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Hughes Aircraft Co. v. United States: Jurisdiction over Patent Infringement Claims Against the United States

In 1910, Congress waived the sovereign immunity of the United States with regard to patent infringement claims by giving the Court of Claims jurisdiction to hear such claims; that jurisdictional grant is now 28 U.S.C. § 1498. This statute provides that in a patent infringement claim involving any production undertaken “by or for the United States,” the owner’s exclusive remedy shall be against the United States in the Court of Claims, and shall be limited to compensatory money damages. This jurisdictional statute effectively amounts to an eminent domain provision,¹ for it precludes the possibility of injunctive relief against the government contractors and government officials involved in infringing the patent.

Since the end of World War II, as the furnishing of foreign aid has become an important part of American foreign policy, it has been thought particularly important to prevent injunctions which would delay or halt production undertaken as a part of such aid.² To foreclose the possibility of such injunctions — a possibility left open by uncertainty as to whether such production, destined for foreign countries, was “for” the United States within the meaning of 28 U.S.C. § 1498³ — the foreign aid statute had included a special provision giving the Court of Claims jurisdiction to hear such claims.⁴ This provision was, however, omitted from the 1968 Foreign Military Sales Act [FMSA],⁵ which generally reenacted the military sales provisions after taking them out of the more general foreign aid statute, the 1961 Foreign Assistance Act [FAA].

In *Hughes Aircraft Co. v. United States*,⁶ the Court of Claims was called upon to decide whether, despite that omission, it would continue to exercise jurisdiction over patent infringement cases regarding production for foreign military sales. The court held that jurisdiction attached by virtue of both 28 U.S.C. § 1498 and the special jurisdictional provision of the 1961 FAA, section 606 of that act, 22 U.S.C. § 2356. By thus exercising jurisdiction, and thereby holding

¹ See J. DAVIS, U.S. COURT OF CLAIMS PATENT PRACTICE 24-25, 40-41 (3d ed. 1970).

² See CONF. REP. NO. 1090, 82d Cong., 1st Sess., reprinted in [1951] U.S. CODE CONG. & AD. NEWS 2312, 2323.

³ *Id.*

⁴ 22 U.S.C. § 2356 (1970) Foreign Assistance Act of 1961, § 606, Pub. L. No. 87-195, 75 Stat. 440; originally enacted as Mutual Security Act of 1951, § 517, ch. 479, 65 Stat. 382.

⁵ Foreign Military Sales Act of 1968, Pub. L. No. 90-629, 82 Stat. 1320 (codified at 22 U.S.C. §§ 2751-93 (1970)).

⁶ 534 F.2d 889 (Ct. Cl. 1976).

open a forum for such claims to be asserted against the United States, the court continued to protect the government's foreign military sales procurement program from the dangers of aggrieved patent holders seeking injunctive relief against government contractors and government officials.

The Hughes Aircraft Company held the patents on an orbit stabilization device which it alleged had been used in the Skynet II defense communications satellite. The Skynet II satellite was the British link in an advanced system of United States-United Kingdom worldwide defense communications, which was provided for in a 1970 Memorandum of Understanding [MOU] between the two countries. The satellite was to be launched by the United States, and to insure technical compatibility with the United States system, considerable technical assistance was to be provided by the United States. All assistance was to be paid for by the United Kingdom through periodic reimbursement procedures established by the 1968 FMSA. Obtaining patent rights from American patent holders was to be part of this assistance; the Defense Department therefore, acting through the British Government (which had let the contracts involved), gave to the contractors the authorization and consent of the United States Government for the possible infringement of the Hughes patents. The Defense Department's explicit intention in so acting was to bring these patents within the "eminent domain provisions of 28 U.S.C. § 1498(a)."⁷

The Department of Justice moved to dismiss for lack of jurisdiction over the subject matter, and presented the court with four contentions in support of its motion: (1) The patented invention was not "used or manufactured by or for the United States" as required by 28 U.S.C. § 1498; (2) Jurisdiction was precluded by 28 U.S.C. § 1502, which prohibits the court from adjudicating claims "growing out of or dependent upon" a treaty; (3) Jurisdiction was precluded because all United States expenditures in the Skynet project were reimbursed by the British, making the project a non-appropriated fund activity over which the court had no jurisdiction since its judgments must be paid out of appropriated funds under 28 U.S.C. § 2517; (4) The omission of the special provision for patent jurisdiction from the 1968 FMSA was proof of a congressional intent to exclude such claims from the court's jurisdiction.

The court's basic patent jurisdiction, derived from 28 U.S.C. § 1498, provides a remedy for any unauthorized use or manufacture "by or for" the United States. Subsection (b) defines a use or manufacture "for" the United States as any which is undertaken "for the Government and with its authorization and consent." The Justice Department

⁷ *Id.* at 900.

in the *Hughes* case contended that the Skynet II project did not meet this "by or for" test.

The court held, to the contrary, that the project met both alternatives of the test. The court found a use *by* the United States within the meaning of the statute, in the considerable direct control which the United States exerted over the project, a control which included the actual launch itself. The Justice Department's argument that this use was entirely on behalf of the United Kingdom was summarily rejected, with the court relying on weighty declarations in the MOU as to the mutually beneficial aims of the project. The court also quoted the 1968 FMSA to the effect that its procedures were established for national security purposes.

These same arguments as to the project's benefits to the United States were again relied on as the court also held that the Skynet satellite was manufactured *for* the United States within the meaning of section 1498. The reliance on the FMSA was of particular interest as there had been some doubt whether such foreign assistance was "for" the United States under section 1498 until the special jurisdictional provision was enacted into an early predecessor of the FMSA. The amply documented purpose of this provision was to proclaim that materials obtained for foreign aid were "for" the United States within the meaning and purpose of section 1498.⁸ The court inferred from this that the FMSA procurement program was also "for" the United States. Thus the jurisdictional clause omitted from the FMSA was relied on to sustain jurisdiction under the more general grant.

Having initially found that the claim fell within the provisions of section 1498, however, the court was faced with other challenges to its exercise of jurisdiction. The otherwise valid jurisdiction in the Court of Claims could be ousted if the claim is viewed as one "growing out of or dependent on" a treaty. In addition, if the government activity involved does not operate with appropriated funds, then it may not obligate such funds. The court therefore may not exercise jurisdiction over claims relating to that activity, for the court's judgments must be paid out of appropriated funds.⁹ The Department of Justice contended that both of these jurisdictional preclusions applied to this claim; the court rejected both contentions.

The contention that the claim grew out of a treaty (the MOU which established the Skynet II project) was rejected easily because "The real issue . . . is not . . . whether the *Government's* activities were dependent upon the 1970 MOU . . . , but whether *plaintiff's claim* so depends."¹⁰ (Emphasis in original.)

⁸ See text at notes 2 and 3 *supra*.

⁹ See, e.g., *Breitbeck v. United States*, 500 F.2d 556, 558 (Ct. Cl. 1974); *Interdent v. United States*, 488 F.2d 1011, 1012-13 (Ct. Cl. 1973).

¹⁰ 534 F.2d at 903.

The non-appropriated fund preclusion presented a more difficult problem. The Justice Department argued that since all United States expenditures were to be reimbursed by the United Kingdom, the project was essentially self-supporting as far as the United States was concerned, and was therefore a non-appropriated fund activity. The court rejected the argument, reasoning that United States appropriated funds were to be used on a continuing basis, prior to periodic reimbursement, so the program was dependent upon and could obligate appropriated funds. Furthermore, the MOU establishing the project contained a patent infringement claims indemnity clause, indicating that the Government expected such claims to be paid out of appropriated funds. Finally, appropriated funds had been used to pay patent infringement claims under the predecessors to the 1968 FMSA, all of which had had similar reimbursement provisions. This combination of factors, said the court, negated "any risk of violating the fundamental policy underlying section 2517 by imposing an unauthorized burden on the public treasury."¹¹

The final argument put forward by the Justice Department was that the omission of a specific patent jurisdiction provision from the 1968 FMSA showed a congressional intent to eliminate the court's jurisdiction over such claims in foreign military sales cases. The court found it "simply inconceivable,"¹² in view of the important function served by this jurisdiction (*i.e.*, precluding disruptive injunctions), that Congress would simply by omission, and without explanation or debate, have intended to eliminate that jurisdiction. The court therefore held that when the foreign military sales provisions were taken out of the general foreign aid statute (the 1961 FAA) and reenacted as the 1968 FMSA, the special jurisdictional section of the 1961 FAA remained applicable to those provisions.

In thus rejecting every one of the Justice Department's jurisdictional attacks, the Court of Claims determined to hold open a forum for patent infringement claims against the Government arising out of the Government's activities under the 1968 FMSA. However, one question remains: does the court's jurisdiction in this area rest on its basic grant of patent jurisdiction under 28 U.S.C. § 1498, or is it indeed based on 22 U.S.C. § 2356, the special jurisdictional provision of the 1961 FAA which the court held applicable to the 1968 FMSA? The question is not likely to become crucial in the Court of Claims, since its remedial powers are the same in either case. Nevertheless, the question is not an idle one, for under 28 U.S.C. § 1498, the court has exclusive jurisdiction, whereas under 22 U.S.C. § 2356 it shares concurrent jurisdiction with the federal district courts. Thus the court's *tour de force* in rejecting every one of the Justice Department's arguments leaves an ambiguity

¹¹ *Id.* at 912.

¹² *Id.* at 914.

which must be considered by prospective plaintiffs deciding where to bring their actions.¹³

This ambiguity pervades the court's opinion. Jurisdiction was asserted initially under the more general provision in 28 U.S.C. § 1498, yet the specific provision in 22 U.S.C. § 2356 was cited to show that the project was "for" the United States under section 1498. The court reached the question of the non-appropriated fund preclusion's applicability to the FMSA only because jurisdiction was asserted under the more general clause, but the earlier foreign aid acts with the specific clause were cited as evidence that appropriated funds were available to pay the claim. Furthermore, the final holding that the specific clause was applicable to the 1968 FMSA would have been sufficient by itself to uphold jurisdiction, yet the court did not rely exclusively on that holding.

This close relationship between the two jurisdictional grants can be seen as an argument that the court reached the correct result. As the Defense Department argued in an affidavit supporting plaintiff's assertion of jurisdiction, a coherent foreign aid program must provide a forum for aggrieved patent holders to assert claims against the government, thereby protecting government contractors and preventing disruptive injunctions. These jurisdictional provisions were enacted to serve precisely that function. It is natural that they should complement each other in refuting the jurisdictional attacks in this case.

Individually, the arguments put forward by the Justice Department were weak. Their collective weight was fairly formidable. Had the Justice Department's arguments prevailed, they would have done so over the needs of the Defense Department. By resisting these jurisdictional attacks, the Court of Claims avoided the promulgation of an incoherent policy.

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¹³ For discussions of considerations relevant to this decision, see J. DAVIS, *supra* note 2, at 28-29; Pasley and TeSelle, *Patent Rights and Technical Information in the Military Assistance Program*, 29 LAW AND CONTEMP. PROB. 566, 576 (1964).