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## Act of State Doctrine - Jurisdiction - United States Federal Courts Have Subject Matter Jurisdiction under the Sherman Antitrust Act in Cases Involving Alleged Antitrust Activity Conducted in a Foreign Country by One American Company Which Results in Harm to the Export Business of Another American Company - Act of State Doctrine - The Granting of Patents by a Foreign Government Is Not within the Traditional Scope of the Act of State Doctrine

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**ACT OF STATE DOCTRINE—JURISDICTION—UNITED STATES FEDERAL COURTS HAVE SUBJECT MATTER JURISDICTION UNDER THE SHERMAN ANTITRUST ACT IN CASES INVOLVING ALLEGED ANTITRUST ACTIVITY CONDUCTED IN A FOREIGN COUNTRY BY ONE AMERICAN COMPANY WHICH RESULTS IN HARM TO THE EXPORT BUSINESS OF ANOTHER AMERICAN COMPANY. ACT OF STATE DOCTRINE—THE GRANTING OF PATENTS BY A FOREIGN GOVERNMENT IS NOT WITHIN THE TRADITIONAL SCOPE OF THE ACT OF STATE DOCTRINE. *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287 (3d Cir. 1979).**

Mannington Mills, an American manufacturer of vinyl floor coverings, brought this antitrust action against a second American manufacturer, Congoleum Corporation. Mannington Mills alleged that Congoleum, which owned American patents for the manufacture of chemically embossed vinyl floor coverings, had obtained corresponding patents in twenty-six foreign countries by fraud which, if perpetrated in securing domestic patents, would have led to antitrust liability. The plaintiff sought treble damages and an injunction under the Sherman Antitrust Act<sup>1</sup> to prevent Congoleum from enforcing the foreign patents.

Mannington alleged that Congoleum's enforcement of the fraudulently obtained patents in the foreign countries restricted the foreign business of Mannington and other American competitors and thereby restrained the export trade of the United States. In addition, Mannington asserted that Congoleum's allegedly false claims of priority dates were in violation of two treaties to which the United States is a party, the Paris Convention of March 20, 1883,<sup>2</sup> and the Pan-American Convention of August 20, 1910.<sup>3</sup> The United States District Court for the District of New Jersey, relying primarily upon the act of state doctrine, dismissed the complaint for failure to state a claim, and Mannington appealed.

The United States Court of Appeals for the Third Circuit first addressed the issue of extraterritorial application of the Sherman Antitrust Act. The court cited *United States v. Aluminum Co. of America (Alcoa)*,<sup>4</sup> in which Judge Learned Hand enunciated the "intended effects" test for determining jurisdiction under the Sherman

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1. 15 U.S.C. §§ 1, 2 (1976).

2. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as amended Oct. 31, 1958, 13 U.S.T. 1, T.I.A.S. No. 4931.

3. Pan-American Patents Convention, Aug. 20, 1910, 38 Stat. 1811, T.S. No. 595.

4. 148 F.2d 416 (2d Cir. 1945).

Act. Judge Hand concluded that Congress intended the Act to prohibit conduct having consequences within this country if the conduct is intended to and actually does have an effect upon U.S. imports or exports. This test has been cited with approval by the Supreme Court<sup>5</sup> and is clearly supported by case history. The court concluded that when, as in this case, alleged antitrust activity conducted in a foreign country by one American corporation results in harm to the export business of another American corporation, a U.S. federal court does have subject matter jurisdiction.

Defendant Congoleum argued that adjudication of Mannington's claims in U.S. courts should be precluded because of the act of state doctrine. One of the earliest expressions of this doctrine was *Underhill v. Hernandez*,<sup>6</sup> wherein Justice Fuller held that the courts of one country may not judge the acts of the government of another done within its own territory. In *Banco Nacional de Cuba v. Sabbatino*<sup>7</sup> the Supreme Court ruled that the purpose of the act of state doctrine is to permit the Executive to conduct foreign policy without undue interference from the judiciary, while not irrevocably removing from the judiciary the capacity to review the validity of foreign acts of state. Another more recent view accepts the law of the foreign state as governing acts occurring within the foreign power's jurisdiction.<sup>8</sup> The court in *Mannington* held that, under all of these theories, ministerial activities such as the granting of patents are not within the traditional scope of the act of state doctrine. Cases which usually invoke the doctrine, such as expropriation and repudiation of contract obligations by a foreign state, involve "a considered policy determination by a government to give effect to its political and public interests."<sup>9</sup> Furthermore, the grant of patents for floor coverings is not of substantial concern to the Executive branch in conducting U.S. foreign relations.

The court also held that Congoleum could not assert as a defense the claim of compulsion by foreign governments. The mere issuance of patents by those governments did not force Congoleum to exclude plaintiff Mannington from the foreign market; therefore, the defense of compulsion was unavailable.

Next the court considered whether, on the basis of comity and

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5. See, e.g., *Continental Ore Co. v. Union Carbide & Carbon Co.*, 370 U.S. 690, 704 (1962).

6. 168 U.S. 250 (1897).

7. 376 U.S. 398 (1964).

8. See Note, *Sherman Act Jurisdiction and the Acts of Foreign Sovereigns*, 77 COLUM. L. REV. 1247, 1255 (1977).

9. 595 F.2d at 1294.

international repercussions, it should abstain from exercising its jurisdiction in this case. The court held that under certain circumstances the rule in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*<sup>10</sup> may be applied to international patents. *Walker* held that a United States patent obtained by intentional fraud, when accompanied by violations of section 2 of the Sherman Act, would be stripped of its antitrust exemption. *Mannington* adopted a balancing test, originally set forth in *Timberlane Lumber Co. v. Bank of America*,<sup>11</sup> which compared the interests of the United States and those of the issuing nations to determine whether the American interests sufficiently outweighed the others' to justify an exercise of jurisdiction. In adopting this test the court stated: "when foreign nations are involved . . . it is unwise to ignore the fact that foreign policy, reciprocity, comity, and limitations of judicial power are considerations that should have a bearing on the decision to exercise or decline jurisdiction."<sup>12</sup>

Although the court felt that this might be a case where "the consequences to the American economy and policy permit no alternative to firm judicial action,"<sup>13</sup> it ruled that the record in this case was inadequate to allow a reasoned decision on the complex issues. Therefore, the court remanded the case to the district court for further proceedings, taking into consideration all material factors counselling for or against the exercise of jurisdiction.

The court affirmed the district court's holding that *Mannington* did not have a private cause of action under either the Paris Convention<sup>14</sup> or the Pan-American Convention.<sup>15</sup> The court found the treaties not to be self-executing and, in the absence of implementing legislation,<sup>16</sup> no private cause of action existed.

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10. 382 U.S. 172 (1965).

11. 549 F.2d 597 (9th Cir. 1976).

12. 595 F.2d at 1296.

13. *Id.*

14. 13 U.S.T. 1, T.I.A.S. No. 4931.

15. 38 Stat. 1811, T.S. No. 595.

16. A treaty which is not self-executing must be implemented by legislation before it gives rise to a private cause of action. See *Dreyfus v. Von Finck*, 534 F.2d 24, 29-30 (2d Cir. 1976), cert. denied, 429 U.S. 835 (1976).