

## Extraterritoriality and infringement of blockchain claims

September 3<sup>rd</sup> 2018

Frederick Rein, Andrew Riley and Vi Tran



peshkov / iStockphoto.com

**When filing US patent infringement claims over blockchain components located anywhere in the world, parties can pursue damages for potentially infringing activities outside of the US. Frederick Rein, Andrew Riley and Vi Tran of Goodwin report.**

As new technologies reshape the way business is conducted, the world becomes more interconnected. The advent of decentralised blockchain technology has created new opportunities to take advantage of the borderless nature of this technology. As with many new technologies, there has been a rush to obtain patent protection for innovations in this space.

Contemporaneously, the US Supreme Court's decision in *WesternGeco v ION Geophysical* (2018) has spurred interest in the role of extraterritoriality under US patent law. While the scope of US patent law is generally limited to domestic activities, specific situations exist where extraterritorial activities factor into infringement or damages analyses.

In *WesternGeco*, the question for the court was whether a patentee could recover foreign lost profits for infringement under 35 USC §271(f)(2), which creates domestic liability for making components of a patented invention and combining them outside of the US such that the combination would infringe a claim as if the components had been assembled in the country. The Supreme Court held that lost profits were available for the infringer's actions outside the US.

Infringement under 271(f) is not the only provision of 35 USC §271 that creates statutory liability for extraterritorial activities; 35 USC §271(g) creates liability for importation of a product made abroad by a process patented in the US.

Furthermore, under 35 USC §271(a), activities beyond the US's borders can be factored into the infringement analysis. Section 271(a) states that, "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the US or imports into the US any patented invention during the term of the patent therefor, infringes the patent." While the language of 271(a) has a domestic focus, extraterritorial activities have factored into the domestic analysis for system claims.

### **System claims**

System claims are directed to combinations of components that may be located anywhere in the world. Infringement of system claims does not require that all of the system's components be located domestically. Rather, for such infringement, the system must be put into use, and benefit must be obtained, in the US. Thus, for a system claim that contains a blockchain component, infringement may be found, regardless of location, so long as the system is put into use in the US and some benefit is obtained from that use.

In this context of system claims, the infringement analysis under 271(a) requires an examination of who controls the system and where the system was put into service. Even if multiple actors possess separate system components that together infringe a patent claim, the entity who puts the system into use may be found liable for infringement.

For infringement of a system claim that contains a blockchain component, important questions for assessing infringement include whether someone puts the system into service in the US and whether that person receives a benefit for doing so. The presence of any blockchain component outside the US, as may happen for a decentralised blockchain, would not in and of itself preclude a finding of infringement. Nor would possession of various components of the system, eg, nodes of a blockchain, by multiple parties prevent an infringement finding against a party that controls the system. Thus, while infringement of a system claim under 271(a) is a domestic activity, case law has indicated that extraterritorial activity can be factored into the infringement determination.

Furthermore, such activity can lead to damages in some cases.

Federal Circuit case law regarding infringement of system claims under 271(a), where extraterritorial components are involved, appears to be consistent with Supreme Court jurisprudence on extraterritoriality. In *WesternGeco*, the Supreme Court applied a two-step test to determine the extraterritorial reach of 271(f), asking: (1) whether the presumption that a federal statute only applies domestically has been rebutted; and, if not (2) whether the statute's "focus" is domestic.

“Infringement may be found, regardless of location, so long as the system is put into use in the US and some benefit is obtained from that use.”

The first step of the extraterritoriality analysis looks at the text of 271(a). The presumption for federal statutes, such as 271(a), is that they only apply domestically. This presumption can be rebutted if “the text provides a ‘clear indication of an extraterritorial application’.” Section 271(a) does not include a “clear indication” that it was meant to apply extraterritorially—in fact, it uses the phrase “within the US”—consistent with a domestic scope.

But, for the second step, the Federal Circuit’s analysis in *NTP v Research In Motion* (2005) makes clear that the 271(a) infringement analysis for system claims is rooted in the act of infringement, putting the system into service for a benefit, being a domestic act: “The use of a claimed system under section 271(a) is the place at which the system as a whole is put into service, ie, the place where control of the system is exercised and beneficial use of the system obtained ... Based on this interpretation of section 271(a), it was proper for the jury to have found that use of NTP’s asserted system claims occurred within the United States.”

Thus, the focus of the infringement analysis for system claims would probably be domestic, due to the requirement that the accused infringer put the system into service in the US for benefit in the country.

When pursuing patent claims to a blockchain technology in the US, applicants should consider how they would ultimately assert those claims in litigation and what damages may be available. While domestic patent law generally does not have extraterritorial reach, such reach is allowed in certain situations.

For blockchain technologies, where the blockchain components may be located anywhere in the world, system claims provide the opportunity to pursue damages related to potentially infringing activities outside of the US.

**Frederick Rein** is a partner at Goodwin. He can be contacted at: [frein@goodwinlaw.com](mailto:frein@goodwinlaw.com)

**Andrew Riley** is an associate at Goodwin. He can be contacted at: [ariley@goodwinlaw.com](mailto:ariley@goodwinlaw.com)

**Vi Tran** is a science law clerk at Goodwin. She can be contacted at: [mvtran@goodwinlaw.com](mailto:mvtran@goodwinlaw.com)