Over ©s: Dilemmas in Establishing Jurisdiction Over Foreign Sovereigns in US Courts for Intellectual Property Infringement

ABSTRACT

When a foreign state infringes a US-held intellectual property right abroad, it is unclear to what extent the Foreign Sovereign Immunities Act of 1976 (FSIA) bars suit in US courts. The FSIA’s already complex commercial activity exception, which governs such actions, was further obfuscated by the Supreme Court’s decision in Republic of Argentina v. Weltover, which held that “substantiality” and “foreseeability” could not be used to determine whether a foreign sovereign’s conduct had a “direct effect” in the United States, thus warranting jurisdiction in a US court. In the context of IP infringement, where harms may be abstract and unquantifiable, this restriction left courts with little guidance for determining whether the FSIA permits jurisdiction over such claims. This Note analyzes the contradictory reasoning of two courts in their application of the Weltover “direct effect” test to IP infringement claims, noting that where applied broadly the test permits an almost per se grant of jurisdiction over a foreign state, but where construed narrowly, the Weltover test seems to preclude suits against foreign sovereigns for IP infringement altogether. This Note proposes a four-step test for assessing intellectual property violations under the FSIA that seeks to enforce the FSIA’s strong presumption of immunity while also accounting for the unique harms that result from IP infringement.

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I. INTRODUCTION

The Chinese government steals a US company’s software program and makes it available for download on the Internet. The Iranian government copies the design of a US helicopter and manufactures a look-alike that lacks the original model’s safety features. The same acts, if committed by individuals or private entities, would likely form the basis of clear-cut IP infringement claims under US domestic law. However, the principle of foreign sovereign immunity, codified in the Foreign Sovereign Immunities Act (FSIA or “Act”) of 1976, has complicated the adjudication of IP claims in US courts when the infringing party is a foreign state. The FSIA, which governs all claims against foreign states in US courts, rests on a simple premise: it creates a presumption of immunity for foreign sovereigns from suit in US courts. Yet the statute does not guarantee immunity unconditionally, and its presumption of immunity is rebuttable in the form of several enumerated exceptions. Inherent in the Act’s structure, then, is a tension between its sweeping conferment of immunity on the one hand, and its strategic curtailment of that grant on the other.

The FSIA’s most important restraint on the presumption of foreign sovereign immunity is the commercial activity exception. This exception prevents a foreign state from seeking immunity in US courts when it behaves in the manner of a private actor in the marketplace, such as a buyer or seller of goods, rather than in a sovereign capacity. The limit the commercial activity exception

4. Weltover, 504 U.S. at 611.
places on the FSIA’s presumption of immunity has been significantly diminished, however, since the 1992 case Republic of Argentina v. Weltover. In that case, the Supreme Court announced its ambiguous “immediate consequences” test for determining what it means for a foreign state’s commercial activity abroad to have a “direct effect” in the United States, thus rendering the foreign sovereign subject to jurisdiction in a US court. In general terms, the immediate consequences test requires a foreign state’s actions abroad to have a direct effect or “immediate consequence” in the United States, uninfluenced by intervening acts, in order for the foreign state to be subject to suit under the FSIA. The test has proved to be vague and inadequate—as is particularly evident in intellectual property cases, where the Weltover test is either too restrictive or too permissive, but never just right. When applied narrowly, the Weltover test has permitted foreign governments to profit from the violation of an intellectual property right by making it seemingly impossible for US IP-rights holders to obtain jurisdiction over an infringing sovereign. Conversely, at least one court has construed the test as providing an almost per se grant of jurisdiction over a foreign state in IP cases—a reading made possible by Weltover’s elimination of the safeguards courts had previously used to maintain the FSIA’s strong presumption of sovereign immunity.

This Note details the confused state of the law regarding the “direct effect” provision of the FSIA’s commercial activity exception as it applies to intellectual property cases. Part II gives an overview of the evolution of foreign sovereign immunity in the United States, noting its origins in the absolute theory of immunity and its transition to the more plaintiff-friendly restrictive approach. Part III introduces the Foreign Sovereign Immunities Act of 1976—a codification of the restrictive theory of immunity—and focuses on the Act’s important, but ambiguous, commercial activity exception and its “direct effect” requirement. This Section discusses various interpretations of the “direct effect” provision, both before and after the Supreme Court addressed the issue in Weltover. Part IV highlights the muddled state of the law regarding the application of the direct effect provision to intellectual property, focusing on the conflicting holdings of two post-Weltover IP cases. Part V delves further into the reasoning employed by both cases, noting how each case furthers or defeats the purposes of the FSIA, the commercial activity exception, and domestic US intellectual property law. Part VI proposes a revised four-step test for dealing with intellectual property violations under the FSIA that

5. See id. at 618.
will help reinvigorate the underlying purpose of the commercial activity exception by taking into account the unique harms relevant to IP infringement cases.

II. FROM ABSOLUTE IMMUNITY TO RESTRICTIVE IMMUNITY: EVOLVING THEORIES OF FOREIGN SOVEREIGN IMMUNITY IN US COURTS

Intellectual property claims against foreign sovereigns, and tests used to administer them, are best understood in the context of the particular theory of sovereign immunity that Congress intended to codify in the Foreign Sovereign Immunities Act. This, in turn, calls for an understanding of the evolution of foreign sovereign immunity in the United States from an absolute to a rebuttable presumption.

A. The Absolute Theory of Sovereign Immunity

Exceptions to the doctrine of foreign sovereign immunity, such as the FSIA’s commercial activity exception, are a relatively recent feature of US law. Historically, US courts operated under the theory of absolute immunity, which grants a foreign sovereign unqualified freedom from suit in the courts of other foreign states. First adopted by the Supreme Court in the 1812 case The Schooner Exchange v. McFaddon, this principle of blanket immunity was designed to facilitate economic and political partnerships between nations by ensuring that government officials would be protected when engaging in business abroad. The theory of absolute immunity likely has its roots in the long-standing maxim par in parem non habet imperium, which holds that “no State can claim jurisdiction over another.” As Justice Marshall articulated in The Schooner Exchange, comity impels nations to treat each other as both equal and independent sovereigns, and to waive territorial jurisdiction over the acts of all other states.

8. 11 U.S. 116, 138–39 (1812); see also Froestad, supra note 7.
10. See Schooner Exch., 11 U.S. at 137 (“This perfect equality and absolute independence of sovereigns, and this common interest impelling them to mutual intercourse . . . have given rise to a class of cases in which every sovereign is understood to waive the exercise of a part of that complete exclusive territorial jurisdiction, which has been stated to be the attribute of every nation.”).
B. The Restrictive Theory of Sovereign Immunity

After reigning for more than a century as the predominant theory of sovereign immunity in the United States, the strict theory of absolute immunity gradually fell out of favor in US courts.11 As the United States increasingly engaged in commercial activity with foreign governments, the availability of legal recourse in that arena became more desirable.12 Shortly after World War II, the absolute theory of immunity gave way to the more progressive theory of restrictive immunity, officially adopted by the US State Department in its 1952 Tate Letter.13 Under the restrictive theory of immunity, a foreign sovereign is not immune from suit in the courts of another state when it acts as a private actor, rather than in a sovereign capacity.14 The rationale for the theory is that "[w]hen a foreign state enters the marketplace or when it acts as a private party, there is no justification in modern international law for allowing the foreign state to avoid the economic costs of the agreements it may breach or the accidents it may cause."15 Thus, with the rise of globalization and enhanced commercial activity between nations, the age-old principle of unqualified sovereign immunity was eroded by a new theory—one that diminished a foreign sovereign’s right to benefit from immunity in US courts when acting in the private sphere.

The transition from the absolute to the restrictive theory of immunity was not necessarily a smooth one. In addition to announcing the State Department’s official adoption of the theory of restrictive immunity, the Tate Letter also declared that the State Department itself, rather than the judiciary, would decide all matters

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11. See Frostestad, supra note 7, at 522–23.
12. See id.
13. See Letter from Jack B. Tate, Acting Legal Advisor to the Sec'y of State, to Philip B. Perlman, Acting Atty Gen., 26 Dep't of State Bull. 969, 984–85 (1952) [hereinafter Tate Letter] (announcing the US government's adoption of the restrictive theory of sovereign immunity).
14. See, e.g., Jurisdiction of U.S. Courts in Suits Against Foreign States: Hearings Before the Subcomm. on Admin. Law and Governmental Relations of the H. Comm. on the Judiciary, 94th Cong. 25, 30 (1976) [hereinafter Hearings] (statement of Bruno A. Ristau, Chief, Foreign Litig. Section, Civil Div., Dep't of Justico) (“Under [the restrictive] theory, immunity is granted only with respect to causes of action arising out of a foreign state's governmental acts—called activities jure imperii—and not with respect to those arising out of its commercial or proprietary acts, or other acts which are governed by private law, so-called activities jure gestionis”); Tate Letter, supra note 13, at 985 (noting that “the [State] Department feels that the widespread and increasing practice on the part of governments of engaging in commercial activities makes necessary a practice which will enable persons doing business with them to have their rights determined in the courts”).
15. Hearings, supra note 14, at 27.
relating to sovereign immunity. The authoritative role of the executive branch in determining when to grant immunity to a foreign state proved to be problematic, however. Instead of faithfully adhering to the restrictive theory of immunity, the State Department often based its decisions on political, as opposed to judicial, considerations. Eventually, the inconsistency and bias in the State Department’s application of sovereign immunity led to the passage of the Foreign Sovereign Immunities Act in 1976.

III. THE FOREIGN SOVEREIGN IMMUNITIES ACT: PRESUMPTION OF AND EXCEPTIONS TO FOREIGN SOVEREIGN IMMUNITY

The FSIA, which provides the sole means of establishing jurisdiction over claims against a foreign sovereign in the United States, is a legislative codification of the restrictive theory of sovereign immunity. Under the Act, foreign sovereigns and their political subdivisions, agencies, and instrumentalities are afforded presumptive immunity from suit in US courts unless one of a few exceptions to immunity applies. The burden of overcoming the Act’s presumption of immunity initially falls on the plaintiff, who must produce evidence that the foreign sovereign’s actions fall within one of several exceptions detailed in Sections 1605 to 1607. If successful,

16. Tate Letter, supra note 13 at 984–85 (asserting that the State Department itself would consider requests for sovereign immunity made by foreign governments, acknowledging that even though “[i]t is realized that a shift in policy by the executive cannot control the courts . . . it is felt that the courts are less likely to allow a plea of sovereign immunity where the executive has declined to do so”).

17. See, e.g., Frostestad, supra note 7, at 523–24.

18. See, e.g., David E. Gohlke, Clearing the Air or Muddying the Waters? Defining “A Direct Effect in the United States” Under the Foreign Sovereign Immunities Act After Republic of Argentina v. Weltover, 18 Hous. J. Int’l L. 261, 266 n. 31, 33 (1995) (noting that prior to the enactment of the FSIA, courts automatically granted immunity to foreign states when requested by the State Department “without making separate determinations of law or fact,” and that “in certain cases the commercial interests of a private litigant [yielded] to a political decision that immunity in a particular case, although unfair to the private person who dealt with a foreign government entity as a commercial actor, was necessary in the interest of . . . foreign relations”).

19. See, e.g., id.


21. See, e.g., Frostestad, supra note 7, at 524.


23. See Bell Helicopter Textron, Inc. v. Islamic Republic of Iran, 734 F.3d 1175, 1183 (D.C. Cir. 2013) (citing FG Hemisphere Assocs. v. Democratic Republic of Congo, 447 F.3d 835,
the sovereign then bears the burden of persuasion to demonstrate that
the exception does not apply and immunity should be upheld.24

A. Exceptions to Sovereign Immunity Under the FSIA: Claims Based
Upon Commercial Activity

As a codification of the restrictive theory of immunity, the
FSIA contains a number of exceptions to its general presumption of
immunity—the most important of which is the commercial activity
exception, enumerated in Section 1605(a)(2) of the Act.25 This
exception stipulates that US courts shall have jurisdiction to
adjudicate claims against a foreign sovereign that are based upon the
sovereign’s commercial activity, provided that the activity is
sufficiently linked to the United States.26 Section 1605(a)(2) details
three such links to the United States;27 (1) commercial activity
“carried on” in the United States, (2) commercial activity “carried on”
outside the United States but “in connection with”28 an act performed
in the United States, and (3) an act both performed outside the United
States and in connection with a commercial activity outside the
United States, so long as the act causes a “direct effect” in the United
States.29

The FSIA defines “commercial activity” as either “a regular
course of commercial conduct” or “a particular commercial transaction
or act.”30 Thus, even a single commercial act may qualify for analysis

842 (D.C. Cir. 2006) and Price v. Socialist People’s Libyan Arab Jamahiriya, 294 F.3d 82, 87
(D.C. Cir. 2002).
24. See Bell Helicopter, 734 F.3d at 1183 (citing FG Hemisphere, 447 F.3d at 842).
25. Weltower, 504 U.S. at 611.
27. Id.
28. In determining what it means for an act to be performed “in connection with” a
commercial activity, a court must make two inquiries. See Adler v. Federal Republic of Nigeria,
107 F.3d 720, 724 (9th Cir. 1997). First, the court must decide whether the foreign state engaged
in a commercial activity. See, e.g. id. Second, the court must examine whether the acts at issue
were performed in connection with that commercial activity. See id. In order to satisfy this
requirement, there must be a “causal link” or “substantive connection” between the foreign
state’s act and the commercial activity. Id. at 726 (quoting Fed. Ins. Co. v. Richard I. Rubin &
Co., 12 F.3d 1270, 1289–91 (3rd Cir. 1993)).
29. 28 U.S.C. §1605(a) (“A foreign state shall not be immune from the jurisdiction of
courts of the United States or of the States in any case . . . in which the action is based upon a
commercial activity carried on in the United States by the foreign state; or upon an act
performed in the United States in connection with a commercial activity of the foreign state
elsewhere; or upon an act outside the territory of the United States in connection with a
commercial activity of the foreign state elsewhere and that act causes a direct effect in the
United States.”).
under the commercial activity exception. The Act also specifies that in determining whether an activity is commercial in character, courts should analyze the nature of the activity, rather than its purpose. The distinction between the nature and the purpose of an activity may be difficult to parse. In Weltover, the Supreme Court distinguished the two by reasoning that the purpose of an activity refers to “the reason why the foreign state engages in the activity,” while the nature of an activity, the relevant inquiry, refers to “the outward form of the conduct that the foreign state performs or agrees to perform.” In other words, the commercial activity inquiry concerns behavior, rather than motivation. Thus, the question is not whether the foreign sovereign is motivated by profit or by “uniquely sovereign objectives.” Rather, the relevant analysis is whether the actions of the foreign state, regardless of their motivation, are of the kind performed by a private entity participating in “trade and traffic or commerce.”

In order to gain immunity under the FSIA, the acts performed by a foreign state must be sovereign rather than private in nature, because under the restrictive theory of foreign sovereign immunity, only state sovereign acts are entitled to immunity. By contrast, acts of a foreign state that are comparable to those of a private person or corporation engaging in marketplace activity are not afforded immunity in US state or federal courts. Thus, the commercial activity exception analyzes the nature of the acts performed by a foreign sovereign, as opposed to their purpose: “an [activity] is commercial unless it is one that only a sovereign state could perform.” This is true even if the sovereign performed the act in light of a governmental purpose.

By way of illustration, the Supreme Court in Weltover reasoned that the regulation of a State’s foreign currency exchange is a

31. See Weltover, 504 U.S. at 612.
32. 28 U.S.C. §1603(d) (“The commercial character of an activity shall be determined by reference to the nature of the course of conduct or particular transaction or act, rather than by reference to its purpose.”).
33. See Weltover, 504 U.S. at 617.
34. See id.
36. See Weltover, 504 U.S. at 614.
37. See id. (citing BLACK’S LAW DICTIONARY 270 (6th ed. 1990)).
38. See id.
39. See id. at 613.
40. See id. at 614.
41. Park v. Shin, 313 F.3d 1138, 1145 (9th Cir. 2002).
42. See id.
distinctly sovereign activity, as only a foreign sovereign has the power to exercise such control over commerce.\textsuperscript{43} Alternatively, a contract to buy military supplies, such as combat boots and bullets, is a commercial activity because contracting for the sale of goods is a type of activity that a private company could engage in.\textsuperscript{44}

While it can be difficult to parse the difference between commercial and sovereign acts under the commercial activity exception, the real source of debate concerns the meaning of “direct effect” within the third prong of the exception.

1. Interpreting the Direct Effect Provision of the FSIA’s Commercial Activity Exception

The third clause of the FSIA’s commercial activity exception, which governs the claims against foreign sovereigns that are most geographically attenuated from the United States,\textsuperscript{45} can be broken into three interconnected parts.\textsuperscript{46} The first part of the clause specifies that the plaintiff’s cause of action must be based upon an act that transpired outside the United States. Second, that act must have occurred in connection with a commercial activity performed by the foreign state outside the United States. Finally, the foreign state’s act must have caused a “direct effect” in the United States.\textsuperscript{47} Importantly, then, a foreign state that engages in a commercial activity may nevertheless remain immune from suit in US courts under the FSIA if its acts did not give rise to a direct effect that occurred in the United States.\textsuperscript{48} Courts’ interpretations of this final “direct effect” provision have varied significantly, both before and after the Supreme Court weighed in on the issue in \textit{Weltover}.

\textbf{a. The “Substantial and Foreseeable” Test: A Pre-Weltover Interpretation of the FSIA’s Direct Effect Provision}

In \textit{Weltover}, the Supreme Court specifically addressed the definition of “direct effect” under the FSIA’s commercial activity exception and rejected the approach of the many lower courts that had

\begin{itemize}
\item \textsuperscript{43} See \textit{Weltover}, 504 U.S. at 614.
\item \textsuperscript{44} See id.
\item \textsuperscript{45} See generally 28 U.S.C. §1605(a)(2) (permitting jurisdiction to adjudicate a claim against a foreign sovereign that is based upon “an act outside the territory of the United States in connection with a commercial activity of the foreign state elsewhere and that act causes a direct effect in the United States”).
\item \textsuperscript{46} See \textit{Adler v. Federal Republic of Nigeria}, 107 F.3d 720, 724 (9th Cir. 1997).
\item \textsuperscript{47} See id.
\item \textsuperscript{48} See \textit{Meadows v. Dominican Republic}, 817 F.2d 517, 523 (9th Cir. 1987).
\end{itemize}
required “substantiality” or “foreseeability.” Prior to Weltover, many courts followed the guidance of the House Report accompanying the FSIA, which states that the third clause of the FSIA’s commercial activity section should be read in conjunction with the principles detailed in Section 18 of the Second Restatement of Foreign Relations Law of the United States. The Restatement, in turn, stipulates that US laws should not be applied extraterritorially, except in regard to acts that have a “substantial effect” in the United States that is a “direct and foreseeable result” of the conduct. This framework parallels the minimum contacts and purposeful availment requirements of a personal jurisdiction analysis. Indeed, a New York district court, citing the Act’s House Report, reasoned that the true purpose of the “direct effect” provision was to incorporate principles of personal jurisdiction:

The “direct effect” requirement . . . is apparently intended, in part, to ensure that there is “some connection between the law suit and the United States” thereby assuring that the exercise of the court’s personal jurisdiction over the foreign state under section 1330(b) comports with the minimum contacts set forth in International Shoe Co. v. Washington and McGee v. International Life Insurance Co. Therefore, the “direct effect” exception . . . requires not only that there be an immediate causal effect within the United States, but also that there be sufficient minimum contacts between the matter in controversy and the United States to support the court’s exercise of in personam jurisdiction.52

The Weltover Court rejected the “substantial and foreseeable” test derived from the Second Restatement, however, noting that Section 18 of the Second Restatement dealt with jurisdiction to legislate rather than jurisdiction to adjudicate, rendering it inapplicable to the Foreign Sovereign Immunities Act. Therefore,

49. See Weltover, 504 U.S. at 618.
50. See id. at 617–18; H.R. REP. NO. 94-1487 (1976), as reprinted in 1976 U.S.C.C.A.N. 6604, 6618 (addressing the meaning of “direct effect” under the FSIA: “The third situation—an act outside the territory of the United States in connection with a commercial activity elsewhere and that act causes a direct effect in the United States’—would embrace commercial conduct abroad having direct effects within the United States which would subject such conduct to the exercise of jurisdiction by the United States consistent with principles set forth in section 18, Restatement of the Law, Second, Foreign Relations Law of the United States (1965)”; see also Am. W. Airlines, Inc. v. GPA Grp., Ltd., 877 F.2d 793, 798 (9th Cir. 1989).
51. Restatement (Second) Foreign Relations Law of the United States § 18 (Am. Law Inst. 1965) (“A state has jurisdiction to prescribe a rule of law attaching legal consequences to conduct that occurs outside its territory and causes an effect within its territory, if . . . (i) the conduct and its effect are constituent elements of activity to which the rule applies; (ii) the effect within the territory is substantial; (iii) it occurs as a direct and foreseeable result of the conduct outside the territory; and (iv) the rule is not inconsistent with the principles of justice generally recognized by states that have reasonably developed legal systems.”) (emphasis added).
53. See Weltover, 504 U.S. at 617–18 (reiterating that the House Report’s reliance on Section 18 of the Restatement of the Law, Second, Foreign Relations Law of the United States
while acknowledging that the principle of *de minimis non curat lex* prohibits the finding of jurisdiction based on “purely trivial effects” in the United States, the Court disagreed with the suggestion that Section 1605(a)(2) sets forth an implicit requirement of “substantiality” or “foreseeability.”

*b. Immediate Consequences: The Supreme Court’s “Direct Effect” Test Under Republic of Argentina v. Weltover*

Rather than implementing the “substantial and foreseeable” test of direct effect employed by the majority of lower courts at the time, the Supreme Court in *Weltover* adopted the reasoning of the Second Circuit, stating that an effect is direct if it “follows as an immediate consequence of the defendant’s . . . activity.” This simply means that in order for an effect to be direct under the commercial activity exception, it may not be interrupted by an intervening act. Additionally, a direct effect under *Weltover* requires an act abroad to have some additional consequence that reaches the United States beyond a bare claim of breach of contract or tort. So, for example, the *Weltover* Court held that Argentina’s failure to repay investors’ bonds had a direct effect in the United States because that failure to pay, in addition to constituting a breach of contract, also meant that money promised to be delivered to the United States was not forthcoming. Highlighting the direct effect prong’s attenuated nexus to the United States, the *Weltover* holding indicates that it is possible for the “direct effect” requirement to be satisfied even if the parties consist entirely of foreign entities with no other connections to the United States.

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54. See *Weltover*, 504 U.S. at 618. The FSIA automatically confers personal jurisdiction over a foreign state when there is subject matter jurisdiction and adequate service, without requiring an analysis of minimum contacts or purposeful availment. See 28 U.S.C. § 1330(b) (2012) (“[P]ersonal jurisdiction over a foreign state shall exist as to every claim for relief over which the district courts have jurisdiction under subsection (a) where service has been made under section 1608 of this title.”).

55. *Weltover*, 504 U.S. at 618 (citing *Weltover*, Inc. v. Republic of Argentina, 941 F.2d 145, 152 (2d Cir. 1991)); see also United States v. LSL Biotechs., 379 F.3d 672, 680 (9th Cir. 2004) (acknowledging the Supreme Court’s definition of direct effects in *Weltover*).

56. See Princz v. Federal Republic of Germany, 26 F.3d 1166, 1172 (D.C. Cir. 1994) (explaining that a direct effect “has no intervening element, but, rather, flows in a straight line without deviation or interruption”) (citations omitted).

57. See *Weltover*, 504 U.S. at 619.

c. Post-Weltover Interpretations of Direct Effect: The “Legally Significant Act” Test

The Supreme Court’s immediate consequences test for determining what constitutes a direct effect under the FSIA’s commercial activity exception rejected the statute’s legislative history, overturned the vast majority of case law that preceded it, and has proven controversial and difficult to apply. Rather than providing a more detailed standard or a list of factors to help determine the meaning of “direct effect,” the Court in Weltover merely clarified that “direct” means immediate and that “effect” refers to a consequence. In an attempt to clarify the still ambiguous test, some courts of appeal have specified that a “legally significant act” must have occurred in the United States in order to fulfill the direct effect requirement after Weltover. This approach has been adopted by the Ninth and Tenth Circuits. The Fifth and Sixth Circuits, however, rejected this test, reasoning that the Supreme Court in Weltover specifically declined to read any implicit requirements into the statute. In addition to a split of authority regarding the legally significant act test, courts have also differed in their approaches to more specific issues arising under the direct effect test. This is particularly notable in the area of intellectual property, where courts have varied drastically in their application of the Weltover immediate consequences test.

IV. CONFLICTING INTERPRETATIONS OF THE COMMERCIAL ACTIVITY EXCEPTION’S DIRECT EFFECT PROVISION IN INTELLECTUAL PROPERTY CASES

Courts have struggled to adopt a uniform approach in examining direct effect under the FSIA post-Weltover. The vagueness of the Weltover immediate consequences test is particularly evident and problematic in cases involving intellectual property infringement by a foreign sovereign. Two recent cases, CYBERsitter, LLC v. People’s Republic of China and Bell Helicopter Textron Inc., v. Islamic Republic of Iran, demonstrate the dilemma in balancing IP concerns with the FSIA.

61. Id. at 817.
62. Id. at 817–18.
63. See, e.g., CYBERsitter, 805 F. Supp. 2d at 975.
64. Id.
65. 734 F.3d 1175 (D.C. Cir. 2013).
A. The Liberal Application of “Direct Effect” in CYBERsitter, LLC v. People’s Republic of China

At one end of the spectrum in intellectual property cases that engage in a “direct effect” analysis under the FSIA’s commercial activity exception is the Central District of California’s decision in CYBERsitter, LLC v. People’s Republic of China. This case leniently held that the commercial activity’s direct effect requirement was satisfied when “the locus of [the] injury occurred at Plaintiff’s principal place of business” in California. Like other courts in the Ninth Circuit, the CYBERsitter court adopted the “legally significant act” test in determining direct effect. While the CYBERsitter opinion does not offer much analysis regarding the court’s finding of a direct effect, the court acknowledged that mere financial loss in the United States is not sufficient by itself to satisfy the commercial activity exception. What was sufficient, the court reasoned, was that the plaintiff copyright-owner’s principal place of business was in California, and that therefore the Chinese government’s intentional misappropriation of the plaintiff’s copyrighted software (by licensing, sublicensing, and distributing the software code) had a direct effect in the United States. Courts citing CYBERsitter have interpreted its holding as supporting the sweeping proposition that an IP infringement by a foreign sovereign has a per se direct effect in the United States when the owner of the intellectual property right is a US citizen, resident, or company.

B. Direct Effect Analysis in Bell Helicopter Textron Inc., v. Islamic Republic of Iran

On the other end of the spectrum, a more conservative interpretation of direct effect in IP cases is found in Bell Helicopter Textron Inc., v. Islamic Republic of Iran. In Bell Helicopter, an American helicopter manufacturer brought a claim against the Islamic Republic of Iran under the commercial activity exception, alleging that Iran manufactured and marketed a similar helicopter in violation of

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66. 805 F. Supp. 2d at 958.
67. Id. (citing Panavision Int’l, L.P. v. Toeppen, 141 F.3d 1316, 1322 n.2 (9th Cir. 1998)).
68. See id. at 976–77.
69. Id.
70. See id.
72. 734 F.3d 1175 (D.C. Cir. 2013).

the Lanham Act, which prohibits trademark dilution and infringement.\textsuperscript{73} Noting that no circuit court had addressed whether an IP infringement occurring abroad could cause a direct effect in the United States, the D.C. Circuit refuted the plaintiff-manufacturer’s claim that the effect of infringement “occurs where the possessor of the intellectual property lives,” as held by the \textit{CYBERsitter} court.\textsuperscript{74} The \textit{Bell Helicopter} court instead required a more exacting analysis of direct effect, reasoning that the effect must not be “purely trivial” and that damage to the intellectual property owner’s reputation, assuming it is an effect at all, is “too remote and attenuated” to satisfy \textit{Weltover’s} “immediate consequences” test.\textsuperscript{75}

The \textit{Bell Helicopter} court first found that there was no violation under the Lanham Act because “the buying public [was not] likely to believe that defendant’s services [came] from the same source, or [were] affiliated with the trademark owner,” as the Act required.\textsuperscript{76} Secondly, the court concluded that even if there were a sufficient IP infringement to constitute an “effect,” the effect could not be characterized as direct, because a plaintiff’s status as a US citizen or corporation cannot be the only connection between the commercial activity and the United States.\textsuperscript{77}

Before the case reached the D.C. Circuit on appeal, the lower \textit{Bell Helicopter} court elaborated on how its analysis differed from \textit{CYBERsitter}. At the district court level, the plaintiff-manufacturer in \textit{Bell Helicopter} relied on \textit{CYBERsitter} to support its claim that “the location of the harm is the location of the harmed company” in an intellectual property case under the FSIA.\textsuperscript{78} The D.C. District Court in \textit{Bell Helicopter}, however, noted that \textit{CYBERsitter} cited \textit{Panavision}\textsuperscript{79} to support its proposition, but that \textit{Panavision} was a personal jurisdiction case and was therefore not relevant to the direct effect inquiry.\textsuperscript{80} \textit{CYBERsitter}, the court reasoned, was an oversimplification of the personal jurisdiction and waiver of sovereign immunity analyses required under the FSIA.\textsuperscript{81} Additionally, the \textit{Bell

\textsuperscript{73} See id. at 1178.
\textsuperscript{74} See id. at 1182.
\textsuperscript{75} See id. at 1183–84 (citing \textit{Weltover}, 504 U.S. at 618) (internal quotation marks omitted).
\textsuperscript{76} See id. at 1185 (citing \textit{Foxtrap, Inc. v. Foxtrap, Inc.}, 671 F.2d 636, 639 (D.C. Cir. 1982)).
\textsuperscript{77} See id. (citing \textit{Cruise Connections Charter Mgmt. 1, LP v. Att’y Gen. of Can.}, 600 F.3d 661, 665 (D.C. Cir. 2010)).
\textsuperscript{78} See \textit{Bell Helicopter}, 892 F. Supp. 2d at 227.
\textsuperscript{79} \textit{Panavision Int’l, L.P. v. Toeppen}, 141 F.3d 1316, 1320 (9th Cir. 1998).
\textsuperscript{80} See \textit{Bell Helicopter}, 892 F. Supp. 2d at 228.
\textsuperscript{81} Id.
Helicopter court stated that conduct requiring “the participation of a series of actors and events before the harm can be felt” cannot be deemed to have a direct effect and that the CYBERsitter case was thus at odds with precedent.\textsuperscript{82} Finally, the D.C. district court distinguished the facts of the cases, explaining that no marketing occurred in the United States in Bell Helicopter, while in CYBERsitter, the infringing foreign state made the software at issue available to a US audience.\textsuperscript{83}

At the appellate level, while the D.C. Circuit did not distinguish CYBERsitter, it supported its own contrary reasoning with a policy rationale—namely, that “[i]f a loss to an American individual and firm resulting from a foreign tort were sufficient standing alone to satisfy the direct effect requirement, the commercial activity exception would in large part eviscerate the FSIA’s provision of immunity for foreign states.”\textsuperscript{84} In this sense, the Bell Helicopter court’s more restrictive interpretation of “direct effect” under the commercial activity exception of the FSIA conveys an underlying policy of protecting the FSIA’s presumption of immunity for foreign sovereigns in US courts.

\textbf{V. Assessing the Immediate Consequences of the Weltover “Immediate Consequences” Test in Intellectual Property Cases}

While only a limited number of intellectual property cases have been analyzed under the direct effect provision of the FSIA, these cases highlight three major defects in the Weltover immediate consequences test. First, the inconsistent holdings of these IP cases expose the ambiguity of the test and, in turn, its unpredictability.\textsuperscript{85} Second, these cases demonstrate that, in the realm of intellectual property, the immediate consequences test fails to adequately balance the Act’s underlying presumption of immunity with its exceptions to immunity—namely, the commercial activity exception. Finally, these cases show that the Weltover test for direct effect overlooks the unique nature of IP rights, and therefore risks precluding an entire class of claims from litigation in the United States under the FSIA. The Weltover Court’s interpretation of the FSIA’s direct effect provision is

\begin{flushleft}
\textsuperscript{82} Id.
\textsuperscript{83} Id.
\textsuperscript{84} See Bell Helicopter, 734 F.3d at 1184.
\textsuperscript{85} Compare CYBERsitter, 805 F. Supp. 2d at 975 (holding that IP infringement by a foreign sovereign had a direct effect in the United States because plaintiff copyright owner’s principal place of business was in California), with Bell Helicopter, 734 F.3d at 1183 (rejecting plaintiff IP-right holder’s claim that infringement results in a direct effect where the IP-right owner lives).
\end{flushleft}
thus inadequate, and its failures are particularly evident in the area of intellectual property.

A. The Weltover Immediate Consequences Test is Ambiguous and Leads to Inconsistent Results.

The immediate consequences test adopted by a unanimous Court in Weltover is a vague standard that obscured, rather than clarified, the meaning of “direct effect” under the FSIA’s commercial activity exception. Courts, politicians, and academics alike have exposed the ambiguity of the Weltover test.86 Two years after the Weltover decision, the Tenth Circuit noted that the test lacks any objective standard for courts to utilize in determining what constitutes a direct effect.87 The court implied that the Weltover test is not a functional standard, but rather a comparison test, explaining that in attempting to implement the test, courts “are left to determine what qualifies as a direct effect largely from the Supreme Court’s example in applying the [FSIA] to the facts before it in Weltover.”88 Thus, the Weltover direct effect test is essentially only useful to the extent that courts can analogize to it or distinguish it based on its facts.89 Because the Weltover Court confronted a breach of contract claim, limiting the case to its facts impairs direct effect analyses in other areas of the law, such as intellectual property.90 Not only did the Weltover Court fail to detail any tangible factors for courts to consider in analyzing direct effect, but in adopting the immediate consequences test set forth by the Second Circuit, the Supreme Court explicitly rejected the two definitive requirements that a majority of courts had previously relied on—foreseeability and substantiability.91 By declining to incorporate the substantiability and foreseeability standard into its immediate consequences test, the Supreme Court eliminated important barriers to jurisdiction in US courts for acts committed by foreign sovereigns or their agencies and instrumentalities abroad. Most significantly, when it abolished the substantiability requirement, the Supreme Court made it possible for a court to find that even a minor effect could satisfy the “immediate consequences” direct effect test.92

86. See Gohlke, supra note 18 at 289–90.
87. United World Trade v. Mangyshlakneft Oil Prod. Ass’n, 33 F.3d 1232, 1237 (10th Cir. 1994).
88. See Gohlke, supra note 18 at 289–90.
89. See id.
90. See infra Part V.B.3.
91. Weltover, 504 U.S. at 618.
92. See Gohlke, supra note 18 at 283–84, 286.
**Ampac Group, Inc. v. Republic of Honduras**, a Florida district court found that, in a direct effect analysis, *Weltover* “teaches that the effect in the United States need only be slight. Although the effect cannot be speculative, the contact with the United States may indeed be only a tangential one to support jurisdiction under the FSIA.”

The Supreme Court in *Weltover* attempted to caution against such a “slight and tangential” test by reminding courts of the principle of *de minimus non curat lex*, which prohibits courts from adjudicating purely trivial matters. Nevertheless, by establishing a vague standard for direct effect, the Supreme Court left lower courts to grapple with the ambiguities in the new immediate consequences test. Predictably, this led to results that the *Weltover* Court would likely disfavor, as well as general inconsistency in the test’s application.

The unpredictability of the *Weltover* test is particularly prevalent in the realm of intellectual property, where inconsistent holdings mean that neither plaintiffs nor foreign states have the ability to foresee what result a court may reach when confronted with an infringement dispute. The divergent reasoning of the *CYBERsitter* and *Bell Helicopter* cases demonstrates the test’s irregular application. In *CYBERsitter*, the court seemed to treat intellectual property infringement as a per se direct effect under the FSIA’s commercial activity exception whenever the holder of the intellectual property right resides in the United States. *Bell Helicopter*, however, indicated that only a clear-cut case analogous to the breach of contract claim in *Weltover* could sufficiently constitute a direct effect. As it has been applied to intellectual property, then, the immediate consequences test is either too permissive or too restrictive for determining which infringement claims may be heard in US courts.

Because the immediate consequences test is difficult to administer, it invites extremes and leads to inconsistent application and unpredictability for litigants, as demonstrated by the widely different outcomes in the *Weltover* cases. The unpredictability of the *Weltover* test is particularly prevalent in the realm of intellectual property, where inconsistent holdings mean that neither plaintiffs nor foreign states have the ability to foresee what result a court may reach when confronted with an infringement dispute. The divergent reasoning of the *CYBERsitter* and *Bell Helicopter* cases demonstrates the test’s irregular application.

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Weltover.

B. The Immediate Consequences Test Fails to Balance both the FSIA’s Presumption of Immunity and the Commercial Activity Exception in Intellectual Property Cases

Because it is either too permissive or too restrictive as applied to intellectual property claims, the Weltover immediate consequences test is incapable of properly balancing the dual aims of the Foreign Sovereign Immunities Act. The FSIA is founded on two conflicting principles. At its core, the Act is designed to uphold the doctrine of foreign sovereign immunity and does so by affording foreign states presumptive immunity from suit in US courts. Still, Congress enacted the FSIA in order to codify the restrictive principle of sovereign immunity, suggesting that the Act’s exceptions to immunity are some of its most important provisions. The immediate consequences test of direct effect, which is vague and underdeveloped, cannot account for both of these principles in intellectual property cases where more nuance is required to deal with the intangibility of IP rights. The CYBERsitter and Bell Helicopter cases demonstrate that, in IP cases, upholding one of the FSIA’s dual aims necessarily means that the other fails to be accounted for.

1. Finding an Immediate Consequence in an IP Case Requires Courts to Neglect the FSIA’s Presumption of Immunity

In CYBERsitter, the court failed to balance the FSIA’s exceptions to immunity against its crucial underlying presumption of immunity—prioritizing the former over the latter. The court reached a favorable finding for the plaintiff-IP holder, but did so by either (1) misunderstanding, and thus misapplying, the Weltover immediate consequences test, which highlights the test’s ambiguity, or (2) intentionally expanding or glossing over the test in order to account for the unique nature of IP claims, which are not well-addressed by the Weltover test. The CYBERsitter court found that the People’s Republic of China (PRC) had violated the plaintiff’s intellectual property rights and that the infringement constituted a

100. Id.
101. Id.
102. See CYBERsitter, 805 F. Supp. at 977.
direct effect under the commercial activity exception. The two short paragraphs of the court’s opinion devoted to analyzing direct effect, however, pay only lip service to the immediate consequences test, leaving uncertain how exactly the court reached its holding. The CYBERsitter court supported its direct effect analysis by citing a Ninth Circuit opinion, which held that financial loss suffered by a person in the United States is not sufficient by itself to constitute a direct effect under the Weltover test.

However, the opinion did not elaborate on what harm, if not financial loss, created a sufficient nexus with the United States to establish a direct effect in the CYBERsitter case. The only inference to be made, then, is that the CYBERsitter court characterized the PRC’s copyright infringement itself, which occurred in China, as the relevant harm in the United States. This conclusion, problematically, is not permitted under Weltover’s immediate consequences test. In Weltover, the Court did not hold that Argentina’s breach of contract itself was the relevant harm in its direct effect analysis. Rather, it required a consequence of the breach to occur in the United States thereafter. More specifically, courts have interpreted Weltover to mean that the determinative

103. See id. at 977.
104. See id. at 976–77.
105. See id. (citing Panavision Int’l, L.P. v. Toeppen, 141 F.3d 1316, 1322 n.2 (9th Cir. 1998)).
106. See id.
107. See id. at 977 (noting that because the locus of the injury caused by the PRC’s intentional misappropriation of plaintiff’s copyrighted software occurred in the United States at the plaintiff’s principal place of business, the PRC’s actions constituted a direct effect in the United States).
108. See Weltover, 504 U.S. at 618.
109. See id.
110. See id. Courts will not find that breach of contract, in and of itself, causes a direct effect in the United States, even when one of the contracting parties was a US citizen, or the contract was signed in the United States. See Kettle v. Saudi Ministry of Educ., 53 F. Supp. 3d 40, 51 (D.D.C. 2014) (reasoning that “[a]lthough Plaintiff was interviewed in the United States and signed his contract in the United States, the elements of Plaintiff’s breach of contract and quantum meruit claims that would entitle him to relief are his performance and Defendants’ non-payment, both of which occurred in Saudi Arabia”). Instead, courts require the contract to specify the United States as a place of performance. The court in Odhiambob v. Republic of Kenya, 764 F.3d 31 (D.C. Cir. 2014), reasoned that “[f]or purposes of clause three of the FSIA commercial activity exception, breaching a contract that establishes or necessarily contemplates the United States as a place of performance causes a direct effect in the United States, while breaching a contract that does not establish or necessarily contemplate the United States as a place of performance does not cause a direct effect in the United States.” Id. at 40. Furthermore, a plaintiff’s US citizenship cannot serve as the only basis for a finding of direct effect. See Cruise Connections Charter Mgmt. 1, LP v. Att’y Gen. of Can., 600 F.3d 661, 665 (D.C. Cir. 2010).
inquiry in a breach of contract case is whether or not the contract at issue specified the United States as a place of performance.\textsuperscript{111}

For tort claims, such as IP infringement, the analogous inquiry under the commercial activity exception is whether the locus of the injury occurred in the United States.\textsuperscript{112} Although the \textit{CYBERsitter} court addressed this issue, it misapplied the standard by failing to distinguish between an act and its injurious consequences. Instead, \textit{CYBERsitter} conflated the harm of infringement itself with the harm resulting from the infringement.\textsuperscript{113} Strict adherence to \textit{Weltover}’s reasoning would mean that a direct effect can exist in an IP case only when the alleged infringement led to an immediate, additional harm in the United States. A bare showing of infringement is not sufficient, as this would mean that an act abroad has a simultaneous, and thus per se, direct effect in the United States. To hold that infringement is sufficient, as the \textit{CYBERsitter} court did when it held that an IP violation in China constituted a locus of injury in the United States, would eliminate the direct effect’s crucial limitation on the United States’ jurisdiction to adjudicate claims against foreign sovereigns. This, in turn, contravenes the FSIA’s underlying presumption of immunity for foreign sovereigns and their agencies and instrumentalities in US courts. Thus, in order to find that a foreign sovereign’s infringement of an IP right held by a US company constituted a direct effect under the \textit{Weltover} immediate consequences test, the \textit{CYBERsitter} court prioritized the commercial activity exception over the statute’s baseline presumption of immunity.

In addition to misapplying the pertinent locus of the injury inquiry in its direct effect analysis, the \textit{CYBERsitter} holding rested on principles strictly prohibited by \textit{Weltover}.\textsuperscript{114} This also had the effect of favoring the commercial activity exception over the FSIA’s presumption of immunity. While purporting to utilize the post-\textit{Weltover} “legally significant act” test for determining direct effect, the \textit{CYBERsitter} court actually employed a quasi-personal jurisdictional analysis—an analysis explicitly rejected by the Supreme Court in \textit{Weltover} for being “a bit of a non-sequitur.”\textsuperscript{115} Because it offered such limited analysis, it is unclear whether the \textit{CYBERsitter}

\begin{footnotesize}
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\item[111.] \textit{See Odhiambo}, 764 F.3d at 40.
\item[112.] \textit{See Antares Aircraft, L.P. v. Federal Republic of Nigeria}, 999 F.2d. 33, 36 (2d Cir. 1993).
\item[113.] \textit{See CYBERsitter,}, 805 F. Supp. 2d. at 977.
\item[114.] \textit{See id.} (invoking principles of personal jurisdiction in support of its direct effect analysis).
\item[115.] \textit{See supra} Part IV.B; \textit{Weltover}, 504 U.S. at 618 (citing Tex. Trading & Milling Corp. v. Federal Republic of Nigeria, 647 F.2d 300, 311 (2d Cir. 1981), cert. denied, 454 U.S. 1148 (1982)).
\end{enumerate}
\end{footnotesize}
court had a legitimate rationale behind its reasoning that it did not disclose, or whether it flagrantly ignored the mandate of the Supreme Court in *Weltover*. On its face, however, the *CYBERSitter* interpretation of direct effect seems to have disregarded the FSIA’s presumption of immunity as well as *Weltover*’s denunciation of a personal jurisdiction analysis in order to favor the Act’s commercial activity exception.

2. Strict Adherence to the Immediate Consequences Test Generally Precludes a Finding of Direct Effect in IP Cases

In contrast to *CYBERSitter*, the *Bell Helicopter* court carefully analyzed the facts of the case before it through the lens of the Act’s presumption of immunity, but was so strict that it left doubt as to whether an IP claim could ever satisfy the direct effect test. Unlike the *CYBERSitter* court, *Bell Helicopter* rejected the plaintiff-helicopter manufacturer’s theory that “the effect of infringement occurs where the possessor of the intellectual property lives.”\(^{116}\) In light of *Weltover*’s implicit holding that a personal jurisdiction analysis may not be used to determine what constitutes a direct effect under the FSIA, this ruling is not unreasonable. The court additionally announced, however, that the Act’s direct effect requirement cannot necessarily be satisfied through reputational harm, financial loss, interference with a property right, or US citizenship.\(^{117}\) While the FSIA presumes immunity, the Act specifically carves out exceptions to this presumption.\(^{118}\) In maintaining such a high bar to a finding of direct effect, the *Bell Helicopter* court essentially rendered the commercial activity exception impotent. When read together with *CYBERSitter*, it is evident that courts addressing intellectual property claims under the FSIA struggle to balance the Act’s presumption of immunity with its exceptions to that presumption.

3. The *Weltover* Test is Inadequate for Addressing the Uniqueness of Intellectual Property Infringement Claims

While it is possible to attribute the divergent reasoning of *Bell Helicopter* and *CYBERSitter* to the courts’ misunderstanding of the immediate consequences test and the dual aims of the FSIA, it is more likely that such inconsistency is the result of the *Weltover* test’s failure to account for the unique nature of IP rights. The immediate

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116.  *Bell Helicopter*, 734 F.3d. at 1183.
117.  See id.
consequences test, while heavily criticized, may be appropriate for breach of contract claims, like the one at issue in *Weltover* itself, and may suffice for some tort claims as well. But in dealing with the unique types of harm that result from intellectual property infringement, the *Weltover* test proves woefully inadequate.

The first major flaw in the *Weltover* test, as it pertains to intellectual property, is that it neglects the most fundamental right owed to an IP rights-holder—the right to exclude. Under US domestic law, an intellectual property right allows a right-holder to seek damages or an injunction merely by showing that his right has been infringed, without proof of additional injury. The US Patent and Trademark Office, for example, grants patent holders “the right to exclude others from making, using, or selling the invention throughout the United States” for a specified period of time. The essential component of any IP right, then, is that it enables the IP owner to prevent others from infringing on the right, regardless of whether the infringing party actually profited financially or harmed the right holder’s reputation as a result of the infringement. The statutory rights granted to IP holders are thus unique in that they are intangible.

The intangible rights afforded to IP owners under US domestic law are not adequately protected by the FSIA’s immediate consequences test, as interpreted by *Weltover*. While the *CYBERsitter* court held that a foreign state’s infringement of a US company’s IP right constituted a direct effect in the United States, it did so only by evading the true requirements of the immediate consequences test. Understood correctly, the *Weltover* direct effect test requires proof of injury beyond a basic showing of infringement. This means that a fundamental component of an IP right is not recognized under the FSIA’s commercial activity exception, since the immediate consequences test ignores the possibility that infringement itself can create a direct effect in the United States.

In addition to prohibiting a mere claim of infringement from constituting a direct effect, FSIA jurisprudence also suggests that neither financial loss nor reputational harm is sufficient to satisfy the immediate consequences direct effect test. In *Weltover*, for example, the plaintiff argued that Argentina’s breach of contract negatively

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119. See, e.g., *Infringement*, BLACK’S LAW DICTIONARY (10th ed. 2014) (“An act that interferes with one of the exclusive rights of a patent, copyright, or trademark owner.”).


121. See supra Part V.B.1.

122. See supra Part V.B.1.

123. See *Bell Helicopter*, 734 F.3d. at 1183–84.
affected New York City’s status as a world financial leader.\textsuperscript{124} The Court rejected this harm as too attenuated to constitute a direct effect.\textsuperscript{125} Analogizing to \textit{Weltover}, the \textit{Bell Helicopter} court similarly rejected plaintiff-manufacturer’s contention that reputational harm could establish a direct effect.\textsuperscript{126} Likewise, many circuit courts have refused to find a direct effect where the plaintiff alleged nothing more than financial loss.\textsuperscript{127} Applying these tenets to IP cases potentially leaves plaintiffs without any recourse. Without the ability to satisfy the immediate consequences test through a showing of infringement, financial loss, or reputational harm, it is difficult to imagine a scenario in which a plaintiff could ever recover under the commercial activity exception in an IP case.

One likely cause of the \textit{Weltover} test’s inadequacy is that it was designed to deal with tangible harms. Breach of contract cases, for example, focus on place of performance, and courts confronting intentional tort claims look to the locus of the injury.\textsuperscript{128} But for intellectual property, where harm is less tangible, rules applicable to the physical world are cumbersome and clumsy. When a company misappropriates a protected trademark, precisely where has the harm occurred?\textsuperscript{129} Or in determining whether a copyright violation resulted in reputational damage, how does a court determine where one’s reputation exists?\textsuperscript{130} In the Digital Age, where intangible harms are more prevalent and physical boundaries are less meaningful, courts are increasingly forced to grapple with these perplexing issues, but are ill equipped to do so.

The current status of the law regarding the direct effect provision essentially excludes all IP claims from the benefits of the FSIA’s commercial activity exception. Given the importance of IP rights in the Information Age, and the incentives that drove Congress to enact exceptions to the FSIA’s presumption of immunity, it is essential to revise the immediate consequences test in order to accommodate IP claims.

\begin{thebibliography}
\bibitem{124} \textit{Weltover}, 504 U.S. at 618.
\bibitem{125} See id.
\bibitem{126} \textit{Bell Helicopter}, 734 F.3d at 1183–84.
\bibitem{127} See, e.g., \textit{Antares Aircraft}, 999 F.2d. at 36 (“[T]he fact that an American individual or firm suffers some financial loss from a foreign tort cannot, standing alone, suffice to trigger the exception.”).
\bibitem{128} Id.
\bibitem{130} See id. at 1134.
\end{thebibliography}
VI. SOLUTION: REINTERPRETING THE FSIA’S DIRECT EFFECT REQUIREMENT TO ACCOUNT FOR THE UNIQUE NATURE OF INTELLECTUAL PROPERTY RIGHTS

In light of the ambiguity of the Weltover immediate consequences test and its ineffectiveness in dealing with intellectual property claims, the Supreme Court should craft a clearer standard that better reflects the unique nature of IP rights. This Note suggests a four-step analysis to replace the Weltover immediate consequences test in intellectual property cases. The proposed test provides that the effect of the foreign sovereign’s commercial act abroad must be: (1) more than a bare claim of infringement, (2) felt in the United States, (3) actual and direct, and (4) substantial. This revised standard upholds Weltover’s requirements that the relevant harm must be felt in the United States and that the harm felt must be actual and direct in order to constitute a direct effect of the foreign sovereign’s extraterritorial act.131 However, step (1) of the four-part test would alter the existing analysis by recognizing that the relevant consequences will vary depending on the type of claim. Finally, step (4) would reinstate the substantiality requirement used by a majority of courts pre-Weltover.132

A. The Effect Alleged Must Be More than a Bare Claim of Infringement, But May Include Claims of Reputational Harm and Financial Loss

The most significant departure from the Weltover immediate consequences test that this Note proposes is an expansion of the types of effects that may satisfy the direct effect requirement in intellectual property cases. Under the first factor of the revised immediate consequences test, courts may consider any consequence of IP infringement in a direct effect analysis other than the harm of the infringement itself. Such an expansion will permit courts to account for the unique nature of IP rights in a direct effect analysis, which will in turn uphold the aims of the commercial activity exception.

The principal flaw of the Weltover immediate consequences test is its ambiguity, which leaves courts to analogize to the facts of Weltover, rather than providing a standard that has a clear application beyond breach of contract claims. Limiting Weltover to its facts is problematic in intellectual property cases, because the opinion effectively prohibits consideration of the only claims an IP owner could
raise in order to prove direct effect—namely, reputational harm and financial loss. In breach of contract cases, courts have refused to find a direct effect on the basis of economic loss alone, instead characterizing this type of harm as “secondary or incidental” unless the contract contemplated that capital would be directly delivered to the United States. Financial loss in any other situation would likely involve an intervening act, such as an expenditure to rectify harm from the breach, a reduction in sales, or an inability to meet obligations to customers or investors.

By contrast, in an IP case, reputational harm and financial loss are not attenuated from an infringement claim. On the contrary, they are a fundamental component of the bundle of rights held by an IP owner. The Supreme Court itself has recognized that “[t]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare . . . .” This implies that the right to reap the reputational and financial rewards of an innovation is central to the concept of intellectual property. Thus, if an entity infringes on a patent, copyright, or trademark, it inherently denies the IP-holder the exclusive benefit of those rewards. In the context of intellectual property, the Weltover immediate consequences test is therefore unfairly punishing because it fails to distinguish between IP infringement and breach of contract claims in terms of the relevant consequences that may constitute a direct effect.

The test that this Note proposes allows courts to consider any effect in the United States that results from IP infringement abroad. However, this revised test will not depart from Weltover in the sense that bare claims of IP infringement will not suffice to establish a direct effect under the FSIA. Even though a plaintiff could recover in US courts against a non-sovereign upon a showing of infringement, such a system would be incompatible with the FSIA. Realistically, in the context of foreign sovereign immunity, Congress could never have intended IP infringement to cause a per se direct effect of the sort seen

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133. See id. (“Although we are happy to endorse the Second Circuit’s recognition of ‘New York’s status as a world financial leader,’ the effect of Argentina’s rescheduling in diminishing that status (assuming it is not too speculative to be considered an effect at all) is too remote and attenuated to satisfy the ‘direct effect’ requirement of the FSIA.”); see also Virtual Countries, Inc. v. Republic of South Africa, 300 F.3d. 230, 239–41 (2d. Cir. 2002) (“If Virtual Countries were right and any economic harm to it as a corporation was necessarily a direct effect under the FSIA, the legally significant act test would be meaningless.”).

134. Corzo v. Banco Cent. De Reserva Del Peru, 243 F.3d. 519, 525 (9th Cir. 2001).


136. Id.
in CYBERsitter. The act of infringement in an IP case should instead be treated in the same manner as a breach of contract claim, with some additional consequence required to establish a direct effect.

By requiring an effect in the United States beyond mere infringement, this test will sufficiently eliminate findings of per se direct effect in IP cases and will thus uphold the FSIA’s presumption of immunity. However, the test will also reflect the aims of the commercial activity exception by allowing courts to consider harms that are unique to IP claims and will thus combat the unnecessarily prohibitive effect of post-Weltover jurisprudence in the realm of intellectual property.  

**B. The Effect Must Be Felt in the United States**

The revised immediate consequences test allows courts to consider all effects of IP infringement in the United States in a direct effect analysis besides the harm of the infringement itself. However, such an expansion of the direct effect test must be tempered by the existing FSIA requirement that the harm be felt in the United States. In the context of the broader consequences of IP infringement given consideration by this Note’s test, such as financial loss or reputational harm, this would require a showing of harm to the IP holder’s interests in the American market, but would not consider harm to the IP holder’s interests in any foreign market. This creates a necessary barrier to US jurisdiction over claims that are entirely concerned with a foreign market and do not affect the plaintiff’s US interests. Courts should be careful to note that while the effect of infringement must be felt in the United States, that effect must not be the result of marketing or sales carried on within the American market, as such a scenario would be properly addressed under the other prongs of the commercial activity exception.

To illustrate, it would not be enough for a company to allege, as did the plaintiff in Bell Helicopter, that harm to its foreign or international market ultimately resulted in financial loss in the United States, merely because that is the site of the company’s principal place of business. On the other hand, it would qualify as a

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137. In characterizing the type of effect that must be felt in the United States under the commercial activity exception, it is important to note that the effect need not be an actionable claim in itself. The immediate consequences test calls for an effect of the foreign sovereign’s act abroad to be felt in the United States, but it does not require that an independent cause of action occur in the United States. Such a requirement is relegated to the first and second clauses of the commercial activity exception, which contemplate acts that occur within the territory of the United States. For example, proof of reputational harm that is significant, but does not rise to the level of defamation, would be a permissible direct effect under this test.
direct effect in the United States if an IP owner suffered reputational harm, financial loss, or another consequence in his share of the US market. This means that if the plaintiff-IP owner in Bell Helicopter had clear evidence that international customers had ceased purchasing helicopters from Bell in the United States because of the availability of the infringing products in Iran, this would be a sufficient showing of direct effect under the test proposed here. In essence, the infringing acts of the foreign state abroad must directly interfere with the IP owner’s sales, reputation, or other interest domestically; otherwise, the US plaintiff may not recover under the FSIA.

C. The Effect Felt Must Be Actual and Direct

In order to constrain the broad scope of this test’s first prong, it is necessary to preserve the Weltover Court’s requirement that consequences under the direct effect provision be actual and direct. This serves to eliminate claims that are too attenuated to establish a sufficient nexus to the United States, which alleviates Due Process and personal jurisdiction concerns in addition to upholding the FSIA’s presumption of immunity by appropriately constraining the United States’ jurisdiction to adjudicate.

The requirement of directness is necessitated by the text of the FSIA itself and indicates that claims made under the direct effect provision may not involve speculative harms, intervening acts, or self-inflicted loss. Speculative harms are those that cannot be substantiated and instead merely predict future injury. The test proposed here would align with the court’s reasoning in Bell Helicopter that claims of potential financial loss, reputational harm, and consumer confusion are speculative, and thus too attenuated to constitute a direct effect.

Furthermore, an effect under this test will not be considered direct if it involves an intervening act. So, for example, if an international consumer transported one of the infringing helicopters in the Bell Helicopter case to the United States and used it there, the US IP right holder could not bring suit against Iran under the direct effect prong of the FSIA’s commercial activity exception, since the transport of the machine would constitute an intervening act.

Finally, a self-inflicted harm to an IP owner will not satisfy the direct effect provision of the FSIA. For example, if a US company reacts to a foreign state’s infringing activity by increasing its overseas

advertising or investing in a public relations representative, such expenses will not be considered domestic effects under this direct effect test.

D. The Effect Must Be Substantial

In light of its expanded definition of direct effect, the final jurisdictional protection offered by this revised test is the reinstatement of the pre-Weltover substantiability requirement. The requirement of substantiality under this prong is a low bar—it would merely provide courts with the discretion to eliminate claims that would offend notions of international comity or that would undermine the principles behind the FSIA’s presumption of immunity. In passing the FSIA, Congress surely did not contemplate that suits under the FSIA would turn courts into small claims tribunals. For example, Congress almost certainly did not anticipate that a local songwriter would be able to recover under the FSIA for a single CD bootlegged by the Chinese government.

The restoration of the pre-Weltover direct effect requirement is warranted because the rationale that the Weltover Court relied on in eliminating it is now moot. The Weltover Court reasoned that courts improperly derived the substantiability requirement from an irrelevant reference in the FSIA’s legislative history. Congressional hearings held prior to the Act’s enactment indicate that the direct effect provision should be interpreted in light of Section 18 of the Second Restatement of Foreign Relations—a section addressing jurisdiction to prescribe.139 The Weltover Court found that the topic of the Section was not relevant to its inquiry and rejected its language regarding substantiability. However, even prior to the Weltover opinion, the Restatement was revised so that the relevant language elucidating the meaning of direct effect was added to a section concerning jurisdiction to adjudicate. While Congress relied on the Second Restatement, rather than the Third Restatement, in drafting the FSIA, it is reasonable to think that the enacting Congress was not wrong to point to a requirement of substantiality, in light of the fact that it is relevant to both jurisdiction to adjudicate and to prescribe.140 Further,

139. See Gohkle, supra note 18, at 297–98.
140. See id.; compare Restatement (Second) Foreign Relations Law of the United States § 18 (1965) (requiring conduct that occurs outside a nation’s territory to have a “substantial” and “foreseeable” effect within that territory in order to form the basis for jurisdiction to prescribe) with Restatement (Third) Foreign Relations Law of the United States § 421 (1986) (requiring that an activity “carried on outside the state” have a “substantial, direct, and foreseeable effect within the state” in order for a state to exercise its jurisdiction to adjudicate).
if the FSIA had been passed after the publication of the Third Restatement, the Supreme Court likely would not have dismissed the language regarding substantiality as “a bit of a non-sequitur.”

The four-step test proposed by this Note primarily serves to ensure that intellectual property claims are given fair weight under the FSIA’s commercial activity exception. At the same time, this test seeks to maintain the Act’s presumption of immunity by fairly limiting the scope and nature of permissible claims and by reinstating a requirement of substantiality.

VII. CONCLUSION

The direct effect provision of the Foreign Sovereign Immunities Act has long confused courts and scholars alike—a confusion that was only deepened by the Supreme Court’s announcement of its immediate consequences direct effect test in Weltover. The Weltover immediate consequences test has failed to create a workable standard for courts to utilize in assessing direct effect claims. The failures of the test are particularly prevalent in the realm of intellectual property, where the only two courts to address direct effect as it relates to IP claims reached seemingly incompatible conclusions. In one case, the court essentially held that an IP infringement abroad created a per se direct effect domestically. In the other, the court applied the Weltover immediate consequences test so stringently that it effectively precluded any consequence of infringement from satisfying the FSIA’s direct effect requirement. Neither court succeeded in balancing the FSIA’s presumption of immunity with its explicit exceptions to immunity.

To remedy the many failures of the Weltover immediate consequences test, particularly as it applies to intellectual property, this Note suggests a revised four-part test that would effectively account for the unique nature of IP rights, while still maintaining the presumption of immunity upon which the FSIA is founded. The test proposes that, in assessing direct effect, a court should: (1) ensure that the claim before it is more than a bare assertion of infringement; (2) determine whether a consequence of the claim, beyond mere infringement, is felt in the United States; (3) ascertain whether the consequence is actual and direct, with no intervening actors; and (4) reject claims that are trivial. A principled application of this test will ensure that courts properly balance the FSIA’s presumption of immunity and its exceptions to that presumption. Additionally, by

141. See e.g., Gohkle, supra note 18, at 297–98; see Weltover, 504 U.S. at 618.
tailoring the revised test’s first prong to account for other types of legal claims, this test could possibly have broad application and may aid in resolving the ambiguities of the direct effect test beyond the field of intellectual property as well.

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