Have Patent, Will Travel

Can One Infringe a U.S. Patent by Making, Using, and Selling a Product Solely Outside the United States?

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Sitting at a desk in Chicago, and arranging for the manufacture and sale of a product in Taiwan, a businessperson likely would not stop to think that these actions could infringe a U.S. patent. Traditionally, in order to infringe a U.S. patent, the product had to be made, used or sold in the United States. However, the addition of the "offer to sell" language to the patent statute has added uncertainty to U.S.-directed activities of products that never touch U.S. soil.

In 1994, Congress enacted a statute to satisfy the United States' pledge under the Trade-Related Aspects of Intellectual Property (TRIPs) agreement. The new statute added liability under the patent law for an "offer to sell."[1] Effective January 1, 1996, 35 U.S.C. §271(a) provided that "whoever without authority makes, uses, *offers to sell*, or sells any patented invention, within the United States. . . infringes the patent" (emphasis added). Congress offered no guidance as to the meaning of the phrase other than stating in §271(i) that an "offer to sell" includes only those offers "in which the sale will occur before the expiration of the term of the patent."[2]

The Federal Circuit first addressed the "offer to sell" provision of §271(a) in *3D Systems, Inc. v. Aarotech Laboratories, Inc*.[3] The Court recognized that the amendment to §271(a) represented a "distinct change" from the previous law, under which an actual sale was required for patent infringement liability to arise.[4] While noting little direction from Congress, the Court determined that one purpose of adding "offer to sell" to §271(a) was to prevent "generating interest in a potential infringing product to the commercial detriment of the rightful patentee."[5] The Court also stated that new subsection §271(i) was "added defining an 'offer for sale' or an 'offer to sell' as that which the sale will occur before the expiration of the term of the patent."[6]

The interpretation of the "offer to sell" provision has serious ramifications for international companies with a presence in the United States. Consider a company with a presence in the United States that does not perform any manufacture or sale of any products within the United States. A salesperson resident in the U.S. office makes an offer to sell a product, covered by a U.S. patent, to a customer in Germany, with the product to be manufactured in France. Neither the product, nor any component of the product, will enter the United States. Is this company liable for infringement under §271(a) for making the "offer to sell" from its location in the United States?

The Federal Circuit has not yet directly addressed this important issue of whether liability for patent infringement under the "offer to sell" clause of §271(a) can arise where the offeror is located in the United States, but the manufacture, use and sale of the product will take place entirely outside of the United States. However, United States District Courts have rendered directly contrary decisions on this question.[7] Some of these conflicting cases cite the Federal Circuit's opinion in *Rotec Industries, Inc. v. Mitsubishi Corporation*.[8] In *Rotec*, the Federal Circuit Court of Appeals addressed similar facts, but did not directly decide the issue. The majority opinion offered *dicta* implying that an offer to sell in the United States would constitute infringement even if all other acts took place outside the United States.[9] Judge Newman wrote a strong concurring opinion taking issue with this implication. Judge Newman argued persuasively that such facts should not constitute infringement, pointing to the requirement of §271(i) that no liability for an "offer for sale" can arise where the sale itself would not infringe the U.S. patent because the sale would occur after expiration of the patent. [10]

The District Court of Delaware in *Wesley Jessen Corp. v. Bausch & Lomb, Inc.* recently sided with the apparent interpretation of the majority in *Rotec*, finding that the geographic location and physical destination of the patented product is "immaterial" to the analysis, so long as the "offer" occurs in the United States.[11] The Court determined that Congress "obviously" intended the "offer to sell" language to mean something more and to read otherwise would render the language "superfluous."[12] The Court also found that any argument to the contrary "begs the question of why a patentee should not have an exclusive right to make offers to sell within the United States."[13]

Two other district courts reached the opposite conclusion. In *Quality Tubing, Inc. v. Precision Tube Holdings Corp.*, the District Court for the Southern District of Texas found that the language of the statute and case law make it apparent that the inclusion of "offer to sell" as one of the bases for patent infringement protects the patent holder at an earlier stage of infringement, allowing him to enforce his rights without having to wait for the infringing product to reach market.[14] However, the court found that in expanding the scope of the statute, Congress did not intend to encompass activities that were not prefatory to an actual infringement.[15] The court reasoned:

> the expansion of the statute to include the earlier stage of an infringing activity, the offer to sell as well as the actual sale, means that the sale for which the offer is made must itself be an act of infringement. If it were sufficient to have an offer, in the United States, to sell in a foreign country, the sale offered would not be an act of infringement, and the offer to sell would not be an earlier stage of an infringing activity.[16]

This court, like Judge Newman in *Rotec*, recognized that §271(i) supports the conclusion that an offer to sell something is not an infringement unless the sale contemplated would itself be an infringement. In their view, §271(i) indicates the intent of Congress to restrict an infringing "offer to sell" to only those sales that "will occur before the expiration of the patent."[17]

The Central District of California in *Cybiotronics, Ltd. v. Golden Source Electronics, Ltd.* found the reasoning of the *Quality Tubing* court "highly persuasive," holding that liability under §271(a) does not extend to "offers to sell" which contemplate a sale to be consummated entirely outside the United States.[18] Analogizing the "offer to sell" language to prosecution for a crime that is attempted, but not completed,[19] the Court held that liability can exist for an "offer" only if it is an offer to do something that will actually "threaten the patentee's right to an exclusive U.S. market."[20] The Court declared: "[o]ur patent laws are limited to the United States."[21]

We believe *Cybiotronics*, *Quality Tubing*, and Judge Newman's concurrence in *Rotec* to present the best reasoning on this issue. It is axiomatic that the sale of a patented product must occur in the United States before our patent laws can apply; sales in the foreign market are outside the territorial jurisdiction of U.S. patent laws. Likewise, creating liability for "offering" to do something that itself would not infringe a U.S. patent, would give U.S. patents an improper extraterritorial effect. To infringe the "offer to sell" provision, the contemplated sale must be one that would itself infringe the rights of the patentee. To read otherwise would be to ignore §271(i), the only indication of what Congress intended the definition of "offer to sell" to be.

Such an interpretation of "offer to sell" does not render the provision of § 271(a) "superfluous" as argued by the court in *Wesley Jessen*. As the Federal Circuit recognized in *3D Systems*, prior to the addition of the "offer to sell" clause, an actual sale needed to have been consummated for infringement liability to arise. The addition of "offer to sell" gives the patentee the additional right and opportunity to bring a lawsuit prior to the actual sale. This allows a patentee to sue, and potentially secure an injunction, *before* a product actually hits the market. This is a substantial expansion of the scope of §271(a) as a result of the amendment

Each of the cases finding that an offer in the United States, with the sale contemplated abroad, is an infringement, cites the proposition that §271(a) was amended to allow the patentee to sue for infringement for activities that "generat[e] interest in a potential infringing product to the commercial detriment of the rightful patentee." [22] However, a sale outside of the United States (as well as the use and manufacture) of a patented product never "generat[es] interest in a potential infringing product to the commercial detriment of the rightful patentee." First, there can be no "potential" infringing product where the sale is to be completed outside the United States. U.S. patent rights simply do not reach beyond the country's borders. Second, there is no commercial detriment of the rightful patentee, because outside the United States, the holder of a U.S. patent is not "a rightful patentee."

The primary purpose behind the addition of the "offer to sell" language was to comply and harmonize with international intellectual property regimes as part of the TRIPs agreement and was not to disturb the fundamental scope of patent protection in the United States. The interpretation of the "offer to sell" language should be consistent with this purpose. From a policy perspective, the broad interpretation of the "offer to sell" language would also have the undesirable effect of deterring international companies from conducting otherwise lawful business in the United States. To read the statute as the *Wesley Jessen* court has would be to conclude that Congress intended the patentee to obtain the exclusive right to sell internationally through American businesses, a gross expansion of patent rights. This surely cannot be the result that Congress intended by adding language to "harmonize" our patent system with that of countries around the world.

Hopefully, the Federal Circuit will soon end the uncertainty caused by the conflict among the district courts by addressing the issue directly and resolving it consistent with the reasoning of Judge Newman in *Rotec*. In the meantime, international corporations that *from* the United States make "offers to sell" products that will be manufactured, sold and used entirely *outside* the United States, but which would infringe a U.S. patent if those activities were within U.S. borders, do so at their own peril.

ENDNOTES

[1] The enacted statute is the Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809 (1994).
[2] 35 U.S.C. §271(i). Article 28 of the TRIPs agreement does not have a section similar to §271(i). However, when the TRIPs agreement was incorporated into the enacted Uruguay Round Agreements Act, the language of §271(i) was inserted. The legislative history of the Uruguay Round Agreements Act offers no guidance as to why §271(i) was included.
[3] 160 F.3d 1373 (Fed. Cir. 1998)
[4] *Id.* at 1378.
[5] *Id.* at 1379.
[6] *Id*. at 1378; 35 U.S.C. §271(i) (emphasis added)
[7] Citing *Rotec*: *Wesley Jessen Corp. v. Bausch & Lomb, Inc.*, 256 F. Supp. 2d 228 (D. Del. 2003); *Cybiotronics, Ltd. v. Golden Source Electronics, Ltd.*, 130 F. Supp. 2d 1152 (C.D. Cal. 2001). Other decisions: *Quality Tubing, Inc. v. Precision Tube Holdings Corp.*, 75 F. Supp. 2d 613 (S.D. Tex. 1999); *Halmar Robicon Group, Inc. v. Toshiba International Corp.*, 1999 U.S. Dist. Lexis 19869 (W.D. Penn 1999)(denying a motion for summary judgment where the facts showed that the offer to sell was for a sale to be consummated outside of the United States).
[8] 215 F.3d 1246 (Fed. Cir. 2000).
[9] The majority did not reach the issue because it decided that the activity that occurred in the U.S. did not constitute an "offer to sell."
[10] *Id*. at 1256-59 (Newman, J., concurring)
[11] *Wesley Jessen Corp.*, 256 F. Supp. 2d at 233.
[12] *Id.* at 234.
[13] *Id.* at 235.
[14] *Quality Tubing, Inc.,* 75 F. Supp. 2d at 623-24.
[15] *Id.* at 624.
[16] *Id.*
[17] 35 U.S.C. §271(i).
[18] *Cybiotronics, Ltd.*, 130 F. Supp. 2d at 1171-72.
[19] *Id*. at 1171.
[20] *Id.*
[21] *Id*.
[22] *Wesley Jessen Corp.*, 256 F. Supp. 2d at 232; *Rotec*, 215 F.3d at 1253 n.3.