

Intellectual Property and the Fifth Amendment Takings Clause

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- I. Takings law generally
 - A. The Fifth Amendment to the U.S. Constitution states “nor shall private property be taken for public use, without just compensation.” The Takings Clause is viewed as being incorporated into the Due Process Clause of the Fourteenth Amendment and therefore is applicable with respect to both the federal and state governments. Note that the Clause does not prohibit the state from taking private property for a public purpose; it only conditions the exercise of that power upon the duty to pay just compensation.
 - B. General elements of a taking claim: (1) a state actor (2) duly authorized by law (3) effects a taking (4) of private property (5) for a public use.
 - C. As applied to real or personal property
 1. A state-sanctioned physical occupation of private property is usually viewed as a taking, even if the occupation is short-lived and the economic harm is de minimis.
 2. A regulation that interferes with one’s use or enjoyment of private property may constitute a taking, depending on several factors including (1) the economic impact of the regulation, (2) its interference with reasonable investment backed expectations, and (3) the character of the government action. A regulation that deprives the owner of substantially all use or value of her property is usually deemed a taking.
 3. Temporary physical invasions: likened to regulatory takings?
 - D. After *Kelo*, a “public use” is any use that serves a public purpose, including economic development. Although the state may not take property from A solely for the purpose of transferring it to B, courts generally will defer to legislative judgments concerning what counts as a public purpose.
- II. Applicability of takings law to IP
 - A. Patents

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1. Property? 35 U.S.C. § 261 states that “[p]atents shall have the attributes of personal property.”
2. I argued in a 1998 article¹ that the question of whether the federal government’s unauthorized manufacture or use of a patented invention constitutes a taking (e.g., of a license) is far from clear. On the one hand, several vintage Supreme Court decisions, and a few more recent lower court decisions, suggest in dicta that the federal government’s unauthorized use of a patented invention is a taking. On the other, a few cases seem to suggest otherwise.
3. Since 1910, the issue has been largely--but not entirely--dormant in light of 28 U.S.C. § 1498(a). In relevant part, this statute states that “Whenever 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.”
4. In my view, there are three possible interpretations of the existing case law, which I labeled the Expansive View, the Middle View, and the Narrow View.
 - a. Under the Expansive View, any unauthorized use by the federal government of a patented invention is a taking. 28 U.S.C. § 1498(a) merely codifies how the patent owner’s constitutional right to just compensation is (usually?) to be enforced. Alternatively, § 1498(a) effects a ratification by the federal government of a federal employee’s use of a patented invention, and thus converts into a taking conduct for which the federal government otherwise might not have been responsible.
 - b. Under the Middle View, the Supreme Court’s decision in *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984), which involved disclosure by the federal government of Monsanto’s trade secrets, is controlling. In *Monsanto*, the Court applied a multifactor regulatory takings analysis in concluding that the federal government had

¹Thomas F. Cotter, *Do Federal Uses of Intellectual Property Implicate the Fifth Amendment?*, 50 FLA. L. REV. 529 (1998).

effected a taking of Monsanto's property; most important was the interference with Monsanto's reasonable investment-backed expectation of secrecy. Monsanto therefore had a valid takings claim against the federal government, which it could pursue in the Court of Claims under a different statute, the Tucker Act (§ 1498 not being applicable to trade secrets). Does *Monsanto* signal that government use of patents and other IP should also be evaluated in accordance with regulatory takings standards? Or is limited to its facts, i.e., government disclosure of trade secrets?

c. Under the Narrow View, only government uses that deprive the owner of virtually all of the value of its patent constitute takings. Probably relatively few uses of patents or other IP would satisfy this test, though perhaps some would; *Monsanto* might be such a case.

5. Could the government prospectively reserve for itself a right, conditional or otherwise, to manufacture and use any invention covered by a patent, and thus avoid the takings problem altogether? Has it done so already? What if the government enacts a new exception applicable to existing patented inventions?

6. The other elements of a takings claim

a. As noted, "public use" is broadly construed after *Kelo*, although the government is free to constrain itself to a greater degree than the Constitution requires. The *Kelo* Court specifically cited *Monsanto* with approval as a case involving a public use, even though the immediate beneficiaries of the trade secret information disclosed there were Monsanto's competitors. Query, however, whether a purported taking by a state or municipality, as opposed to the federal government, *could be* a public use given Congress's admonition (only imperfectly enforceable, however, after *College Savings Bank* and *Florida Prepaid*) in the 1992 Remedy Clarification Acts that states not infringe patents, copyrights, and trademarks.

b. Authorization

B. Copyrights

1. Property? *See* 17 U.S.C. § 201(d)(1).

2. Assuming that copyrights are private property, issues similar to those discussed above may arise. 28 U.S.C. § 1498(b) states 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.” Query whether some or all such infringements are takings. Does infringement include violations of moral rights or neighboring rights?

C. Trademarks, trade secrets, and other rights under the law of unfair competition

1. Property?

a. *Monsanto* concluded that trade secrets were property, despite their somewhat tenuous status as such. Perhaps the same reasoning would apply to trademarks too, even though trademarks lack many of the attributes of more familiar types of property; but is the right to be free from trademark infringement and dilution a property interest?

b. Some other unfair competition rights—rights to be free from false advertising, product disparagement, etc.—are not property interests under existing law. *See College Savings Bank v. Florida Prepaid Postsecondary Education Expense Bd.*, 527 U.S. 666 (1999).

c. The right of publicity, on the other hand, is a property right in some states but not others; not recognized at all in yet others.

2. 28 U.S.C. § 1498 does not address uses by the federal government of trademarks, but in 1999 the U.S. government waived its immunity from Lanham Act claims. *See* 15 U.S.C. § 1122. Moreover, the Federal Tort Claims Act has been used to assert claims against the federal government for violation of state trademark law.

3. Public use? Authorization?

D. Overarching issues

1. Does classifying an IP right as a species of property unwisely exacerbate the “propertization” of IP?

2. Does the nonrivalrous nature of many IP rights suggest that the takings framework is inappropriate in this context?

3. Is the regulatory takings framework sensible as applied to patents and copyrights, given the federal government’s ability to negotiate for individual use?

III. Some current areas of dispute

- A. Unauthorized conduct by the federal government with respect to patents or copyrights, in ways that are not covered by 28 U.S.C. § 1498.
1. For example, in *Zoltek Corp. v. United States*, 442 F.3d 1345 (Fed. Cir. 2006) (per curiam), a federal contractor used a process covered by a U.S. patent, but some of the process steps were performed outside the United States, such that § 1498 did not apply according to the majority's construction of the statute. *See* 28 U.S.C. § 1498(c) ("The provisions of this section shall not apply to any claim arising in a foreign country"). The Federal Circuit rejected the argument that the unauthorized use of the patented process nevertheless was remediable under the Tucker Act as a taking, but the case generated four separate opinions, including a dissenting opinion by Judge Plager, who believed the taking theory may have been viable.
 2. Would federal or state permission for the unauthorized importation of patented drugs from Canada effect a taking of a license under the patentee's importation right?
 3. What about federal or state violations of moral rights? Neighboring rights?
 4. More generally, can a takings claim be viable when § 1498 does not apply (e.g., because the conduct at issue is not a use or manufacture of the patented invention or an infringement of copyright, or because the claim arises in a foreign country)? Can there be a taking if the conduct would not violate the U.S. Patent or Copyright Act if committed by a private party (e.g., the alleged infringement occurs abroad, possibly in violation of another's country's patent or copyright laws)? What if the government takes a patent or copyright, in the sense of reassigning ownership rights of the patent or copyright from A to B?
- B. More recent cases involving alleged government disclosures of trade secrets