POSITION STATEMENT

CLOSING THE OFF-SHORE PATENT INFRINGEMENT LOOPHOLE

Adopted by the IEEE-USA Board of Directors, 15 June 2007

IEEE-USA calls on Congress to amend United States patent law to remove incentives for companies to off-shore activities to avoid liability for infringement of a method patent, also known as a process patent. Such patents are common for the computer-based inventions that IEEE-USA members and their employers develop.

The Federal Circuit has held that under language of the current patent statutes, a process patent is not infringed if any step of the process is performed outside of the United States, even if the end-user of the method is located in the United States. However, had the process produced a product, importation of that product into the United States would be an infringement, even if every step of the process were performed off-shore.

At the same time, Congress should close the loophole caused by the fact that the exclusive jurisdiction of the Court of Federal Claims, with respect to infringement of a patent by the United States government or its contractors, does not include all forms of infringement. That court's patent jurisdiction should follow the scheme for its copyright jurisdiction, where that jurisdiction includes anything that would be an infringement, if it were done by a private party.

IEEE-USA believes that the current statutes create loopholes that enable avoidance of liability for patent infringement and encourage offshoring of technology and jobs.

This statement was developed by the Intellectual Property Policy Committee of the IEEE-United States of America (IEEE-USA) and represents the considered judgment of a group of U.S. IEEE members with expertise in the subject field. IEEE-USA is an organizational unit of the Institute of Electrical and Electronics Engineers, Inc., created in 1973 to advance the public good and promote the careers and public policy interests of the 220,000 electrical, electronics, computer and software engineers who are U.S. members of the IEEE. The positions taken by IEEE-USA do not necessarily reflect the views of IEEE or its other organizational units.

BACKGROUND

The Court of Appeals for the Federal Circuit has exclusive jurisdiction in all patent claims against the United States government. Unlike normal infringers, who are liable whenever they make, use, offer to sell, sell, or import into the United States a patented invention (35 U.S.C. 271). The United States government and its contractors are liable only when the patent is used or manufactured in the United States (28 U.S.C. 1498).

The lessons learned in recent patent case decisions are clear. If a patent claims a process and you wish to infringe, simply off-shore one or more of the steps. However, due to a special provision added to patent statutes in 1988, this "trick" can not be used if the patented process is used to produce a product. The special provision makes importing the product into the United States an infringement. Thus, this particular quirk in the law is especially troublesome in the case of computer software-based inventions, where the process performs a task, and does not produce a product.

A good example was the 2006 "Blackberry Case," which received extensive coverage in the press because of the threat to shut down the Blackberry system. In the case, *NTP v. Research in Motion (RIM)* (http://www.fedcir.gov/opinions/03-1615r.pdf), NTP sued RIM, accusing the Canadian company of infringement of a patent NTP holds in the United States. The Court of Appeals for the Federal Circuit decided for RIM, making it much easier for an infringer of a claim form commonly used for computer-based inventions to avoid liability and thus, advantageous for companies to off-shore parts of their operations.. (RIM ultimately paid out to NTP anyway, to avoid increased litigation costs.) In a previous decision, the Federal Circuit had ruled that the method claims of NTP's patents could not be infringed, if any part of the method was performed outside of the United States. The Blackberry case went forward because the Federal Circuit also held that systems claims in the same patent were infringed -- because U.S. customers actually used the system.

If you are the United States government, or one of its contractors, it may be even easier to avoid infringement liability through off-shoring, due to a second case the Federal Circuit court decided in March 2006 -- *Zoltek v. United States* (http://www.fedcir.gov/opinions/04-5100.pdf). In a patent infringement action against the U.S. government, the United States Court of Appeals for the Federal Circuit interpreted 28 USC section 1498 (the section of the U.S. Code which lays out the jurisdiction of the U.S. Court of Federal Claims) as rendering the government liable for the infringement of a method patent only when every step of the claimed method is practiced in the United States. Zoltek claimed that the U.S. government contractor used a subcontractor in Japan to produce materials covered by a Zoltek patent. The U.S. government had contracted with Lockheed Martin to design and build a stealth fighter (the F-22 fighter). Lockheed subsequently subcontracted with a company in Japan to build silicide fiber products. If Lockheed were not a government contractor, infringement would have occurred from importing a product made by a patented process. But because Lockheed was not using the patented process to manufacture the materials in the United States, the Court of Federal Claims did not have jurisdiction under Section 1498. The U.S. government and Lockheed had found another loophole which the Federal Circuit then upheld.