

Extraterritorial Restraint

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Abstract: Nations traditionally have viewed patents as territorial rights: a U.S. patent is enforceable in the United States, for example, but not in Japan, and vice versa. Commerce, by contrast, is global, and the increasing number of patent disputes that straddle national borders pose challenges to the traditional territorial view of patent rights. One set of challenges arises primarily in cases involving commitments to license standard-essential patents (SEPs) on fair, reasonable, and nondiscriminatory (FRAND) terms. By way of example, in *Unwired Planet v. Huawei* an English court established the terms of a global license for the use of Unwired Planet’s SEP portfolio, even though the majority of those SEPs were granted—and most of Huawei’s accused devices made, used, and sold—outside the U.K. (An appeal is currently pending before the U.K. Supreme Court.) Courts in the U.K. and U.S. also have been willing to grant antisuit injunctions restricting the owners of FRAND-committed SEPs from proceeding with parallel litigation in foreign tribunals. Further, in recent years courts in the U.S., Canada, and Japan have awarded damages for extraterritorial injuries stemming from acts of domestic infringement. While these developments promise efficiency gains, full compensation for aggrieved patent owners, and other potential benefits, critics argue that they also will encourage forum shopping and other vices, and that they constitute undue interference with the sovereignty of other nations.

In this article, we argue that there are two principal ways to preserve the benefits while alleviating the critics’ concerns. The first would be to establish some type of global tribunal for resolving cross-border patent disputes. To be sure, this already is an option whenever the parties voluntarily agree to some form of alternative dispute resolution; and in theory some future multilateral treaty could establish such a tribunal on a permanent basis, regardless of party consent. More feasible in the near term, however, though limited to FRAND disputes, would be for private standards development organizations to establish, and encourage their members to participate in, a global FRAND tribunal—a proposal that one of us has previously made, and that we further develop here to show that competition law should not pose an obstacle to the proper establishment of such a tribunal. Second, we propose a set of best practices that courts throughout the world could adopt today, to minimize potential conflicts arising from global patent disputes. These include (1) staying or dismissing pending litigation, under specified circumstances, in deference to an appropriate foreign tribunal; (2) generally limiting antisuit injunctions to cases in which enforcement in another jurisdiction would frustrate the domestic court’s ability to render judgment; and (3) imposing limitations, grounded in principles of proximate causation, the relevance of noninfringing alternatives, and the avoidance of duplicative recoveries, on awards of damages for extraterritorial injuries caused by acts of domestic infringement.

I. Introduction

- A. IP rights generally, and patent rights in particular, are usually understood as being territorial in scope.
 1. Subject to some exceptions . . .
 2. Rationales
 - a) Treaties? Dinwoodie argues, rightly in my view, that the treaties don’t really address this issue.

- b) Comity (define).
 - c) Fear of retaliation.
 - B. Commerce, however, is global, and thus poses some challenges to the traditional understanding (Dinwoodie).
 - C. Three developments in particular pose unprecedented challenges.
 - 1. Global FRAND rates
 - 2. Antisuit injunctions
 - 3. Extraterritorial damages
 - D. As we will show, there are advantages and disadvantages to the manner in which courts around the world have begun to address these issues.
 - 1. A multilateral treaty might be a first-best solution, but is probably infeasible at present.
 - 2. Moreover, whatever the ideal resolution of these issues may be, in large measure these developments probably are here to stay.
 - 3. We therefore propose a set of best practices which we hope judges, commentators, and other bodies throughout the world will embrace, to reduce the risk of abuse (on the part of patent owners, implementers, and domestic courts and regulators) and to minimize tensions among nations.
 - E. Roadmap
- II. Three Recent Developments
 - A. Global FRAND Rates
 - 1. How the issue arises.
 - 2. Cases in which courts have set global FRAND rates, with the consent of the parties.
 - 3. Cases in which courts have set global FRAND rates, over one party's objections.
 - a) Rationale:
 - (a) A FRAND license would be global in scope. Hence, an implementer's refusal to accede to a court's determination of a FRAND license amounts to unwillingness to accept the terms of a FRAND license, and thus would justify the imposition of a domestic injunction.
 - (b) Proceeding on a country-by-country basis would be "madness," would encourage "holdout."
 - (c) Comity is preserved, because implementers can still challenge validity, essentiality, and infringement on a country-by-county basis, with the possibility of a corresponding adjustment of the global FRAND rate (the so-called "mechanism").
 - 4. Advantages
 - a) A FRAND license, as contemplated by SSO policies, may well be global in scope. (Does it matter if the case is presented as a patent infringement suit as opposed to a breach of contract matter?)
 - b) Efficiency.
 - c) Discourages holdout.
 - 5. Disadvantages
 - a) Encourages forum shopping, with its concomitant risks of races to the courthouse and races to the bottom.
 - b) May exacerbate holdup.
 - c) As a practical matter, the mechanism isn't sufficient to avoid having to pay for invalid or nonessential patents.

- d) Leveraging/tail wagging the dog for one country to set FRAND rates even when the majority of sales revenue is in another country.
- B. Antisuit Injunctions
1. In both common and civil law countries, a court with jurisdiction over the parties sometimes will order one party or the other to do, or refrain from doing, some act outside the jurisdiction. See, e.g.:
 - a) Mareva injunctions (freezing orders).
 - b) *Google Inc. v. Equustek Solutions, Inc.*, 2017 SCC 34 (Can.) (trademark infringement, trade secret misappropriation).
 - c) Decision and Order, In the Matter of Motorola Mobility LLC and Google Inc., (FTC July 24, 2013) (competition law).
 - d) *Solvay SA v. Honeywell Fluorine Prods. Europe BV*, Case C-616/10 (CJEU 2012) (preliminary injunctions in patent cases).
 - e) Advocate General’s Opinion in *Google v. CNIL*, Case C-507/17 (CJEU Jan. 10, 2019) (right to be forgotten).
 2. Antisuit injunctions, where and when available, are another such example.
 - a) Background
 - (a) First adopted in England centuries ago.
 - (b) Generally permitted in common-law countries, e.g., to prevent a litigant from proceeding with “vexatious” or “oppressive” litigation in a foreign country (e.g., from litigating in another country in violation of a choice-of-forum provision or an arbitration agreement).
 - (c) Because an antisuit injunction operates in personam, the domestic court is not enjoining a foreign court.
 - (d) U.S. law is somewhat stricter than U.K. law, and varies somewhat from circuit to circuit.
 - (e) Antisuit injunctions are rare (though not entirely unheard-of) in civil-law countries. The dominant view is that if a court grants an antisuit injunction, it *is* interfering with, and not paying sufficient respect to, a foreign court.
 3. U.S. courts have granted them in two (three, if you count *TCL*) FRAND cases to date.
 - a) See *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872 (9th Cir. 2012), aff’g 871 F. Supp. 1089 (W.D. Wash. 2012); *Huawei Techs. Co. v. Samsung Elecs. Co.*, Case No. 3:16-cv-02787-WHO (Apr. 13, 2018).
 - b) See also *Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, [2017] EWHC 2831 (Pat.) (Eng.); *Conversant Wireless Licensing S.A.R.L v Huawei Techs. Co.*, [2018] EWHC 2549 (Pat.) (Eng.).
 4. In the two U.S. cases, the court enjoined SEP owners from enforcing injunctions obtained, respectively, in Germany and China, primarily to preserve the court’s ability to determine if injunctive relief would be consistent with the SEP owner’s FRAND obligations.
 5. Advantages
 - a) Reduces risk of foreign litigation undermining domestic court’s ability to act.
 - b) Incidental to setting of global FRAND terms?
 - c) Avoids risk of inconsistent litigation, forum shopping, duplicativeness, holdup or holdout?
 6. Disadvantages:

- a) An affront to comity; assumes the foreign court won't do the right thing.
 - b) Potentially increases costs (anti-anti-suit injunctions, etc.), risks of inconsistent litigation, forum shopping?
 - c) Interferes with a litigant's constitutional right of access to the courts (comment of Waseda University Professor Takabayashi)?
- C. Extraterritorial Damages
1. Basic question: If a right is not extraterritorial, can a court nevertheless grant a remedy that compensates for an extraterritorial loss?
 2. Some examples have been around for a while:
 - a) *Shevill v. Presse Alliance SA*, Case C-68/93 (ECJ 1995) (damages for defamation).
 - b) Copyright damages in the U.S. and Germany.
 3. Patent law examples
 - a) U.S. case law pre-*WesternGeco*.
 - b) *WesternGeco* and its aftermath in the U.S.
 - c) Canadian case law.
 - d) Japanese case law (see my blog post of Feb. 18, 2019).
 4. Advantages
 - a) Ensures full compensation, and thus preserves the patent incentive/vindicates domestic policy.
 - b) Domestic court should be able to determine what the consequences are for domestic infringement.
 5. Disadvantages
 - a) Risks duplicative recoveries.
 - b) Possibility of undermining policies of foreign countries (e.g., with regard to the recovery of enhanced damages, disgorgement, fees, etc.)?

III. Best practices

A. Global FRAND rates

1. Treaty? Probably not feasible.
2. SSO policies/ global FRAND tribunals/ encourage or require arbitration?
 - a) Advantages and disadvantages, as per Jorge's article.
 - b) Feasibility: risk of antitrust liability on the part of SSOs, resistance from membership?
3. Develop common principles for determining the terms of FRAND licenses?
 - a) Perhaps easier said than done.
 - b) Still much debate over matters such as top-down versus bottom-up, the meaning of "nondiscriminatory," whether the owner can recover any of the "value of the standard," confidentiality issues, the appropriate royalty base, whether licenses must be made available to all, etc. . . .
4. Develop common principles for the use of forum non conveniens/discretionary stays, to enable litigation to proceed in the nation with the most significant contacts.
5. Any way to make the "mechanism" more effective in practice, so implementers don't wind up paying for invalid or nonessential patents?
 - a) If a FRAND rate set by a court already takes into account the probability that some of the patents in suit are invalid or inessential, is that a sufficient safeguard? Though how can a court accurately estimate this?

B. Antisuit injunctions

1. Courts that permit them should limit them to cases in which enforcement in another jurisdiction would frustrate the domestic court's ability to render judgment.
2. Compare, e.g., *Microsoft v. Motorola* and *Huawei v. Samsung* with *Apple Inc. v. Qualcomm Inc.*, Case No. 3:17-cv-00108-GPC-MDD (S.D. Cal. Sept. 7, 2017); *Vringo, Inc. v. ZTE Corp.*, No. 14-cv-4988 (LAK) (S.D.N.Y. June 3, 2015).
3. Bonds/ damages for erroneous entry of an injunction as a constraint against overzealousness?

C. Extraterritorial damages

1. Note the various ways in which the issue may arise, e.g., domestic manufacture enables infringer to sell articles abroad; domestic use stimulates demand for infringer's services abroad; etc.
2. Note how matters can play out under different scenarios, e.g., when the patentee has a corresponding patent in another country; when another company has the corresponding patent in another country; when no one has a corresponding patent or other IP right in another country.
3. Offers to sell as infringing acts: depending on how the right is interpreted, could be another situation in which patentees suffer potentially remediable extraterritorial losses.
4. Note that patentees may have a harder time convincing courts to grant extraterritorial injunctions, even if they are only directed in personam.
 - a) In the U.S., no "springboard" injunctions because of the wording of Patent Act § 283 (John Golden article). Same logic should apply to injunctions against noninfringing sales abroad.
 - b) Springboard damages are okay, though, subject to normal conditions of proof, proximate causation, etc. Maybe same logic should apply to extraterritorial damages?
5. Best practices:
 - a) Avoid duplicative recoveries, as in *AstraZeneca v. Apotex*.
 - b) Proximate causation as a limit on recovery.
 - c) Outsourcing as a noninfringing alternative?

IV. Conclusion/Loose Ends

- A. Recognition of judgments law as a constraint?
- B. Add appropriate insights from Dinwoodie article, though more as background.
- C. The current title of this piece is not sacrosanct, and may be too close to Dinwoodie's.