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Protection of Inventions in the Multinational Marketplace: Problems and Pitfalls in Obtaining and Using Patents*

by David S. Safran**

In this age, most inventions result from corporate research efforts. With the increase in the number of multinational corporations, a growing number of these research efforts are the result of the work of several research and development teams that are located in different countries. As a consequence, a corporation must consider the potential problems that may arise when it decides to seek patent protection in the United States and in other countries. Although each country has its own laws and rules governing the filing and processing of patent applications and the granting of patents, the filing of a patent application on an invention in one country may have a significant effect on the corporation's ability to obtain corresponding patents in other countries. Similarly, in today's world market, the components of a patented product may be produced in one country, assembled in a second country, and sold in yet other countries. Thus, in the international scheme by which many products are produced and marketed, the commercialization of an invention in one country may have implications that affect the enforcement of patent rights granted in another country.

This article looks at the international aspects of the decisions that must be made and the actions that must be taken when patent protection is being sought for an invention in the United States and in at least one foreign country, and also looks at the enforcement of patent rights in the United States in situations involving actions taken or rights held abroad.

I. Filing for Patent Protection

A. Timing

When an invention is created, the initial focus is usually on its commercial value, which is measured by the invention's ability to be profitably produced and sold in sufficient volume. Other important con-

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siderations are whether the invention is sufficiently different from previous inventions and the known pre-existing state of technology to meet the criteria for patent protection, and whether the difference would enable a patent with an adequate scope of enforceability to be obtained. Evaluation of these considerations, however, takes time, and whether an invention is commercially valuable or whether a patent can or should be sought are moot questions if delays in filing for a patent application result in forfeited patent rights or in others obtaining superior rights in the invention.

In the case of contemporaneous development of an invention by more than one party, being the first to file a patent application may not be critical because, in the United States, the first applicant would not be entitled to the patent if the invention was made in this country by another party who had not abandoned, suppressed, or concealed the invention.¹ The United States and Canada, however, are among the few countries that do not automatically award patent rights to the inventor who is the first to file a patent application.² Also, some activities may bar issuance of an enforceable patent on an invention in the United States if a patent application is not filed within one year.³ These activities include describing an invention in a printed publication, open use or exhibition of the invention, sale or offering for sale a device that includes the invention or a device produced in accordance with an inventive process, and other nonconfidential disclosures of an invention to others.⁴ On the other hand, most other countries either have no grace periods or only short grace periods for specific activities, such as public exhibitions at certain approved trade fairs.⁵

It is important, therefore, to maintain an invention in secrecy until a patent application can be filed and to proceed with the filing of the application as soon as possible. It is not necessary, however, to race to every national patent office in order to place applications on file, because the United States has entered into a number of international patent treaties⁶ which provide a so-called "right of priority," enabling the filing date of

¹ Act of July 19, 1952, ch. 950, §1, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 1-376 (1976 & Supp. 1981)). 35 U.S.C. §102(g) (1976 & Supp. V 1981).

² See 2 BAXTER, WORLD PATENT LAW AND PRACTICE 83 (1983).

³ 35 U.S.C. §102(a),(b) (1976).

⁴ *Id.*

⁵ See 2 BAXTER *supra* note 2, at 82-82.7.

⁶ Paris Convention For the Protection of Industrial Property, Mr. 27, 1883, 21 U.S.T. 1629, T.I.A.S. No. 6923; 192 L.N.T.S. 4459; Inter-American Convention for the Protection of Inventions, Patents, Designs and Industrial Models, Aug. 20, 1910, 38 Stat. 1811, T.S.No. 595. The right of priority has also been recognized based upon applications equivalent to regular national applications under treaties concluded between countries bound by the Paris Convention for the Protection of Industrial Property. Included are the Libreville Agreement relating to the creation of an African and Malagasy Office of Industrial Property, dated September 13, 1962, administered by the African Organization for Intellectual Property (AOIP); the European Patent Convention, Oct. 5, 1973, U.N. No. 16207; and the Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645-7906, T.I.A.S. No. 8733, negotiated at the Washington Diplomatic Conference, May and June, 1970.

the first filed application in one treaty country to be treated as the filing date of corresponding applications filed subsequently in other treaty countries.⁷ Timing remains important, however, because the treaties require that subsequent applications must be filed within one year of the filing date of the first filed application,⁸ or within six months for design patent applications.⁹ Furthermore, this right-of-priority benefit cannot counter the effect of any barring activities that occur prior to the filing of the first patent application.¹⁰ For example, if an invention is disclosed in a publication prior to the filing of the first application, the right to obtain a patent will be forfeited in every country where the publication of a description of an invention can prevent issuance of a patent, unless an application is filed in each of those countries before the expiration of any grace period provided under the respective national laws.¹¹

The right-of-priority benefit can also serve to prevent rights from being lost due to activities that occur between the date of filing of a patent application in one treaty country and a subsequent filing of a corresponding application in another treaty country. For example, if a patent application is filed on an invention in the United States and the invention subsequently is described in a printed publication, the publication will have no effect so long as corresponding foreign applications are filed within one year of the filing of the American application, because the foreign applications will be considered to have been filed on the same date as the U.S. application and prior to the barring activity.¹²

B. U.S. Law and its Impact on Foreign Filings

Internationally, it is crucial to preserve the right-of-priority benefits accruing from the filing of a patent application. From a practical standpoint, when the first filed application is a U.S. patent application, care must only be taken to comply with the procedural requirements, such as the filing of an appropriate national or international¹³ application within one year, and the filing of an officially certified copy (and possibly a sworn translation) of the application whose filing date benefit is being sought. In contrast:

An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country . . . shall have the same affect as the same application would have if filed in this country on the date on which the application for a patent for the same invention was first filed in such foreign

⁷ See, e.g., Paris Convention, *supra* note 6 at Art. 4(A)(1)-(3).

⁸ *Id.* at Art. 4(c)(1).

⁹ *Id.*

¹⁰ *Id.* at Art. 4(B).

¹¹ *Id.*

¹² *Id.*

¹³ See Patent Cooperation Treaty, European Patent Convention and Libreville Agreement, *supra* note 3.

country.¹⁴

Thus, the somewhat unique posture of U. S. law with respect to inventorship¹⁵ and the nature of the disclosure that must be contained in a patent application¹⁶ can cause problems when a U.S. applicant seeks the benefit of an earlier, foreign application that was filed without regard to U.S. law.

Concerning inventorship, the U.S. patent application must be filed by the actual inventor as determined by U.S. law.¹⁷ Care should be taken in designating the inventors in the U.S. application because correct inventorship designation is essential to the validity of a U.S. patent.¹⁸ The general rule outside the United States, however, is that the inventorship designation will not affect the validity of a patent.¹⁹ As a result, inventors who might not be inventors under U.S. law are often named in foreign patent applications to enhance the employee morale of the company or to avoid potential confrontations in the company. The mere fact, however, that the earlier, foreign application was filed by a party other than the inventor named in the U.S. application, or names an inventorship entity that differs from the entity named in the U.S. application, will not, by itself, preclude obtaining a priority benefit as long as the nomination in the earlier foreign application conforms to the laws of that country.²⁰

In order to obtain the benefit of priority in the United States, the earlier foreign application must have been filed by either the U.S. named inventors or their "legal representatives or assigns."²¹ Also, the U.S. Patent and Trademark Office will refuse the benefit of priority when there is a disagreement between the named inventorship of the U.S. application and that of the foreign priority application "until the inconsistency or disagreement is resolved."²² Therefore, if an inventive entity is to be designated in a foreign application that will be different from the entity that

¹⁴ 35 U.S.C. § 119 (1976).

¹⁵ "Whoever invents or discovers . . . may obtain a patent . . ." *Id.* § 101.

¹⁶ "The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor carrying out his invention." *Id.* § 112.

¹⁷ 35 U.S.C.A. §§ 115-116 (West Supp. 1982, amended Aug. 27, 1982).

¹⁸ 35 U.S.C. § 101 (1976).

¹⁹ That is, even in those countries where the inventors must be named, this requirement relates to the right of the true inventors to have their name made of record as opposed to a limitation on the party to whom a patent may be granted. The requirements of the European Patent Office for European patents is typical in this respect. Incorrect designations can be corrected, but there is no penalty if an incorrect designation exists. The resulting patent cannot be opposed or revoked merely on the basis that the correct inventorship was not designated. *See* European Patent Convention, *supra* note 6, at Art. 100, 138; Implementing Regulations to the European Patent Convention at Rules 17-19.

²⁰ *Schmitt v. Babcock*, 377 F.2d 994, 1001 (C.C.P.A. 1967), *Payne v. Natta*, 172 U.S.P.Q. (BNA) 687, 693-94 (Pat. Off. Bd. of Pat. Inter. 1971).

²¹ 35 U.S.C. § 119 (1976).

²² MANUAL OF PATENT EXAMINING PROCEDURES, § 201.15 (1982).

will be used in the corresponding U.S. application, care should be taken to ensure that any inconsistency in named inventorships be explainably consistent with the respective national laws. When possible, it is simpler to file the foreign application in the names of only those individuals who would be the true inventors under the strict rules of U.S. patent practice to make certain that any subsequent U.S. application will have the identical inventorship.

More important than correctly naming inventors in the foreign priority application is the initial filing of the contents of invention disclosure. Although the procedural "regularity" of a foreign filing for purposes of obtaining the benefit of the filing date in connection with a corresponding U.S. application is determined by the law of the foreign country,²³ an application filed in a foreign country is treated in the same manner as an equivalent domestic filing.²⁴ The content of the foreign application, therefore, must meet the U.S. disclosure requirements in the same manner as a U.S. application would, in order to obtain the benefit of the filing date.²⁵ As a result, if a foreign application is to be filed before the corresponding U.S. application, it is imperative to draft the foreign application, not only to meet the requirements of the laws of the nation in which it is to be filed, but also to ensure that it contains a description of the invention that will be considered sufficient under U.S. standards.

C. Where an Invention is Made

The right to obtain the benefit of the filing date of a patent application in a foreign country in connection with a corresponding application filed in the United States applies to all applications filed abroad, as long as the foreign country offers similar benefits for applications filed in the United States.²⁶ The right to obtain the benefit of the filing date applies irrespective of the citizenship of the inventor or applicant designated in the corresponding U. S. and foreign applications.²⁷ A U.S. inventor, or the inventor's legal representatives or assigns, can, therefore, take advantage of this provision. For example, if circumstances make it desirable, an application for an invention developed by U.S. citizens employed by a U.S. company could be filed first in a foreign country and the benefit of the foreign filing date claimed in a subsequent application filed in the United States. On the other hand, even though an inventor and his or her assigns are not U.S. citizens, circumstances exist when it is necessary that the application be filed first in the United States.²⁸ Although the purpose of this requirement is to prevent disclosure of information that

²³ *Kawai v. Metlesies*, 480 F.2d 880 (C.C.P.A. 1973).

²⁴ *Id.*

²⁵ *Id.*

²⁶ 35 U.S.C. §§ 365, 119, 172 (1976).

²⁷ *Id.*

²⁸ This is true except when authorized by a license obtained from the Commissioner of

might adversely affect the welfare of the United States if prematurely disclosed, the requirement applies to inventions other than those involving national security.²⁹ Accordingly, this requirement must be taken into consideration even with the most innocuous of inventions. Failure to obtain the required license prior to filing in a foreign country causes the corresponding U.S. patent issued on the invention to be invalid.³⁰ A license, however, can be retroactively obtained when the foreign filing was inadvertent and not detrimental to national interests³¹ even after the issuance of the U.S. patent.³²

The requirement for a foreign filing license applies only to "an invention first made in this country"³³ and does not apply to inventions made abroad.³⁴ Unfortunately, however, the conditions under which a license is required are not as simple as they might appear; especially for multinational corporations with research facilities in the United States and manufacturing facilities abroad, or vice versa. For example, suppose the inventor in the United States devises an idea for a new invention and develops this idea to the extent of producing "build-to" specifications and drawings. The specifications and drawings are then sent to the employers' manufacturing facility in another country where a prototype is built in exact conformance with the specifications and drawings provided by the inventor, and is operationally tested. It might appear that the invention was "made" in the United States, but this is not the case. The licensing section of the patent statute has been construed as stating that where and when an invention is "reduced to practice" is determinative of when the invention was made.³⁵ The invention, therefore, was made abroad because that is the location where it was constructed and successfully tested. Thus, in the given example, the invention was not made until after the prototype was built and tested, an event that did not occur in the United States. The result would have been different, how-

Patents and Trademarks. Such a license is required up until six months after filing of a U.S. patent application. 35 U.S.C. § 184 (1976).

²⁹ *Thermovac Industries Corp. v. Virtis Co.*, 285 F. Supp. 113 (S.D.N.Y. 1968).

³⁰ 35 U.S.C. § 185 (1976). Representative Kestenmaier has introduced H.R. 4524, 98th Cong., 1st Sess. (1983), which, if enacted, would eliminate the penalty of loss of patent rights for the inadvertent filing of a foreign patent application without the requisite license, so long as the failure to procure a license resulted through error and without deceptive intent.

³¹ See *Union Carbide Corp. v. Microtron Corp.*, 254 F. Supp. 299, 301 (W.D.N.C. 1966).

³² 35 U.S.C. § 184 (1976).

³³ *Id.*

³⁴ *Seaelectro Corp. v. L.V.C. Industries*, 271 F. Supp. 835, 837 (E.D.N.Y. 1967).

³⁵ "A process is reduced to practice when it is successfully performed. A machine is reduced to practice when it is assembled, adjusted and used. A manufacture is reduced to practice when it is completely manufactured. A composition of matter is reduced to practice when it is completely composed." *Corona Co. v. Dovan Corp.*, 276 U.S. 358, 383 (1927). "The invention of a process is completed or reduced to practice, when it is successfully performed." *Shurie v. Richmond*, 699 F.2d 1156, 1159 (Fed. Cir. 1983). "Reduction to practice occurs when it is established that the invention will perform its intended function beyond a probability of failure . . . this usually requires testing of the invention." *McDonnell Douglas Corp. v. United States*, 670 F.2d 156, 161 (Ct. Cl. 1982).

ever, if the prototype had been sent back to the inventors in the United States to conduct the tests required to establish the operability of the invention. Since the question of where an invention was "made" will turn upon the facts of the specific case, and may not always be perfectly clear, it is best that a foreign filing license be obtained, retroactively if necessary, if any doubt exists.³⁶

The question whether an invention has been made in the United States is even more significant in connection with proceedings between different parties claiming to be the true inventor of the same invention,³⁷ and thus, entitled to the patent on it. In the United States, the first applicant can be denied a patent in favor of another who previously "made" the invention in this country.³⁸ Furthermore, by statute, priority of an invention is determined by considering "not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."³⁹ In situations, therefore, when an invention is to be reduced to practice prior to the filing of any patent applications, the reduction to practice should, if possible, be carried out within the United States, because:

in proceedings in the Patent Office and in the courts, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country, except as provided in 119 and 365 of this Title [relating to obtaining the benefit of an earlier filed national or international application].⁴⁰

Since the reduction to practice does not occur, in most cases, until the invention is tested,⁴¹ it is possible to have an invention conceived and produced abroad and tested in the United States, so as to be considered to have been reduced to practice in the United States.⁴² The testing that brings about a reduction to practice need only be done on the inventor's behalf and need not be done by the actual inventor.⁴³

³⁶ This area is one which soon will have limited significance except for security related inventions (weapons, atomic energy, etc.) since all applications filed in the United States, effective February 27, 1983, are considered to include a petition for license under 35 U.S.C. § 184 (1976) for the subject matter of the application. 37 C.F.R. § 5.12 (1983). Furthermore, attempts have been made to eliminate the penalty of loss of patent rights. See H.R. 4524, *supra* note 30.

³⁷ 35 U.S.C. § 135 (1976) (involving an application in one or more patents of other applications); 35 U.S.C. § 291 (1976) (involving only patents).

³⁸ See *supra* note 1 and accompanying text.

³⁹ 35 U.S.C. § 102(g) (1976).

⁴⁰ 35 U.S.C. § 104 (1976).

⁴¹ See *supra* note 35 and accompanying text.

⁴² See *Breuer and Treaner v. DeMarinis*, 194 U.S.P.Q. (BNA) 308 (C.C.P.A. 1977).

⁴³ See *Litchfield and Vely v. Eigen*, 190 U.S.P.Q. (BNA) 113 (C.C.P.A. 1976).

II. Extraterritorial Extensions and Limitations on Patent Enforcement

A. Boundary Restrictions

The general rule for patents is that the rights granted to a patentee under U.S. law are confined to the United States and its territories, and claims thereunder cannot be based on acts wholly done in a foreign country.⁴⁴ Consequently, it has been held that a distributor located in the United States is not subject to a claim of infringement for the sale of a product covered by a U.S. patent when the goods were procured in Germany and sold in Canada.⁴⁵ Similarly, when all components of a patented product are manufactured and assembled in the United States to the point when less than one hour would be required to complete assembly of the entire product, and when the parts so completed are shipped in three separate boxes out of the United States to a foreign country where assembly of the product is completed and the product utilized, no violation of U.S. patent laws would occur. The totality of the patented combination would not have been made, used, or sold within the United States⁴⁶ in accordance with the statutory requirements for a finding of infringement,⁴⁷ and there can be no contributory infringement without a direct infringement within the United States.⁴⁸ Furthermore, since the right to exclude others from making, using, or selling an invention conferred by a U.S. patent only extends "throughout the United States,"⁴⁹ that U.S. patent cannot confer any legal power to limit foreign manufacture, use, or sale of the patented products. Thus, the power to grant restrictive foreign sales licenses to U.S. manufacturers must be conferred under rights granted in the respective foreign countries.⁵⁰

In the same manner that U.S. patent laws are not intended to operate beyond the limits of the United States,⁵¹ foreign laws can exert no control over U.S. markets.⁵² Thus, a person who lawfully purchases goods in a foreign country from a party authorized to sell them in that country, but not in the United States, is precluded from selling those goods in the United States without a license, or without the consent of

⁴⁴ *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915). See *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972).

⁴⁵ *Dowagiac*, 235 U.S. at 650.

⁴⁶ *Deepsouth*, 406 U.S. at 528. *Accord* *Radio Corp. of America v. Andrea*, 79 F.2d 626, 628 (2d Cir. 1935). The decision in *Deepsouth* would be reversed by passage of H.R. 4526, 98th Cong., 1st Sess. (1983), which would amend Title 35 with respect to the use of potential inventions outside the United States.

⁴⁷ 35 U.S.C. § 271(a) (1976).

⁴⁸ See *supra* text accompanying note 46.

⁴⁹ 35 U.S.C. § 154 (1976 & Supp. V. 1981).

⁵⁰ See *Mannington Mills, Inc. v. Congoleum Industries*, 610 F.2d 1059, 1067 (3d Cir. 1979).

⁵¹ See *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1856).

⁵² See *Deepsouth*, 406 U.S. at 531.

the owners of the U.S. patent.⁵³ Likewise, sale of patented goods by a foreign patentee cannot exempt the goods from the effect of the monopoly of a U.S. patentee who has not sold the goods, because the sale of the goods within the United States would be infringement of the U.S. patent.⁵⁴ Moreover, it makes no difference to a person using or selling the goods in the United States that the foreign and U.S. patents are commonly owned, when goods are acquired from one having no right to use or sell them in the United States.⁵⁵

Not all unauthorized uses within the United States of an invention covered by a U.S. patent constitute infringement. By statute:

the use of any invention in any vessel, aircraft or vehicle of any country which affords similar privileges to vessels, aircraft or vehicles of the United States, entering the United States temporarily or accidentally, shall not constitute infringement of any patent, if the invention is used exclusively for the needs of the vessel, aircraft or vehicle and is not sold in or used for the manufacture of anything to be sold in or exported from the United States.⁵⁶

B. Exceptions to the Rule

The extraterritorial effect of the U.S. patent system has been disclaimed,⁵⁷ but acts committed outside of the territorial boundaries of the United States can affect the enforceability of a U.S. patent and may serve as a basis for liability in the United States.

1. Exhaustion of Monopoly by Acts Abroad

The purchase of goods covered by a U.S. patent in another country may not carry with it the right to use or sell such goods within the United States.⁵⁸ Accordingly, a purchaser who intends to acquire goods outside of the United States, but intends to use or sell them within the United States should inquire into the rights held by the seller. Even if the seller is the U.S. patentee, the purchaser should inquire into the exist-

⁵³ See *Boesch v. Graff*, 133 U.S. 697, 702-03 (1890).

⁵⁴ See *Daimler Mfg. Co. v. Comklin*, 170 F. 70 (2d Cir. 1909).

⁵⁵ See *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283 (E.D. Pa. 1978). Where a patent holder owned concurrent U.S. and foreign patents and had entered into analogous licensing agreements concerning the same goods, U.S. patent law precluded an American dealer from purchasing in another country goods patented there, from a person authorized to sell the goods in that country, and importing them for sale in the United States. *Id.* at 1285-86. Although the dealer's purchase of patented goods in a foreign country was from a licensee who had been granted an exclusive licensing agreement by the patent holder, and who was, therefore, authorized under foreign law to sell such goods, the goods were not released from the U.S. patent monopoly. *Id.* at 1286-87, *Sanofi, S.A. v. Med-Tech Veterinarian Products*, 565 F. Supp. 931 (D.C.N.J. 1983) (a U.S. patentee has no more right to practice his patent in a field of use where an exclusive license has been given than does a stranger). *Id.* at 937. If the exclusive license has been violated by the patentee, he may be sued for infringement. *Id.*

⁵⁶ 35 U.S.C. § 272 (1976 & Supp. V 1981).

⁵⁷ See *supra* note 44 and accompanying text.

⁵⁸ See *supra* note 53 and accompanying text.

ence of any outstanding licenses that could result in his expectations being frustrated.

On the other hand, a U.S. patentee who does not wish to have goods that are sold in the United States under the U.S. patents compete with goods sold by the U.S. patentee outside of the United States, can find his intentions frustrated by the "exhaustion of monopoly" doctrine.⁵⁹ It has long been recognized that this doctrine is not restricted to situations when a U.S. patentee has sold his goods within the United States, but also applies to the unrestricted sale of goods outside of the United States.⁶⁰

[I]f the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article in any and every country.⁶¹

A similarly established corollary is that a territorial restriction upon a licensee will not preclude one who purchases a patented article from the territorial licensee from utilizing the purchased article outside the restricted territory.⁶² This theory has been applied to exempt one who purchased goods from a licensee under a plaintiff's Canadian patent from charges of infringement under U.S. patents held by the plaintiff.⁶³ Moreover, if the U.S. patentee, or a party acting under rights conferred by the U.S. patentee, were to part with its product in reliance upon a fraudulent misrepresentation that the goods would not be sold or utilized in the United States, a bona fide purchaser for value without any knowledge of the misrepresentation, and without any knowledge of any restriction on the sale and use of the goods imposed by the U.S. patentee, would be free to bring the goods into the United States and to utilize them there, without restriction.⁶⁴

Consequently, whenever a U.S. patentee expects to be able to adapt his marketing strategies to the respective countries in which the goods are to be sold (for example, modifying the goods or the pricing thereof so as to compete most effectively in the respective national marketplaces) without having to compete in the United States with goods sold abroad under his foreign patent rights, careful consideration must be given to the manner in which patent rights are held and the goods are sold. For

⁵⁹ "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, . . . he parts with the right to restrict the use." *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873); "sale of it [an article covered by a patent] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article." *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).

⁶⁰ See *Holiday v. Mattheson*, 24 F. 185 (C.C.S.D. N.Y. 1885).

⁶¹ *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g. Corp.*, 266 F. 71, 78 (2d Cir. 1920).

⁶² See *Adams*, 84 U.S. at 453.

⁶³ See *Curtiss*, 266 F. at 71.

⁶⁴ See *Sanofi*, 565 F. Supp. at 936.

industrial goods, it may be satisfactory to implement a program of restricted sales whereby purchasers from a patentee or a licensee agree not to sell or exploit commercially the goods outside an agreed-upon territory, and agree to impose similar conditions upon any parties to whom they might ultimately transfer the goods. The program, however, would have to be carefully constructed to avoid potential antitrust violations,⁶⁵ and to respect the fundamental rights of one acquiring title to the goods. On the other hand, this approach would be very impractical for high volume or consumer-oriented goods. In situations when a restricted sales practice is inadvisable or impractical, consideration should be given to the use of an exclusive licensee in the United States, or to other arrangements whereby the goods are not sold outside the United States by one deriving the right to do so from a party holding the rights to make, use or sell, as appropriate, in the United States. For example, if goods are sold in a foreign country by the U.S. patentee, the patentee could not preclude importation of the goods into the United States.⁶⁶ The exclusive licensee, however, could preclude the importation of the goods⁶⁷ because a purchaser is unable to "acquire any right greater than those possessed by the owner of the patent."⁶⁸

2. *Protection Against Some Extraterritorial Acts*

The patent laws of the United States do not have extraterritorial effect.⁶⁹ A patentee, however, is not without recourse when extraterritorial acts adversely affect the patentee's vested property rights within the United States. Unlike infringement, neither contributory infringement nor active inducement of infringement requires, by statute, that the contributory acts or inducements occur within the United States.⁷⁰ Thus, active infringement inducement of a patent can occur if events outside the United States constitute a direct infringement within the United States.⁷¹ Accordingly, active inducement has been found when a foreign proprietorship participates directly in acts that constitute direct infringement within the United States by providing its distributor in the United States with the means to infringe directly.⁷² Active inducement can also be found in the manufacture of goods for resale within the United States if the infringer knows of the existence of U.S. patents that would be in-

⁶⁵ See *infra* notes 81-91 and accompanying text.

⁶⁶ See *supra* note 59 and accompanying text.

⁶⁷ See *Sanofi*, 565 F. Supp. at 939.

⁶⁸ *Featherstone v. Ormonde Cycle Co.*, 53 F. 110, 111 (C.C.S.D. N.Y. 1892).

⁶⁹ See *supra* note 44 and accompanying text.

⁷⁰ 35 U.S.C. § 271 (b),(c) (1976).

⁷¹ See, e.g., *Honeywell, Inc. v. Metz Apparaterwerke*, 509 F.2d 1137 (7th Cir. 1975); *Knoll Int'l Inc. v. Continental Imports Inc.*, 192 U.S.P.Q. (BNA) 644 (E.D. Pa. 1976).

⁷² These means included the provision of English language instruction booklets and assisting in advertisement of the goods in addition to agreeing to indemnify the distributor for patent infringement claims. *Honeywell*, 509 F.2d at 1137.

fringed by the manufacture and resale of goods.⁷³ A plaintiff can sue a contributory infringer, despite the fact that its activities occur wholly outside of the United States, if direct infringement occurs within the United States.⁷⁴

The Tariff Act of 1930⁷⁵ provides additional means by which U.S. industry can enforce their U.S. patents that contain claims to a process, even though the process is never directly infringed within the United States. In particular, Section 1337a of the Act provides that:

importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for purposes of Section 1337 of this Title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.⁷⁶

As a result, these activities can constitute unfair methods of competition and unfair acts and can result in the issuance of an order prohibiting the entry of the articles into the United States, or the imposition of civil penalties by the U.S. International Trade Commission.⁷⁷ Furthermore, it is unnecessary to produce direct evidence to show how the product was made when expert testimony establishes that the goods "must have been made by the patented process."⁷⁸ Currently, an action before the International Trade Commission is the only means by which a process patent can be enforced in the United States when goods imported into the United States are produced by the patented process in a foreign country. Attempts are being made, however, to bring these activities within the definition of infringement under the U.S. patent laws.⁷⁹

Another instance when patent infringement is based upon acts done outside the territorial boundaries of the United States is the unauthorized use of an invention covered by a U.S. patent aboard an American-owned vessel registered in the United States. Although the vessel might be located in international or foreign waters, unauthorized use of the invention constitutes infringement of the U.S. patent because tortious acts committed aboard an American-owned vessel registered in the United States are governed by applicable U.S. law.⁸⁰

⁷³ See *Knoll*, 192 U.S.P.Q. at 644.

⁷⁴ See *Nippon Elec. Glass, Ltd. v. Sheldon*, 489 F. Supp. 119 (S.D.N.Y. 1980); *Engineered Sports Prod. v. Brunswick Corp.*, 362 F. Supp. 722 (D. Utah 1973).

⁷⁵ Tariff Act of 1930, Act of June 17, 1930, ch. 497, 46 Stat. 590 (current version at 19 U.S.C. Chapter 4 (1982)).

⁷⁶ 19 U.S.C. § 1337a (1982).

⁷⁷ 19 U.S.C. § 1337 (1982).

⁷⁸ *In re Von Clemm*, 229 F.2d 441, 445 (C.C.P.A. 1955).

⁷⁹ See Process Patent Reform Bill of 1983, H.R. 3577, 98th Cong., 1st Sess. (1983); Innovation Act of 1983 S. 1841, 98th Cong., 1st Sess. (1983) (also introduced in the House as H.R. 3878, 98th Cong., 1st Sess. (1983); H.R. 4526, 98th Cong., 1st Sess. (1983)).

⁸⁰ *Ocean Science & Eng'g. Inc. v. United States*, 595 F.2d 572 (Ct. Cl. 1977).

3. *Extraterritorial Application of U.S. Antitrust Laws*

The Sherman Antitrust Act⁸¹ is intended to reach conduct that is designed to, and actually does, have an effect upon U.S. imports or exports.⁸² Likewise, when these activities have a substantial effect on U.S. foreign commerce, the Sherman Act constitutes a prescribed standard of conduct for American citizens which may be projected beyond the territorial boundaries of the United States.⁸³

A patentee, pursuant to the exclusive rights of a patent grant, may proceed with the exercise of the exclusive rights in any manner reasonably designed to secure the rewards of his patent monopoly. Should the patentee attempt to exploit the patent beyond those exclusive rights, however, the actions become subject to the same restraints as are imposed upon those not protected by a patent's monopoly, such as the antitrust laws.⁸⁴ Thus, agreements between manufacturers, producers, or dealers in which patents are used to effect a monopoly or to achieve an unreasonable restraint upon interstate commerce exceed the scope of the patent grant and are a direct violation of U.S. antitrust laws.⁸⁵ Likewise, when several parties pool their patents in order to implement anti-competitive practices, the patent pool violates the Sherman Antitrust Act,⁸⁶ regardless of whether the parties "intended to accomplish a result by legal methods and claimed good intentions."⁸⁷ Furthermore, when a party engages in a monopolistic activity under the shield of a patent that was obtained by intentional fraud from the U.S. Patent and Trademark Office, the willful misrepresentation of facts is a basis for withdrawing the exemption afforded by the patent from the antitrust laws to render otherwise legal acts a violation of the Sherman Act.⁸⁸

Given the extraterritorial application of the antitrust laws and the principle that patent misuse subjects a party to the scope of the antitrust laws, it is not surprising to find that courts attach the sanctions of the U.S. antitrust law to patent activities conducted abroad. Thus, when a U.S. company entered into a Canadian patent pool, the purpose of which was to prevent American and other foreign companies from exporting their products into Canada, and which resulted in harm to the export business of other parties in the United States, a violation of the U.S. antitrust laws was found to exist regardless of whether the actions in Canada were legal under Canadian law.⁸⁹ Likewise, allegations that a

⁸¹ Sherman Act, Act of July 2, 1890, ch. 647, 26 Stat. 209 (current version at 15 U.S.C. § 1-7 (1982)).

⁸² See *United States v. Aluminum Co. of Am.*, 148 F.2d 416 (2d Cir. 1945).

⁸³ See *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952).

⁸⁴ See *United States v. General Electric Co.*, 272 U.S. 476 (1926).

⁸⁵ *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163 (1931).

⁸⁶ See *United States v. General Instrument Corp.*, 87 F. Supp. 157 (D.N.J. 1949).

⁸⁷ *Id.* at 193.

⁸⁸ *Walker Process Equip., Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172 (1965).

⁸⁹ *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

U.S. company conspired with certain of its foreign licensees to terminate another U.S. company's foreign sales licenses states a claim under the Sherman Act.⁹⁰ Additionally, when foreign patents are obtained by conduct considered fraudulent under U.S. law, whether or not illegal under the law of the respective foreign nations, and these foreign patents are used to restrain the export trade of the United States by restricting the foreign business of another U.S. company, the activity can be subject to the authority of the courts of the United States under the Sherman Act.⁹¹

4. *Claims Relating to Foreign Patents in U.S. Courts*

Normally, claims relating to rights under a foreign patent should be brought in the courts of the country that granted the patent, but a U.S. federal court can obtain jurisdiction of the cause of action based on diversity⁹² or pendent jurisdiction.⁹³ On the other hand, even though a federal court can have jurisdiction over a claim arising under federal rights, the doctrine of judicial abstention can result in the U.S. court refusing to exercise its jurisdiction over a claim arising under foreign laws.⁹⁴ Whether to exercise jurisdiction is a discretionary matter, and the factors that are considered important will vary from case to case. Factors that a court should balance in considering whether to exercise extraterritorial jurisdiction include the following:

1. degree of conflict with foreign law or policy;
2. nationality of the party;
3. relative importance of the alleged violation of conduct here compared to that abroad;
4. availability of a remedy abroad and the pendency of litigation there;
5. existence of intent to harm or affect American commerce and its foreseeability;
6. possible effect upon foreign relations if the court exercises jurisdiction and grants relief;
7. if relief is granted, whether a party will be placed in the position of being forced to perform an act illegal in either country, or subject to conflicting requirements by both countries;
8. whether the court can make its order effective;
9. whether an order for relief would be acceptable in this country if made by the foreign nation under similar circumstances; and
10. whether a treaty with the affected nations has addressed the issue.⁹⁵

⁹⁰ *Mannington*, 610 F.2d at 1059.

⁹¹ *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287 (3d Cir. 1979).

⁹² See *Velsicol Chem. Corp. v. Hooker Chem. Corp.*, 230 F. Supp. 998 (N.D. Ill. 1964); *Ortman v. Stanray Corp.*, 371 F.2d 154, 156 (7th Cir. 1967).

⁹³ See *Distillers Co. v. Standard Oil Co.*, 150 U.S.P.Q. (BNA) 42, 44 (N.D. Ohio 1964); *Ortman*, 371 F.2d at 156.

⁹⁴ See *Packard Instrument Co. v. Beckman Instruments, Inc.*, 346 F. Supp. 408, 409 (N.D. Ill. 1972).

⁹⁵ *Mannington*, 595 F.2d at 1297, 1298.

Thus, while some U.S. courts find it appropriate to adjudicate claims for infringement of foreign patents,⁹⁶ several federal courts have abstained from the exercise of jurisdiction over such claims.⁹⁷ Similarly, the court having personal jurisdiction over a party has discretion to issue an order enjoining that party from pursuing litigation before a foreign tribunal.⁹⁸

Courts that consider themselves lacking in authority to rule upon the validity of foreign patents may exercise declaratory judgment jurisdiction⁹⁹ to determine the rights and legal relationships of parties. For example, where licenses are granted by a licensor under patents in foreign countries to which a licensee was exporting goods from the United States,¹⁰⁰ the court could enjoin the licensor from suing the licensee in foreign countries if it holds that the licensee's activities were licensed. Moreover, the court may restrain the licensee from raising a license as a defense to suits brought in foreign nations under the foreign patents if it finds that the goods exported by the licensee were not licensed under the foreign patents.¹⁰¹ Still further, in what was termed a "garden-variety breach of contract suit"¹⁰² concerning foreign patent licenses, a foreign licensee was permitted to present a claim for damages and a refund of royalties because the licensor "failed to comply with the laws of foreign countries in obtaining the patents upon which the licensing agreement is based."¹⁰³ In particular, the court found that the failure of a company to present relevant information to a foreign patent office constituted inequitable conduct in the obtaining of the licensed foreign patents.¹⁰⁴ The court did not require a determination as to the validity of the foreign patent, or the legality of the foreign government's acts, and would affect only the rights between the parties and not to the licensor's foreign patent rights generally.¹⁰⁵ Accordingly, consideration of the jurisdictional factors listed above did not warrant the court's abstention from

⁹⁶ See, e.g., *Ortman*, 371 F.2d at 158; *Merrill v. I.T.I., Inc.*, 505 F. Supp. 973, 978 (N.D. Ill. 1981).

⁹⁷ See, e.g., *Packard*, 346 F. Supp. at 411.

⁹⁸ See *Cryomedics, Inc. v. Frigित्रonics of Conn., Inc.*, 196 U.S.P.Q. (BNA) 526 (D. Conn. 1977).

⁹⁹ See 28 U.S.C. § 2201 (1976 & Supp. V 1981) wherein it states:

In a case of actual controversy within its jurisdiction, except with respect to Federal taxes other than actions brought under section 7428 of the Internal Revenue Code of 1954 or a proceeding under section 505 or 1146 of title 11, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

¹⁰⁰ See *Velsicol*, 230 F. Supp. at 1018.

¹⁰¹ *Id.*

¹⁰² *Forbo-Guibiasco S.A. v. Congoleum Corp.*, 216 U.S.P.Q. (BNA) 922, 927 (S.D.N.Y. 1981).

¹⁰³ *Id.*

¹⁰⁴ *Id.* at 928.

¹⁰⁵ *Id.*

consideration of the licensee's claim.¹⁰⁶

Consideration of claims arising under foreign patents is not restricted to infringement and license-related issues. In an action for patent infringement arising under the patent laws of the United States, a foreign intervenor is permitted to counterclaim against the U.S. patentee based upon the intervenor's rights as an exclusive licensee under foreign patents of the U.S. defendant, when the foreign licensee is the victim of the same acts of harrassment and conspiracy charged by the U.S. defendant in response to the complaint of infringement.¹⁰⁷

III. Conclusion

Protection of inventions by way of patents is no simple matter in today's international marketplace. Consideration must be given not only to the national laws of the respective countries, but also to the adverse impact of acts that are proper in one country, but improper in another country. In filing patent applications, the requirements of the various countries in which an invention is to be protected must be viewed collectively and care must be taken to avoid inadvertent loss of rights. Once the patent is obtained, there are limits to the extent that a patent obtained in one country can be enforced. Careless activities outside the country granting the patent may result in an inability to enforce the patent, even within its borders. Also, potential liability may result from these actions, as in the extraterritorial application of the U.S. antitrust laws. The laws of nations generally do not have any extraterritorial effect, but courts in the United States can take cognizance of activities occurring outside of the United States and its political borders. Despite the many problems that exist with the use of patents and the many pitfalls that lie in the path of the unwary, with careful and thorough consideration of the various factors regarding implementation of an intended multinational course of action, patents can and do serve as a valuable and effective means of protection.

¹⁰⁶ *Id.*

¹⁰⁷ *Distillers*, 150 U.S.P.Q. at 47-48.