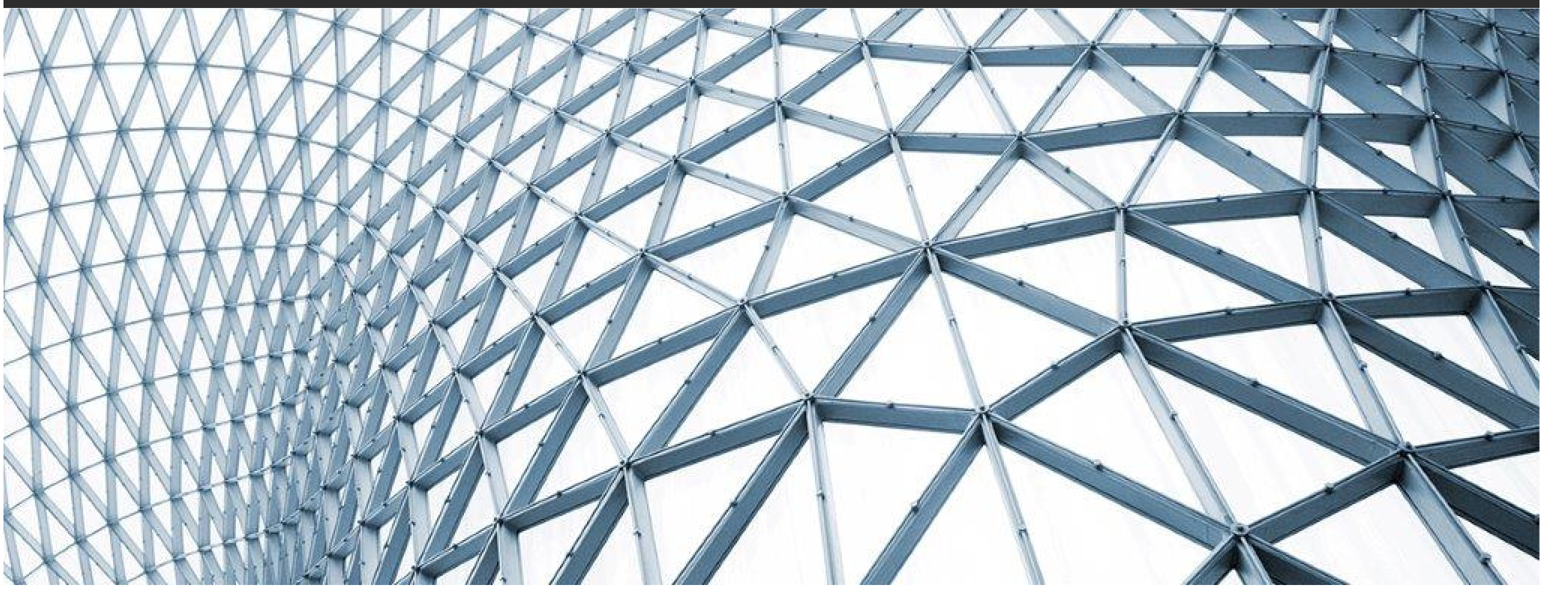
Infringement Protection for Foreign Sales of a Patented Product



How to guard your patents abroad, even though U.S. patent protection is not extraterritorial.

By Barry J. Schindler and Laurin T. Buettner | February 15, 2019 | New Jersey Law Journal

You are counsel for Company A whose product is on the market in the United States and abroad. Sales are exceeding all expectations when you receive a very upsetting call from a salesperson in Europe—"I am calling to let you know …." It turns out that your company's European competitor is selling an exact copy of your device based on component(s) being supplied by U.S. Company B. The device is covered by a U.S. patent, but its component(s) are not. Moreover, Company A does not have patent protection in Europe. Patent protection is not extraterritorial—in other words, a U.S. patent confers no rights in Europe. So, what do you do? As discussed below, a recent decision by the U.S. Supreme Court, *WesternGeco v. Ion Geophysical Corp.*, provides that damages may be available for sales *outside* of the United States. (See *WesternGeco v. Ion Geophysical Corp.*, 585 U.S. __ (2018).)

Although a U.S. patent does not serve to prevent infringement occurring outside of the United States, in 1984, Congress added Section 271(f) to Title 35 of the United States Code to impose liability for exporting components of a U.S. patented invention for assembly abroad. Title 35, or the Patent Act, governs all aspects of patent law including infringement liability and damages. Section 271(f) was instituted by Congress to strengthen patent protection for emerging technologies around the world, such as biotechnology and pharmaceutical products.

Specifically, Section 271(f) creates a cause of action for infringement against a party supplying from the United States components of a patented invention for assembly abroad. However, the statute limits such liability to two scenarios. Under Section 271(f)(1), a company is liable if it supplies a substantial portion of the components of a patented invention to actively induce the combination of the components outside of the United States. Under Section 271(f)(2), a company is liable if it supplies from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and is not a staple article of commerce.

However, the courts have imposed certain restrictions to limit what conduct would be deemed to be infringing under 271(f). For example, in *Life Technologies Corp. v. Promega Corp.*, the U.S. Supreme Court held that the production of a single component in the U.S. cannot infringe a multicomponent patent under Section 271(f)(1). (See *Life Technologies Corp. v. Promega Corp.*, 580 U.S. ___ (2017).) There, the U.S. Supreme Court held that the phrase "substantial portion of the components" requires a plurality of components to infringe. However, the Supreme Court left it to the lower courts to further quantify the "substantial portion" test.

Thus, in view of the above, as counsel for Company A, your first step is to determine which part of the statute covers the current infringement. Specifically, did Company B provide most of the component(s) necessary to induce the infringement; or did Company B provide an essential, non-staple component of the patented invention; or both? Further, for the scenario above, it is important to determine what component(s) Company B supplied to the European competitor, and how essential these components are to the patented invention, to evaluate whether the activities of Company B meet the "substantial portion" requirements.

Your next step is to determine what patent remedies are available to your company for such foreign sales. Section 284 provides a general damages remedy for the various types of patent infringement identified in Section 271 of the Patent Act. The availability of foreign damages under Section 284 for such infringement was unclear until the U.S. Supreme Court's decision in *WesternGeco v. Ion Geophysical Corp.* (See *WesternGeco v. Ion Geophysical Corp.*, 585 U.S. __ (2018)). Prior to *WesternGeco*, while Section 271 provided a cause of action for some overseas use of a U.S. patented product, there still was a question as to whether a patent owner that has proved a domestic act of patent infringement may recover lost profits that the patentee would have earned outside of the United States if that domestic infringement had not occurred. Historically, in Section 271(f) cases, courts were generally concerned with offending other nations regulating cross-border actions and, thus, were reluctant to apply damages for the sales of patented products in foreign jurisdictions. In *WesternGeco,* the Supreme Court expanded the potential foreign damages available under Section 284.

In *WesternGeco*, WesternGeco LLC owned patents for a system used to survey the ocean floor. Ion Geophysical Corp. began selling a competing system that was built from components manufactured in the United States, shipped to companies abroad, and assembled in a foreign country into a system indistinguishable from WesternGeco's system. The U.S. Supreme Court stated that the portion of Section 284 at issue was that "the court shall award the claimant damages adequate to compensate for infringement," concluding that "the infringement" was the focus of the statute. The court held that the infringing activity—the act of supplying components from the United States—is a wholly domestic act and thus the Patent Act authorizes a damage award under Section 284 for patent-infringing exports. Therefore, the Supreme Court affirmed the jury award of $93.4 million in lost profit damages under Section 284, even though the sales were based on sales in the foreign country. After the U.S. Supreme Court remanded the case to the U.S. Court of Appeals for the Federal Circuit, the Federal Circuit indicated that in order to sustain a lost profits award, the record must establish that the *claimed* technology was used by the infringer. (See *WesternGeco v. Ion Geophysical Corp*. (Fed. Cir. 2019).) Thus, in view of the *WesternGeco* decision, Company A must now consider various enforcement mechanisms, such as future litigation, against Company B.

Additionally, Company A should revisit and re-evaluate its patent strategy for its existing patent portfolio and new developments. A patent strategy that involves careful drafting of the patent claims and a well thought-out foreign filing plan with a skilled patent prosecutor is a necessary tool as well. In a patent, the claims define the extent, or scope, of the protection conferred by the patent. Accordingly, companies that have inventions that rely on international supply chains should relay such information to their patent prosecutor who will then be able to craft a set of claims that meet the U.S. Supreme Court "substantial portion" test or "not a staple article" test. This approach bears in mind that the statute does not require that the exported components be claimed. Further, it is important to draft claims to foresee separate direct infringement by each of the different parties. Thus, it may be beneficial to pursue multiple patents relating to, for example, each aspect of the commercial product, including each potential application and process of manufacture. This strategy builds a "picket fence" of patents around the commercial product to increase the likelihood that the infringing activity will fall within the scope of at least one of the patents.

Of course, a complementary approach for guarding against foreign infringement is to also seek patent protection in specific foreign countries. Your foreign filing strategy should target those countries that have a market for the patented invention and the future developments, as well as those countries that have a large product manufacturing or production presence. So, in view of the availability of damages for sales outside of the U.S., based on the *WesternGeco* decision, your response to your salesperson in Europe regarding Company B's activity should be: 1) you may have several enforcement options available against Company B; and 2) you should revisit your U.S. and foreign patent prosecution strategy to take advantage of those enforcement options.

The statements made herein are the opinions of Greenberg Traurig LLP and do not represent the opinions of firm clients WesternGeco or Schlumberger.

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