

# Beyond Presumption: Explaining Extraterritorial Jurisdiction Over Civil Claims

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On April 30, 2007, the U.S. Supreme Court handed down a 7-1 decision reversing a grant of summary judgment in favor of AT&T over a claimed infringement of its patent for voice-recognition software by Microsoft Corporation.<sup>1</sup> Microsoft had shipped the AT&T-patented software abroad in the form of ‘Master’ disks and electronic transmissions as a component of its ‘Windows’ program. Once outside the United States, the Master program was copied and installed on foreign-made computers and sold abroad in a manner that would have violated the AT&T patent if it had been done in the United States. The Court’s decision, together with the underlying logic of the majority and concurring opinions, therefore entails a reaffirmation of long-standing territorial limitations of U.S. patent law with respect to the protection of intangible elements of manufactured goods.

The Court’s decision followed from the disposition of two questions—the first, whether the software in question qualifies as a ‘component’ under 35 U.S.C. §271(f) of the U.S. Patent Act (1984). And the second, whether the component inside the foreign-made computers was, in fact, “‘supplie[d]] by Microsoft from the United States?’”<sup>2</sup> The result turns on the majority’s determination that uninstalled software cannot be considered a ‘component’ under the current U.S. Patent Regime, just as instructions, plans, and blueprints for the manufacture of products are understood to fall outside the ambit of the statute. Further, the majority reasoned, although U.S.-based Microsoft supplied the Master copy of the software to foreign manufacturers, it was in fact foreign made *copies* of the ‘object code’ contained on the Master copy that had been installed onto the machines in question. This distinction is critical, since the Court allowed that if Microsoft had *e.g.* shipped chips encoded with the software from the United States for *direct* installation into foreign-made computers, it would have been found liable for infringement.<sup>3</sup>

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<sup>1</sup> *Microsoft Corporation v. AT&T Corp.* 2007 WL 1237 838 (U.S.) slip copy, April 30, 2007, Ginsburg, (Stevens, dissenting). Chief Justice Roberts did not take part in the decision.

<sup>2</sup> *Id.* at 1.

<sup>3</sup> *Id.* at 9-10.

The *Microsoft* result may appear puzzling to those who would expect U.S. federal courts to be more protective of the international commercial and intellectual property issues at stake, perhaps with an eye to protecting American interests and competitiveness in the international marketplace. Although both the petitioner and the defendant are U.S. corporations in this case, larger questions concerning an apparent territorial ‘loophole’ in the statute were at stake. This loophole would, as the Court acknowledged, permit easy circumvention of the statute’s protections merely by making a copy of U.S.-supplied software *before* incorporating it into a foreign manufacture.<sup>4</sup> The most straightforward explanation for the plurality’s reasoning is that the Court was simply acting in accordance with a long line of prior decisions in which U.S. federal courts have declined to construe U.S. patent protections as having extraterritorial reach except where a defendant’s conduct inside the United States can be shown to have directly contributed to unauthorized foreign use. This rationale, however, invites comparison with other legal issues areas, including other areas of intellectual property law, in which the federal courts have not been similarly reticent.<sup>5</sup> Another possibility is that the decision was intended as a ‘preference-eliciting’ outcome to galvanize Congress into clarifying the extraterritoriality of U.S. patent protections on non-tangible goods.<sup>6</sup> If so, however, that strategy appears to have failed.

Since 1945, U.S. federal courts have considered an expanding range of claims involving extraterritorial conduct. This general upward trend, however, conceals a good deal of variation in U.S. court willingness to find and exercise jurisdiction extraterritorially both over time and across legal issues. U.S. courts have, for example, enforced domestic statutes extraterritorially to disrupt international trading cartels; to compensate victims of torture ordered by foreign military officials; to restrict re-exports of sensitive materials and technologies; to protect U.S. trademarks; and to safeguard migratory species. In contrast, U.S. courts have generally declined to exercise extraterritorial jurisdiction over product liability claims; to punish alleged patent violations; to secure compensation for U.S. citizens killed in foreign plane crashes; or to require compliance with U.S. labor and anti-pollution standards.

Accounting for the variation just described can be difficult. In most instances the underlying law offers little or no textual guidance regarding the intended reach of the rule. Referencing legal issue area likewise offers no easy answers, as indicated by opposing trends among different types of intellectual property law, environmental law, and human rights claims. Nor can the observed variation be explained by looking to the presence, or absence, of international treaties and institutions. Likewise, explanations based on conjectures of judicial ‘ideology’ favored by some empirical courts scholars do not readily map onto preferences concerning jurisdiction over transnational conduct, whatever their claimed utility with respect to questions involving ‘states’ rights’ and certain types of constitutional questions.<sup>7</sup> And

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<sup>4</sup> Id. at 12. The majority reasoned Congress has had opportunity to address this issue, both in the 1984 amendment of the U.S. Patent Act following the Supreme Court’s decision in *DeepSouth Packing v. Laitram Corp.* 406 U.S. 518, 92 S.Ct. 1700, L.Ed.2d 273 (1972) (finding no Patent Act violation for shipping ‘kits’ for a patented shrimp de-veining machine abroad for subsequent assembly), and subsequently, and has chosen not to close this loophole.

<sup>5</sup> See Stevens’ dissent in which he essentially argues for a more protective, functionalist construction of the statute, *Microsoft Corporation v. AT&T Corp* at 14.

<sup>6</sup> Einer Elhauge, “Preference-Eliciting Statutory Default Rules”, December 2002, *Columbia L.R.* 102, 2162

<sup>7</sup> See e.g. Cass R. Sustein, David Schkade, Lisa Ellman, and Andres Sawicki, *Are Judges Political? An Empirical Analysis of the Federal Judiciary*, Washington D.C.: Brookings Institution Press, 2006.

finally, while doctrinal approaches involving ‘tests’, ‘presumptions’, and default rules have *ex post* descriptive value, they are less well-suited to predicting or explaining outcomes in close cases and cases of ‘first impression’.<sup>8</sup> While each of these approaches has plausibility and merit, none succeeds in providing a comprehensive explanation of U.S. federal court behavior in the realm of extraterritorial regulation over time and across legal issue areas. Explaining the origins, development, and application of interpretative rules and legal doctrines is needed in order to make sense of the empirical record of when U.S. federal courts have opted to find and exercise jurisdiction over extraterritorial claims. This, in turn, can help in devising sharper and more consistent rules of decision for resolving these knotty jurisdictional questions.

The primary purpose of this article, therefore, is to present a comprehensive theory of judicial decision-making in U.S. federal courts with respect to extraterritorial jurisdiction and to discuss its implications for rules of decision rules regarding extraterritorial jurisdiction. To explain the choice of U.S. courts to regulate extraterritorially (or not) I look to their responsibilities and capacities at the domestic level, together with constraints imposed by the broader international environment. I argue that U.S. courts opt to regulate extraterritorially when necessary to maintain the *domestic* efficacy of regulatory rules and policies, or to enforce respect for what I call ‘basic rights’—and rarely otherwise.

The article proceeds as follows. I first elaborate a set of questions surrounding the varying responses of U.S. federal courts faced with extraterritorial civil claims in which there is some uncertainty with regard to the reach of statute for purposes of subject matter jurisdiction. In section two I further elaborate my explanatory account for variation in the propensity of U.S. courts to resolve disputes involving extraterritorial conduct and contrast it with those of other legal scholars. The third section briefly summarizes my prior work developing this idea and testing it against alternative accounts using statistical methods and an original dataset of 435 federal court decisions involving civil claims handed down between 1945 and 2003. The fourth section applies the logic of this explanation to a long-standing puzzle in international intellectual property—namely, why U.S. courts have been consistently assertive in finding and exercising jurisdiction over extraterritorial trademark infringement claims since the 1950’s, but not with respect to similar claims involving U.S. patents and copyrights. A fifth section discusses the implications of these findings for the ongoing debate concerning the normative and practical desirability of various default rules of decision judges may apply when confronted with new claims with an extraterritorial center of gravity.

## I. TOWARD A GENERAL THEORY OF EXTRATERRITORIAL REGULATION

‘Extraterritorial jurisdiction’ as discussed in this article is largely, although not exclusively, a 20<sup>th</sup> century phenomenon.<sup>9</sup> Prior to this period, the doctrine of ‘strict territoriality’—the notion that a country’s laws extended only as far as its borders—was firmly

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<sup>8</sup> William S. Dodge, “Understanding the Presumption Against Extraterritoriality”, 16 BERKJIL 85, 1998.

<sup>9</sup> Kal Raustiala (2006) *The Evolution of Territoriality: International Relations & American Law*. In *Territoriality and Conflict in an Era of Globalization*, edited by Miles Kahler and Barbara Walter, Cambridge University Press; Gary B. Born (1992) A Reappraisal of the Extraterritorial Reach of U.S. Law. *Law & Policy in International Business*, 24 (3):1-100. See, for example, *U.S. v. Sisal Sales Corp.*, 274 U.S. 268 (1927).

avowed by the United States and European powers, though not always observed in practice.<sup>10</sup> From the earliest days of the American republic, and even earlier among European states, functionalist exceptions to strict territoriality were recognized in dealings among European powers. Such exceptions were used to punish pirates, privateers, and illegal slave traders, and to decide disputes that arose between private parties on the high seas.<sup>11</sup> Early in the 20<sup>th</sup> century, U.S. courts began to recognize additional exceptions to the doctrine of strict territoriality in order to claim jurisdiction over transactions in which part of the conduct occurred in U.S. territory and part outside—a trend that expanded considerably in the post-WWII era.

A milestone in this progression occurred in 1945, when a Second Circuit court for the first time applied a federal statute to a dispute involving wholly extraterritorial conduct. The claim alleged that the Aluminum Company of America (ALCOA) had engaged in monopolistic activities in Europe with the objective, and the effect, of distorting the international market for aluminum ingot in the late 1930's. Because the market effects of ALCOA's actions were demonstrated to have harmed aluminum producers and consumers inside the United States, the court held those actions violated §2 of the Sherman Antitrust Act, despite having taken place outside U.S. territory.<sup>12</sup> Other exercises of full and partial extraterritorial regulation followed in the wake of this landmark decision, although in many instances with a substantial temporal lag. Nevertheless, by the beginning of the 21<sup>st</sup> century U.S. courts had applied dozens of statutory and constitutional provisions extraterritorially to resolve a wide range of substantive disputes—a trend that shows every sign of continuing. New challenges to the territorial limitations of U.S. laws continue to arise, with regard to patents and other forms of intellectual property, as well as in other areas.<sup>13</sup>

Despite the growing importance of questions surrounding the prescriptive reach of U.S. law and the accompanying adjudicatory jurisdiction of U.S. courts, legal scholars and practitioners lack a well-specified theory to account for variation in federal court behavior in this realm. To fill this gap, I offer an original theory of why U.S. federal courts choose to exercise jurisdiction in some regulatory disputes with an extraterritorial dimension, but not in others.

I argue U.S. courts can be expected to regulate extraterritorially in two types of situations. The first is when extraterritorial conduct threatens to interfere with the domestic integrity or operation of a regulatory rule or regime. Allowing private actors to capture the benefits of conduct prohibited under U.S. law (*e.g.* forming a cartel, passing information for insider trading) simply by undertaking all or part of a prohibited transaction outside U.S. territory creates incentives for others to follow suit whenever anticipated benefits outweigh expected costs. The foreseeable consequence of permitting such conduct to escape regulation

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<sup>10</sup> Legal-regulatory practices bound up with the conquest and colonization of non-European territories and peoples is, in fact, consistent with theories of 'strict' territoriality of the time, insofar as international law was understood to apply, by definition, exclusively to 'civilized' nations—*i.e.* European states. See Anthony Anghie, *Imperialism, Sovereignty, and the Making of International Law*, Cambridge University Press, 2004.

<sup>11</sup> Born 1992.

<sup>12</sup> *U.S. v. Aluminum Company of America (ALCOA)*, 148 F.2d 416.

<sup>13</sup> See *e.g. Hoffman-La Roche Ltd. v. Empagran S.A.*, 124 S.Ct. 2359 (2004) (concerning extraterritorial application of the Sherman Antitrust Act and the Foreign Trade Antitrust Improvements Act); *Spector v. Norewegian Cruise Lines Ltd.*, 125 S.Ct. 2169 (2005) (concerning the extraterritorial application of Title III of the Civil Rights Act).

is to undercut both the rule, and the public policy it is meant to serve. Where extraterritorial conduct is not expected to create such incentives, a court may forego regulation without risking harm to the domestic regulatory order. This condition holds when external conduct produces no consequences inside U.S. territory, or where expected private gains from leaving U.S. territory are small relative to expected costs. Furthermore, deciding not to apply domestic rules extraterritorially in some situations may even serve to externalize domestically undesirable conduct.

U.S. courts are also likely to find extraterritorial regulation appropriate where the conduct at issue is alleged to violate a short list of ‘basic rights’ at the core of American political and legal identity. Rights considered ‘basic’ for the purposes of this analysis are those that receive strict scrutiny in U.S. constitutional review. This includes rights not to be deprived of life, liberty, or property without due process of law, rights to free speech, and freedom from discrimination on the basis of national origin or membership in a traditionally disadvantaged group.<sup>14</sup> The rationale behind exercising jurisdiction over this type of claim differs from the first in important respects. Here the regulatory objective concerns re-enforcing core norms of the political community. As such, membership in the polity, through citizenship or other forms of close association with the United States, is the basis for legal claims. Consequently, the need to demonstrate harmful effects from extraterritorial conduct is weaker, as every violation of a core norm is considered harmful *per se*.<sup>15</sup>

This theory is premised on a set of expectations for judicial behavior grounded in constitutional separation of powers principles.<sup>16</sup> I assign primacy to U.S. federal courts’ obligation to resolve disputes that ‘arise under’ the constitution and laws of the United States by providing authoritative interpretations regarding their scope, content, and consequences.<sup>17</sup> I view judicial behavior as conditioned on factors internal and external to the judiciary. From within, behavior is regulated by the threat of higher court review of lower court decisions, together with formal rules and norms of conduct whose observance is required for professional advancement.<sup>18</sup>

At the same time, I also recognize that courts operate in a *political* environment populated by other actors and institutions with preferences over regulatory outcomes, and mechanisms for promoting those preferences. Congress has the power to override court decisions in the statutory realm through legislative amendment, while the President can attempt to clip the wings of unwelcome judicial decisions using executive orders and treaty making powers.<sup>19</sup> Less directly, both branches can also signal dissatisfaction with judicial

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<sup>14</sup> Gerard Gunther and Kathleen M. Sullivan, eds. (1997) *Constitutional Law (Thirteenth Edition)*, Foundation Press at 663-664.

<sup>15</sup> Gary B. Born (1996) *International Civil Litigation in United States Courts*, Kluwer Law International.

<sup>16</sup> Mark Kozlowski, 2003, *The Myth of the Imperial Judiciary: Why the Right is Wrong about the Courts*, New York University Press; Jeffrey A. Segal, 1997, “Separation-of-Powers Games in the Positive Theory of Congress and Courts”, *American Political Science Review*, 91, 28-44.

; John A. Ferejohn and Barry R. Weingast. 1992, “A Positive Theory of Statutory Interpretation”, *International Review of Law and Economics*. 12(2): 263-277.

<sup>17</sup> U.S. Constitution, Article III§2(1).

<sup>18</sup> Lawrence Baum (2006) *Judges and Their Audiences: A Perspective on Judicial Behavior*, Princeton University Press at 60.

<sup>19</sup> Ferejohn and Weingast. *supra* at, 263; Segal *supra* at 31.

behavior through the politics of appointments and budgetary allocations.<sup>20</sup> The separation of powers structure, however, creates incentives for each branch to exercise restraint in dealing with the others. The ‘shadow’ of prospective judicial review, for example, encourages Congress to make laws, and executive branch members to carry them out, within the limits of the U.S. Constitution and prior court rulings.

Where the extraterritorial reach of a U.S. law is at issue, the politics of restraint require courts to consider the foreign affairs implications of exercising jurisdiction, and, specifically, the potential for interference with the functions of other branches. Because extraterritorial regulation is essentially a unilateralist act, foreign governments occasionally express their ire at its use with a range of responses. These include diplomatic protest, political and economic sanctions, attempts at preemption through parallel court proceedings, and even domestic legislation to block compliance with U.S. rules. Although domestic courts are insulated from the direct effects of such measures, their impact may be felt indirectly in the form of executive pressure to exercise, or refrain from exercising, extraterritorial jurisdiction in particular cases, or in efforts to undercut the post-judgment enforceability of extraterritorial regulatory decisions.<sup>21</sup>

### *Constructing Jurisdictional Thresholds*

How judges handle questions of federal court jurisdiction in claims involving extraterritorial jurisdiction is in most respects quite similar to those involving standard domestic claims. There are, however, minor differences with respect to the interpretative rules brought to bear on such questions, and with regard to the consequences for failing to find, or declining to exercise, jurisdiction over extraterritorial claims. Thus, before proceeding further with the discussion, it may be useful to highlight these differences and their relevance.

Before a court may formally consider a dispute, whether domestic or extraterritorial, it must confirm its authority over both the *actions* (‘subject matter jurisdiction’), and the *actors* (‘personal jurisdiction’) involved.<sup>22</sup> If a court finds its authority lacking on either facet, it must dismiss the claim for lack of jurisdiction.<sup>23</sup> When a federal court dismisses a purely domestic claim for lack of jurisdiction, this implies of necessity that the claim may be brought elsewhere at the state court level. Where the claim under consideration has an extraterritorial center of gravity, however, a federal court finding that jurisdiction is lacking will in many cases effectively terminate the claim in U.S. courts. When deciding such questions in the context of extraterritorial claims, therefore, courts are deciding the extent—in literal, spatial terms—of their own and other domestic actors’ power to regulate outside U.S. boundaries.

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<sup>20</sup> Frank B. Cross and Blake J. Nelson, 2001, “Strategic Institutional Effects on Supreme Court Decision Making” *Northwestern University Law Review*, 95(3), 1437-1494, 1457.

<sup>21</sup> James Michael, Zimmerman (1992) *Extraterritorial Employment Standards of the United States: The Regulation of the Overseas Workplace*, Quorum Books at 174.

<sup>22</sup> These categories are similar but not identical to international law principles of jurisdiction to prescribe and jurisdiction to adjudicate. The Restatement (Third) of U.S. Foreign Affairs law notes that traditionally jurisdiction to adjudicate, which turns on the relationship of the state to the person or thing under dispute, was considered ancillary to prescriptive jurisdiction, §421 (Introduction), at 304-305.

<sup>23</sup> Note the analysis here assumes the claim has satisfied all Article III procedural hurdles that precede jurisdictional analysis (*e.g.* standing, ripeness, statement of a case in controversy).

As in domestic claims, subject matter jurisdiction has two elements. First, disputes must be based on a U.S. law that grants the court authority to resolve disputes arising out of its operation. Second, the ‘facts’ of the dispute must fall within the law’s intended compass.<sup>24</sup> Thus, for claims involving extraterritorial conduct, whether the legal rule invoked was intended to have force outside U.S. territory is vital. The U.S. Constitution and many federal statutory rules contain specific grants of authority to resolve ‘cases’ and ‘controversies’ stemming from their operation.<sup>25</sup> In addition, federal court jurisdiction can be based upon one (or more) of several general statutory grounds.<sup>26</sup> Indeed, 28 U.S.C. §1331, which grants federal courts original jurisdiction over “all civil actions arising under the Constitution, laws, or treaties of the United States”, is particularly broad, and, as Chermersky notes, “makes many of the specific grants of jurisdiction superfluous.”<sup>27</sup> And finally, U.S. federal courts can also claim authority over conduct outside U.S. territory under state laws if the parties are from different states or foreign countries (*i.e.* if there is ‘diversity’), provided the underlying substantive rule is found to have extraterritorial (here meaning *state* territory) reach.<sup>28</sup> Although factors dictating the adjudicatory authority of U.S. federal courts are clearly important, the task of ascertaining the prescriptive scope of the underlying law is where judicial discretion most frequently comes into play.

Few laws are clear regarding their intended prescriptive reach. And, because statutory and constitutional rules are drafted for general application, almost none enumerate the full range of conduct they may embrace. A standard approach to finding the jurisdictional boundaries of a rule is by reference to its main purpose, or objective. Judges look to the law’s text, legislative history, and prior record of application to form hypotheses (of sorts) regarding its purpose. The National Labor Relations Act, for example, was passed to promote collective bargaining by safeguarding workers’ rights to organize. Whether this goal requires American companies to respect NLRA provisions when negotiating with American (or foreign) employees based outside the United States, is the type of question on which subject matter jurisdiction turns. Even where legislative intent to provide extraterritorial reach is obvious at a general level, courts must still ensure the law plausibly applies to the facts alleged. Under the Foreign Corrupt Practices Act, for example, this entails deciding *e.g.* whether the conduct is ‘foreign’, and whether it reasonably relates to the statute’s definition of ‘corrupt practices’. Where the answer is affirmative, subject matter jurisdiction exists.

A separate inquiry under constitutional due process is also required to verify the court has jurisdiction over the ‘persons’ of prospective defendants.<sup>29</sup> In this inquiry, the key question is whether a defendant’s conduct should be held to U.S. legal standards—whatever those standards may be. This, in turns, entails asking whether the defendant(s) fall within the class of actors Congress intended to regulate.<sup>30</sup> Outcomes here turn on the type and

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<sup>24</sup> Note, at the preliminary stages of litigation, the ‘facts’ a court acknowledges are those alleged by the plaintiff.

<sup>25</sup> As a rule, federal courts have jurisdiction over all claims involving federal law. Exceptions include areas where the Constitution grants the Supreme Court exclusive jurisdiction, as well as categories of claims (*e.g.* patents, bankruptcies, tax) where appellate jurisdiction is assigned to specialized courts.

<sup>26</sup> See 28 U.S.C. §§1330-1364.

<sup>27</sup> Erwin Chemerinsky, *Federal Jurisdiction* (Second Edition), Aspen Law & Business Publishers, 1994, at 249.

<sup>28</sup> 28 U.S.C. §1332.

<sup>29</sup> Borchers 1998:1166-73. This part of the analysis is specific to civil claims. In criminal cases, physical custody of the defendant is required for jurisdiction.

<sup>30</sup> 15 U.S.C. §78.

frequency of U.S. ties.<sup>31</sup> Degrees of association with the United States range from U.S. citizenship to thin and episodic contacts with U.S. territory or citizens. In deciding the break point between ‘sufficient’ and ‘insufficient’ contacts for personal jurisdiction, judges must likewise square broad principles of due process with the regulatory objectives of particular rules.<sup>32</sup> Strategic actors frequently attempt to insulate themselves from the reach of U.S. regulators, for example, by creating subsidiaries in foreign countries, or by attempting to contract out of practices that are questionable under U.S. law. Such defensive actions have a role in generating the types of litigation examined here: suits that challenge the territorial limitation of regulatory rules, to whom or what they apply, and even what constitutes an ‘actor’ under particular regulatory statutes.

## II. HOW OTHERS ACCOUNT FOR THE EMPIRICAL PATTERN

The phenomenon of extraterritorial regulation has long been of theoretical and practical interest to international lawyers, *e.g.* Mann (1964), Falk (1964), Verzijl (1973), Born & Lange (1987), Juenger (1993), Oppenheim (1992), Meessen (1996). The legal literature on this topic, not surprisingly, tends to focus on tracing developments in legal doctrine for specific topics or areas of practice. A few scholars, however, have attempted to craft more general explanations of what drives courts to exercise, or refrain from exercising, jurisdiction over civil disputes with an extraterritorial dimension.

### *Threshold tests for ‘conduct’ and ‘effects’*

In reaching its decision in *Microsoft*, the U.S. Supreme Court gave a characteristically narrow reading to the text of 35 U.S.C. §271(f), an approach justified by invocation of a rule of statutory construction known as the ‘presumption against extraterritoriality’. This judge-made rule holds where there is ambiguity regarding congressional intent to give U.S. law extraterritorial prescriptive effect, courts should interpret statutes as applying only within the territory of the United States. The reasons behind the presumption are several. They range from international legal arguments, such as ‘comity’, which can be understood as the deference owed by each sovereign to the laws of others within their own territory, to domestic constitutional and separation of powers arguments. The latter include the assumption that Congress legislates primarily with domestic affairs in mind, and injunctions against ‘embarrassing’ the executive in international affairs by issuing decisions that may be at variance with the policies or preferences of that branch.<sup>33</sup>

Courts have attempted to operationalize the ‘presumption against extraterritoriality’ by devising ‘tests’ for identifying factors that may overcome the presumption.<sup>34</sup> Where applied, such tests (which sometimes differ among circuits for the same federal statute) generally

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<sup>31</sup> U.S. courts rely on two approaches. The first, ‘dispute-based’ (or ‘specific’) jurisdiction, is case-by-case, and requires the legal claim to arise out of U.S. ties. The second, ‘dispute-blind’ (or ‘general’) jurisdiction, turns on a defendant’s overall relationship to the United States and is, therefore, “independent of the operative facts of the dispute between the parties.” Borchers 2001:119; Twitchell 1988:610.

<sup>32</sup> Berman 2002:432.

<sup>33</sup> Curtis A. Bradley, 1997, “Territorial Intellectual Property Rights in an Age of Globalism”, 37 VAJIL 505, 514-516.

<sup>34</sup> Dodge *supra* \_\_\_\_.

involve a loose formula for evaluating degrees of ‘effect’ inside the United States caused by conduct outside U.S. territory (‘effects’ tests) against some implied threshold. In some issue areas, whether part of the conduct underlying the claim took place in U.S. territory is also given weight (‘conduct’ tests). Although effective as a language for justifying judicial outcomes *post hoc*, these ‘tests’ are considerably less helpful in anticipating which way courts are likely to lean when presented with extraterritorial claims involving novel facts or legal issues.

Despite the arguable usefulness of ‘effects’ analysis in constructing theories of doctrinal consistency, it is quite ill-suited to anticipating judicial decisions in cases of first impression. The difficulty is rooted in the first instance in determining what constitutes a cognizable ‘effect’ for jurisdictional purposes absent direct prior precedent. Once this hurdle is cleared, judges must also decide whether the type or degree of the ‘effects’ complained of in the particular case at hand are sufficient to trigger U.S. federal court jurisdiction. In determining whether ambiguity exists judges look to the text of the statute, together with its legislative history, subsequent applications, and related claims. The key point is where such questions are actively litigated in federal court, it is because the outcome is uncertain—otherwise parties would not need to litigate.<sup>35</sup> To the extent such decisions are, in turn, reported, it is because the reasoning or outcome is sufficiently novel. It follows that judicial opinions reported on the basis of their outcomes on questions of extraterritorial jurisdiction are precisely those *least* amenable to *ex ante* explication on the basis of ‘conduct’ or ‘effects’.

The deficiency of this mode of analysis for anticipating outcomes on novel claims is particularly apparent when considered across legal issue areas. As will be discussed further below, ‘conduct’ and ‘effects’ jurisprudence contains a range of purported thresholds for jurisdictional sufficiency that vary rather substantially from issue area to issue area. Dodge observes that, after falling into disuse as an interpretative tool during in the early part of the 20<sup>th</sup> century, the ‘presumption against extraterritoriality’ was revived in the early 1990’s.<sup>36</sup> Since then it has been applied fairly robustly in some issue areas, but less so, or not at all, in others.<sup>37</sup> Significantly, this variation cannot be explained with regard to straightforward textual analysis. For example, the Sherman Antitrust Act, which is among the most widely applied U.S. statutes in extraterritorial terms, contains no mention of its intended prescriptive reach. In contrast, U.S. courts have interpreted expressly extraterritorial provisions in other statutes (*e.g.* the 1984 U.S. Patent Act) extremely narrowly. In short, in cases of first impression such ‘tests’ do little beyond providing cover for exercises of judicial fiat.

It might be countered that the argument elaborated above likewise acknowledges the relevance of a type of ‘effect’ on U.S. territory or interests as a threshold condition for its application. While this is indeed the case, the function of ‘effects’ in the rule preservation and basic rights accounts differs fundamentally from their role in standard doctrinal approaches. Under this framework, the necessity of showing some ‘effect’ merely serves a trip-wire-type function of ensuring that a prospective claim is at least nominally related to the United

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<sup>35</sup> Geroge Priest and Benjamin Klein. 1984. The Selection of Legal Disputes for Litigation. *Journal of Legal Studies*. 13: 1-55.

<sup>36</sup> William S. Dodge, 1990, “Understanding the Presumption Against Extraterritoriality”, 16 *Berkeley J. Int’l L.* 85, 85-86.

<sup>37</sup> *Id.* at 86-87.

States—a requirement of prescriptive jurisdiction under international law. Beyond this, effects play no substantive or calibrating role in the *ex ante* specification of conditions under which courts are likely to find and exercise jurisdiction over extraterritorial claims.

In recognition of the weaknesses of purely doctrinal accounts for anticipating court decisions in jurisdictional cases of first impression, a small number of legal scholars have sought deep explanations incorporating broader, policy-oriented decision rules,<sup>38</sup> or emerging global trends in judicial behavior.<sup>39</sup> I discuss these efforts in turn, and at the same time offer some reasons why we might be skeptical of conclusions drawn from these analyses.

### *Commercial versus social policy disputes*

In a widely cited article published in 1990, Jonathan Turley offers a general account of court-led expansion of U.S. extraterritorial jurisdiction.<sup>40</sup> He contends that underlying patterns of extraterritorial regulation cannot be explained by an inquiry into the nature or magnitude of ‘effects’.<sup>41</sup> Nor can it be accounted for by arguments that U.S. courts systematically balk at actions that intrude upon other states’ domestic sovereignty.<sup>42</sup> Turley argues instead U.S. court behavior is consistently geared toward protecting the economic interests of U.S. actors, which he equates with policies favoring commercial fairness and trade openness. In more concrete terms, he expects that U.S. courts will extend jurisdiction extraterritorially far more often in economic (or “market”) disputes such as antitrust and securities regulation than in “non-market” disputes—for example, those involving environmental and labor regulation.<sup>43</sup>

As evidence for this claim, Turley focuses on the character of the differential ‘tests’ judges use to evaluate each type of case. He observes that when deciding close jurisdictional questions, judges can manipulate conduct and effects tests to outcomes favoring extraterritorial jurisdiction—or the opposite. As distinct from purely doctrinal approaches, Turley emphasizes not the details of the tests as they have developed within specific legal topics, but rather their relative ‘ease’ or ‘difficulty’. In deciding whether to exercise jurisdiction over ‘market’ disputes, Turley argues, federal judges generally apply ‘easy’ tests that require little beyond a *de minimus* demonstration of ‘conduct’ or ‘effects’ inside U.S. territory. In ‘non-market’ claims, by contrast, judges often require an additional showing of congressional intent for the statute to apply extraterritorially. Turley finds that judges consistently invoke the ‘presumption against extraterritoriality’ in the latter set of claims, but not with respect to applications of market-enhancing statutes.

Although the relationship Turley describes appears to hold in the specific cases he discusses, its broader validity is less certain. First, it is not clear from Turley’s analysis how representative his set of cases is relative to the larger universe of claims involving contentious

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<sup>38</sup> Curtis A. Bradley, 1997, “Territorial Intellectual Property Rights in an Age of Globalism”, 37 *Va. J. Int’l L.* 505; and Jonathan Turley, “When in Rome’: Multinational Misconduct and the Presumption Against Extraterritoriality, 84 *Nw. U. L. Rev.* 598 (1990).

<sup>39</sup> Anne-Marie Slaughter, 2003, “A Global Community of Courts”, 44 *Harvard Int’l L.J.* 191.

<sup>40</sup> Turley, *supra* note \_\_\_\_.

<sup>41</sup> Turley, *supra* note \_\_\_\_ at 639-645.

<sup>42</sup> Turley, *supra* note \_\_\_\_ at 645-649.

<sup>43</sup> Turley at 601.

assertions of extraterritorial jurisdiction. Without such a sense, it is difficult to have much confidence in the inferences he draws regarding judicial behavior in *general*. Second, Turley's account is not clear regarding how to distinguish 'market' from 'non-market' disputes. Turley offers little guidance on whether, for example, a claim in which an American labor union helped a sister union abroad to engineer a secondary boycott that adversely impacted U.S. markets should be considered a 'market' or a 'non-market' dispute. With respect to other issue areas non touched upon in Turley's analysis, a non-trivial portion of new extraterritoriality claims brought to courts over the past forty years have involved intellectual property. While copyright, patent, and trademark rights clearly have value on an open market (as does labor), it is less clear whether such rights would qualify as 'market protecting' in Turley's terms. Regardless of which side of the line intellectual property claims fall, they are likely to pose a challenge to Turley's framework. This is due to variation in the pattern of court behavior *within* this category, which cannot be easily accounted for by his framework.

Finally, Turley attributes patterns of judicial decision-making on extraterritorial jurisdictional questions to a desire to promote and enhance U.S. economic competitiveness.<sup>44</sup> This is a rather novel take on what is driving judicial decision-making. Although the pattern he identifies with his set of cases is consistent with this motive, Turley offers no direct evidence that this is, indeed, what is going on. Direct, reliable evidence concerning judicial motives is, of course, difficult to come by. As such Turley's efforts to deal with this issue by eliminating several plausible alternative accounts on logical grounds are, thus, commendable. Nevertheless, to the extent that the validity of Turley's account turns upon untested assumptions about judicial motives, this constitutes further grounds for caution. By contrast, the domestic rule preservation account elaborated above is based a far less contentious set of assumptions regarding motives for judicial behavior.

### *Judicial globalization*

Slaughter's work on judicial globalization likewise suggests a set of testable propositions regarding the conditions under which U.S. judges can be expected to exercise jurisdiction extraterritorially. As part of a broader account of transnational judicial cooperation and conflict, Slaughter describes a growing tendency among U.S. judges to assess the "fitness" of their counterparts in alternative forums when deciding whether to resolve transnational claims.<sup>45</sup> Specifically, Slaughter argues that where alternative judicial forums share a high degree of procedural similarities (or "affinities"), judges are *less* likely to dismiss claims in deference to foreign courts. This is because courts in this category presumably share a common set of values and an interest in resolving disputes in an orderly manner. Under these conditions resolving transnational claims according to 'local' rules and procedures is unlikely to produce serious friction among the courts or governments concerned, and may, moreover, result in productive forms of conflict over the merits of variations in underlying rules.<sup>46</sup> She illustrates this point with several examples from United States and other economically advanced countries.

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<sup>44</sup> Turley at 634.

<sup>45</sup> Slaughter 2003 at 210.

<sup>46</sup> Anne-Marie Slaughter, 2004, Sovereignty & Power in a Networked World Order, 40 *Stanford J. Int'l L.* 283, 322-23.

A different set of interactions prevails in situations involving alternative forums that have a functional justice system, but are not part of the emerging global “community” of courts due to differences in the fundamental values or procedural standards by which they operate. In these cases Slaughter expects U.S. judges to be more likely to exercise deference grounded in traditional notions of domestic sovereignty and international comity. Under such conditions, factors such as citizenship and the locus of disputed conduct might be expected to carry greater weight in judicial decisions to regulate extraterritorially. And finally, Slaughter also argues that U.S. courts should be expected to retain control over transnational claims involving states experiencing serious political instability or civil war, or in cases where alternative forums are held to be systematically biased or corrupt.<sup>47</sup> If this argument is correct, therefore, U.S. courts should be more likely, after controlling for cases in which there is no *ex ante* expectation of procedural justice, to exercise jurisdiction over transnational disputes implicating other states with similar procedural standards.<sup>48</sup>

Slaughter’s arguments concerning judicial decision-making on extraterritorial jurisdictional issues likewise contain features that raise questions about external validity. Like Turley, Slaughter crafts her argument on the basis of a selection of judicial opinions without indicating whether and to what degree those decisions are representative of larger (an relevant) universes of claims. As such, the inferences Slaughter draws regarding overall patterns of court behavior are broader than her evidence can reasonably support. Nevertheless, her claims are also precise enough to enable testing against a broader sample of litigated claims. Slaughter’s insistence that outcomes in transnational legal claims are increasingly conditioned by interactions among judges sitting in different national jurisdictions offers a distinct contrast to the underlying logic of the domestic rule preservation thesis. To the extent these hypotheses receive support in the empirical analysis, this would constitute a direct challenge to the causal story elaborated in the previous section.

### III. EVALUATING COMPETING CLAIMS

In examining whether the logics of domestic rule preservation and protection of ‘basic rights’ can in fact help to explain underlying patterns of U.S. federal court decision making on extraterritorial jurisdictional questions, I depart rather starkly from the standard methodology of examining only ‘lead cases’. Instead I rely on a far wider original sample of roughly 430 reported opinions on cases litigated in U.S. federal courts between 1945 and 2003 in which questions concerning extraterritorial jurisdiction were expressly considered. Two considerations underlie my choice of this approach. First, while much can be learned from examining leading cases and case lines, exclusive emphasis on such cases can obscure theoretically relevant aspects of rule elaboration both within and across legal issue areas. In particular, this approach gives little attention to false starts and failed efforts on the part of plaintiffs to push the legal-doctrinal envelope. Second, because I am here concerned primarily with what courts *do*, even outcomes that add little to the jurisprudential corpus in terms of argumentation or precedential weight are important.

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<sup>47</sup> Slaughter 2003:213.

<sup>48</sup> Slaughter 2003 at 213.

To analyze this rather large set of claims systematically, I employ the statistical methods, and specifically the method of ‘logistic regression’.<sup>49</sup> Substantively, the sample of cases encompasses disputes involving roughly 120 countries on issues that include antitrust, securities regulation, tax, intellectual property rights, contracts, environment and species protection, labor rights, personal injury, aviation regulation, as well as racial and gender discrimination, torture, forced labor and other egregious violations of human rights.<sup>50</sup> The outcomes I seek to explain are court decisions to exercise jurisdiction extraterritorially—or not.<sup>51</sup> The analysis involved testing the marginal effects of variables designed to capture key explanatory concepts in the arguments described above so as to facilitate comparison among them in a representative sample of cases.<sup>52</sup> The results are summarized in this section. Their significance for important issues of legal analyses is discussed subsequently.<sup>53</sup>

The results of the analysis offer strong support for the domestic rule preservation argument. The model featuring my proposed explanatory variables correctly predicts whether a court will find and exercise jurisdiction roughly 65% of the time with a high degree of confidence associated with the key variables. This is an impressive result given the potential for confounding variation over time and across the range of issue areas covered. At the same time, my analysis shows less support for the economic openness hypothesis as a stand-alone explanation, and none at all for the judicial globalization hypothesis. Regarding Turley’s argument, the key coefficient performs as he would expect with a 95 percent level of confidence. This suggests U.S. courts are indeed more likely to find and exercise jurisdiction extraterritorially over ‘market’, as compared to ‘non-market’ claims. However, the overall ‘fit’ of this model (*i.e.* the ratio of the variance explained to total underlying variance) is approximately 10 percent lower. This suggests the domestic rule preservation and basic rights indicators are nevertheless capturing an important additional source of variance.<sup>54</sup>

The analysis is considerably less supportive of Slaughter’s account. To the extent the models testing these claims reveal anything substantive, it’s that conduct and citizenship ties to OECD countries in transnational litigation *reduces* the likelihood that U.S. federal courts will

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<sup>49</sup> For a full description of my sampling and statistical approaches, see Tonya L. Putnam, 2007, “Courts Without Borders: The Domestic Sources of U.S. Extraterritorial Regulation” under review at *International Organization*.

<sup>50</sup> Note, I assume other threshold requirements for bringing suit, such as standing, ripeness, statement of a legal claim, etc., have been satisfied before the jurisdictional inquiry begins.

<sup>51</sup> Of course it is also possible for a U.S. court to determine it has jurisdiction over a particular claim, but to opt not to exercise it on prudential grounds. This is discussed at \_\_\_ *infra*.

<sup>52</sup> The key variables for the domestic rule preservation argument are described at \_\_\_ *supra*. Turley’s economic openness hypothesis is tested by tracking whether claims involve ‘market’ and ‘non-market’ issues. Slaughter’s argument is tested by controlling both for whether any of the *conduct* at issue in a claim occurred in an OECD country, and whether any *citizens* of an OECD country were included among the litigants. In addition, I also control in each model for a set of variables that legal practitioners and underlying case law suggest should be relevant. These include whether any U.S. citizens were plaintiffs or defendants, whether any portion of the conduct involved in the claim occurred in U.S. territory, whether the executive branch intervened to sway the jurisdictional determination, and a time variable to track longitudinal change. For a more complete discussion of these variables and their operationalization, see Putnam, note \_\_\_ *supra*.

<sup>53</sup> These models include variables to control for the influence of factors highlighted in legal-doctrinal analyses (U.S. conduct, citizenship of litigants), formal executive or *amicus curiae* interventions tied to separation of powers considerations, change over time, as well as the effects of ‘judicial ideology’.

<sup>54</sup> By contrast, adding or excluding the ‘non-market’ dummy variable from the model with the rule preservation indicators actually reduces the fit slightly (by 0.17 percent), while causing a small downward shift in the regulatory integrity coefficient, coupled with an upward shift for basic rights.

exercise jurisdiction. This result holds for the full sample, and for a restricted sample that includes only cases considered post 1990. Nor do the results change when these variables are analyzed together with the rule preservation and basic rights indicators. In many respects it makes intuitive sense that U.S. courts would be more willing to allow similar alternative forums to litigate transnational claims than dissimilar ones, particularly in light of overloaded judicial dockets. Nevertheless, the standard errors attached to the coefficients in question are quite large, which indicates a low level of confidence that the results generated in fact differ from zero.

Perhaps not surprisingly, the analysis also confirms the importance of several factors that legal practitioners assume to matter. Furthermore, consideration of these factors also helps to provide interpretative nuance and to improve model fit. For example, a finding that some part of the conduct from a transnational transaction occurred on U.S. territory not surprisingly increases the likelihood that a U.S. court will exercise jurisdiction substantially. The analysis also shows that in the relatively rare instances when the executive branch intervenes in litigation, it has a strong but not determinative impact on court behavior.<sup>55</sup> Interestingly, having an American citizen on the plaintiff side is a strong predictor of U.S. courts taking jurisdiction in the claims I examine, but having an American defendant is *not*. It could be that U.S. courts are systematically biased in favor of hearing complaints brought by American plaintiffs. Alternatively, American plaintiffs could be better able to identify claims likely to be successful—or both. However, if a systematic protective bias is involved, it should be more strongly reflected in behavior toward American defendants. This does not appear to be the case. Another possibility is that ‘personal jurisdiction’ is simply expanding apace with ‘subject matter jurisdiction.’ In other words, when U.S. courts have found jurisdiction to apply prescriptive rules extraterritorially, due process considerations vis-à-vis non-citizens appear not to have operated as a substantial brake on extraterritorial regulation.

What is *not* being captured by this account? In answering this question it is helpful to recall that, when deciding close jurisdictional questions, judges are often exercising a degree of discretion. Where multiple courts can claim have jurisdiction over a transnational dispute, the ultimate choice of forum may be determined by prior contract provisions on forum selection or by the convenience (proximity) of the parties, which is substantially weighted in favor of the plaintiff’s preference.<sup>56</sup> In just under 20 percent of the cases in the best-fitted model, a U.S. federal court exercised jurisdiction where the threat variables predicted it would not. Empirically, these cases by and large fit the profile just described. In another 16 percent of cases, the model predicts an exercise of jurisdiction where none occurred. This class of cases is considerably more interesting, because here international comity and other forms of judicial deference to foreign courts (or governments) impede specific exercises of jurisdiction when

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<sup>55</sup> Of the 438 observations on the dependent variable, the executive expressed no preference in 341, or 78 percent. Where government preferences are made explicit, court decisions with respect to jurisdiction were consistent with those preferences only 76 percent of the time. The analysis encompasses structurally determined preferences (i.e. cases in which the government is either the plaintiff or the defendant, third-party interventions unsolicited by the court, *and* cases in which the presiding judge(s) formally requested the input of an executive branch agency regarding the proper interpretation of a relevant statute.

<sup>56</sup> Whether this option is available also depends on the availability of a legal rule of decision, which in some situations (*e.g.* certain tort, contract, or other ‘private’ claims) may be a foreign country’s law. The need to apply foreign law is not a barrier to a U.S. jurisdiction, provided the foreign rule accords with U.S. law and public policy. In general, however, courts will not substitute the ‘public’ law of other states for their own.

we would otherwise expect them.<sup>57</sup> Additional work in this direction is needed in order to achieve a more fully specified theory of U.S. court behavior on questions concerning the expansion of extraterritorial jurisdiction.

In sum, my findings demonstrate a relationship between *ex ante* diagnoses of the threat posed by extraterritorial conduct to regulatory system maintenance or fundamental rights, and U.S. court decisions to interpret U.S. rules as supporting extraterritorial jurisdiction in particular claims. This theory appears to account for court behavior across a broad range of extraterritoriality claims better than the alternatives. In order to credibly claim that variation in *ex ante* threat actually ‘explains’ the variation in court behavior, I need also to show why judicial perceptions of threat to domestic rule change over time, and to tie those changes to outcomes on jurisdictional questions. This, in turn, suggests the necessity to account for the production of new civil legal claims.

#### IV. LEGAL CHANGE AND THE PRODUCTION OF NEW DISPUTES

Legal claims arise when one party charges another with causing harm through behavior inconsistent with a legal rule. Legal rules, in turn, formalize expectations about behavior grounded in rights and entitlements from the state. Beliefs about the existence and character of rights and entitlements may be based on convention, legislation, privileges granted through constitutions or other social contracts, or international law. Two important sources of legal claims are strategic overreaching on the part of public and private actors, and changes to the underlying regulatory environment. Actors at all levels in social and political systems continuously engage in the interpretation and application of legal rules. In the United States this includes Congress, which must legislate within the constraints of the U.S. Constitution; executive branch departments, agencies, commissions, and task forces that elaborate and administer detailed rules; and private entities who must decide their own levels of compliance, while also formulating expectations regarding others’ likely behavior. Because all actors operate with imperfect information, strategic behavior occasionally results in poor estimation of, or decisions to test, others’ beliefs, preferences, or resolve.

Legal claims also arise where changes in the regulatory environment generate uncertainty about whether and how prior (‘settled’) rules apply. Where change threatens to subvert privately held rights or domestic regulatory policies, current (or prospective) stakeholders may turn to the courts, among other institutions, to attempt to preserve (or change) the status quo through regulatory means. Where, furthermore, change in the regulatory environment makes it easier for private actors to engage in regulated activities across national boundaries, to the extent those activities impact the vested rights and interests of at least some domestic actors negatively, we should see claims that challenge territorial limitations on regulatory rules. Likewise, domestic-level changes to the scope or content of individual rights can lead to disputes over whether those rights end at the border, or apply regardless of location.

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<sup>57</sup> Accounting for these outcomes introduces a separate research question for which a different and more refined set of hypotheses is needed. Among the factors that may trump the logic of domestic rule preservation include overriding foreign policy considerations (particularly those pressed by executive branch officials) and classic comity concerns.

Uncertainty and flux in legal rules can result from both large- and small-scale changes in the political and institutional status quo. On the macro side, the extent of U.S. involvement in international political and economic affairs increased dramatically over prior levels beginning in the 1940's.<sup>58</sup> This and accompanying changes created new opportunities, and also new vulnerabilities, for American entrepreneurs and corporations both at home and in far-flung corners of the world. Although the potential consequences of these changes for economic and other forms of interdependence were not necessarily apparent to those responsible for these changes, viewed in retrospect their implications have been undeniably far reaching.

Smaller scale changes can likewise have destabilizing effects on legal rules. Technological innovation—defined broadly to encompass organizational forms and practices—can give rise to new and unforeseen types of conduct, or enable existing activities on a far larger scale. For example, the development of increasingly sophisticated financial and accounting tools for large and small investors, such as markets for derivatives, futures, and hedges, has transformed international investment and increased the global supply of credit.<sup>59</sup> Innovation, however, may also impose costs upon private entities socialized (or invested) in older technical or organizational approaches. Those in a losing position may attempt to challenge the permissibility of new approaches under existing rules, or seek to have established legal for *e.g.* fraudulent practices, reckless behavior, or insider dealing, applied to new opportunities generated by new approaches.

And finally, legislative, executive, and judicial modification of regulatory rules can trigger claims as plaintiffs probe the limits of observed changes. Over the course of the 1950s and early 1960's, for example, U.S. courts found domestic acts of racial discrimination unconstitutional in series of rulings covering a wide range of practices. These decisions were furthered elaborated and codified in the 1964 Civil Rights Act and other statutes. Where American corporations have subsequently engaged in discriminatory practices in their foreign operations, plaintiffs have duly sought extraterritorial application of these laws. Private parties also frequently bring suits varying key dimensions of successful extraterritorial claims to test how far the courts will go in extending specific rules. A rule held to apply extraterritorially in one set of circumstances can fail to support jurisdiction in others if the underlying facts stray too far from the rule's recognized rationale, or if the court finds it would violate a prospective defendant's due process rights.

It should also be stressed that a court's refusal to find and exercise extraterritorial jurisdiction at one point in time does not preclude a different conclusion at a later time. Indeed, plaintiffs may continue to bring new claims citing rules courts have consistently refused to apply extraterritorially. For example, the first reported suit alleging extraterritorial violations of the Copyright Act was brought, unsuccessfully, by a U.S. record company in 1964. A trickle of similar claims followed. It was not until 1986, however, that a U.S. federal court issued a judgment supporting the Copyright Act's extraterritorial applicability—and it

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<sup>58</sup> Frieden 2006.

<sup>59</sup> Viser *supra* \_\_\_\_; Paul R. Paradise (1999) *Trademark Counterfeiting, Product Piracy, and the Dollar Threat to the U.S. Economy*, Quorum Books at 96.

too was overruled eight years later.<sup>60</sup> The global diffusion of the Internet and related technologies beginning in the 1990s has, predictably, spurred a new generation of extraterritorial copyright claims.<sup>61</sup> Consistent with what this account would expect, U.S. courts have responded by taking a less rigid approach regarding the extraterritorial reach of the Copyright Act. Furthermore, even statutes with an extensive history of extraterritorial application, such as the Sherman Antitrust Act, continue to undergo reinterpretation and modification as underlying circumstances change.

I now turn to an application of these ideas to the puzzling case of why U.S. court behavior has been so variable with respect to extraterritorial regulation across trademark, patent, and copyright claims.

#### V. APPLYING THE LOGIC OF DOMESTIC RULE PRESERVATION: THE CASE OF INTELLECTUAL PROPERTY

‘Intellectual property’ is a general term that encompasses legal rights of ownership and excludability over the distribution and use of “intangible” outputs ranging from artistic works, to technical know-how, to forms of branding and marketing. Among economically highly-developed countries, there is general agreement that these rights include copyright, patents, trademarks, and protection of ‘trade secrets’.<sup>62</sup> The U.S. Constitution explicitly provides for protection of copyrights and patents in Article I, Section 8. These rights were first codified by statute in 1790 in the U.S. Copyright Act and the U.S. Patent Act respectively. By contrast, trademark law does not have an explicit constitutional basis and was regulated exclusively by state law until 1870 when the first federal trademark statute was enacted.<sup>63</sup>

Examining variation in how U.S. courts have managed transnational private disputes involving different types of intellectual property is an informative test case for my account of extraterritorial behavior on the part of U.S. courts. Despite a formal consensus among leading industrial states that intellectual property rights are territorially limited, since the early 1950s, numerous exceptions to this rule have accumulated in U.S. law by means of both judicially-crafted doctrine and adjustments to federal legislation—albeit with very different temporal origins and rates of accretion for trademark, copyright, and patent law.<sup>64</sup> In each of these cases a common exogenous driver of legal change is technological innovation, which is defined broadly to encompass not only tangible inventions, but also methods of organization or production that provide efficiency gains.

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<sup>60</sup> See *Peter Starr Production Co. v. Twin Continental Films, Inc.* 783 F.2d 1440 (9th Cir. 1986) and *Subafilms Ltd. v. MGM Pathe-Communications Co.* 24 F.3d 1088 (9th Cir. 1994).

<sup>61</sup> These technologies give individuals the tools to easily, and often costlessly, circumvent mechanisms of domestic copyright regulation, e.g. production, sales, and broadcasting licensing inside U.S. territory, and customs controls to prevent large-scale importation of unlicensed copies.

<sup>62</sup> Doris Estelle Long and Anthony D’Amato (2000) *International Intellectual Property*, West Group; Paul Goldstein (1994) *Copyright’s Highway: From Gutenberg to the Celestial Jukebox*, Hill & Wang at 10-12.

<sup>63</sup> A recent and still-contested area of development in intellectual property rights involves proprietary interests in Internet domain names. European countries also generally give strong protection to a category of rights called ‘industrial design’, which does not have special protection in the United States, see Long & D’Amato at 12-13)

<sup>64</sup> Note, the law regulating ‘trade secrets’ is still exclusively a matter of state law. For this reason it is not considered in this case study.

The public policy underlying intellectual property rights is generally rooted in the notion that inventors and authors should be guaranteed some tangible reward for their creations—whether as a matter of ‘natural law’ or to ensure incentives for further innovation.<sup>65</sup> An often-countervailing policy consideration, however, involves society’s interest in benefiting from new inventions and creative works. Different countries’ intellectual property rules often reflect different, and historically path-dependent, efforts to strike a balance between these considerations.<sup>66</sup> The fact that policy questions regarding the proper form, scope, and extent of the protections have been answered differently in different places has complicated efforts to achieve international harmonization of intellectual property rights—even as the trend toward globalization has significantly increased the incentives for doing so among the world’s leading economic players.<sup>67</sup>

Textbook accounts of international intellectual property law typically describe the component regimes as consisting of territorially limited rights.<sup>68</sup> This legal orthodoxy is based upon a set of international agreements that formed the backbone of international intellectual property regimes during much of the twentieth century. During the latter decades of the nineteenth century, the European powers negotiated several international treaties to coordinate the protection of intellectual property rights—for copyrights (1886), patents (1883), and trademarks (1891).<sup>69</sup> These treaties mainly sought to guarantee ‘national treatment’ of foreign rights holders regarding the protection of rights granted by the signature state. At the same time, they did not provide for recognition of rights granted by foreign sovereigns. The territorially limited character of the rights embodied in these treaties and subsequent amendments is further reinforced by the absence of any enforcement provisions beyond what the courts of a state member would provide.

For several decades the United States adhered to the territoriality principle expressed in these agreements—despite the fact it was a signatory only to the Paris Convention for the Protection of Industrial Property (patents) and the International Copyright Treaty. During this period, U.S. law was considerably more lax regarding intellectual property protections than that of most of its European counterparts. As a consequence the lack of reciprocal obligations to other countries generally benefited the United States by providing its nationals with greater ease of access to protected works (Cohen *et al.* 2002:48-49).<sup>70</sup> What then explains

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<sup>65</sup> Goldstein, *supra* \_\_\_\_, at 170-172; Graeme B. Dinwoodie, William O. Hennessey, and Shira Perlmutter (2001) *International Intellectual Property Law and Policy* (LexisNexis Casebook Series) at 513;

<sup>66</sup> The debate is particularly acute between economically highly developed countries in Europe and North America, and those in the developing world that are denied the benefits of above-the-board use of protected property due to high licensing fees and concerns regarding misappropriation.

<sup>67</sup> Sell, Susan K. Sell (2003) *Private Power, Public Law: The Globalization of Intellectual Property Rights*, Cambridge University Press at 26.

<sup>68</sup> Dinwoodie *et al.* at 28. That is to say, a perfected copyright or patent in the United States, for example, does not confer similar rights in Canada without a separate registration in Canada. There are no global patents, copyrights or trademarks.

<sup>69</sup> These treaties are, respectively, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Madrid Agreement for the Repression of False or Deceptive Indications on the Source of Goods.

<sup>70</sup> See *e.g.* *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088 (9<sup>th</sup> Cir 1994) (en banc).

the subsequent transformation in the general U.S. approach toward intellectual property protections?

In the early decades of the twentieth century, the United States shifted from being a net consumer of intellectual property from Europe to a net producer of new technologies and creative arts. As a result, U.S. authors and inventors began to demand more robust rights and protections for their output *within* U.S. territory. In the realm of copyright, for example, U.S. law expanded to incorporate new forms of expression, *e.g.* photography (1909), film (1909), recordings (1909), computer software (1990), as well as innovations in the means of reproduction and distribution.<sup>71</sup> Developments in technology, science and the so-called “useful arts” have also driven the expansion of domestic patent law, albeit at a considerable lag. Recently recognized categories of patentable innovations include, for example, rights associated with the development of new life-forms (1980), ‘business methods’ such as online merchandising (1998), and other innovations unimaginable only decades before.

Tracking the extension of legal protections to new technologies and forms of intellectual property as a matter of domestic law does not, however, suffice to account for whether, and at what point, these rights began to receive extraterritorial protection by U.S. federal courts. If my explanation holds, we should observe extraterritorial regulation by U.S. courts in situations where new technological developments have enhanced the ability of private actors with significant ties to the United States to illicitly acquire, use, and/or reproduce protected forms of intellectual property outside the United States. Where the conduct in question does not affect rights in the domestic sphere, and is unlikely to prompt private actors to attempt to circumvent domestic legal protections, the expectation is that U.S. courts will be considerably less likely to find and exercise jurisdiction to regulate than when either (or both) applies.<sup>72</sup>

### *Trademarks*

A trademark is defined as any set of characters, symbols, or their combination, that is used to differentiate one product from another in commercial trade. More broadly, trademarks may also include designations of origin, process, or quality in production. Historically, the first recorded use of trademarks was in 3500 B.C. by potters in the Middle East. During the Middle Ages, European trade guilds (metal smiths, paper-makers, bakers) adopted unique marks to identify their group’s products. In the United States, trademark rights are created exclusively through the use of a mark or symbol for commercial purposes. Trademark rights can be augmented through registration with the U.S. Patent and Trademark Office, but the key for maintaining the legal protections is use. Unlike copyrights and patents, trademarks have unlimited terms of duration, provided the relevant formalities are observed.

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<sup>71</sup> Long & D’Amato, *supra* \_\_\_, at 10-11. The invention and diffusion of photocopying machines, for example, proved to be important in the development of the U.S. doctrine of ‘fair use’ in copyright law. The invention and wide diffusion of audio-cassette and video recording devices galvanized additional legal-doctrinal adjustments, see Goldstein, *supra* \_\_\_, at 29-31.

<sup>72</sup> Likewise, U.S. courts are expected to refrain from deciding transnational disputes with an extraterritorial ‘center of gravity’ where the court anticipates a lack of enforcement power against the defendant(s) due to insufficient ties with a U.S. forum.

Trademarks have a somewhat different underlying public policy justification than patents and copyright, insofar as the purpose of trademarks (and other marks of origin or appellation) is to provide reliable information to consumers regarding the products in the marketplace. It follows that permitting unauthorized use of trademarks dilutes the quality of the information available to the public without conferring a countervailing public benefit. As such, the standard tension in intellectual property rights between protecting ‘monopoly rights’ and the public interest in restricting access to intellectual property identified above is less acute with respect to protecting trademarks.

The Lanham Trademark Act (1946)<sup>73</sup> was the first federal statute in the realm of intellectual property to be applied extraterritorially to resolve a transnational dispute—by the U.S. Supreme Court no less. The year was 1952 and the case was *Steele v. Bulova Watch Company*. The dispute concerned a factory in Mexico City owned by a citizen and resident of the United States that produced watches made from Swiss and American-made components. The finished watches, some of which found their way to the United States, were stamped with the ‘Bulova’ trademark. Subsequently, Bulova sales representatives in Texas began to receive complaints from retailers regarding defective ‘Bulova’ watches that had not, in fact, been manufactured by the Bulova company.<sup>74</sup> In deciding to permit the broadening of the Lanham Act’s provisions to cover the facts presented in this case, the majority justified its holding by reference to the transboundary character of the alleged harm.

We do not deem material that petitioner affixed the mark BULOVA in Mexico City rather than here, or that his purchases in the United States when viewed in isolation do not violate any of our laws. They were essential steps in the course of business consummated abroad; acts in themselves legal lose that character when they become part of an unlawful scheme. [...] In sum, *we do not think that petitioner by so simple a device can evade the thrust of the laws of the United States in a privileged sanctuary beyond our borders* (emphasis added).<sup>75</sup>

The last sentence of this quote makes it clear that a primary concern among the majority justices in validating the extraterritorial exercise of jurisdiction in *Steele v. Bulova Watch Co.* was to eliminate an easily followed (and therefore threatening) model for diluting U.S. trademark rights inside U.S. territory.<sup>76</sup>

What explains the general timing of this case and its landmark outcome for the extraterritorial protection of U.S. trademark rights?<sup>77</sup> During the late nineteenth and early twentieth centuries, numerous strides were made in the area of refrigeration and food

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<sup>73</sup> 15 U.S.C. §§1051-1127.

<sup>74</sup> The factory owner had in 1933 registered the ‘Bulova’ trademark in Mexico. The Mexican Supreme Court had, however, nullified that registration of the ‘Bulova’ mark shortly before the U.S. Supreme Court considered the case.

<sup>75</sup> 344 U.S. 280, 287 (1952).

<sup>76</sup> The decision was 6-2, with Justices Reed and Douglas dissenting. Justice Black did not take part in the decision.

<sup>77</sup> Note the structural similarity of *Bulova* with pre-*ALCOA* extraterritorial antitrust disputes, such as *Sisal Sales*, in which U.S. federal courts agreed to regulate the foreign elements of the claims before them on the basis of their jurisdiction over the domestic elements. Indeed, the *Bulova* court expressly relied upon this line of cases in justifying its decision to apply the Lanham act to the defendant’s conduct in Mexico, 344 U.S. 280, 288-89 (1952).

preservation.<sup>78</sup> These developments were accompanied by innovations that increased the speed and lowered the cost of transporting goods, thereby generating markets for food and other consumer products that had been previously produced and distributed only at a local level.<sup>79</sup> Growth in the geographic distribution of consumer products, in turn, heightened the importance of trademarks and product branding as a means of quality assurance.

Immediately following World War II, the United States experienced an economic boom, one dimension of which involved a dramatic upsurge in the international marketing of American consumer products.<sup>80</sup> Soon after the war's end, through both private efforts and official policies such as the Marshall Plan, American products began to pour into Europe and beyond.<sup>81</sup> This trend was reinforced by the fact that, through the late-1940's, United States interests directly controlled over fifty percent of the world's commercial shipping capacity.<sup>82</sup> In short, by the early 1950s, the potential for misappropriation of American trademarks outside the United States was large and growing.

At the time the suit commenced, the 'Bulova' trademark was among the most well-established in the world.<sup>83</sup> The Bulova company had been for decades a leading innovator in watch features and production technologies. By the 1950s, Bulova had also invested a great deal in its company name, broadcasting the first ever radio advertisement in 1926, launching the first ever million-dollar advertising campaign in 1931. In 1941 Bulova became the first company to air a television commercial.<sup>84</sup> Moreover, Bulova could demonstrate that its domestic trademark rights had been damaged as the result of the extraterritorial conduct it sought to curtail.<sup>85</sup> As such, Bulova's complaint was, in many respects, an ideal case for a decision to extend the reach of the U.S. trademark regulation into the extraterritorial realm.

The growth of the multinational corporation as an organizational form in the 1960s, and the subsequent internationalization of supply and production chains, further aided the diffusion of technologies for the illicit extraterritorial production and distribution of

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<sup>78</sup> The tin can, for example was invented in England in 1810. In 1846 Henry Evans invented the first machine for mass production of canned goods. The new machine was capable of producing 60 cans per hour—a tenfold increase over previous rates.

<sup>79</sup> K.M. Gwilliam, "The Development of the World Transport Market" in *A History of Technology, Vol VI, The Twentieth Century c. 1900-1950, Part II*, (Trevor I. Williams, ed.), Clarendon Press, 691-710.

<sup>80</sup> Victor J. Viser 2001. *Winning the Peace: American Planning for a Profitable Post-War World*. *Journal of American Studies*. 35(1) at 115. America's production capacity (unlike those of Europe and Japan) emerged unscathed, and even enhanced, from the Second World War. Viser argues that as early as 1942, both large and small American corporations had begun to strategize about how to capitalize on the post-War reconstruction and economic recovery through mass production and marketing for both domestic and overseas markets.

<sup>81</sup> Diane B. Kunz, "The Marshall Plan Reconsidered: A Complex of Motives", *Foreign Policy*, May/June 1997. By the end of the war, Coca-Cola, for example, was being bottled in more than fifty countries in Europe and Asia, [http://www2.coca-cola.com/heritage/chronicle\\_symbol\\_friendship.html](http://www2.coca-cola.com/heritage/chronicle_symbol_friendship.html).

<sup>82</sup> Gwilliam, *supra* \_\_\_ at 695.

<sup>83</sup> 1955 A.C. Neilson Company Survey, cited from Bulova website, <http://www.bulova.com/about/history.aspx>.

<sup>84</sup> *Ibid*.

<sup>85</sup> A key element was Bulova's robust and well-advertised warranty policy, whereby purchasers of 'authentic' Bulova watches could have them serviced free of charge at any Bulova outlet. The plaintiffs demonstrated that Bulova's refusal to honor this service agreement with respect to counterfeits had negatively affected consumer confidence in its warranty structure.

trademarked goods.<sup>86</sup> This came about as the promise of cheap labor lured production facilities out of developed economies with a tradition of respect for intellectual property rights into countries in Asia, Central America, and to a far lesser extent Africa, where such concepts either did not exist or were viewed with hostility. In addition, aggressive marketing of American consumer products world wide has served to whet foreign appetites not only for licensed goods—but for cheaper knockoffs as well. A pervasive externality of engaging in this type of production strategy is dealing with what has become a multi-billion dollar industry of counterfeit goods.<sup>87</sup>

Nevertheless, it was not until 1982 that a U.S. federal court agreed to regulate a trademark dispute in which the conduct at issue occurred wholly outside the United States. In *American Rice v. Arkansas Rice Growers, Inc.*, a U.S. federal court confronted the issue of whether to decide a claim of trademark infringement and unfair competition involving two American companies in Saudi Arabia. The facts of the case concerned the defendant's use of a name and symbol to market its rice that the court found to be impermissibly similar to those of the plaintiff. The court justified its exercise of extraterritorial jurisdiction on grounds that (a) the infringing foreign acts of the defendant purportedly diverted sales from the trademark holder, and thereby affected U.S. commerce,<sup>88</sup> and (b) an exercise of jurisdiction would not conflict with Saudi law. The underlying logic of this decision is similar to that in *ALCOA*. In both cases the court found jurisdiction on grounds that it was merely regulating alleged conduct between two American companies that would have been considered clearly improper if it had occurred inside U.S. territory.

During the 1980s and 1990s and into the current decade, the U.S. federal courts have continued to apply U.S. trademark protections extraterritorially to resolve private disputes over the use (and misuse) of American marks.<sup>89</sup> At the same time, however, U.S. courts have also continued to reject jurisdiction over claims found (at the time the issue was decided) to push the limits of either the scope of the statute, or the underlying due process requirements.<sup>90</sup> As illustrated by the move from *Bulova* to *American Rice*, however, claims that draw a ruling of 'no jurisdiction' in one time period have in some cases become the subject of extraterritorial regulation at a later time where underlying circumstances coalesce to make the nature and extent of the threat to domestic rules from extraterritorial conduct becomes more pronounced.

In the temporally compressed realm of regulating the uses of Internet technology, U.S. courts have also demonstrated the ability to act quickly in ascertaining emerging threats to the proprietary rights of U.S. trademark holders. In a series of cases beginning in the late 1990s,

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<sup>86</sup> Paradise, *supra*, at 96.

<sup>87</sup> Id. at 34.

<sup>88</sup> Note that the court's determination that jurisdiction was present turned upon a substantial relaxation of the 'effects test' heretofore applied with regard to the extraterritorial reach of the Lanham Act, *e.g.* in *Vanity Fair Mills Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956) (*cert. denied*).

<sup>89</sup> See *e.g.* *Reebok International, Ltd. v. Marnatech Enterprises, Inc.*, 23 F.2d 1377 (9<sup>th</sup> Cir. 1992) (holding proper extraterritorial jurisdiction based upon U.S. conduct and absence of conflict with Mexican trademark law).

<sup>90</sup> For example, *Atlantic Richfield Co. v. Arco Globus International Co., Inc.*, 150 F.3d 189 (2d Cir. 1998) (holding no jurisdiction under the Lanham Act because "alleged infringing activity did not occur in the United States and there was insufficient connection between the activities of the alleged infringer in the United States and the allegedly infringing conduct.")

U.S. federal courts extended Lanham Act protection to allegedly infringing extraterritorial acts surrounding the foreign registration and use of Internet domain names.<sup>91</sup> These situations arguably stretched previously defined limits of the meaning of a ‘trademark’ under the Act by applying it to a server location.<sup>92</sup> These cases have also raised issues regarding the appropriate threshold for minimum ‘contacts’ for personal jurisdiction in such claims.<sup>93</sup> In 1999, Congress endorsed the approach taken by the courts by passing the Anti-Cybersquatting and Consumer Protection Act and incorporating it into the Lanham Act.<sup>94</sup>

### *Patents*

A patent is a time-limited authorization to exclude or limit the use, production, or sale of an invention, provided it is “novel, non-obvious, and useful”.<sup>95</sup> The sole means of obtaining patent rights in the United States is by registration with the U.S. Patent and Trademark Office—an arduous, costly, and often time-consuming process.<sup>96</sup> Once secured, however, the standard duration of a U.S. patent is currently 20 years.

Legal grants recognizable as patent protections have been identified in the Venetian Republic as early as the mid-fifteenth century (Kaufer 1989).<sup>97</sup> Various types of monopoly rights in were also used in England and elsewhere as a source of revenue and political fealty to the crown. The first patent in the American colonies was granted in 1646 for a water-powered scythe mill (Warshofsky 1994:32-33). Following through on the constitutional directive to encourage the “useful arts”, Congress passed the first U.S. Patent Act in 1790. The Act was overhauled in 1836, and again in 1952. A federal Patent Office was established by the 1836 Act to exercise a needed measure of quality control over the patents issued. The 1952 Patent Act narrowed the scope of patentable discoveries to those passing a test of ‘non-obviousness’ to technical experts. It also, however, opened the door to patents on substantial improvements made to existing inventions (Ibid 50-51).

In an account of the “decline and revival” of the patent system in the United States, Silverstein (1991:302-306) explains that for much of the twentieth century patents were not considered a particularly effective mechanism for securing market control over scientific and technical innovations. Beginning in the 1940s, the scope and validity of patent rights began to

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<sup>91</sup> See *Quokka Sports, Inc. v. Cup International Ltd.*, 99 F.Supp.2d 1105 (N.D.Cal. 1999) (affirming extraterritorial injunction proper under Lanham Act against use of domain name on New Zealand website); *Cable News Network, LP, LLLP v. CNNNews.org* 56 Fed.Appx. 599 (C.A. Va. 2003) (holding plaintiff may prevail in anti-cybersquatting suit without demonstrating ‘bad faith’); *International Bqncorp LLC v. Societe des Bains du Mer et de Cercle des Etrangers a Monaco*, 329 F.3d 359 (holding use of trademarked name in foreign trade *per se* infringing where creation of consumer confusion likely).

<sup>92</sup> Dinwoodie, *supra* \_\_\_ at 497; see 15 U.S.C.A. §1052(e)(2).

<sup>93</sup> *Panavision International, L.P. v. Toepfen* 141 F.3d. 1316 (holding personal jurisdiction is proper where defendant’s conduct is intended to have ‘effects’ in the forum).

<sup>94</sup> 15 U.S.C.A. § 1125 (d)(1)(A)(ii)(I).

<sup>95</sup> Long and D’Amato at 47. ‘Inventions’ encompass products, apparatuses, techniques, processes or methods, or types of materials. A substantial improvement upon an existing element on this list may qualify for patent protection (Baldwin 1997:51).

<sup>96</sup> Applicants for patent protections have the burden of demonstrating each of the three required elements—novelty, innovativeness, and usefulness—for a patent to issue. Doing so will often cost the applicant anywhere from thousands to tens of thousands of dollars in research and legal fees (Warshofsky 1994:29).

<sup>97</sup> Cited in Dinwoodie *et al.* 2001:372-373.

come under broad attack on the basis of antitrust statutes (Keating 1973; White & Staubitz 1970).<sup>98</sup> The tide changed in the early 1980s as U.S. policy makers began to apprehend the financial disincentives created by lax patent protection for U.S. firms to risk commercialization of new technologies. Japan had started to loom large as a perceived threat to U.S. economic hegemony, as firms across Asia capitalized spectacularly on commercial applications of basic science carried out in the United States.

An important step in making patent enforcement part of the long-term U.S. strategy for global economic competitiveness was Congress' creation of the Federal Circuit Court of Appeals in 1982, which was vested with exclusive jurisdiction over appeals concerning patent claims (Silverstein 1991:308). The purpose of this reform was to create doctrinal uniformity in patent laws and thereby contribute to the underlying reliability of the rights in question, and also to provide a cadre of judges and other legal professionals with technical training to reach more informed decisions in patent claims. The court, which under modern appellate Supreme Court certification rules often has the last word on patent appeals, proved to be—if not overwhelmingly 'pro-patent'—at least strongly supportive of the patent system (Ibid 311).

Perhaps not surprisingly, given the lukewarm record of patent protections in the United States, U.S. federal courts did not begin to regulate patent claims with an extraterritorial dimension until the mid 1970s.<sup>99</sup> In a striking illustration of the degree to which U.S. patent rights were held to be territorially limited, in a 1972 case, *Deepsouth Packing Co. v. Laitram Corp.*, the Supreme Court found no patent violation had occurred where component parts for an otherwise infringing machine to de-vein shrimp were exported to a buyer for assembly abroad. In 1984 Congress amended the Patent Act to close this loophole. In so doing it recognized that extraterritorial extension of U.S. patent protections were required in order to forestall the type of legal circumvention complained of in *Deepsouth*.<sup>100</sup>

Between 1984 and 1994 several additional amendments to the Patent Act were enacted that expressly allowed for some types of extraterritorial protection of U.S. patent rights (Holbrook 2004:705). These amendments, and their subsequent interpretations by U.S. courts, however, stop short of permitting claims based on wholly extraterritorial conduct. Liability for 'inducement', 'contributory infringement', and 'offers to sell' (which cover the spectrum of extraterritorial violations) still remains contingent upon some infringing act on U.S. territory (Young and Doshi 2005).

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<sup>98</sup> Cited in Silverstein (1991:n.21). In response, large corporations in particular opted increasingly to use state law for the protection of 'trade secrets' in place of securing federal patent protections. This alternative, however, was only available in situations where commercialization could occur without publicly disclosing the new invention. This left, for example, areas of technical innovation such as commercial electronics, and independent inventors of all kinds without the capacity to commercialize their own inventions, with little legal protection from competitors (Silverstein 1991:304-305).

<sup>99</sup> *Honeywell Inc. v. Metz Apparaturwerke*, 509 F.2d 1137 (7<sup>th</sup> Cir. 1975) (holding that "[a]lthough patent laws of United States do not have extraterritorial effect, active inducement may be found in events outside United States if they result in direct infringement in United States.")

<sup>100</sup> The Supreme Court also held (in dictum) that liability for extraterritorial contributory infringement is possible under the Patent Act, provided a related domestic infringement occurs, *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527 (1972).

As with other types of intellectual property, the recent diffusion of technologies for electronic communications and the advent of the Internet have posed serious challenges to the territorially-based regime of patent protections. In the realm of traditional technologies the challenge is less severe with respect to patents than with other forms of intellectual property, since “inventions generally require physical embodiments to infringe” (Holbrook 2004:705). With regard to newer types of ‘process’ and ‘business method’ patents, however, enforcement may be complicated by the fact that the protected technology is itself ‘intangible.’ If the main cost of appropriating a patented business method for e-commerce (e.g. the Amazon.com model) involves locating a server in a foreign jurisdiction where no patent is in force, there is little economic disincentive for actors not to attempt and end-run around U.S. law (Conner & Leak 2002).

### *Copyrights*

Copyrights are term-limited ownership rights in the distribution and use of literary and other creative works. The U.S. Copyright Act (1976) protects “original works of authorship fixed in any tangible medium of expression, now or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” The statute goes on to list several examples, which include literary, musical, dramatic, pictorial and graphic, and architectural works, as well as motion pictures and sound recordings.<sup>101</sup> The minimum duration of such protections under current U.S. law is 70 years. Unlike trademark law, copyright protections are not wholly exclusive, but instead allow for various forms of ‘fair use’ during the term of the protection (Doern 1999:5).<sup>102</sup> Determining the legal boundaries of ‘fair use’, not surprisingly, has been an important driver of litigation in the copyright realm (Goldstein 1994).

As with trademarks, the history of copyright law long predates the origins of the U.S. legal system. Long and D’Amato date the origins of copyright to the invention of the Gutenberg movable type printing press in 1436, which drastically lowered the cost and increased the diffusion of literary works (2000:131). The Statute of Anne, passed in 1706 by the British Parliament, was the world’s first copyright act (Goldstein 1994:43).<sup>103</sup> The first U.S. Copyright Act, enacted in 1790, largely paralleled the English law of the time, but soon began to develop along its own trajectory. In 1909 the Copyright Act was amended to explicitly include application to photographs and sound recordings. The 1976 Copyright Act (currently in force) incorporated additional technologies (e.g. photocopying), extended the scope and duration of protections, codified the ‘fair use’ doctrine, and also made unauthorized importation of copyrighted works an infringement.

Numerous technological developments during the twentieth century increased the ease, and lowered the cost, of duplicating copyrighted works. In each case, these developments have prompted rights holders to challenge the predominant interpretations of

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<sup>101</sup> The statute specifically excludes the ability to copyright “any idea, procedure, process, system, method of operation, concept, principle, or discovery regardless of the form in which it is described, explained, illustrated or embodied in such work.”

<sup>102</sup> The doctrine of ‘fair use’ is what provides the bread-and-butter of academic research: the right to limited citation of others’ works with appropriate attribution.

<sup>103</sup> The Statute recognized an “incorporeal” property right in an authored work distinct from the right of publication, Lord Chief Justice De Grey in *Donaldson v. Beckett*, Proceedings in the Lords, 1774.

the statute (Goldstein 1994). Nevertheless, the U.S. Copyright Act remains, in the words of one commentator, “maddeningly territorial” (Patry 2000:457). The U.S. Copyright Act has no expressly extraterritorial provisions, and U.S. federal courts have not, until quite recently, attempted to construct any such provisions on functional grounds. Indeed, the record of U.S. federal court treatment of extraterritorial copyright claims demonstrates a deep reluctance to move beyond the territorially-based regime despite the growing inadequacy of this regime in the digital age.

As my explanation would anticipate, private claims seeking extraterritorial protections for copyrights surged following each new wave of technologies for the duplication and use of various types of copyrighted materials.<sup>104</sup> For example, the widespread diffusion of personal tape recorders and VCRs spurred international demand for legitimate, as well as illicit, versions of copyrighted material. My sample of federal court cases contains a handful of unsuccessful attempts by private actors to persuade U.S. federal courts to find and exercise jurisdiction over alleged extraterritorial violations of U.S. copyrights during the 1960s, 1970s, and 1980s for various music-related claims.<sup>105</sup> The range of possible outcomes on these suits, however, was in all cases limited by the scope of the rights recognized domestically, together with the domestic enforcement regime in operation.

The fortress of territorial limitations on the U.S. Copyright Act was first breached (albeit only partially) by what has come to be called ‘contributory infringement’. Under the doctrine of contributory infringement, a defendant can be held liable for an act inside the United States that is key to enabling or furthering unauthorized distribution of copyrighted material outside U.S. territory. In 1986, a ninth circuit court in *Peter Starr v. Twin Continental Films, Inc.* held the defendant liable for authorizing, while in the United States, the international distribution of copyrighted works for home video without the copyright holder’s permission.<sup>106</sup> In 1994, however, this ruling was overturned in another ninth circuit case concerning disagreements the international distribution of the Beatles film *Yellow Submarine* for the video market. The case, *Subafilms Ltd. v. MGM-Pathe Communications Co.*, overruled *Peter Starr* by holding there can be no liability for acts inside U.S. territory that do not independently constitute a violation of U.S. copyright laws. Since the U.S. Copyright Act does not recognize extraterritorial acts of infringement, the court reasoned, “domestic authorization of international distribution cannot be a source of liability.”<sup>107</sup>

In the meantime, both the fifth circuit, and the D.C. circuit (where *Subafilms* was not formally controlling) had found and exercised jurisdiction over extraterritorial copyright claims incorporating the concept of contributory infringement on grounds that such protections were becoming increasingly necessary in light of technological developments. The oft-quoted fifth circuit opinion in *Curb v. MCA Records, Inc* explains the court’s understanding of how the

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<sup>104</sup> P. Goldstein at 216.

<sup>105</sup> *Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728 (1964); *Robert Stigwood Group Ltd. v. O’Reilly*, 530 F.2d 1096 (1972); *Abbezz v. Edwin H. Morris & Co., Inc.*, 548 F.Supp. 664 (1982).

<sup>106</sup> The earliest case in my sample in which a U.S. federal court agreed to exercise extraterritorial jurisdiction commenced in 1987, *Fantasy v. Fogerty*, 664 F.Supp. 1345, 1351 (N.D. Cal. 1987), (holding copyright holder (record company) had rights to extraterritorial royalties derived from acts in the United States).

<sup>107</sup> 24 F.3d 1088 (9<sup>th</sup> Cir 1994) (en banc).

regulatory environment had changed, thereby creating a need for the law to adapt to those changes.

[P]iracy has changed since the Barbary days. Today the raider need not grab the bounty with his own hands; he need only transmit his go-ahead by wire or telefax to start the presses in a distant land. *Subafilms* ignores this economic reality, and the economic incentives underpinning the Copyright Clause designed to encourage creation of new works, and transforms infringement of the authorization right into a requirement of domestic presence by a primary infringer. Under this view, a phone call to Nebraska results in liability; the same phone call to France results in riches. In a global marketplace, it is literally a distinction without a difference.<sup>108</sup>

As the situation currently stands, the circuits remain ‘split’ regarding the question of whether the U.S. Copyright Act applies extraterritorially to cover domestic authorization of ‘infringing’ conduct outside the United States.

What explains the U.S. federal courts’ reluctance to extend U.S. copyright protections into the international realm by means of extraterritorial regulation? It is clearly not the case that the ability of copyright holders to limit the use and distribution copyrighted materials was unaffected by technological innovations during the period of study. Nor is it inconceivable from a doctrinal perspective that U.S. courts would have taken the view that unauthorized foreign copying of materials protected by U.S. copyright negatively impacted U.S. commerce through lost revenues, thereby justifying extraterritorial regulation.

Part of the answer is that, before the Internet, foreign duplication of U.S.-copyrighted materials in most instances did not substantially threaten the value of U.S. copyrights inside U.S. territory. Stringent private enforcement of licensing at ‘legitimate’ outlets for copyrighted materials such as retail stores, movie theaters, and other public performance spaces inside the United States, backed by criminal penalties, effectively limited demand for illicitly produced copies and discouraged widespread ‘bootlegging’ from foreign sources. Customs enforcement at U.S. borders further reduced this threat.<sup>109</sup> Another dimension of the issue involves what Cohen *et al.* refer to as the U.S. move from acting as a copyright “pirate” in the nineteenth century, to a “holdout” in the twentieth, to an “enforcer” of copyright protections in the current century (2002:49). As with patent enforcement, appreciation of the international trade value of U.S.-produced copyrighted material was relatively late in coming at the policy level. When it did come, however, the initial solution adopted by the U.S. government was to join existing multilateral treaties for copyright protection—all of which are grounded in a strictly territorial conception of rights.

The debate over the sufficiency of territorially limited protections for copyright has sharpened in recent years, as digital technologies and the Internet have significantly enhanced the ability of U.S. (and other) consumers of copyrighted materials to access images, computer software, satellite broadcasts, music, films, and books directly from foreign sources. To the

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<sup>108</sup> 898 F.Supp. 586 (M.D. Tenn. 1995).

<sup>109</sup> The 1976 Copyright Act explicitly prohibits importation of unauthorized foreign-produced copies of materials protected by U.S. copyright.

degree that direct U.S. political pressure, and the threat of WTO penalties, are unsuccessful in compelling foreign governments to enforce the standards embodied in TRIPs within their own territories, U.S. copyright holders are likely to find the U.S. federal courts increasingly willing to find and exercise jurisdiction over allegations of contributory infringement, and other causes of action partially based on extraterritorial conduct.

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To summarize, there has been marked variation during the period of this study regarding whether and under what conditions U.S. federal courts have been willing to regulate extraterritorially in disputes concerning violations of intellectual property rights. U.S. federal court assertiveness has been most evident in the realm of trademark protection, but has recently demonstrated an upswing in extraterritorial patent protections. Numerous commentators have attempted to account for this pattern. Some commentators have looked to the texts of the respective statutes, or their legislative histories. Nothing in these sources, however, would predict the empirical pattern of decisions independent of other factors.<sup>110</sup> Others have focused on the nature of the deprivation to foreign markets that would follow from extraterritorial application of U.S. copyright and patent laws ('knowledge and ideas' versus 'mere symbols') (Toraya 1985). These attempts also fall short of providing satisfying explanation insofar as they overstate the degree to which trademarks are symbols without social value. Without the ability to reliably signal origin and quality in the marketplace, however, producers would have little incentive to expend resources and effort to improve the quality of their goods.<sup>111</sup>

One possibility that has not received consideration is the account put forward in this article. The key to understanding the observable variation in the pattern of extraterritorial enforcement of intellectual property rights by U.S. federal courts, I argue, lies in whether and to what degree the extraterritorial conduct at issue is recognized as posing a systematic threat to the domestic regulatory status quo. This in turn depends in part upon prevailing understanding of the scope and content of the domestic law, and the robustness of the regulatory institutions in place to ensure its observance.

The threat to trademark interests from unchecked extraterritorial misappropriation was recognized quite early, and has expanded as U.S. investment in foreign consumer markets has expanded.<sup>112</sup> The story behind the considerably more modest extraterritorial protection afforded to U.S. patent rights has its roots in broader patterns of domestic disuse of the regime. After Congress drew a link in the early 1980s between slack in the domestic patent regime and a sustained drop in the U.S. balance of trade, limited forms of extraterritorial infringement were recognized as part of a broader effort to reinvigorate domestic use of patent protections. Thereafter, courts in the Federal Circuit began to reinforce domestic patent rights by foreclosing blatant attempts to circumvent U.S. rules by means of extraterritorial, or partially extraterritorial, conduct.

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<sup>110</sup> Bradley 1997 at 537.

<sup>111</sup> Bradley 1997 at 540-542.

<sup>112</sup> See, for example, "Fake [golf] clubs on EBay traced to China" <http://www.iht.com/articles/111993.html>.

And finally, similar pattern is evident in the extraterritorial application of U.S. copyright protections—albeit from a more robust starting position with regard to domestic valuation and enforcement. Indeed, the strength of the domestic enforcement regime that minimized potential for infringing imports to penetrate the U.S. market to a large extent explains the lack of enthusiasm among U.S. federal courts regarding extraterritorial copyright regulation. The development and broad diffusion of the Internet and digital technologies have, however, begun to introduce change in this area in recent years.<sup>113</sup> Here too the charge forward has been largely led by Congress with its passage of the 1998 Digital Millennium Copyright Act. The *Microsoft* claim discussed above constitutes the first test of this law in an extraterritorial setting—with results that suggest U.S. courts are not yet ready to change course.

## VI. A CALL FOR ENLIGHTENED PAROCHIALISM IN JURISDICTIONAL ANALYSIS, OR ‘WHO CARES?’

The empirical claims summarized above in Section III, and applied to a particularly puzzling set of claims in Section V point to a fairly consistent pattern in U.S. court behavior with respect to extraterritorial jurisdictional questions. In this section I argue that underlying this pattern is a logic that is highly amenable to translation into an improved rule for judicial decision-making. The motivation for this proposal is a conclusion reached by several legal scholars that the presumption against extraterritoriality leaves a great deal to be desired as an interpretative canon.<sup>114</sup> Reasons range from its uneven and seemingly *ad hoc* application over time and across legal issue areas, to arguments that it is simply poorly suited to the reality of transnational regulatory demands under globalization. To the extent that its application relies for consistency on ‘conduct’ and ‘effects’ tests, this is further reason to suppose there might be a better way.

Interestingly, the ‘presumption against extraterritoriality’ had in the 1970’s and 1980’s largely faded from active use, only to resurrected as rule of decision by the Supreme Court resurrected in the early 1990’s. The case in question, *EEOC v. Arabian American Oil Co.*, involved allegations of racial discrimination in the firing of a naturalized American citizen by a U.S. oil company in Saudi Arabia. The majority held that it could not apply Title VII of the Civil Rights Act to the claim absent evidence of clear congressional intent that the statute apply extraterritorially.<sup>115</sup> Thereafter, the presumption received broad play in the dissent in the 1993 U.S. Supreme Court decision in *Hartford Fire Insurance Co. v. California* in which a majority for the first time applied the Sherman Antitrust Act to an extraterritorial claim.<sup>116</sup> This pair of decisions sparked a scholarly debate over the ‘presumption’ as a judicial rule of decision.

This debate generated a range of suggestions for modifying the rule—from calls for it’s more frequent and aggressive invocation in order to galvanize congressional action,<sup>117</sup> to

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<sup>113</sup> See *e.g. Los Angeles News Service v. Reuters Television Intern. (USA) Ltd.*, 340 F.3d 926, (Cal. 2003).

<sup>114</sup> Turley 1990 \_\_\_ *supra*; Dodge 1998 \_\_\_ *supra*; and James E. Ward, “Is That Your Final Answer?” The Patchwork Jurisprudence Surrounding the Presumption Against Extraterritoriality, 70 U. Cin. L. Rev. 715 (2002);

<sup>115</sup> 499 U.S. 244 (1991). See also Dodge 1998 \_\_\_ *supra*.

<sup>116</sup> 113 S.Ct. 2891.

<sup>117</sup> Bradley 1997.

its complete abandonment and replacement with a presumption in *favor* of extraterritoriality.<sup>118</sup> More moderate proposals grounded in the ‘balancing approach’ articulated in the Restatement (Third) of U.S. Foreign Relations Law also advocated setting aside the presumption.<sup>119</sup> Kramer, however, pointed out that case-by-case balancing tests, although perhaps attractive in theory, rarely turn out so in practice. The reason being that “the considerations being weighed are always imprecise enough to permit several answers and dictate none.”<sup>120</sup> One might add that balancing tests are not especially useful for deciding technical questions of whether constitutional and statutory provisions support jurisdiction. They are more appropriate to later-stage questions involving whether actually *exercising* available jurisdiction in a given situation is prudent.

A reasonable solution to this problem would need to take into account both the decision constraints imposed by constitutional separation of powers, together with the wider regulatory context in which courts, Congress, the executive, and other public and private actors whose interests are at stake actually operate. Such an approach would, for example, acknowledge that each and every time a judge applies a general legal rule, or existing precedent to resolve a legal claim, he or she is engaging in a ‘gap-filling’ exercise—albeit one that is perfectly consistent with courts’ core constitutional mandate. Expressly recognizing this function is important because it helps to put concerns about ‘legislating from the bench’ in perspective. As numerous courts across multiple circuits have demonstrated, interpreting statutes like the Sherman Antitrust Act and the Lanham Trademark Act as having extraterritorial reach on functional, domestic rule preservation grounds appears, in the vast majority in instances where it has occurred to have been consistent with the preferences of at least the *sitting* Congress and subsequent Congresses. This is evidenced by an exceedingly low rate of direct congressional overrides of higher court decisions, and the modest rate of indirect legislative amendment relative to the amount of regulation that occurs.

As such, a sensible decision rule for courts confronted with new extraterritorial claims to adopt is the following: interpret untested statutory and constitutional rules as having extraterritorial reach *only* where doing so is necessary to ensure their continued operation inside U.S. territory, or to ensure the protection of ‘basic’ rights. In all other cases, it is reasonable to demand a clear statement from Congress of the intent to regulate extraterritorial as occurred, for example, with the Foreign Corrupt Practices Act of 1977. This proposed rule has the virtue of providing both clarity and continuity with regard to federal regulatory actions, in addition to a healthy band of flexibility. This rule is, moreover, consistent with Kramer’s call for evaluation of U.S. laws on a “statute by statute” basis. It substantially improves upon this suggestion, however, by providing an empirically tested foundation on which to base such evaluations.

And finally, the proposed rule is solidly rooted in principles that comport with even relatively conservative interpretations of the constitutional separation of powers constraints

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<sup>118</sup> Phillip R. Trimble, 1995, “The Supreme Court and International Law: The Demise of Restatement Section 403” 89 *AJIL*, 53.

<sup>119</sup> Andreas Lowenfeld, 1995, “Conflict, Balancing of Interests, and the Exercise of Jurisdiction to Prescribe: Reflections on the Insurance Antitrust Case”, 89 *AJIL* 42.

<sup>120</sup> Larry Kramer, 1995, “Extraterritorial Application of American Law after the Insurance Antitrust Case: A Reply to Professors Lowenfeld and Trimble” 89 *AJIL* 750, 755.

on the actions of courts.<sup>121</sup> The fact that federal judges have been generally unaware of this regularity confirms its grounding in modes of judicial behavior that are widely considered legitimate. To the extent that this rule might be criticized for reinforcing the ‘parochialism’ of U.S. courts in a globalizing world, I contend that it nevertheless constitutes a realistic approach, and one that is considerably more enlightened than current practice.

## VII. CONCLUSION

Extraterritorial exercises of jurisdiction on the part of U.S. federal courts have over past half-century become an increasingly common feature of U.S. regulatory jurisprudence. In several issue areas ranging from antitrust to human rights it is simply no longer the case that U.S. law can be assumed to stop ‘at the water’s edge’. Nevertheless, there are also numerous laws that U.S. federal courts have held not to apply beyond U.S. territorial boundaries. In many cases justifications for such differences are nowhere evident in the text of the law. They derive instead from a broader set of considerations—including, as I argue here, a constitutionally grounded judicial mandate to interpret legal rules in line with legislative purpose. Where technological and organizational capacities change in ways that introduce unforeseen opportunities for private actors to capture net *domestic* benefits by undertaking all or part of illicit transactions outside U.S. territory, preserving the integrity of the domestic rule necessarily requires its extension to extraterritorial conduct. The logic of ‘basic rights’ likewise dictates that observance by members of the political community, particularly vis-à-vis other members of that community, should not be contingent on geographic location. As such, we can also expect courts to extend extraterritorial protection to such rights as indicated either by application of strict scrutiny in examining alleged violations, or by attainment of *jus cogens* status in international law.

As the volume and diversity of economic, social, and cultural intercourse between countries grows, so will potential for transnational regulatory disputes. The growing number and range of transnational claims being brought to U.S. courts highlights a need for more consistent and more transparent rules of decision in this area. I argue for bringing what in any case appears to be a reasonably robust empirical pattern in to the open and elevating it to a judicial ‘rule of decision’. Doing so would improve upon prevailing and proposed blanket presumptions brought to bear on such questions, as well as case-by-case ‘balancing’ approaches. It would do so by expressly incorporating a reasonable measure of functional nuance in evaluating various types of jurisdictional claims. At the same time, it also gives primacy to the constitutional imperatives of the American judiciary, and its assigned role in the separation-of-powers system.

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<sup>121</sup> See, for example, Bradley 1997 \_\_\_\_ *supra*.