedies available under the Copyright Act, including money damages as well as injunctions. States are major users and owners of copyrighted works. States register their own works with the Copyright Office, and have formed private-public partnerships to exploit their intellectual creations. As the recent University of Texas case shows,[1] they will aggressively use the courts to seek monetary compensation when they believe their rights have been infringed. When States infringe rights, however, property owners currently cannot obtain similar monetary compensation. The unfairness of the current legal situation is highlighted by the predicament of businesses like Mr. Schraad's that cannot recover damages against the State even if substantial economic harm has been caused by their property being placed in software 'pools' to be shared among a number of State "clients" without authorization.

Question 2: Professor Bender suggested that S. 1611 could be improved by an amendment that did not allow states that do not waive their sovereign immunity to be able to sue for either damages or injunctions. Would the provisions be a good or a bad idea on public policy grounds? Would it make any difference in the constitutionality of the bill? And would such a provision be better drafted to state that non-waiving states will simply not have access to the federal courts to enforce property rights?

Answer: Precluding non-waiving States from obtaining injunctions as well as damages is sound public policy, for several reasons. Although injunctions are not, by themselves, adequate remedies in many situations, they are an important component of an adequate remedial scheme. Conditioning the right to obtain injunctions on the State's waiver of sovereign immunity will therefore provide an important reason for States to choose to participate fully and equally in the federal intellectual property system. On the other hand, if States can continue to obtain injunctions while simultaneously asserting their immunity from damages, they will unfairly enjoy a privilege open to no other participant in that system.

Congress need not permit States to participate at all in the federal intellectual property system. Having decided to permit State participation, Congress may, in order to avoid unfairness, require all participants in the system, including States, to participate on the same basis-to enjoy the same benefits only while being subject to the same responsibilities. Congress cannot require State participation in the federal intellectual property system, but it can refuse to permit States to participate unless they do so on an equal basis. Conditioning a State's ability to obtain declaratory or injunctive relief on its waiver of immunity from damages would not, therefore, create any constitutional doubts.

The provision we recommend-barring non-waiving States from obtaining injunctive relief against threatened or ongoing infringements-should also include a ban on declaratory relief against an alleged infringer of federal intellectual property rights. Such a provision could be drafted so as completely to bar access to federal court, rather than to bar access to specified remedies. There may, however, be situations in which a non-waiving State should appropriately have federal court access. One such situation may occur where state officials are threatened with suit for an alleged infringement. If the State believes that its officials' conduct does not constitute an infringement, the State might wish to seek a federal declaratory judgment to that effect. There seems no reason to bar a non-waiving State from such wholly defensive relief:

If the Committee agrees with our suggestion of adding injunctive and declaratory relief to the remedies not available to non-waiving States, we would be happy to work with the Committee to craft language that accomplishes that result.

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[1] See The Wall Street Journal (Feb. 12 2002).

Question 3: If Congress can confer federal intellectual property protections to States, can it condition application for federal protection at the USPTO or Copyright Office on waiver of immunity? Would it be preferable on policy grounds to structure such a condition as an application provision, as part of the federal application and review process, or simply as a substantive statutory condition to be raised and decided only in litigation?

Answer: As discussed above, Congress can prospectively refuse to grant non-waiving States copyright protection. It can, therefore, condition the ability to apply for federal intellectual property rights on a waiver of state immunity. But PORA believes that the route followed in S. 1611-denying remedies rather than the ability to apply for benefits-is the better approach.

In PORA's view, there are three main problems with tying the waiver to the application for federal benefits. The first involves the existing differences in state immunity laws. Some States permit waiver of the state's immunity by the state attorney general. Others, like West Virginia, require an amendment to the state constitution. Under the latter type of system, a registration for a copyright purporting to waive the State's immunity probably would not effectively bind the State.

Second, tying the waiver to the application would result in different treatment for copyrights, on one hand, and patents on the other. Whereas copyright protection attaches upon fixation, patent protection requires the acceptance of an application by the Patent and Trademark Office. Thus, if waiver were tied to the application for protection, copyright owners could claim protection and exploit their works, but patent applicants could not.

Third, as was recognized during the discussion regarding S. 1835 in the 106th Congress, tying waiver to the application process could impose significant additional administrative burdens on the PTO and Copyright Offices.

Question 4: Mr. Schraad discussed his company's dispute with the State of Georgia. How would S. 1611, as now drafted, help Mr. Schraad's company in that dispute? Are there ways to modify S. 1611 so that it would better help them and similarly situated companies?

Answer: S. 1611 might help Mr. Schraad's company in several respects. In the short term, S. 1611 would permit the recovery of damages from non-waiving States for constitutional violations. Thus, if Georgia were shown to have violated the company's constitutional rights, and no adequate state remedy was shown to exist in Georgia, monetary damage recovery would be available under S. 1611. S. 1611 would also ensure that Mr. Schraad and others like him could obtain injunctions against future infringing acts through codification of the *Ex parte Young* doctrine. The greatest long term help that S. 1611 would offer to companies like Mr. Schraad's is that if States like Georgia choose to participate in the federal intellectual property system on a full and equal basis, Mr. Schraad's company will become able to obtain the full range of statutory remedies for any future infringements.

Question 5: Is there any way for States to provide adequate remedies against State infringement in an intellectual property system that is almost wholly federal?

Answer: PORA does not believe the States can grant adequate remedies for copyright infringement. When Congress enacted the 1976 copyright revision, it expressly intended to create a uniform system of copyright protection and foresaw two benefits of particular relevance: (1) avoiding the practical difficulties of enforcing an author's rights under a different regime in every State; and (2) aiding the United States in international copyright negotiations. See H. Rep. No. 94–1476, at 129 (1976). For these reasons, Congress rejected granting concurrent jurisdiction to state courts when it enacted the Copyright Remedy Clarification Act in 1990. See H. Rep. No. 102–282, at 9 (1989).

In pursuance of Congress' desire for uniformity, Section 301 of the Copyright Act preempts all state causes of actions that involve the subject matter of copyright and that provide rights equivalent to those provided by the federal Copyright Act. Any attempt to permit adequate state remedies for copyright infringement would require significant modification of this preemption provision, with consequent damage to the uniformity objective. Moreover, since state legal principles in this area have been preempted for many years, the content of those state principles would be highly uncertain if they were to be revived now solely for purposes of permitting actions against States. The adequacy of such State remedies would vary from State to State and would continue to be speculative for a considerable period of time.

Responses of Marybeth Peters to questions submitted by Senator Hatch

Question 1: Some have suggested that no legislation is needed because rights holders can obtain injunctive relief against an offending state actor. Please indicate whether you agree and explain why you believe such injunctive relief is or is not adequate.

Answer: The Copyright Office does not believe that injunctive relief alone is sufficient relief for copyright owners and therefore strongly believes that legislation is necessary and appropriate. Injunctive relief is only a useful remedy to prevent future infringement of the same work. While an injunction will prevent future infringements, it provides no remedy for infringements that have already taken place. If the infringement involves only a one-time copying, an injunction is irrelevant because the copy has already been made and the sale of a legitimate product displaced. Similarly, infringements may go on for extended periods of time without the knowledge of but to the great detriment of the copyright owner. Copyright owners whose works have been misappropriated are entitled to compensation for their losses. Finally, injunctions provide no deterrent to infringement. If no monetary remedies are available, a potential infringer knows that the only consequence of being caught is an order to stop and therefore has little incentive to avoid infringement.

Question 2: Professor Bender suggested that S. 1611 could be improved by an amendment that did not allow states that do not waive their sovereign immunity to be able to sue for either damages or injunctions. Would the provisions be a good or a bad idea on public policy grounds? Would it make any difference in the constitutionality of the bill? And would such a provision be better drafted to state that non-waiving states will simply not have access to the federal courts to enforce property rights?

Answer: The proposal to condition injunctive relief as well as monetary relief on waiver of sovereign immunity by States is based on a desire to increase the incentive for States to waive. We are optimistic that conditioning monetary relief alone will be successful in encouraging States to level the playing field by waiving their immunity. States derive significant revenue from the commercial exploitation of their intellectual property. The price of being unable to obtain monetary relief for the infringement of future intellectual property should give them good cause to consider accepting the bargain that Congress offers with this legislation.

Of course, States would have even greater incentive to waive their immunity if their ability to obtain injunctive relief was also conditioned on such waiver. And we believe that Congress would be within its constitutional authority to do just that. However, we recognize that the current Supreme Court gives great deference to state prerogatives and that a strengthening of the incentives in S. 1611 would also increase the chances that the legislation would be found unconstitutional as an impermissible compulsion of States.

We are supportive of S. 1611 and believe it contains the right balance and structure. However, if such an amendment were to be made to S. 1611, the Copyright Office believes that it would most easily and effectively be drafted as a limitation on remedies, stating that non-waiving states may not obtain injunctions or monetary relief as a remedy to infringement of works created after the enactment of the bill.

Question 3: If Congress can confer federal intellectual property protections to States, can it condition application for federal protection at the USPTO or Copyright Office on waiver of immunity? Would it be preferable on policy grounds to structure such a condition as an application provision, as part of the federal application and review process, or simply as a substantive statutory condition to be raised and decided only in litigation?

Answer 3: The Constitution grants to Congress the authority "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. . . ."[1] Of course, we recognize this as the authority by which Congress may provide copyright protection for qualifying works. This authority is entirely permissive. Congress may choose not to extend copyright protection at all, it may extend that protection subject to certain conditions, or it may extend that protection only to certain classes of authors. A particularly relevant example is the choice that Congress has made to withhold copyright protection from "any work of the United States Govern-

[1] U.S. Const. Art. I, sec. 8.

ment. . . ."[2] Similarly, Congress may withhold copyright protection from any work of any state government. That it has chosen not to do so to date represents a gift from the Congress to the States. And, as the Supreme Court has opined, Congress may condition the grant of such a gratuity upon a State's waiver of its sovereign immunity in the directly related field of suits for monetary relief under the Federal intellectual property laws.[3]

The structure of such a condition would surely be better as a substantive statutory condition rather than as a condition of application. S. 1611 follows the substantive statutory condition model with the result that the bill is clear, understandable, and comports with current Supreme Court precedent. Placing the focus of the condition on the application process, on the other hand, would be confusing to applicants, difficult for the intellectual property agencies to implement, ambiguous to right holders, and ultimately unproductive.

It is no simple matter to ask applicants to indicate whether they are state entities or state employees acting within the scope of their duties who fall within the umbrella of that state's sovereign immunity and, if so, whether their state has effectively waived its sovereign immunity to suits for monetary relief for infringements of federal intellectual property. Many of those applicants will be confused by this question. Those who think it has no relevance to them may simply ignore it. Those who are using old registration application forms may not even know of a new requirement to answer this question.

Currently, the Copyright Office will accept an application using any form it has used since 1978. Adding a sovereign immunity question would require us to reject all previous application forms. To illustrate how substantial a problem that would pose for applicants, when the Copyright Office raised the application fee by $10 in 1999, despite substantial public education efforts well in advance of the effective date of the increase, the Office experienced insufficient fee submissions for over half the applications filed for months after the fee increase took effect. For each application which fails to include or answer a new sovereign immunity question, the examiner will need to contact the applicant for additional paperwork. Given that the Copyright Office processes over 600,000 registrations every year, the scope of this problem becomes clear.

The longstanding practice in the Copyright Office is to accept at face value the factual assertions of the applicant regarding the identity of the author, the nature of the authorship, the date of publication, and so on, unless there is something in the application or on the face of the work that appears to contradict those assertions. The applicant is the person in the best position to know these facts and we rely on them to do so accurately. Of course, there are penalties for the rare case of material misrepresentation. We do not independently research and verify the identity of every author or other such assertions, nor do we have the resources to do so.

The status of the author as a state entity and the waiver status of the relevant State are not facts that the person preparing the application, who may be a paralegal or an other employee with limited knowledge and authority—is in a good position to know. With the addition of a requirement that applicants make these judgements, the Office would then be faced with the choice of accepting at face value the assertions regarding sovereign immunity regardless of their unreliability or of conducting its own investigation.

For the Copyright Office to conduct its own investigation would involve the impossible task of evaluating which applicants are in fact state entities or which state employees acting within the scope of their duties fall within the umbrella of that state's sovereign immunity. For example, how is an examiner to know whether either the Pennsylvania State University or the University of Pennsylvania or both meet these criteria? How is an examiner to know whether a particular junior college or vocational school is considered a state entity, when the rules vary from State to State? Is the applicant employed by a State, and if so, was the work in question created as part of the applicant's official duties? Has a given State waived its immunity and is that waiver legally effective? Even those who may be employed by a state institution are not likely to be familiar with the status of that institution vis-á-vis sovereign immunity and are even less likely to know whether their state has waived its immunity in the necessary manner and scope. In order responsibly to implement a waiver condition as an application provision, the Office would have to try to make determinations on all of these examples and infinitely more. Mistakes and inconsistencies would be inevitable, to the detriment of right holders.

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[2] 2 17 U.S.C. § 105.

[3] *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 686–87 (1999).

At a time when we are trying to streamline the registration process, imposing such a requirement will only complicate and elongate the process, with little benefit to be gained in exchange for the burdens of implementation.

Whether the conditioned protection is part of the application process or not, the final authority regarding the status of registrations will be the courts. It will be left to them to determine whether an author is within the umbrella of state immunity and whether that State has effectively waived it immunity. Resolution of these issues is fact-specific and can best be accomplished on a case-by-case basis by a court—the institution best suited to engage in determination of the facts and application of the law. Given this, we believe it is far preferable to leave the matter entirely to the courts rather than to create a complicated and confusing process that would, in any event, be only a prelude to ultimate resolution by the courts.

Question 4: Mr. Schraad discussed his company's dispute with the State of Georgia. How would S. 1611, as now drafted, help Mr. Schraad's company in that dispute? Are there ways to modify S. 1611 so that it would better help them and similarly situated companies?

Answer 4: Literally speaking, S. 1611 as drafted would not help Mr. Schraad because the bill has no retroactive application and Mr. Schaad's dispute has already arisen. However, if S. 1611 becomes law, people in the future who are similarly situated to Mr. Schaad will enjoy the full range of remedies for infringement under the Copyright Act against any State which has chosen to waive its immunity in light of the incentives in S. 1611.

Congress could amend S. 1611 so that it is explicitly retroactive. However, such an amendment would likely generate substantial controversy and would probably increase the likelihood that the law will be found unconstitutional. Accordingly, the Copyright Office does not recommend such an amendment.

Question 5: Is there any way for States to provide adequate remedies against State infringement in an intellectual property system that is almost wholly federal?

Answer 5: In order for States to provide adequate remedies, the federal copyright and patent laws would have to be amended to allow States to grant jurisdiction to state courts to hear cases brought under those laws. To be effective, the States would also have to waive their sovereign immunity in their own state courts.

This scenario is undesirable given the lack of expertise among state court judges in intellectual property. It would also be problematic because there would be no effective avenue for federal judicial review of state court decisions. The result would inevitably be an inconsistent application of copyright and patent laws. Given that all these negative aspects would accompany a system which still depended on the waiver of sovereign immunity by States, the Copyright Office believes that the remedies should remain in federal court and the focus should be on convincing States to waive their immunity.

Question 6: Are you aware of any further cases on matters relevant to the scope of the General Accounting Office study on this matter that have arisen since that report was issued last fall?

Answer 6: No. The Office does not collect information relating to assertions of sovereign immunity by States or allegations of copyright infringement by States.

Question 7: Is there any other issue or comment you would like to add for the completeness of the hearing record?

Answer 7: No.

Responses of William E. Thro to questions submitted by Senator Leahy

Question 1: In your view, is Congress constitutionally required to let States create, own, and enforce intellectual property rights? Please explain your response

Answer: If Congress exercises its powers over intellectual property, then I believe that Congress is constitutionally required to let the States create, own, and enforce intellectual property rights.

To explain, the Article I intellectual property clausel[1] gives Congress exclusive power over intellectual property. There is no requirement that Congress use its powers over intellectual property. Congress could decide that no person or entity will be allowed to create, own, or enforce intellectual property rights.

Of course, if Congress chooses to use its powers over intellectual property, it is limited by the Constitution. For example, Congress could not forbid Roman Catho-

[1] See U.S. Const. art. I, § 8, cl. 8.

lics from creating, owning, or enforcing intellectual property rights. Such a restriction would violate the First Amendment.

Moreover, if the Constitution limits the exercise of the intellectual property power, then the Constitution precludes Congress from undermining the inherent sovereignty of the States. Quite simply, except where it is necessary to enforce the substantive guarantees of the Fourteenth Amendment, Congress may not undermine the inherent sovereignty of the States.

This limitation, which is derived from the structure of the Constitution, is just as much a part of the Constitution as the First Amendment or any other restriction on the powers of the National Government.

Finally, if the inherent sovereignty of the States limits the intellectual property power, then Congress may not prohibit the States from creating, owning, or enforcing intellectual property rights. To do so would be no different from saying that Roman Catholics cannot create, own, or enforce intellectual property rights.

Question 2: Much of your argument for why States should be immune from infringement lawsuits seems to rest on the assumption that all such lawsuits against the States are frivolous. For example, in your written testimony, you called sovereign immunity "a State's best defense to frivolous lawsuits designed to exact a quick settlement from the deep pocket of the State treasury." Assume for a moment that an intellectual property owner has a non-frivolous infringement claim against a State. As a policy matter, why should the State be immune from suit?

Answer: As an initial matter, I fear that you have misunderstood certain aspects of my written testimony. I did not mean to suggest that all or even most of the small number of intellectual property suits against the States were frivolous. Obviously, there are some claims that do have merit. Rather, I simply meant to point out that the States, as deep pocket entities that cannot go bankrupt, are frequently subjected to frivolous claims from parties desiring a quick and lucrative settlement. This is true not only in the context of intellectual property, but with respect to other areas of the law as well. I am sure that any of the State Attorneys General would agree with that point. Moreover, one of the best defenses to such suits is sovereign immunity. The litigation can be disposed of quickly and with little cost to the taxpayers. I am sure that the Attorneys General would agree with me on that point as well.

Before turning to your question on policy, I would like to address a more fundamental question. That question is which sovereign, the States or the National Government, is best empowered to make policy judgments about the sovereign immunity of the States. Senate Bill 1611 implicitly assumes that the National Government can best make that policy judgment. I respectfully disagree. I believe that the State Legislatures are the best qualified to make policy judgments about the sovereign immunity of the States. Similarly, I believe that Congress, not the State Legislatures, is best qualified to make policy judgments about the sovereign immunity of the National Government. In short, each sovereign's legislature should decide its policy with respect to sovereign immunity.

Of course, allowing the States to decide would make things more difficult for the owners of intellectual property. It is far easier to convince Congress that Georgia should be liable to Mr. Schraad's company then it is to convince the Georgia Legislature that tax money should be diverted from health care and schools to pay Mr. Schraad's company. Based on the States' responses to tort claims, it seems safe to assume that the States would have a variety of responses. Some States would waive their sovereign immunity and others would refuse. Many would partially waive, imposing a limit on the amount of damages or dictating special procedures for suits. While this lack of uniformity would be frustrating, it is the price that our society pays for preserving liberty through a federal system.

Once it is determined which sovereign will decide the policy issues related to the sovereign immunity of the States, then I think the policy arguments for immunity are clear. Perhaps, the Supreme Court itself gave the best explanation when it observed:

> Underlying constitutional form are considerations of great substance. Private suits against nonconsenting States-especially suits for money damages-may threaten the financial integrity of the States. It is indisputable that, at the time of the founding, many of the States could have been forced into insolvency but for their immunity from private suits for money damages. Even today, an unlimited congressional power to authorize suits in state court to levy upon the treasuries of the States for compensatory damages, attorney's fees, and even punitive damages could create staggering burdens, giving Congress a power and a leverage over the States that is not con-

> templated by our constitutional design. The potential national power would pose a severe and notorious danger to the States and their resources.
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> A congressional power to strip the States of their immunity from private suits ... would pose more subtle risks as well. "The principle of immunity from litigation assures the states and the nation from unanticipated intervention in the processes of government." When the States' immunity from private suits is disregarded, "the course of their public policy and the administration of their public affairs" may become "subject to and controlled by the mandates of judicial tribunals without their consent, and in favor of individual interests." While the States have relinquished their immunity from suit in some special contexts-at least as a practical matter this surrender carries with it substantial costs to the autonomy, the decision-making ability, and the sovereign capacity of the States.
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> A general federal power to authorize private suits for money damages would place unwarranted strain on the States' ability to govern in accordance with the will of their citizens. Today, as at the time of the founding, the allocation of scarce resources among competing needs and interests lies at the heart of the political process. While the judgment creditor of the State may have a legitimate claim for compensation, other important needs and worthwhile ends compete for access to the public fisc. Since all cannot be satisfied in full, it is inevitable that difficult decisions involving the most sensitive and political of judgments must be made. If the principle of representative government is to be preserved to the States, the balance between competing interests must be reached after deliberation by the political process established by the citizens of the State, not by judicial decree mandated by the Federal Government and invoked by the private citizen. "It needs no argument to show that the political power cannot be thus ousted of its jurisdiction and the judiciary set in its place."[2]

I believe that all of the Court's concerns are reasons why sovereign immunity should be preserved.

In addition to the Court's concerns, I think there are two other policy arguments. First, this problem is largely non-existent. While Mr. Schraad's narrative about his company's experience in Georgia certainly is egregious, the fact remains that it appears to be one of a very few isolated incidents. As the General Accounting Office report confirms, there are only a few cases of the States allegedly infringing intellectual property rights. Congress should not attempt to strip all of the States of their immunity simply because of a few incidents. Second, the States should not be treated differently than foreign nations. Under current law, foreign nations, including those in the "Axis of Evil" are immune from intellectual property suits in the federal courts. If Iraq can escape liability to Mr. Schraad's company, should not the taxpayers of Georgia be equally immune?

Question 3: You have argued that Senate Bill 1611 is unconstitutional because "Congress may not require the surrender of States' sovereignty as a condition of receiving a benefit from the National Government." But several existing federal statutes do just that. For example, as a condition of receiving federal funds, States must comply with various nondiscrimination requirements that may be enforced by private parties in federal court. E.g. 42 U.S.C. § 2000-d-7. Is it your view that these statutory schemes are also unconstitutional?

Answer: I believe that those statutes that require the States to waive their sovereign immunity as a condition of receiving federal funds or some other federal benefit are unconstitutional. I recognize that my view is, at the moment, very much the minority view and is embraced by only four judges on the Eighth Circuit, a few District Court judges, and a handful of legal academics. However, I also recognize that the issue has never been decided by the Supreme Court. At present, the issue of requiring the States to waive sovereign immunity is before the Third, Ninth, and Tenth Circuits. There is a strong possibility that a case from the Sixth Circuit will be heard by the Supreme Court next term. When the Court eventually hears such a case, I am confident that the Court will invalidate those statutes that impose such a requirement.

Having embraced a distinctly minority position and engaged in the always perilous task of predicting future Supreme Court decisions, I would like to briefly explain the basis for my position.

First, the Court's pronouncements on the subject are, at best, ambiguous. To explain, those who disagree with me and believe that Congress may require the States

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[2] *Alden* v. *Maine*, 527 U.S. 706, 714–15 (1999) (citations omitted)

to waive sovereign immunity generally base their position on a portion of the *College Savings Bank* decision where the Court stated:

> The United States points to two other contexts in which it asserts we have permitted Congress, in the exercise of its Article I powers, to extract "constructive waivers" of state sovereign immunity. In *Petty* v. *Tennessee-Missouri Bridge Comm'n*, we held that a bistate commission which had been created pursuant to an interstate compact (and which we assumed partook of state sovereign immunity) had consented to suit by reason of a suability provision attached to the congressional approval of the compact. And we have held in such cases as *South Dakota* v. *Dole* that Congress may, in the exercise of its spending power, condition its grant of funds to the States upon their taking certain actions that Congress could not require them to take, and that acceptance of the funds entails an agreement to the actions. These cases seem to us fundamentally different from the present one. Under the Compact Clause, States cannot form an interstate compact without first obtaining the express consent of Congress; the granting of such consent is a gratuity. So also, Congress has no obligation to use its Spending Clause power to disburse funds to the States; such funds are gifts. In the present case, however, what Congress threatens if the State refuses to agree to its condition is not the denial of a gift or gratuity, but a sanction: exclusion of the State from otherwise permissible activity. Justice Breyer's dissent acknowledges the intuitive difference between the two, but asserts that it disappears when the gift that is threatened to be withheld is substantial enough. Perhaps so, which is why, in cases involving conditions attached to federal funding, we have acknowledged that "the financial inducement offered by Congress might be so coercive as to pass the point at which 'pressure turns into compulsion.'" In any event, we think where the constitutionally guaranteed protection of the States' sovereign immunity is involved, the point of coercion is automatically passed-and the voluntariness of waiver destroyed—when what is attached to the refusal to waive is the exclusion of the State from otherwise lawful activity.[3]

This suggestion that Congress can require a waiver of sovereign immunity as a condition of receiving federal funds has led many Courts of Appeals to conclude that the States or state agencies have waived their sovereign immunity as a condition of receiving federal funds or some other federal benefit.[4] Conceivably, Congress

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[3] *College Sav. Bank*, 527 U.S. at 686–87 (citations omitted).

[4] See, e.g. Cherry v. University of Wisconsin, 265 F.3d 541 (7th Cir. 2001); *Jim C.* v. *United States*, 235 F.3d 1079 (8th Cir. 2000) (*en banc*), *cent. denied*, 121 S. Ct. 2591 (2001); *Sandoval* v. *Hagan*, 197 F.3d 484 (11th Cir. 1999), *rev'd on other grounds sub nom. Alexander* v. *Sandoval*, 121 S. Ct. 1511 (2001); *Litman* v. *George Mason University*, 186 F.3d 544, 557 (4th Cir. 1999) (*Litman II*), *cert. denied*, 120 S. Ct. 1220 (2000); *In re Innes*, 184 F.3d 1275, 1282–83 (10th Cir. 1999), *cert. denied sub nom. Kansas State Univ.* v. *Innes*, 529 U.S. 1037 (2000). As the Tenth Circuit, deciding a case involving the Telecommunications Act of 1996, explained:

> [Flor a constructive waiver of sovereign immunity to be valid under College Savings Bank, it must be altogether voluntary and not forced from a state by Congress. A constructive waiver is voluntary only where Congress threatens a state with the denial of a "gift or gratuity" if the state refuses to consent to suit in federal court. Where Congress threatens a state with a "sanction" if it refuses to consent to suit, then the waiver is no longer freely given. In addition, it may be that the difference between a gift and a sanction disappears when the gift Congress threatens to withhold is large enough.
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> To illustrate its holding in College Savings Bank, the Court distinguished the legitimate conditions Congress placed on states in *Petty* v. *Tennessee- Missouri Bridge Comm'n* and *South Dakota* v. *Dole*, from the forced waivers in Parden and the case at bar. In Petty, the Court held that a bistate commission created pursuant to an interstate compact "had consented to suit by reason of a suability provision attached to the congressional approval of the compact." In Dole, the Court held "that Congress may, in the exercise of its spending power, condition its grant of funds to the States upon their taking certain actions that Congress could not require them to take, and that acceptance of the funds entails an agreement to the actions."
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> The *College Savings Bank* court explained that the bistate commission's waiver was valid because, under the Compact Clause of the U.S. Constitution, states may not form an interstate compact without the consent of Congress. The granting of consent therefore is a gratuity. Similarly, "Congress has no obligation to disburse funds to the States; such funds are gifts."
>
> In contrast, in both *Parden* and the case before the Court, Congress did not threaten the denial of a gift or gratuity if the states refused to waive their constitutional sovereign immunity. Instead, in both *Parden* and *College Savings Bank*, Congress threatened a sanction: "exclusion of the State from otherwise permissible activity." Specifically, the federal statute in Parden required Alabama to waive its immunity or give up its ability to own and operate a railroad in interstate commerce. In *College Savings Bank*, the TRCA required Florida to waive its immunity or give up its ability to engage in the business of advertising and selling a for-profit educational

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could overturn all of the recent sovereign immunity decisions simply by saying that if the States wish to receive federal funds or some other federal benefit, then the States must waive their sovereign immunity.

Yet, there is another portion of College Savings Bank that appears to command the exact opposite result. Specifically, the Court observed:

> Recognizing a congressional power to exact constructive waivers of sovereign immunity through the exercise of Article I powers would also, as a practical matter, permit Congress to circumvent the antiabrogation holding of Seminole Tribe. Forced waiver and abrogation are not even different sides of the same coin—they are the same side of the same coin.... There is little more than a verbal distinction between saying that Congress can make Florida liable to private parties for false or misleading advertising in interstate commerce of its prepaid tuition program, and saying the same thing but adding at the end "if Florida chooses to engage in such advertising."[5]

In other words, Congress cannot overrule the Court's recent sovereign immunity decisions simply by saying that if the States want money or intellectual property rights, they must waive sovereign immunity. As the Court observed in a later case, "Congress' powers under Article I of the Constitution do not include the power to subject States to suit at the hands of private individuals"[6]

In sum, *College Savings Bank* appears to contradict itself. On the one hand, it seems to endorse the view that Congress may force the States to waive sovereign immunity as a condition of receiving a federal benefit. On the other hand, it appears to say that Congress cannot use its Article I powers to force the States to waive sovereign immunity and thereby undermine the antiabrogation holding of the recent sovereign immunity decision. At some point, the Court will have to resolve this contradiction. When it does, I believe that it will reaffirm the idea that Congress cannot use its Article I powers to effectively overrule the anti-abrogation decisions.

Second, forcing a State to choose between waiving its sovereign immunity and losing federal funds or the right to enforce its intellectual property rights is unconstitutionally coercive.[7] Although the Supreme Court has recognized that "Congress may, in the exercise of its spending power, condition its grant of funds to the States upon their taking certain actions that Congress could not require them to take,"[8]8 the Court has also recognized that "the financial inducement offered by Congress might be so coercive as to pass the point at which 'pressure turns into compulsion.'"[9] Thus, the Supreme Court has acknowledged that some "choices" imposed by Congress' exercise of its Spending Clause power are unconstitutionally coercive.[10] I believe that forcing a State to choose between federal funds for a specific purpose and sovereign immunity or between asserting its intellectual property rights and sovereign immunity crosses the line and is coercive.

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investment vehicle. The voluntariness of a waiver is destroyed "when what is attached to the refusal to waive is the exclusion of the State from otherwise lawful activity."

MCI Telecom. Corp. v. Public Serv. Comm'n of Utah, 216 F.3d 929, 937 (10fl' Cir. 2000), cert. denied, 121 S. Ct. 1167 (2001)(citations omitted). In other words, if the National Government tells the State that it must waive sovereign immunity or be punished, the required waiver is unconstitutional. However, if the National Government informs the State that it must waive as condition of receiving a benefit, and the inducement is not coercive, then the waiver is constitutional.

[5] *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Fund*, 527 U.S. 666, 683–84 (1999) (citations omitted).

[6] *Kimel* v. *Florida Bd. of Regents*, 528 U.S. 62, 80 (2000)

[7] *See Frost* & *Frost Trucking Co.* v. *Railroad Comm'n,* 271 U.S. 583, 594 (1926) (If government "may compel the surrender of one constitutional right as a condition of its favor, it may, in like manner, compel a surrender of all. It is inconceivable that guaranties embedded in the Constitution of the United States may thus be manipulated out of existence.").

[8] *College Savings Bank*, 527 U.S. at 686

[9] *South Dakota* v. *Dole*, 483 U.S. 208, 211 (1987) (quoting *Steward Machine Co.* v. *Davis*, 301 U.S. 548, 590 (1937)).

[10] *See College Savings Bank*, 527 U.S. at 687 ("In any event, we think where the constitutionally guaranteed protection of the States' sovereign immunity is involved, the point of coercion is automatically passed—and the voluntariness of waiver destroyed—when what is attached to the refusal to waive is the exclusion of the State from otherwise lawful activity.").

Responses of William E. Thro to questions submitted by Senator Hatch

Question 1. Do you believe any federal legislation providing some remedy for infringement against the States would be constitutional? Why or why not.

Answer: First, if Congress made an explicit finding that most States were engaging in a pattern of constitutional violations, then it would be constitutional for Congress, in the exercise of its powers under § 5 of the Fourteenth Amendment, to abrogate sovereign immunity for all States and provide some remedy for infringement. In order to accomplish this, Congress would have to find that the States were engaged in a consistent pattern of depriving owners of their intellectual property without due process of law and without paying just compensation. If Congress found that only a few States were engaged in such practices, then I think it would be constitutional to abrogate the sovereign immunity for the offending States.

Second, as I stated in my written testimony and in response to Chairman Leahy's written questions, I do not believe that Congress may use its Article I powers to exact a waiver of sovereign immunity from the States. If sovereign immunity is to be diminished, Congress must act pursuant to § 5 of the Fourteenth Amendment.

ADDITIONAL QUESTIONS

Question 1: Some have suggested that no legislation is needed because rights holders can obtain injunctive relief against an offending state actor. Please indicate whether you agree and explain why you believe such injunctive relief is or is not adequate.

Answer: If the doctrine of Ex Parte Young[11] allows the issuance of an injunction against a state actor who is violating intellectual property rights, then the injunctive relief is adequate. I take this position because I believe that severe cases of infringement by the State constitute a "taking" of property under the Fifth Amendment and, thus, the owner is entitled to just compensation. Given the possibility that the owner can recover under the Fifth Amendment, I see no need to allow an additional damages remedy.

Question 2: Professor Bender suggested that Senate Bill 1611 could be improved by an amendment that did not allow States that do not waive their sovereign immunity to be able to sue for either damages or injunctions. Would such a provision be a good or bad idea on policy grounds? Would it make any difference in the constitutionality of the bill? And would such a provision be better drafted to state that non-waiving States cannot get injunctions or damages as a remedy or that non-waiving States simply will not have access to the federal courts to enforce intellectual property rights?

Answer: As I have stated previously, I believe that any attempt by Congress to use its Article I powers to diminish the sovereign immunity of the States is unconstitutional. Thus, I think Professor Bender's proposal has no impact on the bill's constitutionality.

Question 3: If Congress can confer federal intellectual property protections to the States, can it simply deny States all federal intellectual property rights or, less drastically, can it condition application for federal protection to the USPTO or Copyright Office on a waiver of immunity? Would it be preferable on policy grounds to structure such a condition as an application provision, as part of the federal application and review process, or simply as a substantive statutory condition to be raised and decided only in litigation?

Answer: As I explained in response to a similar written question from Chairman Leahy, assuming that Congress exercises its powers over intellectual property, then I believe that Congress is constitutionally required to let the States create, own, and enforce intellectual property rights.

Moreover, I believe that requiring the States to surrender sovereign immunity in order to obtain or enforce intellectual property rights violates the doctrine of unconstitutional conditions. Quite simply, this doctrine holds that "the government may not require a person to give up a constitutional right . . . in exchange for a discretionary benefit conferred by the government."[12] For example, the government generally may not require a property owner to give up a portion of his property rights

[11] 209 U.S. 123 (1908).

[12] *Dolan* v. *City of Tigard*, 512 U.S. 374,385 (1994).

as a condition of receiving a building permit.[13] The reason for such a doctrine is clear. If government "may compel the surrender of one constitutional right as a condition of its favor, it may, in like manner, compel surrender of all. It is inconceivable that guarantees embedded in the Constitution of the United States may be thus manipulated out of existence."[14] Moreover, while the doctrine generally applies in the context of individual rights, it should be equally applicable to the fundamental aspects of a States' sovereignty. This is particularly true given the importance of the States' sovereignty to maintaining the constitutional balance. Thus, Congress may not require the surrender of the States' sovereignty as a condition of receiving a benefit from the National Government.

Question 4: Mr. Schraad discussed his company's dispute with the State of Georgia. How would Senate Bill 1611, as now drafted, help Mr. Schraad's company in that dispute? Are there ways to modify Senate Bill 1611 so that it would better help them and similarly situated companies?

Answer: Because I believe that Senate Bill 1611, as currently drafted, is unconstitutional, I do not believe it would help Mr. Schraad at all. Georgia would simply get the new law declared unconstitutional and then get Mr. Schraad's suit dismissed on sovereign immunity grounds. Assuming that I am wrong and that Senate Bill 1611 is constitutional, then Mr. Schraad's company could recover money from Georgia's State Treasury. While this would be helpful to Mr. Schraad's company, it would mean a diversion of funds away from schools, health care, police protection, and the myriad of other necessary services provided by the State of Georgia.

I also want to emphasize my belief that Mr. Schraad's company does not need Senate Bill 1611 in order to achieve justice. Assuming that the facts are exactly as Mr. Schraad has told this Committee, then the State of Georgia has "taken" the company's property and the company is entitled to just compensation under the Fifth Amendment.

Question 5: Is there any way for States to provide adequate remedies against state infringement in an intellectual property system that is almost wholly federal?

Answer: At present, all intellectual property cases must be brought in federal court. Congress could allow state courts to hear intellectual property claims against the States. If Congress took this step, then many States might choose to waive their sovereign immunity and allow suits in their own courts.

Question 6: Are you aware of any further cases on matters relevant to the scope of the General Accounting Office study on this matter that have arisen since that report was issued last fall?

Answer: Based on my communications with the other members of the Education Section of the Virginia Attorney General's Office and with my colleagues at state universities in other States, I am unaware of any further cases. I also want to emphasize my belief that the General Accounting Office study demonstrates that this alleged problem is almost non-existent.

Question 7: Is there any other issue or comment you would like to add for the completeness of the hearing record?

Answer: While I am honored that you have invited me to share my views regarding the constitutionality of this proposal I really think it is necessary for this Committee to hear from many other people before it can make an objective judgment. The action being contemplated is nothing less than a significant diminishment of a fundamental aspect of the State's sovereignty. It is not an action to be taken lightly and it is at least as important as the confirmation of a judge to a federal appellate court.

Yet, despite the obvious importance of this issue, this Committee only held one hearing that lasted less than two hours and involved six witnesses, only one of whom was critical of the bill. There is absolutely no objective evidence indicating that this is a real problem. Mr. Schraad's anecdotal evidence has gone unchallenged because no one has been invited to present the State of Georgia's side of the story. Before this Committee assumes that Georgia has acted illegally, if not unconstitutionally, and, as a result, diminishes the sovereignty of every State, Georgia should have an opportunity to be heard. Although witnesses have asserted that the States violate intellectual property rights, no one has discussed the extraordinary steps that state universities and state agencies take to prevent their employees from engaging in infringement. While the General Accounting Office report finds that the

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[13] *See Id* at 394–95. Of course, such conditions can be imposed if it can be demonstrated that (1) there is an "essential nexus" between the permit condition and a legitimate interest of government; and (2) there is a rough proportionality between the condition and the impact of the new project. *See Id*. at 386.

[14] *Frost & Frost Trucking Co.* v. *Railroad Comm'n,* 271 U.S. 583, 594 (1926).

States are suing almost as frequently as they are being sued, no one has been invited to discuss blatant examples of the private sector infringing upon the States' intellectual property rights or what steps the private sector takes to insure that they do not violate the States' intellectual property rights. Before this Committee approves legislation that will allow private parties to raid the coffers of the States, it should hear from the Governors and state legislators about the impact on local revenues. Similarly, state attorneys general and counsel for state universities should be invited to address the impact of increased litigation on their offices. Although foreign governments are immune from intellectual property suits, no one has been invited to explain why they should be immune and the States should not. While Professor Bender did an outstanding job of presenting the view that, such legislation is constitutional and while I did my best to present the opposite view, the fact remains that, this Committee has not heard from many of the leading constitutional scholars.

In sum, before this Committee takes such a monumental step, I believe it is imperative to hear from a wide variety of other groups and interests.

SUBMISSIONS FOR THE RECORD

AMERICAN BAR ASSOCIATION
CHICAGO, ILLINOIS, 60611
February 22, 2002

Hon. Patrick Leahy
Chairman, Committee on Judiciary
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

This letter is being written to express the support of the American Bar Association for the enactment of S. 1611, the "Intellectual Property Protection Restoration Act," which you introduced on November 1, 2001.

The ABA is convinced that Congress must deal with the situation created by the decisions of the United States Supreme Court in *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank and College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, and the ABA believes that S. 1611 is an appropriate and well reasoned response. Those decisions nullified laws enacted in 1990 and 1992 to affirm congressional intent that States not be immune from suit for acts' of infringement of intellectual property rights. As a result of these decisions, States now enjoy the full range of protection of federal intellectual property laws for their own patents, copyright, trademarks, and other intellectual property, while at the same time they are free to infringe IP rights of others without fear of suit for damages.

S. 1611 would remedy this untenable situation by placing States on an equal footing with other intellectual property owners. Recovery of damages for infringement of its own intellectual property rights would be denied to a State unless it has waived immunity from suit for its own acts of infringement of privately-owned intellectual property rights.

The ABA supported congressional efforts a decade ago to clarify States' liability for infringement of intellectual property rights, and. we support your current efforts to restore a level playing field for all owners of intellectual property. States should of course have access to legal remedies under federal intellectual property laws to protect state-owned intellectual property. At the same time, fairness dictates that when a State infringes rights of others, it be subject to those same legal remedies. The American, Bar Association believes that S. 1611 provides the framework to restore that fan and balanced approach. and we support its enactment.

Sincerely,

CHARLES P. BALDER
Chair, Section of Intellectual Property Law

BIOSOURCE, INC.
WORCESTER, MA 01607
March 3, 2002

Chairman Patrick Leahy
Committee on the Judiciary
SD–224 Senate Dirksen Building
Washington DC 20008

Honorable Chairman,

I am glad that there are hearings on Sovereign Immunity. That was why the people of The United States threw out the British.

Biosource developed the flow through capacitor in the basement of my house in Worcester, MA. This technology was initially commercialized to market in a self-funded manner, together with my licensee Sabrex. The Sabrex facility is a graffiti covered warehouse in a bad part of San Antonio. Biosource is currently a recipient of a DARPA contract to enhance this technology for broader water purification and seawater desalination use. We no longer operate from a basement.

The University of California through Lawrence Livermore National Laboratory (LLNL, which it operates, has done grave harm to my company and to this technology. Advice of counsel indicates that, while it would be possible to sue them, there would be little to no remedy, because the University of California would simply assert Sovereign immunity, In other words, we would be free to spend what little money we have for nothing. I believe that parties injured by the University of California should have recourse to remedy through the courts. I dislike the idea of alternative dispute resolution mediated by the perpetrators.

Harm done to Biosource includes:

- *Libel* of Biosource and usurpation of the flow through capacitor technology in the press. LLNL also claims invention of the flow through capacitor. Joe Farmer is both the "inventor" and was LLNL's spokesperson. He was quoted in "Technology Transfer Business" magazine as calling me a charlatan. I had neither met nor talked to him at the time. LLNL accepted an R&D 500 award for this technology from R&D magazine, and has been featured in such publications as Business Week.
- *Misrepresentation of Patent Rights*. Patent law requires that known, relevant, prior art be reported to the patent examiner. Farmer called me a charlatan while his patent was still being examined. Yet, the University of California failed to cite my half dozen or so prior art patents. Unfortunately, the examiner failed to catch this. LLNL continues to develop narrow patents that cannot be practiced against Andelman in what must be an expensive attempt to reinvent the wheel. For example, the file wrapper of a second continuation in part patent shows that the examiner rejected their patent about six times against myself, until the patent issued with useless narrow claims that cannot be practiced without infringing upon Andelman,
- *Misrepresentation in License Agreements*. LLNL continues to represent that they invented this technology and has actively been seeking to license it, thereby sidetracking investment that would have gone to Biosource. LLNL licensed a small Arizona Company, called Far West Group. This company has succeeded in sublicensing several large corporations for millions of dollars in total. One large company, ABB, walked away with nothing from their $1 MM Investment in Far West Group after learning about Andelman. Biosource has yet to raise investment from private industry. I believe that Biosource license agreements and business opportunities have been derailed, never happened, or set back due to LLNL.
- *Patent Infringement and sale of inferior, unauthorized equipment*. We have put LLNL on notice that practice of the Farmer patent would infringe one or more Andelman patents. LLNL has directly sold inferior, unauthorized flow through capacitor equipment to valuable customers, including large water districts in California. Their version of this technology is made without my approval and supervision, did not work well, and should not have been sold in this form. This has worked to sour the engineering community on the technology.

Harm Done To Everyone Includes:

This is a water purification technology. I believe there could be a whole Senate hearing on the stunning lack of effort in this field. DOE is steward of nuclear waste

currently seeping into aquifers the size of a Great Lake, Water and energy are interrelated. One cannot talk about conservation of one without the other. Over a billion people are facing a water shortage. The University of California chose to be an elephant muddying the water.

Bayh-Dole:

Lastly, I believe that a root of this problem lies in Bayh-Dole. Government funded work should be put into the public domain. This would raise the bar to innovation and strengthen the patent system, Currently, the patent system is plagued with many minor, derivative patents, which impede commercialization. This can only play into the hands of the CEO's who are working for Wall Street, as opposed to developing new products for the benefit of the customer, shareholder, or employee. The fact that the transistor was not patented did not impede its commercialization.

Thank you again for the opportunity to be of service to this committee.

Sincerely yours,

MARC ANDELMAN
President

BUSINESS SOFTWARE ALLIANCE
WASHINGTON, D.C. 20036
February 25, 2002

The Hon. Patrick Leahy
Chairman
Committee on the Judiciary
U.S. Senate
Washington, DC 20510

Dear Chairman Leahy,

On behalf of the members of the Business Software Alliance,* I write in support of S. 1611, the Intellectual Property Protection Restoration Act of 2001.

S.1611 is important to a fair and effective system of protection for intellectual property. To the envy of the rest of the world, the copyright laws in place in this country have helped foster the creation of software programs that are incomparably productive, valuable and popular. They have done so, in part, by securing the basic principle that it is more expensive to violate the copyright laws than to comply with them. As the Supreme Court itself has recognized, that principle is essential to promoting respect for and compliance with those laws. S. 1611 will ensure that it remains in place.

The Supreme Court's recent decisions, immunizing state entities from monetary damages, removes the financial incentive to comply with copyright requirements. When a private business is deciding whether to acquire licenses for the software it needs—or simply make illegal copies—its potential exposure to monetary damages renders the latter option a bad business risk. But when a state entity, even one competing with the private business, faces the same decision, it need not factor in any financial exposure at all. Fairness issues aside, this system encourages noncompliance.

In 2000, BSA estimates that software publishers lost $2.6 billion dollars in U.S. sales due to the unauthorized reproduction or distribution of software. A substantial percentage of these losses are attributable to workplace copying. Without incentives for voluntary compliance by state entities, those lost sales will only rise, along with the associated harms to R&D investment, employment, and tax revenue. Ironically, monetary damages are important, not because rights owners seek to recover money from violators, but because they lessen the need to file suit in the first place by increasing voluntary compliance.

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*The Business Software Alliance is the voice of the world's software and Internet industry before governments and with consumers in the international marketplace. Its members represent the fastest growing industry in the world. BSA educates computer users on software copyrights; advocates public policy that fosters innovation and expands trade opportunities; and fights software piracy. BSA members include Adobe, Apple, Autodesk, Bentley Systems, Borland, CNC Software/Mastercam, Compaq, Dell, Entrust, IBM, Intel, Intuit, Macromedia, Microsoft, Newtwook Associates, Novell, Sybase, Symantec, and UGS.

BSA joins the written statement and testimony submitted by the Property Owners Remedy Alliance, including the suggested change to one provision of S.1611 offered therein. I look forward to working with you in order to ensure that this legislation passes during this session of Congress.

Sincerely,

ROBERT HOLLEYMAN, II
President and CEO

Statement of Hon. Maria Cantwell, a U.S. Senator from the State of Washington

Thank you, Mr. Chairman for holding this hearing. The issue before the committee today is not only important to intellectual property holders but also challenges this Committee and the Congress to properly exercise its powers to enact laws that support innovation while providing equal treatment for both state-run and private sector entities. I am cognizant of the constitutional framework within which we must craft our efforts. I am also concerned with any negative impacts that legislative proposals might have on the academic community. I look forward to exploring these issues with our witnesses with an eye towards supporting innovation and resolving current inequities in the marketplace.

The U.S. Constitution gives Congress the power to enact laws to give to authors and inventors certain rights in their creations for a limited time. In addition to encouraging new inventions and creative works, our system of strong intellectual property rights has created jobs, generated billions of dollars in revenue, and enriched the lives of the American people and the world. Our intellectual property laws have provided incentive to inventors and intellectual property owners by giving them the ability to enforce their rights against infringement in Federal court and recoup their investments. The issue of sovereign immunity is relatively new in the context of intellectual property law. If some actors in the marketplace are immune from infringement liability, the system may be less effective in achieving its goals. So I am concerned with the course that the Supreme Court has charted, and look forward to working with the Chairman to correct that course.

Congress first acted to clarify state sovereignty conflicts in intellectual property cases in the early 1990's. Congress passed three "Remedy Clarification" acts clarifying its intent to abrogate state sovereign immunity—providing that no state could claim immunity from copyright, patent, or trademark infringement under the 11th amendment. In passing this legislation, Congress sought to clarify the law providing that all potential infringing parties were to be treated similarly.

Then in the late 1990s, the Supreme Court decided three cases that limited Congress' authority to abrogate state sovereign immunity in the context of patent and trademark law, *Seminole Tribe of Florida* v. *Florida, Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank, and College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*. Subsequently, the 5th Circuit held that the Copyright Remedy Clarification Act does not abrogate state sovereign immunity. Taken together, these decisions essentially voided the three clarifying laws that Congress enacted in the early 1990's.

Currently, states are able to bring suit against those who infringe their intellectual property rights, while claiming immunity from similar suits against them. Unless some significant policy concern overcomes equity in application, those who infringe upon the intellectual property rights of another should be equally subject to federal infringement suits. Further, to be effective and provide proper incentives to innovation, I believe that intellectual property laws should be applied equally to all players in the market.

I want to note a broader concern. The Supreme Court decisions driving our need to legislate in this area reflect an extremely disconcerting shift in the Supreme Court's perspective on the respective roles of Congress and the Court. We have an obligation to those who have elected us to preserve the appropriate Constitutional role of Congress.

The Supreme Court's decisions at issue today have produced a complex and daunting legal landscape, one that forces us to move forward carefully and within the proper constitutional framework. I am confident that balance and equity can be brought back to this legal setting, and I appreciate the Chairman's efforts to resolve

this problem in a manner sensitive to both state interests and the interests of other intellectual property owners.

I look forward to hearing the witnesses today and exploring the constitutional challenges that face this committee.

U.S. CHAMBER OF COMMERCE
WASHINGTON, D.C. 20062–2000
February 13, 2002

Hon. Patrick J. Leahy
Chairman,
Senate Judiciary Committee
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing on behalf of the United States Chamber of Commerce ("U.S. Chamber"), the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region, to express our strong support for legislation that would end the threat of intellectual property infringement by states and state agencies.

As a result of the Supreme Court's decision in *Florida Prepaid Postsecondary Educ. Expense Br.* v. *College Savings Bank*, 119 S. Ct. 2199 (1999), the states and state employees possess the unfair ability to infringe the intellectual property rights of holders of patents, trademarks and copyrights under federal law while at the same time using those very same federal laws to safeguard the considerable volume of patents, trademarks and copyrights held by them. Legislation is needed that would require states to waive their sovereign immunity from suits against them in federal court for infringement of intellectual property rights that are protected by federal law before they could seek legal relief for infringement of their own patents, trademarks and copyrights. Furthermore, there should be legal remedies against states that violate the due process or takings rights of intellectual property owners.

The U.S. Chamber supports strong protection for intellectual property owners under the patent, trademark and copyright laws. Such protection stimulates investment and fosters innovation, thereby assuring a continuing stream of new products and services. Many states have chosen to participate in the commercial marketplace. Those that do must be held to the same standards as all participants in that marketplace and must not be allowed to use their sovereign immunity to shield conduct which, if engaged in by any other market participant, would be considered illegal.

We urge your Committee to address this issue and correct a serious imbalance that has developed regarding the protection afforded by the country's intellectual property laws.

Sincerely,

R. BRUCE JOSTEN
Executive Vice President
Government Affairs

Statement of R. Bruce Josten, Executive Vice President for Government Affairs, U.S. Chamber of Commerce, Washington, D.C.

Thank you Chairman Leahy, Senator Hatch, and Members of the Committee, for this opportunity to provide comments on this very important issue. My name is Bruce Josten and I am Executive Vice President for Government Affairs at the U.S. Chamber of Commerce. The US. Chamber represents more than 3 million businesses and organizations of every size, sector and region.

Our members are deeply concerned about the ability of states and state entities, such as state universities, to use their Constitutional protection from lawsuits to freely infringe upon the copyright, patent, and trademark rights of others, while at the same time taking full advantage of copyright, patent and trademark protection for their own intellectual property. This bill would not permit the states to have it

both ways: if they want copyright, patent, and trademark protection, they must expressly waive their sovereign immunity.

BACKGROUND

For over ten years, Congress has been attempting to remedy a series of unfortunate Supreme Court decisions that began in 1962. Under these decisions, the principle of sovereign immunity, in the context of intellectual property, has come to mean that the owners of patents, trademarks, and copyrights cannot sue states even when the state infringes those intellectual property rights. This is an abuse of the states' Constitutional protection from stir.

It had been widely thought that when a state engages in an activity that can properly be regulated by Congress, it impliedly consented to suit in Federal court.[1] This principle has been eroded over the years and today states can. use their Constitutional sovereign immunity protection, even for non governmental activities, such as unfairly competing with patent owners and infringing their patents.

The U.S. Chamber and its members are deeply concerned about this situation. The system of patent, trademark, and copyright protection in the United States encourages investment in invention and innovation. Such protection assures innovative companies and individuals that they will stand to reap the financial rewards if their new product or service finds favor in the marketplace. However, when a substantial group of parties, such as states and state agencies, can disregard these protections, the intellectual property protections are eroded.

The prospect of state infringement of intellectual property rights will have an adverse effect on the level of investment in research and development of new products and services. Companies will be reluctant to invest the necessary funds in the development of new products when they know that a state or state agency can appropriate that product or service to their own use, without licensing the technology or paying royalties. As states increasingly face budget shortfalls, the likelihood of their ventures into patented or copyrighted commercial ventures increases.

States have not shied away from taking advantage of their unfair status in the marketplace. According to testimony by Marybeth Peters, Register of Copyrights, in a hearing before the House Judiciary Committee on this subject in July 2000, four-year state colleges and universities have registered over 32,000 monographs since 1978 and this does not include scholarly journals, magazines, newsletters, and computer programs.

Similarly, the US. General Accounting Office reported to this Committee last September' that state institutions of higher learning hold nearly 12,000 patents and 2,700 trade" in addition to the 32,000 copyrights.

State universities often obtain their patents with federal funding. They protect and license these patents the same as would any other patent holder. The U.S. Camber and its members believe that the states cannot continue to have it both ways. If they participate in the commercial marketplace, they must abide by the rules that apply ;to everyone.

We recognize that some states, as a matter of policy, seek licenses and attempt to avoid infringement. However, so long as the threat of infringement remains real and not theoretical, the chilling effect will continue.

THE PENDING LEGISLATION

The bill now under consideration does not attempt to abrogate state sovereign immunity. Rather, it requires stares to expressly waive their immunity if they want to be able to sue to protect their own patents, trademarks and copyrights. In addition, the legislation provides remedies against officers or employees of a state or state agency for unlawful infringement, including monetary damages, declaratory and injunctive relief, costs, attorneys' fees and destruction of infringing articles. Furthermore, the legislation creates liability on the part of the states and state agencies if they violate the rights of intellectual property owners in such a way as to violate their due process or unlawful takings rights under the Constitution. Relief under this section of the legislation would include actual damages, profits, statutory damages and fees, but would not include treble damages.

This approach is rational and reasonable. It narrowly tailors the solution to the problem while avoiding the Constitutional shortcomings that have undermined past efforts at legislation. Rather than broadly abrogating the states' sovereign immunity protection, it gives the states an incentive to expressly waive their sovereign immunity. The case of *Alden* v. *Maine*, 119 S. Ct—2240 (1999), established that states

[1] *Parden* v. *Terminal Railway of Alabama*, 377 U.S. 184 (1964).

may waive their immunity and that Congress may provide incentives for such waivers. This legislation offers an incentive—the right to sue to protect intellectual property owned by the states—in exchange for the waiver of immunity when the state or state agencies are charged with infringement. It is a fair and equitable solution.

The U.S. Chamber of Commerce enthusiastically supports this legislation and urges the Committee to favorably act upon it.

February 19, 2002

Senator Patrick Leahy
Chairman
Senate Judiciary Committee
SD–224 Senate Dirksen Building
Washington D.C. 20510

Dear Senator Leahy,

I write regarding your hearing on Sovereign Immunity and the Protection of Intellectual Property.

I am a university professor at a public university and a small business owner. Although my training is in architecture, I conduct research in the area of self-healing materials—materials that have wide application in concrete structures such as buildings and airport runways, in composites such as aircraft wings, and in many other areas. In 1989, I applied for my first patent in this area., and I have subsequently obtained several patents on my inventions U.S. Pat numbers 5,561,173 and 5,575,841 and 5,660,624 and 5,803,963 and 5,989,334. The university for which I work waived it rights in the technology, giving me all rights to commercialize it and keeping only the right to use it for internal University purposes.

In August of 1999, I learned that two faculty members at my University had obtained research grants on my patented ideas and were seeking to exploit their work commercially using University funds. I informed the University of the problem and asked the University to stop supporting grant proposals that were based on my patented ideas, especially where the granting agencies had not been made aware of my rights in the area. Rather than resolving the problem, the University has used the shield of sovereign immunity to continue working in this area. For example, the University approved a proposal to DARPA for a $10–15 million center that would use my inventions. After I notified DARPA, I was told by the contract manager that DARPA had decided not to fund any work on this topic. As another example, the University chose this year to back an application on the technology to a government agency for an approximately $10 million center, and have sought the involvement of many large commercial entities. I was told second hand by someone from a faculty committee looking into this problem, that the Vice Chancellor for Research at the University told them that the university was immune from lawsuits on patent matters and therefore could and would ignore the issue.

I believe that this is an attempt by the University to circumvent the United States patent system and to get to commercial market in a way others could not. The University's projects involve research toward commercial ends and use the cover of sovereign immunity to do what a private company can-not do because of my patent coverage. It appears that the University would use sovereign immunity to get a tread-start on my technology, waiting to be the first to market once my patents expire. A ,private company could not do this, and the University should not either.

I have tried to get attorneys to take my case. However, no lawyers that I have met want to take on a case costing $500,400 to $1,000,000 if they can only get an injunction and no damages because of the University's sovereign immunity. That is especially true when they are facing the deep pockets of a large public university.

I plead for your intervention. I am person with a small company who has spent $100,000 of my own money to obtain patent coverage on this technology to which the University promised me I had the rights. I now find that at every turn the University and these researchers block me and my access to research funds and company involvement. They ignore my patent rights in the invention and instead seek large grants and commercial involvement in my patented technology. You can see

the injustice of the University's use of sovereign immunity and its heavy-handed and unethical application against an individual with a small business.

Sincerely,

Carolyn Dry, Ph.D.

GRAY MATTER LLC
NEWPORT BEACH, CALIFORNIA
March 6, 2002

Senator Patrick Leahy,
Chairman,
Senate Judiciary Committee
224 Dirksen Office Building
Washington, D.C. 20510

Re: S. 1611, "Intellectual Property Protection Restoration Act of 2001"

Dear Chairman Leahy:

I am writing to support enactment of S. 1611, the "Intellectual Property Protection Restoration Act of 2001."

As a principal in a software development firm that relies on the protection of federal copyright, patent and trademark law, I am concerned about the Supreme Court's decision *Florida Prepaid Postsecondary Educational Expense Board* v. *College Savings Bank*, 527 U.S. 627 (1999) and the disparity it creates between commercial entities, who are subject to federal infringement remedies, and state entities, who are not.

Recent amendments to state law allow conduct by licensees that infringe an intellectual property owner's rights under federal law. For commercial licensees, intellectual property owners can sue for infringement in federal court to protect their rights. For state entities, however, that avenue is now closed due to Florida Prepaid. As the GAO reports, many states do not waive sovereign immunity against suit for infringement and related tort claims. The recent changes to state law now make even breach of contract actions, for which states do waive sovereign immunity, unavailable as well.

Examples of these changes include:

Assignment: Under federal law, a non-exclusive intellectual property license is not assignable without consent of the licensor. State law now says that most restrictions on assignment of a non-exclusive license are unenforceable. For example, if our company were to license software at a reduced price to a state entity "for education use only" and the state entity were then to make an unauthorized assignment in the commercial market, we would have no remedies for breach of the license under state law. Florida Prepaid would deny us access to federal courts to pursue an infringement claim as well.

Use after cancellation: Under federal law, if we terminate a license, all silblicenses are terminated as well. This right is essential to protect our trademark, since continued use by a sublicensee after such a termination could constitute "naked licensing," invalidating our mark. State law now says that a "licensee in the ordinary course of business" can continue exercising intellectual property rights after its licensor's rights are terminated. If one of our licensees makes an unauthorized sublicense to a state entity that qualifies as a "licensee in the ordinary course of business" and the licensee's rights are then terminated, the state entity can continue using our software even though it knows it has no rights. We cannot invoke breach of contract remedies in state court, and cannot seek remedies for infringement in federal court due to Florida Prepaid.

Pirated Copies: State law now provides that if software "customarily is considered part of goods," it is treated as "goods." Under state law, a person with a "voidable" title to goods, such as a bailee or a consignee, can transfer good title to a "good faith purchaser for value" even if the delivery was procured by criminal larceny. Under federal law, an unauthorized sale of such software by a bailee or consignee would be an infringement. However, if the buyer is a state entity that qualifies as a "good faith purchaser for value," under state law the software owner cannot sue in state court for breach of the consignment agreement even if the delivery was procured by larceny. Florida Prepaid now denies access to federal court for any infringement remedies as well.

Many of our dealings are international. There is a also a question whether the U.S. can remain in compliance with its international obligations, such under the TRIPS Agreement, the WIPO Copyright Treaty, the Trademark Law Treaty and the proposed Patent Law Treaty. Among other things, these agreements require recognition of effective remedies for infringement. If U.S. law does not provide effective remedies against infringement by state entities, then continued U.S. compliance with its treaty obligations may be in doubt.

The General Accounting Office Report has presented a thoughtful report that examines lawsuits against state entities for intellectual property infringement. While lawsuits are certainly evidence of infringement, the inquiry need not end there. As the Court said: "It is this conduct then—unremedied . . . infringement by the States—that must give rise to the Fourteenth Amendment violation that Congress [seeks] to redress." Florida Prepaid at 527 U.S. 640 (emphasis added). To the GOA's list of unavailable tort remedies for infringement against state entities, one must now add the unavailability of breach of contract remedies against state entities that license intellectual property.

There is mounting conflict between the requirements of federal intellectual property law and state law. For commercial parties, intellectual property owners can protect their rights by an infringement suit in federal court. Due to Florida Prepaid, that is not possible against a state entity, and state law remedies are increasingly inadequate as well. Legislation like S. 1611 is urgently needed to correct a significant and growing problem.

Very truly yours,

LORIN BRENNAN,
Manager

Statement of Hon. Orrin G. Hatch, a U.S. Senator from the State of Utah

Thank you, Mr. Chairman. First, let me thank you for holding this important hearing today. On the day the Supreme Court issued its decision in the *Florida Prepaid* and *College Savings Bank* cases in 1999, you and I both pledged to work together to find an appropriate response to the court that would fairly protect the rights of American innovators and creators. Continuing that process, today we will have a discussion of the issues and of your proposed legislation, S. 1611. I also want to commend your enthusiastic leadership on this important and complex property rights issue.

You will recall that as part of the fact-finding process the Court suggested we undertake in fashioning future legislation, I requested that the General Accounting Office make a study of the factual background and options available to us. They issued a report on their findings in September of last year. I would ask that their report, *Intellectual Property: State Immunity Infringement Actions*, be included in the Record of this hearing so as to be included formally in the Congressional fact-finding process.

In brief, Mr. Chairman, while their process relied largely on self-reporting, and was therefore not probably exhaustive, what the GAO found includes the following: First, States very often own intellectual property and benefit from the federal protection of such intellectual property. Second, that for most of the 15 years reviewed, most commentors believed States were liable for infringing intellectual property rights. Third, that despite this widespread belief, at least 58 active cases were brought against States for infringement and perhaps hundreds of matters dealt with short of litigation. Fourth, very few, and perhaps no remedies now exist for redress against a State or state entity that is violating someone's intellectual property rights.

Mr. Chairman, this state of affairs is unfair. I applaud you for seeking to address this imbalance in our intellectual property system and for holding this hearing today. I understand your legislation seeks to be clearly within the bounds the Supreme Court has set for such legislation. I hope, Mr. Chairman, that we might continue to work together so that we can be sure that, while we can be comfortable with any final legislation's constitutionality, we can also be certain that it will be effective in protecting these important property rights and in restoring a substantial amount of the fairness that has been lost since 1999. We must ensure that our creators and innovators are provided adequate and effective protection for their works.

That is what our Constitution empowers this body to do and we have not hesitated in recognizing the need to do so.

In sum, Mr. Chairman, I hope that we will be able to continue to work together to make the federal intellectual property system as fair and as successful as it has been previous to these decisions, and I look forward to the testimony the Committee receives today.

IPO ASSOCIATION
WASHINGTON, D.C. 20037
February 19, 2002

Hon. Patrick J. Leahy Chairman
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

I am writing on behalf of Intellectual Property Owners Association to express our strong support for S. 1611, the Intellectual Property Protection Restoration Act of 2001.

Intellectual Property Owners Association (IPO) represents companies and individuals who own patents, trademarks, copyrights and trade secrets. Our members obtain about 30 percent of patents that are granted to U.S.: nationals and federally register thousands of trademarks each year. Our nearly 100 corporate members are largely U.S.-based technology and consumer products firms.

1PO has been a strong advocate for an effective U.S, intellectual property system. Our members know that for this system to' function properly, the right to receive patents, trademarks, and copyrights must be accompanied by a requirement to respect them. S—1611 seeks to ensure just that.

By encouraging a waiver of sovereign immunity, S. 1611 attempts to place States on equal footing with private parties, Quite simply, a State cannot sue for damages on State-owned intellectual property without submitting to the possibility of being sued for damages. This common sense solution should eliminate the State infringement loophole and make a strong statement for respecting intellectual property rights worldwide.

We thank you for introducing this legislation and look forward to working with you on its further consideration.

Sincerely,

HERBERT C. WAMSLEY
Executive Director

INTERNATIONAL TRADEMARK ASSOCIATION
WASHINGTON, D.C. 20036
February 4, 2002

Hon. Patrick Leahy,
Chairman
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Re: S. 1611, the "Intellectual Property Protection Restoration Act of 2001"

Dear Chairman Leahy:

I am writing to lend the support of the International Trademark Association ("INTA") to S. 1611, the "Intellectual Property Protection Restoration Act of 2001." This bill is a fair and effective measure that would restore federal remedies for violations of intellectual property rights by states. INTA, the world's largest organization dedicated exclusively to the protection of trademarks and to their preservation as valuable tools for consumer protection, respectfully requests that this letter be

made part of the record for the hearing on federal remedies for state violations of intellectual property rights,

The matter of state abrogation of sovereign immunity has been of substantial concern to owners of private intellectual property rights in light of recent Supreme Court opinions on the Eleventh Amendment to the U.S. Constitution and federalism, and, Mr. Chairman, INTA very much appreciates your leadership on this issue. INTA has worked with other members of the intellectual property community and your staff to develop legislation that would as a matter of fairness and in the interest of consumer protection hold states and state entities to the same principles of law as the private sector. After all, states and their agencies often present themselves as valid commercial entities that compete with private sector enterprises. Examples of state commercial activity include the sale of goods and services, with the ability to sue for breach of contract, and, most importantly with respect to trademark law, registration of trademarks on the Principal and Supplemental Registers of the U.S. Patent and Trademark Office.

We are especially pleased to see that S. 1611 places trademarks as coequal partners with patents and copyrights in the waiver arrangement set forth in the bill. We agree with your position that like patents and copyrights, trademarks are a form of property that falls within the scope of the Fourteenth Amendment. From bath a common law and statutory perspective, it is clear that the scope of protection afforded to trademarks is determined by more than the metes and bounds of the goodwill attached to them.

Contrary to the view of some commentators that trademark law should reach only the intangible goodwill attached to particular marks, the common law always has protected coined, arbitrary, and suggestive marks from the inception of their use and without a requirement that their owners demonstrate actual goodwill.[1] Likewise, a senior user of a mark may, under certain circumstances, enforce its rights even in geographic areas in which a junior user has cultivated goodwill in its own mark first.[2] It is thus apparent that trademark protection and goodwill were not necessarily congruent concepts under the common law even prior to the passage of the Lanham Act.

Statutory provisions of the Lanham Act, including the Act's constructive notice and nationwide priority provisions reinforce the common law rule by requiring a mark owner whose use began after the issuance of a senior user's registration to forfeit its goodwill in the face of a challenge by the senior user, even if the junior user adopted its mark in good faith.[3] The legislative abrogation of the goodwill model is even more apparent in the Trademark Law Revision. Act of 1988 ("TLRA"), in which Congress adopted the intent-to-use system after consultation with the trademark community.[4] Under this regime, claimants filing intent-to-use applications may, depending on the length of the application process, secure priority of rights in their marks that can predate by years the actual goodwill that accompanies the ultimate use of the marks in commerce.[5] Finally, both the express text and the legislative history of the Federal Trademark Dilution Act of 1995 ("FTDA")[6] clearly reflect an intent to protect not merely the public from the risk of confusion that is the hallmark of the traditional infringement cause of action, but also mark owners' investments as well.

INTA does not mean to suggest, of course, that the right to exclude conferred by a property ownership in a trademark is absolute or that it should be.[7] This does not, however, prevent trademarks from being property rights any more than copyright law's fair use doctrine precludes copyrights from property status.[8]

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[1] *See, e.g., Blisscraft of Hollywood* v. *United Plastics Co.*, 294 F.2d 694, 700 (2d Cir. 1961) ("The presumption that a fanciful word or mark becomes distinctive and identifies the source of goods on which it is used immediately after adoption and bona fide first use is basic in trademark law.").

[2] *See United Drug Co.* v. *Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Hanover Star Milling Co.* v. *Metcalf*, 240 U.S. 403 (1916); *see also Davidoff Extension S.A.* v. *Davidoff Comercio E Industria Lida.*, 747 F. Supp. 122 (D.P.R. 1990).

[3] *See generally* 15 U.S.C. §§1057(c), 1072; *see also Foxtrap, Inc.* v. *Foxtrap, Inc.*, 671 F.2d 636 (D.C. Cir.1982); *Howard Stores Corp.* v. *Howard Clothing Inc.*, 308 F. Supp. 70 (N.D. Ga. 1969).

[4] *See* Pub. L. No. 100-667, 102 Stat. 3935 (1988).

[5] *See* 15 U.S.C. §1051(b)-(d).

[6] *See Id.* §1125(c).

[7] *See, e.g.*, 15 U.S.C. §1115(b)(4) (authorizing "fair descriptive uses" even of words covered by incontestable federal registrations); *see also Stop the Olympic Prison* v. *United States Olympic Committee*, 489 F. Supp. 1112 (S.D.N.Y. 1980) (holding use of the "Olympic" trademarks by political protesters subject to first Amendment protection).

[8] *See College Sav. Bank* v. *Florida Prepaid Post-Secondary Expense Bd.*, 119 S. Ct. 2219, 2224 (1999) ("The Lanham Act may well contain provisions that protect constitutionally cognizable

Continued

Mr. Chairman, INTA appreciates that S. 1611 gives due consideration to the settled expectations of mark owners in their ability to protect the property rights represented by their brands, whether against the states or other market participants. We also gratefully acknowledge your efforts and that of staff to develop legislation that would create a level playing field between private entities and states that own intellectual property. INTA looks forward to working towards the passage of a measure that would effectively protect all forms of intellectual property rights.

Sincerely,

NILS VICTOR MONTAN
President

MITTEL ASEN LLC,
ATTORNEYS AT LAW
Portland, ME 04112–0427

Hon. Patrick Leahy
Committee on Judiciary
SD–224
Dirksen Building
Washington DC 20510

Hon. Orrin Hatch
Committee on the Judiciary
SD–152
Dirksen Building
Washington DC 20510

Dear Chairman Leahy and Senator Hatch:

I represent Julie Harrington who has been employed by the State of Maine at the Northern Maine Juvenile Detention Facility as a teacher and administrator. Ms. Harrington has written and installed a piece of software used for inmate tracking.

Ms. Harrington has filed a suit for copyright infringement of that software against the State of Maine and several state employees in the United States District Court for the District of Maine, Dkt. No. 02–25–B–H. Although the State has yet to file its answer, we believe the state will assert its Eleventh Amendment immunity.

This case was filed well after the conclusion of the GAO study on the subject. of Eleventh Amendment immunity in the area of intellectual property. However, to amplify on the statistics appearing in the report, I consulted with the Maine State Law Library. A search of its historical legislative database was conducted by Library staff. The search indicates the following.

There have been 53 bills introduced in the last 10 years through which a waiver of sovereign immunity for actions in state court was sought. No bills were introduced seeking a waiver of sovereign immunity for actions filed in federal court. Of those 53 bills, only four of those bills had even partial success.

A bill was recently introduced seeking a waiver of sovereign immunity in federal court on behalf of Ms. Harrington. Its author is Rep. Anita Haskell, of Milford, Maine.

On behalf of Ms. Harrington, I ask that the Senate approve S. 1611 so that people like herself can obtain adequate compensation of their intellectually property.

Very truly yours,

ROBERT E. MITTEL

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property interests—notably its provisions dealing with infringement of trademarks, which are the property of the owner becaase he can exclude others from using them.”).

MOTION PICTURE ASSOCIATION
WASHINGTON, D.C. 20006
February 26, 2002

Dear Pat

I want to take just a moment to thank you, Mr. Chairman, the Ranking Republican, Senator Hatch, and your other Judiciary Committee colleagues for taking rip the "Intellectual Property Protection Restoration Act" (S. 1611). As you know, the MPAA strongly 5uhports your efforts to redress the inequities rendered by the Suprerne Court's recent *Florida Prepaid* decisions, which effectively immunized states from liability for state infringements of private intellectual property rights. We believe S. 1611 is appropriate, timely, and much deeded legislation, and I encourage you to move swiftly toward its enactment.

MPAA member companies are among the leading producers and distributors of motion pictures in the United States. Collectively our companies produce and distribute roughly 90 percent of the filmed entertainment in the theatrical, television, and horne video markets. State-owned entities—schools, libraries, public agencies, even prisons—are significant consumers of these products, including through purchase or licensing of copies and public performance rights. Increasingly, these entities are acting not just as consumers, but also as competitors in the marketplace, as was the case with the alleged patent and trademark infringements in the *Florida Prepaid* cases.

Unfortunately, in its efforts to limit Congress' Article I powers to abrogate State sovereign immonity, the Supreme Court has created an anomalous situation wherein states—unlike the Federal Government—are free to enjoy Federal intellectual property protection and to exploit that protection against private parties, including to their own competitive advantage, but are left free from obligation to respect the intellectual property rights of private parties. This is an inequity that cries out for congressional attention, as it did over a decade ago, in 1990, when the Judiciary Committee first took up, and Congress passed, the Copyright Remedy Clarification Act (CRCA) to level the playing field in this area.

Fortunately, in limiting Congress' Article I powers, the Supreme Court has not in any way suggested that Congress cannot, or should not, act to maintain a level playing field in the exploitation of Federally-granted intellectual property rights. In fact, quite to the contrary, the *Florida Prepaid* cases provide valuable guidance in terms of the several ways in which Congress may properly exercise its legitimate authority to that end. we believe that S. 1611 reflects a faithful adherence to the lessons of *Florida Prepaid* and the cases that preceded it, and we commend your thoughtful study of these issues and the care with which you have crafted the provisions of this legislation.

Again, thank you for your attentive efforts in this area. We look forward to continuing to work with you to ensure timely enactment of this important legislation.

With affection

JACK VALENTI
Chairman, Chief Executive Officer

PROFESSIONAL PHOTOGRAPHERS OF AMERICA
ATLANTA, GA 30303
February 25, 2002

Hon. Patrick Leahy
Chairman,
Senate Judiciary Committee
224 Dirksen Building
Washington, DC 20510

Mr. Chairman, Senator Hatch and members of the Committee:

On behalf of Professional Photographers of America and its 14,000 members working in all fields of photography and imaging, thank you for the opportunity to be heard regarding the Intellectual Property Protection Restoration Act of 2001. As the

world's largest and oldest trade association for professional photographers, the protection of our members' work from illegal copying is of primary concern.

Unfortunately, the Supreme Court's nullification of Congressional Acts designed to prevent States and their agencies from seizing the intellectual property of photographers, artists and inventors without any form of compensation has created an environment where States may freely trample on the rights of citizens.

In addition to violating the right of individuals to be secure in their property, the current state of affairs permits States to economically harm small businesses—the very backbone of our national economy. In general, photographers do not derive the majority of their income from the initial creation of photograph. Instead, their income comes from licensing the images they create for a set purpose, period of time or presentation to a specific audience. This arrangement, created by market forces, allows photographers to profit from their work and makes high-quality images more affordable to those clients who require only limited usage of a particular image. Without adequate protection from copyright infringements, this system no longer functions properly.

Since State governments and their agencies have been placed above the reach of federal intellectual property laws, they have no incentive to compensate an artist for his or her endeavors. These governments have both the opportunity and ability to steal the creative efforts of both those who do business with them directly, and of those whose work can be viewed on the Internet. In addition to the direct harm from lost sales, such ability dilutes the ability of photographers to earn income by licensing these works to others.

Ironically, while States and their agencies are free to ignore the patents, trademarks and copyrights of individual citizens and businesses, works created by States are given full protection of the law. The net effect of the current legal environment is a chilling of the individual's incentive to promote the progress of the useful arts and sciences, which runs counter to the entire purpose of the Constitution's copyright clause.

Fortunately, this gaping hole in intellectual property protections can be easily patched. The Intellectual Property Protection Restoration Act, with its careful construction that stays within the boundaries set by the Supreme Court, is an excellent opportunity for Congress to right this wrong and restore the longstanding ability of individuals to protect themselves from State infringements.

We respectfully urge the committee to remedy this unequal protection of the law and restore the protections of all patent, copyright and trademark owners from infringement by State governments by approving Senate 1611.

Again, we thank the committee for this opportunity.

Respectfully submitted,

DAVID P. TRUST
Chief Executive Officer

PROFESSIONAL PHOTOGRAPHERS OF AMERICA
ATLANTA, GA 30303
April 2, 2002

Hon. Patrick Leahy
Chairman,
Senate Judiciary Committee
224 Dirksen Building
Washington, DC 20510

Mr. Chairman, Senator Hatch and members of the Committee:

As part of our testimony regarding S. 2031, the Intellectual Property Protection Restoration Act of 2002, we offer the stories of three photographers who have been the victims of infringement by a state government or one of its divisions:

1. According to photographer Ken Meade of Hillsboro, Illinois, he created images of a state resort park for the Illinois Department of Tourism in 1989. Originally, the images were used according to the agreement between the photographer and the state. However, in 1998, the same year that states were given sovereign immunity in copyright suits, Illinois reused the images in a new brochure without securing permission of the copyright owner or offering payment for the additional usage. When questioned about the images, the State claimed ownership of the images.

2. David Boyce of Portage, Michigan reports that he was in a local camera store and noticed a clerk making copies of professionally made high school senior portraits. Being one of the store's "regulars," Mr. Boyce asked what the employee was

doing. She said she was making the copies for Western Michigan University. According to Mr. Boyce, he then examined the photographs, and all of them were marked as being copyrighted by their respective photographers. Mr. Boyce pointed out that making such copies violated the law. The clerk agreed but said the University had given her permission to make the copies. The clerk then produced a letter from the University stating that they were aware of the copyright laws and regulations and they would take responsibility for infringement.

3. According to John D. Landry Jr., of Landry Studio in Carencro, Louisiana he created 360-degree panoramic photographs during a football game between the University of Southwest Louisiana (now known as UL-Lafayette) and the University of Alabama at Cajun Field in Lafayette, Louisiana. Dan McDonald, USL Athletic Information Director, asked to see the images for the purpose of reviewing them with the school's athletic director the head coach. They were supplied a contact sheet, with the copyright notice attached. Without the photographer's knowledge or consent, the University copied an image from the contact sheet and printed the image on the season tickets for the next (1991) football season.

Intellectual property owners should not be forced to live in fear that they have no recourse if a state government destroys their ability to derive economic gain from their artistic and creative labors. Bearing that in mind, we urge passage of S. 2031, so that photographers and other intellectual property holders may once again have adequate remedies for copying by state governments.

Respectfully submitted,

DAVID P. TRUST
Chief Executive Officer

SOFTWARE & INFORMATION INDUSTRY ASSOCIATION
WASHINGTON, DC 20005–4095
March 4, 2002

Chairman Leahy
Committee on the Judiciary
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The Software & Information Industry Association (SIIA) hereby requests that the following letter and attachments be included in the record for the hearing before the Senate Judiciary Committee on S. 1611, the Intellectual Property Protection Restoration Act held on February 27th, 2002.

SIIA is the principal trade association of the software and information industry and represents over 800 high-tech companies that develop and market software and digital content for business, education, consumers, the Internet, and entertainment. Hundreds of these companies look to SIIA to protect their intellectual property rights around the world. SIIA combines strong antipiracy education and enforcement efforts through such programs as its piracy hotline (1–800388–7478), the Certified Software Manager course, SPAudit, KeyAudit, the Software Management Guide, videos, posters and other educational and audit materials. Information on SIIA and its wide range of antipiracy activities can be found at www.siia.net.

SIIA supports immediate enactment of legislation that would level the playing field between state entities and other intellectual property owners. State entities should not be able to benefit from the patent, copyright and trademark laws as owners of intellectual property but not be liable for damages for infringing the intellectual property rights of others. SIIA appreciates the efforts of Chairman Leahy and his staff to resolve this problem. We support S. 1611 and urge its immediate consideration and enactment.

Following the Supreme Court's decisions in *Florida Prepaid* v. *College Savings*, SIIA's antipiracy division undertook a review of its records to determine whether and to what extent State entities were infringing our members' copyrights. SIIA was extremely conservative in determining which entities were "state entities." If there was any doubt whether an entity was a state entity that entity was excluded from our study. Further, we only included in our study obvious and flagrant instances of piracy. We are able to make this determination largely because after SIIA learns of a possible infringement, we audit the infringing entity's computers. The audit

helps us conclusively determine what software exists on an entity's computers and how much of that software is licensed and how much is illegal.

In the six years covered by the review,[1] we identified at least 77 matters involving infringements by State entities. Of these 77 matters, approximately 50% involved State institutions of higher learning. The other 50% consisted of State hospitals, bureaus, public service commissions, and other instrumentalities. In the overwhelming majority of cases, no litigation actually resulted. This helps bolster assertions made by the U.S. Copyright Office and U.S. Patent and Trademark Office and others that the results published in the GAO report do not accurately reflect the amount of intellectual property infringement engaged in by state entities because many—if not most—instances of intellectual property infringement never find their way into the courts. Moreover, the SIIA study covers only those matters reported to SIIA. We have no doubt that a far greater number of State infringements than we are made aware of go undetected and unreported.

The *Florida Prepaid* decision has had a dramatic and adverse effect on our ability to combat software piracy by state entities. The most recent example of this occurred this past Monday, February 25, 2002.

Through a confidential source, SIIA was alerted to the piracy of hundreds of computer software programs on computers owned by Spring Grove Hospital Center in Baltimore, Maryland. With Spring Grove's approval, SIIA audited their computers to determine the extent of the piracy. The audit revealed several hundred thousand dollars worth of unlicensed software, which the hospital acknowledged.

For more than a year SIIA and Spring Grove Hospital attempted to work out a settlement. This settlement was to involve a monetary sum to be paid by Spring Grove Hospital ranging anywhere from three quarters of a million dollars to a quarter of a million dollars, with SIIA and the hospital negotiating in good faith toward a reasonable settlement. Although the actual amount of monetary damages at issue in this case might be disputed, it is evident that the amount was large and directly related to the amount of software piracy taking place in their facilities. Also, as is the case with all SIIA settlement agreements, any settlement agreement with Spring Grove would have required them to legitimately license the software.

On Monday, February 25th, SIIA's antipiracy department received a letter from Spring Grove Hospital asserting their 11th Amendment immunity and referencing the *Florida Prepaid* and *Rodriguez* cases. (see Attachment A) They now refuse to pay any monetary damages. So, although Spring Grove Hospital has all but admitted wrong doing and appeared potentially willing to settle the case for hundreds of thousands of dollars in damages, once they discovered this giant loophole in the law they took full advantage of it.

This case illustrates the unfairness of the Court's sovereign immunity decisions. Effectively, the State gets at least one free infringement-no matter how large the damage. The State went from potentially paying a sum of at least a quarter million dollars for the infringed software to zero. They made no offer to pay for licenses that they would need to make their use of the software legitimate. Moreover, without the threat of damages, it is unlikely that the State would agree to an audit in the first instance, which is the primary way that we determine the extent of piracy at a given location. The current state of the law virtually forces SIIA to sue for an injunction first, and ask questions later.

This is just one example. There are many others. In fact, after discovering software piracy by a state entity in New Hampshire, that state entity threatened legal sanctions against SIIA for attempting to either: (1) *enjoin further infringing acts*; or (2) obtain damages for unauthorized use of software. (see Attachment B). The results in these cases exemplifies the types of problems enforcing the intellectual property rights of our members. It also completely undercuts the incentive for states to monitor their copyright compliance. It is precisely this kind of inequity that Congress attempted to remedy when it passed the CRCA in 1990, and that we are asking the Committee to remedy.

Thank you again for all your work in this very complex area of the law and thank you for this opportunity to submit our comments into the record. If you need more information on our study or these two cases, please feel free to contact SIIA Intellec-

[1] Because of confidential settlement agreements, we cannot reveal the identity of the parties in these matters, and can make this information available only in the aggregate.

tual Property Counsel, Keith Kupferschmid by e-mail at keithk@siia.net or by phone at (202) 789–4442.

Sincerely,

KEN WASCH
President