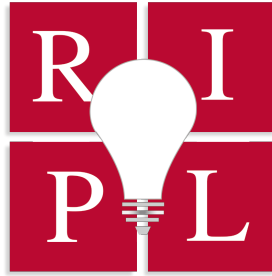


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EXTRATERRITORIALITY AND THE ACTIVE INDUCEMENT OF INFRINGEMENT

ROBERT H. STIER, JR.

ABSTRACT

In *Merial Ltd. v. Cipla Ltd.*, the Federal Circuit held that actions taken outside the United States might make a foreign defendant liable for induced infringement of a US patent under § 271(b) of the Patent Act. This article questions whether *Merial* remains good law after the Supreme Court's 2018 decision in *WesternGECO LLC v. ION Geophysical Corp.* There, the Supreme Court held that lost profits from foreign sales were recoverable under § 284 of the Patent Act when they resulted from acts of domestic patent infringement. In reaching that decision, the Court applied the test from *RJR Nabisco, Inc. v. European Community* to evaluate the potential extraterritorial application of US patent laws. If the same test from *RJR Nabisco* is applied to § 271(b), an accused infringer who acts entirely outside the United States should not be liable for inducing infringement of a U.S. patent. In other words, this article concludes that *Merial* has been overruled by implication.

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EXTRATERRITORIALITY AND THE ACTIVE INDUCEMENT OF INFRINGEMENT

ROBERT H. STIER, JR.

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EXTRATERRITORIALITY AND THE ACTIVE INDUCEMENT OF INFRINGEMENT

ROBERT H. STIER, JR.*

I. INTRODUCTION

Suppose a Chinese component manufacturer produces a device that, if made in the United States, would infringe a U.S. patent. It sells the product in China to another company that incorporates the component into a consumer product that it intends to import into the United States. Can the component manufacturer be liable for active inducement of infringement if it makes the overseas sale knowing that the component is patented and that its customer will import the product into the United States?

In *Merial Ltd. v. Cipla Ltd.*,¹ the Federal Circuit held that actions taken outside the United States might constitute induced infringement under § 271(b) of the Patent Act. This paper questions whether *Merial* remains good law after the Supreme Court's 2018 decision in *WesternGeco LLC v. ION Geophysical Corp.*² There, the Supreme Court held that lost profits from foreign sales were recoverable under § 284 of the Patent Act when they resulted from acts of domestic patent infringement.³ In reaching that decision, the Court applied the test from *RJR Nabisco, Inc. v. European Community*⁴ to evaluate the potential extraterritorial application of US patent laws. For the reasons set forth below, if the same test from *RJR Nabisco* is applied to § 271(b), an accused infringer who acts entirely outside the United States should not be liable for inducing infringement of a U.S. patent. In other words, this paper concludes that *Merial* has been impliedly overruled.

Producers today compete in a global economy, but the rules governing competition are still primarily nation-centric. While patent laws have been harmonized through treaties—the Patent Cooperation Treaty being perhaps the best example—patents are still granted and enforced by individual countries. The issue considered here is how far the United States can go in enforcing its patent laws against foreign competitors.⁵

In the United States, it is well-established that patents are only directly infringed by actions that take place inside the borders of this country: making, using, selling, offering to sell or importing a product covered by a U.S. patent.⁶ Even § 271(g), which concerns products manufactured abroad using a process patented in the United States,

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¹ 681 F.3d 1283 (Fed. Cir. 2012). See 35 U.S.C. § 271(b) (2012) (“Whoever actively induces infringement shall be liable as an infringer.”).

² 138 S.Ct. 2129 (2018).

³ *Id.* at 2139.

⁴ 136 S.Ct. 2090 (2016).

⁵ For other thoughtful comments on this issue generally, see, e.g., Sarah R. Wasserman Rajec, *Infringement, Unbound*, 32 HARV. J.L. & TECH. 117 (2018); Yaad Rotem, *Economic Regulation and the Presumption against Extraterritoriality—A New Justification*, 3 WM. & MARY POL’Y REV. 229 (2012); Dariush Keyhani, *Patent Law in the Global Economy: A Modest Proposal for U.S. Patent Law and Infringement without Borders*, 54 VILL. L. REV. 291 (2009); Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT’L L. 505 (1997).

⁶ See, e.g., *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1914); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007).

is invoked only when such products are imported into the United States. But the patent laws also prohibit indirect infringement by those who contribute to infringement by selling or importing a component especially made for an infringement, or by those who actively induce the direct infringement by others. Our focus here is on foreign actors whose activities—entirely outside the United States—are alleged to induce third-parties to infringe, for example, by importing products covered by U.S. patents.

We will explore this issue first in the context of the law governing active inducement of infringement, particularly as explicated by the Supreme Court in *Global-Tech Appliances, Inc. v. SEB S.A.*⁷ Next, we will review the current state of the law as set forth by the Federal Circuit in *Merial v. Cipla*.⁸ Then we will consider two recent Supreme Court decisions regarding the extraterritorial application of United States laws. Finally, we will examine the impact of the Court’s test for extraterritoriality on the continued viability of the *Merial* decision, with attention directed to a recent Federal Circuit decision which the Supreme Court declined to review.

A. The fundamentally territorial nature of U.S. patent law

In *Microsoft Corp. v. AT&T Corp.*,⁹ the Supreme Court reiterated a principle first stated in 1857 that:

[o]ur patent system makes no claim to extraterritorial effect; these acts of Congress do not, and were not intended to, operate beyond the limits of the United States; and we correspondingly reject the claims of others to such control over our markets.¹⁰

Absent “a clear congressional indication of intent,” United States courts had no authority to stop the manufacture and sale of the parts of patented inventions for assembly and use abroad.¹¹

In *Microsoft*, the Court emphasized that the presumption against extraterritoriality “applies with particular force in patent law.”¹² In *Deepsouth*, the Court noted that: “Our patent system makes no claim to extraterritorial effect”; our legislation “do[es] not, and [was] not intended to, operate beyond the limits of the United States, and we correspondingly reject the claims of others to such control over our markets.”¹³

“In short, foreign law alone, not United States law, currently governs the manufacture and sale of components of patented inventions in foreign countries.”¹⁴

⁷ 563 U.S. 754 (2011).

⁸ 681 F.3d 1283 (Fed. Cir. 2012).

⁹ 550 U.S. 437 (2007)

¹⁰ *Id.* at 444 (citing *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) and *Brown v. Duchesne*, 19 How. 183, 195, 15 L.Ed. 595 (1857)).

¹¹ *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444 (2007).

¹² *Id.* at 454-455.

¹³ *Deepsouth Packing*, 406 U.S., at 531 (quoting *Brown*, 19 How. at 195, 15 L.Ed. 595)).

¹⁴ *Microsoft Corp.*, 550 U.S. at 456.

B. Active inducement of infringement: Global-Tech

The Supreme Court weighed in on the test for proving active inducement of infringement in *Global-Tech*. Although it did not reach the particular issue that concerns us here, the decision establishes the essential context for all cases involving active inducement of infringement.

In *Global-Tech*, the plaintiff SEB, a French company, held U.S. Patent No. 4,995,312 which covered a deep fryer cooking appliance with a well-insulated outer shell.¹⁵ Because it remained cool to the touch, the fryer's outer shell could be made of inexpensive plastic.¹⁶ SEB sued a Hong Kong company, Pentalpha Enterprises, and its parent British Virgin Islands corporation, Global-Tech Appliances, for making and selling similar deep fryers with "cool touch" features.¹⁷ Pentalpha had purchased an SEB deep fryer and had copied its patented features.¹⁸ Pentalpha sold the accused deep fryers to Sunbeam, Fingerhut and Montgomery Ward, and the three customers then imported and sold the accused fryers in the United States under their own marks.¹⁹

After Sunbeam settled a separate patent infringement suit for \$2 million, SEB sued Montgomery Ward and its suppliers, Pentalpha and Global-Tech.²⁰ The claim against Montgomery Ward was stayed because the company was in bankruptcy.²¹

Pentalpha moved for summary judgment that it did not directly infringe, contending that it manufactured the accused fryers in Hong Kong and sold them f.o.b. China.²² The district court denied summary judgment, noting that Pentalpha negotiated the sales through a U.S. sales representative, justifying the inference that an offer for sale was made in the United States.²³ The court also rejected defendants' argument that the "free on board China" commercial term of the sales was dispositive, especially where Pentalpha itself had shipped the fryers to the United States.²⁴

The case proceeded to trial and the jury found defendants liable both for directly infringing claim 1 of the '312 patent and for actively inducing others' infringement of that same claim.²⁵ The district court reduced the \$4.65 million damage award post-trial by \$2 million to offset the settlement paid by Sunbeam.²⁶

On appeal, the Federal Circuit concluded that the record was unclear about which liability theory—direct infringement or active inducement of infringement—supported the jury's damage award.²⁷ Thus, to avoid remanding for a new trial, it had to determine whether both theories were supported by the evidence.²⁸ It concluded that they were.

¹⁵ SEB S.A. v. Montgomery Ward & Co., Inc., 594 F.3d 1360, 1365 (2010).

¹⁶ *Id.*

¹⁷ *Id.* at 1366.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.* at 1366-67.

²¹ SEB S.A. v. Montgomery Ward & Co., Inc., 137 F.Supp.2d 285, 286 n.1 (S.D.N.Y. 2001).

²² SEB S.A. v. Montgomery Ward & Co., Inc., 412 F.Supp.2d 336, 340 (S.D.N.Y. 2006).

²³ *Id.* at 340-43.

²⁴ *Id.* at 342-43.

²⁵ *SEB*, 594 F.3d at 1367-68.

²⁶ *Id.* at 1368.

²⁷ *Id.* at 1374.

²⁸ *Id.*

Considering first the evidence of direct infringement, the Federal Circuit noted that Pentalpha had sold the accused fryers f.o.b. Hong Kong or mainland China, but restated its comment from *Litecubes, LLC v. N. Light Prods., Inc.*,²⁹ that it “rejected the notion that simply because goods were shipped f.o.b., the location of the ‘sale’ for the purposes of § 271 must be the location from which the goods were shipped.”³⁰ The court found no error in the instruction allowing the jury to consider “where the products were shipped from and where the products were shipped to.”³¹ Evidence supporting the verdict included Pentalpha’s application of American trademarks to the fryers, its manufacture of fryers for U.S. electrical connections, and invoices calling for the delivery of fryers to destinations in the U.S.³²

On the issue of active inducement of infringement, Pentalpha defended on the ground that it had no actual knowledge of the ‘312 patent.³³ The Federal Circuit ruled that deliberate indifference to a known risk was sufficient to hold Pentalpha liable for active inducement.³⁴ The court noted that its ruling “does not purport to establish the outer limits of the type of knowledge needed for inducement.”³⁵ Thus, the court concluded that the damage award would stand even if it were only based on the jury finding of active inducement.³⁶

In their petition for a Writ of Certiorari, defendants framed the issue as:

Whether the legal standard for the state of mind element of a claim for actively inducing infringement under 35 U.S.C. § 271(b) is “deliberate indifference of a known risk” that an infringement may occur, as the Court of Appeals for the Federal Circuit held, or “purposeful, culpable expression and conduct” to encourage an infringement, as this Court taught in *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937, 125 S. Ct. 2764, 2780, 162 L. Ed. 2d 781, 801 (2005)?³⁷

Thus, the Supreme Court was never asked to review the jury’s determination of direct infringement, only its verdict on active inducement.

The Supreme Court rejected the Federal Circuit’s test of “deliberate indifference to a known risk,” concluding that induced infringement “requires knowledge that the induced acts constitute patent infringement.”³⁸ The Court upheld the judgment, however, applying a theory of willful blindness.³⁹ To show willful blindness, a patent holder must prove that the accused infringer subjectively believed that there was a high probability that a fact exists and that it took deliberate actions to avoid learning of that fact.⁴⁰

²⁹ 523 F.3d 1353 (Fed. Cir. 2008).

³⁰ *SEB S.A.*, 594 F.3d at 1375 (citing *Litecubes*, 523 F.3d at 1370).

³¹ *Id.*

³² *Id.*

³³ *Id.* at 1376.

³⁴ *Id.* at 1377.

³⁵ *Id.* at 1378.

³⁶ *Id.* at 1378.

³⁷ Petition for Writ of Certiorari, 2010 WL 2813550 (June 23, 2010).

³⁸ *Global-Tech Appliances*, 563 U.S. at 759-66.

³⁹ *Id.* at 766-771.

⁴⁰ *Id.* at 769.

The test for willful blindness was thus more stringent than the Federal Circuit's test in two respects. First, a known risk is not enough. Instead, the accused infringer must believe it is highly likely that, for example, a patent exists that covers the accused product. Second, the accused infringer must take deliberate steps "to avoid knowing about the infringing nature of the activities."⁴¹

C. Active inducement by foreign acts: Merial

A year after the *Global-Tech* decision, the Federal Circuit decided *Merial Ltd. v. Cipla Ltd.*⁴² There, the Federal Circuit held for the first time that section 271(b) "does not, on its face, foreclose liability for extraterritorial acts that actively induce an act of direct infringement that occurs within the United States."⁴³ According to the Federal Circuit, extraterritorial acts that induce infringement are "not categorically exempt from redress under § 271(b)."⁴⁴ To support its position, the court recited with approval a jury instruction from *DSU Med. Corp. v. JMS Co.*⁴⁵ stating that "induced infringement does not require any activity by the indirect infringer in this country, so long as the direct infringement occurs here."⁴⁶ Before *Merial*, a number of district courts had reached the same conclusion.⁴⁷

Merial involved an appeal from a contempt finding. The patents-in-suit covered compositions marketed under the Frontline Plus trademark that protect dogs and cats from fleas and ticks.⁴⁸ Merial sued Cipla, an Indian company, for infringement.⁴⁹ Cipla did not respond and the court entered an injunction barring it from infringing the patents-in-suit.⁵⁰

Some former Merial executives then started a competing veterinary pharmaceutical company, Velcera, and later arranged, through a series of intermediate corporate entities, to acquire infringing compositions from Cipla.⁵¹ The products were sold by Cipla to a third-party intermediary in India, and they were then sent to another intermediary in Dubai, from which they were then imported into the United States.⁵²

⁴¹ *Id.* at 770.

⁴² 681 F.3d 1283 (Fed. Cir. 2012).

⁴³ *Id.* at 1302.

⁴⁴ *Id.* at 1302-03.

⁴⁵ 471 F.3d 1293, 1305-06 (Fed. Cir. 2006)

⁴⁶ *Id.* at 1303.

⁴⁷ *See, e.g.*, *Honeywell Intern. Inc. v. Acer America Corp.*, 655 F.Supp.2d 650, 658-59 (E.D. Tex. 2009); *Wing Shing Products (BVI), Ltd. v. Simatelex Manufactory Co.*, 479 F.Supp.2d 388, 410 (S.D.N.Y.2007); *C. Van der Lely N.V. v. F. Ili Maschio S.n.c.*, 222 U.S.P.Q. 399, 430 (S.D. Ohio 1984); *MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, No. C 01-4925, 2006 WL 463525 at *7 (N.D.Cal. Feb. 24, 2006).

⁴⁸ *Merial*, 681 F.3d at 1288.

⁴⁹ *Id.*

⁵⁰ *Id.* at 1288-89.

⁵¹ *Id.* at 1289-91.

⁵² *Id.* at 1291.

Merial moved for contempt against Cipla, alleging a violation of the court's permanent injunction.⁵³ Velcera intervened and was joined as a defendant.⁵⁴ Cipla asserted that the injunction was void because the district court had lacked personal jurisdiction against it.⁵⁵ The court disagreed, found the defendants in contempt and enjoined both from making, using, selling or importing veterinary products containing certain key ingredients.⁵⁶ The defendants appealed from the judgment of contempt.⁵⁷

Cipla argued on appeal that the court had improperly punished conduct that occurred entirely overseas.⁵⁸ The Federal Circuit agreed that direct infringement only covers conduct within the United States, but it distinguished active inducement of infringement under § 271(b).⁵⁹ The Federal Circuit explained that it simply declined to read a limitation into the statute that was not expressly stated, namely, that entirely extraterritorial acts cannot actively induce infringement.⁶⁰

The Federal Circuit also referenced its decision in *DSU Med. Corp. v. JMS Co.*,⁶¹ where it had approved a jury instruction that stated: "Unlike direct infringement, which must take place within the United States, induced infringement does not require any activity by the indirect infringer in this country, as long as the direct infringement occurs here."⁶² The holding in *DSU* was independent of this proposition; moreover, the parties had not disputed this issue on appeal, so the single sentence in the instruction had limited, if any, precedential value.⁶³

Applying *Global-Tech*, the key facts supporting liability against Cipla for active inducement were: (1) Cipla was aware of the patent that was allegedly infringed and of the injunction; (2) Cipla "played fundamental roles in manufacturing, packaging, and assisting in the development of the accused product;" (3) Cipla knew that the accused product was to be sold in the United States; and (4) Cipla knew and intended that the U.S. sales would infringe the asserted patent.⁶⁴ Despite the formal independent legal relationships of the intermediary companies, the district court found that Velcera had acted in active concert with Cipla in arranging for the importation of the accused product: "Clever lawyers cannot shield the true substance of the contumacious conduct, no matter how many different entities attempt to launder Cipla's fingerprints off the product."⁶⁵

Since 2012, courts have relied on *Merial* for the proposition that accused infringers may be liable for induced infringement "where a foreign party, with the requisite knowledge and intent, employs extraterritorial means to actively induce acts

⁵³ *Merial*, 681 F.3d at 1291-92.

⁵⁴ *Id.* at 1292.

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ *Merial*, 681 F.3d at 1302.

⁵⁹ *Id.*

⁶⁰ *Id.* at 1302-03.

⁶¹ *DSU*, 471 F.3d at 1293.

⁶² *Merial*, 681 F.3d at 1305.

⁶³ In *DSU*, defendants had contested the imposition of liability under 271(b) for extraterritorial acts, but as plaintiffs noted in a bench memorandum, the trial court had resolved that issue against defendants in a series of pretrial orders and in jury instructions. *See, e.g.*, *DSU Medical Corp. v JMS Co., Ltd.*, 2004 WL 5565946 (N.D. Cal. March 26, 2004).

⁶⁴ *Merial*, 681 F.3d at 1304.

⁶⁵ *Id.* at 1305.

of direct infringement that occur within the United States.”⁶⁶ This proposition has not been subject to any serious questioning.⁶⁷

Similarly, commentators have recognized that in *Merial*, the Federal Circuit “has provided some extraterritorial reach” to § 271(b).⁶⁸ Again, none of the commentators have suggested that *Merial* was incorrectly decided.

D. Extraterritoriality after 2012: RJR Nabisco

After the Federal Circuit decided *Merial* in 2012, the Supreme Court significantly refined the test for extraterritoriality. Under this test, there is serious reason to question the continuing viability of *Merial*'s proposition that purely extraterritorial acts will support liability for active inducement of infringement.

RJR Nabisco, Inc. v. European Community,⁶⁹ involved a civil Racketeer Influenced and Corrupt Organizations (“RICO”) suit by the European Community and 26 of its member states against RJR Nabisco and related entities alleging participation in a global money laundering scheme involving drug traffickers who used the profits from smuggled narcotics to pay for large shipments of cigarettes into Europe.⁷⁰ The issue was whether RICO has extraterritorial application.⁷¹ The Court held that the

⁶⁶ See, e.g., *Asia Vital Components Co., Ltd. v. Asekek Danmark A/S*, 377 F.Supp.3d 990, 1023 (N.D. Cal. 2019) (quoting *Merial*, 681 F.3d at 1302). See also, *Enplas Display Device Corp. v. Seoul Semiconductor Co., Ltd.*, 909 F.3d 398, 408 (Fed. Cir. 2018); *Semcon IP Inc. v. Kyocera Corp.*, 2019 WL 1979930 at *3-4 (E.D. Tex. 2019).

⁶⁷ Although the Federal Circuit did not cite *Merial* or directly address the issue of extraterritoriality, the facts presented might have supported an argument against active inducement of infringement in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 843 F.3d 1315 (Fed. Cir. 2016). Fairchild was accused of taking affirmative acts to induce third parties to import infringing devices into the United States where it sold all of its products into a worldwide distribution system with no knowledge where they will end up. *Id.* at 1333. Evidence supporting active inducement included designing chips to meet U.S. energy standards and competing for business that was directed to the United States, activities consistent with extraterritorial conduct. *Id.* But the court also cited evidence more directly relating to domestic conduct such as providing demonstration boards containing infringing chips to customers and potential customers in the United States and maintaining a technical support center in the United States for domestic customers that had infringing devices. *Id.* at 1333-34. Thus, at least some of the acts of alleged inducement appear not to have been extraterritorial.

⁶⁸ See, e.g., Brief Amicus Curiae for Law Professor Timothy R. Holbrook in Support of Petitioners at *7, *Epic Systems Corp. v. McKesson Technologies, Inc.*, 2013 WL 494169 (2013). See also, Brief Amici Curiae of Ten Intellectual Property Law Professors in Support of Petitioner on the Issue of Extraterritoriality at *7-8, *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 2014 WL 689554 (2014); Timothy R. Holbrook, *The Potential Extraterritorial Consequences of Akamai*, 26 EMORY INT'L L. REV. 499 (2012) [hereinafter Holbrook, *Potential Extraterritorial*]; Marketa Trimble, *Advancing National Intellectual Property Policies in a Transnational Context*, 74 MD. L. REV. 203, 214-216 (2015); Bernard Chao, *Patent Imperialism*, 109 NW. U.L. REV. 77, 79 (2014); Timothy R. Holbrook, *Boundaries, Extraterritoriality, and Patent Infringement Damages*, 92 NOTRE DAME L. REV. 1745, 1763-64 (2017); Michael Brody et al., *Extraterritorial Application of U.S. Patent Laws*, 18 SEDONA CONF. J. 187, 201 (2017).

⁶⁹ 136 S. Ct. 2090 (2016)

⁷⁰ *Id.* at 2098.

⁷¹ *Id.* at 2099

private right of action under RICO does not reach injuries abroad, but applies only to domestic injuries to business or property.⁷² As a result, the claims were dismissed.⁷³

The Supreme Court articulated a two-part test for analyzing extraterritoriality issues.⁷⁴ First, has the presumption against extraterritoriality been rebutted? Or, as Justice Scalia phrased the issue: “whether the statute gives a clear, affirmative indication that it applies extraterritorially.”⁷⁵ The Court did not mince words: “[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application.”⁷⁶ This first step requires that Congress “has affirmatively and unmistakably instructed that the statute” applies to foreign conduct.⁷⁷

If the statute is not expressly extraterritorial, “at the second step we determine whether the case involves a domestic application of the statute, and we do this by looking to the statute’s ‘focus.’ If the conduct relevant to the statute’s focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory.”⁷⁸

In *RJR Nabisco*, the Court applied the test separately to individual sections of the RICO statute: 18 U.S.C. §§ 1962(a), (b), (c) and (d) and to § 1964(c).⁷⁹ It found that the predicate acts identified in §§ 1962 (b) and (c)—prohibiting employment of a pattern of racketeering—might apply to extraterritorial conduct, but that the private right of action in § 1964(c) did not cover foreign injuries.⁸⁰

E. Extraterritoriality applied to patent law: WesternGeco

Two years after *RJR Nabisco*, the Supreme Court applied its test for extraterritoriality in the context of a patent dispute. In *WesternGeco LLC v. ION Geophysical Corp.*⁸¹ the Court considered whether lost profit damages for domestic infringement might include lost sales abroad under § 284 of the Patent Act.⁸²

⁷² *Id.* at 2106-11.

⁷³ *Id.* at 2111.

⁷⁴ *RJR Nabisco*, 136 S. Ct. at 2101. The *RJR Nabisco* test derives from two other extraterritoriality decisions: *Morrison v. National Australia Bank Ltd*, 561 U.S. 247 (2010) and *Kiobel v. Royal Dutch Petroleum Co.*, 569 U.S. 108 (2013). In *Morrison*, Justice Scalia rejected the Second Circuit’s longstanding “conducts and effects” approach to extraterritoriality issues in the context of securities fraud cases. In its place, the Court proposed that the statute be interpreted according to the ‘focus’ of congressional concern. *Morrison*, 561 U.S. at 266. *Kiobel* extended that extraterritoriality analysis to the Alien Tort Statute. See *Kiobel*, 569 U.S. at 126 (Alito, J., concurring).

⁷⁵ *RJR Nabisco*, 136 S. Ct. at 2101.

⁷⁶ *Id.* at 2100.

⁷⁷ *Id.* (quoting *Morrison*, 561 U.S. at 261).

⁷⁸ *Id.* at 2101.

⁷⁹ *Id.* at 2101-11

⁸⁰ *Id.* at 2111.

⁸¹ *WesternGeco*, 138 S. Ct. 2129 (2018).

⁸² *Id.* at 2134.

WesternGeco owned patents covering a system for surveying the ocean floor using novel lateral-steering technology.⁸³ Defendant ION Geophysical began selling a competing system where the components were made in the United States and shipped to companies abroad who assembled the components into a system covered by the patents.⁸⁴ WesternGeco sued ION, alleging infringement under § 271(f)(2) for the exportation of components specially adapted for use in the patented invention.⁸⁵ The jury awarded \$93.4 million in lost profits on ten foreign survey contracts that WesternGeco allegedly lost because of the infringement.⁸⁶ The issue on appeal was whether § 284 of the Patent Act prohibits the recovery of lost profits on such foreign sales because it constitutes an extraterritorial application of the statute.⁸⁷

WesternGeco argued that the presumption against extraterritoriality should never be applied to a general damages statute.⁸⁸ To avoid a ruling that might apply broadly to other damages issues in other contexts not under consideration, the Court reversed the order of the analysis and began with the second step of the analytical framework, identifying the focus of the statute to determine whether the case involves a domestic application of the statute.⁸⁹

The Court explained that “[w]hen determining the focus of a statute, we do not analyze the provision at issue in a vacuum If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions.”⁹⁰ The Court concluded that “the infringement” is the focus of § 284 and explained that “the ‘overriding purpose’ of § 284 is to ‘affor[d] patent owners’ complete ‘compensation’ for infringement”.⁹¹ Thus, to determine the focus of § 284 in a specific case requires the Court to address whether the infringing conduct involves domestic or foreign acts.⁹²

In this instance, the Court noted that the infringing conduct corresponds to § 271(f)(2), which “focuses on domestic conduct,”⁹³ because the “conduct that § 271(f)(2) regulates—i.e., its focus—is the domestic act of ‘supply[ing] in or from the United States.’”⁹⁴

⁸³ *WesternGeco*, 138 S. Ct. at 2135.

⁸⁴ *Id.*

⁸⁵ *Id.* See 35 U.S.C. § 271(f)(2) (2018) (“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 noninfringing 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”).

⁸⁶ *Id.*

⁸⁷ *Id.* at 2135-36.

⁸⁸ *Id.* at 2136-37.

⁸⁹ *Id.*

⁹⁰ *Id.* at 2137, (internal citation omitted)

⁹¹ *Id.* Section 284 reads, in pertinent part: “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” 35 U.S.C. § 284 (2018).

⁹² *WesternGeco*, 138 S. Ct. at 2137.

⁹³ *Id.*

⁹⁴ *Id.* at 2138.

Thus, the Court concluded that “the focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States.”⁹⁵ Accordingly, “the lost-profits damages that were awarded to WesternGeco were a domestic application of § 284.”⁹⁶

In responding to arguments from ION, the Court elaborated on the determination of a statute’s focus. The focus is not necessarily what a statute authorizes (e.g., an award of damages), but is instead “the objec[t] of the statute’s solicitude”—which can turn on the ‘conduct,’ ‘parties,’ or interests that it regulates or protects.”⁹⁷ The Court noted the Federal Circuit’s acknowledgment that § 271(f)(2) protects against domestic entities who export components from the United States.⁹⁸

F. Extraterritoriality applied to § 271(b)

To extend the extraterritoriality analysis to active inducement of infringement under § 271(b), we can imagine a hypothetical situation where an accused foreign company manufactures products that clearly fall within the scope of a competitor’s U.S. patent claims. We can assume further that the accused infringer knows of the patent and believes that its products would be infringing if made in the United States, but there is no foreign patent covering the manufacture of the products. The products are sold abroad to an independent foreign middleman who then arranges to import the accused products to distributors in the United States. Finally, assume that the foreign manufacturer was also aware that the accused products would be imported into and sold in the United States. Under these circumstances, can the foreign manufacturer be liable under § 271(b) for active inducement of infringement?⁹⁹

According to the two-step framework, the first question is whether the statute gives a clear, affirmative indication that it applies extraterritorially. Section 271(b) states: “Whoever actively induces infringement of a patent shall be liable as an infringer.”¹⁰⁰ Thus, on its face, while the statute does not exclude the possibility of extraterritorial application, it does not *affirmatively* indicate that it applies to conduct outside the United States.

In *Merial*, the Federal Circuit considered it especially significant that § 271(b) did not, “on its face, foreclose liability for extraterritorial acts that actively induce an act of direct infringement that occurs within the United States.”¹⁰¹ The Federal Circuit contrasted the language of § 271(b) with § 271(a), which *does* require that the acts of

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ *Id.* at 2138 (citing *Morrison*, 561 U.S. at 267).

⁹⁸ *Id.* at 2139-44. Notably, in their dissent, Justices Gorsuch and Breyer did not disagree with the majority’s analysis of the extraterritoriality issue.

⁹⁹ The hypothetical fact pattern is similar to that presented in a case tried by the author shortly before the Supreme Court issued its *WesternGeco* decision. In *Crane Security Technologies, Inc. v. Rolling Optics AB*, D. Mass. Civil Action 1:14-CV-12428, the Swedish defendant manufactured labels that were alleged to infringe U.S. patents held by the plaintiffs. Some labels were sold in Europe to consumer products manufacturers who applied the labels to packaging on consumer products that were then sold in the United States.

¹⁰⁰ 35 U.S.C. § 271(b) (2018).

¹⁰¹ *Merial*, 681 F.3d at 1302.

infringement occur “within the United States.”¹⁰² After *Meriel* was decided, the Supreme Court changed the nature of the inquiry: the default situation is to *exclude* an extraterritorial application *unless* the statute *affirmatively* states otherwise.¹⁰³ In this instance, the statute plainly makes no affirmative statement about extraterritorial reach. Because it is silent on the issue, the presumption against extraterritorial application is not rebutted.

Thus, one must reach the second step in the framework and identify the “focus” of the statute to determine whether the case involves a permissible domestic application of the statute.

Here, the focus of § 271(b) is on acts that encourage direct infringement by others in the United States and also on the state of mind of the one encouraging such acts. In the hypothetical under consideration, the acts that induce the infringement take place entirely outside the United States and the actor, whose state of mind must be evaluated, is also outside the United States. Thus, it seems straightforward that the hypothetical does not involve a domestic application of § 271(b). Accordingly, the proposed application of the statute to attach liability for inducing infringement would be an impermissible extraterritorial exercise.

This conclusion does not change when § 271(b) is read in conjunction with other provisions. As Justice Thomas indicated in *WesternGeco*, where the statutory provision “works in tandem with other provisions, it must be assessed in concert with those other provisions.”¹⁰⁴ Here, one might argue that § 271(b) works in tandem with § 271(a) because it concerns acts that knowingly encourage direct infringement under § 271(a), which regulates domestic conduct. But, the conduct that § 271(b) regulates is not the direct infringement—a separate provision already addresses that wrongful activity—but instead those independent acts that intentionally encourage such direct infringement. Thus, the “focus” of § 271(b) is different from § 271(a).

Section 271(b) is also often read in conjunction with § 271(c) because active inducement was historically considered a form of contributory infringement.¹⁰⁵ Several older district court decisions held that the scope of § 271(c) encompassed extraterritorial activities.¹⁰⁶ However, these cases considered the contributory infringement provision before it was amended in 1994 to conform with the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade.¹⁰⁷ That amendment made the following changes to the statute:

Whoever ~~sells~~ offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement

¹⁰² *Id.*

¹⁰³ See *WesternGeco*, 138 S. Ct. 2129.

¹⁰⁴ *WesternGeco*, 138 S. Ct. at 2137.

¹⁰⁵ *Global-Tech*, 563 U.S. at 761-65.

¹⁰⁶ See, e.g., *Lucas Aerospace, Ltd. v. Unison Industries, L.P.*, 899 F.Supp. 1268, 1288 (D.Del.1995) (applying pre-1994 law to the conduct at issue); *Engineered Sports Prods. v. Brunswick Corp.*, 362 F.Supp. 722, 727 (D. Utah 1973).

¹⁰⁷ Uruguay Round Agreements Act, Pub. L. No. 103-465, title V, § 533(a), Dec. 8, 1994, 108 Stat. 4988.

of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.¹⁰⁸

These amendments to the Patent Act added “offering to sell” and “importing” as infringing acts, and the amendments to § 271(c) brought the contributory infringement provisions into conformance with § 271(a) in that respect. But they also added territorial limitations that left little doubt that contributory infringement no longer covered extraterritorial acts.¹⁰⁹

Some commentators have inferred from the 1994 amendment to § 271(c) that Congress must have intended to preserve the extraterritorial reach of § 271(b), since that provision was left untouched.¹¹⁰ “The absence of a territorial limit is particularly conspicuous given that § 271(b)’s sister provision, contributory infringement under § 271(c), is expressly limited to acts within the United States. Consequently, as a textual matter, § 271(b) should be afforded some extraterritorial reach.”¹¹¹

Whatever might be said of the interplay between §§ 271(b) and (c), however, the plain language of § 271(b) does not *clearly and affirmatively* demonstrate an extraterritorial application.

G. *The Enplas case*

The Federal Circuit recently considered a case with circumstances quite similar to those of the hypothetical proposed in the introduction of this paper. *Enplas Display Device Corp. v. Seoul Semiconductor Co., Ltd.*¹¹² involved patents covering methods of backlighting display panels used in various electronic devices and related lenses. The Japanese manufacturer of the panels, Enplas, sold the patented components to Samsung and LG Electronics, which incorporated them into their flat screen TVs. Those TVs were then sold in the United States. The court cited *Merial* for the proposition that “liability for induced infringement under § 271(b) can be imposed based on extraterritorial acts, provided that the patentee proves the defendant possessed the requisite knowledge and specific intent to induce direct infringement in

¹⁰⁸ *Id.*

¹⁰⁹ *See, e.g., Honeywell Intern*, 655 F.Supp.2d at 659 n.3 (finding the earlier district court decisions “no longer applicable because section 271(c) has been amended to only cover conduct ‘within the United States.’”).

¹¹⁰ *See, e.g., Brief Amici Curiae of Ten Intellectual Property Law Professors in Support of Petitioner on the Issue of Extraterritoriality at *7-8, Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 2014 WL 689554 (2014).

¹¹¹ *Id.* *See also, Holbrook, Potential Extraterritorial, supra* note 68 at n.42; Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L L. 603, 615 (1997) (“Section 271(b) on active inducement remains unchanged as to geographic scope and patent owners may be able to rely upon it to seek relief against a foreign manufacturer, even in situations in which the inducing conduct takes the form of the sale of a component. As a result, the change in section 271(c) may not be of great practical import, but it is curiously inconsistent with the recent trend to craft intellectual property statutes so as to provide effective relief against infringing activity originating abroad.”).

¹¹² 909 F.3d 398 (Fed. Cir. 2018).

the United States.”¹¹³ Enplas had a 50% worldwide market share, “supporting an inference that Enplas knew of the likelihood that its lenses would end up in the United States.”¹¹⁴ Enplas also distributed specifications that recommended infringing configurations to its customers.¹¹⁵ The Federal Circuit found this evidence sufficient to support a jury verdict of induced infringement.¹¹⁶

After denial of its petition for rehearing, Enplas petitioned for certiorari.¹¹⁷ As articulated by Enplas, the question presented by its petition is:

Whether, in view of the presumption against extraterritoriality, a foreign defendant’s foreign sales of components to a foreign company qualifies as induced infringement, where the defendant knew of, at most, a risk that the components might be incorporated by third parties into infringing products that might be sold by other third parties in the United States.¹¹⁸

Enplas focused its petition on the quality of knowledge required to hold a party liable for active inducement of infringement. It recognized that “§ 271(b) may be better read to reach only inducing conduct that occurs within the United States” but backed away from that proposition, asserting that “it is not necessary for the Court to reach that question to decide this case.”¹¹⁹

Enplas was apparently reluctant to press the broader argument based on its reading the Court’s decision in *Global-Tech*. According to Enplas, that decision implicitly endorsed the view that overseas acts could justify a finding of induced infringement because “the allegedly inducing acts found sufficient to support liability in *Global-Tech* occurred in China.”¹²⁰ In fact, the record suggests otherwise.

In *Global-Tech*, the acts of direct infringement by third parties were the sales by Pentalpha’s customers Sunbeam, Fingerhut and Montgomery Ward.¹²¹ Pentalpha’s behavior allegedly inducing its customers’ direct infringement was its own sales of the accused deep fryers to those customers,¹²² but those sales “did not so clearly occur overseas,” at least not according to the Federal Circuit’s review of the record.¹²³ The “only evidence” of overseas sales was the delivery of the accused deep fryers f.o.b. Hong Kong or mainland China, but the Federal Circuit noted that it has rejected such evidence as dispositive concerning the location of the sale.¹²⁴ Thus, the Enplas petition for certiorari appears to concede too much and its argument could well have raised the more fundamental—and more broadly consequential—issue whether acts of alleged

¹¹³ *Enplas*, 909 F.3d at 408.

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 408-09.

¹¹⁷ Petition for Writ of Certiorari, *Enplas Display Device Corp. v. Seoul Semiconductor Company, Ltd.*, U.S. Supreme Court Docket No. 18-1530 (available at <https://tinyurl.com/y5t8ca5x>) (last visited Mar. 12, 2020) (petition denied Nov. 4, 2019).

¹¹⁸ *Id.* at i.

¹¹⁹ *Id.* at 15 n. 2.

¹²⁰ *Id.* at 14.

¹²¹ *Global-Tech*, 594 F.3d at 1374.

¹²² *Id.* at 1367.

¹²³ *Id.* at 1375.

¹²⁴ *Id.*

inducement outside the United States would constitute an extraterritorial application of § 271(b).

II. CONCLUSION

The Supreme Court's test for extraterritoriality, as applied to § 271(b), leaves no room to hold a foreign defendant liable for acts that occur entirely outside the United States, even if those acts allegedly encourage a third party to infringe a United States patent directly through the use, sale, or offer for sale in the United States or importation into the United States. The contrary decision by the Federal Circuit in *Merial v. Cipla* should no longer be followed as it has been overruled by implication by the Supreme Court's decision in *WesternGeco LLC v. ION Geophysical Corp.* Thus, unless Congress chooses to add an express provision extending the reach of § 271(b) to activities anywhere, the statute should be interpreted to extend only to domestic conduct.

Naturally, the current test for extraterritoriality may also have significant consequences for other sections of the Patent Act. For example, the same reasoning suggests that the scope of injunctive relief under 35 U.S.C. § 283 should not extend to activities that take place entirely outside the United States.