

Beyond the presumption against extraterritoriality

THE CASE:

WesternGeco v ION Geophysical Corp
Supreme Court of the US
22 June 2018

Irena Royzman and Jordan M Engelhardt examine the Supreme Court decision on *WesternGeco v ION*, which turns the tables on recovering lost profits accrued overseas

The Supreme Court of the US handed patent owners a significant victory in *WesternGeco v ION*¹ by overturning the Federal Circuit's bright-line rule prohibiting recovery of lost profits accrued overseas as a result of domestic patent infringement under § 271(f)(2) of the Patent Act. § 271(f)(2) prohibits supplying components of a patented invention from the US with the intent that they be combined abroad.

The Federal Circuit had concluded that awarding profits lost abroad due to infringement under § 271(f)(2) would violate the presumption against extraterritoriality – a canon of statutory construction under which US laws are presumed not to regulate conduct occurring abroad.

A seven-justice majority of the Supreme Court disagreed, putting an end to the Federal Circuit's rule that cut off damages for US patent infringement at the US border. In an opinion written by Justice Clarence Thomas, the court held that awarding lost foreign profits caused by infringement under § 271(f)(2) is "a permissible domestic application of § 284," the Patent Act's damages provision, and that such damages may therefore be recoverable regardless of whether they accrue in the US or abroad.

Following *WesternGeco*, the presumption may receive considerably less attention than it has in the last decade, including in the context of patent damages. As to damages, courts will turn to resolving issues of proximate causation to determine whether patentees can recover lost profits accrued abroad when their patents are infringed in the US.

Often-invoked but misunderstood

The presumption against extraterritoriality has been used by courts since at least the 19th

century in determining the territorial scope of statutes. As the Supreme Court explained in an early case, "[a]ll legislation is *prima facie* territorial."² Accordingly, "in case of doubt", courts should adopt a "construction of any statute as intended to be confined in its operation and effect to the territorial limits over which the lawmaker has general and legitimate power." For the presumption to be overcome and a law given extraterritorial reach, the statutory text must provide a "clear indication of an extraterritorial application".³

Historically, when the Supreme Court has applied the presumption, it has done so to determine whether US law regulates conduct and transactions that occur abroad. In *American Banana*, for example, the court held that US antitrust and conspiracy laws could not be applied to punish alleged anti-competitive business activities in Costa Rica since the activities occurred abroad. And in *Foley Brothers*, the court invoked the presumption to conclude that a labor law requiring overtime pay on government contracts applied only to domestic projects, finding "no indication of a congressional purpose to extend its coverage" extraterritorially.⁴ Thus, the Supreme Court invokes the presumption to infer the intended geographic scope of US statutes, not to prevent redress for injuries abroad from domestic legal violations, or to limit the impact of US-based conduct on overseas markets.

The Supreme Court has had at least three occasions in recent years, including in *WesternGeco*, to consider the application of the presumption against extraterritoriality to the Patent Act. These cases further affirm that the presumption is intended to aid courts in determining the geographic scope of statutes.

In the 2007 case *Microsoft v AT&T*,⁵ the court considered whether Microsoft was liable for infringement under § 271(f) for supplying

master copies of Windows from the US to computer manufacturers abroad. By installing Windows onto PCs abroad, the foreign manufacturers created devices that in the US would infringe AT&T's patent. The *Microsoft* court held that the software maker did not infringe under § 271(f), since the master copy of Windows supplied from the US is not a "component" of a computer, but rather a set of "instructions" to which § 271(f) does not apply. As the court explained, "the foreign-made copies of Windows actually installed on the computers were 'supplie[d]' from places outside the United States."

The court invoked the presumption against extraterritoriality to reinforce its holding, remarking that "[t]he presumption that United States law governs domestically but does not rule the world applies with particular force in patent law." The presumption, the court found, "tugs strongly against construction of § 271(f) to encompass as a 'component' not only a physical copy of software, but also software's intangible code, and to render 'supplie[d]... from the US' not only exported copies of software, but also duplicates made abroad." Thus, the court used the presumption to provide guidance as to the geographic scope of regulated conduct and to reinforce its statutory construction.

Microsoft's general pronouncements about the presumption's force in patent law, however, have been used by litigants more broadly. For example, in *Life Tech v Promega*,⁶ a case decided by the Supreme Court last year, the accused infringer argued that § 271(f)(1) – which prohibits supplying "all or a substantial portion of the components of a patented invention" from the US "in such manner as to actively induce the combination of such components" overseas – does not impose liability for supplying a single

component from the US. Although the case centered on what domestic conduct (supply of one or more components from the US) constituted infringement under § 271(f)(1), Life Tech relied heavily on *Microsoft's* general pronouncements about the presumption against extraterritoriality to support a narrow reading of the statute. Life Tech urged that the presumption mandated excluding supply of one component from liability since such an interpretation would reduce the extraterritorial impact of the statute.

While the *Life Tech* court agreed that supplying a single component of a patented invention for manufacture abroad does not create §271(f)(1) liability, it did not mention, much less apply, the presumption. The court instead found from “the statute’s text, context and structure” that the statutory language in dispute – “a substantial portion of the components of a patented invention” – “refers to a quantitative measurement” and that a single component cannot constitute a “substantial portion” under § 271(f)(1). Thus, although supplying one component from the US was not an infringement, the presumption played no role in the court’s decision.

Further perspective

In *WesternGeco*, the accused infringer argued that the presumption against extraterritoriality forecloses recovery of patent infringement damages accrued abroad, even when domestic infringement is established and results in the damages. The dispute involved *WesternGeco's* patents covering systems used to perform oil-exploration surveys of the ocean floor. ION manufactured components of an infringing system in the US and exported those components to companies abroad, who combined them and used the resulting infringing system to compete with *WesternGeco* in the market for ocean-floor surveys. A jury found ION liable for infringement under § 271(f)(2) and awarded *WesternGeco* \$12.5m in royalties and \$93.4m in lost profit damages. On appeal, the Federal Circuit reversed the lost profits award, adopting a *per se* bar to recovery of lost foreign profits under the presumption against extraterritoriality.⁷

The Supreme Court reversed, holding that the presumption does not bar recovery of lost foreign profits when domestic patent infringement is established under § 271(f)(2). Applying the framework set forth in *RJR Nabisco*⁸ for analysing extraterritoriality questions, the court reasoned that the “focus” of the patent damages provision, § 284, is compensating the patentee for infringement. In turn, the statute under which ION was shown to infringe, § 271(f)(2), “focuses on domestic conduct”: the act of supplying components

of a patented invention “in or from the US”. The court therefore rejected the theory that the presumption against extraterritoriality bars recovery of damages accrued abroad from infringement under § 271(f)(2). Indeed, even the two dissenting Justices agreed that the presumption did not bar recovery.

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Patent damages following *WesternGeco*

Following *WesternGeco*, the presumption should see much less play in patent litigation, including in the context of patent damages. Disputes about foreign lost profits will focus on whether patentees can demonstrate that those damages were caused by domestic patent infringement, and not by subsequent foreign activities outside the purview of the Patent Act. Indeed, the *WesternGeco* court pointed future litigants and courts in this direction by noting that “[i]n reaching this holding, we do not address the extent to which other doctrines, such as proximate cause, could limit or preclude damages in particular cases.” Thus, turning to classic proximate causation concepts, courts will need to assess whether the damages are sufficiently connected to domestic infringement.

Moreover, although the opinion focused on infringement under § 271(f)(2) and noted that the holding was limited to such infringement, the court’s reasoning should apply with equal force to other types of patent infringement. As with infringement under § 271(f)(2), each type of infringement covered by § 271 requires domestic conduct, whether it be making, using, selling or importing a patented invention or its components in the US or actively inducing another to do the

same. The focus of the provisions of § 271 is domestic. As a result, regardless of the type of infringement, *WesternGeco* supports the recovery of damages accrued overseas when such damages can be shown to result from patent infringement. The presumption of extraterritoriality poses no barrier to recovery for other acts of infringement.

Finally, some commentators have suggested that *WesternGeco* will have negative fallout for the US economy by leading industries to relocate manufacturing operations abroad to avoid paying foreign lost profits. Such concerns do not take into account that companies manufacturing infringing products and their components in the US have been liable for infringement under § 271 both before and after *WesternGeco*. And prior to the Federal Circuit’s recent bright-line rule cutting off lost profit damages for US infringement at the border, patent owners could be compensated for domestic infringement regardless of where the damages fell. The Supreme Court’s decision simply confirms that the presumption against extraterritoriality does not shield infringers from paying full damages for infringing domestic conduct. It therefore is unlikely to result in US companies moving manufacture overseas on that basis.

Footnotes

1. *WesternGeco LLC v ION Geophysical Corporation*, 585 US ___, Slip Op No 16-1011 (22 June 2018).
2. *American Banana Co v United Fruit Co*, 213 US 347, 357 (1909).
3. *Morrison v Nat’l Australia Bank Ltd*, 561 US 247, 255 (2010).
4. *Foley Bros v Filardo*, 336 US 281, 284-85 (1949).
5. *Microsoft Corp v AT&T Corp*, 550 US 437 (2007).
6. *Life Tech Corp v Promega Corp*, 137 S Ct 734 (2017).
7. *WesternGeco LLC v ION Geophysical Corp*, 791 F 3d 1340 (2015), rev’d, 585 US ___ (2018).
8. *RJR Nabisco, Inc v European Community*, 136 S Ct 2090 (2016).

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