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U.S. PATENT EXTRATERRITORIALITY WITHIN THE INTERNATIONAL CONTEXT

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INTRODUCTION

Erasing borders is a significant act. There are international, legal, economic, and philosophic implications. The concept of sovereignty, which is widely thought to commence at the 1648 Treaty of Westphalia, is a cornerstone of the legal order of individual nations. In that era, the former fragmented, decentralized modes of imposing authority on the governed became defined along geographic boundaries. Political power was no longer “understood as the personal possession of rulers,” but was instead replaced by our current understanding of modern nation-states, which have “an order which is separate from the ruler and ruled (or citizen), separate from other polities like it, and operating in a distinct territory.”

A fundamental assumption of sovereignty allows each nation to create its own laws. One logical corollary of this principle is “the laws of other nations have no claim on it.” Under traditional Westphalian principles, domestic law lacks enforcement power outside its territorial boundaries. Thus, our current conceptions of sovereignty have both internal and external dimensions—in other words, this concept includes aspects that encompass domestic governance as well as relations with those outside its borders. Regarding extraterritoriality, the U.S. Supreme Court has affirmed “[i]t is a basic premise of our legal system that, in general, United States law governs domestically but does not rule the world.” The appropriate reach of U.S. domestic law has been founded on several important concerns, including respect for foreign sovereignty, international

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2 Id. at 197.
3 Id.
4 Id. at 198.
6 Christina Eckes, The Reflexive Relationship between Internal and External Sovereignty, 18 IRISH J. EURO. L. 33 (2015) (“‘Internal’ refers here within the sovereign entity and hence under domestic law. ‘External’ refers to the relationship of the sovereign entity with the outside, i.e. in international relations and under international law.”)
custom, and the recognition that foreign citizens, who have no rights in shaping our nation’s laws, should not be governed by it.  

Globalization has prompted the evolution of our definition of sovereignty. In the patent context, this has arisen amidst a recent focus on the extraterritorial reach of patent remedies. Some of the theoretical challenges are examined in a recent series of decisions of the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”). These decisions evidence the tensions that arise in when transnational conduct is evaluated within the Westphalian framework developed in the 1600’s. In essence, resolving them requires grappling with the problems that arise “where the reality of human interaction, with its plural sources of norms, seems to be chafing against the strictures traditional conceptions of sovereignty impose.”

Strict adherence to Westphalian borders is not the current normative world order. Boundaries have become more porous, sometimes through agreement. Treaties, agreements, and other forms of cooperation subject domestic law to external obligations. Another example is the multinational cooperation undertaken to mitigate the impact of climate change, which is an inherently global phenomenon. Corporations engage in global commerce, wield influence over foreign governments, and engage in activities that influence foreign economies. Foreign intervention is justified to address human rights violations and, in some cases, security. Other rationales have been asserted to extend U.S. law beyond its shores. For example, the Supreme Court has authorized extraterritorial jurisdiction for the federal courts to hear petitions for habeas corpus brought by prisoners in Guantanamo Bay, in part because the U.S. had exercised “complete jurisdiction and control” over the territory and acted as the petitioners’ custodians. All of these examples represent shifts in the law’s treatment of territorial reach.

In parallel with these changes, U.S. patent law has not viewed territorial sovereignty as inviolate. Among other things, the U.S. has yielded internal sovereignty through accession to international agreements, including the Agreement on Trade-Related

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8 See generally Harold G. Maier, Extraterritorial Jurisdiction at a Crossroads: An Intersection between Public and Private International Law, 76 AM. J. INT’L L. 280 (1982) (“the sovereign state is legally limited in its freedom by collective community will”).


13 Such influence can include foreign direct investment and the privatization of formerly governmental functions. See generally Reuven S. Avi-Yonah, National Regulation of Multinational Enterprises: An Essay on Comity, Extraterritoriality, and Harmonization, 42 COLUM. J. TRANSNAT’L L. 5 (2003); Bederman, supra note 9 at 208-209.

Aspects of Intellectual Property Rights ("TRIPS Agreement"). The executive branch negotiates trade agreements that impact the patent laws of foreign signatories. The U.S. Patent & Trademark Office has engaged in international coordination efforts through work on the IP5 and the development of the Patent Prosecution Highway. In addition to other common law doctrines, Congress has enacted a statutory subsection that permits recovery of damages for extraterritorial conduct when particular conditions are met.\textsuperscript{15}

This paper considers these questions in the international context. Although this line of extraterritoriality cases turns on the interpretation of a domestic statute, 35 U.S.C. section 284, the issues raised cannot be fully resolved without understanding the global implications. Essentially, there are several difficulties that arise when damages for infringement of a U.S. patent are authorized for overseas conduct. Among others, such a solution would be contrary to over a century of law that establishes that such conduct is legal. Further, extraterritorial damages are contrary to the structure and purpose of the TRIPS Agreement, and may introduce economic distortions. There are difficulties are identified as “the legitimacy of unilateralism by a handful of nations seeking to impose their legal and regulatory will over the entire globe.”\textsuperscript{16}

Further, the executive and legislative branches traditionally set and implement foreign policy. In contrast, patents are privately held rights. Authorizing individual patent holders, who cannot be presumed to act in the public interest, to impose costs for foreign conduct through the courts may have adverse unintended consequences. This is particularly problematic for entities that amass a large number of patents around a particular technology. Perhaps most importantly, imposing remedies on foreign conduct impacts foreign nation’s ability to cultivate and apply their own patentability standards flexibly to suit its local conditions. Allowing other nations to evolve their patent standards, as the United States has done over the years, is the optimal path toward maximizing the aggregate worldwide level of invention.

Any solution to the extraterritoriality issue must be cognizant of these implications. Whether resolution of the question seeks to overturn the presumption against extraterritoriality or resorts to a balancing test, the reasons that support extending the reach of U.S. patent law must be compelling. As a practical matter, damages impact innovators. Extraterritorial damages will impact foreign innovators. This is true for both the infringing acts occur wholly outside the United States and those that constitute acts argued to be “the direct, foreseeable result[s]” of domestic infringement.\textsuperscript{17} These impacts will have follow-on effects on the contexts in which these innovators operate, including economic impacts on the foreign nation in which such innovators reside.

\textsuperscript{16} Berman, supra note 9 at 224.
\textsuperscript{17} Power Integrations, 711 F.3d at 1371.
I. Comity and the Presumption against Extraterritoriality

At least since 1812, the U.S. followed the principle that its laws do not apply to activity that occurs outside its territory. Although the world has become far more interdependent and interconnected since that time, the recent trend in U.S. Supreme Court decisions confirms this long-held principle. These decisions are driven by the concern that applying domestic law outside the nation’s borders imposes “the sovereign will of the United States onto conduct occurring within the territorial jurisdiction of another sovereign.” The rule is based, in part, on comity, which the Court defines as “the respect sovereign nations afford each other by limiting the reach of their laws.”

Comity occupies an uncomfortably undefined place in American law. The doctrine has been described as a form of limited immunity, or alternatively international custom that has become recognized in domestic law. Another source theorizes that comity represents “an internationally oriented body of domestic law that is distinct from international law and yet critical to legal relations with other countries.” One view argues that comity can be conceived as deference to the executive branch, which has foreign relations expertise and the flexibility to implement international policy. Comity has been referred to as a “choice-of-law principle, a synonym for private international law, a rule of public international law, a moral obligation, expediency, courtesy, reciprocity, utility, or diplomacy.”

Where a federal statute is at issue, comity operationalizes into a presumption the legislatures are acting in accordance with the principle of non-interference with another’s sovereign territory. As the Supreme Court has explained, “[t]hat comity is exercised by legislatures when they enact laws, and courts assume it has been exercised when they come to interpreting the scope of laws their legislatures have enacted.”

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18 See, e.g., The Schooner Exchange v. McFaddon, 11 U.S. (7 Cranch) 116, 147 (1812) (Marshall, C.J.) (“[T]he Exchange, being a public armed ship, in the service of a foreign sovereign, . . . should be exempt from the jurisdiction of the country.”).
20 Kiobel, 133 S.Ct. at 1665; see also F. Hoffmann-La Roche Ltd. v. Empagran S.A., 542 U.S. 155, 167 (2004) (observing that “numerous foreign countries” have advised the Court that “to apply [U.S.] remedies would unjustifiably permit their citizens to bypass their own less generous remedial schemes, thereby upsetting a balance of competing considerations that their own domestic antitrust laws embody”)(citation omitted).
21 Hartford Fire Ins. Co. v. California, 509 U.S. 764, 817 (1993); see also Am. Banana Co. v. United Fruit Co., 213 U.S. 347, 356 (1909) (“But the general and almost universal rule is that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done” and that any other result would be “contrary to the comity of nations”).
26 Hartford Fire Ins., 509 U.S. at 817.
presumption against extraterritoriality is said to be particularly compelling for damages, because “providing a private civil remedy for foreign conduct creates a potential for international friction beyond that presented by merely applying U.S. substantive law to that foreign conduct.” Notably, the Court has emphasized that plaintiffs should not be permitted to bypass the deliberate policy choices embedded in foreign law that had been enacted by other sovereign nations.

U.S. patent law has long been considered territorial. This principle has been recognized at least since 1856, when the Supreme Court decided Brown v. Duchesne. Holding that a claim of infringement could not be asserted against a patented invention used on a French ship sailing the high seas, the Court observed that a device that was lawfully made in France could not trigger liability under U.S. patent law as “they would confer a power to exact damages where no real damage had been sustained, and would moreover seriously embarrass the commerce of the country with foreign nations.”

Recognizing that other governmental branches are Constitutionally empowered to prescribe the terms of the U.S.’ international relations, the opinion considered that a private cause of action for patent infringement should not be construed to interfere with the exercise of those functions. The Brown Court explained that it was:

... impossible to suppose that Congress in passing these laws could have intended to confer on the patentee a right of private property, which would in effect enable him to exercise political power, and which the Government would be obliged to regain by purchase, or by the power of its eminent domain, before it could fully and freely exercise the great power of regulating commerce, in which the whole nation has an interest.

In 2007, the modern Supreme Court reaffirmed the Brown Court’s principles in Microsoft Corp. v. AT&T Corp. As the Court explained, courts should “assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws” because “foreign law may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions.”

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27 RJR Nabisco, 136 S.Ct. at 2016 (discussing RICO civil remedies).
30 60 U.S. 183 (1856).
32 Id. at 198.
34 Microsoft Corp. v. AT & T Corp., 550 U.S. 437, 455 (2007). There are limited exceptions. First, Congress has enacted 35 U.S.C. section 271(f), which authorizes infringement for the supply of a

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More recently, the Federal Circuit has reinforced the rule that U.S. patent law is territorial to U.S. shores.\(^{35}\) In each, the patentee asserted a request for damages for extraterritorial conduct. For example, in *Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, the patentee argued that it was foreseeable that the defendant’s domestic infringement caused the loss of foreign sales.\(^{36}\) Following the Supreme Court’s *Microsoft* case, this decision recognized the rule that “a defendant’s foreign exploitation of a patented invention . . . is not infringement at all” and therefore extraterritorial practice of U.S. patented claims “under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.”\(^{37}\)

In *Westerngeco L.L.C. v. Ion Geophysical Corp.*, the Federal Circuit affirmed a finding of infringement to a system used to search for oil and gas beneath the ocean floor.\(^{38}\) Because the invention was used abroad, the infringement finding was based on section 271(f), which authorizes recovery for extraterritorial infringement.\(^{39}\) The patentee was awarded a reasonable royalty for the infringement, which was not contested on appeal.\(^{40}\) However, the court rejected the patentee's contention that additional recovery should be awarded its failure to win ten contracts to be performed on the high seas. Just as the *Brown v. Duchesne* Court had found, the *Westerngeco* court recognized that U.S. patent laws do not operate beyond the nation's borders.\(^{41}\) The *Westerngeco* court reasoned that foreign sales did not, by themselves, constitute infringement of a U.S. patent and therefore no damages could be due for such activity. Further, this court determined that an operative infringing act under section 271(f) was the export of the component, and not the foreign use or sale of the final assembled system. This construction, the court held, was contrary to the purpose of section 271(f), which had been designed to place domestic manufacturers of finished products. Further, the court reasoned, the patentee had been compensated in the form of a reasonable royalty.\(^{42}\)

Although decided on domestic grounds, these cases can be justified when viewed in their international context. As the next sections consider, the TRIPS Agreement

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\(^{36}\) *Power Integrations*, 711 F.3d at 1372.

\(^{37}\) *Power Integrations*, 711 F.3d at 1372.

\(^{38}\) *Western Geco LLC v. ION Geophysical Corp.*, 791 F. 3d 1340 (Fed. Cir. 2015).

\(^{39}\) *Id.* at 1349.

\(^{40}\) *Id.* at 1349.

\(^{41}\) *Id.* at 1350.

\(^{42}\) *Id.* at 1351.
framework was originally conceived because of the inherent territoriality of domestic patents systems. By requiring that all member nations implement patent systems, this system was intended to allow those engaged in global commerce to obtain protection in all trading partner nations. At the same time, the TRIPS Agreement was intended to allow other nations flexibility in implementing their patent systems to fit the local culture, economies, and legal systems. This authorizes other sovereigns to make individualized determinations about patentability standards, as well as to formulate their own answers to the policy questions that arise in damages cases.

II. THE INTERNATIONAL INTELLECTUAL PROPERTY FRAMEWORK

The TRIPS Agreement requires members to adopt minimum standards for patent protection and enforcement, and to provide for remedies.\textsuperscript{43} Today, patents are available in almost every country.\textsuperscript{44} One of primary justifications for the TRIPS Agreement is that intellectual property law is territorial. Indeed, if damages were available extraterritorially, there would have been little need for the TRIPS Agreement. Now that the Agreement is in place, there is little need for the implementation of extraterritorial damages.

To some degree, the TRIPS Agreement accommodates deviations through an open-ended structure that leaves particular terms undefined, as well as section that authorize implementation flexibility.\textsuperscript{45} This breathing space is critical. Nations specifically bargained for these abilities.\textsuperscript{46} Further, increasing the level of invention worldwide should be done in a manner that honors the distinct contexts in which such advances are fostered. Consistent with the TRIPS Agreement’s authorization of domestic variation in implementation, many nations have developed individualized patentability standards to encompass—or to exclude—certain types of claims to facilitate technological progress tuned to their individual circumstances.

From a governmental perspective, intellectual property can operate as a strategic tool to foster national development. There is an extensive literature establishing that nations are not similarly situated with respect to their ability to generate technological advances. For example, the U.S. venture capital system does not exist everywhere.\textsuperscript{47} The

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\item Peter K. Yu, The Objectives and Principles of the TRIPS Agreement, 46 Houston L. Rev. 979, 1022 (2009).
\item See generally Samuel Kortum & Josh Lerner, Assessing the Contribution of Venture Capital to Innovation, RAND J. Econ. 674-692 (2000)(correlating U.S. venture funding with higher patenting rates);\end{enumerate}
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U.S. government’s research and development funding, the private technological transfer mechanisms, the operation of research universities, and the existence of a start-up culture are not replicated everywhere. Other nations have uncertain food supplies, different medical priorities, and dissimilar infrastructure needs. Other factors at play include distinct industry-specific structures, educational systems, regional innovation clusters, and income disparities. Further, consumer-spending capabilities differ. Developing countries tend to have a higher proportion of domestic patent grants compared to those granted to their nationals. This circumstance can suppress domestic invention and innovation, particularly if foreign patents are numerous, or are clustered in a portfolio surrounding important technologies. Analogously, the imposition of damages from asserted violations of another nation’s patents within a developing country’s borders threatens to do the same. This problem is compounded by the fact that many developing countries do not have well developed antitrust laws.

In other words, the assumptions that underlie the U.S. patent regime do not hold for other nations, which are capable of defining their own. As the Brazilian delegates stated to the World Trade Organization:

The naïve assumption that providing IP title holders with stronger rights will, by itself, foster innovation or attract investment is no longer acceptable. The open and global economy has rejected this assumption and severely hit the very essence of the patent system, whereby a country would confer an artificial and temporary “monopoly” for the inventor in exchange of having the invention revealed allegedly benefiting the society. No such thing is currently taking place, with a few countries excepted.

A governmental shift of patentability standards to comport with present circumstances is not a new phenomenon. Over the course of its history, the U.S. has changed its patentability standards dramatically. Soon after the Great Depression, the U.S. Supreme Court raised the obviousness standard to an impossibly demanding level to minimize the operation of monopoly while the national economy was in a weakened


See generally Ingrid Verheul, Sander Wennekers, David Audretsch & Roy Thurik, An Eclectic Theory of Entrepreneurship: Policies, Institutions and Culture, in ENTREPRENEURSHIP: DETERMINANTS AND POLICY IN A EUROPEAN-US COMPARISON 18 (David Audretsch et al. eds., 2002)).


Bernard Hoekman and Peter Holmes, Competition Policy, Developing Countries and the WTO, 22 WORLD ECON. 875, 882 (1999)(with respect to developing countries, “Many do not have competition laws; those that do, often have limited implementation ability.”).

state.\textsuperscript{53} The aversion to patents did not last long. In 1952, the U.S. amended the patent law to return the standard back to the former level.\textsuperscript{54} Yet during the 1990’s, the inventive step standard shifted yet again when the Federal Circuit Court of Appeals applied the standard in a lenient manner that permitted patents claiming very modest advances to issue.\textsuperscript{55} Another shift occurred in 2007, when the U.S. Supreme Court corrected this course in \textit{KSR International v. Teleflex Inc.}\textsuperscript{56} In this case, the Court implemented an “expansive and flexible approach” to the inventive step.\textsuperscript{57} Overall, this recent approach shifted toward requiring higher levels of technological creativity to obtain a patent. Most recently, the Supreme Court has trimmed back on patent protection further by modifying the patentable subject matter doctrine.\textsuperscript{58}

Other nations have made choices that, although arriving at different places than our domestic law, are valid efforts to optimize their patent system to fit local conditions. India’s treatment of pharmaceuticals is illustrative. A nation that had attempted to facilitate the chemical and medical industry during its colonial years, India modified its patent system to foster domestic pharmaceutical production after that period ended.\textsuperscript{59} Post-colonial India recognized that its prior patent law had disadvantaged its own manufacturing ability, economy, and public health. To reverse this circumstance, in 1970 India amended its law to prohibit protection for food and drug product claims.\textsuperscript{60} At the same time, protection for process claims was limited to seven years.\textsuperscript{61} These changes led to unprecedented growth in India’s pharmaceutical industry.\textsuperscript{62} By the early 1990’s, Indian firms satisfied up to 80% of its domestic drug needs and roughly 20% of global demand.\textsuperscript{63} When the TRIPS Agreement was enacted in 1995, India was forced to amend its patent laws to offer protection for pharmaceutical product claims and extend method claim protection to twenty years. Yet the nation’s obviousness requirement retained some echoes of its past. Specifically, India’s inventive step requirement is designed to bar claims that are mere attempts to evergreen existing protection on pharmaceutical

\textsuperscript{57} \textit{Id.} at 415.
\textsuperscript{61} \textit{Id.} at sec. 53(a).
\textsuperscript{62} Dr. Y.K. Hamied, Chairman, Cipla Ltd., Presentation on the Occasion of Dr. A. V. Rama Rao’s 70\textsuperscript{th} Birthday: Indian Pharma Industry: Decades of Struggle and Achievements 4 (April 2, 2005); \textit{see also} Dr. Y. K. HAMIED, \textit{INDIAN PHARMA INDUSTRY: DECADES OF STRUGGLE AND ACHIEVEMENTS} 2-4 (2005).
substances unless better patient outcomes are demonstrated. This rule is more demanding than the inventive step requirement of the highly developed nations, and maximizes India’s ability to engage in pharmaceutical manufacturing and distribute low-cost drugs. India’s variation of the inventive step requirement echoes its history, national priorities, and economy.

In contrast, South Africa, like many nations, inherited its patent system from the British during the colonial era. Due to the press of other national priorities, the nation’s patent system is only now transitioning from a registration system toward a search and examination system. The nation is now poised to examine substantive changes to its current regime, which still largely echoes the British system from which it was derived. It has created, but not adopted, a draft intellectual property policy that seeks to integrate policy into its substantive standards. Recently, the nation’s Minister of Trade and Industry has recognized the complexity of the questions presented in refining the system toward its priorities. Just as the U.S. has done, South Africa is approaching patent reform deliberatively and with an eye toward maximizing its domestic development. As a sovereign nation, and within the confines of the TRIPS Agreement, the nation should be permitted to proceed along that path without the potential disruption through the imposition of damages for infringement of a U.S. patent for conduct within South Africa’s borders.

Specific to patent remedies, various countries are striving to implement their own answers to difficult damages questions. They may reach divergent conclusions for the appropriate level of compensation. There may be different policy implementations for claims subject to obligations that require the patentee to charge a “fair, reasonable and nondiscriminatory” (FRAND) licensing rate. Others are grappling with damage award

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68 Davies, supra note 66, at 9 (“As the policy debate unfolds, there nevertheless seems to be a wide acceptance that research on the topic must be extended and deepened if we are to have a better grasp of the complex relationship between IPR reform and FDI flows, technology transfer and industrialization.”).
calculation methods, relief for moral prejudice, apportionment, innocent infringement, willfulness, injunctive relief and the availability of compulsory licenses.  

Varying approaches are valid, in line with the intent of the TRIPS Agreement, and reflect the individual policy choices that are critical to each nation’s use of intellectual property as a strategic tool to foster national development. Interfering with these sovereign choices should not be undertaken lightly. As a practical matter, allowing U.S. jury decisions to override other nation’s considered judgments undermines the structure and theory of TRIPS flexibilities. To the extent that infringement overseas cannot be resolved through the present system despite the ubiquity of patent laws worldwide, this issue should be resolved on an international level with input from affected nations.

III. The Potential Consequences of Extraterritorial Remedies

When the TRIPS Agreement was drafted, the availability of worldwide protection was viewed as a critical tool to correct trade distortions. Specifically, it was thought that such distortions were created when a subset of nations invested in developing knowledge-intensive goods, attempted to sell them worldwide, and then were met with copyists in other nations that had no effective patent remedies. This circumstance was said to lead to underinvestment in research. Additionally, developed nations may be unwilling to export products to, or locate manufacturing facilities within, nations where copyists would eviscerate their intended profit. Thus, worldwide protection was believed to facilitate free trade.

The TRIPS Agreement was intended to alleviate this circumstance by requiring all GATT trading partners to adopt, implement, and enforce intellectual property rights. Under this plan, the Agreement was intended to maximize incentives for the best technological research, which has to potential to lead to innovation growth worldwide particularly where spillovers resulted. With the potential for a global market, entities would be motivated to use “the world's best practice technologies.” Additionally, it was predicted to have an overall positive effect on free trade, because the intellectual property protection facilitated the free exportation of goods to all members. That is, with the appropriate laws and procedural protections in place, local infringement actions could be brought against foreign copyists.

Additionally, the TRIPS Agreement was intended to encourage foreign direct investment in developing countries. This is because, at least in theory, the widespread

72 Id. at 373.
73 Keith E. Maskus, The Role Of Intellectual Property Rights In Encouraging Foreign Direct Investment And Technology Transfer 9 Duke J. Comp. & Int’l L. 109, 111 (1998) (defining foreign direct investment as “FDI, the establishment or acquisition of production subsidiaries abroad by multinational enterprises”).
availability of intellectual property protection was thought to encourage multinational corporations to locate manufacturing in any nation that is optimal, whether based on the most qualified employee base, reduced transportation costs, the proximate availability of raw materials, or other efficiencies. If all member nations respected the intellectual property rights of multinational corporations, then a lack of protection would not be a barrier to locate manufacturing in a location that was otherwise favorable.  

If extraterritorial damages are awarded, courts must be mindful that trade distortions are created in different ways. For example, if the U.S. awards extraterritorial damages, it can be expected that other nations will reciprocate and impose their patent laws on U.S.-based activity. This may impact the cost of doing business domestically. In the aggregate, the extraterritorial reach of U.S. damages law, coupled with the anticipated reciprocal imposition of other nation’s damages laws, threatens to introduce trade distortions that, although different from those that the TRIPS Agreement was intended to erase, are equally undesirable.

The following three scenarios, roughly based on the facts of Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc. illustrate some potential impacts. In that case, the defendant made, sold or imported semiconductors that incorporated the patentee’s claimed technology. According to the patentee, these actions resulted in lost sales to end-users overseas. Under Rite Hite Corp. v. Kelly, such damages would constitute a recoverable form of damages if those lost sales had occurred within the U.S. However, the Power Integrations court held that lost foreign sales were not recoverable, stating, “[i]t is axiomatic that U.S. patent law does not operate extraterritorially to prohibit infringement abroad.”

The following hypothetical variations consider the impact of a contrary result—in other words, if the Power Integrations court had instead held foreign lost sales to end-users were recoverable under the U.S. law. These hypotheticals assume that the patentee owns patents to the same subject matter in both the U.S. and the foreign jurisdiction and enforces both patents in their respective jurisdictions.

- **First:** Using the facts stated, the patentee will receive compensation for the lost sales under both U.S. law and foreign law for the same activity. This result will occur if the courts deem a violation of a U.S. and a foreign patent are two separate torts, and that each warrants separate compensation. This raises the infringer’s innovation costs. There may be follow-on issues that impact the foreign economy (including, for example, employment). In addition, the risk potential may chill the

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74 Singapore, which currently favors patent standards that are harmonized with the most developed nations, stands as an example of a nation that has received considerable foreign direct investment since the early 1990’s due to a number of policy changes that include strengthening its patent protection.


77 Power Integrations, 711 F.3d at 1371.

78 This hypothetical assumes that exhaustion rules do not eliminate recovery in either jurisdiction.

availability of foreign direct investment, a result contrary to the TRIPS Agreement's intent.

- **Second:** Using the same facts stated above, but instead consider that the predicate domestic infringing act is an infringing sale to a distributor, and the foreign activity is a foreign use of the same product by end users overseas. This might occur if defendant Fairchild concluded contracts within the U.S. to a foreign entity that manufactures these devices offshore. In that instance, Fairchild will pay damages for the domestic sales, and the foreign manufacturer will be assessed damages for the overseas manufacture. In essence, this drives up the cost of forming contracts within the U.S., and might impact decisions to locate contract discussions within the U.S. If, instead, the predicate act was making products in the U.S. that are distributed overseas, double recovery may be had for both the manufacture and subsequent sale of products. This circumstance can impact decisions to locate manufacturing in the U.S.  

- **Third:** Using the original facts, but instead assume that the U.S. grants patents for the invention but the foreign country has determined that the subject matter of the application is unpatentable. By awarding patent damages for activity that is not a violation of the foreign nation’s law, the U.S. court has interfered with the decision-making sovereignty of the other nation. Further, this raises the cost of innovation within the foreign nation, which has found that this invention should become part of the public domain. As with the first scenario, this raises the foreign innovator’s costs, and may impact the foreign economy and ability to attract foreign direct investment.

As a practical matter, the patent system acts is intended to act as an incentive system. To the extent that the system operates as intended, awarding damages in a patent infringement affects the operation of those incentives, as well as the costs of innovation nationwide. Further, changing the law of patent damages in this manner interferes with the decision-making authority of nations outside U.S. borders.

**Conclusion**

The question of extraterritorial damages arises within an international context. Although premised on the construction of a domestic statute, questions of foreign sovereignty and comity must be considered. The current trend, in both the U.S. Supreme Court and Federal Circuit, and respect for the law-making authority of other nations cut against such awards. This paper establishes that there are sound reasons for doing so. The history of the U.S. Patent Act, the TRIPS Agreement, and the prospective consequences of damages for foreign-based conduct counsel against extraterritorial awards.

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