



JONES DAY COMMENTARY

RECENT FEDERAL CIRCUIT DECISIONS ADDRESS EXTRATERRITORIAL LIMITS OF UNITED STATES PATENT LAW

The year 2005 saw the United States Court of Appeals for the Federal Circuit address the extraterritorial effect of United States patent law in at least four major cases—*Eolas v. Microsoft*, *AT&T v. Microsoft*, *NTP v. Research in Motion*, and *Union Carbide v. Shell Oil*.

Most recently, in October 2005 and now in early 2006, the Federal Circuit issued its decisions in *Union Carbide Chemicals & Plastic Tech. Corp. v. Shell Oil Co.* The net result of these opinions is that the extraterritorial reach of United States patent law has been further defined and arguably extended.

BACKGROUND

In *Deepsouth Packing Co. v. Laitram Corp.* (1972), the United States Supreme Court found that making or using a patented product outside the United States does not fall within the ambit of the patent statute. This ruling left open the possibility that a potential infringer could make all of the individual components of a product (covered by a U.S. patent) in the United

States and ship them offshore to be combined into the final product without liability for infringement. In response to the *Deepsouth* decision, Congress amended the patent statute in 1984, such that 35 U.S.C. § 271(f) now reads:

- (1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
- (2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole

or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

Liability for “machine” or “apparatus” patents is a relatively easy question under Section 271(f): what components are being shipped, what is the sole or intended purpose of those components, and does the combination respond to the language of the claims. Trickier questions are involved where intangible components, components of processes, or steps of method patents are at issue.

Past Federal Circuit decisions had suggested that only a physical “component” for use in a combination apparatus was a proper subject of Section 271(f). For example, in *Pellegrini v. Analog Devices, Inc.* (2004), the Federal Circuit held that there was no violation of Section 271(f) when a United States party provides instructions to offshore locations for the production and disposition of integrated circuit chips. The Federal Circuit held in that case that Section 271(f) “applies only where components of a patented invention are physically present in the United States and then either sold or exported” Indeed, the court went further and explicitly stated that “there can be no liability under 271(f)(1) unless components are shipped from the United States for assembly.” A similar result had been reached in an earlier case, *Standard Havens Products, Inc. v. Gencor Industries, Inc.* (1991), where a foreign sale and use of an unpatented apparatus was found not to infringe method patent claims.

However, the Federal Circuit’s 2005 decisions seem to mark a departure from that line of authority, suggesting that, absent intervention by the United States Supreme Court or Congress, Section 271(f) will be applied to intangible components as well as certain components and perhaps even process steps of method claims. A brief look at these decisions helps to underscore the point.

***EOLAS TECHNOLOGIES INC. V. MICROSOFT CORP.* (MARCH 2, 2005)**

In *Eolas*, the Federal Circuit was faced with the question of whether software made in the United States and exported abroad can be a “component” of a patented invention. The

exported component was computer software on a “golden master disk.” The patented invention involved both a method for running a program and a computer program product for use in a system. The Federal Circuit’s analysis of 271(f) appears to have been focused on the latter.

In an opinion authored by Judge Rader (and joined by Senior Judges Friedman and Plager), the Federal Circuit determined that the exported software was a “component” under Section 271(f):

This statutory language did not limit section 271(f) to patented “machines” or patented “physical structures.” Rather every form of invention eligible for patenting falls within the protection of section 271(f). By the same token, the statute did not limit section 271(f) to “machine” components or “structural or physical” components. Rather every component of every form of invention deserves the protection of section 271(f).

Although the court did not do so, it appears that the panel in *Eolas* would have construed Section 271(f) as covering process or method claims, as well as claims drawn to products. Indeed, the court noted, “A ‘component’ of a process invention would encompass method steps or acts.” The result of *Eolas* is that inventions containing intangible components are covered by Section 271(f), and the clear implication of the *Eolas* decision is that Section 271(f) extends to process or method claims. Microsoft petitioned the Supreme Court to review the *Eolas* decision, but on October 31, 2005, that petition was denied.

***AT&T CORP. V. MICROSOFT CORP.* (JULY 13, 2005)**

A similar result was reached in the *AT&T* case. Again, the case involved the export and foreign copying of software. In this case, a master version of software was sent abroad, where it was copied. The exported product incorporated certain speech coders that, when installed on a computer, allegedly infringed apparatus claims of a reissue patent granted to AT&T. Microsoft argued that software could not be a “component” under Section 271(f)—and that even if it were a component, the software had not been supplied from the United States, because each copy of the software installed on foreign-assembled computers was made abroad. The Federal Circuit rejected both arguments.

Relying on *Eolas*, the court (per Judge Lourie, who was joined by Judge Mayer) once again rejected the idea that an intangible thing such as software code could not be a “component” under Section 271(f): “whether software is sent abroad via electronic transmission or shipped abroad on a ‘golden master’ disk is a distinction without a difference for the purposes of § 271(f) liability.”

More important, the court rejected Microsoft’s argument that liability attaches under Section 271(f) only for copies of software actually supplied from the United States—not those made abroad from the master copy. In doing so, the court stated:

Were we to hold that Microsoft’s supply by exportation of the master versions of the Windows® software—specifically for the purpose of foreign replication—avoids infringement, we would be subverting the remedial nature of § 271(f), permitting a technical avoidance of the statute by ignoring the advances in a field of technology—and its associated industry practices—that developed after the enactment of § 271(f). **It would be unsound to construe a statutory provision** that was originally enacted to encourage advances in technology by closing a loophole, **in a manner that allows the very advances in technology thus encouraged to subvert that intent. Section 271(f), if it is to remain effective, must therefore be interpreted in a manner that is appropriate to the nature of the technology at issue.**

This broad language and reasoning would appear to expose considerably more foreign activity to liability under Section 271(f) than once thought; as Judge Rader pointed out in dissent, “this court provides extraterritorial expansion to U.S. law by punishing under U.S. law ‘copying’ that occurs abroad. While copying in Düsseldorf or Tokyo may indeed constitute infringement, that infringement must find its remedy under German or Japanese law.” The majority’s error, in Judge Rader’s view, “flows from this court’s broad construction of ‘supplies,’ ” which he saw as “a different, unordinary, and uncommon construction of that term” driven by the “nature of the technology” and not the text of the statute.

NTP, INC. v. RESEARCH IN MOTION, LTD. **(AUGUST 2, 2005)**

The Federal Circuit appeared to step back from the broad application of Section 271(f) in *NTP*, in which the court directly addressed whether or not Section 271(f) applied to method claims. The court, in an opinion by Judge Linn (joined by now-Chief Judge Michel and Judge Schall), concluded that it did not. (The court also addressed infringement under Section 271(a), holding that there is no “use” infringement of method claims under that section if at least one of the steps of the method is practiced offshore.) Specifically, the court found that during the legislative debates for Section 271(f), “Congress discussed components of a ‘product’ but did not refer to components of a ‘process.’ ” The court also distinguished its finding from *Eolas*:

The holding [of *Eolas*] does not impact the application of section 271(f) to the method claims in the present appeal A method, by its very nature, is nothing more than the steps of which it is comprised. The invention recited in a method claim is the performance of the recited steps While it is difficult to conceive of how one might supply or cause to be supplied all or a substantial portion of the steps of a patented method in the sense contemplated by the phrase “components of a patented invention” in section 271(f), it is clear that RIM’s supply of the BlackBerry handheld devices and Redirector products to its customers in the United States is not the statutory “supply” of any “component” steps for combination into NTP’s patented methods.

Indeed, the court cited back to *Standard Havens* in support of its holding and relied upon the specific nature of the method claims at hand to distinguish *Eolas*. After this decision, it appeared that for method claims, if at least one of the method steps is practiced abroad, components used in those methods are safely outside the bounds of Section 271(f).¹

UNION CARBIDE CORP. v. SHELL OIL CO. **(OCTOBER 3, 2005)**

Any hard and fast rule about excluding method claims as a class from liability under Section 271(f) was likely put to rest

1. It should be noted that RIM petitioned the U.S. Supreme Court for *certiorari* on other grounds, which was denied January 23, 2006. In that petition, RIM urged that under Section 271(a), “use” infringement is limited to use of the patented invention within the United States, arguing that because components crucial to the BlackBerry system’s operation are located outside the United States, RIM cannot infringe.

by the Federal Circuit decision in *Union Carbide Corp. v. Shell Oil Co.* In this case, Shell supplied a catalyst abroad that was used in a process that allegedly infringed Union Carbide's patent. While the district court found that Section 271(f) did not apply to the supply of components of a process claim, the Federal Circuit reversed. The court, in an opinion authored by Judge Rader and joined by Judges Mayer and Prost, rejected the holding of *NTP* as distinguishable and relied on the broad language of *Eolas* to reiterate that "every component of every form of invention deserves the protection of 35 U.S.C. § 271(f)." The court stated:

Because Shell supplies these catalysts directly to its foreign affiliates, this court does not face another situation involving the domestic sale of a component being used, in part, outside the United States. Shell's domestic sales are separately covered by the district court's present damages calculation. As such, *Eolas*, a case more factually analogous and earlier in time than *NTP*, governs this case.

This decision is the first to hold unequivocally that Section 271(f) applies to method or process claims. Interestingly, Judge Rader wrote the opinion in both *Eolas* and *Union Carbide*.

In relying on *Eolas* and *AT&T*, and distinguishing *NTP*, the court adopted a broad reading of Section 271(f), but nonetheless created some uncertainty as to the line of demarcation under Section 271(f). *NTP* and *Union Carbide* are somewhat in tension with one another: Under *Union Carbide*, practicing the entirety of a method outside the United States resulted in liability under Section 271(f) where the critical catalyst element was supplied from the United States; under *NTP*, practicing even a single step of a method outside the United States avoided liability under Section 271(f).

The conflicting nature of these decisions prompted both the American Intellectual Property Law Association and the Federal Circuit Bar Association to file *amicus* briefs in support of rehearing *en banc* in the *Union Carbide* case. Shell's petition for rehearing *en banc* was denied on January 10, 2006. Chief Judge Michel and Judges Lourie, Linn, and Dyk dissented from the denial. Judge Lourie authored a brief dissent (joined by Chief Judge Michel and Judge Linn) in which

Judge Lourie noted that the *Union Carbide* decision was contrary to the Federal Circuit's holdings in *NTP* and *Standard Haven* and specifically noted that:

A component of a process is a step in the process; it is not the physical material to be used in the process. What the panel opinion here holds is that supplying a component to be used in one of the process steps can create infringement. That is, in my view, an incorrect extension of the statutory language.

LOOKING FORWARD

These four decisions taken together indicate that exporting intangible elements (such as software) that satisfy limitations in a product claim, may be found to be a "component" for purposes of Section 271(f) liability. Further, Section 271(f) liability may be found where the patent at issue claims a method. What remains unsettled, however, is what constitutes a "component" of a method under Section 271(f) and what offshore conduct constitutes infringement when method claims are at issue. Under *Pellegrini* and *NTP*, it appears that the mere exporting of ideas or intangible information may not be sufficient to give rise to liability for infringement of a method or process patent, whereas exporting a physical object, such as catalysts that have no noninfringing use, can give rise to liability. Somewhat in question, given the recent *Union Carbide* decision, is whether the practice of several steps of the process domestically, and some of them abroad, would constitute liability under Section 271(f). It is up to the Supreme Court to decide whether to review the *Union Carbide* decision. While, as usual, there are many questions remaining, it is clear that any future export of anything short of pure ideas must be carefully considered within the patent-infringement context.

LAWYER CONTACTS

For further information, please contact your principal Firm representative or one of the lawyers listed below. General e-mail messages may be sent using our "Contact Us" form, which can be found at www.jonesday.com.

Michael W. Vary
1.216.586.1241
michaelvary@jonesday.com

James W. Walworth Jr.
1.216.586.7568
jwwalworthjr@jonesday.com

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