# U.S. INFRINGEMENT LIABILITY FOR FOREIGN SELLERS OF INFRINGING PRODUCTS

*Troy Petersen*[1]
*Duke University School of Law*
*Troy.Petersen@law.duke.edu*

*With the ever-increasing international flavor of business comes an important question for United States patent holders and foreign manufacturers alike: Can a company be held liable for patent infringement in the United States for selling an infringing product abroad that is later imported into the United States?*

## IMPORTATION AS AN EXCLUSIVE RIGHT

¶1 Making, selling, or using a U.S.-patented product or process in a foreign country does not infringe the United States patent.[2] United States law cannot govern in other countries, and the patentee's remedy is therefore dependent on the laws of the relevant foreign country. But when the patented product (or the product of the patented process) is brought into the United States, U.S. law has the authority to provide a remedy.

¶2 Prior to 1988, importation was not one of a patent holder's exclusive rights under U.S. patent law. The 1988 Process Patent Amendment Act added section 271(g) to the Patent Act, making the importation of a product made by a patented process an act of infringement.[3] However, it was not until 1996 that the Patent Act was effectively amended to add importation of a patented product as an exclusive right. This amendment was made as a result of the Trade-Related Aspects of Intellectual Property ("TRIPS") agreement of the 1994 Uruguay Round trade agreements, which resolved that importation was to be an exclusive right possessed by patent holders. The 1994 Uruguay Agreements Act, effective in 1996, amended section 154 of the Patent Act to add "importing the invention into the United States," and amended 35 U.S.C. § 271 to add "import into the United States" in various subsections, most notably § 271(a).[4]

¶3 This iBrief examines the infringement liability of a foreign seller or manufacturer for sales of products abroad that find their way into the United States and are subsequently alleged to infringe a United

---

[1] Member of the Class of 2004, Duke University School of Law; B.S. in Chemical Engineering and Chemistry, University of Minnesota.
[2] Dowagic Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 650 (1915) ("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.").
[3] 35 U.S.C. § 271(g) (1988). This amendment closed a loophole in § 271 that had allowed foreign manufactures to make products abroad using a process patented in the United States and then import and sell the products in the U.S. without committing infringement. *See also* Anna M. Budde, *Liability of a Foreign Manufacturer Using a Patented Process for Indirect Infringement*, 42 WAYNE L. REV. 291, 294 (1995).
[4] 35 U.S.C. §§ 154(a)(1), 271(a), as amended by Pub. L. No. 103-465, § 532(a)(1), 533(a)(1)-(4), 108 Stat. 4809 (Dec. 8, 1994).

States patent due to the importation. It is assumed that jurisdiction over the foreign seller or manufacturer can be obtained. The two types of infringement, direct and indirect, are considered.

## DIRECT INFRINGEMENT

¶4 Direct infringement actions against the unauthorized importation of a patented product are based on 35 U.S.C. § 271(a), while those against the unauthorized importation of the product of a patented process are based on 35 U.S.C. § 271(g). Although both subsections are of relatively recent origin, the question of whether a foreign manufacturer could be held liable for direct infringement of a United States patent for selling an infringing product abroad that later gets imported in the United States has found its way into the case law.

¶5 In *Pfizer Inc. v. Aceto Corp.*, a foreign manufacturer located and operating in China was sued under § 271(g) for infringement of a United States patent for a process of making flavor enhancers.[5] The manufacturer did not itself import the product of the allegedly infringing process into the U.S., but sold the product in China to another Chinese corporation, who in turn sold it to a Delaware corporation that imported the product. The court granted the manufacturer's motion for summary judgment, noting that "[n]othing in the language [of § 271(g)] suggests that a foreign manufacturer, who does not import the product into the United States, may be liable simply because it can foresee that a buyer of its product may ultimately import it into the United States."[6] The court also noted that the legislative history supported a finding that "the offending act is the importation."[7] Since the foreign manufacturer did not bring the product into the United States itself (nor did it foresee the importation of the patented product), it was not an "importer" within the meaning of § 271(g).

¶6 The U.S. District Court for the Northern District of Illinois applied the logic of *Pfizer v. Aceto* in dismissing on summary judgment an infringement suit against a Japanese manufacturer of cooling fans who sold the fans in Japan to Japanese automakers who subsequently imported the fans into the U.S.[8] The holder of the U.S. patent on a method for molding fans alleged infringement, asserting that the foreign manufacturer was "intimately and directly involved" in importing the fans and that, "at the very least, aided and abetted it customers to import the fans."[9] The court relied on *Pfizer v. Aceto* to find that the foreign manufacturer had not committed infringement, noting that "[t]he primary target of section 271(g) is not the manufacturer who manufactured the patented process; rather, the primary target is the importer of the patented process."[10]

---

[5] 853 F. Supp. 104 (S.D.N.Y. 1994).
[6] *Id*. at 105.
[7] *Id*. at 106 (citing the House and Senate reports accompanying the Process Patents Amendment Act of 1987, H.R. Rep. No. 60, 100th Cong., 1st Sess. 6.).
[8] Tec Air, Inc. v. Nippondenso Mfg. U.S.A., Inc., No. 91 C 4488, 1997 WL 49300 (N.D. Ill. Jan. 30, 1997).
[9] *Id*. at *2.
[10] *Id*. at *3.

¶7 In *Cybiotronics, Ltd. v. Golden Source Electronics Ltd*., a court again applied the logic of *Pfizer v. Aceto*, this time to a case of an alleged § 271(a) infringement of a patent on a product.[11] Smoothline, a Hong Kong corporation, entered into agreements in Hong Kong to manufacture cordless telephones in China for an American intermediary, who would then sell to another American company planning to import the phones into the United States. The court found that all importation activity was performed by the American importer. While the American importer may have directly infringed the patents, the court found that because Smoothline did not *itself* import the products into the U.S., it did not directly infringe. The court noted that "[a]s [35 U.S.C. § 271(a)] makes clear, and as the Federal Circuit has recently reiterated, the only activities that are relevant to direct infringement are those activities that take place within the borders of the United States. Extraterritorial activities are irrelevant."[12] The court even went so far as to suggest that a ruse used to shield a foreign company from infringement liability might be possible: "[w]hile it may be that what Smoothline did in this case could be said to violate the 'spirit' of the patent statute, and/or that it avoids liability only by maintaining the 'fiction' of another entity . . . acting as the 'importer' of record, this is beyond the control of the Court . . . . The current statute does not provide relief."[13] Therefore, although an entity may engage in questionable behavior that may be directly linked to wrongful importation activities, it does not appear to constitute direct infringement under the relevant statute.

¶8 Case law suggests that a case can be made for a foreign seller's liability where direct infringement by a foreign seller was found based on a related buyer's domestic sale (not importation) and the seller's heavy involvement in that domestic sale.[14] However, such a case has yet to arise where the buyer's direct infringement was based on its importation. It is conceivable that a seller's heavy involvement in a buyers importation might also be viewed skeptically and possibly considered to constitute illegal importation.

**INDIRECT INFRINGEMENT**

¶9 In addition to direct infringement, United States patent law also allows for the imposition of liability for infringement upon those who, although they have not directly infringed the patent themselves, have aided

[11] 130 F. Supp. 2d 1152 (C.D. Cal 2001).
[12] *Id*. at 1163-64 (citing Rotec Indus., Inc. v. Mitsubishi Corp., 215 F.3d 1246, 1251 (Fed. Cir. 2000)).
[13] *Id*. at 1176.
[14] Ensign-Bickford Co. v. ICI Explosives USA Inc., 817 F. Supp. 1018, 1025-26 (1993) ("These facts are sufficient to establish that employees of [the foreign manufacturer] played an active, long-running role in the development and implementation of the efforts of [the buyer] to sell [the allegedly infringing product] in the United States. These facts are also sufficient to establish that [the manufacturer] engaged in activities in the United States in connection with the sale of [the product]. Consequently, the fact that [the manufacturer] formally transferred title to the [product] on Canadian territory is not sufficient to preclude a finding that [the manufacturer] sold the [product] in the United States.").

or abetted another's direct infringement.[15] Section 271 provides for two exclusive rights against indirect infringement, inducement of infringement under § 271(b) and contributory infringement under § 271(c).[16]

¶10 Section 271(c) codified the prohibition against the more common type of indirect infringement and explicitly required only proof of an alleged infringer's knowledge - not intent - that its actions caused infringement in order to establish liability.[17] Case law has established that the knowledge required is not only that the component was especially made or adapted for a particular use but also knowledge of the patent which proscribed the use.[18]

¶11 Section 271(b) codified the rest of the prohibited types of indirect infringement with much broader language than § 271(c). Section 271(b) does not contain within its language any mention of an intent requirement. However, "in view of the very definition of 'active inducement' in pre-1952 case law and the fact that § 271(b) was intended as merely a codification of pre-1952 law," the Federal Circuit has stated that "proof of *actual intent* to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement."[19] The proof of intent requirement for active inducement of infringement is more strenuous than the proof of knowledge required to show contributory infringement under § 271(c), although this knowledge requirement is incorporated into the intent required to be shown for active inducement.[20]

¶12 There is an absence of case law involving the liability of a foreign seller for indirect infringement where the buyer's direct infringement is importing the infringing product. However, the foreign seller's liability for indirect infringement is probably more a function of its own activities than those that resulted in the direct infringement.

### Active Inducement of Infringement

¶13 While there is no clear decision on the issue, a limited number of decisions suggest that a foreign manufacturer may be liable for inducement of infringement for actions carried out in a foreign country.

---

[15] Hewlett-Packard Co. v. Bausch & Lomb Inc., 909 F.2d 1464 (Fed. Cir. 1990). The codification of a distinction between direct and indirect infringement was based on a theory of joint tortfeasance, where one who intentionally causes another to commit a tort is jointly and severally liable with the primary tortfeasor.

[16] 35 U.S.C. § 271(b) (2000) ("Whoever actively induces infringement of a patent shall be liable as an infringer."); § 271(c) ("Whoever 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 adapted for use in an infringement of said patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer." ).

[17] *Hewlett-Packard*, 909 F.2d at 1469.

[18] Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 488 (1964).

[19] *Hewlett-Packard*, 909 F.2d at 1469 n.4 (emphasis added). *See also* Manville Sales Corp. v. Paramount Sys., Inc., 917 F.2d 544 (Fed. Cir. 1990).

[20] *Manville Sales*, 917 F.2d at 553 ("It must be established that the defendant possessed specific intent to encourage another's infringement and not merely that the defendant had knowledge of the acts alleged to constitute inducement. The plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts *and* that he knew or should have known his actions would induce actual infringements.").

However, as is always the case for indirect infringement, there must also be direct infringement occurring within the United States.

¶14 In the 1973 case *Honeywell, Inc. v. Metz Apparatewerke,* the United States Court of Appeals for the Seventh Circuit found that active inducement of infringement occurs when a foreign manufacturer does not itself import and sell the infringing products, but has a distribution agreement with the importer that showed the foreign manufacturer's intent "to invade the United States market at a time when [the manufacturer] was fully aware of [the patentee's] United States patents."[21] Additionally, the court found that the manufacturer had engaged in activities related to the importation: it had provided the importer with instruction booklets in English, agreed to assist in publicizing the product, maintained the right to inspect and gather information about the importer's business affairs, agreed to indemnify the importer for patent infringement claims, and received credit from the manufacturer against invoices for after-sale repairs performed in the United States.[22] Several pre-Uruguay Agreements Act district court cases cite *Honeywell* for the principle that "[t]he inducing activity may take place outside of the United States, so long as the direct infringement occurs within the United States."[23] Therefore some activities performed by a foreign seller, if significant, can constitute active inducement of infringement by importation.

¶15 Two 2001 cases decided by the Court of Appeals for the Federal Circuit, authored by Judge Rader, did not clarify the issue. In *Crystal Semiconductor Corp. v. Tritech Microelectronics International, Inc*., the court agreed with the finding in *Honeywell* that an action for inducement to infringe can be based on acts performed outside the United States.[24] A foreign manufacturer was accused of infringing a method claim of a United States patent because it had designed, manufactured, and sold a product (an integrated circuit chip that contained circuitry for carrying out the patented method) to a customer abroad who imported and distributed the chip in the United States. The court held that the jury's verdict that the foreign manufacturer had committed active inducement to infringe was supported by substantial evidence.[25] The court noted that because the foreign manufacturer did not practice the method in the United States, it "cannot be liable for direct infringement under 35 U.S.C. § 271(a) (1994). [The manufacturer's] acts in connection with selling its chip to [the distributor], however, constitute active inducement under 35 U.S.C. § 271(b)."[26]

¶16 However, in the second case, *Shockley v. Arcan, Inc*., the Federal Circuit found that a Chinese manufacturer of the allegedly infringing product who sold the products in China to a second company that imported and sold the products to another company for distribution could not be held liable for infringement

---

[21] 509 F.2d 1137, 1142.
[22] *Id*.
[23] Akzona Inc. v. E.I. du Pont de Nemours & Co., 662 F. Supp. 603, 613 (D. Del. 1987).
[24] 246 F.3d 1336 (Fed. Cir. 2001).
[25] *Id*. at 1351.
[26] *Id*.

under § 271 either alone or jointly because "all of [the manufacturer's] activities took place in Shanghai."[27] The court noted that "[t]o be liable for infringement under 35 U.S.C. § 271, a party must make, use, offer to sell, or sell within the United States, or import into the United States the patented invention." The language used by the court did not explicitly mention particular subsections of § 271 and so did not distinguish between direct and indirect liability for infringement. Therefore, one possible interpretation of this section of *Shockley* is that in citing § 271, the court was only referring to direct infringement, and thus the case is consistent with the language of *Crystal Semiconductor*.

## Contributory Infringement

¶17 While there exists support for the idea that an action that constitutes active inducement to infringe can be based on activities the defendant performed abroad, the result may not be the same for contributory infringement. Read literally, § 271(c) refers only to one who "offers to sell or sells *within* the United States or imports *into* the United States."[28] This could mean that a company that makes a component in another country and sells the component to someone who imports it into the United States would not be liable for contributory infringement, even if the manufacturer knows the buyer will import the component. While there is still the possibility of an action against the manufacturer for active inducement of infringement (because § 271(b) does not contain a geographical limitation), the level of intent required is higher for active inducement of infringement than for contributory infringement, as discussed above. There is, however, no suggestion in the legislative history of the 1994 Uruguay Round Agreements Act which amended § 271(c) to suggest there was to be a change in the operation of the provision other than adding two new exclusive rights: "offers to sell" and "imports."[29]

¶18 However, a pair of district court cases decided prior to the enactment of the Uruguay Round Agreements Act found contributory infringement based on a company's activity in another country. In *Lucas Aerospace, Ltd. V. Unison Industries, L.P.*, a foreign manufacturer supplying a component to a Canadian company who in turn imported the component as part of its product was found liable for contributory infringement.[30] In upholding the jury's verdict, the Delaware District Court held that "[s]ubstantial evidence supports the conclusion that Lucas sells [the component] that [is] used or sold within the United States."[31] Since "a finding of contributory infringement . . . does not unreasonably extend the territorial scope of [the]

[27] 248 F.3d 1349, 1364 (2001).
[28] 35 U.S.C. § 271(c).
[29] DONALD S. CHISUM, CHISUM ON PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 16.05[1][e] (2002). Prior to the 1996 amendment, § 271(c) read: "Whoever sells 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." 35 U.S.C. § 271(c) (1994).
[30] 899 F. Supp. 1268 (D. Del. 1995).

patents," the court had "no trouble concluding that § 271(c) thus provides ample statutory authority to hold [the foreign manufacturer] liable as an infringer" because of its foreign sales.[32] Additionally, in *Endress & Hauser, Inc. v. Hawk Measurement Systems*, the District Court for the Southern District of Indiana found contributory infringement by an Australian corporation because of its sale of an infringing component to its American subsidiary, knowing that the subsidiary would resell the product in the United States.[33] Judging from these two decisions contemplating contributory infringement based on a directly infringing sale, courts might be expected to treat similar situations where the direct infringement is an importation in the same manner.

**CONCLUSION**

¶19 The existence of pre-Uruguay Round Agreements Act case law in which foreign manufacturers/sellers were found liable for contributory infringement based on their activities abroad suggest that there may be similar liability imposed where the buyer's direct infringement was the importation of the product. However, this is dependent upon courts interpreting the Uruguay Rounds Agreement Act as merely adding the two additional exclusive rights ("offer to sell" and "import") to § 271(c), and not adding geographic limitations. This is important because a showing of direct infringement by the foreign manufacturer in such a case has proven difficult and a showing of active inducement to infringe requires the plaintiff to show a higher degree of intent by the alleged inducing infringer. The remaining difficulty with alleging contributory infringement under § 271(c) is that the product sold by the foreign company may have to be a component of an infringing product as the language of § 271(c) provides. It is unclear whether a foreign company could be found liable for contributory infringement based on its foreign sale of a complete infringing product. Recognizing an action for contributory infringement against foreign sellers when buyers import the infringing products into the U.S. could apply to situations in which it would seem fair to impose liability given the seller's knowledge of their buyer's infringing importation.

---

[31] *Id*. at 1287-88.
[32] *Id*.
[33] 32 U.S.P.Q. 1768 (1994). *See also* American Nippon Elec. Glass Co., Ltd. v. Sheldon, 489 F. Supp 119, 123 (S.D.N.Y. 1980) ("Unlike direct infringement, which must take place within the United States, 35 U.S.C. § 271(a), contributory infringement under 35 U.S.C. § 271(b) or (c), does not require any activity by the contributory infringer in this country, as long as the direct infringement occurs here" (citing *Honeywell*, 509 F.2d at 1141)); Engineered Sports Prods., v. Brunswick Corp., 362 F. Supp. 722, 727 (D. Utah 1973) ("[T]he making, using or selling of a patented invention outside the United States is not proscribed unless it induces or contributes to a domestic infringement.").