

REPORT Q204
in the name of the US Group

Liability for Contributory Infringement of IPRs

I. Analysis of current legislation and case law

1) Does your national law provide for liability for contributory infringement of IPRs, in respect of the offering or supply of means for working an invention, for enabling illicit commercial use of a trademark, for making a copyrighted or design protected product, etc.?

Yes. The United States patent laws include specific, statutory provisions concerning “indirect infringement.” (The words “contributory infringement” have a narrower and more specific meaning in U.S. law than their use in Q204; the courts use “indirect infringement” as the generic term.) Liability for indirect infringement of copyrights and trademarks is based primarily on the common law of court decisions. Various aspects of designs are protected under the Patent, Copyright and Trademark Acts, whose indirect infringement provisions are applicable to the protection they provide for designs. The Semiconductor Chip Protection Act also includes provisions relating to indirect infringement of semiconductor chip designs.

2) If so, is it a condition for such liability that the means supplied are actually used by another (the person supplied) for committing acts that amount to direct infringement of the IPR in the same country (or in another country where there is a corresponding IPR)? Are there any additional conditions that apply in such cases?

Yes. As a general rule, a finding of direct infringement under U.S. law is prerequisite to a finding of indirect infringement of IPRs. *Dynacore Holdings Corp. v. U.S. Philips Corp.* 363 F.3d 1263, 1274 (Fed. Cir. 2004) (“To prevail under a theory of indirect infringement... [a plaintiff] must first prove that the defendants’ actions led to direct infringement...”); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 434-35 (1984) (“Sony”) (“To prevail, [plaintiffs] have the

burden of proving that users of the Betamax have infringed their copyrights and that Sony should be held responsible for that infringement.”)

As far as other countries are concerned, the Supreme Court has stated that the effects of U.S. IP laws are limited to territory governed by the United States unless Congress has clearly indicated a broader intent in enacting the law. *See, e.g., Microsoft Corp. v. AT & T Corp.*, 127 S.Ct. 1746, 1759 (2007). One such law relating to indirect infringement is section 271(f) of the patent law, discussed further in section 3 below. However, in one leading trademark case in which the Trademark Act did not expressly include extraterritorial activity, *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), the Supreme Court found infringement of a U.S. trademark where the famous mark was applied to watches in Mexico and the watches were sold in Mexico, where the watch parts came from the United States and the infringement affected U.S. commerce.

3) If it is not a condition for liability for contributory infringement that the means supplied are actually used by another (the person supplied) for committing acts that amount to direct infringement in the same country (or in another country where there is a corresponding IPR), is it then, on the other hand, a condition for such liability, for example

- that the means offered and/or supplied were suitable to be put into an infringing use;*
- that the means relate to an essential, valuable or central element in the invention or product or service that constitutes direct infringement;*
- that the means offered and/or supplied were actually intended for such use on the part of the person supplied;*
- that the means offered and/or supplied were intended to be put to that use in the country in which they were offered or supplied;*
- that, at the time of offering and/or supply of the means, the suitability and intended use were known to the supplier or were obvious under the circumstances; or*
- that, to the extent the means are staple commercial products, the supplier induces the person supplied to infringe directly?*

Are there other conditions? Please respond separately for patents, trademarks, designs, copyright etc., if the rules differ from each area of IPR to the other.

As noted in section 2 above, a finding of direct infringement is prerequisite to a finding of indirect infringement in the United States.

There are, however, additional conditions required for finding indirect infringement, as discussed below.

Patent:

The definitions of patent infringement in 35 U.S.C. § 271 include two types of indirect infringement:

- The apparently broadest provision is in Section 271(b): “Whoever actively induces infringement of a patent shall be liable as an infringer.” Under recent decisions, this part has been interpreted as requiring knowledge of the patent, [belief] and encouraging direct infringement by third parties. *See DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304-06 (Fed. Cir. 2006) (“inducement requires evidence of culpable conduct, directed to encouraging another’s infringement, not merely that the inducer had knowledge of the direct infringer’s activities”). This is often referred to as the “intent” requirement. Examples of induced direct infringement include use of an infringing product or use of a product in accordance with an infringing method, for example, in accordance with instructions provided by the inducing supplier.
- Section 271(c) narrowly defines “contributory infringement” in terms of supplying a component for use in a patented product or process, knowing it to be specially made or adapted for use in infringement of the patent, and not a staple article or commodity suitable for a substantial noninfringing use.

In addition, Sections 271 (f)(1) and (2) are counterparts to Sections 271(b) and (c), respectively, that make it an infringement of a U.S. patent to supply parts from the United States for assembly into an infringing combination outside the United States; and either (1) actively inducing that combination, or (2) intending that a specially made or adapted part would be so combined, in a manner that would infringe the patent if the combination occurred within the United States.

A related type of activity is known as “joint infringement,” in which two or more unrelated persons use different parts of a patented method or system. U.S. courts do not recognize “joint

infringement” of a method claim as a violation of patent rights, for example, when two unrelated parties perform different steps of a patented method; however, infringement of patent claims to a system may be found when one party accesses (uses) a communication system whose major components are maintained by another party even when those major components are outside the United States. *See NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1316 (Fed. Cir. 2005).

Copyright

The Copyright Act does not expressly create any liability for indirect infringement of copyrights; however, case law defines various types of indirect infringement or indirect liability with respect to copyrights. The *Sony* case stated that a party who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer. (Interestingly, the parties accused of indirect infringement, due to their manufacture and distribution of VCR equipment, were found not liable in *Sony*, because direct infringement was not shown—there were noninfringing uses of the VCR equipment.)

A leading case, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. et al.*, 545 U.S. 913, 915-16 (2005) (“*Grokster*”), involved distributors of software enabling peer-to-peer sharing of electronic files who were accused of inducing infringement of copyrighted music by third parties. The Court’s analysis included consideration of the analogous area of patent law, stating “[e]vidence of active steps taken to encourage direct infringement, such as advertising an infringing use or instructing how to engage in an infringing use, shows an affirmative intent that the product be used to infringe....” The Court concluded (1) that there was substantial evidence in copyright owner’s favor on all elements of inducement, and (2) that summary judgment in favor of the defendants was error, suggesting that reconsideration of the copyright owner’s motion for summary judgment by the lower courts would be in order.

The copyright case law has also held defendants liable as vicarious infringers, for example, landlords renting premises to direct infringers, with knowledge of the infringing activity.

Trademark

The standard for indirect trademark and service mark infringement is narrower than the standard for indirect copyright infringement. Parties will be liable as indirect infringers only if they: (1) intentionally induce another, directly or indirectly, to infringe a mark, or (2) continue to supply their product or service to another whom they know, or have reason to know, is infringing a mark. See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982) However, it appears that parties who merely “could reasonably anticipate” that the alleged direct infringer would infringe another’s trade/service mark will not be liable as indirect infringers.

4) Are the rules concerning contributory infringement set out in the laws protecting IPR?

As noted in Section 1 and discussed in Section 3 above, the basic U.S. rules concerning indirect infringement of patents are set out in the Patent Act. The rules concerning indirect infringement of copyrights and trademarks, however, are primarily found in the case law.

The Trademark Act does include limited provisions relating to indirect infringers. They are the provisions in 15 U.S.C. § 1114(2) limiting the relief against certain persons who are only printers or publishers of infringing material to an injunction against future printing or publication (including electronic transmission). Those provisions apply only to innocent infringers and innocent violators.

The Semiconductor Chip Protection Act includes a provision that explicitly addresses contributory liability with respect to semiconductor mask works. The provision states:

The owner of a mask work provided protection under this chapter has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the mask work by optical, electronic, or any other means;
- (2) to import or distribute a semiconductor chip product in which the mask work is embodied; and
- (3) to induce or knowingly to cause another person to do any of the acts described in paragraphs (1) and (2).

17 U.S.C. § 905. The statute includes exceptions to these exclusive rights to allow persons to reverse engineer mask works and to allow purchasers of semiconductor chip products to import, distribute, or otherwise dispose of or use, but not reproduce, the products. *See* 17 U.S.C. § 906.

5) If such protection is not set out in the laws protecting IPR, does it follow from generally applicable principles of e.g. tort law?

Although the principles concerning indirect infringement of IPR are analogous to generally applicable principles of tort law, the applicable law of patents is based on the Patent Act and the case law relating to copyrights and trademarks has developed separately from tort law for more than 100 years. Therefore, the courts typically look to precedents in the same field of IP and—in some cases—other fields of IP, in addition to the common law of torts. *See, e.g., Sony*, 464 U.S. 417; *Grokster*, 545 U.S. 913 (2005) (copyright cases guided in part by patent statute). *See* Section 3 above.

6) What are the legal consequences of holding an act to be a contributory infringement of an IPR, in particular:

– can the IPR owner obtain injunctive relief to the same extent as in case of direct infringement?

– can the IPR owner obtain damages and other compensation to the same extent as in case of direct infringement, or only relative to the contributory infringer's contribution?

Injunctive Relief

Injunctive relief is available with respect to indirect infringement of all types of IPR, in accordance with general principles of equity. *See, e.g., eBay Inc. v. MercExchange, L.L.C.* 547 U.S. 388, 126 S.Ct. 1837 (2006) (confirming that the general principles of equity apply to injunctions in patent litigation). Those general principles provide that the plaintiff has the burden to show (1) that it has suffered an irreparable injury; (2) that other remedies, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, an injunction is warranted; and (4) that the public

interest would not be disserved by an injunction. If a court determines that a plaintiff has established these four factors, it has discretion, but is not required, to award an injunction.

Application of these principles will vary according to the situation and parties; therefore, in a given case, injunctive relief may vary with respect to different infringers, direct and indirect.

Damages and Other Compensation

U.S. law generally subjects all infringers of an IPR, both direct and indirect, to joint and several liability to provide “full compensation” for the IPR owner’s damages. *See, e.g., General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654 (1983). The various IP statutes vary in the particular details concerning award of damages or other compensation; however, they do not distinguish between indirect and direct infringers, except for the innocent infringer provisions for printers and publishers in the Trademark Act, 15 USC §1114, and for, among other things, libraries, archives and teaching purposes in the Copyright Act, 17 USC §§108, 110, 117, 118, 119, 121, and 122.

U.S. IP law does not limit damages or other compensation based on a defendant’s contribution. Nevertheless, (1) a court may find that a defendant is not involved in all acts of direct infringement, limiting its liability for damages on the basis that there is no link to the direct infringement, (2) an award of the infringers’ profits (available in design patent, copyright, trademark and mask work cases, but not in utility patent cases) is directed to the relevant profits of each infringer, and (3) the IP statutes vary significantly in their provisions for award of attorneys fees and enhanced damages, and the courts have considerable discretion in making such awards, which may lead to different treatment of different defendants.

Owners of infringed copyrights also are entitled to impoundment and destruction of all infringing reproductions of the work. 17 USC §503.

Because IP infringement liability generally, like conventional tort liability, is joint and several in the United States, each party liable for an act of infringement (including acts of direct infringement traceable to an indirect infringer) can be subject to payment of the entire judgment

with respect to those acts. The plaintiff, however, can only collect the full amount of its judgment. Unlike conventional tort law, in which there may be a right to seek indemnification from joint tortfeasors, generally—in the absence of an agreement—indirect infringers of IPR cannot obtain indemnification from direct infringers.

II. Proposals for Substantive Harmonization

The Groups are invited to put forward their proposals for adoption of uniform rules, and in particular consider the following questions:

7) Should measures generally be available against acts that qualify as contributory infringement of IPRs, as defined in these Working Guidelines?

Yes. Each country should provide monetary and injunctive remedies for indirect infringement. As the U.S. Supreme Court has said, the remedy for indirect infringement “exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts designed to facilitate infringement by others.” *Dawson Chemical Co. v. Rohm and Haas Co.*, 448 U.S. 176, 188 (1980).

If there were no injunctive or monetary remedies for indirect infringement, intellectual property rights would easily be subverted based on technicalities. Thought and consideration should be given to achieve the right balance—it should not be made too easy to establish indirect infringement, particularly in those situations where direct infringement is not intended or even known to occur.

8) If so, what should be the conditions for holding an act to be a contributory infringement of an IPR?

Liability for indirect infringement should include both contributory infringement and inducing infringement as those terms are used in this report.

A party offering or supplying means for practicing an invention, if he knows the means is intended for use in the invention, and if the means is not a staple item of commerce with a substantial noninfringing use, should be liable for the contributory infringement (U.S. definition) branch of indirect infringement. We believe that these “knowing” and “substantial noninfringing use” requirements are consistent with existing law in the United States, Germany and Japan.

A party who encourages another’s acts that are found to be a direct infringement, without a reasonable basis for believing that the acts would not be an infringement of a valid and enforceable IPR, should be liable for the inducing infringement branch of indirect infringement.

9) Should the conditions be different for different kinds of IPRs? Why?

Consideration should be given to adoption of consistent, general principles imposing liability for indirect infringement. Variation should be permitted, however, to accommodate the differences between different kinds of IPRs.

10) What should be the legal consequences of holding an act to amount to contributory infringement of an IPR, in particular?

– Should the IPR owner be able to obtain injunctive relief to the same extent as in case of direct infringement?

– Should the IPR owner be able to obtain damages and other compensation to the same extent as in case of direct infringement, or only relative to the contributory infringer’s contribution?

Yes. An IPR owner should be able to obtain injunctive relief, damages and other compensation with respect to indirect infringement to the same extent as in the case of direct infringement.

11) Should the legal consequences be different for different kinds of IPR? Why?

Consistent with our response to Sections 9 and 10, the legal consequences for indirect infringement should be the same as for direct infringement of the same type of IPR.

12) Does your Group have any other views or proposals for harmonisation in this area?

None, other than the views discussed in the answers to the questions above.

Summary

United States law imposes liability for contributory infringement in different ways for different types of IPR, in accordance with similar general principles. Generally, a finding of direct infringement by a third party is a prerequisite to a finding of contributory infringement. Both injunctions in accordance with equitable principles and compensation for damages are available in cases of contributory infringement, and our group would encourage other nations to provide such remedies.