

St. John's Law Review

Volume 39
Number 1 *Volume 39, December 1964, Number*
1

Article 2

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AMERICAN PATENTS AND FOREIGN COMPETITION

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THE question is frequently asked whether or not the protection afforded American inventors by United States patents is adequate against foreign competition.

In attempting to determine an answer, we must first review the scope of protection afforded by a United States patent. Under patent law, the following acts, if performed without the authority of the patent owner, constitute infringement of a United States patent:

(1) making [*i.e.*, manufacturing] the patented invention within the United States;¹

(2) using the patented invention within the United States;²

(3) selling the patented invention within the United States;³

(4) knowingly contributing to an infringement by selling a component having no other use than as a material part of the patented invention;⁴

(5) actively inducing others to infringe the patent.⁵

It is to be noted that the above apply equally, regardless of whether the infringer is a citizen of the United States

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¹ 35 U.S.C. § 271(a) (1958).

² *Ibid.*

³ *Ibid.*

⁴ 35 U.S.C. § 271(c) (1958).

⁵ 35 U.S.C. § 271(b) (1958).

or a national of a foreign country. Thus, the patent owner has the same substantive remedies against the foreign-based infringer and the domestic infringer. However, the enforcement of these rights varies considerably when a foreign defendant is involved as opposed to the situation where a domestic defendant is involved. The problem is one of geography, with the inherent disadvantage of suing a foreign-based corporation.

American patent law has no extra-territorial effect. Classically, jurisdiction over a defendant accused of infringing a patent is granted to United States District Courts under Title 28 of the *United States Code*, Section 1338(a). The venue provisions are set forth in section 1440(b) of the same title and provide that a civil action for patent infringement may be filed in the district where the defendant resides, or where he has a regular and established place of business *and* has committed an act of infringement. In situations involving multi-state corporations, residence has been adjudged to be the state of incorporation.⁶ Thus, where the foreign-based defendant has a manufacturing subsidiary in the United States that manufactures the patented invention, the plaintiff's remedy is preserved. He may bring an action for patent infringement based on manufacture of the patented devices, and such action may be brought in the judicial district where the manufacturing operation is located.⁷

Patent infringement suits based on the defendant's *use*⁸ of the patented invention (as opposed to manufacture or sale) usually involve heavy industrial equipment or manufacturing processes such as oil refineries or chemical plants. These activities are usually conducted by a domestic subsidiary or other related entity and if a foreign-based defendant is guilty of this type of infringement, the subsidiary is liable to the jurisdiction of the American courts and available

⁶ *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222 (1957), *reversing* 233 F.2d 885 (2d Cir. 1956).

⁷ 28 U.S.C. § 1400(b) (1958).

⁸ 35 U.S.C. § 271(a) (1958).

for suit.⁹ The cases of patent infringement based on the grounds of actively inducing infringement¹⁰ and contributory infringement¹¹ usually do not involve factual situations including foreign defendants.¹² The geographical remoteness of the foreign operator precludes the close cooperation with an American national which is usually required to perfect violations of this type. While such infringement is possible, it is quite rare and will not be considered here.

The major problem occurs in a situation where the infringers are located abroad and export the articles into the United States in small quantities through a large number of importers who, in turn, redistribute the articles for sale. As noted above, there is no patent infringement liability based on the manufacture of such articles where the manufacture occurs outside of the territorial limits of the United States.¹³ Depending on the nature of the consignment, the sale may also occur in the country of origin, but even if the sale occurs in the United States, the foreign-based corporation is not subject to the venue provisions of the *United States Code*.¹⁴

Although the American importer is liable for the sale of an infringing article if he, in fact, resells it, a formidable burden is placed upon the patentee in locating the importer and keeping apprised of such shipments. If the foreign manufacturer deals through a number of such importers and each importer handles only a relatively small percentage of the total number of such devices, it may not be practical to sue any one importer for patent infringement since the extent of damages might not justify the suit. Furthermore, the measure of damages for patent infringement is limited to such sales made after the defendant is notified of the infringement,¹⁵ unless the plaintiff marks the patent number

⁹ 28 U.S.C. § 1400(b) (1958).

¹⁰ 35 U.S.C. § 271(b) (1958).

¹¹ 35 U.S.C. § 271(c) (1958).

¹² For a thorough discussion of 35 U.S.C. §§ 271(b) and (c), see Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 35 J. PAT. OFF. SOC'Y 476 (1953).

¹³ 28 U.S.C. § 1400(b) (1958).

¹⁴ *Ibid.*

¹⁵ 35 U.S.C. § 287 (1958).

on the goods or on the package containing the goods.¹⁶ If the patentee (or his agent) does not manufacture or sell goods under the patent, or if it is not feasible to mark the number of the patent on the goods, then damages for infringement do not begin until the date the patentee actually notifies the infringer that he considers the goods to infringe the patent. In such a situation, the foreign corporation can flood the American market with goods that infringe the United States patent, and if the patentee does not learn of the infringement until after the goods are widely dispersed, no substantial liability will accrue to the foreign corporation. Suits against the ultimate consumer, based on his use of the device, would be impractical since the damages would be computed on the basis of a single item.

A possible, but expensive, hedge against such activity lies in filing patent applications and issuing patents in the foreign country where the infringer resides. Since there is no universal patent protection,¹⁷ this procedure requires the inventor to file his patent application in every country of economic importance (a very expensive proposition) or else exercise a high degree of clairvoyance in predicting which foreign nations will ultimately infringe his patent. Another deterrent to obtaining adequate patent protection is the variance in the patent laws of the different countries. For example, the Italian patent law precluding the issuance of patents on pharmaceuticals¹⁸ has led to the manufacture of proprietary pharmaceuticals by Italian firms for export to the United States. One of the requirements for obtaining a patent in the United States is that the applicant file with the Patent Office

. . . 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

¹⁶ *Ibid.*

¹⁷ The exception will occur when the patent provisions of the Common Market treaty are finally ratified.

¹⁸ See Robbins, *Pharmaceutical Patents in Foreign Countries*, 37 J. PAT. OFF. SOC'Y 271 (1955).

use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.¹⁹

When the patent issues, the written description is printed by the Patent Office, and copies are made available to the public at a cost of twenty-five cents per copy.²⁰ Therefore, where the American inventor obtains a patent on a pharmaceutical, the Italian infringer can purchase a copy of the recipe for only twenty-five cents and receive a description of the invention in such concise terms as to enable him to easily duplicate it. Having duplicated it in Italy, he may export the infringing products into the United States and compete with the American patent owner. Since the infringer has circumvented the costs of research and development (including the attendant percentage of failure), he is in a position to offer the infringing device at a much lower selling price.

The scene, however, is not entirely bleak. The Tariff Act of 1930²¹ provides means for preventing unfair acts in the importation of articles into the United States, and specifically provides for relief when the imported article is made abroad in a manner that would infringe an American patent if it had been made in this country.²² In a proper case, American customs authorities have the right to embargo goods of a type that would infringe a valid United States patent. However, the procedural burden is on the patent owner to convince these authorities that his patent is valid and that the accused devices infringe the patent. Also, because of the large volume of imported goods and the relatively small number of customs inspectors, it devolves upon the patentee to know the date and route of the shipment of infringing articles. Although the Customs Department will provide a "watching service" in an appropriate case,²³ they are unequipped to make legal or engineering

¹⁹ 35 U.S.C. § 112 (1958).

²⁰ 35 U.S.C. § 41(9) (1958):

²¹ 19 U.S.C. § 1337 (1958).

²² 19 U.S.C. § 1337(a) (1958).

²³ Tariff Act of 1930 § 337, 19 U.S.C. § 1337 (1958). For a sixty-day

judgments with regard to the question of patent infringement. If the accused devices are different from the drawings in the patent, they may go undetected.

Another mitigating factor is that the United States citizen may be the beneficiary of laws of a foreign country. The Japanese are currently trying to overcome the reputation they have achieved as copiers of foreign engineering. In attempts to improve their image, they have promulgated regulations which are administered by the Ministry of International Trade and Industry. These regulations permit foreign nationals to register a protest if a Japanese citizen or business concern is manufacturing the infringing device and exporting it into the patentee's country of origin.²⁴ The Ministry of Trade brings pressure to bear upon the infringer²⁵ and strongly suggests that he cease exporting the devices to the patentee's country of origin. Since the infringer requires an export license, suggestions of this nature are usually successful.

The balance of the equities between the American inventor and the foreign infringer is complicated by the reciprocal treatment that American manufacturers receive in the world market. From time to time, American manufacturers will be charged with infringing foreign patents because of their exportation of items into various countries throughout the world. If the United States changes its laws in a direction that would provide tighter restrictions over the foreign infringer, it might be expected that the various foreign countries will reciprocate to the detriment of American manufacturers engaged in a substantial amount of export trade. This would militate against the American manufacturer, since patents in most foreign countries are more easily obtained than in the United States. Many of the foreign countries have a "registration" system whereby a patent is issued merely by asking for it without any

"watching service," the Customs Department requires a fee of one hundred dollars and the applicant must provide 600 copies of the patent.

²⁴ Japanese Export Trade Control Order (Cabinet Order No. 378), Dec. 1, 1949.

²⁵ The Kikai Kogyo Shimbun (Machine Industry Newspaper), July 3, 1961.

determination on the merits or novelty of the invention.²⁶ However, in the United States the Patent Office will not issue a patent until previously issued patents (American and foreign) are searched by a patent examiner trained to make such searches,²⁷ and only after he has satisfied himself that the invention is novel and useful will the patent be issued. Since a United States patent is more difficult to achieve, it might be unwise to take action that would give the foreign patentee any advantage.²⁸

This is not to say that there are no changes in the United States patent laws that might be effected to correct some of the weaknesses presently existing. One such enactment would be a provision that the foreign-based corporation exporting to the United States would designate the United States Secretary of Commerce as his resident agent in the United States for service of process in patent infringement suits. Such a concept is already accepted in many states that have statutes providing for service of process on out-of-state motorists via service on some state official. Under such a provision, the patentee could sue the foreign-based infringer in the United States District Court for the District of Columbia. If the manufacturer failed to come into court and defend the action, then the patentee would be entitled to a default judgment including injunctive relief and possibly money damages. Subsequent acts of infringement would be subject to contempt proceedings. In addition, future acts of infringement would also be subject to damages since the infringer would already have been notified of the patent.²⁹

Another variation would be to make the infringing items subject to an in rem action. In this situation, the goods could be sued wherever they were located. In the event they were in the possession of an importer, the patentee would not have to wait until the importer committed an act of infringement by reselling the goods.

²⁶ *E. g.*, France and Italy.

²⁷ 35 U.S.C. §§ 131, 132 (1958).

²⁸ See Kemman, *Foreign Patent Relations*, 40 J. PAT. OFF. Soc'y 527 (1958).

²⁹ 35 U.S.C. § 287 (1958).

A practical amendment to the American patent law to bring it into unity with foreign laws would be a prohibition against issuing a patent to a citizen or corporation of a country that will not issue such a patent to an American citizen.³⁰ Under such an amendment, an Italian company would be precluded from obtaining patent protection in the United States on pharmaceutical products in view of the fact that the Italian government will not grant such a patent to a United States citizen.

CONCLUSION

The current weaknesses in the United States patent laws arise from the procedural difficulties in suing a foreign-based defendant. The American citizen's position can be improved by various amendments to the patent statute, but retaliation by foreign governments could then be anticipated. Certain procedural advantages to the American citizen, such as ease in service of process and notice to the infringer, along with a provision granting patent rights to foreigners only where reciprocal rights will be granted to United States citizens by the foreign country, might be adopted without serious retribution against American businessmen. However, in the final analysis, any such changes must be brought into focus with the over-all economic interest of the United States, including such diverse areas as promotion of foreign economic development and reciprocal treaty rights between the United States and the various foreign countries involved.

³⁰ Kemman, *supra* note 28.