WesternGeco Could Lead To Cases Against Foreign Suppliers

By **Jenny Colgate** (August 3, 2018)

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On June 22, 2018, the U.S. Supreme Court held in WesternGeco LLC v. Ion Geophysical Corp. that the plaintiff could recover foreign lost profit damages as compensation for the defendant's infringement under § 271(f), where the plaintiff (WesternGeco) lost foreign sales contracts as a result of the defendant's (Ion's) infringement.[1] Since June 22, lawyers have been speculating about the decision's implications, particularly with respect to foreign lost profit damages for infringement under § 271(a). Less discussed, though, is the potential for WesternGeco to lead to a rise in patent infringement cases against foreign suppliers under § 271(b) (inducing infringement).

§ 271(b) Claims Against Foreign Suppliers

Unlike direct infringement[2] and contributory infringement,[3] which require activity by the accused infringer to occur in the United States, induced infringement does not require any activity by the indirect infringer in the United States, as long as the direct infringement occurs in the United States.[4] For example, in MEMC Electronic Materials Inc. v. Mitsubishi Materials Silicon Corp., the Federal Circuit held that a foreign manufacturer that sells products abroad to an intermediary, who then imports the products into the United States, could be liable for inducing infringement, particularly if the sale was coupled with one or more of the following activities: (1) providing technical or product support to a U.S. entity regarding the products sold abroad; (2) conducting site visits to a U.S. entity for matters involving the products sold abroad; (3) entering into an agreement that expressly provides for delivery of a product into the United States; and (4) manufacturing products to specifications that are specifically intended to be used in the United States.[5] Similarly, in Crystal Semiconductor Corp. v. Tritech Microelectronics International Inc., the Federal Circuit affirmed a jury verdict of inducement where a defendant manufactured infringing computer chips in Singapore and sold them to a third party abroad, and the third party directly infringed by practicing the claimed method in the United States.[6] District courts have also held that § 271(b) extends to extraterritorial activities.[7]

Notwithstanding the aforementioned cases, claims against foreign manufacturers under § 271(b) have not been prevalent. Instead, patentees typically sue downstream sellers for direct infringement under § 271(a). This is unsurprising. It is typically much easier to prove direct infringement — a strict liability offense — than it is to prove induced infringement, which has additional elements of knowledge, intent, and active steps to encourage infringement. (Although in some cases it is difficult to obtain discovery regarding how an accused product works from a downstream seller.) There are also other reasons why patentees may be more inclined to sue a downstream reseller under § 271(a) rather than a foreign supplier under § 271(b), including, for example, the ease of establishing personal jurisdiction, the ability to enforce a judgment, and ease of service (i.e., not needing to serve under the Hague Convention).

One additional reason why patentees have been more likely to sue downstream sellers for direct infringement under § 271(a) as opposed to foreign suppliers under § 271(b) may be damages-related. While some plaintiffs have successfully recovered damages against foreign suppliers under § 271(b), before WesternGeco it was less clear that such damages were recoverable due to the presumption against extraterritoriality.[8]

§ 271(b) Claims Against Foreign Suppliers After WesternGeco

In WesternGeco, the Supreme Court permitted a patent owner to collect foreign lost profit damages from a defendant. While the Supreme Court in WesternGeco purported to limit its analysis to § 271(f), the court's analysis appears to be equally applicable to other provisions of § 271: Look to the type of infringement that occurred, and determine whether it focuses on a domestic act; if it does, then it is okay to award damages (including foreign lost profits) based on that activity. In WesternGeco, the court held that § 271(f) focuses on the domestic act of "suppl[ying] in or from the United States." In the case of indirect infringement by a foreign manufacturer under § 271(b), the domestic act is "inducing direct infringement in the United States." In some cases, the foreign supplier's active steps to encourage infringement may be considered the domestic acts (such as conducting site visits or manufacturing products to U.S. specifications), and in other cases, the underlying acts of direct infringement (performed by a third party) that the foreign supplier is inducing may be considered the domestic acts.[9]

Thus, following WesternGeco, patentees may have a little more certainty regarding their ability to recover damages from foreign suppliers who infringe under § 271(b). Other benefits could also follow.

For example, apportionment may be minimized, resulting in more substantiated damages figures. Assuming that a foreign supplier is providing a component, which is incorporated into a larger system or product, and then that larger thing is imported, sold and used in the United States, the foreign supplier's sales may more naturally align with the smallest saleable unit. By suing the foreign supplier directly under § 271(b), a patentee will gain access to better discovery regarding the smallest saleable unit (thereby avoiding having to apportion down the sales for the larger product/system to determine the value of the smallest saleable unit).

As another example, lost profits (which typically result in larger damages than reasonable royalties) may become more readily available. Because patentees and the foreign suppliers are often times direct competitors, increased certainty in being able to recover damages as against foreign suppliers who infringe under § 271(b) could result in more patentees pursuing induced infringement claims against foreign suppliers, with the hopes of recovering lost profit damages.

Even though WesternGeco may open the doors wider to § 271(b) claims against foreign manufacturers, by no means should we expect to see an explosion of such cases. This is because the test for inducing infringement remains stringent. For example, patentees will need to put the defendant on notice of the patent and alleged infringement prior to bringing suit (and in some cases, this notice alone may lead to settlement).

Also, while in some cases the mere act of selling a component with the expectation that it will be incorporated into a product bound for the United States may be sufficient to constitute an "active step to encourage direct infringement" (one of the elements of inducement), in most cases, something more may be required — such as instructions or marketing, technical support, conducting U.S. site visits, entering an agreement providing for product delivery to the U.S., or manufacturing products to U.S. specifications.

Further, an active step to get a product into the United States may be distinguishable from an active step to encourage direct infringement. And even if a patentee can sufficiently assert a claim of inducement, this certainly does not mean that the foreign defendant is going to be on the hook for a large amount of lost profit damages. For example, a good faith belief of noninfringement can be a defense to inducement.[10] And damages for inducing infringement may be limited based on the scope of § 271(b) liability proven. For example, acts that occurred prior to the defendant's knowledge of the patent/alleged infringement should not be compensable where liability is based on § 271(b).

Conclusion

Time will tell whether WesternGeco results in more § 271(b) cases against foreign suppliers. While there are certainly numerous hurdles that a patentee may face when suing a foreign entity (personal jurisdiction, enforceability, service, and proving the additional elements required for induced infringement such as knowledge, intent, and active steps to encourage direct infringement), a suit against a foreign entity may also remove hurdles that patentees must face when suing downstream users and sellers (such as discovery issues obtaining documentation to prove infringement and damages-related issues such as apportionment and recovery of lower damages figures based on a reasonable royalty analysis instead of a lost profits analysis).

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[1] WesternGeco L.L.C. v. Ion Geophysical Corp., 585 U.S. __ (2018).

[2] 35 U.S.C. § 271(a) provides: "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent."

[3] 35 U.S.C. § 271(c) provides: "[w]hoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

[4] 35 U.S.C. § 271(b) provides: "[w]hoever actively induces infringement of a patent shall be liable as an infringer."

[5] MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 420 F.3d 1369 (Fed. Cir. 2009).

[6] Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc., 246 F.3d 1336, 1351 (Fed. Cir. 2001).

[7] See, e.g, Wing Shing Products (BVI) v. Simatelex Manufactory Co., 479 F. Supp. 2d

388, 410 (S.D.N.Y. 2007) (defendant was alleged to have manufactured coffeemakers for third party, Sunbeam, abroad, the resale of which within the United States constituted direct infringement); Honeywell Int'l, Inc. v. Acer America Corp., 655 F. Supp. 2d 650, 658-61 (E.D. Tex. 2009) (defendant was alleged to have sold potentially infringing modules to foreign companies knowing that those modules would be incorporated into products sold in the United States).

[8] Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc., 711 F.3d 1348 (Fed. Cir. 2013) (holding that the patentee was not entitled to lost profits for sales made abroad that were the foreseeable result of domestic infringement); Carnegie Mellon University v. Marvell Technology Group, Ltd., 807 F.3d 1283, 1291 (Fed. Cir. 2015) (for damages to be recoverable, one of the infringing acts (e.g., making, using, selling or importing into the United States) must occur domestically, even if other infringing acts occur abroad).

[9] See WesternGeco, slip op. at 5-8.

[10] Commil USA LLC v. Cisco Systems Inc., 720 F.3d 1361, 1367-68 (Fed. Cir. 2013) ("[u]nder our case law, it is clear that a good-faith belief of non-infringement is relevant evidence that tend to show that an accused inducer lacked the intent required to be held liable for induced infringement"), vacated on other grounds, 135 S. Ct. 1920 (2015) (rejecting that a good-faith belief of invalidity is a defense to induced infringement).