Testimony of

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H.R. 2344, THE “INTELLECTUAL PROPERTY PROTECTION RESTORATION ACT OF 2003”

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I. INTRODUCTION

Public universities are gravely concerned about the impact H.R. 2344 would have on these institutions and their research and education programs. This legislation would require states to waive their sovereign immunity as a precondition for use of federal intellectual property laws by states and state entities. Although we believe that public universities would be willing to meet such a requirement, the decision to do so is not theirs to make but instead is a decision that must be made by the states themselves. There is strong evidence that states would not be willing to meet this requirement. The consequent loss of access to federal intellectual property law as stipulated in this legislation would have devastating consequences for public universities.

Before the Supreme Court’s 1999 decision in Florida Prepaid,¹ which affirmed sovereign immunity for intellectual property suits against states, public institutions of higher education treated intellectual property with the utmost care, respect, and caution. Like private institutions of higher education, they did so not to avoid liability for intellectual property infringement but because respect for intellectual property is inherent in the mission of these institutions and their public purposes. Therefore, it should not be a surprise that after Florida Prepaid, public institutions of higher education have not changed their behavior, and continue to act with care, respect and caution. The GAO’s yearlong study on state immunity in intellectual property actions, undertaken specifically to determine the effect of Florida Prepaid, found no pattern of infringement by institutions of higher education.² It would be counter-productive to the rewards of research and technology transfer, and contrary to the missions of higher education to act otherwise.
Public universities are major creators of intellectual property. As such, they recognize the importance of protecting their own intellectual property and respect the importance of using properly the intellectual property of others. That is why there is no evidence of systematic infringement of intellectual property by public institutions of higher education. Cooperative efforts with the private sector have brought thousands of inventions out of the campus and into the lives of countless individuals through technology transfer programs that move the results of fundamental research into the private sector for development into useful products and processes, improving the human condition and producing broadly beneficial economic growth for our nation. In order to continue to do so, we must adhere to the highest principles and respect for intellectual property.

While H.R. 2344 is meant to level a perceived uneven playing field, the behavior of public universities is indistinguishable from that of private universities; they both operate on a functional level playing field consistent with their public-purpose missions, as noted earlier, yet the ultimate effect of this legislation could be to destroy the technology transfer programs at public institutions of higher education. This legislation would also expose other vulnerable institutional intellectual property to unscrupulous exploitation. Distance education courses, public service materials, textbooks and course materials, time-honored logos and mascots, public television programming, university press publications, and other valuable intellectual property would be at risk.

This is because the vast majority of public institutions of higher education are in no position to waive sovereign immunity – that is a decision for state legislatures or state constitutional amendments. Public institutions of higher education cannot guarantee, and
cannot even anticipate, that they could convince the states to waive sovereign immunity as a whole – as this legislation requires. When this legislation was considered last year, no state gave any indication it would be willing to waive sovereign immunity, and both the National Governors Association and the National Association of Attorneys General opposed it.

By eliminating all protections for intellectual property held by a state or state agency unless the state, as a whole, waives its 11th Amendment sovereign immunity to suit in federal court for acts of infringement, the bill effectively destroys the ability of public universities to enforce patents, copyrights, and trademarks in federal court. It is fundamentally unfair to destroy the fruits of teaching, research, and public service by enacting legislation with requirements that we are in no position to respond to.

Under these circumstances, this legislation places universities in an untenable position: without any evidence of significant wrongdoing, public institutions of higher education would nonetheless be severely harmed by loss of federal intellectual property protection under circumstances over which they have no control. This is an outcome that is punishingly unfair to public universities and undeniably harmful to the greater interests of the nation.

II. THERE IS NO EVIDENCE THAT PUBLIC INSTITUTIONS OF HIGHER EDUCATION ABUSE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

The GAO spent an entire year examining the issue of state immunity in infringement actions. At the end of the study the GAO concluded, “Few accusations of intellectual property infringement appear to have been made against the states either through the courts or administratively.” The GAO found only 58 lawsuits from 1985 to
2001 in which states and state entities were alleged to have infringed intellectual property.\(^5\) When compared to the total of all federal cases brought for alleged infringement during that time period, cases alleged against states and state agencies amount to only .045% of the total.\(^6\) Moreover, of all state and federal cases that were resolved by the courts, all were resolved in favor of the state.\(^7\) The GAO also reported that state agencies asserted that they had no incentive to infringe and, when confronted with an accusation, they investigate the matter thoroughly and resolve it.\(^8\)

Anticipating the findings in the GAO report, the Supreme Court, in *Florida Prepaid*, found:

> In enacting the Patent Remedy Act, however, 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.\(^9\)

The GAO report and Supreme Court’s findings echo the experience of North Carolina where the Attorney General can confirm only one infringement case against a UNC institution in the last 20 years. All 16 UNC constituent institutions, like their sister institutions throughout the nation, have extensive education efforts, strong policies on intellectual property ownership and use, and sanctions to enforce those. This understanding of the importance of intellectual property rights makes infringement unlikely at a public institution of higher education. Moreover, as Professor Menell, Professor of Law at the University of California at Berkeley and Director of the Berkeley Center for Law and Technology, has noted, states have strong social, bureaucratic, and economic constraints that discourage infringement.\(^10\)
III. THE PROPOSED LEGISLATION WOULD HAVE A DEVASTATING EFFECT ON TECHNOLOGY TRANSFER AND ECONOMIC DEVELOPMENT LOCALLY, REGIONALLY, AND NATIONALLY

In the same way that the Morrill Act’s creation of land grant universities sought to develop our nation’s vast natural resources, the Bayh-Dole Act seeks to develop our nation’s vast knowledge resources. Bayh-Dole created a patent policy for federal agencies that fund research, which enables small businesses and non-profit organizations (including universities) to retain title to inventions created under the funded research and then to license those inventions for commercialization. The results of Bayh-Dole Act have confirmed the belief that Congress expressed in technology transfer as a way of remedying the loss of valuable inventions to the public domain – where private enterprise was not willing to develop technology that they couldn’t protect.

The Association of University Technology Managers (AUTM) has reported that technology transfer and development in FY 1999 (conducted largely but not exclusively by universities) added about $40 billion to the U.S. economy, supported 260,000 jobs, and helped to spawn new businesses, industries, and markets. AUTM also reported that at least 2000 products are presently available to the public that would never have been created in the absence of technology transfer, development, and licensing activities by AUTM members.

While Bayh-Dole has been a great success for over 20 years, bringing the fruits of research out of colleges and universities and into the market, Bayh-Dole requires that the intellectual property be licensed to commercial enterprises for development and introduction to the marketplace, with a preference for small businesses and with profit
sharing for the inventors. Proposed H.R. 2344 would undercut this strategy and jeopardize much of this success.

North Carolina prides itself on the innovation and invention that forged unprecedented cooperation between its public and private institutions of higher education and with private enterprise. That innovation created, for example, the Research Triangle Park, where industry works with UNC at Chapel Hill, North Carolina State University, and Duke University, to develop and commercialize the genius of their cooperation. If any UNC institution were to fail to respect the intellectual property rights of others, the result would be self-destructive, because it would erode the fabric of the partnerships that make technology transfer work. Intellectual property rights are the essential basis upon which the cooperation among public and private higher education and private enterprise operates. This cooperation is a daily event and is the key to our State’s economic development, progress, and prosperity, as we move to a knowledge economy. No UNC institution or leader would jeopardize that cooperation by ignoring intellectual property rights.

As we enter the knowledge economy, especially in North Carolina where traditional economic activities have withered, creation of intellectual property within universities is essential to the health of our economy. Unfortunately, the very real result of this bill could be to cripple public universities as one of the major contributors to the economic development that Bayh-Dole and technology transfer have provided. Industry and venture capital investors are also essential partners in this much-needed economic development. This bill would affect the economic health of those partners, as well as the institutions of higher education.
The benefits of Bayh-Dole to the state, region, and nation are evident throughout the University of North Carolina system. In 1999, the year *Florida Prepaid* was decided, UNC at Chapel Hill had 47 licenses generating income, was issued 41 new patents, and applied for 74 more. North Carolina State University had 60 licenses generating nearly 8 million dollars in income, had 30 patents issued, and applied for 62 more. NCSU also formed 8 new start-up companies in 1999, as a result of their technology transfer program. UNC’s research efforts that contribute to building the economy are not limited to UNC at Chapel Hill and North Carolina State. The Southern Technology Council recently ranked UNC Charlotte "best in class" along with Johns Hopkins, North Carolina State University, and the University of Georgia, placing UNCC second in the number of start-up companies per $10M in research, and second in the percentage of licenses to start-ups. These successes are repeated every day in the public institutions of higher education in all 50 states.

A necessary element of the success of technology transfer is the ability of universities to pass full rights to private parties. We don’t take inventions to market; we license the inventions to industry and investors, who then make the inventions available to the public. Industry and investors won’t participate in such programs if they can’t fully protect their rights and investments in the marketplace. Private enterprise will abandon development and investment programs with public universities, and the most productive and creative faculty will leave public institutions. Such an outcome is not only harmful to public universities, but to higher education, industry, and the nation as a whole. The vigorous system of research and development that has propelled US leadership in science and technology and driven our economic development is an
intricately interlinked system of public and private university, industry, and government collaboration that depends on the vitality of all components of that system; crippling any one of those components will significantly impair the system as a whole. If that happens, the nation is the ultimate loser.

IV. SOVEREIGN IMMUNITY IS A CORNERSTONE OF OUR GOVERNMENT AND WAIVER OF IT IS A PREROGATIVE OF THE STATES, NOT INSTITUTIONS OF HIGHER EDUCATION

It is doubtful that many states will choose to waive sovereign immunity if this legislation is passed because the sovereignty of the states, and the inherent sovereign immunity, is a central component of the structure of our government. Its origin lies with the Declaration of Independence, and both the Articles of Confederation and the Constitution have reinforced it. 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.

This dual sovereign framework is mutually restrictive, and has caused the courts to strike down the states’ improper attempts to interfere with the federal government, in the same way they have invalidated attempts by the federal government to improperly regulate the states.

It should be remembered that even after Florida Prepaid, an injured party still has remedies for infringement. In spite of sovereign immunity, an injured party still retains the right to injunctive relief for infringement. This would protect the owner of the property, and if the state needs to continue to use the property after being made aware of
the dispute, a license would then be obtained or use would cease. In addition, a party may allege that an infringement is a taking, and seek to recover for the loss in the same way that a party seeks to recover compensation for the taking of real estate or other property by the state. An injured party may also allege a variety of contract, tort, and criminal law theories for redress and compensation.

Under appropriate circumstances, public institutions of higher education would be willing to waive their sovereign immunity as a condition for access to federal intellectual property law, but the decision is not ours to make. State governments must make the decision to waive their sovereign immunity; under the current bill, that decision must be made for the entire state as a single entity. Most states, like North Carolina, only allow the state legislature to waive sovereign immunity. In other states, a state constitutional amendment would be required, and in several states where legislatures meet every two years, it could take two years to adopt enabling state legislation, assuming the state would agree to waive sovereign immunity.

It is remarkably inequitable that the proposed legislation would restrict state sovereign immunity when the federal government asserts its own sovereign immunity and retains expansive protections against suit for infringement, limiting remedies to compensatory damages for direct infringement, and jurisdiction in only one court convenient to the federal government. The federal statute protecting itself has no provision for declaratory judgments, treble damages, contributory or inducement of infringement claims, or injunctions. By contrast, H.R. 2344 expands state liability to equal that of private damage claims, and lowers and reverses the burdens of proof. The
V. CONCLUSION

H.R.2344 would have a devastating impact on the ability of public universities to fulfill a core aspect of their public mission, the creation of new knowledge and the translation of that knowledge into products and processes that benefit the nation and its citizens. The harm would come because universities must be able to protect the intellectual property they create and transfer that protection to the private sector partners with whom they collaborate in research and development programs. But this bill requires states to waive their sovereign immunity as a requirement for use of federal intellectual property laws. The decision to waive is not the public university’s decision; it is the state’s decision.

If states choose not to waive, and we believe there is overwhelming evidence that they will not, then public universities as state entities will lose access to federal intellectual property laws. Although public universities would be willing under appropriate circumstances to waive their sovereign immunity, unless some means can be found to assure state willingness to waive, or a capacity for universities to waive independent of state decisions, we must oppose this legislation.

2 General Accounting Office Study GAO-01-811 (September 2001), State Immunity in Infringement Actions.
3 Id.
4 Id. at p. 2.
5 Id. at p. 9.
6 Id. at p. 12.
7 Id. at pp. 10-11.
8 Id. at p. 12.
9 527 U.S. at 588 (citation omitted).
11 *The Land-Grant College Act of 1862*, introduced by Justin Smith Morrill of Vermont, provided funding for institutions of higher learning in each state to promote agriculture and the mechanic arts, seen to be the foundation for all prosperity in the nation.
12 35 USC §200-212.
15 The Research Triangle Foundation describes Research Triangle Park:

The 7,000-acre Research Triangle Park is the largest research park in the United States, and is home to roughly 140 organizations. RTP has around 38,500 full-time employees entering the Park each day. Recognized internationally as a center for cutting-edge research and development, the Park is owned and developed by the private, not-for-profit Research Triangle Foundation. The Research Triangle itself is named for the Triangle formed by the three universities: Duke University at Durham, the University of North Carolina at Chapel Hill, and North Carolina State University in Raleigh.

16 It is not just technology transfer that is at risk. UNC College and University logos could appear on countless inappropriate items. The productions of UNC-TV, which are distributed nationally, and which cover the state with local and statewide public service and educational programs, would be jeopardized because it could not assert its copyrights. The UNC Press could lose ownership of all of its publications. Distance learning courses, which are protected by copyright, currently offer 30 degrees available online to isolated students or those reentering the workforce. In addition, textbooks, course materials, and other internal inventions and innovations would be at risk.
17 See William Thro, *Sovereign Immunity and Intellectual Property*, Written Statement before The United States Senate, Judiciary Committee, February 27, 2002 for an excellent explanation of the dual sovereignty. The statement is referred to throughout.
18 Id. at p. 3.
20 William Thro, *Sovereign Immunity and Intellectual Property*, Written Statement before The United States Senate, Judiciary Committee, February 27, 2002 at pp. 5-6.
22 In *Wood & Gonzales v. NCSU*, 556 S.E.2d 38 at 40; (2001 N.C. App), the court held:

A waiver of sovereign immunity must be established by the General Assembly. Our Supreme Court has stated that "it is for the General Assembly to determine when and under what circumstances the State may be sued." *Guthrie*, 307 N.C. at 534, 299 S.E.2d at 625 (emphasis and internal quotation marks omitted). The Court has further stated that the State and its governmental units cannot be deprived of the sovereign attributes of immunity except by a clear waiver by the lawmaking body. The concept of sovereign immunity is so firmly established that it should not and cannot be waived by indirection or by procedural rule. Any such change should be by plain, unmistakable mandate of the lawmaking body.
24 28 USC 1498