

KEYNOTE ADDRESS:

**DO YOU WANT YOUR FOREIGN PATENT
ENFORCED IN A U.S. COURT?**

Judge Randall Rader*

I'd like to start by telling you a bit of a story. The Federal Circuit is noted for asking a lot of questions, and dominating the time that an attorney may have to present his argument. One attorney, I've heard, was very concerned about that, so he devised a strategy. He said, "I am going to see if I can propose something to the Federal Circuit to limit their questions so I can present my whole case." He comes before the Court, and says, "Your honors, before I begin my argument, I'd like to propose that if the Court will limit itself to three questions, I will, at the end of those three questions, terminate my arguments and sit down." The Court said, "Well, let me see if I understand. You are proposing to complete your argument upon us asking a third question, is that correct?" He said, "Yes." "Now, just to make sure I understand, even if you haven't completed your argument, when we ask the third question, you will sit down, is that correct?" He said, "Yes." Then the Court said, "Then may we please, as our third question, ask you to sit down?"

It's an honor for me to be here with you today, and I'd like to particularly commend Professor Takenaka, a dear friend of mine. She's taken CASRIP, which a few years ago was completely unheard of in the world, and made it a true force for the shaping of intellectual property, a world-renowned research institute. I commend her greatly for what she's accomplished.

I similarly commend Paul Liu and Andy Sun who have performed some of the same remarkable transformations of the Asia-Pacific Law Institute. They have I think, helped shape the relationships of intellectual property law between the United States and Asia and the rest of the world, as we see them reaching out even towards Europe.

* United States Court of Appeals for the Federal Circuit, Washington D.C. This document is a verbatim transcript of the remarks presented by Judge Rader on July 21, 2000 at the High Technology Protection Summit at the University of Washington School of Law. Judge Rader's remarks were given without formal written materials.

Today we have a wonderful, fascinating subject to discuss. We've had tremendous advances made in intellectual property with the adoption of the TRIPS Agreement, which has further advanced the Paris Convention and the Patent Cooperation Treaty, enabling inventors to acquire worldwide patent rights. And indeed, the global market has driven the demand for these worldwide patent rights, allowing inventors to acquire parallel patent rights in countries around the world. Information, which the market recognizes as the centerpiece of any profitable enterprise, is now transferable around the globe at the speed of light. The challenge posed to intellectual property regimes to protect that information is profound.

These international conventions, however, and the recognition they have of the need for intellectual property rights in a worldwide arena, have only recently begun to address worldwide enforcement of those rights. We have in the TRIPS Agreement some recognition of the need for a minimal international standard of what constitutes a patent, and what things are eligible for patent protection, and how we might assess their patentability enforcement. But the enforcement aspect of the TRIPS Agreement has lagged far behind.

I'd like to explore with you for a minute the area of multinational, cross-border enforcement of intellectual property rights, since intellectual property is by its nature information-based, and that information is by nature subject to worldwide exploitation. Enforcement must match the threat.

The problem is somewhat easy to conceptualize. I'm going to pick on these three ladies here in the front row. They're our inventors for today. And they've invented something magnificent. It's a new technology that allows them to download entire movies off of the Internet in less than three seconds. They also have a patent on that. They've even been wise enough to call upon some of the patent counsel I see here in the room, and they have gained parallel patent rights around the world.

Their patent is very valuable, because of course, all you people want to buy it to help you infringe people's copyrights. What, however, do they do when they realize that IBM has just recently decided to get into the international information-transfer business, and is infringing their patent worldwide: in France, Germany, Russia, Japan, and China. How do they enforce it? Consider for a minute the problem our three inventors here in the front row face.

Now, they can bring suit in the United States, and that will get them maybe a third of the world market, maybe less. Are they going to throw away the rest of the market? No, as we discussed already, the marketplace demands a worldwide solution. So they begin to contemplate, how are we going to enforce our intellectual property rights worldwide? Well, they'll have to hire local counsel in Japan, Germany, China, and France. Already, just the task of finding competent counsel is daunting, let alone supervising them. What else are they going to have to do? Well, trials will proceed in each of those countries. They will have to translate the documents into each

of those countries' languages. They'll have to... well, who's going to testify at this trial? They have perhaps a cadre of experts that they used in producing their technology.

Now they're supposed to be running a business, but already you can see that they may be dragged to Indonesia for a trial this week, and have to rush back to France for a trial next week. Just testifying at trials could monopolize their business time.

When they start to get results from these trials, what could be the result of that? They might end up with their first trial in some quixotic country with a wild patent law that would invalidate their patent according to a standard that no one else in the world has, like the "best mode" requirement. I'm afraid that when we talk about quixotic patent law, we're very often talking about the United States, but, the point is that we could end up with conflicting judgments. Maybe we'll have a judgment of infringement in one country on the basis of a non-textual infringement, some kind of doctrine of equivalents, and in another country there will be some quixotic limitation placed on that rule, like it's applied nowhere else in the world—prosecution history estoppel.

The problem, you can see, is the transaction costs of enforcing the intellectual property rights to which they are entitled—and which have greatly benefited both the marketplace and copyright infringers. The transaction costs of the endeavor could far outweigh the potential benefits. They would probably end up making the decision, "Well, we'll just have to choose one or two little places in which to sue, and forfeit the rest of our rights." But wouldn't it be more efficient if they could find a way to bring a suit in one forum, and ask that forum to apply the laws of other nations? Thereby, in one place, adjudicating their single patent—which, for our purposes, is identical worldwide—thereby enforcing their worldwide patent rights in a single place? Wouldn't that be excellent?

Well, now they've come to me. I'm going to be their patent counsel this morning. They have asked me if they couldn't do that. I've done a little research, and we're going to have a little meeting here that I'm going to let you folks sit in on for a minute, and I'm going to explain to them what I've found out. I've found out that actually this has been tried; I'm happy to tell you that it's not far-fetched as an idea.

But I'm sad to tell you that there are some real obstacles to its success. Let me explain to you some of those in the form of a recent case that happened in the Federal Circuit, this strange Circuit Court in the United States. They had a case in which an American had a patent on a coin detection technology.¹ That patent had a parallel patent right in Japan, where it was also being infringed. So, the United States company asked the United States District Court for the District of Delaware if they would kindly

¹ *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368 (Fed.Cir. 1994).

enforce both United States law and United States infringement against the Japanese company, and also enforce the Japanese law against the Japanese company here in the United States. Of course the Japanese company quickly came to defend themselves, and said there was jurisdiction for you to bring a case under Japanese law for infringement that occurred in Japan—if you want to sue us, you’ve got to go to Japan to sue us for infringement that occurred in Japan under Japanese law.

Well, there are actually two sources of potential jurisdiction under federal law. The first is under §1338 (you don’t have to worry about these numbers, but I’m throwing them in so that I can raise my bill a little later, you’ll know how expert I am, and it’ll help me enhance my fees). Section 1338 says that federal courts have power over state and non-federal unfair competition claims.

Now, you might say, can’t we characterize this Japanese infringement as a non-federal unfair competition claim? Well, the District Court didn’t really address that directly. The District Court merely found it had jurisdiction, but said it wasn’t going to exercise that jurisdiction under comity (we’ll talk about what comity is in a minute).

But, what about this unfair competition claim? The Court of Appeals for the Federal Circuit unfortunately said patent law is not unfair competition. Well, you might quibble with that, and go back and say that the basis of modern patent law traces its origins to the 1624 Antimonopoly Act. The competition policies that were existent in that 1624 Act have indeed sprung up in a slightly different direction, but there’s still anti-competition, and so it’s unfair competition in a non-federal way. We ought to be able to get that original jurisdiction. But the Court said “No. Unfair competition laws are to protect consumers. Patent laws are to protect inventors. They’re two separate things. No original jurisdiction under Section 1338.”

But that doesn’t foreclose us completely, because there’s a separate federal jurisdictional hook: supplemental jurisdiction, which says that the district courts of the United States can exercise supplemental jurisdiction over non-federal claims attached to patent cases if you have a “common nucleus of operative fact.”

Now let’s think about this for a minute. Do we have a common nucleus of operative fact? In the coin-sorter case that I mentioned to you, the court said no, because the Japanese patent happened to be an apparatus patent. The United States patent was a process patent. There were nine separate infringing devices in Japan. There was only one in the United States. The court said, reducing it, “That could cause us to have to conduct two trials at the same time, and we are not going to view that as a common nucleus of operative fact.”

To cut to the chase in giving you my advice here, we might have a better case. We have identical patents in the countries that we want to sue in, and we have identical infringing devices. IBM is using the same method of

downloading worldwide that literally infringes our patent. We perhaps could make a much stronger case for a common nucleus of operative fact.

But what about this fear about two trials at the same time? Let me tell you what that's masking. In the first place, standing alone it makes no sense at all as an argument. Courts frequently conduct two trials at the same time. If we went to Judge Cohn's court today, we'd find him probably conducting a trademark case which is under state law and federal law; and, under his diversity jurisdiction, he probably conducts trials at the same time on two separate laws, or three or four separate laws, regularly. As a matter of fact, I bet in most of his patent cases, he also has to apply the Antitrust Act.

[Addressing Judge Avern Cohn:] How am I doing, Avern, am I getting it right? I forced him to nod his head like that because ...

Judge Avern Cohn: That's why I have a bottle of aspirin on the bench all the time.

Judge Randall Rader: The only trouble is, now I'm going to have to share part of my fees with Judge Cohn, because he's my expert witness. But that's okay you're ... [inaudible].

What's the real unspoken obstacle here? What is the court really afraid of? In fact, the district court in Delaware was a little more direct in saying it when it said "comity." What are they talking about? What they're really saying is, "You know, a United States jury could raise prices on technology in Japan, if it finds that a Japanese company has infringed in Japan." A jury sitting in the United States can decide to raise prices in Japan for Japanese consumers. If they can do it, the United States jury can do it, and we're the only country with a jury. Quixotic again. Why is it always us that's weird?

But, if they can do it, what about the other way around? What's going to happen the first time a Japanese judge, or an Australian judge, or a Chinese judge raises prices in the United States on United States goods consumed by United States consumers? Obviously we can see that if we started down that road, we might touch off a backlash. Indeed, you would have countries passing indemnity laws to insulate their own companies against infringement. You would have countries passing trade secret laws to say "none of the technology in our country can be surrendered in discovery to any other country, notwithstanding the TRIPS provisions on discovery, without violating criminal acts in our own country." Does that happen? Switzerland already has those laws, and they're not the only ones. You could have aggressive retaliatory suits. We could have set off a real protectionist intellectual property war here based on an attempt to enforce multinational intellectual property.

Are these obstacles too great? Despite the obstacles to overcoming whether or not you have a common nucleus of operative fact, or deciding whether it's an unfair competition statute, or hidden threats of commodity, what it really means in terms of a Japanese judge raising prices in the United States, or vice versa, are the potential threats that people will perceive to sovereignty—our own territorial enforcement of something we have in the

past considered very much our own business. It's the United States' business who they give exclusive rights to, who they give property to. We don't want other countries meddling in that.

Are those obstacles too great to overcome, to ever have effective enforcement for our inventors? Are inventors really going to have to just write off most of the world, and pick a few markets where they might have the resources and time to litigate? Well, let me suggest that the answer may be no, that there may be more hope than the current legal landscape affords us.

Since 1992, the Hague Convention has been under consideration. It proposes an international treaty on jurisdiction, which would recognize that if a country can assume jurisdiction over a suit, all signatories to the Convention will give full faith and credit to the result of that trial. It also says that there are certain things that are prohibited from international jurisdictional agreement. The negotiations on that treaty are ongoing. I understand that at the moment, intellectual property is in the category where they're not going to cover us, which is strange because that's the one thing that most needs covering. It's information that is international. It's information and intellectual property that most need the protections of this treaty.

But, at least there's a mechanism beginning to move to give our inventors some hope. TRIPS itself is an example, showing us that international legal standards can reshape the international legal landscape, as it already has. I wish I had another hour to tell you stories about how TRIPS has completely changed the world's mindset on intellectual property, and how in places where intellectual property academicians were rejected ten years ago they're embraced as saviors of the republic today.

The market, of course, is driving a reduction in barriers to enforcement of intellectual property. They are not just our inventors—every corporation, every business, every internet user recognizes that he or she has certain property to protect, and it's vulnerable in the absence of cross-border enforcement.

Finally, drawing upon United States history, the Court of Appeals for the Federal Circuit itself illustrates the rewards of uniform enforcement standards. Before 1982, each balkanized region of the United States enforced different standards on patent law. Since then, the Court of Appeals for the Federal Circuit has contributed to the technological boom period, by giving some predictability and dependability to intellectual property across what used to be vast legal obstacles.

I'd like us to urge consideration of ways to continue the first step taken by TRIPS. The procedural guarantees of TRIPS can be expanded into substantive areas. As the world adopts a uniform standard of patent law, it'll become far easier to enforce those standards worldwide. If the United States, for instance, abandons the complexity of its "first to invent" prior art standards in exchange for an international adoption of U.S. obviousness standards and a grace period, we could have a more uniform law. Then it would not be so difficult for an Avern Cohn to apply Japanese law, because it would look

like United States law. As national tribunals begin applying each other's laws—which, as I suggest, may even be possible today in the United States under a case which presents “a common nucleus of operative fact”—we may see a need in the future for some international tribunal to settle conflicts which may occur between national courts on the same patent.

Finally, I think TRIPS has begun the journey, but I urge us to consider that TRIPS is not the destination. It is not the end; it's merely a very tentative first step on a much longer road leading to, hopefully, harmonious international intellectual property standards.

Thank you very much.