PATENT DAMAGES WITHOUT BORDERS

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ABSTRACT

The presumption against extraterritoriality is a deceptively straightforward principle: that U.S. law applies only inside the United States. But there is confusion regarding whether the principle applies when a court calculates patent damages. The Federal Circuit has held that patent holders who show infringement under § 271(f) of the Patent Act cannot recover foreign lost profits. The court maintained that allowing recovery of such damages would result in the Patent Act applying extraterritorially, which cannot be done without Congress's clear intent. This unusual interpretation lacks support from the Supreme Court and severely limits the ability of district courts to make patent infringement victims whole. This article maintains that the Federal Circuit's reliance on the presumption is misplaced. The presumption was established to prevent U.S. law from applying to extraterritorial conduct; it was not intended to cover situations where harm flows from an act of domestic patent infringement. Moreover, even if the presumption does apply, it has been rebutted under the Supreme Court's two-step extraterritoriality test. By creating this bright-line rule, the Federal Circuit has unduly restricted the ability of patent holders to recover damages, including in cases where there is no other applicable law. This Article proposes that courts use a more flexible test that balances prescriptive comity concerns with the United States' interest in making victims of domestic patent infringement whole.

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I. INTRODUCTION

The presumption against extraterritoriality ("the presumption") is the principle "that United States law governs domestically but does not rule the world."[1] In applying this cannon of construction, the court will ask whether statutory language "'gives any indication of a congressional purpose to extend its coverage beyond places over which the United States has

[1] Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 454 (2007).

sovereignty or has some measure of legislative control.'"[2] Congress is presumed to legislate against this backdrop, and must express affirmative intention to overcome it.[3]

Under § 271(f), Congress has expressly permitted the Patent Act to reach extraterritorially; the provision generally applies when a party exports components for a patented device with the intent that the components be combined extraterritorially.[4] This allows a party to be held liable for infringement even if they did not make, use, or sell a patented device inside the United States. As with other sections in § 271, the patent holder may seek damages under § 284 that arise from the export of the components.[5]

However, the Federal Circuit is now barring extraterritorial damages under § 271(f).[6] In *WesternGeco L.L.C. v. Ion Geophysical Corp.*, the Federal Circuit held that a patent holder cannot recover any damages for losses incurred outside the United States, even those that directly flow from a domestic act of infringement under § 271(f).[7] The court based these decisions on the presumption, maintaining that such losses are beyond the reach of U.S. law.[8] The *WesternGeco* decision was especially notable, given that the damages at issue arose from service contracts performed on the high seas, where no country's law directly applies.[9] The Supreme Court recently issued a grant-vacate-remand, and the case is once again pending before the Federal Circuit.[10]

In an attempt to not apply U.S patent law to foreign acts, the Federal Circuit has overextended the presumption. The Supreme Court's cases have

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[2] Equal Employment Opportunity Comm'n v. Arabian American Oil Co. (*Aramco*), 499 U.S. 244, 248 (1991) (quoting Foley Bros., Inc. v. Filardo, 336 U.S. 281, 285 (1949)).

[3] *Id. See also* Benz v. Compania Naviera Hidalgo, S.A., 353 U.S. 138, 147 (1957) (holding that for the Court "to run interference in such a delicate field of international relations" Congress must clearly express affirmative intention).

[4] Under § 271(f)(1), the components that are supplied must comprise "all or a substantial portion" of the components of the patented invention so as to induce the combination outside of the United States. *See* 35 U.S.C. § 271(f)(1) (2016). Under § 271(f)(2), the supplied components must be "especially made or especially adapted" for use in the patented invention and must not "a staple article or commodity of commerce." *See* 35 U.S.C. § 271(f)(2).

[5] *See* 35 U.S.C. § 284 ("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").

[6] WesternGeco, L.L.C. v. Ion Geophysical Corp., 791 F.3d 1340, 1351 (Fed. Cir. 2015), vacated, 136 S. Ct. 2486, (2016), remanded to 2016 WL 5112047 (Sept. 21, 2016).

[7] *WesternGeco*, 791 F.3d 1340, 1351 (Fed. Cir. 2015).

[8] *See WesternGeco*, 791 F.3d. at 1352*;* Power Integrations v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348, 1371 (Fed. Cir. 2013).

[9] *WesternGeco*, 791 F.3d at 1349. *See also infra*, Part IV.C.

[10] WesternGeco LLC v. Ion Geophysical Corp., 136 S. Ct. 2486 (2016), remanded to 2016 WL 5112047 (September 21, 2016).

limited the presumption to statutes that directly regulate conduct or involve jurisdiction; it has never applied the presumption to remedies such as damages. Moreover, even if the presumption is applicable, a strong argument can be made that it has been rebutted.[11] By creating this bright-line rule, the Federal Circuit has unduly restricted the ability of patent holders to recover damages under § 271(f), even in cases where no country has territorial jurisdiction.

This article argues that the presumption against extraterritoriality is inapplicable in calculating patent damages, and alternatively argues that the presumption has been rebutted. Part II introduces the presumption and discusses justifications for the presumption, including prescriptive comity and congressional intent. It explains how the presumption has been applied in patent law, and discusses the Federal Circuit's use of the presumption for damages cases. Part III examines how the presumption has been applied in copyright and trademark law. It discusses how the Supreme Court has permitted the extraterritorial application of trademark law, and how several courts of appeal have extraterritorially applied the Copyright Act through the predicate act doctrine.

Part IV maintains that the Federal Circuit has misinterpreted Supreme Court precedent on the presumption and has wrongfully extended the presumption to damages. It further argues that under the *RJR Nabisco* two-step test, the presumption has been rebutted. It observes, however, that patent law's highly territorial nature and grounding in promoting innovation make it inappropriate to extend the Patent Act to all extraterritorial damages. Part IV suggests, instead, that the court adopt a test that balances comity concerns with the government's interests in making patent holders whole and promoting innovation. Part V concludes.

II. EXTRATERRITORIALITY IN PATENT LAW

The presumption against extraterritoriality is a canon of construction that applies not just in patents, but to all statutes. It plays an important role in maintaining harmony with foreign nations and helps courts respect Congress's intent. With the rise of globalization, extraterritoriality concerns have been arising with greater frequency in patent law, especially with regard to patent damages.

This part provides an overview of the extraterritorial limitations that affect the reach of the U.S. Patent Act. Section A briefly discusses the history of the presumption and discusses the current test for determining whether a U.S. statute applies to extraterritorial conduct. Section B examines the justifications for the presumption. Section C discusses how the presumption has been applied by the Supreme Court in patent

[11] *See* Part IV.B.

infringement cases. Finally, Section D discusses how the presumption has been applied by the Federal Circuit to patent damage cases under 35 U.S.C. §§ 271(a) and (f).

A. Introduction to the Presumption Against Extraterritoriality

Congress's ability to pass laws that regulate extraterritorial conduct is somewhat limited under the customary law of international jurisdiction. With regard to activities inside the United States, Congress may prescribe laws with respect to (1) "conduct that, wholly or in substantial part[,] takes place within its territory," (2) "the status of persons, or interest[s] in things present within its territory," and (3) "conduct outside its territory that has or is intended to have substantial effect within its territory[.]"[12] Congress also has limited non-territorial jurisdiction. It may prescribe law for its own nationals outside the United States,[13] as well as for conduct of non-nationals who threaten U.S. national security.[14]

Beginning in the 1800s, the Supreme Court developed the presumption against extraterritoriality to determine whether Congress intended to exercise extraterritorial prescriptive jurisdiction.[15] In the 1909 decision *American Banana Co. v. United Fruit Co.*, the Court applied the presumption to the Sherman Act.[16] In that case, the plaintiff was harmed through acts that occurred in Panama and Costa Rica. Justice Holmes, writing for the unanimous Court, held that because the acts occurred outside the United States, U.S. law did not apply.[17] He observed that "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

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[12] RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES, § 402(1) (AM. LAW INST. 1986). *See also*, Jeffrey A. Meyer, *Dual Illegality and Geoambiguous Law: A New Rule for Extraterritorial Application of U.S. Law*, 95 MINN. L. REV. 110, 143–44 (2010) (discussing the scope of the Restatement).

[13] RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES, § 402(2). This principal goes back to at least the early 1800s. *See* Apollon, 22 U.S. 362, 370 (1824) (holding "The laws of no nation can justly extend beyond its own territories, except so far as regards its own citizens."); Rose v. Himely, 8 U.S. 241, 279 (1808) (noting "that the legislation of every country is territorial; that beyond its own territory, it can only affect its own subjects or citizens").

[14] RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES, § 402(3).

[15] *See* United States v. Palmer, 16 U.S. 610, 630 (1818) (holding that a federal piracy statute did not apply to a robbery committed by a foreign citizen on a foreign ship in international waters). *See also*, William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 BERKELEY J. INT'L L. 85, 85 (2008) (discussing the history of the presumption).

[16] American Banana Co. v. United Fruit Co., 213 U.S. 347, 356 (1909).

[17] *Id.* at 348.

done."[18] The presumption was originally narrow, originally permitting U.S. law to apply to U.S. citizens' actions abroad.[19]

The Supreme Court's 2016 decision in *RJR Nabisco, Inc. v. European Community* provides a two-step framework for analyzing extraterritoriality cases.[20] Under step one, the court asks "whether the statute gives a clear, affirmative indication that it applies extraterritorially."[21] If Congress clearly intended for a statute to apply extraterritorially, then the presumption has been rebutted and the court may apply the statute to foreign activity.[22]

If the statute fails step one, the court moves to step two and determines "whether the case involves a domestic application of the statute" by looking at the statute's focus.[23] The application of the statute for foreign conduct is proper "[i]f the conduct relevant to the statute's focus occurred in the United States." This is true "even if other conduct occurred abroad."[24] However, "if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory."[25] In other words, a U.S. statute may apply to multi-territorial conduct so long as the conduct relevant to the statute's focus occurred in the United States.

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[18] *Id.*

[19] *See generally* CURTIS A. BRADLEY, INTERNATIONAL LAW IN THE U.S. LEGAL SYSTEM 179 (2nd ed. 2015). Note that this view is consistent with prescriptive jurisdiction. *See* Meyer, *supra* note 12 at 143–44 (discussing the scope of customary law of international jurisdiction). The Restatement (Third) of Foreign Relations § 402 recognizes four categories where a State has jurisdiction to prescribe law, including "the activities, interests, status, or relations of its nationals outside as well as within its territory." *See* RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES, § 402.

[20] 136 S. Ct. 2090, 2101 (2016).

[21] *Id.*

[22] *Id.* at 2112.

[23] *Id.* Step two is consistent with the Supreme Court's earlier cases applying the Sherman Act and Lanham Act extraterritoriality. *See, e.g.,* F. Hoffman-La Roche Ltd. v. Empagran S.A., 542 U.S. 155, 165 (2004) (applying the Sherman Act to foreign conduct) (emphasis in original); Steele v. Bulova Watch Co., 344 U.S. 280, 285 (1952) (applying the Lanham Act to conduct of a U.S. citizen in Mexico). In *Aramco*, the Court justified the extraterritorial application of the Lanham Act on two grounds: that (1) the alleged extraterritorial conduct "had some effects within the United States" and (2) the Lanham Act applies to "all commerce which may lawfully be regulated by Congress." Equal Emp't. Opportunity Comm'n. v. Arabian Am. Oil Co. (*Aramco*), 499 U.S.244, 252 (1991). Similarly, the Sherman Act applies only to foreign conduct that has a domestic effect. *F. Hoffman-La Roche*, 542 U.S. at 165 (observing that "courts have long held that application of our antitrust laws to foreign anticompetitive conduct. . .insofar as they reflect a legislative effort to redress *domestic* antitrust injury that foreign anticompetitive conduct has caused"). Consequently, *RJR Nabisco* can be viewed as an attempt by the Supreme Court to reconcile past cases appeared conflicting.

[24] RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2101 (2016)..

[25] *Id.*

B. Policy Considerations

There are several justifications underlying the presumption. Some relate to international concerns, such as respecting the laws of foreign countries and avoiding conflict with them.[26] Others are domestic in nature, such as discerning congressional intent and maintaining separation of powers.

1. International Law and Prescriptive Comity

The presumption against extraterritoriality is heavily grounded in international law and the principles of prescriptive comity. Although the term is difficult to define,[27] comity is "the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard both to international duty and convenience, and to the rights of its own citizens or of other persons who are under the protection of its laws."[28]

The Supreme Court applies the presumption when it "construes ambiguous statutes to avoid unreasonable interference with the sovereign authority of other nations."[29] The Court is "unwilling to ascribe to Congress a policy which would raise difficult international law issues" by imposing U.S. law "upon foreign corporations operating in foreign commerce."[30]

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[26] For a broader look at justifications for the presumption, *see* Curtis A. Bradley, *Territorial Intellectual Property Rights in the Age of Globalism*, 37 VA. J. INT'L L. 505, 513–16 (1997) (discussing the reasons for the presumption) (hereinafter "*Territorial IP Rights*").

[27] *See* JP Morgan Chase Bank v. Altos Hornos de Mexico, S.A. de C.V., 412 F.3d 418, 423 (2d Cir. 2005) (quoting Harold G. Maier, *Extraterritorial Jurisdiction at a Crossroads: An Intersection Between Public and Private International Law*, 76 AM. J. INT'L L. 280, 281 (1982)) ("The doctrine has never been well-defined, leading one scholar to pronounce it 'an amorphous never-never land whose borders are marked by fuzzy lines of politics, courtesy, and good faith.'").

[28] Hilton v. Guyot, 159 U.S. 113, 164 (1895). This article uses the term "prescriptive comity" to distinguish from "comity of the courts," under which "judges decline to exercise jurisdiction over matters more appropriately adjudged elsewhere. . . ." Hartford Fire Ins. Co. v. California, 509 U.S. 764, 817 (1993) (Scalia, J., dissenting). *See also* Joseph Story, COMMENTARIES ON THE CONFLICT OF LAWS, FOREIGN AND DOMESTIC § 38 (1834) (distinguishing between the "comity of the courts" and the "comity of nations").

[29] F. Hoffman-La Roche Ltd. v. Empagran S.A., 542 U.S. 155, 164–165 (2004) (discussing *Hartford Fire*, 509 U.S. at 817 (Scalia, J., dissenting)).

[30] Equal Emp't. Opportunity Comm'n v. Arabian Am. Oil Co. (*Aramco*), 499 U.S. 244, 245 (1991). *See also* Kiobel v. Royal Dutch Petroleum Co., 133 S. Ct. 1659, 1664 (2003) (discussing "the danger of unwarranted judicial interference in the conduct of foreign policy" with regard to the extraterritorial application of the Alien Tort Statute).

Note that the presumption builds off of the Charming Betsy canon, in which courts interpret national statutes to avoid conflicts with international laws. *See* RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS OF LAW OF THE UNITED STATES, § 114 (AM. LAW INST. 1987) (articulating the Charming Betsey canon as where possible, "a United States statute is to be construed so as not to conflict with international law or with an international

Consequently, the presumption "helps the potentially conflicting laws of different nations work together in harmony" which the Court claims is "particularly needed in today's highly interdependent commercial world."[31]

Comity concerns arose in *Morrison v. National Australia Bank Ltd.*, in which the Supreme Court held that the Securities and Exchange Act does not apply to foreign investment deals that have a domestic impact.[32] In that case, a group of Australian citizens sued National Australian Bank Limited (National) and Florida-based HomeSide Lending for securities fraud.[33] The petitioners held National stock, which was listed on the New York Stock Exchange, but not traded in the United States.[34] The companies made a series of deceptive statements in Australia and National issued several write-downs.[35]

The Court held that the presumption applied, notwithstanding the fact that HomeSide engaged in deceptive conduct in Florida.[36] The Court found that the focus of the Exchange Act "is not upon the place where the deception originated, but upon purchases and sales of securities in the United States."[37] It observed that the risk of conflict with foreign laws was so high that Congress would have been clear if it intended the Exchange Act to apply to foreign conduct.[38] It noted that other countries differ with regard to "what constitutes fraud, what disclosures must be made, what damages are recoverable, what discovery is available in litigation, what individual actions may be joined in a single suit, what attorney's fees are recoverable, and many other matters."[39]

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agreement of the United States"); *see also* Curtis A. Bradley, *The Charming Betsy Canon and Separation of Powers: Rethinking the Interpretive Role of International Law*, 86 GEO. L.J. 479, 491-95 (1998) (discussing the history of the Charming Betsy cannon).

[31] *F. Hoffman-La Roche*, 542 U.S. at 164–65. *See also Aramco*, 499 U.S. at 248 (noting that the presumption "serves to protect against unintended clashes between our laws and those of other nations which could result in international discord").

[32] Morrison v. National Australian Bank Ltd., 561 U.S. 247, 265 (2010). *See also*, Zachary D. Clopton, *Bowman Lives: The Extraterritorial Application of U.S. Criminal Law After Morrison v. National Australia Bank*, 67 N.Y.U. ANN. SURV. AM. L. 137, 138-39 (2011) (noting how the Roberts Court made it harder for plaintiffs to establish U.S. connections needed to avoid the presumption's application).

[33] *Morrison*, 561 U.S. at 252.

[34] *Id.* at 247.

[35] *Id.*

[36] *Id.* at 265.

[37] *Id.* at 266.

[38] *Morrison*, 561 U.S. at 269. Note that if Congress explicitly states that a statute applies extraterritorially, a court need not examine the statute's focus. *See RJR Nabisco, Inc.*, 136 S. Ct. at 2103.

[39] *Morrison*, 561 U.S. at 269. These differences were highlighted in the amicus briefs filed by several countries and foreign organizations, all of which complained about foreign interference with foreign securities regulation.

Although the presumption is strongly grounded in comity considerations, it is important to note that it does not prevent all foreign conflicts. The Restatement (Third) of the Foreign Relations of Law of the United States recognizes not just territorial bases for prescriptive jurisdiction, but also non-territorial ones such as nationality.[40] A conflict could thus arise if one country exercises territorial jurisdiction while another exercises nationality jurisdiction.[41]

2. Congressional Intent and Focus

Congressional intent and focus is another basis for the presumption. The Supreme Court has observed that the presumption applies unless Congress expresses a contrary intent,[42] and has further noted that "[w]hen a statute gives no clear indication of an extraterritorial application, it has none."[43] Congress, in other words, should have the final say in determining whether a statute has "coverage beyond places over which the United States has sovereignty or has some measure of legislative control."[44] This provides "a stable background against which Congress can legislate with predictable effects."[45] If Congress is silent, courts should not speculate about whether Congress would have wanted the statute to apply to the case at issue.[46]

The Supreme Court generally assumes that Congress is focused on territorial concerns. The Court has observed that the presumption is rooted in "the commonsense notion that Congress generally legislates with domestic concerns in mind."[47] Although this assumption has been reiterated

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[40] *See* RESTATEMENT (THIRD) OF THE FOREIGN RELATIONS OF LAW OF THE UNITED STATES, § 402 (AM. LAW INST. 1987).

[41] *See* Zachary D. Clopton, *Replacing the Presumption Against Extraterritoriality*, 94 B.U. L. REV. 1, 12 (2014) (observing that a U.S. court applying U.S. law territorially could still cause a conflict if "one party is a foreign national and her state has exercised nationality jurisdiction").

[42] Equal Emp't. Opportunity Comm'n v. Arabian Am. Oil Co. (Aramco), 499 U.S. 244, 248 (1991) (quoting Foley Bros., Inc. v. Filardo, 336 U.S. 281, 285 (1949)).

[43] *See RJR Nabisco*, 136 S. Ct. at 2100 (observing that the presumption applies "'regardless of whether there is a risk of conflict between the American statute and a foreign law'") (quoting *Morrison*, 561 U.S. at 255). *See also*, Smith v. United States, 507 U.S. 197, 204 (1993) (observing the Court will presume Congress's legislation applies only inside the United States, unless Congress states otherwise).

[44] *Aramco*, 499 U.S. at 248.

[45] *Morrison*, 561 U.S. at 261.

[46] *Id.* ("The results of judicial-speculation-made-law—divining what Congress would have wanted if it had thought of the situation before the court—demonstrate the wisdom of the presumption against extraterritoriality. Rather than guess anew in each case, we apply the presumption in all cases. . . .")

[47] *Smith*, 507 U.S. at 204 n.5 (1993). *See also Foley Bros.*, 336 U.S. at 285 (noting the presumption "is based on the assumption that Congress is primarily concerned with domestic conditions").

by the Court several times, it is unclear where it comes from.[48]

Because of the focus on congressional intent, the presumption is applicable even when no foreign law applies.[49] For example, in *Smith v. United States*, the surviving spouse of a U.S. contractor killed in Antarctica attempted to sue under the Federal Tort Claims Act (FTCA).[50] Because the FTCA does not apply to claims that arise "in a foreign country," the plaintiff argued that Antarctica is not a foreign country.[51] Nevertheless, the Court found the presumption to be applicable, noting that "any lingering doubt" regarding the law's reach should "be resolved against its encompassing torts committed in Antarctica."[52] It reiterated that U.S. law only applies "within the territorial jurisdiction of the United States."[53]

3. Separation of Powers

The final—and weakest—bases for the presumption is separation of powers. In *Aramco*, the Court observed that Congress has the ability "calibrate its provisions" in a way that that courts cannot.[54] As several commentators have noted, the *Aramco* Court recognized its limited ability to make nuanced foreign relations judgments compared to Congress.[55] As professor Curtis Bradley has noted, the presumption has rightfully forced Congress "to focus specifically on the political problems and uncertainties raised by extraterritoriality."[56]

Likewise, in *Benz v. Compania Naviera Hidalgo, S.A.*, the Court refused

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[48] *See Clopton supra* note 41 at 13, (criticizing the Court's unsupported assumption that Congress's intent is territorial).

[49] *RJR Nabisco*, 136 S. Ct. at 2100 (quotation marks omitted).

[50] *Smith*, 507 U.S. at 197.

[51] *Id.* at 201.

[52] *Id.* at 203–204.

[53] *Id.* at 204 (quotation marks omitted)

[54] Equal Emp't. Opportunity Comm'n v. Arabian Am. Oil Co. (Aramco), 499 U.S. 244, 259 (1991).

[55] *See* Jack L. Goldsmith, *Federal Courts, Foreign Affairs, and Federalism*, 83 VA. L. REV. 1617, 1701 (1997) (observing that the *Aramco* Court "recognized its relative incompetence to make fine-grained foreign relations judgments, and it conceived its proper role to be one of encouraging the political branches to embody such judgments in federal legislation"); Bradley, *Territorial IP Rights*, *supra* note 22 at 553 (noting that Congress ultimately legislatively overruled *Aramco* by statute, and in doing so, "answered some of the difficult questions that had concerned the Court"); Mark P. Gibney, *The Extraterritorial Application of U.S. Law: The Perversion of Democratic Governance, the Reversal of Institutional Roles, and the Imperative of Establishing Normative Principles*, 19 B.C. INT'L & COMP. L. REV. 297, 310 (1996) (observing that the mandate of *Aramco* is political branches "taking on the lion's share in determining when, and explaining why, U.S. law should or should not be applied extraterritorially"). *But see Clopton*, *Replacing the Presumption*, *supra* note 41 at 15–16 (maintaining that separation of powers does not support the presumption in its current form).

[56] Bradley, *Territorial IP Rights*, *supra* note 22 at 553.

to apply the Labor Management Relations Act to a foreign-flagged vessel docked in Portland.[57] Under the law of the flag, discussed further in Part IV.B, the applicable country's law for crew conduct is the country whose flag the vessel flies.[58] In declining to apply the Labor Management Relations Act to a crew strike, the *Benz* Court maintained that Congress "alone has the facilities necessary to make fairly such an important policy decision where the possibilities of international discord are so evident and retaliative action so certain."[59] The Court concluded that such an appeal should be directed to Congress instead of to the courts.[60]

The rigidity of this approach has frustrated some of the justices, including Stevens and Ginsburg in *Morrison*.[61] In their concurrence, they maintained that the Court was taking a flexible rule of thumb and transforming it "into something more like a clear statement rule."[62] Their concurrence further noted that although the presumption "can be useful as a theory of congressional purpose, a tool for managing international conflict, a background norm, a tiebreaker," it "does not relieve courts of their duty to give statutes the most faithful reading possible."[63] These statements highlight the fact that although the presumption is merely a canon of construction, courts often treat the presumption as being something more fundamental.

C. Extraterritoriality in Substantive Patent Law

In patent law, infringement of a U.S. patent has traditionally been limited to activities performed wholly inside the United States. For example, in 1856, the Supreme Court declined to apply the Patent Act to an infringing Dutch ship that entered a U.S. port.[64] The Court maintained that the Patent Act's powers are "domestic in its character, and necessarily

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[57] *Benz*, 353 U.S. 138, 146–147 (1957).

[58] Spector v. Norwegian Cruise Line Ltd., 545 U.S. 119, 130 (2005) (maintaining that U.S. law does not apply to vessels "insofar as they regulate matters that involve only the internal order and discipline of the vessel, rather than the peace of the port").

[59] *Benz*, 353 U.S. at 147. This argument—that Congress has superior tools for making a difficult policy decision—appears to also be grounded in institutional design. Congress has more sources of information available to it for tough decision making.

[60] *Id.*

[61] Morrison v. Nat'l Australia Bank, 561 U.S. 247, 278 (2010) (Stevens, J., concurring). This view from Justice Stevens is not surprising, given that he took a more functionalist approach to separation of powers. *See* W. David Ball, *Heinous, Atrocious, and Cruel: Apprendi, Indeterminate Sentencing, and the Meaning of Punishment*, 109 COLUM. L. REV. 893, 965 n.383 (describing Justice Stevens as "a later proponent of functionalism").

[62] *Morrison*, 561 U.S. at 278 (Stevens, J., concurring).

[63] *Id.*

[64] Brown v. Duchesne, 60 U.S. 183, 198 (1856).

confined within the limits of the United States."[65] Since that time, however, the line demarcating domestic versus foreign infringement has become quite fuzzy.

1. § 271(a)

Section 271(a) is the primary infringement provision of the Patent Act and is clearly territorial.[66] The language of the provision emphasizes liability for one who, without authority, "makes, uses, offers to sell, or sells any patented invention, *within the United States*, or imports *into the United States*" a patented invention.[67]

The Supreme Court has held that Congress clearly intended infringement under § 271(a) to be limited to domestic activity.[68] In *DeepSouth Packing Co. v. Laitram Corp.*, the patent holder for a shrimp deveining machine sued DeepSouth, which was manufacturing and exporting modules for the complete machine to be easily assembled and used abroad.[69] The Court observed that the "patent system makes no claim to extraterritorial effect" and that "'these acts of Congress do not, and were not intended to, operate beyond the limits of the United States.'"[70] The Court maintained that Congress intends inventors seeking foreign protection to obtain foreign patents.[71] DeepSouth escaped liability because it did not make, use, or sell the assembled machine in the United States.[72]

In *NTP v. Research in Motion, Ltd.*, the Federal Circuit considered the scope of infringement under § 271(a) for infringing activity that crossed borders.[73] Research In Motion's (RIM's) Blackberry pager system allowed people to send and receive e-mails on hand-held devices using a wireless network.[74] Messages sent by a user from the handheld device were relayed through RIM's servers in Canada to their final destination.[75] NTP asserted several patents against RIM, including both method and system claims.[76]

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[65] *Id.* at 195.

[66] *See* Bernard Chao, *Reconciling Domestic and Foreign Infringement*, 80 UMKC L. REV. 607, 610-11 (2012) (discussing the territorial limitations under § 271(a)). Because § 271(a) is explicitly territorial, this article does not consider whether foreign damages should be available for § 271(a) patent infringement.

[67] 35 U.S.C. § 271(a) (emphasis added). *See also*, Cameron Hutchison & Moin A. Yahya, *Infringement & the International Reach of U.S. Patent Law*, 17 FED. CIR. B.J. 241, 244-45 (2008) (discussing the territorial limitations of § 271(a) of the Patent Act).

[68] DeepSouth Packing Co. v. Laitram Corp., 406 U.S. 518, 519 (1972).

[69] *Id.*

[70] *Id.* at 531 (quoting Brown v. Duchesne, 60 U.S. 183, 195 (1856)).

[71] *Id.*

[72] *Id.* at 527–28.

[73] NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1282, 1291 (Fed. Cir. 2005)

[74] *Id.*

[75] *Id.*

[76] *Id.* at 1311.

The methods asserted to be infringing were carried out partly in the United States and partly in Canada; the claimed systems were only partly located in the United States.[77]

The Federal Circuit noted that unlike *DeepSouth*, where the patented invention was neither assembled nor used in the country, the Blackberry system was partially domestic and involved acts of crossing borders. The court found infringement for the system claims, holding that under § 271(a), "use" of the system occurs in "the place at which the system as a whole is put into action of service, *i.e.*, the place where control of the system is exercised and beneficial use of the system is obtained."[78] The court maintained that when RIM's U.S. customers sent and received messages, use occurred in the United States.[79] Thus, the Federal Circuit distinguished infringing activity that was completely outside the United States from activity that originated from inside the country.[80]

The Federal Circuit, however, found that NTP's method claims were not infringed. It held that "a process cannot be used 'within' the United States" under § 271(a) "unless each of the steps is performed within this country."[81] Because some of the steps of the patented method were performed in Canada, infringement of the method claims did not occur.[82]

2. § 271(f)

The *DeepSouth* decision caused a great uproar, leading Congress to add § 271(f) to the Patent Act in 1984.[83] The Senate Report from the Committee on the Judiciary focused on extending what constitutes patent infringement, "so that when components are supplied for assembly abroad to circumvent a patent, the situation will be treated the same as when the invention is

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[77] *Id.* at 1315

[78] *NTP, Inc.*, 418 F.3d at 1317. The court analogized the Blackberry system to *Decca*, Decca Ltd. v. United States, 544 F.2d 1070, 1075 (Ct. Cl. 1976), which involved patent infringement for a radio navigation system that included a transmitter in Norway. In *Decca*, the U.S. Court of Claims found infringement, holding that "use" of a patented invention occurs "wherever the signals are received and used in the manner claimed." *Id.* at 1083. The court noted that its conclusion was based on several factors, "with particular emphasis on the ownership of the equipment by the United States, the control of the equipment from the United States and on the actual beneficial use of the system within the United States." *Id*.

[79] *NTP, Inc.*, 418 F.3d at 1317.

[80] *Id.*

[81] *Id*.

[82] *Id.*

[83] *See* S. REP. NO. 98-663, at 2–3 (1984). Note that the United States is not alone in protecting extraterritorial acts. German patent law, for example, reaches extraterritorial conduct as well. *See* MARKETA TRIMBLE, GLOBAL PATENTS, 22–23 (2012) (discussing offers for sale and the infringement of method claims under German law).

'made' or 'sold' in the United States."[84] The Report emphasized that the bill was "needed to help maintain a climate in the United States conducive to invention, innovation, and investment" and observed that the "subterfuge" allowed under *DeepSouth* "weakens confidence in patents among businesses and investors."[85]

Section 271(f) represents a conscious choice by Congress to overcome the presumption against extraterritoriality. Merely manufacturing components of a patented device and shipping them abroad is not enough to trigger infringement. Rather, the infringer must also intend that the components be combined extraterritorially, either by actively inducing the combination of the components outside the country under § 271(f)(1) or by intending that the components will be combined outside the country under § 271(f)(2).[86]

In *Microsoft Corp. v. AT&T Corp*, the Supreme Court considered § 271(f)'s applicability to software.[87] AT&T maintained that Microsoft infringed its software method patents when Microsoft exported master disks of Windows that were installed on foreign computers, which in turn were later sold abroad. The disks alone were not infringing, but infringement occurred when someone downloaded the software onto a computer and used the software. The Court held that "abstract software code is an idea without physical embodiment," and consequently, "does not match § 271(f)'s categorization: 'components' amenable to 'combination.'"[88]

The Supreme Court maintained that "any doubt" with regard to whether § 271(f) applies can be resolved by the presumption, which "applies with particular force in patent law."[89] The Court observed that embedded within the Patent Act is the "traditional understanding" that U.S. patent law "does not extend to foreign activities."[90] More generally, it stated that courts

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[84] S. REP. NO. 98-663 at 3.

[85] *Id.*

[86] *See* Waymark Corp. v. Porta Sys. Corp., 245 F.3d 1364, 1368 (Fed. Cir. 2001) (observing § 271(f)(2) "does not require an actual combination of the components, but only a showing that the infringer shipped them with the intent that they be combined"); Timothy R. Holbrook, *Extraterritoriality in U.S. Patent* Law, 49 WM. & MARY L. REV. 2119, 2146 (2008) (observing that "[a]n intent to make the combination is sufficient to trigger § 271(f)(1) liability").

[87] *Microsoft Corp.*, 550 U.S. 437, 441 (2007).

[88] *Id.* at 449. *See also,* Pellegrini v. Analog Devices, Inc., 375 F.3d 1113, 1118 (Fed. Cir. 2004) (holding that "supplying" or "causing to be supplied" under § 271(f) "clearly refers to physical supply of components, not simply to the supply of instructions or corporate oversight").

[89] *Microsoft Corp*., 550 U.S. at 454–55.

[90] *Id.* at 455 (citing 35 U.S.C. § 154(a)(1) (patentee's rights over invention apply to manufacture, use, or sale "throughout the United States" and to importation "into the United States")).

should "assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws."[91]

D. Geographic Limitations on Patent Damages

When Congress passed the 1952 Patent Act, it "sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement."[92] As the Supreme Court noted in *General Motors Corp. v. Devex Corp*, "Congress expressly provided in § 284 that the court 'shall award the claimant damages *adequate to compensate* for the infringement.'"[93] Damages must be "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."[94]

In *Rite-Hite Corp. v. Kelley Co., Inc.*, the en banc Federal Circuit broadly construed § 284 and noted that the provision "is expansive rather than limiting," and that damages "must be adequate."[95] The Federal Circuit acknowledged that "adequate damages" must "*fully compensate* the patentee for infringement."[96] The court recognized that the primary question asked is how much the patent holder would have made had the infringer not infringed.[97] It further acknowledged the Supreme Court's caution "against imposing limitations on patent infringement damages," recognizing that Congress will explicitly state when it wants to limit patent damages.[98]

Although the patentee is entitled to receive a reasonable royalty at minimum, it can generally recover more if it is able to establish lost profits.[99] To receive lost profits, the patentee "must show a reasonable probability that, 'but for' the infringement, it would have made the sales that were made by the infringer."[100] Lost profits can encompass several

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[91] *Id.* (quoting F. Hoffmann–La Roche Ltd. v. Empagran S.A., 542 U.S. 155, 164 (2004)).

[92] General Motors Corp. v. Devex Corp., 461 U.S. 648, 654-55 (1983) (citing H.R. REP. NO. 1587, pt. 1 (1946)). *See also* Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1544–45 (Fed. Cir. 1995) (en banc) (discussing *General Motors*).

[93] *General Motors Corp.*, 461 U.S. at 655 (emphasis added by Court).

[94] 35 U.S.C. § 284.

[95] *Rite-Hite*, 56 F.3d at 1544.

[96] *Id. at 1545* (emphasis in original) (citing *General Motors Corp.*, 461 U.S. at 653).

[97] *Id.*, at 1545 (quoting Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) (plurality opinion)).

[98] *Id.*

[99] *See* Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655, 661 (2009) (observing that "patent damages tend to be greater in lost profits cases than in reasonable royalty cases"). Note that the patent holder can, in theory, receive more than a reasonable royalty without establishing lost profits. *See* Mars, Inc. v. Coin Acceptors, Inc., 527 F.3d 1359, 1366 (Fed. Cir. 2008) (noting that the assessment of damages beyond a reasonable royalty is not limited to lost profits).

[100] *Rite-Hite*, 56 F.3d at 1545.

things. For sales that the patentee did make, it can seek price erosion damages if it was forced to lower prices to compete with the infringer.[101] Under the entire market value rule, if the patent at issue involves only one part of a multi-featured device, the patent holder can, in certain circumstances, recover lost profits for the entire device.[102] The patentee may also seek to recover future lost profits[103] and in some cases, harm to the reputation of the product or the patent holder.[104]

The extent to which recoverable lost profits can be calculated based on foreign activity is unclear. Supreme Court decisions prior to the 1952 Patent Act sometimes allowed foreign activity to be included in damages calculations. However, recent Federal Circuit decisions have been far more restrictive, using the presumption against extraterritoriality to limit foreign damages that flow from domestic infringement.

1. Supreme Court decisions

In the 1881 case *Goulds' Manufacturing Co. v. Cowing*, the Supreme Court had to calculate damages for infringement of a patented gas pump that was manufactured in the United States by the infringer and sold by him in both the United States and Canada.[105] The Court chose to include Canadian sales in calculating damages. However, though the Court did not provide further explanation for the inclusion.[106]

In *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, the Supreme Court held that the plaintiff could not recover damages solely for drills sold in Canada by the defendant.[107] The Court observed that U.S.

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[101] *See* Crystal Semiconductor Corp. v. TriTech Microelectronics Intern., Inc., 246 F.3d 1336, 1357 (Fed. Cir. 2001) ("'Reduction of prices, and consequent loss of profits, enforced by infringing competition, is a proper ground for awarding of damages.'") (quoting Yale Lock Mfg. Co. v. Sargent, 117 U.S. 536, 551 (1886)).

[102] *Rite-Hite*, 56 F.3d at 1549. The rule "has typically been applied to include in the compensation base unpatented components of a device when the unpatented and patented components are physically part of the same machine," and also extends "to allow inclusion of physically separate unpatented components normally sold with the patented components." *Id.* at 1549-50.

[103] Brooktree Corp. v. Advanced Micro Devices, Inc., 977 F.2d 1555, 1581 (Fed. Cir. 1992) (stating that "projected future losses may be recovered when sufficiently supported").

[104] *See* Reebok Int'l Ltd., v. J. Baker, Inc., 32 F.3d 1552, 1558 (Fed. Cir. 1994) (acknowledging that harm to reputation can be awarded, but observing that it "is a type of harm that is often not fully compensable by money because the damages caused are speculative and difficult to measure").

[105] Goulds' Mfg. Co. v. Cowing, 105 U.S. 253, 256 (1881).

[106] *Id.* at 257–58. The only comment the Court made regarding its decision was that the sole markets for the pumps were in the oil-producing regions of Pennsylvania and Canada. *Id.* at 256.

[107] Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 650 (1915). The damages award in this case appears to be based on recovery of the defendant's profits, as

patent infringement "cannot be predicated of acts wholly done in a foreign country."[108] The Court distinguished its case from *Goulds*, because the drills were manufactured in the United States by a third party, and not by the defendant as they were in *Goulds*.[109] The Court also emphasized that the place of sale is "of controlling importance."[110]

What both of these cases stand for is disputed. In *WesternGeco*, the majority maintained that they "suggest that profits for foreign sales of the patented items themselves are recoverable when the items in question were manufactured in the United States and sold to foreign buyers by the U.S. manufacturer." The dissent-in-part argued that these cases show foreign sales can be used to calculate damages, so long as the defendants domestically manufactured the infringing goods that were later sold abroad. Which position is correct is unclear. Moreover, while these cases may provide some insight for calculating damages in § 271(a) cases, they are not as helpful for § 271(f)— where liability exists even though a patented good was never made, used, or sold within the United States.

2. Federal Circuit decisions

The Federal Circuit has considered extraterritorial damages under both §§ 271(a) and (f). Under both provisions, the court has declined to permit damages that arise outside the United States, even if those damages flow from U.S. infringement.

a. § 271(a)

In 2013, the Federal Circuit held that damages under § 271(a) do not extend to lost foreign sales. In *Power Integrations v. Fairchild Semiconducter Int'l, Inc.*, the patentee lost contracts to supply customers abroad because of the defendant's domestic patent infringement.[111] The patentee argued that it should be able to recover lost profits for the foreign sales which it would have made but for the defendant's domestic infringement.[112]

The Federal Circuit disagreed, holding that "the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement."[113] The court noted that the law does not "provide compensation for a defendant's

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opposed to a lost profits or reasonable royalty theory.

[108] *Id.*

[109] *Id.*

[110] *Id. See also* Bradley, *Territorial IP Rights*, *supra* note 55 at 521.

[111] Power Integrations, Inc. v. Fairchild Semiconductor Intern., Inc., 711 F.3d 1348, 1370 (Fed. Cir. 2013).

[112] *Id.*

[113] *Id.* at 1371–72.

foreign exploitation of a patented invention, which is not infringement at all."[114] The Federal Circuit rooted its analysis in the presumption. It quoted the Supreme Court's statement in *Morrison* that the presumption "would be a craven watchdog indeed if it retreated to its kennel whenever some domestic activity is involved in the case."[115] However, the Federal Circuit failed to explain why a decision regarding limiting the reach of substantive U.S. law would apply in calculating damages.[116]

Two years later, in *Carnegie Mellon University v. Marvell Technology Group, Ltd.*, Carnegie Mellon University (CMU) sued Marvell for infringement when it sold semiconductor microchips that utilized CMU's patented methods for improving the accurate detection of data recorded on hard disks.[117] Because CMU did not make the chips or otherwise compete with Marvell, CMU sought a fifty-cents-per-chip reasonable royalty.[118]

The Federal Circuit again barred extraterritorial damages, citing to *Power Integrations*. It maintained that § 271(a)'s language shows clear intent from Congress to limit the provision to domestic activity.[119] It held:

> Where a physical product is being employed to measure damages for the infringing use of patented methods. . . territoriality is satisfied when and only when any one of those domestic actions for that unit (*e.g.*, sale) is proved to be present, even if others of the listed activities for that unit (*e.g.*, making, using) take place abroad.[120]

The court concluded that only Marvell's domestic sales could be used to measure the reasonable royalty.

b. § 271(f)

In *WesternGeco L.L.C. v. Ion Geophysical Corp.*, the Federal Circuit extended the presumption to damages under § 271(f). WesternGeco owned four patents related to streamers, which are devices that contain sensors

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[114] *Id.* at 1371.

[115] *Id.* (quoting Morrison v. Nat'l Australia Bank, 561 U.S. 247, 266 (2010)).

[116] The Federal Circuit's misapplication of *Morrison* is further highlighted by the Supreme Court's decision in *RJR Nabisco*, where the Court interpreted *Morrison* to be limited to situations where conduct relating to a statute's focus occurs in a foreign country. RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2101 (2016). An argument can be made that the relevant activity in *Fairchild* was the initial act of infringement that occurred in the United States.

[117] *Carnegie Mellon University*, 807 F.3d 1283, 1291 (Fed. Cir. 2015).

[118] *Carnegie Mellon Univ.*, 807 F.3d at 1288; Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 986 F. Supp. 2d 574, 638 (W.D. Penn. 2013) (rev'd in part, 807 F.3d 1283 (Fed. Cir. 2015). *See also*, Bernard Chao, *Patent Imperialism*, 109 NW. U. L. REV. ONLINE 77, 81 (2014) (discussing the *Carnegie Mellon* case).

[119] *Carnegie Mellon Univ.*, 807 F.3d at 1306.

[120] *Id.*

used to map the ocean floor to aid in oil and gas exploration.[121] WesternGeco sued ION, claiming that ION infringed its patents under § 271(f)(1) and (f)(2). The district court granted summary judgment for infringement of one claim under § 271(f)(1), and a jury found ION infringed all the asserted claims under § 271(f)(2).

On appeal, ION challenged the district court's award of lost profits from lost contracts for oil exploration services that would be performed outside the United States. WesternGeco identified ten surveys that it believed it would have received the contract for, but for ION supplying infringing streamer parts to WesternGeco's competitors.[122] WesternGeco maintained that it would have earned over $90 million in profit from these services contracts, which were performed on the high seas, outside the jurisdictional reach of any country's patent laws. This was a far more substantial loss for WesternGeco than the lost sales on the streamers alone.

The Federal Circuit reversed the district court's award of lost profits, using the presumption. Citing *Fairchild*, the court emphasized that under § 271(a), "export of a finished product cannot create liability for extraterritorial use of that product." The Federal Circuit held that § 271(f) "does not eliminate the presumption against extraterritoriality," but instead, "creates a limited exception."[123] The court stated that although § 271(f) attaches liability to U.S. entities that export components from the United States, the liability attaches in the United States. Consequently, the act of exporting creates the liability.[124] Turning to remedies, the court claimed that any attempt to use § 271(f) to recover lost foreign profits would make it broader than § 271(a).

A dissent-in-part, authored by Judge Wallach, maintained that § 271(f) requires consideration of lost foreign sales as part of the damages calculation.[125] Judge Wallach noted that unlike in *Fairchild*, the foreign damages in this case clearly flowed from ION's infringement. He further observed that *Fairchild* emphasized the ability of the defendant to obtain foreign patents, whereas here, no country has jurisdiction over the high seas. He argued that this raises the concern that U.S. patent holders may not fully recover for infringement involving activities in international waters.[126] Overall, Judge Wallach characterized the majority's decision as a "near-

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[121] *Id.* at 1343.

[122] *Id.* at 1349.

[123] *Carnegie Mellon Univ.*, 807 F.3d. at 1351.

[124] *Id.*

[125] *Id.* at 1354 (Wallach, J., dissenting).

[126] *Id.* at 1361 ("Under the majority's view of damages, plaintiffs such as WesternGeco who are the victims of proven infringement and who have sustained damages caused by the defendant's activity in the United States may not be able to fully recover even if they obtain patent rights abroad.").

absolute bar to the consideration of a patentee's foreign lost profits," contrary to the precedent of the Supreme Court and Federal Circuit.[127] Later, in a dissent from the Federal Circuit's denial of rehearing en banc, Judge Wallach further maintained that the court's decision is in conflict with copyright law's predicate act doctrine.[128]

WesternGeco filed a petition for certiorari, asking the Supreme Court (1) "whether the court of appeals erred in holding that damages based on a patentee's so-called "foreign lost profits" are categorically unavailable in cases of patent infringement under 35 U.S.C. § 271(f)" and (2) whether the Supreme Court should hold the petition for its forthcoming decision on enhanced damages in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* In June 2016, the Supreme Court issued a grant-vacate-remand for *WesternGeco* in light of the Court's enhanced damages decision in *Halo Electronics*.[129] This case has been remanded back to the Federal Circuit.

III. EXTRATERRITORIALITY FOR OTHER INTELLECTUAL PROPERTY

Extraterritoriality concerns are not unique to patent law, but also arise in trademark and copyright cases. In trademark law, the Supreme Court has authorized the extraterritorial application of the Lanham Act. In copyright law, several appellate courts have recognized or adopted the predicate act doctrine which allows the recovery of foreign damages that flow from domestic infringement.

A. Extraterritoriality in Trademarks

The Supreme Court has carved out a notable exception to the presumption in trademark law.[130] In *Steele v. Bulova Watch Co.*, the Court considered whether infringing acts of a U.S. citizen petitioner in Mexico were actionable under the Lanham Act.[131] Although it acknowledged the presumption, it stated that the relevant question was "whether Congress intended to make the law applicable to the facts of this case."[132] The Court maintained that "the United States is not debarred by any rule of international law from governing the conduct of [its] own citizens upon the high seas or even in foreign countries when the rights of other nations or their nationals are not infringed."[133] The Court stated that such cases

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[127] *Id.* at 1363–64.

[128] WesternGeco L.L.C. v. Ion Geophysical Corp., 621 F. App'x 663, 664 (2015) (Wallach dissent). *See also* Part III.A *supra* (discussing the predicate act doctrine).

[129] WesternGeco L.L.C. v. Ion Geophysical Corp., 136 S. Ct. 2486 (2016).

[130] *See* Bradley, *Territorial IP Rights*, *supra* note 55 at 527 ("In contrast to patent and copyright law, courts apply trademark law to conduct abroad even in some cases where no act of infringement has taken place within the United States.").

[131] *Steele*, 344 U.S. 280, 73 S. Ct. 252 (1952).

[132] *Id.* at 285 (internal quotations deleted).

[133] *Id.*

involved "no question of international law," but were instead, "solely of the purport of the municipal law which establishes the duty of the citizen in relation to his own government." The Court concluded that the Lanham Act was applicable, notwithstanding the fact that all of the infringing conduct took place in Mexico.

The Court's decision hinges on the fact that the Lanham Act is grounded in Congress's Commerce Clause powers. Section 1125 of the Lanham Act prohibits "uses in commerce" of words, terms, or the like that can cause confusion.[134] Under § 1127, "commerce" refers to "all commerce which may lawfully be regulated by Congress."[135] As the *Steele* Court observed, Congress can lawfully regulate conduct of its own citizens outside the United States.[136] Consequently, the Court's extraterritorial application of the Lanham Act has some statutory support.[137]

In the aftermath of *Steele*, courts of appeal have adopted various tests. Most circuits use a balancing test that examines the defendant's conduct on U.S. commerce, the citizenship of the defendant, and the likelihood of a conflict between U.S. law and foreign law.[138] In the Ninth Circuit, the court adopted a complex test from antitrust law:

> [F]irst, there must be some effect on American foreign commerce; second, the effect must be sufficiently great to present a cognizable injury to plaintiffs under the federal statute; and third, the interests of and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.[139]

For determining the third factor, the Ninth Circuit balances seven more factors, including the "degree of conflict with foreign law or policy" and "the extent to which enforcement by either state can be expected to achieve compliance."[140] Thus, courts continue to apply the Lanham Act abroad through the application of different balancing tests.

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[134] 15 U.S.C. § 1125(1). *See also*, Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT'L L. 603, 605 (1997) (discussing the broad scope of trademark law).

[135] 15 U.S.C. § 1127.

[136] *Steele*, 344 U.S. at 285–86.

[137] The counterargument is that Congress is presumed to think domestically when it passes statutes, *see Smith v. United States*, 507 U.S. 197, 204 n.5 (1993), and the Lanham Act does not explicitly say that it reaches the foreign conduct of U.S. citizens.

[138] *Bradley*, *supra* note 55 at 528.

[139] Reebok Int'l, Ltd. v. Marnatech Enters., Inc., 970 F.2d 552, 554 (9th Cir. 1992) (quoting Star-Kist Foods, Inc. v. P.J. Rhodes & Co., 769 F.2d 1393, 1395 (9th Cir. 1985)). This test was adopted from Timberlane Lumber Co. v. Bank of America Nat'l Trust & Sav. Ass'n, 549 F.2d 597 (9th Cir. 1976). *Id.*

[140] *Reebok*, 970 F.2d. at 555.

B. Predicate Act Doctrine and Copyright

Although the Copyright Act is not regarded as having extraterritorial reach,[141] a broad exception has been adopted by three courts of appeal. Under the "predicate act doctrine," an act of U.S. infringement that permits further infringement abroad can give rise to a claim for damages flowing from the foreign conduct.[142] This tort doctrine was first extended to copyright law by the Second Circuit in 1939 in *Sheldon v. Metro-Goldwyn Pictures Corp*.[143] In that decision, authored by Judge Learned Hand, the court held that it was appropriate to consider profits made from exhibiting an infringing film outside the country because the film negatives were illegally reproduced in the United States.[144] The Second Circuit noted that it was a tort to make the negatives in the United States, and that the plaintiffs acquired an equitable interest in the profits.[145]

The leading modern case for the doctrine is *Update Art, Inc. v. Modiin Publishing, Ltd.*, in which the plaintiff's copyrighted artwork was reproduced without permission in an Israeli newspaper.[146] The Second Circuit found that the defendant discovered the art in the United States and reproduced it domestically, prior to it being reproduced in Israel.[147] The court held that U.S. copyright law was applicable and affirmed an award of damages accruing from the foreign infringement.[148]

Other circuits have also adopted the predicate act doctrine, based on *Update Art*. In 1994, the en banc Ninth Circuit declined to comment on the validity of the doctrine, but observed that the doctrine is "premised on the theory that the copyright holder may recover damages that stem from a direct infringement of its exclusive rights that occurs *within* the United States."[149] Subsequently, a Ninth Circuit panel adopted the doctrine, holding that the copyright holder was "entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by

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[141] *See, e.g.*, Subafilms, Ltd. v. MGM–Pathe Communications Co., 24 F.3d 1088, 1094 (9th Cir. 1994) (en banc) (holding that "wholly extraterritorial acts of infringement are not cognizable under the Copyright Act"); Update Art, Inc. v. Modiin Publ'g, Ltd., 843 F.2d 67, 73 (2d Cir. 1988) (holding "[i]t is well established that copyright laws generally do not have extraterritorial application.").

[142] Tire Eng'g and Distrib., LLC v. Shandong Linglong Rubber Co., Ltd, 682 F.3d 292, 306 (4th Cir. 2012) (per curiam).

[143] *See Sheldon*, 106 F.2d 45 (2d Cir. 1939).

[144] *Id.* at 52.

[145] *Id.* at 52.

[146] *Update Art, Inc.*, 843 F.2d 67, 73 (2d Cir.1988).

[147] *Id.* Note that the court construed the facts in this fashion because the defendants failed to comply with discovery requests.

[148] *Id.* at 72–73.

[149] Subafilms, Ltd. v. MGM-Pathe Communications Co., 24 F.3d 1088, 1094 (9th Cir. 1994) (emphasis in original).

defendants."[150] In adopting the doctrine, the panel emphasized that the rule would not allow U.S. law to be applied to "acts of infringement that take place entirely abroad," but rather, only applies to when a party infringes a copyright in the United States.[151] It further noted that damages must flow from the "extraterritorial exploitation of an infringing act that occurred in the United States."[152] The Fourth Circuit also adopted the doctrine,[153] and the Federal Circuit has acknowledged it in dicta.[154] To date, no court of appeals appears to have rejected it.

The predicate act doctrine is notable because of the parallels that can be drawn to patent law. Unlike the Lanham Act, both the Patent Act and Copyright Act are grounded in the Intellectual Property Clause of the Constitution.[155] *WesternGeco* involved U.S. patent infringement that gave rise to damages abroad, much like the copyright cases applying the predicate act doctrine. One could argue that WesternGeco had an equitable interest in the streamer parts, and should be able to collect any damages that flow from the use of the completed device.[156]

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[150] L.A. News Serv. v. Reuters Int'l, Ltd, 149 F.3d 987, 992 (9th Cir. 1998)

[151] *Id.*

[152] *Id.* Note that the doctrine, as originally articulated by the Second Circuit, only allowed for foreign profits to go into a constructive trust. *See* Sheldon v. Metro-Goldwyn Pictures Corp., 106 F.2d 45, 52 (2d Cir. 1939) (holding that "as soon as any of the profits so realized took the form of property whose situs was in the United States, our law seized upon them and impressed them with a constructive trust, whatever their form"). More recent decisions, however, emphasize that the doctrine captures all foreign damages directly flowing from the domestic infringement. *See, e.g.*, *L.A. News Serv.*, 149 F.3d at 992 (holding that the copyright holder is "entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by defendants"); Update Art, Inc. v. Modiin Publ'g, Ltd., 843 F.2d 67, 73 (2d Cir. 1988) (awarding "damages accruing from the illegal infringement).

[153] Tire Eng'g and Distribution, LLC v. Shandong Linglong Rubber Co., Ltd., 682 F.3d 292, 307 (2012) (holding that "[o]nce a plaintiff demonstrates a domestic violation of the Copyright Act, then, it may collect damages from foreign violations that are directly linked to the U.S. infringement").

[154] Litecubes, LLC v. N. Light Prods., Inc., 523 F.3d 1353, 1371 (Fed.Cir.2008) (observing that "courts have generally held that the Copyright Act only does not reach activities 'that take place entirely abroad' " (quoting *Subafilms*, 24 F.3d at 1098)). *See also* Liberty Toy Co. v. Fred Silber Co., No. 97-3177, 1998 WL 385469, at *3 (6th Cir. June 29, 1998) (noting that "if all the copying or infringement occurred outside the United States, the Copyright Act would not apply" but "as long as some act of infringement occurred in the United States, the Copyright Act applies").

[155] U.S. CONST., art. I, § 8, cl. 8. *See also*, Golan v. Holder, 132 S. Ct. 873, 888 (2012) (observing that "Congress' copyright authority is tied to the progress of science; its patent authority, to the progress of the useful arts").

[156] *See* WesternGeco L.L.C. v. Ion Geophysical Corp., 621 F. App'x 663, 664 (2016) (Wallach, J., dissenting) (analogizing to the predicate act doctrine and maintaining that "WesternGeco's damages flowed from the exploitation abroad of domestic acts of patent

However, as Part IV discusses, there are sufficient differences between patent and copyright law to justify a different test for extraterritorial patent damages. Patent law is the most territorial form of intellectual property, raising the risk of conflicts with foreign law.

IV. RETHINKING EXTRATERRITORIAL DAMAGES

The presumption against extraterritoriality plays an important role in minimizing conflicts between U.S. and foreign law. Extending the presumption to cover patent damages is tempting, because it provides a clear rule that avoids conflicts with foreign law. However, existing Supreme Court precedent applies the presumption far more narrowly. In maritime cases, moreover, the Federal Circuit's bright-line rule may prevent patent holders from recovering any damages for high seas infringement. At the same time, patent law is highly territorial, raising concerns that permitting extraterritorial damages in all cases could lead to disputes with foreign nations. For these reasons, a balancing test for extraterritorial damages is warranted.

Section A observes that the presumption is limited to statutes that regulate conduct or jurisdiction. It maintains that the Federal Circuit has misinterpreted and misapplied Supreme Court precedent to create a new bright-line rule artificially limiting recovery for extraterritorial damages. Section B discusses the lack of applicable law for infringement on the high seas. It argues that it is unclear whether law of the flag applies to patent cases, making it important that U.S. law be able to reach high seas infringement. Section C looks at the policy concerns regarding the extraterritorial application of patent damages, and proposes that courts utilize a balancing test to limit problems of prescriptive comity and promote innovation.

A. Limits of the Presumption

The presumption, as applied by the Supreme Court, is quite restrictive. It prevents courts from applying U.S. law to conduct that occurs entirely outside the country, or to situations where the unlawful U.S. conduct is minimal.

1. The Supreme Court's Extraterritoriality Jurisprudence is Narrow

The cases where the Supreme Court has applied the presumption generally involve violations of substantive U.S. law that took place outside the United States.[157] For example, in *American Banana*, the Supreme Court first articulated the presumption to justify not applying the Sherman Act to

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infringement under § 271(f)").

[157] *See* RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2100 (2016) (noting that that the presumption typically applies to statutes that regulate conduct).

acts of a domestic company performed in Central America.[158] In *Aramco*, the Court refused to apply Title VII to a U.S. citizen who was discriminated against in while working in Saudi Arabia for a Saudi Arabian company.[159] In *Smith*, the Court refused to apply the FTCA to a U.S. contractor killed in Antarctica, notwithstanding the fact that no law applies there.[160]

The Supreme Court has emphasized the fact that the presumption generally applies to statutes that regulate conduct. In extending the presumption to include jurisdictional provisions, the *Kiobel* Court recognized that the presumption "typically applied. . .to discern whether *an Act of Congress regulating conduct* applies abroad."[161] Likewise, in discussing the role that comity plays in the presumption, Justice Scalia observed that absent clear congressional intent, choice-of-law principles "are assumed to be incorporated *into our substantive laws* having extraterritorial reach."[162]

Based on this case law, extending extraterritoriality to patent damages does not make sense. Section 284 of the Patent Act does not regulate conduct, but rather, "provides adequate compensation for the infringement of rights."[163] In doing so, it "imposes no limitation on the types of harm resulting from infringement that the statute will redress."[164] Indeed, when Congress intends to limit the recovery of patent damages, it does so explicitly.[165] Consequently, it does not make sense to apply the presumption to patent damages. To hold otherwise would result in the presumption being applied twice—first to ensure that substantive law is not applied to foreign conduct, and then again to ensure that the remedy for the violation of substantive law does not include foreign activity.

2. The Federal Circuit Has Misapplied the Presumption

The Federal Circuit has failed to properly grasp the narrowness of the presumption with regard to § 271(f). First, the court misinterpreted the Supreme Court's decision in *Microsoft*. In that case, the Court held § 271(f) was not violated because abstract software did not count as a component, due to being "uncombinable."[166] The *Microsoft* court emphasized the

[158] American Banana Co. v. United Fruit Co., 213 U.S. 347, 357 (1909).

[159] Equal Employment Opportunity Comm'n v. Arabian American Oil Co., 499 U.S. 244, 247, 259 (1991).

[160] Smith v. United States, 507 U.S. 197, 204 (1993).

[161] Kiobel v. Royal Dutch Petroleum, 133 S. Ct. 1659, 1664 (2013) (emphasis added).

[162] Hartford Fire Ins. Co. v. California, 509 U.S. 764, 817 (1993) (Scalia, J. dissenting) (emphasis added).

[163] King Instruments Corp. v. Perego, 65 F.3d 941, 947 (Fed. Cir. 1995).

[164] *Id.* (observing that "[t]he section's broad language awards damages for any injury as long as it resulted from the infringement").

[165] General Motors Corp. v. Devex Corp., 461 U.S. 648, 653 (1983).

[166] Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 449 (2007) ("Abstract software

territorial nature of patent law, noting that it "operates only domestically and does not extend to foreign activities."[167] But because abstract software was found to not be a component, no U.S. law was violated.

The *WesternGeco* court tried to analogize to *Microsoft*. It argued that § 271(f) "expanded the territorial scope of the patent laws to treat the export of components of patented systems abroad (with the requisite intent) just like the export of the finished systems abroad."[168] The Federal Circuit claimed that in doing so, there was no indication that "Congress intended to extend the United States patent law to cover uses abroad of the articles created from the exported components."[169] However, WesternGeco was not trying to argue that an independent cause of action exists against third parties that use articles abroad created from exported components; it was merely seeking damages for an established violation of U.S. law. Consequently, whether Congress intended to extent patent law to cover such uses is irrelevant.

In focusing on the presumption, the Federal Circuit ignored another canon of construction: that when Congress intends to limit patent damages, it does so explicitly. The Supreme Court has admonished the Federal Circuit for attempting to restrict damages under both § 284[170] and § 285,[171] and the en banc Federal Circuit has acknowledged that "the Court has cautioned against imposing limitations on patent infringement damages."[172] The Federal Circuit's attempt to extend the presumption to encompass damages conflicts with the Supreme Court's clear canon.

B. The RJR Nabisco *Test is Met for § 271(f)*

Even if the presumption applies § 271(f) damages cases, a strong argument can be made that the *RJR Nabisco* test has been met. Under step

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code is an idea without physical embodiment, and as such, it does not match § 271(f)'s categorization: 'components' amenable to 'combination.'").

[167] *Id.* at 454–55.

[168] WesternGeco L.L.C. v. Ion Geophysical Corp., 791 F.3d 1340, 1350 (Fed. Cir. 2015).

[169] *Id.*

[170] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1935 (2016) (holding that the Federal Circuit's test restricting the award of enhanced damages "unduly confines the ability of district courts to exercise the discretion conferred on them"); *General Motors Corp.*, 461 U.S. at 652–53 (holding that pre-1952 limitations on the award of interest in patent cases did not survive the 1952 Patent Act and maintaining that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly").

[171] *See* Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 1756 (holding that the Federal Circuit's test for when cases are "exceptional" under § 285 is "unduly rigid" and "impermissibly encumbers the statutory grant of discretion to district courts").

[172] Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc).

one, the court asks whether the presumption has been rebutted by the statute providing "a clear, affirmative indication that it applies extraterritorially."[173] Section 271(f) explicitly applies to extraterritorial conduct—by creating liability for those who export components with the intent that they be used abroad to create patent devices. Although Congress passed § 271(f) to overrule *Deepsouth*,[174] the statutory text and legislative history are both silent with regard to limiting damages. As discussed earlier, the Senate Report noted that the bill was "needed to help maintain a climate in the United States conducive to invention, innovation, and investment.".[175]

Furthermore, as the *RJR Nabisco* Court observed, although Congress must clearly indicate extraterritorial effect, "an express statement of extraterritoriality is not essential" because statutory context is also relevant.[176] In *RJR Nabisco*, the Court observed that § 1962(c) of RICO did not explicitly apply to racketeering activity in foreign countries, but that it had defined "racketeering activity" to "encompass violations of predicate statutes that *do* expressly apply extraterritorially."[177] The Court maintained that RICO's "unique structure" makes it "the rare statute that clearly evidences extraterritorial effect despite lacking an express statement of extraterritoriality."[178] It therefore held that "[a] violation of § 1962 may be based on a pattern of racketeering that includes predicate offenses committed abroad, provided that each of those offenses violates a predicate statute that is itself extraterritorial."[179]

The case for extraterritorial damages under § 271(f) is clearer than it is for RICO. Congress has expressly stated that § 271(f) extraterritorially, and has noted that the purpose of § 284 is to make patent infringement victims whole.[180] As noted earlier, the Supreme Court has repeatedly held that Congress does not intend to limit patent damages unless it Congress expressly states otherwise.[181] Patent damages should be permissible for predicate offenses abroad, provided that those damages are arising from an extraterritorial provision like § 271(f).

The case for step two being met is even stronger. Step two states that if

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[173] RJR Nabisco, Inc. v. European Cmty., 136 S. Ct. 2090, 2101 (2016).
[174] *General Motors Corp.*, 461 U.S. at 652–53.
[175] *Id.* at 3.
[176] *RJR Nabisco*, 136 S. Ct. at 2102.
[177] *Id.*
[178] *Id.* at 2103.
[179] *Id.*
[180] *See* H.R. REP. NO. 1587, 79th Cong., 2d Sess., 1 (1946) (noting that the legislation was intended to allow recovery of "any damages the complainant can prove"); S. REP. NO. 1503, 79th Cong., 2d Sess., 2 (1946) (adopting the language from the House Committee Report).
[181] *See supra*, Part IV.A.2.

the focus of the statute occurred in the United States, "then the case involves a permissible domestic application even if other conduct occurred abroad."[182] Section 271(f)'s focus is on components exported from the United States with the intention that they be assembled into U.S.-patented devices. Consequently, for cases like *WesternGeco*, there is "a permissible domestic application" notwithstanding the fact that other conduct occurred abroad.[183]

C. High Seas Patent Damages

Intellectual property infringement on vessels is not a new problem. For example, there have been several high-profile cases involving cruise ships performing copyrighted works in international waters.[184] The question remains, however, is whether any country's patent law applies when infringement takes place on the high seas.

Under the law of the flag, a vessel is considered to be part of the sovereign territory of the country whose flag it flies.[185] However, in the United States, a more nuanced balancing test is applied to determine whether U.S. law applies to conduct that occurred on a vessel.[186] Moreover, it is unclear whether the law of the flag applies to intellectual property

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[182] *Id.*

[183] Another way of thinking of this is that extraterritorial damages under § 271(f) involves a multi-territorial, not extraterritorial, application of U.S. law. As Professor Jane Ginsburg has noted in the context of copyright law, multi-territorial claims "involve acts or parties located in more than one country, but do not necessarily require application of a single law—the forum's—to resolve the entire claim." Jane C. Ginsburg, *Extraterritoriality and Multi-territoriality in Copyright Infringement*, 37 VA. J. INT'L L. 587, 588 (1997). By contrast, extraterritorial applications involve "the application of one country's laws to events occurring outside that country's borders." *Id.* In *WesternGeco*, the core activity regulated by the Patent Act occurred in the United States.

[184] For example, in 2006, the rights holder for the musical Grease sued Carnival Cruise Lines, Celebrity Cruises, and several others for two counts of copyright infringement, alleging that the vessels had performed the musical, either in its entirety or modified. Complaint and Jury Demand at 1–2, Jacobs v. Carnival Corp., No. 06 CV 0606 (S.D.N.Y. Mar. 25, 2009), 2006 WL 551156. *See also*, Jeff Pettit, *At Sea, Anything Goes? Don't Let Your Copyright Sail Away, Sail Away, Sail Away*, 93 TEX. L. REV. 743 (2015) (student note). Similarly, Barry Manilow recently sued Princess Cruises in the Central District of California for rebroadcasting one of his concerts, alleging copyright and trademark infringement, unfair competition, dilution and violation of right of publicity. Ashely Cullins, *Princess Cruise Line Faces Lawsuit Over Barry Manilow Concert Broadcast*, HOLLYWOOD REPORTER (March 18, 2016), http://www.hollywoodreporter.com/thr-esq/princess-cruises-faces-lawsuit-barry-876787.

[185] Lauritzen v. Larsen, 345 U.S. 571, 585 (1953). *See also*, William Tetley, *The Law of the Flag, "Flag Shopping," and Choice of Law*, 17 TUL. MAR. L.J. 139 (1993) (providing an overview of the law of the flag).

[186] *See* Part IV.B.1.

infringement.[187] Consequently, in patent infringement cases involving vessels, there is a risk that in limiting extraterritorial damages, the patent holder will not be able to recover from any jurisdiction.

1. Overview of Law of the Flag

United Nations Convention on the Law of Seas (UNCLOS) provides guidance on the application of national law at sea.[188] However, although the United States is a signatory to UNCLOS, Congress never ratified it, so it is merely advisory.[189] UNCLOS provides that countries can enforce all of their laws in their territorial waters, which extend out a maximum of 12 nautical miles beyond the shore.[190] In addition, laws for taxation, customs, immigration and pollution can be enforced in the "contiguous zone," which extends up to 24 nautical miles from shore.[191] But beyond the area of national enforcement is international waters or the high seas.[192]

For vessels on the high seas, the law of the flag applies. Under UNCLOS, a vessel flying under a state's flag is subject to that state's exclusive jurisdiction on the high seas.[193] This would mean that the state whose flag is flown would have exclusive jurisdiction over any intellectual property dispute arising on the vessel.

Under federal common law, however, the law of the flag is far more limited. In *Spector v. Norwegian Cruise Line Ltd.*, the Supreme Court observed "general statutes are presumed to apply to conduct that takes place aboard a foreign-flag vessel in United States territory if the interests of the United States or its citizens, rather than interests internal to the vessel, are at stake."[194] However, U.S. law does not apply to such vessels "insofar as [it] regulate[s] matters that involve only the internal order and discipline of the

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[187] *See* Part IV.B.2.

[188] Third United Nations Convention on the Law of the Sea, Nov. 16 1994, 1833 U.N.T.S. 31363 (hereinafter UNCLOS).

[189] *See* Elizabeth I. Winston, *Patent Boundaries*, 87 TEMP. L. REV. 501, 505 (2015); Jeffrey D. Kramer, *Seafaring Data Havens: Google's Patented Pirate Ship*, 2010 U. Ill. J. L. TECH. & POL'Y 359, 361–62 (student note) (discussing the law of the sea). Note that 148 countries are currently bound by the treaty.

[190] Article 3 UNCLOS

[191] Article 33 UNCLOS

[192] Note that U.S. law does apply to piracies, felonies, and offenses against the Law of Nations. U.S. CONST., art. 1, § 8, cl.10. Patent law, however, does not fit within any of these categories. Winston, *supra* note 189 at 517.

[193] Article 92 UNCLOS.

[194] Spector v. Norwegian Cruise Line Ltd, 545 U.S. 119, 130 (2005). *See also* Uravic v. F. Jarka Co., 282 U.S. 234, 240 (1931) (holding that "general words" should be "generally applied" and that therefore there is "no reason for limiting the liability for torts committed [aboard foreign-flag ships in United States territory] when they go beyond the scope of discipline and private matters that do not interest the territorial power").

vessel[s], rather than the peace of the port."[195] In other words, in the United States, the law of the flag is limited to criminal conduct and civil conduct involving the substantive rights of the crew, passengers, and the vessel owner.[196]

Even if the law of the flag is applicable, it alone is not determinative.[197] To determine whether U.S. or foreign law governs a maritime conflict, the court will apply the *Lauritzen-Rhoditis* balancing test,[198] considering (1) place of the wrongful act, (2) law of the flag, (3) allegiance or domicile of the injured, (4) allegiance of the defendant shipowner, (5) place of contract, (6) inaccessibility of foreign forum, (7) the law of the forum, and (8) the shipowner's base.[199] This test has been criticized for being unpredictable and confusing.[200] At least one scholar has observed that the law of the flag factor has lost importance in the courts due to vessel owners' growing use of flags of convenience.[201]

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[195] *Spector*, 545 U.S. at 130. *See also Uravic*, 282 U.S. at 240 (holding that "general words" should be "generally applied" and that therefore there is "no reason for limiting the liability for torts committed [aboard foreign-flag ships in United States territory] when they go beyond the scope of discipline and private matters that do not interest the territorial power").

[196] *See* McCullough v. Sociedad Nacional de Marineros de Honduras, 372 U.S. 10, 21 (1963) (observing that "the law of the flag state ordinarily governs the internal affairs of a ship"); *Lauritzen*, 345 U.S. at 585 (noting that "the law of the flag supersedes the territorial principle, even for purposes of criminal jurisdiction of personnel of a merchant ship"); Petition of Chadade S. S. Co., 266 F. Supp. 517, 519 (S.D. Fla. 1967) ("the law of the flag of a vessel generally governs not only criminal conduct but also the substantive rights of crew, passengers and the shipowner in civil causes of action arising thereon").

[197] U.S. Lines Co. v. Eastburn Marine Chemical Co., 221 F. Supp. 881, 884 (S.D.N.Y. 1963) (declining to apply law of the flag in an insurance case). *See also*, Marcus R. Bach-Armas & Jordan A. Dresnick, *Laws Adrift: Anchoring Choice of Law Provisions in Admiralty Torts*, 17 U. MIAMI INT'L & COMP. L. REV. 43 (2009) (recognizing "the false notion that a ship is merely a floating portion of the country under which the vessel flies its flag" and maintaining that "the complex web of laws governing the maritime industry is governed largely by international law and self-regulation").

[198] The first seven factors come from the Supreme Court's decision in *Lauritzen v. Larsen*, 345 U.S. at 583–91, the eighth factor comes from *Hellenic Lines Ltd. v. Rhoditis*, 398 U.S. 306, 310 (1970). *See also* Tetley, *supra* note XX at 157 (discussing *Lauritzen*). Although the test was originally limited to cases involving injuries to seamen, it has since been extended "to virtually all maritime conflicts." Symeon C. Symeonides, *Cruising in American Waters:* Spector, *Maritime Conflicts, and Choice of Law*, 37 J. MAR. L. & COM. 491, 513 (2006).

[199] *See* Reino de España v. American Bureau of Shipping, Inc., 691 F.3d 461, 468 (2d Cir. 2012) (applying an eight-factor balancing test); Fogelman v. Aramco, 920 F.2d 278, 282–83 (5th Cir. 1991) (also applying an eight-factor balancing test).

[200] *See* Bach-Armas, *supra* note 198 at 58 (observing that the result of the test "has been a panoply of decisions pointing in different directions and leaving little predictability for today's practitioners, especially when the factors are incongruous").

[201] Symeonides, *supra* note 198 at 514 (collecting cases).

2. Law of the Flag in Patent Law

It is unclear whether the law of the flag governs in cases involving patent law. Substantive U.S. patent law clearly does not apply to ships sailing under foreign flags.[202] In the 1856 case *Brown v. Duchesne*, a U.S. citizen patent holder claimed infringement of a gaff saddle that was on a French ship in a U.S. port.[203] The saddle was made in a foreign port in accordance with French law.[204] The Court held that U.S. patent law does not apply to foreign vessels entering U.S. ports.[205] It emphasized that no infringement occurs for a ship, provided the patented improvement "was placed upon her in a foreign port, and authorized by the laws of the country to which she belongs."[206] It noted that to hold otherwise would interfere with Congress's power to pass legislation regulating commerce and the President's treaty-making power.

As Judge Wallach alludes to in his dissent-in-part in *WesternGeco*, patent infringement on a ship does not fit the narrow category of behaviors covered by law of the flag in the United States.[207] Infringement does not affect the substantive rights of the crew, passengers, or shipowner, given that no basic human right is at issue. Nor do patents relate to internal order or discipline on a vessel the way that tort or criminal law does.

The only recent case on point is *M-I Drilling Fluids UK Ltd., v. Dynamic Air, Inc.*, in which the District of Minnesota held that U.S. patent law applies to U.S.-flagged ships in international waters.[208] The district court acknowledged that Congress was silent on the issue when it passed the 1952 Patent Act. Instead, the court relied on the Senate Judiciary Report from the 1990 Outer Space Act, which claimed that there was support for

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[202] Winston, *supra* note 189 at 521.

[203] 60 U.S. 183, 193 (1856).

[204] *Id.*

[205] *Id.* at 195.

[206] *Id.* at 198–99.

[207] The *WesternGeco* dissent noted that "[w]here components of a patented invention are supplied from one country and used exclusively on the high seas, it may be that no country's patent laws reach the conduct occurring in international waters absent a provision such as § 271(f)." WesternGeco L.L.C. v. Ion Geophysical Corp., 791 F.3d 1340, 1360-1361 (Fed. Cir. 2015) (Wallach dissent-in-part). To support this statement, Judge Wallach cites to *Aramco*, quoting in a parenthetical its language that the law of the flag "ordinarily governs the *internal* affairs of a ship". *Id.* at 1361 (emphasis in the original). Judge Wallach appears to have recognized that it is far from clear whether the violation of intellectual property laws constitutes an internal affair.

[208] *M-I Drilling Fluids UK Ltd.*, 99 F. Supp. 3d 969, 978 (D. Minn. 2015). There is also a very short decision from the District of Massachusetts from 1865. *See* Gardiner v. Howe, 9 F. Cas. 1157, 1158 (D. Mass. 1865) (holding that U.S. patent law "extends to the decks of American vessels on the high seas, as much as it does to all the territory of the country").

applying law of the flag in patent infringement cases.[209] However, the Outer Space Act was not contemporaneous with the passage of the Patent Act, calling into question the validity of the court's analysis.

It is uncertain whether the law of the flag is applicable in cases like *WesternGeco*. The doctrine generally applies to conduct occurring on a vessel, not damages resulting from conduct in the United States, and no case appears to apply it to damages. Moreover, it is wholly unclear whether other countries will generally be amenable to applying their respective patent laws to cases involving infringement on vessels flying their flags. In other words, it is possible that there may be infringement cases where no country's patent law is applicable.[210]

Furthermore, in cases where damages arise from U.S. infringement, the *Lauritzen-Rhoditis* balancing test might favor the application of U.S. law. In *Reino de España v. American Bureau of Shipping, Inc.*, a Bahamian flagged vessel sank off the coast of Spain, causing oil to wash ashore in Spain.[211] Spain sued American Bureau of Shipping (ABS), which had inspected the vessel for structural soundness. Applying the full balancing test, the Second Circuit applied U.S. law, notwithstanding the fact that the vessel was flagged in the Bahamas.[212] It held that for factor (1), the "place of the wrongful act" was not where the vessel sank, but "where the negligence [or recklessness] occur[red]," and maintained that ABS's wrongful conduct "[gave] the United States ties to the litigation that [were] both obvious and more pertinent" than the other factors.[213] Likewise, a patent holder could argue that under § 271(f), the United States was the place of the wrongful act, given that is where the patent components were manufactured and exported leading to the high seas damages.

D. Rethinking Extraterritorial Damages

Assuming that the presumption against extraterritoriality either does not

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[209] The Senate Report for the Outer Space Act noted that "some caselaw supports the proposition that the deck of U.S.-flagged vessels may be treated as U.S. territory for jurisdictional purposes in patent infringement proceedings." *I M-I Drilling Fluids UK*, 99 F. Supp. 3d, at 975 (quoting S. REP. NO. 101-266 (1990)). It is unclear, however, why legislative history from an unrelated statute sheds light on how to interpret the Patent Act.

[210] In *Spector v. Norwegian Cruise Line, Ltd.*, the Supreme Court held that "general statutes may not apply to foreign-flag vessels insofar as they regulate matters that involve only the internal order and discipline of the vessel, rather than the peace of the port." 545 U.S. at 130. Applying this distinction, Professor Elizabeth Winston argued that the law of the flag is more appropriate for patent law cases, maintaining that "[p]atent law has more to do with the internal affairs of the vessel itself." Winston, *supra* note 189 at 521–22. But there is another possibility—that intellectual property law fails to fit either paradigm and that no law applies to infringement that occurs at sea.

[211] 691 F.3d at 462.

[212] *Id.* at 467.

[213] *Id.* at 468.

apply or is rebutted, courts could adopt the predicate act doctrine from copyright law. However, due to the lack of international uniformity in patent law, extraterritorial patent damages pose a greater risk to prescriptive comity compared to copyright law. Consequently, a balancing test would be a better option, allowing courts to weigh the United States interest in enforcing its laws without the risk of creating a foreign conflict.

1. Comity Concerns for Extraterritorial Patent Damages

International law and comity considerations make courts unwilling to interpret a law in a way that creates a conflict with a foreign sovereign, absent express congressional intent. In maritime cases like *WesternGeco*, no foreign conduct is regulated. Although the law of the flag exists, it is but one consideration under federal common law. Even if jurisdiction is claimed by the country whose flag the vessel flies or the country where the relevant contract was entered into, the United States also has a strong interest in making patent infringement victims whole through damages after substantive U.S. patent law has been violated.[214]

Concerns can arise, however, when another country with territorial jurisdiction has conflicting laws. Suppose that Smith holds a U.S. patent on a powerful drug that cures cancer. Further suppose that Foreign Country does not offer patents on pharmaceuticals, to keep prices low for its citizens, but that no company currently offers Smith's cancer drug due to a lack of adequate production facilities. In violation of § 271(f), U.S.-based USPharma Corporation sells a specialized compound used to make the drug to a pharmaceutical company in Foreign Country, with the intent that it will be combined with other ingredients to make Smith's patented drug and sold abroad. If a U.S. court holds USPharma liable for damages in Foreign Country, that decision will serve as a deterrent to other companies thinking of importing the compound to Foreign Country, thereby undermining Foreign Country's policy objective of making drugs available to its citizens and decreasing the supply of the drug in Foreign Country.[215] Regardless of the merits of Foreign Country's patent system, such conflicts are undesired.

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[214] Similar concerns exist in contract law. *See* Nik Yeo and Daniel Tan, *Damages for Breach of Exclusive Jurisdiction*, COMMERCIAL LAW AND COMMERCIAL PRACTICE, 419–20 (Sarah Worthington ed., 2003) (noting that "[t]o rely on comity to limit the right to damages" in contract law introduces uncertainty and "without providing sufficient independent justification, allows concepts drawn from private international law to 'trump' the domestic right to damages").

[215] Professor Bernard Chao has argued against a worldwide causation theory because of this type of comity concern, noting that companies could seek foreign patent damages based on U.S. law "even if the other country has refused to award a patent for a particular invention and has consciously chosen to provide more modest recoveries to those that are awarded patents there." Chao, *Patent Imperialism*, *supra* note 118 at 87. Chao further argues that such a result would violate prescriptive comity. *Id.*

A question still exists, however, regarding why patent law is different enough from copyright to justify not applying the predicate act doctrine in patents. After all, the type of scenario described above could happen in the context of copyright law, where the predicate act doctrine is applied.

Copyright law, however, is far more uniform than patent law. The Berne Convention binds 171 countries and creates uniformity in copyright law by eliminating formalities for obtaining copyrights.[216] It furthermore created minimum standards of copyright protection for all member states.[217] Although prescriptive comity concerns still arise,[218] the high degree of uniformity limits conflicts of law.

By contrast, patent law is the most territorial intellectual property right.[219] Unlike copyrights or trademarks, patent applications undergo extensive government review prior to issuance,[220] allowing governments to play a major role in shaping claim language. Furthermore, as the Supreme Court held in *Microsoft*, the Patent Act itself contains explicit territorial restrictions,[221] unlike the Copyright Act and Lanham Act.[222] The Patent Act

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[216] *See* Daniel Gervais & Dashiell Renaud, *The Future of United States Copyright Formalities: Why We Should Prioritize Recordation, and How to do That*, 28 BERKELEY TECH. L. J. 1459, 1471–74 (2013) (discussing the abolition of formalities for copyright registration and transfers under the Berne Convention).

[217] *See* Graham B. Dinwoodie, *The Development and Incorporation of International Norms in the Formation of Copyright Law*, 62 OHIO ST. L.J. 733, 739 (2001) (discussing the minimum standards of the Berne Convention).

[218] *See, e.g.*, Subafilms, Ltd. v. MGM-Pathe Communications, Co., 24 F.3d 1088, 1090 (9th Cir. 1999) (holding that "there can be no liability under the United States copyright laws for authorizing an act that *itself* could not constitute infringement of rights secured by those laws" and maintaining "that wholly extraterritorial acts of infringement are not cognizable under the Copyright Act").

[219] *See, e.g.*, Chisum, *supra* note 134 at 605 ("Of the three principal forms of intellectual property, patent rights are most explicitly territorial."); Mark A. Lemley et al., *Divided Infringement Claims*, 33 AIPLA Q.J. 255, 264 (2005) ("Because patent law, unlike copyright, is territorial in nature, those who want worldwide protection must seek patents in multiple countries.").

[220] *See* Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701, 704–5 (2004) (observing that that strong territorial nature of patents is based, in part, on government review of patent applications prior to issuance); GRAEME B. DINWOODIE ET. AL., INTERNATIONAL AND COMPARATIVE PATENT LAW 30 (2002).

[221] Microsoft Corp. v. AT&T Corp., 550 U.S. 437, 455 ("The traditional understanding that our patent law 'operate[s] only domestically and do[es] not extend to foreign activities,' is embedded in the Patent Act itself, which provides that a patent confers exclusive rights in an invention within the United States" (quoting Fisch & Allen, *infra* note 222 at 559) (internal citation omitted)).

[222] *See* Chisum, *supra* note 134 at 605 (observing that the Patent Act confers specific rights limited to the United States, while the Copyright Act is silent regarding territoriality and the Lanham Act expansively covers all use "in commerce"); Alan M. Fisch & Brent H.

prevents non-patent holders "from making, using, offering for sale, or selling the invention *throughout the United States*" or from "importing the invention *into the United States*."[223] The Supreme Court, moreover, is already known for treating different areas of substantive law differently for extraterritoriality purposes,[224] and has stated that "foreign law may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions."[225] Patent law's territorial nature, consequently, make comity concerns stronger compared to copyright law.

2. Test for § 271(f) Extraterritorial Damages

The Federal Circuit may not place artificial restraints on the award of damages. In *Halo Electronics*, the Supreme Court maintained that the Federal Circuit's test for enhanced damages was "'unduly rigid'" and observed that it "'impermissibly encumbers the statutory grant of discretion to district courts.'"[226] The Court emphasized that Congress intended for district courts with discretion in awarding such damages when it stated by that a "'court may increase the damages.'"[227] Section 284 clearly states that "the court *shall award* the claimant damages *adequate to compensate* for the infringement."[228] As discussed above, the *General Motors* Court observed the breadth of this language and noted that the Federal Circuit may not restrict recovery.[229] Consequently, any test used for awarding extraterritorial damages must be flexible, allowing district courts room to determine whether damages are appropriate.

Allen, *The Application of Domestic Patent Law to Exported Software: 35 U.S.C. § 271(f)*, 25 U. PA. J. INT'L ECON. L. 557, 560 (2004) (observing that "the 1952 Patent Act authorized patent infringement claims only for acts occurring "within the United States").

[223] 35 U.S.C. § 154(a) (emphasis added). Donald Chisum maintains that "[w]ith such explicit provisions, there is no occasion even to consider whether there is a presumption for or against extraterritorial application." Chisum, *supra* note 134 at 605. However, § 271(f) clearly does have some extraterritorial reach, due to its explicit language "outside the United States."

[224] In addition to applying the trademark law extraterritorially, the Supreme Court denied certiorari to a Ninth Circuit case applying the Sherman Act abroad. *See* Timberlane Lumber Co. v. Bank of America Nat'l Trust & Sav. Assoc., 749 F.2d 1378 (9th Cir. 1984), cert. denied, 472 U.S. 1032 (1985) (Sherman Act).

[225] *Microsoft Corp.*, 550 U.S. at 455 (quoting Brief for the United States, *Microsoft Corp.*, 550 U.S. 437 (No. 05-1056)).

[226] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 1923, 1932 (2016) (quoting Octane Fitness, L.L.C. v. Icon Health & Fitness, Inc., 134 S. Ct. 1749, 1755, 188 L. Ed. 2d 816 (2014)).

[227] *Id.* at 1931 (quoting 35 U.S.C. § 284).

[228] 35 U.S.C. § 284 (emphasis added).

[229] General Motors Corp. v. Devex Corp., 461 U.S. 648, 653 (maintaining that if "Congress wished to limit an element of recovery in a patent infringement action," it would do so explicitly).

In considering whether extraterritorial damages are appropriate, a court should consider whether awarding such damages would raise prescriptive comity concerns. The court should first look at whether another country's law governs the case at hand. If no other country's law is applicable, then the court should strongly consider awarding damages. If another country's law does apply, then the court should then ask whether extraterritorial damages would be in tension with or contravene that country's law.

These comity concerns should then be balanced against the United States' interest in making victims of domestic patent infringement whole and promoting innovation. If extraterritorial damages are not permitted, will the infringer be sufficiently deterred from engaging in future infringement? Will future inventors choose to not invest money in innovations, say, in off-shore technology due to inadequate remedies? Note that in some cases, innovation may weigh against extraterritorial damages if inventors already have sufficient incentives to innovate.

Under the balancing test, infringement on the high seas would almost always be actionable due to the lack of conflicting foreign law. In the event that there is a way to make foreign law reach to the high seas conduct, perhaps through the law of the flag, this could be balanced against the need to promote innovation. For cases where the damages were incurred in a foreign jurisdiction, U.S. interests would have to be strong enough—and the conflict of foreign law small enough—to justify an award of extraterritorial damages.

Finally, district courts should also ensure that any foreign damages awarded flow from the domestic infringement at issue. In *Rite-Hite*, the Federal Circuit noted that "[i]f a particular injury *was or should have been reasonably foreseeable* by an infringing competitor in a relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary."[230] In *WesternGeco*, an argument can be made that the patent holder should not have received damages for lost foreign contracts due to the lack of foreseeability. Ion shipped parts abroad that were combined together outside the United States. Those devices were then sold to third parties which used the devices to offer competing surveying services. Even if courts permit extraterritorial damages, it is not clear that Ion could have foreseen that foreign third parties would compete with WesternGeco for service contracts. By employing a balancing test and carefully considering foreseeability, lower courts should be able to determine the circumstances where extraterritorial damages are merited.

[230] Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1546 (Fed. Cir. 1995) (en banc) (emphasis added).

V. CONCLUSION

The presumption against extraterritoriality is a useful canon of construction for courts that must determine whether federal substantive law includes activities arising wholly or mostly outside the United States. It promotes comity by preventing U.S. law from conflicting with that of foreign countries, and ensures that courts do not extend laws beyond what Congress intended. The presumption promotes separation of powers, by making it clear that Congress alone decides whether a U.S. law should be applicable abroad.

The presumption, however, does not limit the courts' ability to award damages based on foreign conducts. The Supreme Court has been clear that the presumption applies to statutes that regulate jurisdiction and conduct. If unlawful conduct occurs in the United States, and then related unlawful conduct occur abroad, that activity is multi-territorial and it is well within a U.S. court's power to award damages for all of the unlawful acts. Consequently, the Federal Circuit in *WesternGeco* erred in barring any consideration of damages for conduct that occurred on the high seas.

Even if it the presumption is applicable to damages provisions, it is rebutted under *RJR Nabisco*. Congress has explicitly stated that it intends for § 271(f) to apply to extraterritorial conduct, and it necessarily follows that § 284 must as well to make infringement victims whole. Furthermore, the focus of § 271(f) and § 284 is domestic. Liability for § 271(f) attaches in the United States when an infringer exports components with requisite intent and § 284 remedies domestic patent infringement.

Although courts should have the ability to award foreign damages, this does not mean that they should do indiscriminately. Unlike copyright law, patent law is highly territorial, raising the concern that applying damages to conduct that occurred abroad could conflict with foreign laws. Moreover, the Patent Act is grounded in promoting innovation, so courts must also consider whether awarding more damages in multinational cases would help or hinder innovation. Finally, some damages are too speculative or tenuous to flow from the domestic wrongdoing at issue. Consequently, a balancing test would provide lower courts with the flexibility to award damages to promote innovation when such damages are warranted, after ensuring that the damages would not cause prescriptive comity concerns.