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Cross Border Patent Disputes

David A. Makman[□]

Because of the global nature of modern business, it is becoming increasingly difficult to create appropriate and correct incentives in intellectual property cases. Despite the fact that there has been more than 100 years of treaty negotiations regarding intellectual property issues, there is little international consensus as to the proper way to value patent cases.

In any country, regardless of the specifics of the local intellectual property laws, the inventor who has a novel, non-obvious and useful idea that has significant commercial value is faced with three choices: they can disclose their invention in return for patent protection, they can try to protect it as a trade secret or they can develop a hybrid strategy using both forms of intellectual property protection. When the decision makers look at the steps they can take to protect their rights internationally, none of these forms of intellectual property protection is adequately effective.

At least since the 1980s, intellectual property holders who are based in the United States have been able to rely on two aspects of the global economy to leverage their United States patent rights into worldwide licensing structures. First: the United States has a large economy that comprises a substantial percentage of the world economy. Second: the United States is relatively friendly to patent plaintiffs due to the availability of discovery and of high damages awards. That said, it has never been clear how long this patent-friendly environment would continue in the United States. A US patent has a potential life span on the order of 20 years and, patent law and

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procedure are sufficiently unstable that one never knows how much the value of the patent will vary over the lifetime of the patent.¹

Nowadays, when one considers international markets, the benefits, costs and logistics associated with patent protection are even more complicated. The United States' share of the global economy is diminishing which makes it more difficult to leverage one's rights internationally given that each nation's patents are limited to the territorial bounds of the nation that issued the patent, and many nations are not convinced of the value of strong patent rights. On paper, a United States patent provides an exclusive right, but in application, patented inventions often get used without authorization all over the world and, nowadays, injunctions are not common in the United States. A recent Supreme Court case, *WesternGeco LLC v. Ion Geophysical Corp.*, 16-1011 U.S., 201 L.Ed. 584 (2018), revives the principle that a patentee who prevails on a claim of patent infringement should be put in the same position that she would be in but for the infringement, and awards damages for infringement based on revenues that were realized outside the United States. Although the results in that decision don't seem demonstrably wrong, the way that it was written seems inconsistent with the history of extraterritorial application of U.S. law and the broad language used in the decision has, at least for the short term, injected a good deal of uncertainty into cross border patent disputes.

History of Extraterritoriality in U.S. Patent Law

The principle that the United States patent laws are limited to the bounds of the United States was firmly established in the Supreme Court case of *Brown v. Duchesne*, 60 US 183 (1856). That case involved a patented invention that was in use on a foreign ship. The question was whether there was patent infringement when the foreign ship entered a U.S. port and the invention was used to help with the "construction, fitting out, or equipment" of the vessel.

In its ruling, Court established the principle that U.S. Patent laws (in fact, US laws in general) do not have extraterritorial application, as follows:

The patent laws are authorized by that article in the Constitution which provides that Congress shall have power to promote the progress of

1. For example, 20 years ago in the United States, there was a presumption of irreparable harm that occurred on a finding of patent infringement, and injunctions issued in patent cases as a matter of course. *Smith International, Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir. 1983). That changed with the when the Supreme Court handed down its *eBay* decision, *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 391 (2006), making injunctive relief much harder to obtain. In this author's view, it is unlikely that anyone filing a patent application in 1998 would have predicted that injunctive relief would become unavailable during the life of the applied-for patent. This is just one example of the unpredictable nature of the patent system.

science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. The power thus granted is domestic in its character, and necessarily confined within the limits of the United States. It confers no power on Congress to regulate commerce or the vehicles of commerce, which belong to a foreign nation and occasionally visit our ports in their commercial pursuits. That power and the treaty-making power of the general government are separate and distinct powers from the one of which we are now speaking, and are granted by separate and different clauses, and are in no degree connected with it. And when Congress are legislating to protect authors and inventors, their attention is necessarily attracted to the authority under which they are acting, and it ought not lightly to be presumed that they intended to go beyond it and exercise another and distinct power conferred on them for a different purpose.

Nor is there anything in the patent laws that should lead to a different conclusion. They are all manifestly intended to carry into execution this particular power. They secure to the inventor a just remuneration from those who derive a profit or advantage within the United States from his genius and mental labors.

But the right of property which a patentee has in his invention, and his right to its exclusive use, are derived altogether from these statutory provisions, and this Court has always held that an inventor has no right of property in his invention upon which he can maintain a suit unless he obtains a patent for it according to the acts of Congress, and that his rights are to be regulated and measured by these laws, and cannot go beyond them.

But these acts of Congress do not and were not intended to operate beyond the limits of the United States, and as the patentee's right of property and exclusive use is derived from them, they cannot extend beyond the limits to which the law itself is confined. And the use of it outside of the jurisdiction of the United States is not an infringement of his rights, and he has no claim to any compensation for the profit or advantage the party may derive from it.

Brown 60 US 183 at 195-6.

This a clear and well-articulated statement of the reasons that the laws of Congress are limited to the United States and, absent clear legislative intent to regulate conduct that takes place outside the United States, have extra-territorial application only pursuant to treaty. Over the years, however, as the economy has become more global, this principle has eroded in patent law as the world economy became more globalized.

The modern era of extraterritorial application of U.S. Patent law arguably began in the 1970s with the case of *Deepsouth Packing Co. v.*

Laitram Corp., 406 U.S. 518 (1972)—a controversial decision which made it clear that the way that the traditional rule that limits the scope of the patent laws to the bounds of the United States might not be fair in the modern global economy. In that case, the defendant was manufacturing all of the components of a patented shrimp de-veining mechanism and then shipping the components, unassembled, overseas for assembly and use. Since the claimed device was not made, used or sold in the United States there was no direct infringement.²

The *Deepsouth Packing Co.* was sufficiently objectionable that Congress responded by enacting 35 U.S.C. § 271(f) and § 271(g) in 1984, thereby creating a statutory basis for a form of extra-territorial application of United States patent laws. Section 271(f) relates to creating components of patented inventions within the United States and then exporting them for use outside the United States, which is the situation that was at issue in *Deepsouth Packing Co.* In contrast, Section 271(g) relates to using patented methods outside the United States and then trying to export the resultant unpatented products to the United States. For either statute, the patent inventions are not made or used within the United States, and, therefore, the conduct that one would normally think of as patent infringement occurs outside the United States. However, both statutes are drafted to regulate conduct that actually does occur within the United States.

Subsequently, Congress amended 35 U.S.C. § 271(a), the direct infringement statute, to make the “offer for sale” of a patented invention an infringement and to make “importing” into the United States an infringement. Both of these changes further extended the reach of U.S. Patent law. Indeed, with the advent of the Internet, it became quite common for people outside the United States to sell products directly to customers located in the United States. When they do this, they run the risk of being held to have made an “offer for sale” within the United States and, thereby, infringed on the rights of a patent holder. They also run the risk of a US Court finding the requisite “minimum contacts” required to take jurisdiction over them.

2. Without direct infringement under 35 U.S.C. § 271(a), there can be no indirect infringement. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 482-3 (holding that direct infringement is required as an element of contributory infringement); *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1303 (holding that the patentee always has the burden of proving direct infringement in order to prove active inducement of infringement).

The Federal Circuit and Extraterritorial Jurisdiction

The Federal Circuit has traditionally taken a careful approach to avoid expanding the extra-territorial reach of 35 U.S.C. § 271(f). For example, the Court ruled that it was not necessary to prove that the components supplied by the defendant are actually assembled into an infringing product overseas in order to prevail on a Section 271(f)(1) claim. *Waymar Corp. v. Porta Sys. Corp.*, 245 F.3d 1364 (Fed. Cir. 2001). The logic was that the statute does not require the combination of components to actually occur because all of the elements of the statutory claim are met when the defendant ships the components from the United States with the *intent* that they be combined in an infringing manner outside the United States. By interpreting the statute this way, the Federal Circuit effectively ensured that all of the actions that constitute infringement are completed within the United States. In other words, there is no genuine application of extraterritoriality when the statute is interpreted in this manner because the patentee does not have to submit any proof regarding what actually happens with the products overseas.

In addition, the Federal Circuit has generally declined to expand Section 271(f) beyond articles of manufacture. Thus, for example, in *Pellegrini v. Analog Devices, Inc.* 375 F.3d 1113 (Fed. Cir. 2004), the defendant designed a product in the United States but the actual manufacture and sale took place overseas. The Court found no infringement under Section 271(f) because the statute did not reach to design and oversight activities that took place in the United States given that there were no manufactured products supplied from the United States. *Id.*

Similarly, in the context of 35 U.S.C. § 271(g), the Court ruled that a drug that was developed overseas, even if it was developed using information that was obtained through use of the patented method overseas, did not infringe because the statute is limited to items of manufacture, and did not reach the drug that was created using information that was obtained through use of the patented method overseas. *Bayer A.G. v. Housey Pharms., Inc.*, 340 F.3d 1367 (Fed Cir. 2003).

Both the *Bayer* case and the *Pellegrini* case are interesting from the point of view of the incentives provided to the inventor in return for disclosing their invention to the public. If we assume for the purposes of argument that the patents in those cases were valid and infringed, the cases involve situations where the alleged infringer was *permitted* to profit from the use of the patented technology without rewarding the patentee despite the fact that the defendants had some conduct that took place within the United States. That said, the great bulk of infringing activity, if any, occurred overseas, and the patentee could have obtained protection overseas and could have pursued infringement claims in the appropriate foreign

jurisdiction. The trouble for many inventors, is that they often can't afford to obtain protection overseas. In addition, the difficulty of pursuing infringement claims overseas is often so high that inventors have to forego protection outside the United States. Arguably, this creates opportunities for sophisticated infringers to profit in markets outside the United States.

The *Microsoft* Case

The Supreme Court took the opportunity to weigh in on the subject of the extraterritorial reach of U.S. patent damages in the *Microsoft* case, which was one of a series of cases that arose due to Microsoft's practice of writing the source code to its software in the United States and then shipping a "gold disk" containing the source code to Ireland where the code would be compiled after which the resultant executable software would be loaded onto the computers that were thereafter sold throughout Europe. *See, Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007). The claim in the patent at issue was directed to a computer that was programmed to perform a specific task, and the Court ruled that the disk that was supplied from the United States was not a "component" of the invention. *Id.*

Microsoft is based in the United States in the sense that, among other things, Microsoft does its software development in the United States and employs development engineers in the United States. However, the Company sells the resultant software all over the world. Along with the *Pellegrini* case and the other cases discussed above, this *Microsoft* decision limits the damages in United States patent cases in such a way that foreign sales are generally not part of the revenue base that is considered in making reasonable royalty determinations in United States. The case effectively creates a rule of thumb that, for each country where an inventor wants to be rewarded for disclosing their invention, the inventor must seek a patent in that country. This makes building a global patent portfolio quite expensive because one must obtain and maintain patents all over the world in systems that have different languages and are neither easily predictable nor well harmonized.

Yet, despite the expense, the rule that damages are calculated separately for each country and must be pursued separately in each country makes good sense from the perspective of international comity. If the Court in *Microsoft*, had ruled the foreign sales could be counted as an infringement based on the fact that the code is written in the United States, Microsoft would have had a significant incentive to move its development out of the United States in order to avoid putting its worldwide sales at risk in patent infringement cases. Moreover, U.S. multinationals would, presumably, not feel comfortable with a reciprocal rule that permits foreign courts to order damages based on US Sales regardless of whether or not the patentee has a United States patent.

The *WesternGeco* Decision

In this context, the Supreme Court's decision in *WesternGeco LLC v. Ion Geophysical Corp.*, *supra*, was surprising. The case involved an off-shore drilling project. There were two bidders for the project—the patentee and the infringer. *Western Geco*, L.Ed 201 L.Ed. at 590-1. The patented system uses lateral-steering technology to produce higher quality data than previous survey systems and WesternGeco did not sell or license its technology but, instead, used its technology to perform surveys for oil and gas companies. *Id.* The defendant manufactured components for its infringing system in the United States and then sold them to companies abroad. *Id.*

In analyzing the case, the Court first noted the rebuttable presumption that federal statutes only apply within the United States. *Id.* at 591. The Court then analyzed the statute and concluded that Section 271(f) applies to the domestic conduct of supplying components from the United States, which the defendant did. *Id.* at 591-594. Having ruled that supplying components from the United States, the Court ruled that foreign lost profits are available when the patentee proves infringement under 35 U.S.C. § 271(f). *Id.* at 594.

Lost profits are available in patent cases when the Plaintiff can prove that it would have made all of the sales made by the Defendant but for the Defendant's patent infringement. Such damages are only available if Plaintiff can meet the four *Panduit* factors, i.e., can prove that (1) there was a demand for the patented product, (2) that there was an absence of acceptable non-infringing substitutes, (3) that Plaintiff had the manufacturing and marketing capability to exploit the demand, and (4) the amount of profit the patent owner would have made. *Panduit Courp. V. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978). This lost profits damages test is a “but for” test, which awards damages if the Plaintiff proves that defendants profits would not have been made “but for” the patent infringement.

The Supreme Court's ruling, based on *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983), was that lost profit patent damages were to place the patent owner “in as good a position as [it] would have been in had the infringer” not infringed. 201 L.Ed. at 593. And, in *WesternGeco*, there was infringement in the United States—the infringing components were supplied from the United States in violation of 35 U.S.C. § 271(f). If the infringement occurred due to supply of the components from the United States, most defendants would argue that the damages should be based on the price charged and profits made for the sale of those components. However, neither the patentee nor the defendant sold the products that

embodied the claimed invention. Rather, they both charged for services which required their use, and those services took place outside the United States. Defendant could credibly argue that no profits were lost within the United States. And, Plaintiff could credibly argue that “but for” the infringement, Plaintiff would have won all of the surveying contracts at issue in the lawsuit and made all of the profits made from the conduct that took place outside the United States.

There was a dissent, written by Justice Gorsuch who was joined by Justice Breyer. They were of the opinion that damages would have to be limited to the conduct that occurs within the United States, i.e., to the supply of components from the United States. Their reasoning is that the use of the patented invention took place outside the United States and, therefore, was not “infringement” and therefore not a basis for a damages award. *Western Geco* at 595-596. Their reasoning was that:

Section 271(f)(2) modifies the circumstances when the law will treat an invention as having been made within the United States. It permits an infringement claim—and the damages that come with it—not only when someone produces the complete invention in this country for export, but also when someone exports key components of the invention for assembly abroad. A person who ships components from the United States intending they be assembled across the border is “liable” to the patent owner for royalties and lost profits the same as if he made the entire invention here. §271(f)(2).

Id. at 596. However, they did not consider the actual use of the patented invention outside the United States to be appropriate for a damages analysis. *Id.* at 600 (“By failing to heed the plain text of the Patent Act and the lessons of our precedents, the Court ends up assuming that patent damages run (literally) to the ends of the earth. It allows U.S. patent owners to extend their patent monopolies far beyond anything Congress has authorized and shields them from foreign competition U.S. patents were never meant to reach.”).

The Uncertain Future

It is not clear how broadly the *WesternGeco* decision will be interpreted in the future. One could perhaps distinguish the case by arguing, for example, that the infringing conduct in the case may have taken place in international waters where there is no authority that provides patents and that, therefore, the patentee would get little or no relief absent the lost profits awards. However, while this may be true, the Court’s decision does not particularly support such an argument.

One might also argue that it is a rare patent Plaintiff that will be able to meet the lost profits test for sales outside the United States. The Plaintiff would have to obtain discovery about the extraterritorial sales and prove the

sales and manufacturing capacity to make all of those sales and that it would have made all of those sales but for the infringing conduct in the United States. *See Panduit, supra*. That said, one can anticipate that Plaintiffs will argue, based on this decision, that foreign sales should be considered when deciding reasonable royalty awards if there are foreign sales that can be connected to infringement in the United States. Broadly read, the Supreme Court decision has opened up arguments relating to damages based on the consequences of patent infringement.

Case Law Subsequent to *WesternGeco*

As of the time of writing this article, there have only been a few patent decisions that cite to *WesternGeco*. In *Seoul Viosys Co. v. P3 Int'l Corp.*, 2018 U.S. Dist. Lexis 169651 (S.D.N.Y., Sept. 30 2018), the Court cited *WesternGeco* in the context of a “safe harbor claim” for the proposition that one should not “conflate legal injury with the damages arising from that injury”, and granted summary judgment in favor of defendant’s affirmative defense that no remedy was available for alleged infringement of its patent. The “safe harbor” claim was that, because defendant acquired its inventories before it learned of the product, they could not be held liable under 35 U.S.C. § 271(b) for importing the allegedly infringing products.

In *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 2018 U.S. Dist. LEXIS 171699, the Court considered the question of whether or not worldwide sales should be considered in evaluating patent damages for infringement pursuant to 35 U.S.C. § 271(a). The Court held that the Federal Circuit’s decision in *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348 (2013) had been overruled by the *WesternGeco* decision. However, recognizing that it was not necessarily the place of a district court to tell an appellate court that it had been over-ruled, the Court certified the question of whether or not the decision had been over-ruled for interlocutory appeal, while also ruling that worldwide sales would be considered at trial, thereby allowing the case to move forward.

In *MLC Intellectual Prop., LLC v. Micron Tech., Inc.*, 2018 U.S. Dist. LEXIS 199769, the Court held that the case law regarding the relevance of worldwide sales information to damages analysis was “unclear” in light of the *WesternGeco* decision, but nevertheless allowed the Plaintiff to get discovery of those sales.

In *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, 329 F. Supp. 3d 1070, the Court noted that to recover damages for overseas conduct, the patent plaintiff would have to prove a causal relationship between foreign sales and infringement in the United States, but found that there was no prejudice to the defendant because there was no evidence that the jury took foreign sales into account in awarding damages.

Conclusion

The *WesternGeco* decision is an excellent example of the difficulties in setting incentives for patentees in a global environment. On the one hand, the Plaintiff was able to prove that it would have made profits but for the Defendant's infringement, and on the other hand, those profits would have been gained outside the boundaries of the United States. The Court chose to give remedy to the patentee over strict appliance of the rules of territoriality. The ramifications of this decision are already being felt in the lower courts, and it will be interesting to see how the law develops in the future.