The Net of U.S. IP Infringement Actions

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Esther H. Lim
+86 21 6194 2008

Introduction

Chinese companies exporting products into the United States or doing business with U.S. companies fear being sued in U.S. courts for intellectual property infringement. Consider the following scenario: A Chinese company makes and distributes products around the world. Although some of these products eventually enter the United States, the Chinese company has no offices in the United States, no employees in the United States, and does not sell any products directly in the United States. Can this Chinese company be sued in the United States? The answer might be yes.

The U.S. Supreme Court recently issued two decisions on the same day addressing this very scenario, in *J. McIntyre Machinery, Ltd. v. Nicastro*, No. 09-1343 (U.S. June 27, 2011) and *Goodyear Dunlop Tires Operations, S.A. v. Brown*, No. 10-76 (U.S. June 27, 2011). This article will explain how foreign corporations can be sued in the United States, review the U.S. Supreme Court's decisions in *J. McIntyre* and *Goodyear*, and discuss related strategies for Chinese companies to minimize business disruption caused by IP infringement actions.

Jurisdiction: How Foreign Companies Can Be Sued in the United States

The power of a U.S. court to hear and decide cases is called "jurisdiction," of which there are two types: "general jurisdiction" and "specific jurisdiction." Under general jurisdiction, a foreign corporation is suable in a U.S. state if the corporation has a "continuous and systematic" contact with that state (such as being incorporated or having its principal place of business there). Under specific jurisdiction, a foreign corporation is suable in a particular state if (1) the corporation "purposefully avails" itself of the privilege of conducting activities in that state and (2) the lawsuit relates to that purposeful availment.

Recent U.S. Supreme Court Decisions

- ***J. McIntyre*: A Court Divided**

  In the *J. McIntyre* case, the foreign corporation was J. McIntyre, an English company that makes metal-shearing machines in England and sells them in the United States through a U.S. distributor. A worker in New Jersey injured himself while using a machine made by J. McIntyre. The injured worker sued J. McIntyre in New Jersey, and the U.S. Supreme Court reviewed the case to decide whether J. McIntyre was suable in New Jersey. The facts showed that J. McIntyre neither marketed nor shipped goods to New Jersey, J. McIntyre attended trade shows in the United States but none in New Jersey, and no more than four of J. McIntyre's machines ended up in New Jersey.

In a strongly divided opinion, the U.S. Supreme Court decided that J. McIntyre was not suable in New Jersey. The Court explained that if a foreign corporation sends its products to the United States, that corporation cannot be sued in the United States just for foreseeing that its products would enter the United States. To be suable, the corporation has to "purposefully direct" its activity at, or "target," a particular state. Accordingly, even though J. McIntyre directed activities at the United States as a whole, no facts showed that J. McIntyre specifically targeted New Jersey. Therefore, the Court overall decided that J. McIntyre was not suable in New Jersey.

However, two justices recognized that the law might change when the Court considers more "modern concerns," such as how companies of all sizes can now "target" the entire world at once by conducting business online.

Furthermore, three other justices dissented from the Court's opinion, concluding instead that a corporation that targets the United States as a whole but not a specific state should still be suable in the United States when the lawsuit is fair and reasonable. According to the dissenting justices, J. McIntyre targeted the United States as a whole because J. McIntyre attended trade shows in the United States, engaged and worked "closely in concert" with its U.S. distributor, and expressed intent to sell products in the United States. These justices also noted that J. McIntyre held both U.S. and European patents on its technology. Furthermore, these justices urged that the New Jersey lawsuit was fair and reasonable because the plaintiff worker was injured in New Jersey and because it would be less burdensome for J. McIntyre to defend itself in New Jersey than for the worker to sue in England. Therefore, these justices would hold that J. McIntyre was suable in this case.

- ***Goodyear*: Hinting at a "Unitary Business" Theory**

In the *Goodyear* case, two boys died in a bus accident in France. The boys' parents, residents of North Carolina, claimed that the accident was caused by defective tires manufactured in Turkey by a foreign subsidiary of Goodyear USA, a U.S. company with plants in and regularly conducting business in North Carolina. In a North Carolina court, the parents sued Goodyear USA and three of its foreign subsidiaries organized and operating in Turkey, Luxembourg, and France, respectively. Goodyear USA did not contest the court's power, but the foreign subsidiaries did. The U.S. Supreme Court evaluated whether the foreign subsidiaries were suable in North Carolina.

Here, the foreign subsidiaries manufactured tires primarily for sale in European and Asian markets, and the tires differed in size and construction from those sold in the United States. Also, the foreign subsidiaries were neither registered to do business in North Carolina nor had any place of business, employees, or bank accounts there. In addition, the foreign subsidiaries did not solicit business in North Carolina and neither sold nor shipped tires to customers there. Moreover, the small percentage of tires made by the foreign subsidiaries that ended up in North Carolina was distributed by other Goodyear USA affiliates. Furthermore, the type of tire involved in the accident in France was never distributed in North Carolina.

In a unanimous opinion, the U.S. Supreme Court decided that Goodyear USA's foreign subsidiaries were not suable in North Carolina. The Court held that North Carolina courts lacked specific jurisdiction because the bus tire involved in the accident was manufactured and sold abroad. Furthermore, the Court explained that general jurisdiction over a foreign corporation requires "continuous and systematic contacts" with the state where the lawsuit is filed; therefore, merely sending a product to that state through the "stream of commerce" is not sufficient. Accordingly, even though some tires made by the foreign subsidiaries ended up in North Carolina, the facts showed that the foreign subsidiaries had no "continuous or systematic contacts" with North Carolina. Therefore, the Court decided that Goodyear USA's foreign subsidiaries were not suable in North Carolina.

However, the U.S. Supreme Court also mentioned that, if the plaintiffs had timely asked that all Goodyear entities be treated as a

single "unitary business," the Court might have explored whether foreign subsidiaries can be required to participate in a lawsuit filed against their U.S.-based parent corporation.

Strategies in View of Recent Developments in U.S. Law

Based on the outcomes in the *J. McIntyre* and *Goodyear* cases, Chinese companies that do business with the United States should consider some strategies. Chinese companies, for example, should examine whether their contacts with any U.S. state are sufficiently "continuous and systematic," thus subjecting them to lawsuits under general jurisdiction, and whether their actions are so "purposefully directed" toward (or "target") a state that they could be sued under specific jurisdiction.

Also, although neither the *J. McIntyre* case nor the *Goodyear* case ultimately required the foreign corporation to participate in the lawsuit, both cases contained hints that the law on this issue might change. Therefore, Chinese companies should examine their own operations to evaluate whether they can successfully challenge jurisdiction in the United States both now and in the future.

In *J. McIntyre*, the Court was divided, with no clear majority. Three of the nine Supreme Court justices disagreed with the overall outcome, stating instead that J. McIntyre should have been suable because J. McIntyre expressed its intent to sell products in the United States generally and because McIntyre had a close working relationship with its U.S. distributor.

A similar argument was used as recently as February 2011 in *Packless Metal Hose, Inc. v. Extek Energy Equipment (Zhejiang) Co. Ltd*., No. 2:09-CV-265-TJW (E.D. Tex. Feb. 10, 2011), an IP infringement case in which the Texas court exercised specific jurisdiction over Extek, a Chinese company, merely because Extek shipped its products to a U.S. distributor in Michigan knowing they would be distributed throughout the entire United States (including Texas), some of Extek's coils did end up in Texas, and one of the distributor's employees had visited Extek in China. Therefore, Chinese companies should both monitor whether and how they express intent to sell products in the United States and evaluate their relationships with distributors. Moreover, Chinese companies should conduct IP clearance studies before exporting products into the United States.

Also, in the *J. McIntyre* case, two other Supreme Court justices noted that the law might change when the Court considers the modern consequences of online business. Therefore, Chinese companies should evaluate whether and how they market or sell products online and note which U.S. states are (or might be interpreted as) "targeted" by this online business.

Furthermore, the *Goodyear* decision hinted that the outcome might have been different had the foreign subsidiary been treated as part of a single "unitary business" with its U.S.-based parent corporation. Therefore, Chinese companies should also evaluate whether they are (or can be interpreted as) subsidiaries of a U.S. corporation.

By taking these steps, Chinese companies that do business directly or indirectly with the United States can better assess the probability of being sued in the United States and reduce the risk of getting caught in the net of U.S. IP infringement actions.