Extraterritoriality Revisited: Implications of *Abitron* for Patent Law

Cassandra Roth, Counsel, Ropes & Gray

ROPES & GRAY

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AGENDA

- **Supreme Court's two-step framework for analyzing extraterritoriality**
- **Supreme Court's application of framework in *RJR Nabisco* (RICO) and *WesternGeco* (patent law)**
- ***Abitron Austria GmbH v. Hetronic Int'l, Inc.***
- **Potential implications for patent law extraterritoriality**
  - Watch for how multiple statutory provisions are addressed, how older case law is treated, and how a statute's "focus" is selected.

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Two-step framework for analyzing extraterritoriality

- "[C]anon of statutory construction known as the presumption against extraterritoriality: Absent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application."

  RJR Nabisco, Inc. v. European Cmty., 579 U.S. 325, 335 (2016) (citing *Morrison v. National Australia Bank Ltd.*, 561 U. S. 247, 255 (2010)).

- Court unanimous in its acceptance of 2-part framework, but not in its application.
- Step One: "whether the presumption against extraterritoriality has been rebutted — that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially." *Id.* at 337.
- If the statute is not extraterritorial: Step Two: "whether the case involves a domestic application of the statute, . . . by looking to the statute's 'focus.' If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but 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." *Id*.

Framework applies to each applicable subsection

- Majority applied framework separately to liability and cause of action statutory subsections
  - *RJR Nabisco*: Analyzed RICO's "substantive prohibitions" (§ 1962(b)-(c)) (and not § 1962(a) or (d)) and RICO's "private right of action" (§ 1964(c)).
- "We must ask this question regardless of whether the statute in question regulates conduct, affords relief, or merely confers jurisdiction."

  RJR Nabisco, Inc. v. European Cmty., 579 U.S. 325, 337 (2016) (discussing Step One).
- "The creation of a private right of action raises issues beyond the mere consideration whether underlying primary conduct should be allowed or not, entailing, for example, a decision to permit enforcement without the check imposed by prosecutorial discretion."

  RJR Nabisco, Inc. v. European Cmty., 579 U.S. 325, 346 (2016) (quoting *Sosa v. Alvarez-Machain*, 542 U. S. 692, 727 (2004)).

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Framework applied to RICO Act

- *RJR Nabisco, Inc. v. Eur. Cmty*., 579 U.S. 325 (2016)
- Held: Presumption against extraterritoriality rebutted "only with respect to certain applications of the statute"
  - **Step 1:** "RICO defines racketeering activity to include a number of predicates that plainly apply to at least some foreign conduct" such as descriptions of acts "outside the United States" but the "foreign conduct must violate 'a predicate statute that manifests an unmistakable congressional intent to apply extraterritorially.'" *Id*. at 338-339.
  - **Step 2:** Declined to proceed to Step 2.
  - Application of test two-step framework unanimous.
- Held: RICO's private right of action does not overcome the presumption against extraterritoriality
  - **Step 1:** No clear indication that Congress intended to provide a private right of action for injuries suffered outside of the United States.
  - **Step 2:** Private action's focus require proof of a "domestic injury to business or property and does not allow recovery for foreign injuries." *Id*. at 354.
  - Majority opinion (5-3)
- Justice Ginsburg dissented, joined by Justice Breyer and Justice Kagan: "I would not distinguish, as the Court does, between the extraterritorial compass of a private right of action and that of the underlying proscribed conduct." Id. at 358 (Ginsburg, J., dissenting)

Framework applied to Patent Act

- *WesternGeco LLC v. ION Geophysical Corp*., 585 U.S. ___; 138 S. Ct. 2129 (2018)
- Held: WesternGeco's award for lost profits was a permissible domestic application of § 284 of the Patent Act.
  - **Step 1:** WesternGeco argued that the presumption against extraterritoriality should never apply to statutes, such as § 284, that merely provide a general damages remedy. The Court declined this "difficult question[]" that "could implicate many other statutes besides the Patent Act." Slip op. at 5.
  - **Step 2:**
    - "When determining the focus of a statute, we do not analyze the provision at issue in a vacuum. If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions." *Id.* at 6.
    - "[I]nfringement is plainly the focus of § 284." "To determine the focus of §284 in a given case, we must look to the type of infringement that occurred." *Id.* at 7.
    - "The conduct that §271(f)(2) regulates—*i.e*., its focus-is the domestic act of 'suppl[ying] in or from the United States.'"
    - "The focus of § 284, in a case involving infringement under § 271(f)(2), is on the act of exporting components from the United States."
  - A patent owner's recovery "can include lost foreign profits when the patent owner proves infringement under § 271(f)(2)." *Id*. at 9.
  - Justice Gorsuch, with Justice Breyer dissented: Patent owners should not be able to recover compensation for foreign conduct.

Framework applied to Patent Act

- But what about *Microsoft Corp v. AT&T Corp, 550 U.S. 437, 464 (2007)?*
- Although some inconsistent statements in *Microsoft*, in general *WesternGeco* treated *Microsoft* as consistent.
  - No discussion of § 284.
  - "Recognizing that §271(f) is an exception to the general rule that our patent law does not apply extraterritorially, we resist giving the language in which Congress cast §271(f) an expansive interpretation." Id. at 442.
  - "Any doubt that Microsoft's conduct falls outside §271(f)'s compass would be resolved by the presumption against extraterritoriality, on which we have already touched."
  - "But as this Court has explained, "'the presumption is not defeated … just because [a statute] specifically addresses [an] issue of extraterritorial application,'; it remains instructive in determining the extent of the statutory exception." *Id.* at 455-456 (internal citations omitted).

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Proceedings Below – District Court

- Hetronic sued five foreign companies and their foreign owner ("Abitron") for infringement of registered trademarks, unregistered trademarks, and trade dress, in violation of Lanham Act
- Jury found willful infringement and awarded:
  - $240,000 for products sold from abroad "directly into the United States"
  - $2 million for products sold abroad to foreign buyers who designated the U.S. as "the ultimate location where the product was intended to be used" and entered the U.S.
  - $87 million for products sold abroad to foreign buyers that were not designated for use in the United States, but at least some of which had replaced sales that Hetronic otherwise would have made in foreign markets
- District Court entered a worldwide permanent injunction that barred Abitron from using Hetronic's marks "both within and outside of the United States"


Comparison of Transmitters
NOVA-M
NOVA-L
NOVA-XL
GL
GR
Euro
ERGO
HETRONIC
ABITRON

Opp. at 8.

Proceedings Below – 10th Cir. Appeal

- Appeals Court affirmed damages award, finding that, under Supreme Court's 1952 *Steele* decision, the Lanham Act "could apply abroad at least in some circumstances."
  - $240,000 for products sold directly into U.S. "isn't an extraterritorial application of the Act."
  - $2 million for products sold abroad that ended up in U.S. was likely to (and did) cause "confusion and reputational harm" in this U.S.
  - $87 million for products sold abroad to foreign buyers that were not designated for use in the United States
    - (1) goods that entered the United States and caused confusion here gave "the United States a reasonably strong interest in the litigation" and permitted holding petitioners liable for all of their other sales:
      - "once a court determines that a statute applies extraterritorially to a defendant's conduct, . . . that statute captures all the defendant's illicit conduct."
    - (2) *diversion-of-sales* theory:
    - "lost revenues would have flowed into the U.S. economy but for Abitron's conduct infringing a U.S. trademark"
    - "this monetary injury to Hteronic also caused substantial effects on U.S. commerce"
- Narrowed worldwide injunction to countries where Hetronic markets or sells its products

Abitron Austria GmbH v. Hetronic Int'l, Inc.

- The Supreme Court granted certiorari on November 4 in *Abitron Austria GmbH v. Hetronic Int'l, Inc.*
  - The Court did not specify which question it would hear:
- Question presented, by Petitioners:
  - Whether the court of appeals erred in applying the Lanham Act extraterritorially to petitioners' foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers.
- Question presented, by Respondent:
  - Whether the Lanham Act prohibits trademark infringement by a foreign corporation that—through direct sales into the United States, foreign sales that made their way into the United States and caused actual confusion here, and sales that diverted revenue from a U.S. company—had a substantial effect on U.S. commerce.
- U.S. Solicitor General invited to file a brief, framed the question differently:
  - Whether, under Sections 32(1)(a) and 43(a)(1)(A) of the Lanham Act, the owner of a U.S.-registered trademark may recover damages for uses of that trademark that occurred outside the United States and that were not likely to cause consumer confusion in the United States.

The Lanham Act, Relevant Provisions

- Section 32(1)(a) imposes civil liability upon any person who "***use[s] in commerce***" a "reproduction, counterfeit, copy, or colorable imitation" of a mark registered where "such use is likely to cause confusion, or to cause mistake, or to deceive"
- Section 43(a)(1)(A) imposes civil liability against any person who "***uses in commerce***" any mark that "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person."
- "**Commerce**" means "all commerce which may lawfully be regulated by Congress." (15 U.S.C. 1127)
- Section 35(a) provides that "plaintiff shall be entitled" "to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action."

Steele v. Bulova Watch Co., Inc., 344 U.S. 280 (1952)

- Held: Lanham Act grants jurisdiction to award relief for trademark infringement and unfair competition consummated in a foreign country
  - Key facts:
    - Steele was a U.S. Citizen
    - Bought component parts of watches into United States
    - Some watches ended up in U.S.
- Quote:

  "We do not deem material that petitioner affixed the mark "Bulova" in Mexico City, rather than here, or that his purchases in the United States, when viewed in isolation, do not violate any of our laws. They were essential steps in the course of business consummated abroad; acts in themselves legal lose that character when they become part of an unlawful scheme."

  "In the light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's activities here. His operations and their effects were not confined within the territorial limits of a foreign nation."
- Test applied in *Steele* since superceded by two-part framework of *Morrison* and *RJR*.

The Variety of Circuit Tests for exterritoriality reach of Lanham Act

- Second and Eleventh Cir. – *Vanity Fair* test
  - (1) Does defendant's conduct **substantially** effect on U.S. commerce; (2) is the defendant a U.S. citizen; and (3) does U.S. law conflict with trademark rights under the relevant foreign law.
- Fourth Cir. – modified *Vanity Fair* test
  - (1) Does defendant's conduct **significantly** effect on U.S. commerce
- Fifth Cir. – modified *Vanity Fair* test
  - (1) Does defendant's conduct **have some** effect on U.S. commerce
- Ninth Cir. – *Timberlane* test
  - (1) do the alleged violations create some effect on American foreign commerce; (2) is the effect sufficiently great to present a cognizable injury to the plaintiffs under the Lanham Act; and (3) are the interests of and links to American foreign commerce sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority
- First Cir. – *McBee* test
  - (1) is defendant a U.S. citizen?
  - (2) if not, does defendant's conduct has a substantial effect on U.S. commerce?

The 10th Circuit's Test in *Hetronic*

- Tenth Circuit – *Hetronic*
  - (1) is defendant a U.S. citizen? If yes, Lanham Act applies
  - (2) if not,
    - (i) does defendant's conduct have a substantial effect on U.S. commerce and,
    - only if so (ii) would extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law.
- Held: Activities had "substantial effect" – "diversion of sales" had substantial on U.S. commerce

The 4th Circuit's contrary view in *Tire Engineering*

- *Tire Engineering & Distribution, LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292 (2012) (per curiam), cert. denied, 568 U.S. 1087 (2013)
- Rejected "diversion of sales" theory to support "substantial effect" on U.S. commerce
  - "[C]ourts invoking the diversion-of-sales theory have required the defendants to be U.S. corporations that conducted operations—including at least some of the infringing activity—within the United States. Only in such instances is there a sufficient nexus between U.S. commerce and the infringing activity."
  - Here, in contrast, Appellants are not U.S. corporations and they lack a pervasive system of domestic operations. Thus we cannot conclude that the extraterritorial conduct—exclusively foreign sales of infringing tires—has a significant effect on U.S. commerce as required by the dictates of the Lanham Act[.]"
  - "We accordingly hold that the Lanham Act does not afford Alpha relief, and we dismiss its claims under that statute."

Current Arguments in *Abitron Austria GmbH v. Hetronic Int'l, Inc.*

- Petitioners' argument
  - Step One: "The Lanham Act nowhere states that it applies in foreign countries." Pet. at 14.
  - Step Two: Whatever the focus is, Petitioners contend there is no domestic act here. Pet. 34.
  - Damages:
    - Rejecting "[t]he Tenth Circuit's 'diversion of foreign sales from a U.S. plaintiff'" Pet. at 15.
    - "[A] plaintiff must prove not merely the use of a protected U.S. trademark, but that the effect is 'likely to cause confusion' or 'mistake' or to 'deceive.'" Pet. at 27.
- Respondent's argument rests on Step One: Everyone agrees Lanham Act has extraterritorial application
- Solicitor General: "The question presented here is an important and recurring one, and the various tests adopted by the courts of appeals have failed to focus on whether a foreign use is likely to cause U.S. consumer confusion." Solicitor General's Brief at 9.
  - Step One: Lanham Act's text does not rebut presumption against extraterritoriality
  - Step Two: "The text, context, and purposes of the relevant Lanham Act provisions indicate that the focus of those provisions is consumer confusion or mistake."

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How could *Abitron Austria GmbH v. Hetronic Int'l, Inc.* affect Patent Law?

- How should the two-part framework apply where multiple statutory subsections are at issue?
  - *RJR* applied two-part framework twice over, with dissent as to separate treatment of the cause-of-action subsection.
  - *WesternGeco* applied two-part framework once, incorporating its analysis of § 271(f)(2) as "context" but skipped step one.
  - Court's treatment in *Abitron* could affect how parties frame patent law extraterritoriality issues in future.

How could *Abitron Austria GmbH v. Hetronic Int'l, Inc.* affect Patent Law?

- At Step One, how should the Court reconcile its older case law with the two-part *Morrison/RJR* framework?
  - Court has indicated its current two-part framework merely "sharpened" existing extraterritoriality case law.
  - If the Court reconciles its decision in *Steele* with its current two-part framework, this may affect how parties can leverage older Supreme Court decisions in extraterritoriality arguments.
    - *WesternGeco* dissent example of Justice Gorsuch's treatment of older Supreme Court extraterritorial patent damages cases.

How could *Abitron Austria GmbH v. Hetronic Int'l, Inc.* affect Patent Law? (continued)

- At Step Two, how the Court interprets the "focus" of the Lanham Act provisions may provide arguments regarding the "focus" of the other subsections of § 271.

How could *Abitron Austria GmbH v. Hetronic Int'l, Inc.* affect Patent Law? (continued)

- Court may further clarify relationship between extraterritoriality framework and damages.
  - *WesternGeco* majority rejected conflating damages law and extraterritoriality framework.
    - But majority did not reconcile older Supreme Court cases referenced by the dissent.
  - *Abitron* unique in that presents three different fact patterns, which explore outer limits of commerce clause.
- Court may address worldwide injunction.

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QUESTIONS

THANK YOU

BACKUP SLIDE: Framework applied to Securities Exchange Act

- *Morrison v. Nat'l Australia Bank Ltd*., 561 U.S. 247 (2010)
- Held: SEC Section 10(b) does not provide a cause of action to foreign plaintiffs suing foreign and American defendants for misconduct in connection with securities traded on foreign exchanges.
  - Step 1: § 10(b) contains nothing to suggest it applies abroad—the broad and general definition of "interstate commerce," a term used in § 10(b) ("trade, commerce, transportation, or communication ... between any ***foreign country*** and any State)" does not defeat the presumption against extraterritoriality.
  - Step 2: 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.
  - "This case involves no securities listed on a domestic exchange, and all aspects of the purchases complained of by those petitioners who still have live claims occurred outside the United States. Petitioners have therefore failed to state a claim on which relief can be granted."