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Patents, Copyrights, Government

A major loophole in patent and copyright infringement exists when the U.S. government is the infringer

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A fundamental tenet of patent and copyright law is that a patent or copyright owner can enjoin infringement by other parties. 35 U.S.C. §283, 17 U.S.C. §502. Relatively few lawyers realize, however, that there is a major loophole when the other party is the United States.

The Fifth Amendment to the United States Constitution says, in part, "nor shall private property be taken for public use, without just compensation." This "taking clause" acknowledges that eminent domain is an attribute of sovereignty but "bar[s] Government from forcing some people alone to bear public burdens which, in all fairness and justice, should be borne by the public as a whole." *Armstrong v. United States*, 364 U.S. 40, 49 (1960).

Legislative provisions

The Tucker Act, 28 U.S.C. §1491, et seq., governs non-tort claims against the United States, including those pertaining to eminent domain. Subsection 1491(a)(1) says, in relevant part, that "[t]he United States Court of Federal Claims shall have jurisdiction to render judgment upon any claim against the United States founded either upon the Constitution, or any Act of Congress or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort."

Among "cases not sounding in tort" are those regarding patents and copyrights, which 28 U.S.C. §1498 addresses. Subsection 1498(a) governs patents and says, in relevant part, that "[w]henever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture."

Subsection 1498(b) governs copyrights and says, in relevant part, that "whenever the copyright in any work protected under the copyright laws of the United States shall be infringed by the United States . . . the exclusive action which may be brought for such infringement shall be an action by the copyright owner against the United States in the

Court of Federal Claims for the recovery of his reasonable and entire compensation as damages for such infringement, including the minimum statutory damages as set forth in section 504(c) of title 17, United States Code."

Subsection 1498(c) states that the provisions of Section 1498 "shall not apply to any claim arising in a foreign country." Subsection 1498(d) governs protected plant varieties, and Subsection 1498(e) governs semiconductor mask works and designs for ship hulls. The rest of this article will focus on Subsections (a) and (b).

Administrative procedure

Litigation is a bad way to run just about any business. Negotiation — assuming that one can achieve a reasonable outcome — is preferred because it is less expensive, less time-consuming and less stressful. In negotiating use of patents and copyrights with the U.S., the starting point is to file a claim with the applicable government department.

Different departments have different claim procedures although many departments have no §1498-specific procedures at all. (The cited procedures use the term "infringement" with respect to both patent and copyright claims. Section 1498, in contrast, refers to "infringement" of copyrights, but with respect to patents refers to "an invention [that] is used or manufactured . . . without license of the owner.") For example:

- Department of Energy — 10 C.F.R. §782.5 lists six requirements for both patent and copyright claims (including, inter alia, an allegation of infringement and a request for compensation), plus 11 more requirements that apply only to patent claims.
- Department of Defense — 48 C.F.R. §227.7004, which addresses patent claims, is similar to, but has subtle differences from, the Department of Energy's 17 requirements described above. 48 C.F.R. §227.7003 states that for copyright claims, the patent claim procedures will be followed "where applicable."
- Department of Justice, Civil Division — §§4-4.310 and 4-4.320 of the United States Attorney's Manual state responsibility for Â§1498 copyright and patent claims, respectively, but do not provide procedures for such claims.

Once the department has all the required information, it will try to determine the appropriate "reasonable and entire compensation" with guidance from applicable court decisions. In §1498 cases, "[t]he proper measure [of damages] is what the owner has lost, not what the taker has gained." *Leesona Corp. v. United States*, 599 F.2d. 958, 969 (Ct. Cl. 1979).

If the patent or copyright already has been licensed in the commercial sector or to another government department, the royalty payment under the existing license will be a useful benchmark. Absent any existing license, one must estimate the royalty that a willing buyer would negotiate with a willing seller. *Georgia-Pacific Corp. v. United States Plywood Corp.,* 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970), modified 446 F.2d. 295 (2d Cir. 1971). If it is difficult to calculate a reasonable royalty, the financial benefit (savings) conferred on the government may be the basis for computing damages, most properly by using that benefit to estimate the royalty that a willing buyer and seller would agree to. *Leesona*, 599 F.2d. at 971.

If the patent or copyright owner finds the government's proposed compensation

inadequate, it is time to negotiate. The government generally prefers a negotiated resolution to litigation. For example, the policy of both the Department of Energy (10 C.F.R. § 782.2) and the Department of Defense (48 C.F.R. §227.7001) is to take "all necessary steps . . . to investigate and to settle administratively, to deny, or otherwise [to] dispose of such claim prior to suit against the United States."

A major problem for patent and copyright owners, however, is a bargaining position weakened by §1498's preclusion of injunctive remedies. Knowing that it can continue its unauthorized use indefinitely, the government can say, in effect, "If you don't like this offer, sue us!" knowing that most owners will lack the time, money or incentive to wage a protracted legal battle (§1498(a) allows independent inventors, nonprofit organizations and entities with no more than 500 employees to recover "reasonable costs, including reasonable fees for expert witnesses and attorneys, in pursuing the action.")

Furthermore, any recovery via suit will be limited to compensation for actual unauthorized use up to the time of suit — there is no recovery for projected unauthorized use in the future. Given the applicable statutes of limitations (see discussion below), plaintiffs could find themselves coming back to court repeatedly for the duration of the applicable patent (at least 17 years) or copyright (at least 70 years). This is a strong incentive to reach a negotiated agreement with the government rather than litigate.

Practice details

Section 1498 covers unauthorized use by certain entities acting on behalf of the government under certain circumstances (referred to below as "agents"). With respect to patents, "use or manufacture of an invention . . . by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States." Similarly but somewhat more broadly with respect to copyrights, infringement "by a corporation owned or controlled by the United States, or by a contractor, subcontractor, or any person, firm, or corporation acting for the Government and with the authorization or consent of the Government" is considered infringement by the United States.

Government "authorization or consent" can be express or implied. Express consent often appears in government agreements with contractors in a standard clause prescribed by Federal Acquisition Regulation 52.227-1. Express consent also can be found where the government requires the contractor to use or manufacture a specific device, even if the government does not know that the device is covered by a patent. *Hughes Aircraft Co. v. United States*, 29 Fed. Cl. 197, 233 (1993). Implied consent can be found, for example, where the government, under the guidelines of a bidding procedure, asks a contractor to demonstrate a device. *TVI Energy Corp. v. Blane and Blane Enterprises Inc.,* 806 F.2d. 1057 (Fed. Cir. 1986).

Although the statute covers unauthorized use by the specified agents, those agents typically are not considered part of the government for procedural purposes. For example, regulations of the Department of Energy (10 C.F.R. §782.8) and Department of Defense (48 C.F.R. §227.7005[a]) expressly state that a claim filed with a contractor does not constitute a claim against the United States.

As discussed above, regulations require that the claimant provide detailed information, including an explicit allegation of infringement, regarding unauthorized use by the government. This is the opposite of the approach usually taken by patent owners with respect to infringement by non-governmental entities. In the latter case, the patent owner's warning letter typically invites negotiation of a license and avoids referring to infringement for fear that the alleged infringer will have an "actual controversy" under the Declaratory Judgment Act (28 U.S.C. §2201[a]) and, thus, will be able to bring a suit for declaratory judgment in a venue favorable to the alleged infringer.

If the parties agree on a settlement, the agreement likely will be drafted by the government to comply with applicable acquisition regulations. See, e.g., 48 C.F.R. § 227.7009, et seq. regarding Department of Defense patent releases, license agreements and assignments.

A U.S. government employee cannot bring suit under §1498 if (1) "he was in a position to order, influence, or induce use of the [invention or copyrighted work] by the Government" or (2) the invention was discovered or invented, or the copyrighted work was prepared, "while in the employment or service of the United States, where [such work was among] the official functions of the employee [or] Government time, materials or facilities were used."

While §1498 treats patents and copyrights similarly in many respects, there are some significant differences. For example, a patent suit must be filed within six years of infringement (28 U.S.C. §2501), whereas a copyright suit must be filed within three years of infringement (28 U.S.C. §1498[b]). Another difference is that compensation for copyright infringement includes the minimum damages specified by 17 U.S.C. §04(c) (between $500 and $20,000 "as the court considers just," or up to $100,000 if the court finds willful infringement).

Recommendations

If you find yourself representing a patent or copyright owner in a claim against the United States, here are some ways to make the best of your somewhat limited options:

- Research the claim procedures of the relevant government department. The sooner you provide all required information, the sooner your client will receive compensation.
- If your client has already licensed the patent or copyright either commercially or to another government agency, ask for a comparable royalty. The government is unlikely to approve a greater amount unless you can show a legitimate business reason for the difference.
- If your client has not yet licensed the patent or copyright, investigate private- and public-sector licenses in related lines of business to determine whether there is a range of prevailing royalty rates that can be adapted to your client's claim.
- If negotiations with the government department are not successful, be sure to file suit before the applicable time limit has run.

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