Washington and Lee Law Review

Volume 29 | Issue 1 Article 15

Spring 3-1-1972

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EXPORTS AND PATENT INFRINGEMENT: THE TEST OF MANUFACTURE "WITHIN THE UNITED STATES"

When an inventor receives a patent, he obtains not the right to make, use or vend the patented invention, but rather the right to exclude others from making, using or vending it.[1] This historic right is provided for in the Constitution.[2] The territorial limitations on this right, as provided in the Patent Act, show it to exist only within the United States.[3] The patent holder may assert his right to exclude from the domestic market by a suit for infringement against a non-patent holder who makes, uses or vends the patented invention. However, the availability of foreign markets may induce a non-patent holding domestic competitor to produce the patented product and export it. Courts have held that in this situation there is no infringement if the non-patent holder has not rendered the device operable within the United States, even though he has engaged in manufacture and partial assembly of it.[4] A recent decision in the Fifth Circuit Court of Appeals substituted a different test to determine infringement of patented export items.

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[1]Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 35-36 (1923). In a principal case in this field, Bloomer v. McQuewan, 55 U.S. 539 (1852), Chief Justice Taney stated:

> The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee.

55 U.S. at 549. *See* Powell, *The Nature of a Patent Right*, 17 COLUM. L. REV. 663, 665 (1917); Riesenfeld, *The New United States Patent Act in the Light of Comparative Law I*, 102 U. PA. L. REV. 291, 310 (1954).

[2]U.S. CONST. art. I, § 8, cl. 8, provides:

> The Congress shall have power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .

[3]The Patent Act of July 19, 1952, 35 U.S.C. § 271(a) (1970) reads as follows:

> Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, *within the United States* during the term of the patent therefor, infringes the patent.

(Emphasis added). This territorial limitation was recognized by the Supreme Court in Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U.S. 641, 650 (1915). *See* 4 A. DELLER, WALKER ON PATENTS § 216 (2d ed. 1965); R. NORDHAUS & E. JUROW, PATENT-ANTITRUST LAW 140-52 (1961).

[4]Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 224 (3d Cir. 1956); Radio Corp. of America v. Andrea, 79 F.2d 626 (2d Cir. 1935).

In *Laitram Corp. v. Deepsouth Packing Co.*,[5] the patent holder[6] brought an infringement suit against a competitor who was manufacturing and exporting his patented device, a machine for cleaning shrimp.[7] Deepsouth produced all parts of this device within the United States, and assembled all but two of them before exporting it to a customer in Brazil. Upon arrival, it took less than one hour to make the machine completely operable. The district court held that such manufacture and sale did not constitute infringement of Laitram's patent.[8] The court found that Deepsouth did not "make" its machine within the United States since it was exported prior to being assembled in operable condition. In construing the meaning of the word "makes" in the Patent Act,[9] the court utilized the export infringement test of "final operable assembly" adopted by three circuit courts.[10]

However, this interpretation of the word "makes" was not approved by the Fifth Circuit. In reversing the district court's decision, the Fifth Circuit declined to follow the test of final operable assembly but used instead a test of "substantial manufacture".[11] The court stated:

> The word "makes" should not be given an artificial, technical construction but should be accorded a construction in keeping with the ordinary meaning of that term. . . .
>
> We hold that "makes" means what it ordinarily connotes—the substantial manufacture of the constituent parts of the machine.[12]

Deepsouth's product was substantially manufactured within the United States prior to export, even though the final nuts and bolts were to be assembled overseas, and thus infringed Laitram's patent.

The final assembly test of patent infringement appears to have been first applied by the Second Circuit Court of Appeals in the case of *Radio Corp. of America v. Andrea*,[13] which involved an infringement suit against a manufacturer of radios. Andrea made and assembled all parts of the patented invention except the vacuum tubes. Prior to shipment overseas,

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[5]443 F.2d 936 (5th Cir. 1971), *petition for cert. filed*, 40 U.S.L.W. 3095 (U.S. Sept. 14, 1971) (No. 71-315).

[6]Laitram's patent was held valid in the companion case of Laitram Corp. v. Deepsouth Packing Co., 301 F. Supp. 1037 (E.D. La. 1969).

[7]For a complete and detailed description of this device, see Laitram Corp. v. Deepsouth Packing Co., 301 F. Supp. 1037 (E.D. La. 1969).

[8]Laitram Corp. v. Deepsouth Packing Co., 310 F. Supp. 926 (E.D. La. 1970).

[9]Note 3 *supra*.

[10]Note 4 *supra*.

[11]Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 939 (5th Cir. 1971).

[12]*Id.* at 938-39.

[13]79 F.2d 626 (2d Cir. 1935).

the tubes were packaged separately and placed in the same carton as the receiver. The importing buyer merely had to insert the tubes into place to make the receiver operable.[14] The issue was whether Andrea, in manufacturing all parts save one and in performing most of the assembly, had violated the holder's United States patent. The Second Circuit held that Andrea did not infringe the patent because the radios were not "made", that is, made operable, within the United States:

> No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted.[15]

However, on a second appeal by the patent holder,[16] it was determined that the tubes had been inserted within the United States and that the combination had been completed for testing purposes. Though the tubes were disconnected for shipment, the Second Circuit modified its decree, saying:

> Where the elements of an invention are thus sold in substantially unified and combined form, infringement may not be avoided by a separation or division of parts which leaves to the purchaser a simple task of integration. Otherwise, a patentee would be denied adequate protection.[17]

Similar fact situations subsequently arose in the Third and Seventh Circuit Courts of Appeal.[18] Both circuits held that there was no infringement of the patent under the rationale of the first *Andrea* opinion, since there had been no complete assembly within the United States. In the Seventh Circuit case of *Hewitt-Robins, Inc. v. Link-Belt Co.*,[19] the machine's parts were exported in numerous shipments over a three-month period. Many parts had arrived overseas before other parts were even manufactured. Thus, the machine could not have been completely assembled within the United States, and under the test of final operable assembly there was no infringement.[20]

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[14]*Id.* at 627.

[15]*Id.* at 628.

[16]Radio Corp. of America v. Andrea, 90 F.2d 612 (2d Cir. 1937).

[17]*Id.* at 613.

[18]Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966); Cold Metal Process Co. v. United Eng'r & Foundry Co., 235 F.2d 224 (3d Cir. 1956).

[19]371 F.2d 225 (7th Cir. 1966).

[20]*Id.* at 229.

This final assembly test seems to have been derived by analogy to a fundamental concept of patent law:

> If anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant.[21]

The purposes behind this rule are to favor free competition and to prevent the patent holder from obtaining a monopoly over the different parts of his patented machine.[22] The patent law encourages invention by giving a patent to the ingenious individual who makes the first discovery.[23] However, the inventor is not rewarded with control over the separate components of the machine protected by a combination patent;[24] the public may still use such parts.[25] This same dual purpose is found in the analogous situation of permitting the export of essentially the entire patented device.

The test of final operable assembly limits a patent holder's monopoly by narrowing the criteria for finding the exporting competitor guilty of infringement. This is accomplished through a very precise construction of the word "makes" in the Patent Act.[26] Before final assembly the parts cannot operate as a whole, and the machine is not deemed "made". It is made when it is operational, and only then is it entitled to protection.[27]

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[21]Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 344 (1961); *accord*, Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1943); Brown v. Guild, 90 U.S. 181 (1874).

[22]Graham v. John Deere Co., 383 U.S. 1 (1966). The Supreme Court stated that Congress may not

> enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby. Moreover, Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.

Id. at 6. *See generally* Harris & Siegel, *Positive Competition and the Patent System*, 3 PAT., T.M., & C.R.J. OF RESEARCH & EDUCATION 21 (1959).

[23]Potts v. Coe, 145 F.2d 27, 31 (1944). *See* 1 A. DELLER, WALKER ON PATENTS § 8 (2d ed. 1964).

[24]A combination patent protects a device, the elements of which perform some joint operation, producing a result due to their joint and cooperating action. Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 344-46 (1961). This is to be distinguished from the forming of the "combination" in the principal case, where the combination was formed by final assembly outside the United States. 443 F.2d at 938. *See* text accompanying note 15 *supra*.

[25]Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336 (1961); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680 (1943); Brown v. Guild, 90 U.S. 181 (1874).

[26]*See* note 3 and text accompanying notes 14-15 *supra*.

[27]Note 4 *supra*.

The test allows no middle ground; there is no category of "almost made"

This rationale was wholly accepted in the district court's decision in *Laitram*:

> The first *Andrea* result . . . is founded on twin notions that underlie the patent laws. One is that a combination patent protects only the combination. The other is that monopolies—even those conferred by patents—are not viewed with favor.[28]

The Fifth Circuit reversed, however, since it found previous analysis of the problem, as stated in *Andrea*,[29] to be unrealistic and fallacious.[30] The circuit court felt that by giving a more expansive interpretation to the word "makes", it was defending the patentee's right to exclude infringers under its patent on the entire machine.[31] This was not regarded as being inconsistent with the rule that a combination patent does not protect individual parts.[32] The court believed that its substantial manufacture test protected the patent holder from the efforts of a competitor for the export market, who could circumvent the patentee's rights by failing to assemble two parts within the United States.[33]

Underlying the Fifth Circuit's opinion is the idea that a patent is not a true monopoly, as it does not restrict public use of pre-existing rights. A device originates within the inventor's resourceful mind, and thus is worthy of protection. This theory is not without support.[34] However, a

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[28]Laitram Corp. v. Deepsouth Packing Co., 310 F. Supp. 926, 929 (E.D. La. 1970).

[29]Radio Corp. of America v. Andrea, 79 F.2d 626, 628 (2d Cir. 1935).

[30]443 F.2d at 938.

[31]*Id.* at 939.

[32]Note 25 *supra*.

[33]In describing the efforts by Deepsouth to circumvent the final assembly test, the Fifth Circuit quoted from a letter written by the president of Deepsouth to his Brazilian customer:

> We are handicapped by a decision against us in the United States. This was a very technical decision and we can manufacture the entire machine without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil. This assembly will take less than one hour.

443 F.2d at 938.

[34]United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933). The Supreme Court stated:

> [A] patent is not, accurately speaking, a monopoly . . . . The term "monopoly" connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the public. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge.

289 U.S. at 186. *See* 1 A. DELLER, WALKER ON PATENTS § 6, at 48-49 (2d ed. 1964); R.

patent does have a monopolistic aspect. Bringing a new product into the market creates commerce, but excluding others from making or selling it restricts commerce.[35] The Fifth Circuit's holding tends to give the patent holder a monopoly of a greater extent than that previously thought allowable by the Patent Act,[36] for it allows him to exclude a competitor from selling overseas an inoperable, though substantially completed machine.

The Fifth Circuit would justify its test by reference to the Constitution's provisions protecting patent holders for a limited time in order to promote technology by inducing inventors to disclose their discoveries for the good of society.[37] The patent grant promotes technological development by providing an incentive and reward for the inventor. However, the primary objective of the patent provisions is public benefit.[38] Promotion of technological progress must come first, while the inventor's reward has been regarded as secondary.[39]

NORDHAUS & E. JUROW, PATENT-ANTITRUST LAW 12-14 (1961); Harris & Siegel, *Positive Competition and the Patent System*, 3 PAT., T.M. & C.R.J. OF RESEARCH & EDUCATION 21, 30 (1959); Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest*, 52 J. PAT. OFF. SOC'Y 178, 184 (1970).

[35]"It has been said by the court that the patentee has the right to exclude competitors . . . whatever the patentee's reasons may be." Byers Mach. Co. v. Keystone Driller Co., 44 F.2d 283, 285 (6th Cir. 1930). If the patent holder does agree to license others under his grant, he may fix prices at which the item may be sold and impose provisions restricting marketing practices. United States v. General Elec. Co., 272 U.S. 476, 488 (1926); Glen Raven Knitting Mills v. Sanson Hosiery Mills, 189 F.2d 845, 854 (4th Cir. 1951). *See* R. NORDHAUS & E. JUROW, PATENT-ANTITRUST LAW 124-40 (1961). *See also* F. MACHLUP, AN ECONOMIC REVIEW OF THE PATENT SYSTEM. S. RES. NO. 236, 8th Cong., 2d Sess. 74-76 (1958).

[36]*See* note 3 *supra*.

[37]Laitram Corp. v. Deepsouth Packing Co., 443 F.2d 936, 939 (5th Cir. 1971); *see* note 2 *supra*.

[38]Kendall v. Winsor, 62 U.S. 322 (1858). The Supreme Court in this case stated:

> It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.

Id. at 327-28.

[39]In his concurring opinion in United States v. Line Material Co., 333 U.S. 287 (1948), Justice Douglas stated:

> It is to be noted first that all that is secured to inventors is "the exclusive right" to their inventions; and second that the reward to inventors is wholly secondary, the aim and purpose of patent statutes being limited by the Constitution to the promotion of the progress of science and useful arts. . . .
>
> The Court . . . has generally been faithful to the standard of the Constitution, has recognized that the public interest comes first and reward to inventors second, and has refused to let the self-interest of patentees come into the ascendency.

Id. at 316. *See* Van Cise, *Antitrust Laws and Patents*, 52 J. PAT. OFF. SOC'Y 776, 778 (1970). *Contra*, United States v. General Elec. Co., 272 U.S. 476, 490 (1926).

Free competition is served when one manufacturer does not have a monopoly over the trade in a particular item. Congress has prohibited general business monopolies within the United States since they tend to eliminate such competition and enhance private reward.[40] A patent grant may also have these tendencies, but disclosure of the new invention has been held to outweigh the monopolistic aspect of the right to exclude,[41] which exists only within the United States.[42] If an inventor desires a foreign monopoly, he may apply for a patent from the importing country in which he wishes to control the trade of his product.[43]

Export sales are important to the United States economy since they represent the difference between profit and loss for many American manufacturers.[44] Foreign sales may also significantly affect the United States employment situation.[45] The economy benefits from an excess in receipts for exported merchandise over expenditures for imported goods. When exports exceed imports, the net result is a short-term favorable balance of trade.[46]

Applying these considerations to the principal case, it appears that the Fifth Circuit has provided the patent holder with an unprecedented degree of protection. This decision tends to assure the patent holder a greater share of the foreign market and an expanded private reward since the competing manufacturer may be excluded from overseas trade. This exclusion will tend to result in an unfavorable balance of trade, assuming that the patentee and the infringer together would sell more than would the patentee alone.

If the Fifth Circuit continues to use its test, certain problems are foreseeable in its application. Under this test, the patent protects a ma-

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[40]For example, in 1890, the Sherman Act, Pub. L. No. 51-647, *as amended* 15 U.S.C. §§ 1-7 (1970), was passed to prohibit restraints of trade and monopolies. Then in 1914, the Clayton Act, Pub. L. No. 63-212, *as amended* 15 U.S.C. §§ 12-27 (1970), was passed to prevent specific trade abuses such as price discrimination, the use of interlocking directorates among large corporations, and the acquisition of one corporation by another.

[41]In exchange for the inventor's right to exclude the public for a definite term, the public receives disclosure of the new device which the inventor might not otherwise have revealed. Waterbury Buckle Co. v. G.E. Prentice Mfg. Co., 294 F. 930, 938 (D. Conn. 1923).

[42]*Cf.* Goodyear Tire & Rubber Co. v. Rubber Tire Wheel Co., 164 F. 869, 873 (C.C.S.D. Ohio 1908).

[43]See note 3 *supra.*

[44]J. HESS & P. CATEORA, INTERNATIONAL MARKETING 4-5 (1966) [hereinafter cited as HESS]; R. KRAMER, M. D'ARLIN & F. ROOT, INTERNATIONAL TRADE: THEORY, POLICY, PRACTICE 47 (1959) [hereinafter cited as KRAMER].

[45]World trade may permit the United States to utilize employment resources at a high level of productivity. HESS at 69; KRAMER at 48.

[46]HESS at 74; KRAMER at 113-27.

chine's major elements,[47] and a problem might arise in determining when these elements are constructed. The test might easily apply to the situation found in *Andrea*,[48] where final assembly was nearly complete, in which case the Fifth Circuit would probably have found infringement. However, the *Hewitt-Robins* case[49] presents a more complex situation since parts were exported separately over a three-month period; the non-patent holder was indeed supplying the overseas buyer with a patented machine. The Fifth Circuit might refuse to countenance this, condemning it as another scheme to deprive the patent holder of his due.[50] In short, one can foresee innumerable situations presenting varying degrees of assembly, where it would be difficult to ascertain that point where the various elements lose their identity and assume that of the patented machine. The Fifth Circuit seems to have provided no guidance on where the line is to be drawn.

Another problem inherent in this test, upon which the Fifth Circuit expressly did not rule,[51] is the effect of using parts supplied by the purchaser to make the machine operable. A court would have to determine not only when substantial manufacture occurs but also whether it can occur at all when the alleged infringer does not supply all the parts. Under the Fifth Circuit's test, a court might hold that such manufacture could be accomplished with a substantial number of the required parts. However, if it were held that substantial manufacture occurred only if the competing seller exported all parts, the seller could then avoid the Fifth Circuit's test by directing the overseas buyer to supply one essential part.

The Patent Act entitles a patent holder to prohibit the manufacture or sale of his patented device within the United States.[52] To the extent that he restricts trade in this machine, he has a monopoly. But a patent "is a privilege which is conditioned by a public purpose."[53] In the principal case, the Fifth Circuit does not seem to have had this primarily in mind. The substantial manufacture test places undue emphasis upon the patent holder's reward. It harms the United States economy since it may increase costs of patented export products by its tendency to allow the patentee

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[47]443 F.2d at 939.

[48]See text accompanying notes 13-17 *supra*.

[49]Hewitt-Robins, Inc. v. Link-Belt Co., 371 F.2d 225 (7th Cir. 1966).

[50]443 F.2d at 939.

[51]*Id.*

[52]Note 3 *supra*.

[53]Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661, 666 (1944); *accord*, Precision Instr. Mfg. Co. v. Automotive Maint. Mach. Co., 324 U.S. 806 (1945). *See* 4 A. DELLER, WALKER ON PATENTS § 207 (2d ed. 1965).