

# Infringement Twice Removed: Inducement Of Patent Infringement For Overseas Manufacture Of Infringing Products Imported By Another

by  
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## ABSTRACT

Manufacturing a device in another country that infringes a United States patent is generally not a violation of United States patent law. However, if the device is then imported into the United States by another, the manufacturer may or may not be liable for inducement of patent infringement. This article explores inducement of infringement liability of foreign manufactures. First, inducement of infringement is defined and the sparse related case law is discussed. Then, a number of possible rules that courts could adopt to determine when foreign manufacturers should be liable are explored. The article concludes with a proposal that courts not find foreign manufacturers liable for patent infringement for two reasons. First, there is strong presumption against applying United States laws extraterritorially. Second, holding foreign manufacturers liable would disadvantage United States corporations who manufacture products overseas.

## I. INTRODUCTION

The basic concept of patent infringement is easy to understand. Person A makes a product that infringes a patent owned by person B. Person B is then able to sue person A to stop him from making the infringing product<sup>2</sup> and to receive damages for the infringement that has occurred.<sup>3</sup> The situation, however, becomes more complicated when person A produces the in-

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  2. 35 U.S.C. § 283 (2000). “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” *Id.*
  3. 35 U.S.C. § 284 (2000).

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.

*Id.*

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fringing product overseas. For example, in *Nippon Electric Glass Co. v. Sheldon*, the manufacturer, Nippon Electric Glass (NEG), produced glass picture tubes in Japan that it sold to Sony and Panasonic.<sup>4</sup> Sony and Panasonic then put the picture tubes in television sets that they imported into and sold in the United States.<sup>5</sup> Because NEG did not produce the infringing glass picture tubes in the United States, Sheldon, the patent holder, could not sue NEG directly for infringement. Of course, Sheldon could sue Sony and Panasonic for infringement because importing and selling the glass picture tubes in the United States is an act of infringement.<sup>6</sup> But this is not an attractive option, because, as two of the largest television manufacturers, Sony and Panasonic are also potential customers of Sheldon.<sup>7</sup> What a patent holder would like to do in such a situation is sue the overseas manufacturer of the infringing product for inducement of the patent infringement.<sup>8</sup>

Unfortunately for patent holders, the law of inducement of infringement by overseas sales of products that are later imported into the United States is not well defined. The following note addresses the state of the law for this twice-removed infringement.<sup>9</sup> The background section explains the current

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4. *Nippon Electric Glass v. Sheldon*, 489 F. Supp. 119, 120-21 (S.D.N.Y. 1980).

5. *Id.*

6. *See* 35 U.S.C. § 271(a) (2000).

Except as otherwise provided in this title, 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, therefore, infringes the patent.

*Id.*

7. In the actual case Sheldon attempted to get Sony and Panasonic to obtain a license from him. *Nippon*, 489 F. Supp. at 120. NEG then sued for a declaratory judgment that the patent was invalid. *Id.* at 121. The court allowed this suit to proceed because it reasoned that NEG could be sued for contributory infringement. *Id.* at 122.

8. Whether the company manufacturing the infringing product overseas is a United States company or a foreign corporation makes no difference because United States patent laws do not distinguish between the overseas actions of United States corporations and foreign companies. For example, in *Pellegrini v. Analog Devices*, 375 F.3d 1113, 1116, 1115 n.1 (Fed. Cir. 2004), Analog Devices was a United States corporation that produced infringing products in Ireland. The court found no infringement of 28 U.S.C. § 271(f) because even though the devices were designed in the United States, the actual products were made overseas and not sold in the United States. *Id.* 1118. The fact that Analog Devices was a United States corporation was irrelevant.

9. Inducement of infringement requires that another perform acts of direct infringement so is infringement once removed. When the acts of inducement occur overseas they are one step further removed than garden-variety inducement of infringement. Hence it can be thought of as twice-removed infringement.

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state of the law of inducement of infringement as it relates to overseas manufacturing of infringing products that are later imported into the United States. The analysis section discusses four different possible approaches that could be adopted to clarify the law of inducement of infringement. These approaches are discussed in the context of comparisons between the law of inducement of infringement and other types of indirect patent infringement, consideration of the long-standing rule against the extraterritorial application of United States patent laws, a comparison between agency law and inducement of infringement liability, and a discussion of the exercise of personal jurisdiction and judgment enforcement against overseas manufacturers. The recommendation section then proposes a preferred solution to when infringement liability should accrue for overseas manufacturers.

## II. BACKGROUND

### A. Types of Patent Infringement

Under United States law, there are a number of different types of patent infringement. The simplest type is direct infringement which occurs whenever someone makes, uses, offers to sell, or sells a patented invention within the United States or imports a patented invention into the United States.<sup>10</sup> Direct infringement only applies to activities that occur within the United States.<sup>11</sup>

Another type of patent infringement is inducement of infringement. This occurs when someone “actively induces infringement of a patent.”<sup>12</sup> There are two principle requirements for inducement of infringement to occur: 1) an act of direct infringement by another and 2) intent to induce the direct infringement.<sup>13</sup> The direct infringement requirement is illustrated by *Golden Blount v. Peterson*, where the defendant was accused of selling de-

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10. 35 U.S.C. § 271(a) (2000).

11. Direct infringement may cover overseas sales of an infringing invention if the offer to sell occurs within the United States. Timothy Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701, 738-39 (2004) [hereinafter Holbrook, *Waning*]. A good example of the restriction of direct infringement to acts within the United States can be found in *Int'l Rectifier Corp. v. Samsung Elec. Co.*, 361 F.3d 1355, 1360 (Fed. Cir. 2004). Samsung made integrated circuits in Korea which were sold to IXYS in Germany. *Id.* at 1358. IXYS then packaged the integrated circuits and sold some into the United States. *Id.* The court noted that based on the language of 35 U.S.C. § 271(a), direct infringement does not extend to acts outside the United States. *Id.* at 1360.

12. 35 U.S.C. § 271(b) (2000). “Whoever actively induces infringement of a patent shall liable as an infringer.” *Id.*

13. Michael N. Rader, *Toward a Coherent Law of Inducement to Infringe: Why the Federal Circuit Should Adopt the Hewlett-Packard Standard for Intent Under § 271(b)*, 10 FED. CIR. B.J. 299, 308 (2000).

vices infringing a patent.<sup>14</sup> The Court of Appeals for the Federal Circuit<sup>15</sup> instructed that a trial court considering patent infringement should first decide if the manufacturer directly infringed the patent.<sup>16</sup> If direct infringement did not occur, then the trial court should determine if the manufacturer's customers infringe the patent when they use the product.<sup>17</sup> If the customers infringe by using the product, then inducement of infringement becomes an issue.<sup>18</sup> Consequently, without direct infringement by the customers, inducement of infringement liability for the manufacturer is impossible.

## B. Intent Requirement for Inducement

In patent law, all appeals from United States district courts are heard by the Court of Appeals for the Federal Circuit.<sup>19</sup> Because the Supreme Court hears few patent related cases, the Federal Circuit is the final word on most issues in patent law.<sup>20</sup> The Federal Circuit has issued opinions with two conflicting approaches on what type of intent is required for inducement of infringement liability.<sup>21</sup> Under the first approach to intent, the defendant must knowingly cause the actions that directly infringe the patent but need not realize that the actions are infringement.<sup>22</sup> The Federal Circuit first utilized this approach in *Hewlett-Packard v. Bausch & Lomb*.<sup>23</sup> Bausch & Lomb was selling a division that made plotters to Ametek.<sup>24</sup> As part of the sales agreement, Bausch & Lomb agreed to indemnify Ametek for infringement liability from a particular patent owned by Hewlett-Packard if Ametek continued to

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14. *Golden Blount, Inc. v. Robert H. Peterson Co.*, 365 F.3d 1054, 1058 (Fed. Cir. 2004).
  15. The Court of Appeals for the Federal Circuit hears all appeals from federal district courts regarding patent cases. 3 Donald S. Chisum, PATENTS § 11.06[3][e] (1992) [hereinafter Chisum, PATENTS].
  16. *Golden Blount*, 365 F.3d at 1061.
  17. *Id.*
  18. *Id.*
  19. Mathew F. Weil & William C. Rooklidge, *Stare UnDecisis: The Sometimes Rough Treatment of Precedent in Federal Circuit Decision Making*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 791, 807 n.3 (1998).
  20. Michael Paul Chu, Note, *An Antitrust Solution to the New Wave of Predatory Infringement Litigation*, 33 WM. & MARY L. REV. 1341, 1351 (1992).
  21. Rader, *supra* note 13, at 314.
  22. *Id.*; *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).
  23. *Hewlett-Packard*, 909 F.2d at 1469.
  24. *Id.* at 1467. X-Y plotters are used to create charts and graphs. *Id.* at 1466. The plotters made by Bausch & Lomb move the paper in the Y-direction while the pen moves in the X-direction. *Id.* Bausch & Lomb was selling its X-Y plotter business to Ametek. *Id.* at 1467.

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make a plotter that was thought to infringe the patent.<sup>25</sup> The Federal Circuit noted that “proof of actual intent to cause the acts which constitute infringement is a necessary prerequisite to finding active inducement.”<sup>26</sup> As a result, under this first approach, actual intent to cause patent infringement is not required. Instead the Federal Circuit only requires intent to cause the acts that happen to be direct infringement.

By contrast, the Federal Circuit in *Manville Sales Corp. v. Paramount Systems, Inc.* used a second approach to defining the requisite intent for inducement of infringement liability.<sup>27</sup> In *Manville*, the court considered whether an officer of Paramount could be held personally liable for the direct infringement of his corporation because he had obtained a drawing of Manville’s device, which was given to his company’s designer.<sup>28</sup> The Federal Circuit held that the officer was not liable for inducement of infringement.<sup>29</sup> In so holding, the Court noted that the defendant must possess “specific intent to encourage another’s infringement and not merely that the defendant had actual knowledge of the acts alleged to constitute infringement.”<sup>30</sup> In addition, the court recognized that “the plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts *and* that he knew or should have known that his actions would induce actual infringements.”<sup>31</sup> Under this second intent standard, it is not enough that the defendant has knowledge that he is causing the acts. Instead, he must know that the actions he is causing are direct patent infringement.

For three reasons, the *Hewlett-Packard* approach to intent is preferable. First, such an approach is consistent with how direct infringement is treated. Direct infringement is a strict liability offense. Thus, imposing a strict liability standard for inducement of infringement would provide the same level of protection to the patent holder.<sup>32</sup> Second, following the *Manville* approach allows an indirect infringer to escape liability by obtaining a non-infringement opinion from an attorney.<sup>33</sup> If an attorney claims that no infringement

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25. *Id.* at 1467.

26. *Id.* at 1469.

27. *Manville Sales Corp. v. Paramount Sys. Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

28. *Id.* at 549.

29. *Id.*

30. *Id.* at 533.

31. *Id.* at 553 (emphasis in original). The court cited *Hewlett-Packard*, 909 F.2d at 1468-69 for this proposition. *Id.* However, this portion of *Hewlett-Packard* was referring to contributory infringement under 35 U.S.C. § 271(c) and not inducement of infringement.

32. *See Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (“Infringement itself, however, is a strict liability offense . . .”).

33. Rader, *supra* note 13, at 330.

is occurring, the indirect infringer can claim that she lacks the requisite knowledge that her action is causing infringement and can therefore escape liability altogether.<sup>34</sup> Third, making it easier to show inducement is important when one party enables direct infringement for a large number of third parties.<sup>35</sup> For example, if a manufacturer sells a mass-market consumer device that when used infringes a patent, it would not be practical for the patent owner to go after the numerous consumers infringing the patent by using the device. Suing the manufacturer for inducing the infringement, however, allows the patent owner to receive compensation and prevent future infringement.

But, there are reasons for supporting the *Manville* approach as well. First, because indirect infringers do not actually perform infringing activity, there is an understandable reluctance to hold them liable absent actual knowledge that they are causing wrongdoing. Second, while the *Manville* approach prevents patent holders from recovering some damages, patent holders can prevent future infringement by notifying indirect infringers of the infringement. This would cause the indirect infringers to have actual knowledge that they are inducing infringement, thereby satisfying the *Manville* intent requirement. Third, courts are reluctant to hold officers and employees liable for infringement by their companies.<sup>36</sup> This is because of the shield that the corporate entity provides to officers and employees.<sup>37</sup> Because the inducement statute does not provide any special treatment for officers or employees, the only way to shield them from inducement liability is a rule like the one espoused in *Manville*.<sup>38</sup>

Restricting the *Manville* rule to corporate officers or business owners and applying *Hewlett-Packard* for all other situations would reconcile the two conflicting approaches. This would be consistent with the general Federal Circuit rule that earlier decisions have precedence over later decisions unless overruled by the court sitting en banc.<sup>39</sup> Of course, this compromise is

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34. *Id.*

35. *Id.*

36. *Cf.* Lynda J. Oswald, *The Personal Liability of Corporate Officers for Patent Infringement*, 44 IDEA 115, 144 (2003) (noting that infringement liability for corporate officers has mostly been limited to cases where the officers were also principal shareholders).

37. “Under traditional agency and tort law doctrine, corporate officers and directors are generally immune from personal liability for the acts of the corporation.” *Id.* at 117-18.

38. The inducement statute states simply, “Whoever actively induces infringement of a patent shall be liable as an infringer.” 35 U.S.C. § 271(b) (2000).

39. “Under the Federal Circuit’s version of [stare decisis], prior decisions are binding unless and until overturned by the Court en banc.” Weil & Rooklidge, *supra* note 19, at 792.

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impossible to justify from a literal reading of the statute.<sup>40</sup> District courts have understandably been split as to which rule to follow.<sup>41</sup>

### C. Older Case Law on Inducement Liability for Foreign-Manufactured Products

Now that inducement of infringement has been defined, it is possible to consider inducement liability for products produced overseas. A number of older cases (pre-Federal Circuit) found that there could be inducement of infringement liability for goods produced overseas. For example, in *Honeywell, Inc. v. Metz Apparatewerke*, Metz manufactured photographic flash equipment in Germany that infringed a patent owned by Honeywell.<sup>42</sup> Metz had an exclusive distribution agreement for the United States market with an importer, Ehrenreich Photo-Optical Industries of Illinois (EPOI).<sup>43</sup> The Seventh Circuit Court of Appeals considered the question of whether Metz could be liable for inducement of infringement even though all of its activity took place within Germany.<sup>44</sup> The Court concluded that because Metz shipped the products to EPOI with knowledge that they would go to the United States, agreed to assist in publicizing the products, and agreed to indemnify EPOI for any patent infringement liability, Metz could be liable for inducement of infringement.<sup>45</sup>

Similarly, in *Engineered Sports Products v. Brunswick Corp.*, a group of overseas ski boot manufacturers sold allegedly infringing footwear to exclusive distributors who sold them within the United States.<sup>46</sup> In the context of deciding whether personal jurisdiction could be exercised over the overseas boot manufacturers, the Federal District Court of Utah considered the issue of whether they could be liable for patent infringement.<sup>47</sup> The court concluded that the purposeful introduction of foreign-manufactured ski boots

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40. The inducement statute simply states, “Whoever actively induces infringement of a patent shall be liable as an infringer.” 35 U.S.C. § 271(b) (2000).

41. Rader, *supra* note 13, at 320-21. The Federal Circuit later applied the *Manville* approach in another case involving liability of corporate officers. *Ferguson Beauregard/Logic Controls v. Mega Sys., LLC*, 350 F.3d 1327, 1342 (Fed. Cir. 2003).

42. *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 1139 (7th Cir. 1975).

43. *Id.* at 1139.

44. *See id.* at 1141. This question was considered in the context of determining whether the district court could exercise jurisdiction over Metz. *Id.*

45. *Id.* at 1142.

46. *See Engineered Sports Prods. v. Brunswick Corp.*, 362 F. Supp. 722, 724-25 (D. Utah 1973).

47. *See id.* at 724, 726.

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into distribution channels leading into the United States could be inducement of infringement.<sup>48</sup>

#### D. Recent Case Law on Inducement Liability for Foreign-Manufactured Products

Both *Honeywell* and *Engineered Sports* predate the formation of the Federal Circuit. Shortly after it was formed in 1982, the Federal Circuit adopted the case law of its two predecessor courts, the Court of Claims and the Court of Customs and Patent Appeals, as binding precedent.<sup>49</sup> The opinions of the other Courts of Appeals, however, are not binding precedent for the Federal Circuit. The Federal Circuit can ignore opinions such as *Honeywell*, which came from the Seventh Circuit, since they are merely persuasive authority.

The Federal Circuit has addressed the issue of inducement of infringement liability for foreign manufacturing of infringing products in two conflicting opinions issued just months apart.<sup>50</sup> In *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, Tritech manufactured integrated circuits at a factory in Singapore.<sup>51</sup> When used, the integrated circuits performed a process which was identical to that claimed in a patent owned by Crystal Semiconductor.<sup>52</sup> Tritech sold the integrated circuits to OPTi, which then sold them in the United States personal computer market.<sup>53</sup> At the district court, the jury returned a verdict of infringement against Tritech, the overseas manufacturer, and OPTi, the distributor.<sup>54</sup> Tritech argued to the Federal Circuit that the jury had been instructed to consider only direct infringement and not inducement of infringement.<sup>55</sup> Because all of its actions

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48. *See id.* at 727.

49. *South Corp. v. United States*, 690 F.2d 1368, 1369, 1371 (Fed. Cir. 1982) (“[W]e begin by adopting as a basic foundation the jurisprudence of . . . the Court of Claims and the Court of Customs and Patent Appeals.”).

50. *See* Troy Petersen, *U.S. Infringement Liability for Foreign Sellers of Infringing Products*, 2003 DUKE L. & TECH. REV. 32, 15-16 (2003). Also, in *Spindelfabrik Suessen-Schurr v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 903 F.2d 1568, 1578 (Fed. Cir. 1990), the Federal Circuit upheld a district court injunction for patent infringement prohibiting actions that the defendant could take in Germany.

51. *See* *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1344 (Fed. Cir. 2001).

52. *See id.* at 1343, 1345 (stating that co-defendant OPTi conceded that the patent claims for methods of reducing electrical noise in analog to digital converters were infringed).

53. *Id.* at 1344.

54. *Id.* at 1345.

55. *See* Reply Brief for Defendants-Cross Appellants TriTech Microelectronics International, Inc. & TriTech Microelectronics International PTE Ltd. at 13,

took place outside the United States, Tritech pointed out that it could not be liable for direct infringement, so the jury verdict was improper.<sup>56</sup> Crystal Semiconductor responded by arguing that the jury had indeed been instructed to consider inducement of infringement and that there was plenty of evidence to show Tritech induced OPTi's infringement.<sup>57</sup> The Federal Circuit held that Tritech could not be liable for direct infringement because it did not practice the invention within the United States.<sup>58</sup> Nevertheless, because it held the jury was properly instructed to assess whether Tritech actively induced OPTi's direct infringement, the Federal Circuit also held that a finding of inducement of infringement was proper.<sup>59</sup>

The Federal Circuit's subsequent ruling in *Shockley v. Arcan, Inc.* was inconsistent with its ruling in *Crystal Semiconductor*. In *Shockley*, Arcan sold mechanic's creepers (wheeled sleds that mechanics lie on to get underneath cars more easily) that infringed a patent owned by Shockley.<sup>60</sup> The creepers were made in Shanghai by Sunex and then sold in the United States by Arcan.<sup>61</sup> Both Sunex and Arcan were owned and controlled by the same person.<sup>62</sup> The trial court found Arcan liable for infringement,<sup>63</sup> but refused to find Sunex jointly and severally liable for the infringement.<sup>64</sup> On appeal, Arcan argued that Sunex could not be liable because Shockley had not raised the issue of inducement of infringement at trial.<sup>65</sup> Shockley based his argument on liability for Sunex entirely on a theory of joint and several tort liabil-

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*Crystal Semiconductor*, 246 F. 3d 1336 (Fed. Cir. 2001) (Nos. 99-1558, -1559, -1560, 00-1006), 1999 WL 33636269.

56. *Id.* at 12-13.

57. Reply Brief for Appellant Crystal Semiconductor Corp. at 23, *Crystal Semiconductor*, 246 F. 3d 1336 (Fed. Cir. 2001) (Nos. 99-1558, -1559, -1560, 00-1006), 2000 WL 34012210.

58. *Crystal Semiconductor*, 246 F.3d at 1351.

59. *See id.*

60. *See Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1353, 1356, 1360 (Fed. Cir. 2001).

61. *Id.* at 1356. Apparently some creepers were sold with permission by Sunex to customers not in Shockley's market. *Id.*

62. *Id.*

63. *Id.*

64. *See* Brief for Plaintiff-Cross Appellant [sic] Troy Shockley & Third Party Defendant-Cross Appellant Excalibur Tool & Equipment Co., Inc. at 54-55, *Shockley*, 248 F.3d 1349 (Fed. Cir. 2001) (Nos. 99-1580, -1603), 2000 WL 34401866.

65. *See* Reply Brief for Defendant-Appellant Arcan, Inc., Defendant/Third Party Plaintiff-Appellant Telesis Corp., & Defendant/Third Party Plaintiff-Appellee Sunex International, Inc. at 42-43, *Shockley*, 248 F.3d 1349 (Fed. Cir. 2001) (Nos. 99-1580, -1603), 2000 WL 34030968.

ity without mentioning inducement of infringement.<sup>66</sup> The Federal Circuit held, “Although Sunex manufactured every Z-Creeper that Arcan sold in the United States, all of Sunex’s activities took place in Shanghai. Sunex, therefore, cannot be liable for infringement under § 271.”<sup>67</sup> By stating that Sunex was not liable under § 271, the court included both direct infringement under 35 U.S.C. § 271(a) and inducement of infringement under 35 U.S.C. § 271(b) within its ruling. Because the decision encompassed both forms of liability, it directly contradicts the holding of *Crystal Semiconductor*, which had been decided only three months earlier.

One possible explanation of this inconsistent result is that the court in *Shockley* meant only that Sunex was not liable for direct infringement without meaning to include inducement of infringement in its finding.<sup>68</sup> This makes sense considering that just before holding that Sunex was not liable for infringement, the court stated, “To be liable for infringement under 35 U.S.C. [§] 271, a party must make, use, offer to sell, or sell within the United States, or import into the United States, the patented invention.”<sup>69</sup> This language echoes the language of 35 U.S.C. § 271(a) defining direct infringement.<sup>70</sup> Furthermore, this result is consistent with the fact that the plaintiff did not raise the subject of inducement of infringement at trial or on appeal. Because both opinions were authored by Judge Rader,<sup>71</sup> it is hard to believe that the contradiction was intentional. Yet, regardless of the intention of the court, the fact remains that the opinion clearly states that there cannot be infringement liability for manufacturing a product overseas.<sup>72</sup>

With regard to current Federal Circuit law, the safest assumption is that there can be inducement of infringement liability for manufacturing a product overseas. This is because *Crystal Semiconductor* was decided first. Under Federal Circuit law, the decision of a three judge panel cannot be

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66. Brief for Plaintiff-Cross Appellant [sic] Troy Shockley & Third Party Defendant-Cross Appellant Excalibur Tool & Equipment Co., Inc. at 57-58, *Shockley*, 248 F.3d 1349 (Fed. Cir. 2001) (Nos. 99-1580, -1603), 2000 WL 34401866; Reply Brief for Plaintiff-Cross Appellant Troy Shockley & Third Party Defendant-Cross Appellant Excalibur Tool & Equipment Co., Inc. at 2-5, *Shockley*, 248 F.3d 1349 (Fed. Cir. 2001) (Nos. 99-1580, -1603), 2000 WL 34030973.

67. *Shockley*, 248 F.3d at 1364.

68. Petersen, *supra* note 48, at 16.

69. *Shockley*, 248 F.3d at 1364.

70. “Except as otherwise provided in this title, whosoever 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 therefore, infringes the patent.” 35 U.S.C. § 271(a) (2000).

71. *Shockley*, 248 F.3d at 1353; *Crystal Semiconductor Corp. v. Tritech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1342 (Fed. Cir. 2001).

72. *See Shockley*, 248 F.3d at 1364.

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overturned except by the court sitting en banc.<sup>73</sup> Furthermore, as noted above, it is plausible that the result in *Shockley* was simply a misstatement. Nevertheless, *Crystal Semiconductor* provides no reasoning and cites no case law for the proposition that overseas manufacturing should result in inducement of infringement liability. Furthermore, *Crystal Semiconductor* does not set out under what conditions inducement liability should attach. These facts, coupled with the result of *Shockley*, make it arguable that inducement of infringement liability for overseas manufacturing is not a well-settled proposition.

### III. ANALYSIS

#### A. Four Possible Approaches to Infringement Liability

Because of the inconsistent case law in the area of inducement of infringement liability for overseas activity, there is no settled rule to determine under what conditions liability exists. There are a number of different approaches that courts may take ranging from never finding liability at one extreme to using the same standard as when products are manufactured in the United States at the other extreme.

For example, a possible rule that the Federal Circuit could adopt is to not find liability for overseas manufacture of infringing products. This rule would make it difficult for a patent holder to obtain relief for infringement for goods imported from overseas. The patent holder would be limited to suing the importer and United States retailer. If the patent holder obtained a judgment against one importer of the goods, the manufacturer could just switch to another importer and continue the infringing activity. This rule, however, has the advantage of being easy to apply and doesn't extend the reach of United States patent laws into other countries.

A second possible rule would be to impose inducement of infringement liability only when there is an exclusive distribution arrangement between the manufacturer and the importer. Holding the manufacturer liable in this situation seems justifiable because the manufacturer is explicitly and knowingly taking advantage of the United States market.<sup>74</sup> Not finding liability in this situation would make it easy for overseas manufacturers to consistently avoid liability by using an agent to import the goods into this country. This was the rule used in earlier cases such as *Engineered Sports* and *Metz*, dis-

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73. *Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 765 (Fed. Cir. 1988); *Kimberly-Clark Corp. v. Fort Howard Paper Co.*, 772 F.2d 860, 863 (Fed. Cir. 1985); *Weil & Rooklidge*, *supra* note 19, at 792.

74. This reasoning is similar to that used by the Supreme Court in jurisdiction cases. *Cf. World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 315 (1980) (Marshall, J. dissenting) (explaining that receiving an economic advantage in the state should create liability). .

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cussed above.<sup>75</sup> *Crystal Semiconductor*, however, may or may not be consistent with this rule because the court's opinion does not spell out the exact nature of the relationship between the manufacturer and importer.<sup>76</sup>

A possible third rule would impose liability whenever the overseas manufacturer knows that the infringing products are being imported into the United States. This rule would cover the common situation where a manufacturer sells components to a large consumer goods manufacturer that then sells a large portion of its goods in the United States. For example, a company selling amplifiers to Sony could not claim ignorance that many of these amplifiers would end up in products sold in the United States.<sup>77</sup> This rule seems plausible from a moral standpoint. It only seems fair to hold the manufacturer accountable for violations of United States law when he is knowingly profiting from the United States market.

The fourth and broadest possible rule would be to find inducement liability when infringing products are imported into the United States, regardless of whether the foreign manufacturer knew that the infringing products were entering the United States market. Such a rule would be consistent with the law of direct infringement, which is a strict liability tort. Direct infringement occurs whenever someone makes, uses, sells, or offers to sell a patented invention within the United States.<sup>78</sup> There is liability regardless of whether the direct infringer knows of the existence of the patent because the infringer's intent does not change the amount of harm to the patent owner.<sup>79</sup> If the same methodology is employed for cases involving inducement of infringement, then liability should attach regardless of whether the overseas manufacturer knows that their products are entering the United States and infringing a United States patent.

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75. See *Engineered Sports Prods. v. Brunswick Corp.*, 362 F. Supp. 722, 725 (D. Utah 1973); *Honeywell v. Metz Apparatewerke*, 509 F.2d 1137, 1139 (7th Cir. 1975).

76. *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F. 3d 1336, 1344 (Fed. Cir. 2001).

77. Because Sony sells 28% of its products to the United States market, someone selling components to Sony would presumably know that there is a high likelihood that some of the products will end up in the United States. Hoover's Online, Sony Corporation, <http://premium.hoovers.com> (search "Sony Corporation"; then follow "Sony Corporation" hyperlink; then follow "Products/operations" hyperlink) (last visited Nov. 20, 2004).

78. 35 U.S.C. § 271(a) (2000).

79. Chisum, PATENTS, *supra* note 15 at § 16.02[2]; André Tunc, *Introduction*, to XI INTERNATIONAL ENCYCLOPEDIA OF COMPARATIVE LAW (André Tunc ed., 1983).

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## B. Exterritorial Application of United States Patent Law

It is a general rule that United States patent laws have no extraterritorial effects.<sup>80</sup> The Supreme Court illustrated this premise in *Deepsouth Packing Co. v. Laitram Corp.*<sup>81</sup> Deepsouth had been enjoined from manufacturing and selling a shrimp deveiner (device that removes shell and vein from shrimp) that infringed a patent owned by Laitram.<sup>82</sup> To circumvent the patent, Deepsouth sold the invention so that it could be easily assembled by the customer overseas in less than an hour, shipping it in three separate boxes.<sup>83</sup> Deepsouth was completely open about the fact that they were shipping their product in this way to get around Laitram's patent.<sup>84</sup> The Supreme Court approved of Deepsouth's shell game by noting in regard to patent laws that, "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."<sup>85</sup>

Congress later amended the patent laws to change the specific holding of *Deepsouth* so that a person cannot avoid liability for infringement simply by shipping the parts of an invention from the United States for assembly abroad.<sup>86</sup> This change, however, did not disturb the basic premise of *Deepsouth* that the patent laws of the United States do not have an extraterritorial effect unless there is a clear signal from Congress that they should. The amended law was merely this "clear and certain signal."<sup>87</sup>

*Deepsouth* only tangentially addressed inducement of infringement by noting that there would be inducement liability if the manufacture of the

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80. David Sulkis, *Patent Infringement by Offer to Sell: Rotec Industries, Inc. v. Mitsubishi Corporation*, 38 HOUS. L. REV. 1099, 1110 (2001) (noting that United States patent laws don't operate outside of the United States). Justifications for the presumption against extraterritoriality have included international law, international comity, choice-of-law principles, likely congressional intent, and separation of powers. Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505, 614 (1997).
81. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972).
82. *Id.* at 523.
83. *Id.* at 524.
84. *Id.* at 524 n.5.
85. *Id.* at 531 (quoting *Brown v. Duchesne*, 60 U.S. 183, 195 (1856) and *Boesch v. Graff*, 133 U.S. 697, 703 (1890)) (citations and quotes omitted).
86. Timothy Holbrook, *Liability for the "Threat of Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement*, 43 SANTA CLARA L. REV. 751, 760 (2003) [hereinafter Holbrook, *Offer to Sell*]; 35 U.S.C. § 271(f) (2000).
87. Holbrook, *Offer to Sell*, *supra* note 86, at 760.

patented deveiners was intended to lead to use within the United States.<sup>88</sup> The defendant's manufacturing activity in *Deepsouth*, however, was occurring within the United States.<sup>89</sup> Hence, this dicta is not directly relevant to the issue of whether there should be inducement liability for the overseas manufacture of a patented device that is later sold in the United States.<sup>90</sup>

In 1991 the Supreme Court addressed the issue of extraterritorial application of United States laws in *EEOC v. Arabian Am. Oil Co.*<sup>91</sup> In *Arabian*, a United States citizen working for a United States company in Saudi Arabia was fired.<sup>92</sup> The EEOC filed suit against the company under United States employment laws, alleging that the employee had been fired because of his race, religion, and national origin (he was from Lebanon originally).<sup>93</sup> The Supreme Court noted that the "legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States."<sup>94</sup> Such a rule "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord."<sup>95</sup> Unless there is an "affirmative intention of the Congress clearly expressed we must presume it is primarily concerned with domestic concerns."<sup>96</sup> The inducement of infringement statute contains no indication that Congress intended to reach overseas defendants.<sup>97</sup> Thus, under the current Supreme Court precedent it would be improper to apply the inducement of infringement statute to foreign actions.

The rule expressed in *Arabian* and *Deepsouth* against applying United States laws extraterritorially serves a number of important purposes. First, as noted in *Arabian*, the rule serves to prevent clashes between United States laws and the laws of other countries.<sup>98</sup> Of course when Congress explicitly indicates that a law will apply extraterritorially, such a clash of laws may occur. But, a clash is less likely to occur in that case because presumably Congress has researched the international issues involved. When Congress

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88. *Deepsouth*, 406 U.S. at 526.

89. *Id.* at 523.

90. At least one scholar has read this dicta as an endorsement that overseas conduct can be grounds for inducement of infringement liability. Bradley, *supra* note 80, at 522 n.89.

91. *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244 (1991).

92. *Id.* at 247.

93. *Id.*

94. *Id.* at 248.

95. *Id.* (quoting *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949)).

96. *Id.* (quoting *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

97. 35 U.S.C. § 271(b) (2000).

98. *Arabian*, 499 U.S. at 248; Bradley, *supra* note 80, at 514.

does not specifically intend that a law be applied extraterritorially, it is unlikely that Congress gave consideration to potential conflicts with the laws of other nations.

Such a conflict of United States and Japanese patent laws occurred in *Akira Fujimoto v. KK Newlon*.<sup>99</sup> In *Akira*, Fujimoto owned a United States patent for which it did not have a corresponding Japanese patent.<sup>100</sup> Newlon made a card-reader in Japan that infringed the United States patent. They sold the readers to a distributor, Newlon Electronics, who imported the card reader into the United States.<sup>101</sup> Fujimoto sued Newlon in the Japanese courts to prevent Newlon from manufacturing the card-readers and exporting them to the United States through Newlon Electronics.<sup>102</sup> The Japanese Supreme Court noted that the actions of Newlon would violate United States patent laws on active inducement.<sup>103</sup> Enforcing United States patent laws in Japan, however, would “violate the territoriality principle on which the Japanese patent law is based.”<sup>104</sup> The court, therefore, refused to issue an injunction stopping Newlon’s activity.<sup>105</sup> If a United States court attempted to reach Newlon’s activity in Japan for inducement of infringement under United States patent law, it would be acting in direct conflict with the ruling of the Japanese Supreme Court.

A second important purpose for the *Arabian* rule is separation of powers.<sup>106</sup> A court’s decision to apply United States law may interfere with the executive branch’s ability to make international agreements. The constitution vests the executive and legislative branches, not the courts, with the power over foreign and international affairs.<sup>107</sup> As a result, courts should not take actions that can affect relations with other countries and interfere with the prerogatives of the other branches.

Out of the four possible rules regarding inducement of infringement liability for overseas manufacturing, only the first rule, which would not find any liability, is consistent with the rule against extraterritorial application of United States laws. The other three possible rules would find liability for

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99. *Akira Fujimoto v. KK Newlon*, 51 Minshu 2299 (Sup. Ct. 3rd Petty Bench, July 1, 1997). For a description of this case see Teruo Doi, *The Territoriality Principle of Patent Protection and Conflict of Laws: A Review of the Japanese Court Decisions*, 26 FORDHAM INT’L L.J. 377 (2003).

100. Doi, *supra* note 95, at 381.

101. *Id.*

102. *Id.*

103. *Id.* at 384. The specific statutes cited where 35 U.S.C. § 271(b) (2000) and 35 U.S.C. § 283 (2000).

104. Doi, *supra* note 95, at 384.

105. *Id.*

106. Bradley, *supra* note 80, at 550.

107. *Id.* at 551.

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actions taken in foreign countries without a clearly expressed intent of Congress to do so as required by *Arabian*.

### C. Effect on United States Corporations

Finding inducement of infringement liability for overseas manufacturing is likely to put United States corporations with overseas manufacturing at a disadvantage compared to foreign corporations with respect to obtaining jurisdiction and enforcing any judgment.<sup>108</sup> Before a suit can be filed in the United States courts, a patent owner will first have to establish personal jurisdiction over the foreign defendant. If the overseas manufacturer of the patented products is a United States corporation, the patent owner will be able to easily establish personal jurisdiction over the United States corporation to bring suit. In this case personal jurisdiction will be based on the concept of general jurisdiction, which allows a corporation to be sued where its principle place of business is located.<sup>109</sup> For a foreign corporation, however, jurisdiction will have to be based on the vaguely defined stream of commerce theory.<sup>110</sup>

If the patent owner is victorious against a United States company, he can go after the assets of the company to satisfy the judgment.<sup>111</sup> If the manufacturer is a foreign company, however, the patent owner will have the more difficult task of trying to enforce the judgment in a foreign country. The United States is not a party to any treaties or agreements regarding the enforcement of judgments in foreign countries.<sup>112</sup> Accordingly, whether a foreign country enforces a judgment of a United States court in a patent infringement case will depend on the laws of the foreign country.

For example, England will only enforce a United States judgment if the defendant is a resident of the United States when the action is commenced or

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108. This is similar to the problem noted with 35 U.S.C. § 271(f) in that it provides an economic incentive to locate manufacturing overseas. See Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT'L. L. 603, 607 (1997) [hereinafter Chisum, *Territoriality*].

109. See Friedenthal, Kane, & Miller, *CIVIL PROCEDURE* § 3.10 (2d ed. 1993). When there are substantial and continuous contacts with a state there is general jurisdiction. *Id.*

110. See *infra* Part III.G.

111. See generally 46 AM. JUR. 2D *Judgments* § 360-414 (2005). A lien can be placed on property to satisfy a judgment. *Id.* at 360. A company with assets in the United States would not be able to avoid paying a judgment, while a foreign company with no American assets could ignore the judgment unless a foreign court would enforce it.

112. Fritz Blumer, *Jurisdiction and Recognition in Transatlantic Patent Litigation*, 9 TEX. INTELL. PROP. L.J. 329, 380 (2001).

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the defendant submits to jurisdiction.<sup>113</sup> France maintains that judgments against French citizens in American courts are unenforceable in France.<sup>114</sup> It can be inferred by the refusal in *Akira*, discussed above, of the Japanese Supreme Court to allow a suit for inducement of infringement on the grounds that patent laws are territorial, that Japanese courts would refuse to enforce a United States judgment based on the same premise.<sup>115</sup> While these few examples are by no means an exhaustive discussion of the enforcement of United States judgments in foreign courts, they do illustrate the difficulties in enforcing such judgments.

Because of the difficulties in bringing suit and collecting against foreign corporations with no United States presence, patent owners are not likely to file such suits. Even when the suits are filed, the odds of a foreign corporation actually having to satisfy a judgment are low. Thus, United States multinational companies, who will have to honor United States patent laws overseas or face the consequences, would be at a competitive disadvantage compared to foreign corporations.

#### **D. Comparison to Other Types of Infringement**

Insight into how inducement of infringement liability under 35 U.S.C. § 271(b) for overseas manufacturing should be treated can be obtained by considering how other sections of the patent laws treat foreign activity. For example, under 35 U.S.C. § 271(g) it is illegal to “import into the United States,” offer to sell, sell “or use within the United States a product which is” produced by a patented process (referred to as product-by-process infringement).<sup>116</sup> Patent-by-process infringement occurs even if the patented process is actually performed within a foreign country. Under this statute the actual manufacturer of the product is not liable.<sup>117</sup> Instead suit must be brought against the person who imports the product.<sup>118</sup>

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113. Ronan E. Degnan and Mark Kay Kane, *The Exercise of Jurisdiction Over and Enforcement of Judgments Against Alien Defendants*, 39 HASTINGS L. J. 799, 848 (1988)

114. *Id.* at 849.

115. See *supra* Part III.B; see Doi, 26 FORDHAM INT’L L.J. at 384.

116. 35 U.S.C. § 271(g) (2003).

Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product that 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.”

*Id.*

117. *Pfizer Inc. v. Aceto Corp.*, 853 F.Supp. 104, 105 (S.D.N.Y. 1994).

118. *Id.*

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For example, in *Pfizer v. Aceto*, Anhui manufactured a malt in China by a process that infringed Pfizer's patent.<sup>119</sup> Pfizer argued that since Anhui sold the malt to an importer that it knew would import it into the United States, Anhui should be liable for infringement.<sup>120</sup> Although the Court ultimately rejected this argument,<sup>121</sup> by analogy, it can be argued that inducement of infringement also cannot occur based on foreign manufacturing. The analogy to inducement of infringement is not exact, however, since the product-by-process infringement statute explicitly mentions that the importation must occur into the United States, while the inducement of infringement statute is silent on where the actions must take place.<sup>122</sup>

Commentators have suggested that the concept of inducement of infringement should be used to extend the range of product-by-process infringement to reach foreign manufacturers using a patented process.<sup>123</sup> Under such an approach, the person doing the importing of the product manufactured by the infringing process would be directly committing product-by-process infringement. The foreign manufacturer of the product would be liable for inducing the direct infringement of the importer.<sup>124</sup> The main argument for using such an approach is to give the patent owner the same remedy when products are made overseas using her patented process as when the products are made in the United States using the process.<sup>125</sup> When the products are made using the patented process in the United States, the manufacturer is liable for direct infringement and the seller of the products is liable for product-by-process infringement.<sup>126</sup> Under this analysis, the manufacturer and seller should also be liable when the product is manufactured overseas to put the patent holder in a similar position.<sup>127</sup> Yet the same concerns against applying United States laws extraterritorially as illustrated in *Deep-south* argue against applying product-by-process infringement in this way.<sup>128</sup>

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119. *Id.*

120. *Id.*

121. *Id.*

122. 35 U.S.C. § 271(b); 35 U.S.C. § 271(g).

123. Anna M. Budde, *Liability of a Foreign Manufacturer Using a Patented Process for Indirect Infringement*, 42 WAYNE L. REV. 291, 319 (1995).

124. *Id.* at 295.

125. *Id.* at 305-06. "The purpose of section 271(g) were thus to provide the United States process patent holders with the same protections given to process patent holders in other countries with respect to the domestic market . . . ." *Id.*

126. *Id.*

127. *Id.* at 305.

128. This was part of the reasoning used by the court to find no liability for the overseas manufacturer using a patented process in *Pfizer Inc. v. Aceto Corp.*, 853 F.Supp. 104, 105 (S.D.N.Y. 1994). "Section 271(g) was not intended, and indeed there is serious doubt whether Congress would have authority—except

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To date, no court has adopted this approach to product-by-process infringement.

Contributory infringement under 35 U.S.C. § 271(c) provides an additional example of how another type of infringement is not applied to overseas activity. Contributory infringement exists when someone makes a component of a patented machine that has no significant non-infringing use.<sup>129</sup> The statutes defining contributory infringement and inducement of infringement are intended to codify the judicially created doctrines in existence before the 1952 Patent Act was passed.<sup>130</sup> Prior to 1952, the courts did not recognize a distinction between contributory infringement and inducement of infringement.<sup>131</sup> In the 1952 Patent Act, the concept of indirect infringement was split into the two categories of contributory infringement and inducement of infringement.<sup>132</sup> By statute, liability for contributory infringement is limited to actions in the United States.<sup>133</sup> Because of the common origin of contribu-

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perhaps by treaty—to prevent the use of a U.S. patented process in another country.” *Id.*

129. 35 U.S.C. § 271(c).

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

*Id.*

130. *See* *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468-69 (Fed. Cir. 1990); Chisum, *PATENTS*, *supra* note 15, at § 17.04[3].

131. *Hewlett-Packard*, 909 F.2d at 1469.

132. *Id.*

133. 35 U.S.C. § 271(c) applies to one who “offers to sell or sells within the United States or imports into the United States a component of a patented machine.” By the plain meaning of the statute it doesn’t reach someone who manufactures the component of the patented machine overseas and sells it to someone who later imports it into the United States. However, before the statute was amended to explicitly limit the infringing activity to acts within the United States, a few district courts found contributory infringement liability for actions that occurred overseas. *E.g.* *Lucas Aerospace, Ltd. v. Unison Indus.*, 899 F. Supp. 1268, 1286 (D. Del. 1995) (United States company sold ignition components in Canada that were installed in aircraft engines that were later imported into the United States. The United States company was found liable for contributory infringement.); *Endress & Hauser, Inc. v. Hawk Measurement Sys. Pty. Ltd.* 32 U.S.P.Q.2d 1768, 1777 (S.D. Ind. 1994) (Australian company sold components in Australia to United States company that were then imported into the United States. The court said the Australian company was liable for con-

tory infringement and inducement of infringement, it would not make sense to limit the application of one form of liability strictly within the United States while applying the other extraterritorially. Therefore, consistent with the law governing contributory infringement, inducement of infringement under 35 U.S.C. 271(b) should arguably be limited to actions within the United States.

There is one part of patent law that arguably imposes liability for overseas activities. This is 35 U.S.C. § 271(f)(1), which provides: “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 . . . in such a manner as to actively induce the combination of such components outside of the United States . . . “ is liable for infringement.<sup>134</sup> But even this provision imposes liability for an action taken in the United States: supplying or causing to supply components of a patented invention from the United States. Without activity in the United States there is no violation of the law and therefore the existence of 35 U.S.C. § 271(f) is not a compelling reason for finding overseas manufacturers liable for inducement of infringement.

One final theory of liability may arise in the United States for those who manufacture patented products overseas. In 1994, Congress amended the patent statute to make “offering to sell” a patented device within the United States direct infringement.<sup>135</sup> A spirited debate has developed in the courts about whether making an offer to sell a patented invention in the United States for a sale that will take place outside the United States is infringement under the amended statute.<sup>136</sup> Until this debate is settled, it is difficult to say

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tributory infringement because it knew that the components were destined for the United States market.). 35 U.S.C. § 271(c) was amended in 1994 to add the words “within the United States” to the statute. See Holbrook, *Waning, supra* note 11, at 718.

134. 35 U.S.C. § 271(f)(2) (2000) is a similar provision that applies to components “especially made or especially adapted for use in the invention.” These statutes have created an incentive for United States companies to locate all of their manufacturing overseas instead of shipping components from the United States for assembly abroad. Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT’L. L. 603, 607 (1997) [hereinafter Chisum, *Territoriality*].

135. HOLBROOK, *supra* note 76, at 763; 35 U.S.C. § 271(a) (2000); 35 U.S.C. § 271(c) (2000); 35 U.S.C. § 271(e) (2000); 35 U.S.C. § 271(f) (2000).

136. In *Rotec Indus. v. Mitsubishi*, 215 F. 3d 1246 (Fed. Cir. 2000), the Federal Circuit concluded that no infringement occurred when United States consultants worked on a sales proposal for a sale that occurred in China.

No infringement was found on the grounds that the consultant’s activities were not an offer to sell to the product. *Id.* at 1257. Because in *Rotec* no actual product was ever present in the United States, the fact that the court considered whether the consultant’s activities where an offer to sell implies that making an

whether the 1994 amendment to the patent laws supports extending the reach of United States patent laws overseas.

In summary, the patent laws do not impose liability for activities taking place entirely within foreign countries. The only possible exception is § 271(f)(1), which imposes liability for assembling components in a foreign country that were manufactured in the United States.<sup>137</sup> However, even 271(f)(1) requires that the infringer undertake activity within the United States since the components must be shipped from the United States.<sup>138</sup>

### **E. Relation to Intent Requirement for Inducement of Infringement**

The second approach of intent, discussed above (the *Manville Sales* approach), appears consistent with finding inducement of infringement liability when the manufacturer has knowledge that the products are entering the United States. Under the *Manville Sales* approach to intent, inducement of infringement only exists when the infringer has actual knowledge that his actions are causing infringement.<sup>139</sup> Similarly, infringement liability would only apply if the overseas manufacturer has actual knowledge that the products entered the United States market. Furthermore, if the *Manville Sales* approach is strictly applied, then the overseas infringer would require both knowledge that his products entered the United States market and knowledge that the products directly infringed a United States patent. This strict interpretation of *Manville Sales* would therefore serve as a significant limitation on the extraterritorial reach of United States patent laws.

The *Manville Sales* approach to intent appears inconsistent with the strict liability regime of inducement of infringement liability. Under *Manville Sales*, a person must know that his actions caused another to infringe to be found liable for inducement of infringement.<sup>140</sup> Under this approach to intent, if a foreign manufacturer has no knowledge that his products entered the United States, he would not know that her actions

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offer to sell a patented product for a sale to occur outside the country can be direct infringement. However, this implication is not controlling because the courts conclusions rested on other grounds. Since *Rotec*, district courts have split on this issue. *See generally*, *Quality Tube, Inc. v. Precision Tube Holding Corp.*, 75 F. Supp. 2d 613 (S.D. Tex. 1999) (finding no liability); *Cybiotronics, Ltd. v. Golden Source Elec. Ltd.*, 130 F. Supp. 2d 1152 (C.D. Calf. 2001) (finding no liability); *Wesley Jessen Corp. v. Bausch & Lomb, Inc.*, 256 F. Supp. 2d 228 (D. Del. 2003) (finding liability); *Fieldturf, Inc. v. Southwest Recreational Indus.*, 235 F. Supp. 2d 708, 731-32 (E.D. Ky. 2002) (including dicta stating liability); *Halmar Robicom Group Inc. v. Toshiba Int'l Corp.*, 35 U.S.P.Q.2d 1501, 1504 (W.D. Pa. 1999) (including dicta stating liability).

137. 35 U.S.C. §271(f) (2000).

138. *See id.*

139. *Manville Sales Corp. v. Paramount Sys.*, 917 F.2d 544, 553 (Fed. Cir. 1990).

140. *Id.*

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caused infringement under United States patent laws and there could be no inducement of infringement.

The strict liability approach to inducement of infringement, however, does appear consistent with the first approach of intent discussed above (the *Hewlett-Packard* approach). Under *Hewlett-Packard*, inducement liability does not depend on whether the infringer knows that his actions caused another to infringe a patent.<sup>141</sup> This principle can be extended to find inducement liability even when the overseas manufacturer does not know that the products made their way into the United States market.

Nevertheless, the *Hewlett-Packard* opinion can be construed as somewhat inconsistent with strict liability if it is considered more carefully. As discussed above in *Hewlett-Packard*, Bausch & Lomb agreed to indemnify the buyer of a business unit for any patent infringement of a particular patent owned by Hewlett-Packard for a product that the business unit produced.<sup>142</sup> The sale included the plans to make the infringing product as well as personnel who knew how to make the product.<sup>143</sup> The Federal Circuit, finding no inducement of infringement liability, noted that Bausch & Lomb had no interest in the buyer making the infringing product and no control over whether the buyer continued making the infringing product.<sup>144</sup> Like Bausch & Lomb, the foreign manufacturer of an infringing product generally has no control or interest in where the product is sent after it is sold. Holding the manufacturer liable because the buyer utilized the infringing product in goods shipped to the United States requires the manufacturer to exercise non-existent control over the buyer. Under this view, *Hewlett-Packard* is consistent with finding either no liability for foreign manufacturers or finding liability when the importer is an exclusive distributor of the foreign manufacturer. Mere knowledge that someone imported infringing products into the United States without some degree of control over the importer would not be enough to impose infringement liability.

## F. Agency Law

Finding infringement liability when the importer of the infringing product is an agent of the foreign manufacturer can be justified by using principles of agency law. In an agency relationship one person, the agent, acts for

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141. *Hewlett-Packard*, 909 F.2d at 1469. “[P]roof of intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.” *Id.* The conclusion that the infringer does not need knowledge of the patent to be liable for inducement of infringement is dicta. In *Hewlett-Packard*, the alleged infringer had knowledge of the patent allegedly infringed, thus, knowledge was not an issue in the case. *Id.* at 1467.

142. *Id.* at 1467.

143. *Id.* at 1470.

144. *Id.* at 1469.

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another, the principal.<sup>145</sup> An agency relationship requires that the principal consent to the relationship, and requires the principal to exercise some degree of control over the agent.<sup>146</sup> If an agency relationship exists, then the principal is liable for torts committed by the agent while he or she was acting with in the scope of the agency relationship.<sup>147</sup>

As an example of agency law applied to overseas patent infringement liability, consider the situation in *Honeywell, Inc. v. Metz Apparatewerke*.<sup>148</sup> Metz had an exclusive distribution contract with EPOI.<sup>149</sup> Under the agreement, EPOI agreed to publicize the products in its territory (the United States) and provide after-sale repair service.<sup>150</sup> EPOI was limited in the number of products it could sell in competition with Mertz's products, and EPOI had to sell a certain number of Mertz's products.<sup>151</sup> Hence, under the agreement, Mertz exercised a high degree of control over how EPOI could sell Mertz's products. A court could easily find that an agency relationship existed between EPOI and Mertz. Mertz would then be liable for EPOI's torts. Since patent infringement is a tort, Mertz would be liable for EPOI's direct infringement. Therefore, holding Mertz liable for inducement of infringement would be perfectly reasonable.

### **G. Principles of Personal Jurisdiction**

Principles of personal jurisdiction support finding infringement liability for the overseas manufacturer when an infringing product is imported by an exclusive distributor.

In order for any lawsuit to proceed, the court must have personal jurisdiction over the defendant.<sup>152</sup> For a court to exercise personal jurisdiction over a nonresident defendant, the defendant must have "minimum contacts" with the forum state where the court is located.<sup>153</sup> The concept of minimum contacts protects a defendant from the burden of litigating in a distant court and ensures that state courts do not overstep the bounds imposed by federalism.<sup>154</sup> The personal jurisdiction requirements of a federal district court are closely related to the requirements of the state courts where the federal dis-

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145. RESTATEMENT (SECOND) OF AGENCY § 1 (1958).

146. *Id.*

147. RESTATEMENT (SECOND) OF AGENCY § 219(1) (1958).

148. *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137 (7th Cir. 1973).

149. *Id.* at 1139.

150. *Id.*

151. *Id.*

152. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980).

153. *Id.*

154. *Id.* at 292.

strict court is located.<sup>155</sup> Because federal courts address patent infringement almost exclusively, the only relevant function is protecting the defendant from the burden of litigation in a distant court.

Exercising personal jurisdiction over an overseas manufacturer in a patent case would have to be accomplished under the stream of commerce theory. The stream of commerce theory states that personal jurisdiction over a manufacturer is proper whenever the manufacturer “delivers its products into the stream of commerce with the expectation that they will be purchased in the forum State.”<sup>156</sup> The United States Supreme Court last addressed the stream of commerce theory in *Asahi Metal Indus. Co. v Superior Court of Cal., Solano County*.<sup>157</sup> In *Asahi*, a Japanese company sold valve stems to a Chinese tire company which then sold the tires containing the valve stems into the United States.<sup>158</sup> A majority of justices on the Supreme Court found that a California court had no jurisdiction over the Japanese company.<sup>159</sup> Two separate versions of the stream of commerce theory were used to arrive at the conclusion in the plurality opinion.<sup>160</sup> Under a strict version, the Court required additional acts besides the mere placing of goods into the stream of commerce to give rise to personal jurisdiction.<sup>161</sup> These acts can include advertising, designing the product for the market in the forum State, and advis-

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155. See Fed. R. Civ. P. 4(k)(1)(A).

156. *Id.* at 298. One scholar has argued that the stream of commerce, at least when applied to foreign defendants, is doctrinally distinct from the minimum contacts doctrine. Diane S. Kaplan, *Paddling up the Wrong Stream: Why the Stream of Commerce Theory is Not Part of the Minimum Contacts Doctrine*, 55 BAYLOR L. REV. 503, 588-601 (2003).

157. *Asahi Metal Indus. Co. v. Superior Court of Cal., Solano County*, 480 U.S. 102, 105 (1987).

158. *Id.* at 106.

159. *Id.* at 105, 116.

160. *Id.* at 112, 116-17. One version of the stream of commerce theory was supported by a plurality of four judges and the other was supported by a different plurality of four judges. *Id.* at 103-04, 116-17.

161. *Id.* at 112. Although this case involved actions that occurred in a foreign country, the court addressed the issue as whether a California court could exercise jurisdiction and spoke of contacts with the forum state. *Id.* at 112-113. It has been argued that such a state centered approach to jurisdiction in cases involving foreign non-residents is improper and instead an approach based on national contacts should be used instead. Ronan E. Degnan and Mark Kay Kane, *The Exercise of Jurisdiction Over and Enforcement of Judgments Against Alien Defendants*, 39 HASTINGS L. J. 799, 816-17 (1988). In fact, it has been suggested that the minimum contacts approach is inappropriate in this case because the Due Process clause doesn't apply to aliens. *Id.* at 812. This is based on the premise that the Due Process clause is solely for the purpose of regulating what one American state can do to a resident of another American state. *Id.* However, the Supreme Court has made it clear that the Due Process clause also

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ing customers in the forum State.<sup>162</sup> Under a lax version of the stream of commerce theory, merely placing an item in the stream of commerce is enough to allow suit anywhere the stream of commerce takes it, at least as long as the defendant knows the product is making it into the forum state.<sup>163</sup> The Federal Circuit has refused to choose between these two versions of the stream of commerce theory and instead either failed to address the distinctions between the two theories or refused to adopt either rule as controlling.<sup>164</sup>

Regardless of what version of the stream of commerce theory is used, personal jurisdiction is present when an overseas manufacturer exports goods into the United States using an exclusive distributor. Under the lax version, jurisdiction is present just because the overseas manufacturer knows that the goods are making it into the United States. Under the strict version, the obtaining of an exclusive distributor for the United States market likely qualifies as the additional act needed to give rise to personal jurisdiction. Nevertheless, if the foreign manufacturer merely has knowledge that the infringing goods are being imported into the United States, then whether personal jurisdiction exists will depend on which version of the stream of commerce theory is used. Under the lax version, there would still be personal jurisdiction as long as the foreign manufacturer is aware that the goods are entering the United States. Under the strict version, there would be no personal jurisdiction.

There is no reason why the standards for finding personal jurisdiction and inducement of infringement should be the same. The boundaries of personal jurisdiction have been defined by the courts while inducement of infringement is a statutory creature. Personal jurisdiction has the purpose of protecting a defendant from the hardship of distant litigation, while a patent protects inventions. Consequently, inducement of infringement does not escape the presumption against extraterritorial application of United States laws discussed in Section III.A above merely because personal jurisdiction would allow a suit to be filed.

Furthermore, personal jurisdiction concepts are notoriously hard to apply in practice. For example, even the lax version of the stream of commerce theory which, in the words of the Supreme Court, “refers not to unpredictable

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serves the function of protecting a defendant from having to litigate in a distant court. *World-Wide Volkswagen*, 444 U.S. at 292.

162. *Asahi*, 480 U.S. at 112.

163. *Id.* at 117.

164. *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994) (noting the two conflicting opinions in *Asahi* and refusing to endorse either); *Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 428 (Fed. Cir. 1996) (refusing to endorse either of the *Asahi* opinions); *but see* N. Am. Philips Corp. v. Am. Vending Sales, Inc., 35 F.3d 1576, 1580 (Fed. Cir. 1994) (not mentioning the differing opinions in *Asahi*).

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currents or eddies,”<sup>165</sup> is a phrase that begs for clarification. The strict version creates even more uncertainty because it begs the question of what qualifies as the additional conduct needed to allow personal jurisdiction to attach. Therefore, basing liability for inducement of infringement on the murky contours of personal jurisdiction will not help make the law of inducement of patent infringement any clearer.

#### IV. RECOMMENDATION

The preceding discussion considered the range of possible liability standards that the Federal Circuit could adopt for overseas manufacturing inducement of infringement liability. Out of the four possible options considered, the one that the Federal Circuit should adopt is to never impose liability for inducement of infringement for manufacturing infringing products overseas.

##### A. A Hands-Off Approach

The proposed rule would not extend the reach of United States patent laws into other countries. Such an approach would make someone liable for inducement of infringement only when the actions that induce the direct infringement take place within the United States. The Federal Circuit should adopt this rule for a number of reasons. First, following other rules would make it more difficult for United States multinational companies with manufacturing facilities overseas to compete with foreign companies. Because of the difficulty inherent in suing foreign corporations, the foreign corporations will be able to ignore United States patent laws while United States based companies may not.<sup>166</sup> Secondly, the rule is consistent with the long-standing presumption against applying United States laws extraterritorially absent a clear indication from Congress.<sup>167</sup> Finally, the proposed rule is consistent with how other types of patent infringement are treated, such as contributory infringement and product-by-process infringement.<sup>168</sup>

##### B. What Not to Do

The Federal Circuit should avoid applying the same standard for inducement of infringement liability for overseas manufacturing that is used for inducement of infringement within the United States. Such a standard would contradict the policy that the Court seemed to follow in *Hewlett-Packard* where there was insufficient evidence of intent to induce infringement where the manufacturer had no feasible way of preventing the direct infringe-

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165. *Asahi*, 480 U.S. at 117.

166. See discussion *supra* Section III.D.

167. See discussion *supra* Section III.A.

168. *Id.*

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ment.<sup>169</sup> An overseas manufacturer has no control over what the buyer of the products does with them after the sale and, consequently, cannot reasonably prevent infringement occurring after this point in the transaction.

Furthermore, using such a broad liability standard would extend the reach of United States patent laws overseas. If other countries attempted to apply their patent laws to manufacturing performed within the United States, the United States government would not be pleased. Other countries are likely to have the same reaction. It is therefore evident that applying United States patent law to companies operating outside the United States could have far-reaching consequences. It could lead to international disputes that would potentially effect the trade relations between the United States and other countries. By adopting such a rule, the Federal Circuit would intrude into foreign relations, an area expressly reserved to the executive branch of the United States government.<sup>170</sup> Such an intrusion may not only create problems on an international level, but may also violate internal notions of territoriality and the separation of power between the branches of government.

The Federal Circuit should also avoid an approach based on agency law. Such an approach would find an overseas manufacturer liable if the importer is its agent. This may be the case if the importer has an exclusive distribution contract with the manufacturer for the United States market such as in *Honeywell v. Metz Apparatewerke*.<sup>171</sup> One of the problems with an agency based approach is the uncertainty involved in determining who is an agent. Also, the issue of applying United States laws extraterritorially is still present.

### C. Beyond the Courts

While patent holders will not be pleased with a rule that refused to find inducement liability for any actions taken overseas, a number of remedies would still be available to them. First, they could sue the importer of the infringing goods as a direct infringer.<sup>172</sup> Second, they could sue other people in the supply chain such as wholesalers and retailers for direct infringement that occurs within the United States.<sup>173</sup> This would prevent the infringing goods from reaching the consumer market. They could also request that the Federal Trade Commission halt the importation of the infringing goods into

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169. *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1470 (Fed. Cir. 1990).

170. Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505, 650 (1997).

171. *Honeywell v. Metz Apparatewerke*, 509 F.2d 1137, 1139 (7th Cir. 1975).

172. 35 U.S.C. § 271(a) (2003).

173. *See id.*

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the United States.<sup>174</sup> By taking this action the patent owner would be able to prevent the goods from being imported into the United States and sold. The only avenue closed to the patent holder by this rule would be the ability to sue the overseas manufacturer directly.

Although the Federal Circuit should avoid extending inducement of infringement liability overseas does not mean that the problem of overseas manufacturing of infringing goods to be imported into the United States should not be addressed. The principle problem with extending inducement liability by judicial fiat is inconsistency with the laws of other countries. Other countries may not consider the alleged infringer's activities worthy of sanction. They may not enforce our judgments so that United States companies will be at a disadvantage compared to foreign corporations. These problems would be overcome by an international treaty regime that recognized inducement of infringement across national borders. In recent years the enforcement of intellectual property rights has become the subject of international agreements such as the TRIPS agreement and the 1996 Copyright Treaty.<sup>175</sup> Inducement of infringement liability could be the subject of future international agreements.

## V. CONCLUSION

While the Federal Circuit has addressed the problem of inducement of infringement by overseas manufacturers on a few occasions, the boundaries of when liability attaches remain vague and indeterminate. For the benefit of the worldwide manufacturing community the exact boundaries of liability should be carefully defined. A liability regime should be adopted that does not find manufacturers liable for activity that takes place solely in foreign countries. Such a rule would avoid extending the reach of United States laws

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174. The United States International Trade Commission has the authority to prohibit the importation of goods that infringe a United States patent under 19 U.S.C. § 1337. *Intel Corp. v. U.S. Int'l Trade Comm'n*, 946 F.2d 821, 824 (Fed. Cir. 1991).

175. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS agreement) was signed on December 15, 1993. Hanns Ullrich, *TRIPS: Adequate Protection, Inadequate Trade, Adequate Competition*, 4 PAC. RIM. L. & POL'Y J. 153, 154 (1995). TRIPS "obliges Member States to harmonize their patent, trade secret, and software copyright law on a level of adequate protection by 1) incorporating the relevant provisions of the Paris Convention (art. 2) into TRIPS and, 2) by setting forth a number of principles for the grant and the scope of technological property . . . ." *Id.* at 173 (footnote omitted). The 1996 Copyright Treaty and Performance and Phonogram Treaty requires countries to enact laws to protect technological schemes, such as encryption, used to protect copyrighted works. Brian W. Esler, *Protecting the Protection: A Trans-Atlantic Analysis of the Emerging Right to Technological Self-Help*, 43 IDEA 553, 553 (2003).

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*Infringement Twice Removed*

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into foreign countries. It would also place United States multinational companies, which would be subject to suit, and foreign companies, which would likely escape suit, on equal footing.

