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Global

The ever-expanding extraterritorial reach of patents

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The ever-expanding extraterritorial reach of patents

For the most part, patent litigation is a domestic issue. Although today there is much talk of international patent litigation, in practice the international aspect is often confined to organising litigation in various countries. For example, consider a situation where a defendant company allegedly infringes parallel patents in the United States, France and Germany. In the vast majority of cases, patent litigation would be initiated in the three countries more or less simultaneously and each of the three lawsuits would have advantages and disadvantages for the respective parties. In fact, the lawsuits may lead to different results, although the facts to be assessed by the respective domestic courts may be the same. Cases such as this occur frequently. However, they can usually be divided into parallel domestic infringement actions. In practice, the international aspect of such litigation is usually confined to organising the work of the in-house and outside counsel and litigators involved to keep track of developments, ensuring that there are always up-to-date status reports and that the arguments brought forward in the respective domestic lawsuits are in line with each other. Experience shows that precise and reliable case organisation is one of the factors which carries such international litigation through to a successful result.

In some cases, however, the borders between the countries affected by the defendant's infringing distribution activities are indistinct. Previously, most cases of patent infringement were deemed to be limited to activities performed wholly within one country, with few exceptions. However, the increasing importance of the global marketplace and the rise of new technologies have gradually required patent holders to move away from the limitations of a country-by-country analysis of infringing actions and instead turn towards the potential extraterritorial reach of domestic patents. The meaning of the term 'extraterritorial reach' is that under certain circumstances, patents are deemed to protect the rights owner not only in the country where the patent is registered, but also in other countries where infringing actions occur.

A matter for senior executives

Even though most infringement cases do not raise issues concerning the extraterritorial reach of a specific patent, the number of such cases has risen significantly and is often underestimated by patent practitioners. The resulting damage for a company can be substantial, so knowing what to look out for is highly beneficial.

It is certainly detrimental to a company if it is confronted with an aspect of a patent conflict that has not previously been identified and assessed, such as the potential extraterritorial reach of a specific patent. Therefore, companies should:

- make sure that there is a general awareness within the company – and the IP department in particular – that patent disputes can extend beyond a country's boundaries;
- ask the IP department to assess whether a potential or existing dispute has an international aspect and may involve cross-border issues; and
- identify and resolve the resulting issues.

It may appear as though the question of extraterritorial reach of patents is purely troublesome. On the contrary: for patentees, the advent of new technologies and the cross-border implications of patents reveal the potential to target an infringer in a single jurisdiction (or at least fewer jurisdictions).

This chapter does not attempt to identify all potential scenarios that may lead to the consideration of the extraterritorial reach of a specific patent. Rather, it aims to alert IP specialists as to the implications of the extraterritorial application of patents.

Practical scenarios and case law

Most of the cases dealing with the potential extraterritorial reach of patents stem from the United States. In this respect, it should be noted that Congress has expanded the territorial reach of US patent law. Section 271(f) of the US Patent Act, which was adopted in 1984, imposes liability for exporting 'components' of a patented invention for assembly abroad. Moreover, in 1998 Congress added Section 271(g) of the Patent Act, which created liability for importing into the United States, or selling, offering for sale or using in the United States, a product made by a process that is protected by a US patent, irrespective of where that process is actually performed. Some recent cases are outlined below.

Microsoft Corp v AT&T Corp

In the 2007 Supreme Court decision *Microsoft Corp v AT&T Corp* the US Supreme Court reversed a Federal Circuit decision and held that software that had been created in the United States and exported to foreign countries on a master disk to be copied and implemented on computers located outside the United States was outside the reach of the domestic (US) patent law. AT&T held a patent on a computer used to encode and compress recorded speech digitally. Microsoft's Windows systems had the potential to infringe this patent in that it allowed a computer to process speech in the same manner as was claimed by AT&T's patent. However, Microsoft did not sell Windows itself to foreign manufacturers which install this software onto the computers they sold. Rather, Microsoft sent each manufacturer a version of Windows (a master disk), which the manufacturer used to generate copies. It was the copies – and not the master disk received from Microsoft – which were installed on the computers of the foreign manufacturer.

The Supreme Court held that only a copy of Windows (and not Windows in the abstract) qualified as a 'component' under Section 271(f) of the US Patent Act, and that Microsoft did not supply such a copy since it was not the master disk supplied from the United States, but rather the foreign-made copies of that disk, which triggered liability when combined abroad. Therefore, the Supreme Court declined to give Section 271(f) of the US Patent Act an extensive interpretation, acknowledging that this provision is an exception from the general rule that domestic (US) patent laws do not apply extraterritorially.

NIP Inc v Research In Motion

In *NIP Inc v Research In Motion*, decided by the US Federal Circuit in 2005, the court addressed the scope of the US Patent Act regarding activities both inside and outside the United States. According to the Federal Circuit, a system claim is used at the place where the system as a whole is put into action of service (ie, the place where control of the system is exercised). In contrast, the court held that a process claim was not used within the United States "unless each of the claimed steps is performed within this country". The court held that the BlackBerry system (which had a component that was located in Canada) infringed the product claims, but not the process claims. Under the court's decision, it appears that infringement of method claims is more limited in regard to the extraterritorial reach of a specific US patent compared to infringement based on system claims.

Voda v Codis Corp

In this context, the 2007 decision of the Federal Circuit in *Voda v Codis Corp* is also of interest. Strictly speaking, this is a decision relating to the jurisdiction of US courts to rule on the infringement of foreign-counterpart patents, rather than a case dealing with the extraterritorial reach of domestic patents. While the district court had allowed the patentee to add claims of infringement of foreign-counterpart patents from France, Germany and the United Kingdom to the action, the Federal Circuit declined to decide whether the district court had jurisdiction. Even if it had, the district court had abused its decision to exercise this jurisdiction: as the Federal Circuit put it, "considerations of comity, judicial economy, convenience and fairness" constituted compelling reasons to decline jurisdiction in this case. This decision does not settle for good the issue of whether a US patentee can successfully introduce claims stemming from foreign-counterpart patents in a US litigation. However, it does show the attempts that may be made in litigation to attack an infringer in one court when arguing that not only domestic, but also foreign patents are infringed, and that both patentees and (potential) defendants should be aware that such far-reaching jurisdiction of courts must always be taken into consideration.

Outside the United States

The extraterritorial reach of patents plays an increasing role in jurisdictions other than the United States.

In the 2007 *Radio Clock II* decision of the German Federal Supreme Court, the defendant owned a patent concerning a display-setting detection device for a clock radio. The plaintiff manufactured wheelwork mechanisms for clock radios and exported these to a foreign company, which used them to manufacture clock radios, which it in turn supplied to a German (ie, domestic) distributor. The defendant-patentee regarded the marketing of the alarm clocks as an infringement of

its patents and sent a warning letter to the German distributor. The plaintiff claimed, among other things, that it was entitled to an injunction against the defendant-patentee on the grounds of a wrongful warning letter sent to the German distributor. The Federal Supreme Court held that, as a general rule, contributory patent infringement can also be committed by exporting means that relate to an element of the patented invention, if the resulting product (which is manufactured abroad) is intended to be delivered to Germany. In this decision, the court did not need to decide this issue because the appeal was rejected on other grounds. This case shows that a domestic company is not necessarily shielded from liability under domestic patents if it exports into other countries.

In a decision handed down by the Mannheim District Court in 2004, *Pressure Control Device*, the district court declined to assume jurisdiction in contributory patent infringement cases if a foreign company delivered parts to another foreign company that produced directly infringing products that were subsequently delivered to Germany. In this case, the patent at issue concerned a control device for measuring tyre pressure. The French defendant offered certain measuring devices with specific features in France to a French company, X, which in turn delivered them to Germany. The plaintiff-patentee alleged that the defendant knew that these devices were to be incorporated (by X) into a tyre pressure control system according to Claim 1 of the patent. The court denied jurisdiction because the defendant had made neither an offer nor a delivery in Germany. It was argued that any other holding would constitute "a boundless extension of the protection of a domestic patent".

In contrast to cases of contributory patent infringement, the German courts apply a more lenient attitude in cases of direct patent infringement.

In *Radio Clock I* (2002) the Federal Supreme Court dealt with a situation where the defendant had known of the patentee's German patent and had manufactured directly infringing radio-controlled clocks in Hong Kong. The defendant had given these to a third party in Hong Kong in order for the third party to transport the clocks to Germany. The Federal Supreme Court held that the German courts had jurisdiction over the defendant because it had intentionally caused the infringement in Germany.

In addition, German case law provides that if individual parts of a patented device which clearly need to be assembled together are manufactured in Germany and then exported, this constitutes infringement of the German patent, even though the protected device is assembled abroad. Similarly, the German courts have held that in certain circumstances a domestic device patent might be infringed even if only a semi-ready device is exported and the final assembly takes place abroad.

Summary

The cases cited here reveal that the courts have already dealt with complex fact patterns – and more such cases are expected to arise. Globalisation also has an impact on patent litigation and the issue of the extraterritorial reach of domestic patents is constantly evolving. Senior executives should be aware of this and should take precautionary measures in order to be ready. Early consultation with IP specialists will help to maintain a competitive advantage in a globalised economy.

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