

Research Handbooks in Intellectual Property

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Research Handbook on Cross-border Enforcement of Intellectual Property

Edited by **Paul Torremans**



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Paul Torremans

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RESEARCH HANDBOOKS IN INTELLECTUAL PROPERTY

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Preface

Intellectual property is nowadays rarely limited in scope to a single country. The modern intellectual property system is international, almost by nature, despite its very firm territorial roots. Parallel rights exist in the various jurisdictions and rights are exploited in various jurisdictions.

The challenge that arises is based on the conception in business that intellectual property operates at a cross-border level, in combination with the fact that the reasonable expectation of an effective cross-border enforcement of intellectual property needs to be filled in in practice on a territorial country by country basis. This collection of essays looks at the cross-border enforcement and the issues that arise from it from various perspectives.

In a first part various national or regional systems are examined individually. In some of them there are already special rules for cross-border cases, whilst in others, and in particular in those of emerging economies, the focus is still firmly on establishing an effective enforcement system in the jurisdiction itself. Be that as it may, either system will be needed for an effective cross-border enforcement in the appropriate particular scenarios.

In a second part, the territorial basis is taken one step further. National systems necessarily interact and this is where private international law issues arise. We deal first of all with the traditional private international law areas such as jurisdiction, choice of law and recognition and enforcement, but we then consider special issues arising from ubiquitous cases to the use of intellectual property as security.

In a third part we look at cross-border enforcement from the perspective of those involved, such as practitioners, judges and arbitrators.

And finally, in a fourth part, we consider special, somewhat more individual issues, such as the liability of intermediaries and the fall-out from TRIPS and ACTA.

On that basis we hope to provide a complete overview of the issues that arise in a cross-border enforcement context, as well as an in-depth analysis of the current state of affairs in legal science.

I would like to take this opportunity to thank my excellent team of contributors, as well as my team at Edward Elgar Publishing.

Paul Torremans
Nottingham, 10 April 2014

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PART I

NATIONAL AND REGIONAL ASSESSMENTS

1. Cross-border enforcement of intellectual property rights in U.S. law

Marshall Leaffer

1. INTRODUCTION

The cross-border enforcement of intellectual property law covers a broad range of topics that include issues of jurisdiction, conflict of law, and the enforcement of foreign judgments to name a few. It would take a book length chapter to do justice to this important and varied subject, often given short shrift in treatises on intellectual property law. In this chapter I have tried to emphasize the major areas of concern but have not exhausted all the diverse circumstances where cross-border issues come into play. I have done so in the following four broad contexts: the extraterritorial application of U.S. law, the gray market, choice of forum and choice of law, and the enforcement of foreign judgments.

To provide an overall assessment regarding the cross-border enforcement of intellectual property law in the U.S. is a difficult proposition because of the breadth of the subject matter. One can generalize that in a digital networked environment and a global marketplace intellectual property rights (IPR) can no longer be viewed in a strictly territorial framework. In this regard, U.S. courts have progressively expanded the scope of U.S. law across national borders with less restraint than in the past. This decline of strict territoriality has occurred increasingly over many decades. One gets the impression that some kind of tipping point has taken place and we are challenging notions of strict territoriality as never before.

Before discussing the specific issues regarding cross-border enforcement, it is appropriate to highlight specific actors and institutions that play a role in cross-border enforcement.

2. ACTORS AND INSTITUTIONS

Several institutions are involved in the cross-border enforcement of IPR. In addition to the federal and state courts, the United States Trade Representative (USTR), the International Trade Commission (ITC), and

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U.S. Customs and Border Protection (CBP) all play a special role in the cross-border enforcement of IPR. The discussion turns to these three institutions.

(a) USTR Enforcement of Section 301 and Special 301

At the broadest level, the United States Trade Representative coordinates trade policy within the government. Under §301 of the Trade Act of 1974, the USTR has discretion to initiate an investigation into protectionist trade practices of other countries. The “Special 301” Report is an annual review of the global state of IPR protection, enforcement, and market access, which the USTR conducts pursuant to Section 182 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988 and the Uruguay Round Agreements Act. The Special 301 provisions of the 1988 Trade Act require the USTR to identify countries that deny either fair or adequate protection to intellectual property, or market access to U.S. intellectual property holders. The USTR must then determine which of the identified countries belong on the annual “Priority Watch List.” In 2013, the USTR reviewed 95 trading partners for the year’s Special 301 Report and placed 41 countries on the Priority Foreign Country, Priority Watch List. The USTR has made significant progress since the 2010 Joint Strategic Plan¹ on implementing its new trade agreements. U.S. trade agreements with strong IPR provisions are now in force with Korea, Colombia, and Panama.

(b) International Trade Commission

The ITC is a quasi-judicial independent federal agency that has authority to enforce certain intellectual property rights. Enforcement of patent rights in the ITC is similar to a patent infringement action in district court, but has some significant differences as well. A patent owner (complainant) can ask the ITC to initiate an “investigation” into possible violations of Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337. Section 337 was enacted with the goal of protecting American businesses from unfair competition from abroad and makes it unlawful, among other things, to import into the United States articles that infringe a valid and enforceable U.S. patent, registered copyright, or registered trademark.

Section 337 provides relief from unfair methods of competition and unfair acts in the importation of articles into the United States, or in their

¹ <http://www.whitehouse.gov/sites/default/files/omb/IPEC/2013-us-ipeec-joint-strategic-plan.pdf> (last accessed June 3, 2014).

sale, if the effect or tendency of such actions is to destroy or substantially injure a U.S. industry. This formulation reflects several decades of U.S. trade policy and the inherent tension between protecting American industries and minimizing interference with legitimate trade. Section 337 adjudications are subjected to the requirements of the Administrative Procedures Act.²

The ITC has the power to issue cease-and-desist orders and can issue exclusion orders to block the importation of infringing articles regardless of source. The Act codified the ITC's most appealing aspect, its speed, by requiring the ITC to decide cases in 12 months, or in complex cases, 18 months. This characteristic distinguishes the ITC from the district courts, which have no set time limits in adjudicating disputes. The 1974 Trade Act vested the ITC with final decision-making authority, subject only to presidential veto for policy reasons. For example, in 2013 the President vetoed the ITC's exclusion order of Apple Company products deemed to have infringed Samsung's patents.³

As compared with the ITC, federal district courts have a higher statutory requirement for rendering a valid judgment. The district courts must have personal jurisdiction over the patent infringer, and the patent holder who initiated the litigation has the burden to prove that the court has personal jurisdiction over the patent infringer; conversely, the ITC has national *in rem* jurisdiction over all products imported into the United States. Simply stated, the ITC's jurisdictional requirements are satisfied if the infringing product is physically present in the United States.

Another substantial difference between the district courts and the ITC is each institution's subpoena power. Since the ITC is a federal agency, it has a nationwide subpoena power that gives the complainant an advantage in gathering evidence and testimony. However, the subpoena power of district courts is more limited in scope and must, with high regard, bow down to constitutional limitations. In terms of remedial relief, the ITC can impose strong injunctive measures after reaching a decision pursuant to a Section 337 investigation; but, unlike the district courts, it cannot award money damages. Available injunctions include exclusion orders and cease-and-desist orders.

² 5 U.S.C. §§ 101–913.

³ For a copy of the President's veto letter see http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF (last accessed June 3, 2014).

(c) Customs and Border Protection

The U.S. CBP is an administrative agency with the authority, under the Tariff Act of 1930, the Lanham Act of 1946, and the Copyright Act of 1976, to make infringement determinations concerning federally registered trademarks and copyrights. Although the CBP has no legal authority to make patent infringement determinations, it does have the power to bar entry into the United States of goods that the ITC has found to infringe a valid and enforceable U.S. patent.

Through its enforcement powers and its administrative authority to make trademark and copyright infringement determinations, the CBP is tasked with impeding the stream of counterfeit and pirated goods into the United States. The CBP may, on its own accord, initiate enforcement actions to detain or seize infringing merchandise. In addition, it may proceed on information supplied by rights owners. Enforcement actions represent the joint efforts of many disciplines within the CBP. In some instances, IPR enforcement actions may also be commenced in collaboration with other Government agencies.

An owner of a registered trademark can record the trademark with the CBP.⁴ Upon recordation, the trademark owner is entitled to protection at the border. For its enforcement procedures, the CBP makes a fundamental distinction between goods that are counterfeit and those that bear a confusingly similar mark. Counterfeit goods are treated more harshly and are seized and forfeited. Even if the trademark was not recorded, Customs may seize and forfeit counterfeit goods under the Federal Anti-Counterfeiting Consumer Protection Act.⁵ A different procedure is employed with infringing goods that fall short of being a counterfeit product. Infringing goods of a recorded trademark are subject to a 30-day detention period whereby the importer can seek entry into the United States. For example, the CBP may allow importation if the importer removes the trademark on the goods. A similar procedure exists for copyright owners so long as the copyright owner registers with the Copyright Office and then records with the CBP. For non-recorded copyrights, the CBP will act against clearly counterfeit goods but will not act against possibly pirated goods. In sum, although the CBP enforces

⁴ See the procedures set forth in 19 C.F.R. §§ 133.1–4.

⁵ 18 U.S.C. § 2320 (2002).

both recorded and non-recorded trademarks and copyrights, its enforcement of recorded trademarks and copyrights takes priority over those not recorded with the CBP.⁶

The Customs Bureau's IPR recordation system, as embodied in its electronic IPR database, was designed to make IPR information involving imported merchandise accessible to CBP personnel. IPR border enforcement by the CBP is incorporated into the efforts of several other governmental agencies. The three primary bureaus are the Office of Strategic Trade, the Office of Field Operations, and the Office of Regulations and Rulings. The CBP provides assorted training for its officers, enabling them to undertake multiple issues involving national security, narcotics interception, and trade enforcement priorities such as IPR.

3. THE EXTRATERRITORIAL APPLICATION OF U.S. TRADEMARK LAW, COPYRIGHT LAW, AND PATENT LAW

(a) **Introduction: The Ever Shrinking Presumption Against Extraterritoriality**

The laws of the United States are presumed inapplicable beyond the jurisdiction of the territory of the United States.⁷ The presumption against the extraterritorial application of U.S. law exists for good reason; if a U.S. court attempts to regulate conduct occurring in another country, that country may regard the court's actions as an affront to its territorial sovereignty and its rights under international law to control all activities within its borders.⁸ The international business community requires certainty as to which law will govern its practices: if a foreign country also regulates the disputed conduct, enforcement of the U.S. law will subject transnational businesses to conflicting or cumulative liability. Compliance with multiple regulations may also reduce the competitiveness of a

⁶ For a good example of how the CBP operates see *Ross Cosmetics Distribution Centers v. U.S.*, 18 C.I.T. 979, 34 U.S.P.Q. 2d 1758 (Ct. Int'l Trade 1994).

⁷ *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909).

⁸ See *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir.), *cert. denied*, 352 U.S. 871 (1956) (jurisdiction of the Lanham Act did not extend to Canadians due in part to the court's reluctance to rule on rights created by Canadian law). *Id.* at 647.

business in the world marketplace, distorting trading patterns as foreign businesses seek out new, more reliable, trading partners. In other words, fear of U.S. law will impair the free movement of capital and the creation of new business ventures and may lead to distrust of U.S. companies.

In over a century of litigation, the presumption against extraterritoriality has generally been subject to three qualifications. I will point out, however, throughout this chapter that the exceptions have largely swallowed the presumption. They have been enlarged to the extent that one could argue that the presumption against extraterritoriality exists in a diminished state, despite the lip service it is given. Nonetheless, the courts still articulate a tripartite test when U.S. law is to be applied extraterritorially: first, the exception arises when the “‘affirmative intention of the Congress clearly expressed’ [is] to extend the scope of the statute to conduct occurring within other sovereign nations”;⁹ secondly, when adverse effects within the United States would occur from the failure to extend the law; and thirdly, where the conduct regulated occurred primarily in the United States, even if the effects were largely felt extraterritorially.¹⁰ As we will see, most of the cases applying the trademark and copyright law extraterritorially manifest one or more of these exceptions to overcome the presumption against extraterritoriality, but there are significant differences among the circuits, particularly in the trademark area, in the interpretation and the weight ascribed to each of the exceptions.

There are two scenarios in which courts have had little reluctance in applying intellectual property laws extraterritorially and have done so for many years. The first involves contributory infringement. Courts have held that conduct abroad can be reached under U.S. patent, trademark, and copyright law if it actively induces or contributes to infringement occurring within U.S. territory.¹¹ These cases acknowledge that, although U.S. intellectual property law applies only to infringements occurring within U.S. territory, the cause of an infringement may emanate from outside the territory. The second situation concerns the recovery of profits received as a result of an infringement. The Federal Circuit has specified

⁹ *Environmental Defense Fund v. Massey*, 986 F.2d 528 (D.C. Cir. 1993) (quoting *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991) and *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

¹⁰ See, e.g., *EEOC v. Arabian American Oil Co.*, 499 U.S. 244 (1991) (refusal to apply Title VII discrimination to American citizens employed by an American company doing business overseas).

¹¹ See, e.g., *Spindelfabrik Suessen-Schurr v. Schubert & Salzer*, 903 F.2d 1568, 1577–78 (Fed. Cir. 1990).

that, so long as the defendant infringes a patent, trademark, or copyright in the United States, then the recoverable damages may include the profits received by the defendant from foreign sales of the infringing product.¹²

Although criminal penalties for a knowing infringement of IPR have increased dramatically, the criminal law has maintained a strict territorial profile. This phenomenon has continued for traditional reasons principally involving policies of comity; however, once it is determined that counterfeit goods are made in the United States even though sale is intended abroad, the full force of the criminal law will be imposed and the retail value of the counterfeit goods as measured by the U.S. market will be used for sentencing purposes.¹³

(b) The Extraterritorial Application of U.S. Trademark Law

(1) Introduction

The Trade Mark Act of 1946 (the “Lanham Act”) provides a battery of remedies for infringement of registered and unregistered marks, false advertising, and unfair competition. The statute applies to “all commerce which may lawfully be regulated by Congress.”¹⁴ Congress has expressed the jurisdictional reach of the Lanham Act broadly: “the intent [of the Act] is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce.”¹⁵ This has led some courts (notably the Ninth Circuit) to significantly extend the extraterritorial reach of the Lanham Act. They have consistently applied the Act to the export of goods from the United States, regardless of whether promotion, sales, or other such activities have occurred in the United States.

For the most part, the manufacture and shipment of goods within the United States are sufficient to invoke the application of the Lanham Act to promotion and sales occurring outside the United States. Instances in which courts have not applied the Lanham Act involved potentially direct conflicts with foreign laws because of the exporter’s ownership of foreign trademark registration rights. Despite this general thrust, the circuits diverge significantly about the scope of the Lanham Act’s extraterritorial

¹² See, e.g., *Update Art*, 843 F.2d at 73; *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) 309 U.S. 390 (1940); *Los Angeles News Serv. v. Reuters Television Int’l, Ltd.*, 149 F.3d 987 (9th Cir. 2003).

¹³ *United States v. Lozano*, 490 F.3d 1317 (11th Cir. 2007).

¹⁴ Lanham Act § 45, 15 U.S.C. § 1127 (1996).

¹⁵ *Id.*