Murky International Waters In Patent Law's 'Offer To Sell'

Law360, New York (April 25, 2014, 12:54 PM ET) -- A foreign manufacturer exhibits at a trade show in the United States where offers to sell its goods are contemplated. On the one hand, if offers to sell infringing goods are made at the trade show, one might think that a clear case of direct infringement exists even though the contemplated sale may occur outside the United States because 35 U.S.C. §271(a) declares an "offer to sell … any patented invention, within the United States" to be an act of infringement. On the other hand, one might think that if a company negotiates the terms of a sale exclusively outside the United States, even for products that are intended for the United States market, the negotiations by themselves should not constitute direct infringement because there has been no activity "within the United States."

Federal Circuit case law has not been entirely consistent in addressing "offer to sell" issues. In Transocean Offshore Deepwater Drilling Inc. v. Maersk Contractors USA Inc., a Federal Circuit panel ruled that the "focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer."[1] Yet in Rotec Industries Inc. v. Mitsubishi Corp., an earlier Federal Circuit panel analyzing the "offer to sell" statutory provision focused solely on the activities within the United States and ruled that the "extraterritorial activities [are] irrelevant to the case …, because 'the right conferred by a patent under our law is confined to the United States and its territories, and infringement of this right cannot be predicated of acts wholly done in a foreign country.'"[2]

In more detail, the Transocean defendant, a United States company, negotiated and made offers in Norway and Denmark through its Danish affiliate and entered into a contract to provide the service of an oil drilling rig being constructed in Singapore. While the negotiations and contracting all occurred outside the United States, the rig was intended for use in the United States. But before delivery and any use in the United States, the rig was modified so that the actual rig that entered the United States was not infringing. The Federal Circuit panel in Transocean nonetheless held that direct infringement occurred because there was an "offer to sell" the original, infringing oil rig "within the United States."

In comparison, the Rotec defendant had met with foreign buyers in the United States, prepared an offer in the United States, but only communicated the offer to the foreign buyers outside the United States for delivery of a product in China. Because the offer was not communicated in the United States, the Federal Circuit ruled that there was no direct infringement under the "offer to sell" provision of §271(a), curtailing the extraterritorial application of United States patent laws.

But the rationale in Rotec appears to conflict with what the Federal Circuit found to be infringing in Transocean. The difference? The Transocean panel interpreted the statutory and territorial restriction — "within the United States" — to limit the "to sell" in "offer to sell," while Rotec used it to limit the "offer" in "offer to sell."

The defendant in Transocean has since petitioned the United States Supreme Court for a writ of certiorari. While certiorari has not yet been granted, the Supreme Court has signaled its interest by inviting the solicitor general to file a brief expressing the views of the United States.[3] Some empirical research suggests that certiorari is 37 times more likely to be granted following such a request, regardless of the recommendation of the solicitor general.[4]

Moreover, this petition has garnered amicus briefs not only from 10 intellectual property professors, an industry participant, and an intellectual property law association, but also from the Foreign Affairs Ministry of Denmark, which argues that extraterritorial expansion of United States patent laws violates principles of international comity. As of the drafting of this article, the solicitor general has yet to file a brief.

United States courts have said that “one of the purposes of adding ‘offer[] to sell’” to the Patent Act was to prevent “generating interest in a potential infringing product to the commercial detriment of the rightful patentee.”[5] Yet the Federal Circuit acknowledged in Transocean that Congress added the phrase “offer to sell” to 35 U.S.C. §271(a) to conform United States patent laws to the Uruguay Agreement on Trade Related Aspects of Intellectual Property Rights. The Danish Foreign Affairs Ministry points out that under Danish law, “a deal concluded between two companies in the United States could not entail an infringement of a Danish patent where no infringing activity occurs on Danish soil.”[6]

The same limit appears to be true in the United Kingdom where courts there have interpreted “offers to dispose of” to mean “offers in the United Kingdom to dispose of the product in the United Kingdom.”[7] In the United States, the only guidance Congress provided in the statute was a temporal restriction in 35 U.S.C. §271(i), limiting the contemplated sale to “occur before the expiration of the term of the patent.” Although §271(i) does not express a territorial limitation, some judges read §271(i) as having an implied limitation for the sale to be within the United States. See e.g., Judge Newman’s concurrence in Rotec.[8]

No one disputes that when an “offer to sell” infringing goods is made in the United States for a sale contemplated in the United States, such activity is clearly an act of direct infringement and does not violate the principles of extraterritorial limitations of United States laws. Likewise, when the offer to sell and the sale both occur outside of the United States, there is no “offer to sell” under United States patent laws.

The split situations, however, give rise to extraterritorial concerns and disputes, regardless of whether it is (1) an offer to sell made in the United States for a sale abroad, or (2) an offer to sell made abroad for a sale in the United States.

In the first situation, where the offer to sell is made in the United States for sales abroad, the Federal Circuit avoided deciding the issue in Synthes (U.S.A) v. G.M. Reis.[9] Synthes involved a foreign manufacturer alleged to have made offers to sell during a United States trade show. The product was a medical device not approved for sale in the United States, but was allegedly intended to generate commercial interest from foreign visitors present at the trade show.

Faced with an appeal from a dismissal for lack of personal jurisdiction, the Federal Circuit ruled that the foreign manufacturer was subject to personal jurisdiction but saw "no reason to address, as both parties urge, whether Synthes made a prima facie showing that GMReis' activities in the United States constituted patent infringement under 35 U.S.C. § 271(a)."

In the second situation, which is similar to Transocean where the offer occurs abroad, greater concerns over the extraterritorial expansion of United States laws exist. Under this scenario, an "offer to sell" may exist without any negotiations occurring in the United States as long as product is intended for delivery to the United States. Under Transocean, no actual consummation of a contract in the United States, or even construction of the intended product, is required to find an infringing offer to sell. Notably, the district court concluded that there was no offer to sell or sale because the contract "expressly indicated that the final drill design could be modified based on the outcome of the pending district court litigation" and in fact was modified to be noninfringing before delivery.

The Federal Circuit rejected this conclusion. It relied instead upon the "schematics" that accompanied the contract existing at the time of the contract to show infringement and found the altered and actual delivered product to be irrelevant to the analysis.[10] Still, the express holding in Transocean — "a contract between two U.S. companies for performance in the U.S. may constitute an offer to sell" — may arguably be narrow if it is limited to situations where the parties are United States companies.

Thus, unless the U.S. Supreme Court changes the law, companies planning their business may want to consider the following:

1. A company located in the United States attempting to make sales and delivery of its foreign-made products may be able to avoid direct infringement by communicating its offers to sell while physically located outside the United States. Although some preparation for the negotiations may be done in the United States, the actual communication of the offer will need to be made abroad in order to avoid potential direct infringement. If the product is intended for the United States market, however, simply traveling abroad to communicate the offer may not necessarily avoid direct infringement under current Federal Circuit law.

2. Just like in MEMC Electronic Materials Inc. v. Mitsubishi Materials Silicon Corp,[11] a company operating abroad wanting to avoid direct infringement would have to negotiate and enter into its sale contract and complete delivery of the product to a company located outside the United States, even though the product is ultimately destined for the United States. While direct infringement may be avoided, there may still be issues of indirect or induced infringement if the company knows of the United States patent. However, if the product is shipped directly by the company located outside the United States to an entity located in the United States, then that delivery may still constitute a

“sale” under 35 U.S.C. §271(a).[12]

3. What is not resolved by the current case law is the situation in which an offer to sell is made in the United States for a sale to occur outside the United States. The Federal Circuit decisions in Rotec and Transocean appear to be in conflict. If the Supreme Court denies certiorari or affirms the Federal Circuit’s reasoning focusing on the location of the future sale that would occur pursuant to the offer, then an offer to sell made in the United States for a product, both made and sold outside the United States, may not be an act of direct infringement. However, if the Supreme Court rejects the Transocean test because of extraterritoriality concerns, it may still not resolve this issue given that the actual fact pattern is not before the court. Further case developments may be required.

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[1] 617 F.3d 1296, 1309 (Fed. Cir. 2010); Transocean Offshore Deepwater Drilling Inc. v. Maersk Drilling USA, Inc., 699 F.3d 1340 (Fed. Cir. 2012) (cert pending).

[2] 215 F.3d 1246, 1251 (Fed. Cir. 2000).

[3] Maersk Drilling USA, Inc. v. Transocean Offshore Deepwater Drilling, Inc., 134 S. Ct. 381 (2013).

[4] David C. Thompson and Melanie F. Wachtell, An Empirical Analysis of Supreme Court Certiorari Petition Procedures: The Call for Response and the Call for the Views of the Solicitor General, Geo. Mason L. Rev., Vol. 16:2, pp. 237-302 (“of petitions filed from OT ’98 through OT ’04, the Supreme Court granted plenary review to 31 of 91 (34%) cases in which it called for the views of the SG. Thus, a petition is over 37 times more likely to be granted following a CVSG.”)

[5] 3D Systems, Inc. v. Aarotech Labs., Inc., 160 F3d 1373, 1379 (Fed. Cir. 1998).

[6] http://sblog.s3.amazonaws.com/wp-content/uploads/2013/08/13-43AmicusCuriaeBriefOfTheMinistryOfForeignAffairsOfDenmarkOk-to-Print....pdf

[7] Kalman v. PCL Packaging (U.K.) Ltd., 1982 F.S.R. 406, 428 (at 1982 WL 221922) (High Court of Justice – Patent Court, March 8, 1982).

[8] 215 F.3d at 1259.

[9] 563 F.3d 1285, 1298-1299 (Fed. Cir. 2009).

[10] Transocean, 699 F.3d at 1356-57.

[11] 420 F.3d 1369 (Fed. Cir. 2005) (no direct infringement by a Japanese manufacturer selling and delivering product to another Japanese company that transfers the product to its subsidiary in the United States, but possibility of inducing infringement may exist with knowledge of patent)

[12] Lightcubes LLC v. Northern Light Products, Inc., 523 F.3d 1353, 1371 (Fed. Cir. 2008).