PATENT FILE

Reaching out

Stephen McBride considers the extent to which US extraterritoriality has developed in IP protection

Stephen McBride

US patent law has traditionally carried a presumption against extraterritorial application, meaning that US patents could only be used to exclude infringing activities occurring within the US.[1] Legal trends in recent years, however, have undermined this presumption, carving out liability for a number of activities with at least some foreign components. Collectively, these carve-outs have weakened the presumption against extraterritoriality to the point that significant liability may exist for activities that occur almost entirely outside of the US.

The clearest extraterritorial expansion of patent law is in the patent statute itself. Over the years, Congress has repeatedly amended 35 USC §271 to expand its foreign reach. In 1984, Congress enacted §271(f) as a response to a loophole identified in *Deepsouth Packing Co v Laitram Corp*.[2] In *Deepsouth*, the defendant manufactured the components of an infringing product in the US and then exported those products outside the US for assembly into the infringing product. The Supreme Court of the US held that the defendant could not infringe, since the infringing product was assembled and sold outside of the US and it was "not an infringement to make or use a patented product outside of the US".[3] The new §271(f) closed this loophole and "expand[ed] the definition of infringement to include supplying from the US a patented invention's components" for assembly outside the US as outlined in subsections (f)(1) and (f)(2).[4]

In 1988, Congress further amended §271 to include subsection (g), which imposes liability for infringement based on importation, sale, or use in the US of a product made abroad by a process patented in the country. Based on §271(g), the importer or seller of a product that itself is not patented, but that was created abroad by a process that is patented, may be liable for infringement. §271(a) was similarly amended in 1996 to add liability for the act of importing infringing articles into the US, in addition to existing liability for the manufacture, use and sale of articles in the US.

Induced infringement

Although the amendments to the patent act significantly expanded the territorial reach of US patent law on their own, the full scope of expansion only becomes clear when considered in conjunction with induced infringement under §271(b). While contributory infringement under §271(c) is limited to actions occurring "within the US", §271(b) contains no corresponding geographic limitations. Instead, §271(b) simply states "[w]hoever actively induces infringement of a patent shall be liable as an infringer."

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So long as an underlying direct infringement occurs pursuant to one of the other subsections of 271, induced infringement of a US patent may occur anywhere in the world. Where the direct infringement is based on, for example, importation of a product that infringes under §§271(a), a foreign party with no direct connection to the importation may be liable for induced infringement, based on the fact that some of its products get imported into the US by a downstream purchaser.

The facts in *Global-Tech Appliances, Inc v SEB SA* illustrate the reach of §271(b).[5] In *Global-Tech*, the accused infringer (Global-Tech subsidiary Pentalpha) was located in Hong Kong. Pentalpha purchased one of SEB's deep fryers in Hong Kong and copied the fryer.[6] Pentalpha then manufactured its own copies of the fryer and sold them in Asia to companies such as Sunbeam and Montgomery Ward that imported the fryers into the US.[7]

Although none of Pentalpha's activities actually occurred in the US, the Federal Circuit and Supreme Court affirmed a jury verdict that Pentalpha had induced infringement by manufacturing and selling the fryers in Hong Kong for their customers to import into the US.[8]

The Federal Circuit has held consistently in similar circumstances. In *O2 Micro Int'l Ltd v Beyond Innovation Tech Co*, the Federal Circuit affirmed induced infringement as to an Asian defendant that sold components to downstream customers in Asia.[9] Those downstream Asian customers then used the components to create inverter control modules, which were sold to companies even further downstream, such as Samsung and LG and then imported by those companies into the US.

In *MEMC Elec Materials, Inc v Mitsubishi Materials Silicon Corp,* the Federal Circuit reversed summary judgment of no induced infringement where the foreign defendant sold the accused product to a Japanese customer that then imported the product to its US affiliate.[10] Similarly, in *Power Integrations, Inc v Fairchild Semiconductor Int'l, Inc,* the accused infringer argued for a judgment as a matter of law (JMOL) of no induced infringement, because it sold the accused chips overseas with no knowledge of where those chips would ultimately end up.[11]

The Federal Circuit affirmed the district court's denial of JMOL, holding that significant

evidence of affirmative acts of inducement by a foreign manufacturer may include, for example, designing chips to meet US energy standards, providing demonstration boards containing the infringing chips to potential US customers, and maintaining a technical support center in the US.[12]

The takeaway from *Power Integrations* and similar opinions is that specific intent for inducement (and therefore inducement) may be shown through competing for business known to be directed at least in part to the US, even if a party's marketing and sales activities are "market agnostic" as to where its products actually end up.[13]

Damages go global

The trend in damages has also been toward international expansion. In *WesternGeco LLC v ION Geophysical Corp*, for example, the Supreme Court reversed the Federal Circuit, holding that a lost profits award for a number of sales that had occurred in other countries was appropriate.[14] In *WesternGeco,* the plaintiff proved infringement under §271(f) where the defendant had exported the components of the infringing product outside of the US.[15] The infringing product was then assembled and sold to customers outside of the country.[16] Even though the actual act of infringement was limited to providing components of the patented product from the US, *WesternGeco* was able to recover its lost profits for contracts it had lost due to purely foreign sales of the product assembled outside of the US.

Courts will need to determine whether *WesternGeco* applies to other subsections of §271 and whether it is limited to lost profits damages. One case already raising these issues is the *Power Integrations* case discussed above, which, after remand to the district court, has been certified for interlocutory appeal to the Federal Circuit on the issue of whether foreign damages may be available where infringement is based on direct infringement under §271(a).[17]

Interestingly, Power Integrations is arguing not only to apply WesternGeco to recover foreign lost profits, but also to reasonable royalties.[18] Should the Federal Circuit agree with Power Integrations' position, damages law could be drastically expanded to account for all foreign sales of infringing products.

Comment

As industries continue the trend toward globalisation over the 21st century, US patent law seems primed to follow suit. The long-term trend in US patent law is moving away from a presumption of extraterritoriality and toward US liability and damages for acts that have little, or nothing, to do with the US. Companies should be aware that even purely foreign activities could create significant exposure in the US for patent infringement.

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Footnotes

1. *Microsoft Corp v AT&T Corp,* 550 US 437, 454-455 (2007). ("The presumption that US law governs domestically but does not rule the world applies with particular force in patent law"); *Deepsouth Packing Co v Laitram Corp*, 406 US 518, 531 (1972). ("Our patent system makes no claim to extraterritorial effect.")
2. 406 US at 531.
3. Id at 527.
4. Microsoft, 550 US, at 444-445.
5. 563 US 754 (2011).
6. Id at 578.
7. Id.
8. Id at 579.
9. 449 F App'x 923 (Fed Cir 2011) (unpublished).
10. 420 F.3d 1369 (Fed Cir 2009).
11. 843 F.3d 1315, 1333-34 (Fed Cir 2016).
12. Id.
13. Id.
14. 138 S Ct 2129 (2018).
15. Id. at 2135.
16. Id.
17. *Power Integrations, Inc v Fairchild Semiconductor Intl,* No 19-1246 (Fed Cir 3 Dec 2018).
18. Power Integrations opening brief at 34, *Power Integrations, Inc v Fairchild Semiconductor Intl*, No 19-1246 (Fed Cir 12 Apr 2019) (Dkt No 32).

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