No. 13-43

In the Supreme Court of the United States

MAERSK DRILLING USA, INC., *PETITIONER*

v.

TRANSOCEAN OFFSHORE DEEPWATER DRILLING, INC., *RESPONDENT*

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICI CURIAE* SEADRILL AMERICAS INC. AND STENA DRILLING LIMITED IN SUPPORT OF CERTIORARI

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INTRODUCTION AND INTEREST OF *AMICI CURIAE*[1]

The Federal Circuit's holding that a drilling services contract constitutes a "sale" under 35 U.S.C. § 271(a) conflicts with both well-settled precedent and the realities of the contractual relationship between a drilling contractor and an exploration and production company. If allowed to stand, the decision will significantly broaden the scope of infringement liability for offshore drilling services contractors. Indeed, it would likely open the door to expanded infringement liability for service contractors in any industry. It is also likely to lead to needless preemptive litigation. For all these reasons, *amici* respectfully submit that the Federal Circuit's unprecedented expansion of direct infringement liability under the Patent Act merits this Court's review.

Moreover, this Court's review is warranted because the Federal Circuit's decision improperly extends the reach of U.S. patents beyond this nation's borders and permits drilling services contractors to be held liable for direct infringement even though they never actually sell or use a patented device within the United States. Not only does the court's decision vastly expand the scope of liability, but it is also entirely inconsistent with the presumption against extraterritoriality reflected in this Court's jurisprudence. It will also undoubtedly have a significant

[1] No counsel for a party authored this brief in whole or in part. Neither a party, nor its counsel, nor any other entity other than *amici curiae* and their counsel has made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for the parties were timely notified of *amici*'s intent to file this brief under Supreme Court Rule 37.2(a), and all parties have filed general letters with the Clerk's office consenting to the filing of *amicus* briefs.

chilling effect on innovative design-around efforts, both inside and outside the drilling industry.

Amicus curiae Seadrill Americas Inc. ("Seadrill") and its affiliates are a leading offshore deepwater drilling company with global operations. Seadrill currently owns and operates forty-four offshore drilling units, which operate in all types of offshore environments. Seadrill also has twenty-six units under construction. Seadrill has some 7,600 employees and operates in fifteen countries on five continents. As part of its business, Seadrill enters into long-term contracts for the provision of drilling services in the Gulf of Mexico and elsewhere around the world. Seadrill is the second-largest owner and operator of ultra-deepwater units in the industry and the largest operator of modern premium jack-up rigs.

Amicus curiae Stena Drilling Limited ("Stena") is one of the world's foremost independent drilling contractors, a wholly owned subsidiary of Stena AB. Stena manages a global business, consisting of four ultra-deepwater drillships and three semi-submersible rigs. Stena enters into long-term contracts for the provision of drilling services in the Gulf of Mexico and elsewhere around the world. Additionally, Stena is being sued separately by Transocean on the same patents that are at issue in this case. See *Transocean Offshore Deepwater Drilling, Inc.* v. *Stena Drilling Ltd.*, 659 F. Supp. 2d 790 (S.D. Tex. 2009) (granting in part and denying in part Stena's motion to dismiss).

Amici's familiarity with the offshore drilling industry gives them unique insight into both the nature of drilling services contracts and the likely effects that the Federal Circuit's decision will have in the industry.

STATEMENT

The contract between Maersk and Statoil (the "Statoil Contract") is a typical daywork contract for drilling services. It does not call for the transfer of either title or possession of the *Maersk Developer* rig, and no such transfer ever actually occurred. Without analyzing whether any such transfer occurred, the Federal Circuit concluded that the contract involved a "sale" under § 271(a) of the Patent Act. The panel's decision is inconsistent with the terms of the Statoil Contract, with common industry practice, and (as discussed further below) with the plain language of the statute.

Even a brief inspection of the Statoil Contract confirms that, like other drilling services contracts, it does not transfer title or possession of the drilling rig. Among other service-oriented clauses, the Statoil Contract provides:

- "Overall performance of the Work and the management and direction of the Drilling Unit [i.e., Maersk Developer] *shall be the sole responsibility of [Maersk]"* (Statoil Contract, Art. 4.3 (emphasis added)) (Pet. App. 129);
- Maersk must perform *drilling services* including "drilling, completion, and intervention work with [the rig]" (Exh. A, § 2.1 (emphasis added) (Pet. App. 133);
- Maersk shall provide "competent" "personnel" (Art. 6.1) (Pet. App. 129);
- Maersk is required to insure the rig *"owned or chartered by [Maersk]* and utilized in the performance of [Statoil] Contract" (Art. 16.1 § (f) (emphasis added));

- "[Maersk] is an independent contractor with respect to the Work. [Maersk] will, subject to the Contract, exercise independent control, management and supervision in the performance of the Work" (Art. 20.4); and

- "[Maersk] shall throughout the term of this Contract provide and maintain the Drilling Unit in good working order and in safe and fully operational condition in compliance with the Contract" (Exh. A, § 3.2).

Transocean has never identified a single contractual provision that calls upon Maersk to transfer title or possession of the *Maersk Developer* to Statoil. Instead, it has relied on provisions that, for instance, allow Statoil personnel to approve positioning of the rig on the well location, or determine where the rig would be used, or require Maersk to provide accommodations for Statoil personnel while they are onboard the rig. These provisions are typical of services contracts; indeed, it would be quite unusual if a contractor were given free rein to do whatever it pleased on its client's property, without any oversight. In any event, none of these provisions demonstrates that Statoil obtained possession or title to the *Maersk Developer* itself. The Statoil Contract calls for the provision of services by a drilling contractor, not the sale of a rig.

SUMMARY OF THE ARGUMENT

The Federal Circuit's holding that the Statoil Contract, typical of offshore drilling services contracts, constitutes a "sale" of a patented invention under the Patent Act warrants this Court's review for two primary reasons.

First, it reflects both a departure from well-settled precedent holding that a sale requires a transfer of title or possession of the patented invention, and a gross misunderstanding of the realities of industry practice. Offshore drilling services contracts—under which a contractor agrees to use its rig to provide drilling services to an exploration and production company—are typical in the industry and have never before been considered (and indeed are not) sales or offers for sale of the rigs themselves.

The resulting shift in the law will have pervasive effects throughout the offshore drilling industry and will likely force service contractors of all kinds to incur unnecessary expenses in doing business. For example, the *Transocean* decision invites lawsuits simply where the service company has equipment that *could* be used in an infringing manner—actual use in the United States is no longer necessary. And the Federal Circuit's corrective "erratum" merely makes matters worse, as it will lead only to confusion in services industries and needless preemptive lawsuits because a "sale" now apparently requires no transfer of title or possession.

Second, the Federal Circuit's decision purports to solve a problem that does not actually exist—in the process violating the presumption against extraterritoriality, removing incentive to comply with national patent laws, and chilling innovation. Oil drilling services contracts often permit modification of drilling rigs to respect varying national patent laws, a practice that encourages innovation. Under *Transocean*, however, it is not enough that a contractor agrees to modify a rig so as to comply with a U.S. patent while operating in U.S. territory. Rather, a contractor can be held liable—for the full upfront licensing fee—

simply for constructing equipment half a world away, even though that rig will never be sold, offered for sale, or used within the United States, and will be modified to avoid the patents.

Not only does such an unprecedented expansion of patent law conflict with the deeply rooted presumption against the extraterritorial application of U.S. patents, but it also renders companies' modification efforts all but useless, thereby chilling the very design-around efforts that often spur innovation. Furthermore, *Transocean* chills even the *contemplation* of innovation, because it creates liability for "paper infringement," when there is no more than a services contract between two parties and where there is no change in title or control or actual use of the patented invention.

ARGUMENT

I. *Transocean* Mischaracterizes Oil Drilling Services Contracts As Involving a "Sale" or "Offer to Sell" Under U.S. Patent Law, Misapprehending Industry Practice and Reality.

As Maersk ably explains in its Petition, one does not "sell" a device for purposes of § 271(a) by agreeing to provide services with it. The Federal Circuit's contrary holding is inconsistent with both precedent and common practice in the industry. In fact, the Federal Circuit's decision will have effects far beyond the offshore drilling industry. The court's characterization of a services contract as a "sale" of equipment could expose contractors in *any* services industry to liability for direct infringement even when no patented device is ever actually sold, offered for sale, or used.

The Federal Circuit's erratum sheet fails to correct this fundamental flaw in its opinion and instead only further muddies the waters. While superficially avoiding the textually unsupportable "sale of a use" concept, the opinion continues to characterize a "drilling services [contract] which would use an infringing drill" as a "sale" of the contractor's own equipment, despite the fact that the contract itself—like others in the industry—transfers neither title nor possession of the rig to Statoil. *Amici* have located no precedent that might support the Federal Circuit's expansion of § 271(a) to cover services contracts such as the one at issue in this case.

A. Contracts like the one here do not involve a "sale" because they do not transfer either title or possession.

It is well settled that a "sale" occurs under § 271(a) of the Patent Act only where there is a transfer of title or possession of a patented invention, or an agreement to do so. *NTP, Inc.* v. *Research in Motion, Ltd.,* 418 F.3d 1282, 1319 (Fed. Cir. 2005) (a "sale" requires a "transfer of property or title for a price"); *Enercon GmbH* v. *ITC*, 151 F.3d 1376, 1382 (Fed. Cir. 1998) ("[T]he common, or usual meaning of the term sale includes those situations in which a contract has been made between two parties who agree to transfer title and possession of specific property for a price."). This Court has agreed with this basic principle for well over a century. See *Butler* v. *Thomson*, 92 U.S. 412, 415 (1875) ("The essential idea of a sale is that of an agreement or meeting of minds by which a title passes from one, and vests in another.").

Likewise, an offer of sale occurs only when a party offers to transfer title or possession of a patented invention. See *Transocean Offshore Deepwater Drilling,* *Inc.* v. *Stena Drilling Ltd.*, 659 F. Supp. 2d 790, 797 (S.D. Tex. 2009) ("[T]he alleged offer must contemplate a commercial transaction that rises to the level of a 'sale' of the patented invention that would infringe the patent.") (citing *Cybiotronics, Ltd.* v. *Golden Source Electronics Ltd.*, 130 F. Supp. 2d 1152, 1170 (C.D. Cal. 2001); *HollyAnne Corp.* v. *TFT, Inc.*, 199 F.3d 1304, 1309-10 (Fed. Cir. 1999)).

Under this precedent, "[t]he relationship between drilling contractor and oil operator is not a sale of equipment." *Transocean Offshore Deepwater Drilling, Inc.* v. *Stena Drilling Ltd.*, No. H-07-2797, 2008 WL 2065808, at *2 (S.D. Tex. May 13, 2008). The Federal Circuit's contrary holding flies in the face of this precedent and reflects neither the economic nor practical realities of the business relationship between exploration and production ("E&P") companies and service contractors.

B. The Federal Circuit's conclusion that the contract here is a "sale" is inconsistent with custom and practice and would have a broad impact throughout the industry, where such contracts are typical.

The Statoil Contract is no outlier. Drilling contractors and E&P companies enter into similar drilling services contracts on a regular basis, and such contracts will only proliferate as offshore drilling in the Gulf of Mexico continues to expand. The issue presented in Maersk's petition is therefore of exceptional importance to the drilling industry.

It is estimated that offshore oil reserves account for one-third of global oil production. U.S. DEP'T OF THE INTERIOR, BUREAU OF OCEAN ENERGY MANAGEMENT, OFFSHORE DRILLING INDUSTRY & RIG CON-

STRUCTION MARKET IN THE GULF OF MEXICO at 1 (2013) ("Offshore Drilling Report"). As offshore oil production continues to increase in importance, drilling rigs will "play a critical role in bringing supply to market." *Id*. Indeed, more than 120,000 wells have been drilled offshore since 1950, and approximately 3,500 offshore wells have been drilled each year over the past decade. *Id.* The offshore drilling industry is a multi-billion-dollar per year enterprise. *Id.*

Offshore oil wells are drilled around the world, wherever hydrocarbons are thought to exist. Drilling is particularly common in the Gulf of Mexico and is a critical component of this nation's ongoing efforts to obtain energy independence. See generally Outer Continental Shelf Lands Act, 43 U.S.C. §§ 1332(3), 1802 (establishing policies for "managing the oil and natural gas resources of the Outer Continental Shelf which are intended to result in expedited exploration and development * * * to achieve national economic and energy policy goals, assure national security, reduce dependence on foreign sources * * *"). There are fifty-seven oil drilling rigs operating in the Gulf of Mexico today, the highest number since before the April 2010 *Deepwater Horizon* disaster. See Luke Johnson, *Gulf of Mexico Rig Count Hits 4-Year High*, Upstream (July 3, 2013); see also Tyler Priest, *Should the U.S. Expand Offshore Oil Drilling?*, WALL ST. J. (Apr. 12, 2013) ("Today * * * offshore drilling is booming in the Gulf of Mexico, driven by the continued high price of oil, a series of massive new fields discovered with the help of improved exploration technology, and the growing difficulty of finding major new oil fields abroad.").

When an E&P company (such as Statoil) seeks to develop potential offshore deepwater oil reserves—

whether in the Gulf of Mexico or elsewhere—it contracts with a drilling services contractor (such as Maersk). Under such a contract, the contractor agrees to use its rig (here, the *Maersk Developer*) to provide drilling services on the E&P company's site in exchange for payment. The Statoil Contract is representative of the type of agreement commonly executed in the industry. These agreements are uniformly understood to be services contracts and have never been considered to constitute a sale or an offer for sale of the drilling rig itself.

Most drilling services contracts, including the Statoil Contract, are considered "dayrate" or "daywork" contracts, under which "the contractor receives a fixed amount per day for drilling the well with higher rates while the unit is operating and lower rates or a lump sum payment for periods of mobilization or when operations are interrupted or restricted * * *. The E&P company bears all of the ancillary costs of constructing the well and supporting drilling operations and carries the risk for the overall success of the operation." Offshore Drilling Report at 35; see also Booz Allen Hamilton, Report for the National Commission on the BP *Deepwater Horizon* Oil Spill and Offshore Drilling, *The Offshore Oil and Gas Industry in the Gulf of Mexico: Key Economic Characteristics of the Supply Chain* at 10 (Oct. 5, 2010) (in a daywork contract, "the drilling company provides its own rig and crew and receives a stated rate for each day of the contract"); Paul Bommer, *A Primer of Oilwell Drilling* at 38-40 (7th ed. 2008).

Under a dayrate contract, the drilling contractor retains ownership of the rig itself. The E&P company agrees "to pay the drilling contractor to drill wells on its site" and "furnishes the site, geology, and funds, while the drilling contractor is a third-party that supplies a service." *Stena*, 2008 WL 2065808, at *1. Throughout the duration of the contractual arrangement, the E&P company never obtains "an interest in or possession of the drilling contractor's equipment." *Id*.

Transocean's now infamous *Deepwater Horizon* contract with BP operated in exactly this way. As explained in the Report to the President on the *Deepwater Horizon* Oil Spill:

> BP *neither owned the rigs, nor operated them in the normal sense of the word*. Rather, the company's Houston-based engineering team designed the well and specified in detail how it was to be drilled. A team of specialized contractors would then do the physical work of actually drilling the well—a common industry practice. Transocean, a leading owner of deepwater drilling rigs, would provide BP with a rig and the crew to run it.

See Nat'l Comm'n on the BP Deepwater Horizon Oil Spill and Offshore Drilling, *Report to the President: Deep Water* at 92 (Jan. 2011) (emphasis added); see also Daywork Drilling Contract between Anadarko Petroleum Corp. and Transocean (Fed. Cir. App. at A011905 ¶ 501) ("This is a contract *for drilling services* and is not to be construed as a charter of a vessel by Operator. Nothing herein stated is to be construed as a bareboat charter, demise, or lease of the Drilling Unit or other equipment.") (emphasis added).

The fact that drilling rigs are owned by the drilling contractors—and not their E&P clients—is further reinforced by an examination of contractors' balance sheets. Rigs are considered to be among drilling contractors' most valued assets and are a critical component of a contractor's valuation. See Offshore Drilling Report at 41-49 ("Fleet value is calculated as the sum of the net asset values of all the rigs in a firm's fleet at the time of evaluation * * * . Fleet value and revenue are good predictors of the enterprise value of publicly traded firms."). Contractors and investors alike may be surprised to learn that according to the Federal Circuit, these critical assets were "sold" through a services contract.

As owners of valuable assets, contractors insure their drilling rigs for the term of the contract. "Customary practice in the offshore drilling industry provides that the contractor * * * generally assumes liability for rig and associated contractor equipment loss or damage. Conversely, the operator normally accepts liability for its own personnel and property and, in daywork contracts, generally assumes responsibility for well-related risks [e.g., pollution] and reservoir damage." Cary A. Moomjian, Jr., *Contractual Insurance and Risk Allocation in the Offshore Drilling Industry* at 20, DRILLING CONTRACTOR (Jan./Feb. 1999). "[T]he respective parties are expected to insure * * * their own assets against damage or loss and thus should be prepared to accept the associated risk in the context of a drilling contract." *Id.* at 21. Each party, therefore, "assumes responsibility for its own property and personnel." *Id.* at 20-21. The Statoil Contract operates this way, requiring Maersk to "procure and maintain" insurance "for the Drilling Unit owned or chartered by the Contractor and utilized in the performance of this Contract." Statoil Contract, Art. 16.1(f)(i). Statoil did not acquire ownership of the drilling unit and thus was not obliged to insure it.

As this discussion shows, the Federal Circuit's decision is a game changer in the offshore drilling industry. To hold that a typical daywork drilling services contract involves a "sale" is flatly contrary with industry understanding and could impact most—if not all—of the drilling services contracts currently in use. The Federal Circuit's decision thus has broad impact, making this Court's review all the more important.

C. The Federal Circuit's "erratum"—deleting "the use of" from the phrase "sale * * * of the use of an infringing rig"—will lead to confusion in services industries and needless preemptive lawsuits.

Faced with a petition for rehearing arguing, among other things, that § 271(a) does not include "sale of a use" liability, the Federal Circuit issued an erratum, deleting in one instance the words "the use of" from the sentence, "what was offered for sale and sold by Maersk to Statoil was the use of an infringing rig." Pet. App. 62, 70. As revised, the opinion states (at least in that one paragraph) that Maersk offered to sell and sold "an infringing rig."

The court left untouched, however, numerous other references to the sale "of a use." E.g., Pet. App. 17-18 ("Later, Maersk A/S negotiated with Statoil ASA (a Norwegian company) for Statoil's *use of the accused rig*. The companies came to an agreement *for use of the rig* * * * . The contract specified * * * that Statoil had *the right to use the rig* outside the Operating Area with certain limitations.") (emphasis added); Pet. App. 37 ("Transocean alleged that Maersk infringed the claims by entering into a contract * * * which granted Statoil *the right to use* an allegedly infringing drilling rig.") (emphasis added); Pet. App. 64 ("[Maersk] offered *drilling services which would use an infringing drill*, but expressly reserved the right to modify the drill to avoid infringement.") (emphasis added).

The post-erratum opinion is thus internally inconsistent, claiming that Maersk both sold "an infringing rig," Pet. App. 62, and "offered drilling services which would *use* an infringing drill," Pet. App. 64 (emphasis added). As a result, the opinion introduces dangerous ambiguity into the law that will create confusion in services industries. If only an offer to sell or sale of an infringing rig creates liability, then few, if any, drilling service contractors will be affected, because drilling service contractors contract only for the *use* of their rigs, maintaining title to them. See *supra* Part I. But if "sale of a use"—standard practice in the offshore oil drilling services industry (and likely others)—creates liability, then potentially every drilling service provider in a multi-billion-dollar industry could be liable for an unprecedented type of infringement, regardless of whether the infringing rig is ever built or delivered to the United States.

Such confusion—to be liable, or not to be liable?—will likely prompt wasteful preemptive litigation. Service contractors, like Maersk, Seadrill, Stena, and others may try to relieve this uncertainty by seeking declaratory judgments, much like branded drug manufacturers do under the Hatch-Waxman Act. There, however, Congress itself deliberately created the highly unusual "artificial act of infringement." See 35 U.S.C. § 271(e)(2)(A); *Caraco Pharm. Labs., Ltd.* v. *Novo Nordisk A/S*, 132 S. Ct. 1670, 1677 (2012) ("The patent statute treats" a mere paper "filing as itself an act of infringement, which gives the brand an immediate right to sue."). Not so here, where it was the Federal Circuit that took up the legislative drafting pen. Only Congress is authorized and competent to create new acts of patent infringement—particularly artificial ones. E.g., *Microsoft Corp.* v. *AT&T Corp.*, 550 U.S. 437, 458-59 (2007) ("If the patent law is to be adjusted * * * the alteration should be made after focused legislative consideration, and not by the Judiciary forecasting Congress' likely disposition."); *Deepsouth Packing Co., Inc.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1972) ("[T]he sign of how far Congress has chosen to go can come only from Congress."). What is more, an artificial act of infringement would be unnecessary here, where contract law and the economics in this industry already robustly encourage design-arounds—like the casing sleeve modification made to the *Maersk Developer* (as described below in Part II.A).

In the end, then, the Federal Circuit's erratum—changing one sentence in its opinion—ignores not only the rest of that same opinion but, perhaps more importantly, industry practice and the facts of this case. Companies operating in this industry will not find it so easy to ignore those facts. Maersk sold the use of its rig, not the rig itself, in accordance with standard industry practice. Maersk still owns the *Maersk Developer* and at no point ever transferred ownership to Statoil. The erratum serves only to confuse the law, injecting uncertainty meriting this Court's resolution.

II. *Transocean* Frustrates Common Industry Practice of, and Incentive to Innovate by, Modifying Offshore Drilling Rigs Specifically to Avoid Infringement.

For good reason, commentators have agreed that *Transocean* is "troubling." See Melissa Y. Lerner, *You Can Run, but You Can't Hide: The Expansion of Direct Infringement and the Evisceration of Preventative Contracting in* Maersk, 93 J. PAT. & TRADEMARK OFF. SOC'Y 207, 235 (2011) (hereinafter Lerner); see also Timothy R. Holbrook, *Territoriality and Tangibility After* Transocean, 61 EMORY L.J. 1087, 1121 (2012) (hereinafter Holbrook). The far-reaching consequences of the Federal Circuit's decision further demonstrate that this Court's review is warranted.

Besides the fact that the Statoil Contract involves neither a sale nor offer for sale of a patented invention under 35 U.S.C. § 271(a), the Federal Circuit's decision is also troubling because it holds Maersk liable for infringement—for the full $15 million upfront licensing fee—even though Maersk never agreed to use, and in fact did not use, an infringing rig within U.S. territory. See Pet. App. 61-67. If left standing, the Federal Circuit's opinion will broadly impact the offshore drilling industry, where services contracts commonly call for rigs to be modified to comply with national patent rights. By violating the presumption against extraterritoriality, moreover, *Transocean* removes any incentive to design around patent rights—and thus chills the innovation often inherent in such modifications. Finally, *Transocean*'s expansion of infringement liability for instances of hypothetical or "paper" infringement represents a stark departure from the patent law in a way that exposes an entire industry to liability for going about business as usual.

A. Oil drilling services contracts often permit modification of drilling rigs to respect varying national patent laws—and thus encourage innovation.

As Maersk details in its Petition, the Statoil Contract specifically contemplates modifications or alterations to the *Maersk Developer* to avoid infringement in the United States and anywhere else that Transocean might hold valid patents. In particular, the Statoil Contract provides:

> [Statoil] agrees that [Maersk] may make such alterations in [Maersk's] discretion in view of court or administrative determinations throughout the World that favour the validity or infringement arguments of Transocean as relate to the Patents. The cost of such alterations shall be borne solely by [Maersk] * * * .

Art. 15.12 (Pet. App. 131). Maersk followed through on its promised modification, installing a casing sleeve while the drilling rig was still under construction in Singapore so as to avoid infringing Transocean's patents. This modification, the Federal Circuit decided, was not enough to avoid infringement liability under § 271(a).

For this reason too, the issue raised in Maersk's petition cannot be disregarded as one confined to the facts of this particular case. Modification provisions are commonplace in the drilling services industry. Such clauses, moreover, are laudatory: They make sense in light of the global nature of the offshore oil drilling industry, the territoriality of patent laws, and the long-term nature of services contracts.

This case provides an apt illustration of the patchwork of national patent laws that drilling service contractors often encounter in their worldwide operations. Although Transocean's patents have been upheld in the United States, they have been invalidated in other countries. Pet. at 6 n.1. The modification provision would, in theory, allow Maersk to use the unmodified *Maersk Developer* in these other jurisdictions—as it has the legal right to do—while at the same time ensuring that Transocean's U.S. patents are respected if and when the rig enters this country.

While purportedly "sympathetic" to Maersk's position, the Federal Circuit ultimately affirmed the jury's $15 million damages award for direct infringement. Pet App. 64. The Federal Circuit's decision now leaves unclear what steps, if any, drilling contractors can undertake to protect themselves from infringement claims even while operating outside the traditional reach of U.S. patent law.[2]

[2] The "reach" of U.S. patent law is particularly complex in the Gulf of Mexico. The Patent Act defines the United States as "the United States of America, its territories and possessions." 35 U.S.C. § 100(c). This definition includes both the "territorial sea," 12 miles from the coast, and the "contiguous zone," which extends another 24 miles from the territorial sea, but does not include the United States' Exclusive Economic Zone in the Gulf of Mexico, which extends 200 miles from the territorial waters. See *WesternGeco L.L.C.* v. *ION Geophysical Corp.*, 776 F. Supp. 2d 342, 366 (S.D. Tex. 2011); see also *WesternGeco L.L.C.* v. *ION Geophysical Corp.*, 876 F. Supp. 2d 857, 907 (S.D. Tex. 2012).

1. *Transocean* chills innovation by eliminating any incentive to design around a patent.

The Federal Circuit's conclusion that modification of patented inventions cannot protect against infringement claims significantly undercuts the incentive for drilling services companies to "design around" a competitor's products. See Lerner, at 232 ("[After *Transocean*] [c]ompanies can no longer use contractual terms reserving the right to alter the product for delivery in order to avoid infringement liability.").

The "design-around" incentive is an important and well-established benefit of the patent system and helps to bring a "steady flow of innovations to the marketplace." *State Indus., Inc.* v. *A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed. Cir. 1985); *TiVo Inc.* v. *EchoStar Corp.*, 646 F.3d 869, 883 (Fed. Cir. 2011) ("[L]egitimate design-around efforts should always be encouraged as a path to spur further innovation."). Indeed, a "patent does not create a monopoly on any pre-existing knowledge in a given field. Rather, the public is allowed to design around a patent * * *. Patents are intended to provide public notice of inventions, at least in part so as to provide an understanding of what alterations, innovations, and inventive space remain in the public domain." Lerner, at 232-33; see also Richard Li-Dar Wang, *Biomedical Upstream Patenting and Scientific Research: The Case for Compulsory Licenses Bearing Reach-Through Royalties*, 10 YALE J.L. & TECH. 251, 325 (2009) ("Providing incentive to invent or to design around earlier inventions is one of the main justifications for the patent system.").

Commentators have recognized that "[a]n overly broad definition of offer to sell infringement could have a chilling effect on competitors, particularly attempts to design around the patent," and have warned that "the risk of chilling appropriate and beneficial behavior (i.e., design-arounds) counsels against an expansive interpretation of what constitutes an offer to sell." Timothy R. Holbrook, *Liability for the "Threat of Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement*, 43 SANTA CLARA L. REV. 751, 779-80 (2002).

The Federal Circuit's decision disregards this warning and imposes just such a chilling effect, rendering modification efforts pointless as a means to protect against infringement. If the decision is allowed to stand, offshore drilling companies will undoubtedly have less incentive to design around patents and thereby develop innovative drilling equipment and procedures that may be both safer and more efficient than existing drilling equipment and procedures.[3]

[3] It is no answer to this problem to suggest that rather than chill innovation, *Transocean* will instead cause drilling services contractors to innovate earlier, so to speak, by offering a modified rig at the time of contracting, to hedge against the possibility that the rig will enter the U.S. Not only is that an incredibly expensive undertaking—one that should be unnecessary when only non-infringing rigs actually ever do enter the U.S. under current industry practice—but it would give Transocean's patent rights global reach with absurd results. For example, a drilling services contractor would need to offer a modified rig to an E&P client for use in Norway (just in case)—even though Transocean's patents have been invalidated there.

2. By violating the presumption against extraterritoriality, the court's decision confounds industry practice of respecting national patent laws through design-around modifications.

Under the Federal Circuit's decision, modification provisions such as that included in Article 15.12 of the Statoil Contract will no longer protect companies from infringement claims. As a practical matter, a drilling services contractor that even considers bringing a drilling rig into U.S. waters will be forced to comply with U.S. patent law regardless of where the rig is located—even if the rig is located in a country which has invalidated the patents at issue.

When this controversial holding is combined with the Federal Circuit's oft-criticized conclusion that a contract negotiated and executed abroad constitutes conduct "within the United States," there is seemingly no limit to *Transocean*'s extraterritorial reach. See, e.g., Holbrook, at 1115 ("*Transocean* offers a striking expansion of potential infringement liability because of its broad holdings regarding territoriality and tangibility."); Lerner, at 231 ("The *Maersk* holding dramatically expands the extraterritorial scope and applicability of the Patent Act's direct infringement provisions * * * . [The court's] ultimate statement transcended the physical borders of the United States.").

The Federal Circuit's unprecedented expansion of U.S. patent law is in conflict with the territorial nature of patent rights and with the deeply rooted presumption against the extraterritorial application of American law. See, e.g., *Microsoft Corp.*, 550 U.S. at

454-55 ("The presumption that United States law governs domestically but does not rule the world applies with particular force in patent law.") (citation omitted); *Dowagiac Mfg. Co.* v. *Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915) ("The right conferred by a patent under our law is confined to the United States and its territories."); *Brown* v. *Duchesne*, 60 U.S. 183, 195 (1856) (U.S. patent laws "were not intended to operate beyond the limits of the United States"). Any expansion of U.S. patent law beyond this nation's borders must be based on a "clear and certain signal" from Congress, not the Federal Circuit. See *Deepsouth Packing Co.*, 406 U.S. at 531; see also *Parker* v. *Flook*, 437 U.S. 584, 596 (1978).

Nor is there any need for the Federal Circuit's extraterritorial expansion of U.S. patent law in this case. Transocean would still have been able to protect its patent and bring an infringement claim under § 271(a) if Maersk had brought the unmodified drilling rig into U.S. waters and commenced drilling operations. See *NTP, Inc.*, 418 F.3d at 1317 ("Use" infringement occurs when the patented invention is "put into action or service"). The Federal Circuit's extraterritorial expansion of patent law purports to close a loophole that does not exist.

B. *Transocean* departs from "the norm in patent law" by opening the door to liability for hypothetical or "paper" infringement.

Finally, the Federal Circuit's decision expands infringement liability to cover instances of hypothetical or "paper" infringement, even though this is not "the norm in patent law." Holbrook at 1091. Under the panel's interpretation of § 271, infringement occurs even when: (1) there is no more than a services contract between two parties and thus no change in title or control or actual use of the patented device; and (2) the contract contemplates modification to avoid infringement and such a modification is made. And despite those facts, the resulting damages are the same as if an act of infringement had actually taken place.

This too greatly expands the scope of direct infringement liability—and creates a perverse incentive to litigate. In the offshore drilling industry, long-term, large-scale service contracts are often executed years before any rig is actually constructed or deployed for drilling operations. Under the Federal Circuit's decision, drilling contractors may be held liable merely for entering into such a contract. Consequently, national patent holders are apt to keep a weather eye on the horizon for contracts entered into (or bid for) abroad that arguably implicate their patents. At that point, they will sue; under *Transocean,* damages may already be recoverable. Such a system is antithetical to national patent regimes and hamstrings global services industries.

CONCLUSION

For the foregoing reasons, the Petition should be granted.

Respectfully submitted.

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