The long arm of US patent laws

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Historically, US patent laws did not apply to activities that take place entirely outside the US. Indeed, the Supreme Court ruled repeatedly that there is a presumption that US patents do not apply extraterritorially. Starting in 1984, however, and continuing ever since, the US Congress and the Court of Appeals for the Federal Circuit (CAFC) have slowly eroded the presumption against extraterritoriality and extended the foreign reach of US patents. US patent laws now can be applied to activities that take place entirely outside of the country. In this era of global commerce and shrinking international borders, it is critical that any company that does business outside of the US understands the territorial reach of US patents in order to protect its intellectual property and avoid liability for infringing a US patent.

The traditional presumption against extraterritoriality

Section 271(a) of the Patent Act defines the activities that constitute direct infringement of a US patent:

> "… 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."[1]

Importantly, the plain language of section 271(a) spells out the territorial nature of US patents by stating that the defined acts of infringement must occur "within the United States." See also 35 U.S.C. 154(a)(1) (US patents provide exclusive rights "throughout the United States.")

The plain language of section 271(a) is consistent with the Supreme Court's longstanding rule that US patent laws "do not, and were not intended to, operate beyond the limits of the United States."[2] The presumption against extraterritoriality was reaffirmed as recently as 2007 in *Microsoft Corp. v AT&T*, 550 U.S. 437, 455- 456 (2007):

> "The traditional understanding that our patent law operates only domestically and does not extend to foreign activities is embedded in the Patent Act itself… In short, foreign law alone, not United States law, currently covers the manufacture and sale of components of patented inventions in foreign countries. If AT&T desires to prevent copying in foreign countries, its remedy for this activity, if any, lies in foreign courts with foreign patents, not in a strained argument for worldwide effect of US patent laws."

See also *Morrison v National Australia Bank*, 561 U.S. 247 (2010) ("It is a longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.").

The presumption against extraterritoriality was at the heart of the Supreme Court's landmark decision in *Deepsouth Packing Co. v Laitram Corp.*, 406 U.S. 518 (1972). In *Deepsouth*, the Supreme Court held that exporting domestically made components of a patented

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Résumé

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product for assembly abroad was not direct infringement of a US patent. Deepsouth Packing Co. sought to export from the US components of a patented shrimp-deveining machine for assembly outside of the country.[3] The Supreme Court held that this activity did not constitute direct infringement of Laitram's patent.[4] The patented system was "made" only after final assembly and the only potential act of infringement was the final assembly of the deviener system. Because the final assembly was performed outside the United States, the Court found no direct infringement under section 271(a).[5]

The Supreme Court's *Deepsouth* decision illustrates the traditional view that a US patent does not apply to activity that takes place outside of the country. It also marks the high-water mark for the presumption against extraterritoriality. In the years after *Deepsouth*, the Congress and the CAFC have expanded greatly the foreign reach of US patents, creating at least four exceptions to the rule that foreign activity cannot infringe a US patent.

Foreign activity that can give rise to US infringement liability

Exporting components of a patented invention for assembly abroad: In response to the Supreme Court's *Deepsouth* decision, the US Congress added section 271(f) to the *Patent Act* in 1984. Section 271(f) effectively overruled the *Deepsouth* decision and created liability for exporting US-made components of a patented invention for assembly abroad. Section 271(f) provides:

> "(1) Whoever 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.
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> "(2) Whoever 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."[6] (Emphasis added).

Accordingly, under section 271(f), a party cannot avoid liability by assembling abroad US-made components of a combination that is patented in the US.

Importing, selling or offering to sell products made abroad by a process that is covered by a US patent: In 1998, the US Congress added section 271(g) to the *Patent Act*. Section 271(g) makes it an act of infringement to import a product that is made abroad according to a process that is patented in the United States. Section 271(g) provides:

> "(g) **Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer**, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the non-commercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after–
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> (1) it is materially changed by subsequent processes; or
>
> (2) it becomes a trivial and nonessential component of another product."[7]

Thus, under section 271(g), a party can be liable for infringement of a US patent by importing into the country, or selling or using in the US, a product made by the patented process, regardless of where the product was made. A product is not considered to be "made" by a patented process, however, if it is materially changed or becomes a non-essential component of another product.[8]

> *"In the most recent expansion of extraterritorial US patent rights, the Federal Circuit held in* Transocean Offshore Deepwater Drilling *… that an offer for sale that takes places entirely outside of the United States can infringe a US patent."*

For a product to infringe under section 271(g), the product must be "physical and tangible."[9] In the *Bayer* case, Housey Pharmaceutical, Inc. sued Bayer AG for infringing its patent on methods for screening drug candidates.[10] Housey alleged that Bayer infringed its patent under section 271(g) by using its patented screening methods abroad and then importing the information generated by the patented methods into the United States for drug development.[11] The Federal Circuit held that section 271(g) does not apply to methods of gathering information and applies only to methods of making a product.[12] Because Bayer's acts of generating information were not steps in the actual manufacture of a drug product, there was no liability under section 271(g).[13]

Inducing infringement of a US patent from abroad: Actions that induce someone else to directly infringe a US patent, even if those actions occur entirely outside the United States, can give rise to liability under section 271(b).[14] In *MEMC Electronic Materials, Inc. v Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2009), the Federal Circuit held that a company that sells products abroad to an intermediary, who then imports the products into the US, can be liable for inducing infringement of a US patent under section 271(b). The court's conclusion was based, in part, on communications between the foreign manufacturer and the US-based buyer.

Liability for induced infringement, based on foreign activity, has been found where there is sufficient support and encouragement of infringement directed at the US. Liability in such cases has been premised on, for example, making products that comply with US regulations or specifications of US customers and providing product support and warranty services.[15] There are no bright line rules when it comes to induced infringement, and whether a company is at risk of inducing infringement of a US patent must be considered on a case-by-case basis.

Making an offer abroad to sell a product in the United States: In the most recent expansion of extraterritorial US patent rights, the Federal Circuit held in *Transocean Offshore Deepwater Drilling, Inc. v Maersk Contractors USA, Inc.*, 617 F.3d 1296 (Fed. Cir. 2010) that an offer for sale that takes places entirely outside of the United States can infringe a US patent. In *Transocean*, Maersk offered, negotiated, and agreed in Scandinavia to provide oil drilling services in US waters. Transocean alleged that this activity constituted an "offer to sell" its patented drilling rig.[16] The Federal Circuit agreed and ruled that Maersk's offer that was made in Scandinavia constituted an "offer to sell" the patented invention in the US. The Federal Circuit explained that "[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."[17] Thus, an offer to sell that is made anywhere in the world may infringe a US patent, so long as the intended sale would occur within the US.

The *Transocean* court was concerned with a perceived loophole in US patent law that would "exalt form over substance by allowing a US company to travel abroad to make offers to sell back into the US without liability for infringement."[18] In closing one perceived loophole, however, the Federal Circuit created another. Under the *Transocean* ruling, a company is free to offer to sell a patented product throughout the US without threat of infringement liability, so long as the intended sale takes place outside of the United States.

Conclusion

The exterritorial reach of US patents continues to grow. Liability for infringement of a US patent may arise even though the key activities occur abroad. Any company that does business internationally must understand the extraterritorial reach of US patents, both for protecting key technology and avoiding infringement liability.

[1] 35 U.S.C. § 271(a)
[2] *Brown v Duchesne*, 60 U.S. 183, 195 (1856).
[3] *Deepsouth*, 406 U.S. 518, at 520-24.
[4] *Id.* at 529-32 (infringing acts must be "within the bounds of this country").
[5] *Id.*
[6] 35 U.S.C. § 271(f).
[7] 35 U.S.C. § 271(g).
[8] 35 U.S.C. § 271(g)(1) and (2).
[9] *Bayer AG v Housey Pharmaceuticals, Inc.*, 340 F.3d 1367 (Fed. Cir. 2003).
[10] *Id.* at 1368-69.
[11] *Id.* at 1369-70.
[12] *Id.* at 1377.
[13] *Id.*
[14] Section 271(b) provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer."
[15] Note, however, that there can be no contributory infringement where the contributory acts did not occur in the US. *DSU Medical Corp., v JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006). In DSU, the Federal Circuit explained that "[s]ection 271(c) has a territorial limitation requiring contributory acts to occur in the United States." *Id.*
[16] Transocean resorted to an "offer to sell" theory because the drilling rig that was delivered to US waters was modified to make it non-infringing. Thus, there was no dispute that Maersk never imported, made, used or sold an infringing drilling rig in the US.
[17] *Id.* This ruling is at odds with *MEMC.* In rejecting the offer for sale theory in *MEMC*, the Federal Circuit court noted that it "is well-established that the reach of section 271(a) is limited to infringing activities that occur within the United States." *MEMC*, 420 F.3d at 1377.
[18] *Transocean*, 617 F.3d at 1309. This statement is puzzling because a US company that travels abroad to sell back into the US would not escape liability. It would be subject to section 271(a)'s prohibition against importing, selling, making and/or using a patented invention in the US.