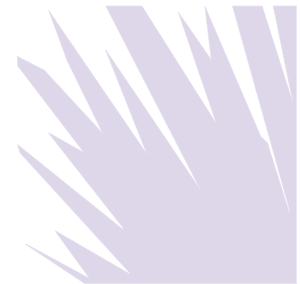


Extraterritorial Application of U.S. Patent Laws

Michael Brody, James I. Harlan, Steffen Johnson, Christopher Mills & Peter Bigelow



Recommended Citation:

Michael Brody et al., Extraterritorial Application of U.S. Patent Laws, 18 Sedona Conf. J. 187 (2017).

For this and additional publications see: <https://thesedonaconference.org/publications>

The Sedona Conference Journal® (ISSN 1530-4981) is published on an annual or semi-annual basis, containing selections from the preceding year's conferences and Working Group efforts. The Journal is available on a complimentary basis to courthouses and public law libraries and by annual subscription to others (\$95; \$45 for conference participants and Working Group members). Send us an email (info@sedonaconference.org) or call (1-602-258-4910) to order or for further information. Check our website for further information about our conferences, Working Groups, and publications: www.thesedonaconference.org.

Comments (strongly encouraged) and requests to reproduce all or portions of this issue should be directed to:

The Sedona Conference,
301 East Bethany Home Road, Suite C-297, Phoenix, AZ 85012 or
info@sedonaconference.org or call 1-602-258-4910.

The Sedona Conference Journal® designed by MargoBDesignLLC at
www.margobdesign.com or mbraman@sedona.net.

Cite items in this volume to "18 Sedona Conf. J. ____ (2017)."

Copyright 2017, The Sedona Conference.
All Rights Reserved.

EXTRATERRITORIAL APPLICATION OF U.S. PATENT LAWS

*Michael Brody
Winston & Strawn
Chicago, IL*

*James I. Harlan
InterDigital, Inc.
Washington, D.C.*

*Steffen Johnson
Winston & Strawn
Washington, D.C.*

*Christopher Mills
Winston & Strawn
Washington, D.C.*

*Peter Bigelow
Winston & Strawn
Washington, D.C.*

This article has been prepared for informational purposes only and does not constitute legal advice. This information is not intended to create, and the receipt of it does not constitute, a lawyer-client relationship. Readers should not act upon this without seeking advice from professional advisers. The views and opinions expressed in this article are those of the authors only and do not reflect in any way the views and opinions of any law firm, company, agency, or other entity to which the authors are affiliated.

I. SURVEY OF RELEVANT EXTRATERRITORIAL LEGAL DOCTRINES

A. *Extraterritorial Application of Laws Generally*

It is by now well settled that, under the presumption against applying U.S. law extraterritorially, courts generally will not apply U.S. law extraterritorially unless Congress clearly indicates

within the statute that it intends for the law to apply extraterritorially.¹ The Supreme Court has given various justifications for this presumption.² First, it is a core principle that courts should interpret statutes so as not to conflict with international law.³ In declining to apply Title VII to a foreign employer of a U.S. citizen, for example, the Supreme Court has cited a concern with not “rais[ing] difficult issues of international law.”⁴ Second, the Court has cited principles of international comity: the presumption against extraterritorial application “serves to protect against unintended clashes between our laws and those of other nations which could result in international discord.”⁵ Third, at least once the Court has justified the presumption based on choice-of-law principles.⁶ Fourth, the Court has noted that “Congress generally legislates with domestic conditions in

1. See Stephen R. Smerek & Jason C. Hamilton, *Extraterritorial Application of United States Law After Morrison v. National Australia Bank*, 5 DISP. RESOL. INT’L 21, 24 (2011), available at <http://bit.ly/2axKWGQ> (discussing *Morrison v. Nat’l Australia Bank Ltd.*, 561 U.S. 247, 255 (2010)).

2. Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT’L L. 505, 513–14 (1997) (discussing each of the justifications).

3. See *id.* at 514–15 (citing *Murray v. The Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804)). However, it is important to note that Congress may create laws that violate and override international law if it so chooses. See *United States v. Martinez-Hidalgo*, 993 F.2d 1052, 1056 (3d Cir. 1993).

4. *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 255 (1991) (overruled by 42 U.S.C. § 2000e(f) on other grounds).

5. Bradley, *supra* note 2, at 515 (quoting *Arabian Am. Oil Co.*, 499 U.S. at 248).

6. *Id.* (citing *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347, 356 (1909) (declining to apply U.S. law extraterritorially in part because “the general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done”)).

mind.”⁷ Therefore, if Congress does not explicitly say that a statute should apply extraterritorially, it is likely that Congress did not intend for the statute to have such a reach.⁸ Finally, the Court has justified the presumption based on separation of powers considerations, as extraterritorial application of laws can implicate foreign relations issues and policy matters that, often, courts have neither the authority nor the competence to handle.⁹

Some critics argue that these reasons for the presumption have weakened in recent times.¹⁰ For example, critics have argued that the concern over conflicts with international law is not as important now because it is largely accepted “that nations may, under certain circumstances, regulate extraterritorial conduct that has effects within their territory.”¹¹ Additionally, the territorial approach to choice-of-law is no longer dominant, prompting critics of the presumption to argue that consistency with choice-of-law no longer supports applying a territorial approach to federal statutes.¹² Critics have also argued that Congress has begun to focus increasingly on regulating conduct outside of its borders, suggesting that it no longer makes sense to presume that Congress intends to legislate only domestically.¹³

7. *Id.* at 516 (quoting *Smith v. United States*, 507 U.S. 197, 204 n.5 (1993)).

8. *See generally id.*

9. *Id.* (citing several cases that discuss the lack of institutional competence to determine such matters and the sensitive nature of the issues involved in such matters).

10. *See Bradley, supra* note 2, at 517.

11. *Id.* at 517; *see* RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 402(1)(c).

12. *Bradley, supra* note 2, at 517–18.

13. *See id.* at 518–19.

Accordingly, the presumption may no longer help courts interpret statutes in a manner consistent with Congressional intent.¹⁴ Finally, pointing to decisions in which courts have not applied the presumption, some critics have argued that application of the presumption is in decline.¹⁵

Despite these critiques of the presumption, however, the Supreme Court still actively applies it. This past Term, for example, in *RJR Nabisco, Inc. v. European Community*, the Court applied the presumption to 18 U.S.C. § 1964(c), a provision of the Racketeer Influenced and Corrupt Organizations Act (RICO) that creates a private right of action for anyone injured by a violation of 18 U.S.C. § 1962.¹⁶ The Court held that § 1964(c) did not rebut the presumption because it did not include “a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States.”¹⁷

B. *Extraterritorial Application of Patent Laws*

1. Direct Infringement

35 U.S.C. § 271(a) provides that “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” Various extraterritorial issues have arisen under the provision, particularly as to (1) methods or systems that span multiple jurisdictions, (2) sales or offers to sell, from

14. *Id.*

15. *See id.* at 519 nn.63–67 and accompanying text (discussing critics’ arguments and citing cases where the presumption has not been applied).

16. No. 15-138, 2016 WL 3369423, at *15, *17 (U.S. June 20, 2016).

17. *Id.* at *17.

or to other countries, and (3) the scope of the § 271(a) prohibition on importing infringing products or processes.

(a) Methods or Systems that Span Multiple Jurisdictions

The first extraterritoriality issue that arises under § 271(a) concerns methods or systems that span multiple jurisdictions. In *NTP, Inc. v. Research in Motion, Limited*,¹⁸ the Federal Circuit held that the use of a patented method will be considered “use” under § 271(a), and will thus constitute infringement, only if every step of the method is performed within the United States.¹⁹ The use of a patented system, by contrast, will be considered “use” under § 271(a) when both control of the system and beneficial use of the system is within the United States, even if the system uses components located abroad.²⁰

(b) Offers to Sell and Sales into the United States

As for the “offer to sell” prong of § 271(a), the Federal Circuit had defined an offer to sell based on contract principles, holding that it is “a ‘manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his

18. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005) (abrogated on other grounds by *Zoltek Corp. v. United States*, 672 F.3d 1309, 1313, 1326–27 (Fed. Cir. 2012)).

19. *Id.* at 1318.

20. *Id.* at 1317 (holding that use of mobile devices in the United States to send and receive emails constituted “use” under § 271(a), even though the devices used a relay station located in Canada) (citing *Decca Ltd. v. United States*, 544 F.2d 1070, 1083 (Ct. Cl. 1976) (holding that the use of a navigation system constituted “use” under § 271(a) even though the use of the system required the use of a transmitter station in Norway, primarily because the control and beneficial use of the system was within the United States)).

assent to that bargain is invited and will conclude it.”²¹ Explaining the idea of a contract-law offer, one scholar stated that an offer “put[s] the power of acceptance into the offeree.”²²

Under Federal Circuit law, to be covered by § 271(a), an offer to sell must be for a sale that is to take place in the United States, regardless of where the offer to sell is made.²³ In *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, the Federal Circuit reversed the district court’s determination that § 271(a) did *not* cover an offer for a sale that was to take place in the United States from a U.S. company to a U.S. company, where the offer was made and executed in Norway.²⁴ According to the Federal Circuit, “for an offer to sell to constitute infringement, the offer must be to sell a patented invention within the United States” — “[t]he focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer.”²⁵

The Federal Circuit affirmed that reasoning in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, holding that an offer to sell was *not* covered by § 271(a) where the negotiations took place in the

21. *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1376 (Fed. Cir. 2005) (quoting *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246, 1257 (Fed. Cir. 2000) (quoting RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981))); *see also* Lucas S. Osborn, *The Leaky Common Law: An “Offer to Sell” as a Policy Tool in Patent Law and Beyond*, 53 SANTA CLARA L. REV. 143, 172 (2013) (listing Restatement definition of an offer as contract law definition of offer).

22. Osborn, *supra* note 21, at 173.

23. *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296 (Fed. Cir. 2010).

24. *Id.* at 1308–10.

25. *Id.* at 1309.

United States but the sale was to take place in other countries.²⁶ In *Halo*, the defendant engaged in price discussions and attended meetings with an offeree in the United States,²⁷ but the court held that the offer there was not covered by § 271(a).²⁸ Thus, under current law meetings and negotiations in the United States do not matter for § 271(a) liability if the location of the sale is abroad.

As for the “sale” prong, the Federal Circuit recently held that “§ 271(a) . . . states a clear definition of what conduct Congress intended to reach—making *or* using *or* selling in the United States *or* importing into the United States, even if one or more of those activities also occur abroad.”²⁹ Thus, in the reasonable royalty context, “[w]here a physical product is being employed to measure damages for the infringing use of patented methods,” “territoriality is satisfied when and only when any one of those domestic actions for that unit (e.g., sale) is proved to be present, even if others of the listed activities for that unit (e.g., making, using) take place abroad.”³⁰ Under current law, “[t]he standards for determining where a sale may be said to occur do not pinpoint a single, universally applicable fact that determines the answer, and it is not even settled whether a sale can have more than one location.”³¹ Although “[p]laces of seeming relevance include a place of inking the legal commitment to buy and sell

26. 769 F.3d 1371, 1381 (Fed. Cir. 2014) (“An offer to sell, in order to be an infringement, must be an offer contemplating sale in the United States.”).

27. See *Halo Elecs., Inc. v. Pulse Eng’g, Inc.*, 810 F. Supp. 2d 1173, 1207 (D. Nev. 2011).

28. *Halo*, 769 F.3d at 1381.

29. *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1306 (Fed. Cir. 2015).

30. *Id.*

31. *Id.* at 1308.

and a place of delivery, and perhaps also a place where other substantial activities of the sales transactions occurred,” the court declined to “settle on a legal definition or even to say whether any sale has a unique location.”³² And “[i]n the lost-profits context,” “where the direct measure of damages [i]s foreign activity (i.e., making, using, selling outside § 271(a)), it [i]s not enough, given the required strength of the presumption against extraterritoriality, that the damages-measuring foreign activity have been factually caused, in the ordinary sense, by domestic activity constituting infringement under § 271(a).”³³

The “offer to sell” and “sell” prongs likely do not apply to patented *processes*. Examining the language of § 271(a), the Federal Circuit in *NTP* explained that a sale required something that could be transferred and that the performance of a method did not require the transfer of something.³⁴ As such, the court found it difficult to apply the “offer to sell” or “sell” prongs to a patented process.³⁵ The court also discussed the statute’s legislative history, which supported the idea that processes could not be infringed under the “offer to sell” or “sell” prongs.³⁶ How-

32. *Id.* (citations and internal quotation marks omitted).

33. *Id.* at 1307 (citing *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, 711 F.3d 1348, 1371 (Fed. Cir. 2013), which rejected the argument that “having established one or more acts of direct infringement in the United States, [the plaintiff] may recover damages for [the defendant’s] worldwide sales of the patented invention because those foreign sales were the direct, foreseeable result of [the defendant’s] domestic infringement”).

34. *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1318–21 (Fed. Cir. 2005); see also Jason R. Dinges, *Extraterritorial Patent Infringement Liability After NTP, Inc. v. Research In Motion, Ltd.*, 32 J. CORP. L. 217, 229–30 (2006) (discussing *NTP*’s analysis of the applicability of the “offer to sell” or “sell” prongs).

35. *NTP*, 418 F.3d at 1319.

36. *Id.* at 1319–20.

ever, despite the language of the statute and the legislative history, the court declined to hold categorically that process claims could not be infringed under the “offer to sell” and “sell” prongs of § 271(a), holding only that the “offer to sell” and “sell” prongs did not apply to defendant’s performance of a patented process because one of the steps occurred outside the United States.³⁷ This limited holding leaves open the possibility that the “offer to sell” or “sell” prongs could be applied to a patented process, but given the Federal Circuit’s explanation of why it did not apply the prongs to the processes in *NTP*, it is unlikely that it would decide to apply those prongs to a patented process in another case.

(c) Importation

A third issue relates to importation. The Federal Circuit in *NTP* applied the same reasoning to the “import” prong of § 271(a) as it applied to the “offer to sell” and “sell” prongs, emphasizing that it was difficult to see how one could infringe a process through importation.³⁸ The court explained that the legislative history suggested that the “import” prong should not apply to process claims.³⁹ As with the “offer to sell” and “sell” prongs, however, the court declined to hold that process claims necessarily could not be infringed under the “import” prong of § 271(a), holding only that the “import” prong did not apply to the case at hand.⁴⁰ This limited holding means that it is possible that the “import” prong could be applied to processes in the future, but this is unlikely.

37. *Id.* at 1320–21.

38. *Id.* at 1321; *see also* Dinges, *supra* note 34, at 230.

39. *NTP*, 418 F.3d at 1321; *see also* Dinges, *supra* note 34, at 230.

40. *NTP*, 418 F.3d at 1321.

Though § 271(a)'s "import" prong likely will not apply to patented *processes*, it does prohibit the importation into the United States of a *product* that is patented in the United States.⁴¹ Moreover, the importation of products made by a patented method is addressed by § 271(g), which prohibits importation into the United States of a product that is made by a *process* that is patented in the United States, if the importation occurs during the term of the process patent.⁴² A "product" for these purposes is a "physical article."⁴³ As such, it does not include information that is generated by a patented method and then transmitted into the United States; nor does it include a product that is manufactured to a specification that is generated by a patented method.⁴⁴ Section 271(g) adds the further restrictions that no remedy is available for such importation if the infringement consists of "a noncommercial use or retail sale" of the product, unless there is not an alternative remedy available. Also,

41. *Gemtron Corp. v. Saint-Gobain Corp.*, 572 F.3d 1371, 1380 (Fed. Cir. 2009) (citing *In re N. Pigment Co.*, 71 F.2d 447, 456 (C.C.P.A. 1934) ("It has long been settled that articles patented in the United States cannot be manufactured abroad, imported, and sold in violation of the rights of the patentee.")); *see also* *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1308 (Fed. Cir. 2015) (holding that there is "no extraterritoriality bar to including within the royalty base those chips which were imported into the United States for use in the United States"); *see generally* *Fellowes, Inc. v. Michilin Prosperity Co.*, 491 F. Supp. 2d 571, 583–84 (E.D. Va. 2007) (discussing the definition and contours of "import" within § 271(a)).

42. 35 U.S.C. § 271(g) (2012); *see, e.g.*, *CNET Networks, Inc. v. Etilize, Inc.*, 528 F. Supp. 2d 985, 993–95 (N.D. Cal. 2007) (denying motion for summary judgment of noninfringement where defendant imported and used a catalog that was created by a patented method).

43. *Bayer, A.G. v. Housey Pharmaceuticals, Inc.*, 340 F.3d 1367, 1377 (Fed. Cir. 2003).

44. *Id.*; *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1323–24 (Fed. Cir. 2005).

§ 271(g) provides that an imported product will not be considered to be made by a patented process where “(1) it is materially changed by subsequent processes; or (2) it becomes a trivial and nonessential component of another product.”⁴⁵

Thus, under § 271(a) and § 271(g), an offshore infringer that sells a patented product in the United States or that sells a product in the United States produced through a patented process can be held liable as an infringer.

2. Contributory and Induced Infringement

In the 1972 decision *Deepsouth Packing Co. v. Laitram*,⁴⁶ the Supreme Court held that a company did not infringe by making components of a patented machine and shipping the uncombined components overseas to be combined into the patented machine. In response, in 1984 Congress enacted 35 U.S.C. § 271(f), which has two subsections. Section 271(f)(1) provides

45. Section 284(b) further modifies the remedies available against § 271(g) infringers where the § 271(g) infringer is an innocent downstream importer of the accused goods; that is, where the importer did not practice the patented method and lacked knowledge that a patented process was used by the manufacturing entity. 35 U.S.C. § 287(b)(1). Such importers may eliminate or ameliorate their exposure for patent infringement by having recourse to an elaborate and somewhat impractical “request for disclosure” procedure outlined in the statute. 35 U.S.C. § 284(b)(3)–(5). Briefly, the procedure contemplates that an importer may make a written request to a manufacturer of the products in question to disclose any patents owned or licensed by the manufacturer which the manufacturer “reasonably believes could be asserted to be infringed under § 271(g)” if the product in question is manufactured abroad and imported into the United States. This obligation is not imposed on an innocent importer wishing to secure relief under § 284(b) where there are “mitigating circumstances;” namely, where “due to the nature of the product, the number of sources for the product, or like commercial circumstances, a request for disclosure is not necessary or practicable to avoid infringement.” 35 U.S.C. § 284(b)(3)(B)(iii).

46. 406 U.S. 518 (1972); see *Dinges*, *supra* note 34, at 220.

that “[w]hoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”

Section 271(f)(2) provides that “[w]hoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial non-infringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.”⁴⁷

One issue that is posed by the “component” requirement of § 271(f) is whether software can be a “component” for these purposes. In *Microsoft v. AT&T*⁴⁸ the Supreme Court determined that, to the extent that “software code is an idea without physical embodiment” it cannot be a “component” of anything.⁴⁹ However, once the code “is expressed as a computer readable copy,” it can be “combinable” to create an infringing product and, as such, can be a “component” for the statutory purposes. Whether a software “component” is “supplied from the United

47. See generally Dinges, *supra* note 34, at 220–23.

48. 550 U.S. 437 (2007).

49. *Id.* at 449–50.

States” depends on whether the code is copied into the infringing device from the United States or from a non-U.S. source.⁵⁰

Another issue posed by the provision is whether a separate entity must be the one that combines the components abroad, or whether the statute also covers an entity “inducing” itself to combine them. The Federal Circuit recently held in *Promega Corp. v. Life Technologies Corp.* that no third party is needed for inducement under § 271(f)(1); the statute covers the situation where one induces *himself* to combine components of a patented invention in such a way that would infringe the patent if combined within the United States.⁵¹ In *Life Technologies*, the infringer (Life Technologies) manufactured a component in the United States and shipped that component to one of its own manufacturing facilities in the United Kingdom to be assembled.⁵² Life Technologies argued that it could not induce itself to combine the components into a patented invention under § 271(f)(1), and thus that a third-party was necessary for inducement under § 271(f)(1).⁵³ The Federal Circuit rejected this argument, explaining that § 271(f)(1) was written such that the combination, not a person, was the object of “induce,” so it did not matter *who* was induced, as long as someone was induced to combine components.⁵⁴

The Federal Circuit also addressed the interpretation of “substantial portion,” holding that it was possible for a single

50. *Id.* at 452–54.

51. 773 F.3d 1338 (Fed. Cir. 2014).

52. *Id.* at 1344.

53. *Id.* at 1353.

54. *Id.* at 1351–52.

component to make up a “substantial portion” of a patented invention.⁵⁵ Life Technologies had only supplied a single component to its U.K. manufacturing facility, and it argued that a single component could not make up a “substantial portion” under § 271(f)(1).⁵⁶ Rejecting this argument, the court first stated that the meaning of “substantial” was “important” or “essential” and the meaning of “portion” was “a part of a whole,” and not necessarily more than one part.⁵⁷ The court also explained that the term “components” in the provision referred to “components of a patented invention,” not the components that were supplied from or in the United States, so the fact that the provision used the term “components” in its plural form did not indicate that multiple components must be supplied.⁵⁸ Finally, the court stated that the use of the singular “component” in § 271(f)(2) did not indicate that the use of the plural “components” in § 271(f)(1) exclusively referred to multiple components, because the two terms were used in different contexts.⁵⁹

On review, the Supreme Court overruled the Federal Circuit on the “single component issue,” holding that a single component of a multi-component device could never constitute a “substantial portion” of the device for the purposes of § 271(f)(1).⁶⁰ The Court found that the Federal Circuit’s construction of the

55. *Id.* at 1353.

56. *Id.* at 1354–55.

57. *Id.* at 1353 (quoting WEBSTER’S THIRD NEW INT’L DICTIONARY 2280 (2002) (defining “substantial”) and AM. HERITAGE COLL. DICTIONARY 1066 (4th ed. 2000) (defining “portion”).

58. *Id.* at 1354.

59. *Id.*

60. *See* Life Technologies Corp. v. Promega Corp., ___ U.S. ___, 137 S. Ct. 734 (2017).

statute was at odds with the plain language of the pertinent provisions and the legislative history, and that it required potential infringers (and reviewing courts) to undertake the highly subjective analysis of determining “the relative importance of the components of an invention.”⁶¹

Apart from § 271(f), § 271(b), which provides that “[w]hoever actively induces infringement of a patent shall be liable as an infringer,” “contains no such territorial proscription.”⁶² Thus, it “does not, on its face, foreclose liability for extraterritorial acts that actively induce an act of direct infringement that occurs within the United States.”⁶³ The Federal Circuit has held that “where a foreign party, with the requisite knowledge and intent, employs extraterritorial means to actively induce acts of direct infringement that occur within the United States, such conduct” may fall within § 271(b).⁶⁴ To determine the scope of induced infringement, the court has relied on the same test used with wholly domestic activities: “To support a finding of inducement under § 271(b), the accused infringer must have knowingly and intentionally induced another party’s direct infringement.”⁶⁵

61. 137 S. Ct. at 741.

62. *Meril Ltd. v. Cipla Ltd.*, 681 F.3d 1283, 1302 (Fed. Cir. 2012).

63. *Id.*

64. *Id.*

65. *Id.* at 1303–04. The Supreme Court has held that “induced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement.” *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 766 (2011). The Court also held that “a defendant’s belief regarding patent validity” is not “a defense to a claim of induced infringement.” *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1928 (2015).

3. Extraterritorial Discovery

Finally, various issues arise regarding conducting discovery abroad. Where the relevant legal issues require factual exploration of extraterritorial conduct, obtaining the necessary documents and witnesses can be problematic—particularly when the U.S. courts may not have jurisdiction to compel foreign production, and when foreign countries have strict privacy laws. Extraterritorial application of U.S. patent laws implicates these issues, which are generally beyond the scope of this article.

4. International Exhaustion

The Federal Circuit recently addressed the question of international patent exhaustion in its *en banc* decision in *Lexmark, Inc. v. Impression Products, Inc.*⁶⁶ In holding that a foreign sale by a U.S. patent owner does not presumptively exhaust U.S. patent rights, the Federal Circuit relied heavily on the presumption against extraterritorial application of the Patent Act. The court further recognized the importance of maintaining symmetry in assessing conduct that occurs abroad: because infringement of a U.S. patent does not result from sales made wholly abroad, it would be incongruous to find that exhaustion of U.S. patent rights would result from a sale made abroad.

II. POLICY CONSIDERATIONS

Historically, the United States has acted as the world's largest integrated market, so its legal system effectively determined the scope of international intellectual property rights, and thus the rules under which international competition was waged. But to the extent markets abroad are now of comparable magnitude, with viable competing adjudicatory systems, a market in adjudication has now arisen. Owners of intellectual property

66. 816 F.3d 721 (2016).

have options as to where they will enforce their rights. Various policy considerations are relevant to the extraterritorial application of U.S. patent laws.

A. In Support of Extraterritorial Application of U.S. Patent Laws

Several reasons support the application of U.S. patent laws extraterritorially. First, as mentioned above, an expansion of U.S. patent laws encourages the use of the U.S. legal system, and so to that extent promotes the United States' dominance in the market for adjudication. This expansion would allow the United States to continue to set the rules of intellectual property protection and competition in the worldwide market.

Second, extraterritorial application of patent laws can promote invention and innovation.⁶⁷ Initially, by expanding the U.S. market in adjudication, the United States can set the rules to optimize invention and innovation. Additionally, concerning process patents, if someone can avoid liability for infringing a patented process as long as they do at least one step of that process outside of the United States,⁶⁸ inventors will be more likely to focus their energies on inventing processes that cannot easily be completed in part in other countries.⁶⁹ This could cause inventors to shy away from committing resources to the invention of processes in the technology industry, because many such processes can easily be performed in multiple locations, including

67. See Melissa Feeney Wasserman, *Divided Infringement: Expanding the Extraterritorial Scope of Patent Law*, 82 N.Y.U. L. REV. 281, 292–93 (2007) (citing U.S. CONST. art I, § 8, cl. 8).

68. See *NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1317–18 (Fed. Cir. 2005) (holding that the defendant's use of a process patented by the plaintiff did not infringe because one step of that process took place in Canada).

69. See Wasserman, *supra* note 67, at 292–93 (discussing *NTP* and its potential effects on future inventions).

foreign nations. Patents on such processes would be weaker than patents on processes that cannot be performed in multiple countries.⁷⁰ Extraterritorial application of patent laws would promote invention by extending protection of U.S. laws to patented processes that are partially completed in foreign nations, thus incentivizing invention of such processes, which would especially benefit the technology industry.

Third, concerns about conflicts between the United States and foreign patent laws may be overblown, particularly after the America Invents Act harmonized the U.S. patent system with foreign systems in various ways, including switching to a first-inventor-to-file system.

B. Against Extraterritorial Application of U.S. Patent Laws

By expanding U.S. patent laws, the U.S. courts are subjected to additional burdens, and could be overwhelmed with complex cases involving largely foreign conduct. Such application may inhibit the use of international bodies (and associated treaties) that can specialize in extraterritorial conduct and are better-equipped to deal with such cases. It may also cause conflicts with foreign countries, resulting in retaliatory measures, reduced trade, or other negative consequences.

Moreover, extraterritorial application of U.S. patent laws may, in some circumstances, subject U.S.-based companies to substantial infringement liability, reducing their ability to compete on the world market and potentially pushing them to move their operations abroad.

70. *See id.*

One policy supporting the presumption against extraterritoriality is that when courts apply the presumption, it will be easier to predict whether conduct will constitute infringement.⁷¹ Without the presumption, parties may not know whether a court will attach infringement to certain extraterritorial conduct, and courts may attach liability to extraterritorial conduct where an actor did not think that conduct would create liability. This lack of notice could result in increased litigation when a court finds someone liable for extraterritorial activity that was not clearly noted in a statute, and it could result in economic harm if people or businesses are reluctant to manufacture needed products or use certain efficient processes for fear that a court may find that the manufacture of the products or the use of process constitutes infringement.⁷²

Another potential problem with extraterritorial application of the patent laws is that courts may not be able to adequately assess foreign interests, so they may be biased towards U.S. interests when deciding how to apply patent laws extraterritorially, which can harm foreign relations and can result in unfairness to litigants.⁷³

In addition, in the context of international patent exhaustion, allowing extraterritorial application of U.S. patent law could have the effect of placing U.S. patent law under the control of a foreign sovereign, as noted by the Federal Circuit in the *Lexmark*

71. See Timothy R. Holbrook, *Extraterritoriality in U.S. Patent Law*, 49 WM. & MARY L. REV. 2119, 2142 (2008) (explaining that Congress took twelve years to legislatively overrule *DeepSouth Packing Co. v. Laitram*, 406 U.S. 518 (1972) with 35 U.S.C. § 271(f)).

72. See Bradley, *supra* note 2, at 556.

73. See Bradley, *supra* note 2, at 555–56.

decision.⁷⁴ Foreign countries would have the ability to place restrictions on the terms of sales of patented goods occurring within their borders, with concomitant effects on patent exhaustion. As a policy matter, it would be problematic to cede control of U.S. patent law to foreign sovereigns in this manner.⁷⁵

III. THE STRATEGIC CONTEXT

In effect, extraterritorial application of U.S. patent laws gives a litigant the option of pursuing its remedies in the United States or in a foreign jurisdiction. A checklist of pertinent considerations follows:

- When applying for patent protection, to what extent does non-U.S. coverage enhance the extraterritorial reach of a U.S. portfolio for a particular product in its most likely markets?
- Upon becoming aware of extraterritorial infringement, is there protection in the pertinent jurisdiction? Is the “infringing” product being imported to or sold in the United States?
- Is the U.S. International Trade Commission (ITC) available with respect to U.S. imports?
- What extraterritorial doctrine will apply, and what special showing will need to be made to establish U.S. liability before reaching the underlying issues of infringement and validity?
- How important is discovery to the case? And what are the comparative options? To what extent can U.S. ancillary procedures help in non-U.S. cases?

74. *Lexmark, Inc. v. Impression Products, Inc.*, 816 F.3d 721, 773 (2016).

75. *Id.*

- How do the applicable U.S. venues compare to the applicable non-U.S. venues? Consider the following:
 - Are there material substantive differences in the laws of the pertinent jurisdictions?
 - Statistically, what are the comparative likelihoods of prevailing?
 - Time to judgment of infringement? Damages award? Injunctive relief? Determination of validity?
 - Availability of injunctive relief? In what market(s)?
 - Likely damages?
 - All-in cost of litigation?
 - Availability of prevailing party attorneys' fee?