

**CONDEMNING A PATENT:
TAKING INTELLECTUAL PROPERTY BY EMINENT DOMAIN**

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I.	INTRODUCTION	82
II.	THE GOVERNMENT'S POWER TO CONDEMN INTANGIBLE PROPERTY	83
III.	WHAT KIND OF INTANGIBLE PROPERTY CAN BE CONDEMNED?	85
IV.	WHICH GOVERNMENTS CAN TAKE INTELLECTUAL PROPERTY BY EMINENT DOMAIN?	88
	A. <i>The Federal Government</i>	89
	B. <i>State Governments</i>	90
	C. <i>Municipalities and Private Entities</i>	95
V.	THE DIFFICULTIES ASSOCIATED WITH CONDEMNING INTELLECTUAL PROPERTY	99
VI.	WHAT KIND OF PUBLIC USE WOULD JUSTIFY CONDEMNING INTELLECTUAL PROPERTY?	105
	A. <i>Justifications for Taking a Compulsory License</i>	105
	B. <i>Justifications for Taking the Entire Patent</i>	114
	C. <i>Unintended Consequences of Taking a Patent</i>	116
VII.	CONCLUSION	119

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I. INTRODUCTION

As a sovereign entity, the state has the power to take from its citizens their private property.¹ This power of eminent domain is most often used in acquiring real property from private hands for things like schools, roads, airports, and access for public utilities.² In order for the state to exercise its eminent domain power, two conditions must exist: (1) the state must demonstrate a sufficient public use for taking the property, and (2) the state must pay “just compensation” as required by the Fifth Amendment of the U.S. Constitution.³ The state is able to delegate its power to private entities such as railroads or privately owned utility or cable companies as long as a sufficient public use is demonstrated.⁴ Through years of American legal jurisprudence, courts have expanded the definition of what constitutes a sufficient public use.⁵ Today a very lenient standard is applied.⁶

Along with the expansion of the public use definition has come an expansion of the type of property subject to the eminent domain power. This article evaluates the legality and propriety of taking intellectual property (“IP”) by eminent domain. Section I evaluates the government’s power to condemn intangible property. Section II assesses the appropriateness of condemning various types of intangible property.

¹ U.S. CONST. art. I, § 8, cl. 8.

² A. JAMES CASNER ET AL., *CASES AND TEXT ON PROPERTY* 1079 (4th ed. 2000).

³ *Haw. Hous. Auth. v. Midkiff*, 467 U.S. 229, 241 (1984).

⁴ CASNER, *supra* note 2, at 1079.

⁵ *Haw. Hous. Auth.*, 467 U.S. at 240-41.

⁶ *Id.* at 241 (“But where the eminent domain power is *rationally related* to a conceivable public purpose, the Court has never held a compensated taking to be proscribed by the Public Use Clause.”) (emphasis added).

Section III addresses whether local, state, or federal governments can exercise this power over intangible property, and summarizes the implications for doing so. Section IV outlines some of the problems associated with condemning IP. Finally, section V evaluates the possible public uses that would justify taking IP, specifically focusing on patents.

II. THE GOVERNMENT'S POWER TO CONDEMN INTANGIBLE PROPERTY

Intangible interests and intangible property can be taken by the government's eminent domain power just as tangible interests and real property can be taken.⁷ Examples of intangibles that have been taken by eminent domain include business goodwill, labor,⁸ trade routes, contracts, and franchises.⁹

A notable case directly upholding the power of the government to take intangible property is *City of Oakland v. Oakland Raiders*.¹⁰ When the Raiders, a National Football League franchise, were first in Oakland,¹¹ contract negotiations between the Raiders and Oakland-Alameda County Coliseum broke down for the 1980 season, and the team subsequently

⁷ *Kimball Laundry Co. v. United States*, 338 U.S. 1, 11 (1948); *see also* 1A PATRICK J. ROHAN & MELVIN A. RESKIN, NICHOLS ON EMINENT DOMAIN § 2.1[2] (3d ed. 2002) [hereinafter NICHOLS].

⁸ 2 NICHOLS, *supra* note 7, § 5.03[6].

⁹ 1A *id.* § 2.1[2].

¹⁰ 646 P.2d 835 (Cal. 1982).

¹¹ In 1995 the Raiders relocated back to Oakland.

announced it was moving to Los Angeles.¹² The City of Oakland, trying to prevent the team's relocation, announced its intention to acquire the team by eminent domain.¹³ Litigation between the City of Oakland and the Raiders reached the California Supreme Court, which held that there is no federal or state constitutional restriction on the kind of property that can be taken; more specifically, the court held that eminent domain law authorizes the taking of intangible property.¹⁴ The court remanded the case to resolve whether the City of Oakland demonstrated a sufficient public use, but in so doing held that the doctrine of public use extends to "matters of public health, recreation and enjoyment."¹⁵ The court reasoned that the government's ability to provide access to spectator sports is an appropriate public purpose,¹⁶ and that owning a football team was as defensible as owning sporting facilities.¹⁷ Surprisingly, the court further reasoned that it would be permissible for the city to own the team for a short period of time and then transfer ownership to another private party.¹⁸ The government would have effectively forced the sale of the team from one private party to another.

From the foregoing example, it appears that courts may consider the power of eminent domain amenable to extension to intangible property just

¹² *Oakland Raiders*, 646 P.2d at 837.

¹³ *Id.*

¹⁴ *Id.* at 840.

¹⁵ *Id.* at 841 (quoting *Rindge Co. v. Los Angeles*, 262 U.S. 700, 707 (1923)).

¹⁶ *Id.* at 842 (citing examples of municipalities owning sporting facilities, such as Candlestick Park in San Francisco, CA, and Anaheim Stadium in Anaheim, CA).

¹⁷ *Id.* at 843.

¹⁸ *Id.* at 843-44.

as easily as it is used to take real property. But are there significant differences between real and intangible property that make the extension of the taking power problematic? Would the Supreme Court of California have no problem with a local government taking a patent from one private entity and then selling it to another?

III. WHAT KIND OF INTANGIBLE PROPERTY CAN BE CONDEMNED?

There are various types of intangible property that are properly subject to the eminent domain power. As illustrated in the *Oakland Raiders* case, businesses including franchises and sports teams can be subject to that power.¹⁹ The U.S. Supreme Court has held that there is nothing special about incorporeal property that would exempt it from government condemnation.²⁰ It should be noted that the eminent domain power to take a business is not used nearly as much as is the threat to use the power to prevent business relocations or closures.²¹ In fact, the *Oakland Raiders* case is the only case to directly uphold the use of eminent domain in preventing business relocation.

One major constraint on the government's power to condemn a business is the business's location. This point is illustrated by the dispute over the Baltimore Colts' move to Indianapolis in *Mayor of Baltimore v.*

¹⁹ *Id.* at 840.

²⁰ See *Armstrong v. United States*, 364 U.S. 40, 48 (1960) (liens); *Kimball Laundry*, 338 U.S. at 10-11 (trade routes); *Liggett & Myers Tobacco Co. v. United States*, 274 U.S. 215, 220 (1927) (contracts); *W. River Bridge Co. v. Dix*, 47 U.S. 507, 534-36 (1848) (franchises).

²¹ See 8A NICHOLS, *supra* note 7, § 22.04[1].

Indianapolis Colts.²² When the Colts football franchise indicated that it was planning to move from Baltimore to Indianapolis, the Maryland Senate passed emergency legislation authorizing Baltimore to condemn the franchise.²³ The Colts scrambled to move everything to Indiana by working through the night to move their physical possessions out of Maryland.²⁴ After eminent domain proceedings began, the court ruled that Baltimore could not take the Colts by eminent domain because they were “gone” by the time the condemnation petition was filed.²⁵ The court reasoned that they were “gone” because their principal place of business was moved out of state.²⁶ Therefore, it appears that the propriety of condemning a business is dependent upon the business’s location and the jurisdictional reach of the government.

If an entire business can be acquired by eminent domain, it follows that its IP holdings can also be acquired and should be considered when calculating what constitutes just compensation. Patents, in particular, have been expressly subject to the eminent domain power.²⁷ The Federal Circuit has held that “the government can simply ‘take’ an invention where

²² 624 F. Supp. 278 (D. Md. 1985).

²³ *Id.* at 280.

²⁴ *Id.*

²⁵ *Id.* at 289.

²⁶ *Id.*

²⁷ *James v. Campbell*, 104 U.S. 356, 357-58 (1881) (“[T]he government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land.”).

warranted by public interest concerns and provide 'adequate compensation' to the patent holder."²⁸

Although not often thought of in terms of eminent domain, the government's power to make or use a patented invention without the threat of an injunction creates a compensable compulsory license.²⁹ In this situation, the government has "taken" a license by eminent domain and, under the Fifth Amendment to the U.S. Constitution, must pay just compensation for that taking.³⁰ Furthermore, when a court exercises its equitable powers under 35 U.S.C. § 283 and refuses to grant an injunction when it finds a patent valid and infringed, it creates a *de facto* compulsory license by taking the right to use the invention and setting just compensation at an amount equal to the damages.³¹

Trade secrets are treated much the same as patents for eminent domain purposes because they protect essentially the same kind of innovation. Any distinction between these two forms of IP should not have much bearing on their candidacy for an eminent domain action. Regarding copyrights, the Second Circuit has stated that "[a]n interest in a copyright is a property right protected by the due process and just compensation

²⁸ King Instruments Corp. v. Perego, 65 F.3d 941, 950, 36 U.S.P.Q.2d (BNA) 1129, 1135-36 (Fed. Cir. 1995) (citing 28 U.S.C. § 1498).

²⁹ Calhoun v. United States, 453 F.2d 1385, 1391, 172 U.S.P.Q. (BNA) 438, 443 (Ct. Cl. 1972).

³⁰ *See id.*; *see also* Leeson Corp. v. United States, 599 F.2d 958, 202 U.S.P.Q. (BNA) 424 (Ct. Cl. 1979).

³¹ PHILLIP AREEDA & LOUIS KAPLOW, ANTITRUST ANALYSIS: PROBLEMS, TEXT, CASES 428 (5th ed. 1997)[hereinafter AREEDA].

clauses of the Constitution."³² It would not be difficult to conceive of an important public use for some copyrightable software applications.

On the other hand, it is difficult to find a rationale for a government's condemnation of a trademark. However, it seems appropriate that when a business is acquired by eminent domain, all its associated intangible property, including trademarks, would be taken and should affect the calculation of just compensation. It would have been interesting to see what kind of remedy the Fourth Circuit would have fashioned if the State of Utah lost its famous trademark dilution case against Ringling Brothers.³³ Instead of being enjoined from the use of the trademark, the State of Utah could have conceivably used its eminent domain power to take a license to use the slogan "The Greatest Snow on Earth" and pay just compensation equal to Ringling Brothers' dilution damages.

IV. WHICH GOVERNMENTS CAN TAKE INTELLECTUAL PROPERTY BY EMINENT DOMAIN?

The sovereign nature of federal and state governments allows them to take property by eminent domain.³⁴ Local governments are able to take

³² Roth v. Pritikin, 710 F.2d 934, 939, 219 U.S.P.Q. (BNA) 204, 208 (2d Cir. 1983).

³³ Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 50 U.S.P.Q.2d (BNA) 1065 (4th Cir. 1999) (dispute over dilutive effect of the State of Utah's use of the slogan "The Greatest Snow on Earth" against Ringling Brothers' "The Greatest Show on Earth").

³⁴ City of Oakland v. Oakland Raiders, 646 P.2d 835, 839 (Cal. 1982).

when the state properly delegates that power.³⁵ However, in the context of condemning IP, such as a patent, the legitimacy of the taking may have significant bearing on the entity doing the taking.

A. The Federal Government

Because it is the federal government that grants the property right associated with a patent, it seems appropriate that the federal government could also take those rights upon the payment of just compensation. The Federal Circuit declared: "The patentee takes his patent from the United States subject to the government's eminent domain rights to obtain what it needs from manufacturers and to use the same."³⁶ The federal government's power to take IP is exercised on a regular basis when it engages in unauthorized patent infringement. The IP right holder cannot prevent the government from continued infringement but can obtain damages by suing the United States in the Court of Federal Claims.³⁷

The basis for suing the federal government is its exercise of eminent domain in taking a patent license and the patentee's right to obtain just compensation for that taking.³⁸ In certain instances, Congress has expressly carved out areas of innovation where a compulsory license scheme is

³⁵ *Id.*

³⁶ *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1283, 6 U.S.P.Q.2d (BNA) 1277, 1284 (Fed. Cir. 1988).

³⁷ 28 U.S.C. § 1498 (2000).

³⁸ *Chew v. California*, 893 F.2d 331, 336, 13 U.S.P.Q.2d (BNA) 1393, 1397 (Fed. Cir. 1990) ("[Congress] has provided for a suit for compensation in the United States Claims Court . . . based on principles related to the taking of property, namely a patent license, and subjects the United States to payment of appropriate compensation therefore"); *see also* 5 DONALD S. CHISUM, PATENTS § 16.06[3] (1994).

statutorily mandated.³⁹ Even infringing civil contractors supplying goods or services to the United States government cannot be subject to a civil suit for an injunction or damages but plaintiffs must seek compensation exclusively through the Court of Federal Claims.⁴⁰

B. State Governments

In the context of state governments' appropriation of IP, it should be noted that a patent is a *federally* granted property right that exists *nationwide* (i.e., the patentee's right to exclude is not limited by state territorial boundaries).⁴¹ In this way a patent differs from real property. It seems odd for a state to condemn a property right granted by the federal government that is effective in the other 49 states. If a state could condemn a patent, it then could conceivably exclude out-of-state entities, and other sister states, from infringing its newly acquired patent. Furthermore, in general, a government cannot take property that is not within its territorial limits.⁴² Unlike intangible property such as businesses and franchises, *intellectual property*, such as patents and copyrights, cannot be defined as within territorial limits.

Jurisdictional problems are not the only stumbling block for a state that wishes to condemn a patent by eminent domain. The U.S. Constitution

³⁹ See, e.g., Clean Air Act § 308, 42 U.S.C. § 7608 (2000); Atomic Energy Act of 1948, 42 U.S.C. § 2183(b) (2000).

⁴⁰ *Molinaro v. Watkins-Johnson CEI Div.*, 359 F. Supp. 467, 471, 178 U.S.P.Q. (BNA) 211, 215 (D. Md. 1973).

⁴¹ See *Mayor of Balt. v. Indianapolis Colts*, 624 F. Supp. 278, 284 (D. Md. 1985).

⁴² See e.g. CAL. CODE CIV. PROC. § 1240.050 (2003); see also *Indianapolis Colts*, 624 F. Supp. at 284, 289 (“[A] sovereign state’s power to condemn property extends only as far as its borders and that the property to be taken must be within the state’s jurisdictional boundaries.”).

also presents a significant obstacle. A state's attempt to take a patent by eminent domain would likely run afoul of the commerce clause⁴³ by impermissibly burdening interstate commerce. Interestingly, the violation of the commerce clause is what finally prevented the City of Oakland from acquiring the Raiders.⁴⁴

The use of eminent domain will not violate the commerce clause if interstate commerce is only incidentally and indirectly burdened.⁴⁵ Under one view, making this determination requires a state or local government to show that eminent domain is the *least burdensome* alternative to achieve legitimate local public interests.⁴⁶ The court purportedly applied this test in denying the City of Oakland's attempt to condemn the Raiders.⁴⁷

Another view of the commerce clause is labeled as "anti-protectionist" because it considers local regulations that favor or protect in-state businesses illegitimate and unconstitutional.⁴⁸ Under this theory, the City of Oakland may have prevailed because it made no attempt to take

⁴³ U.S. CONST. art. I, § 8, cl. 3.

⁴⁴ *Oakland Raiders*, 646 P.2d at 835.

⁴⁵ See *Denver & Rio Grande R.R. Co. v. City of Denver*, 250 U.S. 241, 246 (1919) (upholding an ordinance that made "no discrimination against interstate commerce, will not impede its movement in regular course, and will affect it only incidentally and indirectly") (emphasis added); see also 8A NICHOLS, *supra* note 7, § 22.03[4].

⁴⁶ *Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970).

⁴⁷ *Oakland Raiders*, 646 P.2d at 841.

⁴⁸ See *New Energy Co. v. Limbach*, 486 U.S. 269, 278-79 (1988).

away business from another state or improve local competitive conditions.⁴⁹ The standard would still preclude the condemnation of an entire patent because such condemnation has significant interstate effects.⁵⁰ Nevertheless, the taking of a patent *license* might pass muster under the anti-protectionist view.

State condemnation of patents may be even more troublesome because, unlike the federal government, a state may not even be subject to a patentee's suit for patent infringement based on the Eleventh Amendment's grant of state sovereign immunity.⁵¹ According to the U.S. Supreme Court, the Eleventh Amendment stands for the proposition that each state is a sovereign entity; as such, no individual may sue a state without the state's consent.⁵²

In 1992, Congress attempted to eliminate state and local governments' patent infringement immunity through the Patent and Plant Variety Protection Remedy Clarification Act (hereinafter Patent Remedy Act).⁵³ However, in 1999, the U. S. Supreme Court ruled the Patent Remedy Act unconstitutional under the Eleventh Amendment.⁵⁴ In that case, the

⁴⁹ 8A NICHOLS, *supra* note 7, § 22.03[4].

⁵⁰ *Id.* This conclusion is due mainly in part to the patent owner's right to exclude.

⁵¹ U.S. CONST. amend. XI ("The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States.").

⁵² *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44, 54 (1996).

⁵³ 35 U.S.C. § 296 (1992), *amended by* 35 U.S.C. § 296 (2000).

⁵⁴ *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 636, 51 U.S.P.Q.2d (BNA) 1081, 1085 (1999). This decision was not without its critics. *See, e.g.*, Robert T. Neufeld, *Closing Federalism's*

patentee invented a financing methodology that a Florida state-created entity allegedly infringed. The state of Florida never consented to suit for patent infringement.⁵⁵ The Court noted that “[t]he underlying conduct at issue here is state infringement of patents and the use of sovereign immunity to *deny patent owners compensation for the invasion of their property rights.*”⁵⁶ The patentee argued that this state action constituted a taking of property compensable under the Fifth Amendment,⁵⁷ but the Supreme Court refused to consider the argument because neither the statute nor its legislative history indicated that Congress contemplated the Fifth Amendment’s just compensation clause when enacting the Patent Remedy Act.⁵⁸ Rather, the Court invalidated the statute because Congress exceeded its power to enforce the guarantees of the Fourteenth Amendment’s due process clause⁵⁹ by not showing a pattern of consistent infringement by the states.⁶⁰

Loophole in Intellectual Property Rights, 17 BERKELEY TECH. L.J. 1295 (2002).

⁵⁵ *Fla. Prepaid*, 527 U.S. at 631, 51 U.S.P.Q.2d (BNA) at 1083 (“It is inherent in the nature of sovereignty not to be amenable to the suit of an individual without its consent.” (quoting *Hans v. Louisiana*, 134 U.S. 1, 13 (1890))).

⁵⁶ *Id.* at 640, 51 U.S.P.Q.2d (BNA) at 1086 (emphasis added).

⁵⁷ *Id.* at 642-43, 51 U.S.P.Q.2d (BNA) at 1087.

⁵⁸ *Id.* at 642 n.7, 51 U.S.P.Q.2d (BNA) at 1087 n.7.

⁵⁹ U.S. CONST. amend. XIV.

⁶⁰ *Fla. Prepaid*, 527 U.S. at 640, 51 U.S.P.Q.2d (BNA) at 1087. The Court acknowledged that states have committed uncompensated infringement of patents in the past, but that “the evidence before Congress suggested that most state infringement was innocent or at worst negligent.” *Id.* at 645, 51 U.S.P.Q.2d (BNA) at 1092; *see, e.g.*, *Chew*

Nevertheless, if a state infringes a patent, the patentee is not without a remedy. It has been suggested that state claims of conversion, unfair competition,⁶¹ or waiver⁶² would be effective. However, similar to a patentee's remedy against the federal government taking a patent license in the Court of Federal Claims,⁶³ a takings claim for payment of just compensation in state court would be the most effective.⁶⁴ After all, if an injunction is an improper remedy against state infringement, the state has *de facto* exercised its eminent domain power to take a license, which should be compensable.

Therefore, in almost all cases, due to jurisdictional and commerce clause problems, a state will not be able to condemn an entire patent. Nevertheless, the state's sovereign nature should allow it to take a patent license by eminent domain, whereupon the state would be subject to a

v. California, 893 F.2d 331, 13 U.S.P.Q.2d (BNA) 1393 (Fed. Cir. 1990) (state infringement of patent for testing automobile emissions); *Jacobs Wind Elec. Co. v. Fla. Dep't of Transp.*, 919 F.2d 726, 16 U.S.P.Q.2d (BNA) 1972 (Fed. Cir. 1990) (state infringement of tidal flow system to improve water quality).

⁶¹ *Fla. Prepaid*, 527 U.S. at 643 n.8, 51 U.S.P.Q.2d (BNA) at 1088 n.8.

⁶² Waiver is an exception to sovereign immunity, which can be accomplished by constitutional mandate, by statute, or by appearance in federal court. Brandon White, *Protecting Patent Owners From Infringement by the States: Will the Intellectual Property Rights Restoration Act of 1999 Finally Satisfy the Court?*, 35 AKRON L. REV. 531, 547-48 (2002).

⁶³ See *supra* text accompanying notes 36-40.

⁶⁴ *Lemelson v. Ampex Corp.*, 372 F. Supp. 708, 713, 181 U.S.P.Q. (BNA) 313, 315 (N.D. Ill. 1974) ("[A] state should not benefit from its illegal conduct. If a state has taken property, a right of compensation exists. It would be unfair for the state to unjustly enrich itself and then be immune from repayment.").

takings claim similar to those filed against the Federal government in the Court of Federal Claims.

C. *Municipalities and Private Entities*

In the *Oakland Raiders* case, the California Supreme Court ruled it permissible for a municipality to take a franchise.⁶⁵ Out of all the cities that wish to have a professional football team, it is arguably appropriate for the City of Oakland to try to acquire the Raiders because the team was located there for two decades.⁶⁶ A more interesting scenario would be if Dothan, Alabama wanted a professional sports franchise, and it tried to condemn the Raiders. Could there be a condemnation war between rival cities?

The answer to this question seems easy regarding who would prevail in a condemnation war between Oakland and Dothan for the Raiders. The jurisdictional reach of Dothan, Alabama, would preclude its acquisition of the Raiders.⁶⁷ A more interesting scenario would be the ability of one governmental unit to take another governmental unit's IP, such as patent property rights. The Court of Appeals of Florida recognized that one political unit, such as a state, could be subject to the taking power of another concentric political unit, such as a municipality.⁶⁸ In concluding that the state should not be immune from municipal zoning ordinances, the court balanced several factors, including, but not limited to: (1) the nature and scope of the political unit seeking immunity, (2) the function or use of the

⁶⁵ *City of Oakland v. Oakland Raiders*, 646 P.2d 835, 843 (Cal. 1982).

⁶⁶ *Id.* at 843.

⁶⁷ The grant of authority to Congress by the Commerce Clause preempts the jurisdictional reach of Dothan, Alabama in this matter. *See* U.S. CONST. art. I, § 8, cl. 3.

⁶⁸ *City of Temple Terrace v. Hillsborough Ass'n for Retarded Citizens, Inc.*, 322 So. 2d 571, 579 (Fla. Dist. Ct. App. 1975).

property involved, (3) the extent the public interest is served by that function or use, (4) the effect of the taking on the enterprise of the government seeking immunity, and (5) the impact upon legitimate interests of the government doing the taking.⁶⁹

The taking of an entire patent by one municipality from another would so substantially burden the interests of the municipality/patentee and its relevant public that it would never seem justified. Furthermore, the exercise of eminent domain by one political unit against another may *never* be justified if the two political units do not have concentric jurisdictions because commerce clause limitations would invariably prohibit the

⁶⁹ *Id.* at 574. The court also summarized and evaluated several other tests that courts apply when determining the propriety of intergovernmental takings, including:

- i) The superior sovereign test: the superior sovereign can disregard the taking actions of an inferior political unit. *Id.* at 576-77.
- ii) The governmental-propriety test: if a political unit is performing a government function it is immune from the taking power of another. If a political unit is performing a proprietary function it is not immune. The court failed to apply this test because it is often difficult to distinguish between proprietary and governmental functions. *Id.* at 577-78.
- iii) The power of eminent domain test: if a political unit has the power to condemn, it is immune from the condemning power of another political unit. The court criticized this test because it has nothing to do with the *use* of property. *Id.* at 578. However, in the context of patents, the ability to use an invention and the right to exclude another's use are both property rights that would be taken by eminent domain.
- iv) The statutory guidance test: if the legislature has manifested its intent on the propriety of intergovernmental takings, then that intent controls. *Id.* However, the unlikely probability that a legislature will contemplate a condemnation war between political units in the context of IP will likely render this test moot.

practice.⁷⁰ However, the taking of a patent license is not nearly as intrusive because the patent-owning municipality only loses the right to exclude *the taking entity* from using the invention.

It should also be noted that the doctrine of sovereign immunity extended to the states through the Eleventh Amendment does not apply to political subdivisions of states, such as counties and cities.⁷¹ The inquiry into whether or not the infringing entity is a political subdivision or an entity of the state is very important⁷² because a municipality could be subject to an injunction or treble damages if it cannot take a patent license by eminent domain.

In *City of Milwaukee v. Activated Sludge, Inc.*, a municipality was allowed to take a compulsory license from the patentee to operate the municipal sewer treatment plant.⁷³ However, the court focused on the health and safety of the citizens of Milwaukee in refusing to issue an injunction even though the patent was valid and infringed.⁷⁴ It is not clear that the outcome of the case was at all affected by the fact that the infringer was a municipality and was using its power of eminent domain.

⁷⁰ U.S. CONST. art. I, § 8, cl. 3.

⁷¹ *Handler v. San Jacinto Junior Coll.*, 519 F.2d 273, 278 (5th Cir. 1975) (“[M]ere ‘political subdivisions’ of the state do not enjoy constitutional immunity.”); *see also* *Griffin v. County Sch. Bd.*, 377 U.S. 218, 228 (1964) (“[S]uits against state and county officials to enjoin them from invading constitutional rights are not forbidden by the Eleventh Amendment.”).

⁷² *Handler*, 519 F.2d at 279.

⁷³ *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593, 21 U.S.P.Q. (BNA) 69, 78 (7th Cir. 1934).

⁷⁴ *Id.* at 593, 21 U.S.P.Q. (BNA) at 78; *see infra* text accompanying notes 118-20.

There is likely only one scenario where it is justified for a municipality to condemn an entire patent. If a local government condemned a small company, in one location within the local government's jurisdiction, then the accompanying IP of that local business could also be taken. Interstate commerce concerns would be alleviated if the company's IP had only local affects. Additionally, the fair market value of the business should include the worth of its IP for just compensation purposes.

If it is problematic for a municipality to condemn IP, then it is even more suspect when a privately owned industry seeks to do the same. The state legislature is able to delegate its power of eminent domain to private industries such as privately owned utility companies, railroads, airports, and the like.⁷⁵ Even an individual can use the eminent domain power if it has been delegated to him.⁷⁶ However, it is difficult to conceive of a sufficient, non-illusory public use for one person to take another's IP. Consequently, as one moves along the sovereignty spectrum from the federal government to states to municipalities to private entities, the legitimacy of taking IP decreases.

⁷⁵ See *Greenwood v. Freight Co.*, 105 U.S. 13, 22 (1881); *Thatcher v. Tenn. Gas Transmission Co.*, 180 F.2d 644, 647 (5th Cir. 1950); see also 1A NICHOLS, *supra* note 7, § 3.03[3][b] ("The power of eminent domain may be delegated by the legislature to a private corporation organized and existing under the authority of the state to serve the public.").

⁷⁶ *United States v. 243.22 Acres of Land*, 43 F. Supp. 561, 565 (E.D.N.Y. 1942), *aff'd* 129 F.2d 678 (2d Cir. 1942).

V. THE DIFFICULTIES ASSOCIATED WITH CONDEMNING INTELLECTUAL PROPERTY

Apart from the considerations addressed above are other quandaries highlighting the difficulties in extending the principles of eminent domain from real to intangible property. The *Oakland Raiders* case provides a good starting point for the analysis. One troubling aspect of the decision in *Oakland Raiders* was the court's suggestion that the City of Oakland could essentially force the sale of the Raiders merely because the team announced its intention to relocate.⁷⁷ This suggestion opens the door for potential abuse of the eminent domain power. In his dissent, Chief Justice Bird noted, "[i]t strikes me as dangerous and heavy handed for the government to take over a business, including all of its intangible assets, for the sole purpose of preventing its relocation."⁷⁸ The court's logic implies that any business that wishes to change locations can be prevented from doing so and that threatening the use of eminent domain may be enough to prevent a franchise from pursuing a cost-effective relocation. Furthermore, the rights of the condemned company's employees are implicated in this situation. They may have contracted with a particular company, but now they could be contractually bound to the state, which was never a party to the original contract.⁷⁹

The extension of the eminent domain power from real property to IP is not as uncontroversial as the courts seem to suggest. For example, if a government could take a patentee's entire patent, as opposed to a license, then it could exclude the patentee himself from making, using, or selling his

⁷⁷ *Oakland Raiders*, 646 P.2d 835; see also *supra* text accompanying notes 10-18.

⁷⁸ *Oakland Raiders*, 646 P.2d at 846 (Bird, C.J., dissenting).

⁷⁹ *Id.*

own invention.⁸⁰ Excluding the original inventor seems improper because it would prevent a person from using an idea or invention that he wholly conceived without the government's assistance. IP does not fit perfectly into the real property paradigm because the private owner of real property did not make the real property *ex nihilo*. One can improve one's land, but, unlike IP, real property traces back to a sovereign who granted the land to its citizens to begin with.

When analyzing the issue of the government condemning IP, courts focus predominantly on whether the government can show a sufficient public use.⁸¹ However, the 5th Amendment to the U.S. Constitution also requires the payment of "just compensation."⁸² Just compensation has been defined as the fair market price for the property condemned.⁸³

Determining the fair market value of a patent can be a formidable task when the value of a monopoly is considered. From the patentee's perspective, research and development costs should be included in the calculation of just compensation because the patent monopoly is how those expenses are most often recouped. Furthermore, fair market value would also include the cost of failed products and their associated research and development costs.⁸⁴ Consideration should also be given to the value of the

⁸⁰ 35 U.S.C. § 154 (2000).

⁸¹ *Oakland Raiders*, 646 P.2d at 841-43.

⁸² U.S. CONST. amend. V.

⁸³ *Schroeder v. Chicago*, 927 F.2d 957, 961 (7th Cir. 1991).

⁸⁴ For example, in the pharmaceutical industry for every five thousand drugs tested only one is approved for patient use. Of those approved, on average only three of every ten prescription drugs in the United States generate enough revenue that equal or exceed the research and development costs for *that* drug. *Why Do Prescription Drugs Cost So Much and Other Questions About Your Medicines*, available at

patentee's market lead-time *after* the patent has expired but before competitors have been able to penetrate the market.

If all these costs were included in the calculation of just compensation, it would appear that the public would foot a fairly hefty bill. However, the "justness" requirement of compensation is evaluated from both the perspective of the property owner and the public.⁸⁵ When fair market value is difficult to determine or would be unjust to require, courts will apply a different standard.⁸⁶

The patent statute provides for essentially two alternative measures of damages for patent infringement:⁸⁷ lost profits resulting from infringement, and a "reasonable royalty."⁸⁸ Generally, a patentee advocates for a lost profits analysis while the infringer seeks to limit the damages by applying a reasonable royalty analysis. Lost profits would likely be equal to the amount of his patent rights a patentee would voluntarily yield under normal conditions. Therefore, lost profits are roughly equivalent to fair market value.

However, when determining just compensation for taking by eminent domain, courts apply a reasonable royalty approach instead of a

<http://www.phrma.org/publications/publications/brochure/questions/whycostmuch.cfm> (last visited Mar. 27, 2003).

⁸⁵ United States v. Commodities Trading Corp., 339 U.S. 121, 123 (1950).

⁸⁶ *Id.*

⁸⁷ 35 U.S.C. § 284 (2000).

⁸⁸ *Id.* ("[T]he court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty.").

lost profits analysis,⁸⁹ which implies that the government is *not* paying fair market value. As discussed above, paying less than fair market value would allow the government to make a *de facto* forced sale from the patentee to another private entity at a low price.⁹⁰ A forced sale at a low price would arguably meet the loosely defined public use requirement because the public would get lower prices as a result of the transfer.⁹¹ However, using this logic it would be hard to find any taking that violates the public use requirement.⁹²

The patentee's initial unwillingness to voluntarily license or assign the patent to the government⁹³ likely stems from the fact that the

⁸⁹ See *Standard Mfg. Co. v. United States*, 42 Fed. Cl. 748, 758 n.10 (Fed. Cl. 1999) ("[T]he entire validity of the lost profits approach is in doubt because it assumes a right to exclusivity which conflicts with the government's power of eminent domain.").

⁹⁰ See *supra* text accompanying note 18.

⁹¹ RICHARD A. EPSTEIN, *TAKINGS: PRIVATE PROPERTY AND THE POWER OF EMINENT DOMAIN* 169 (1985).

⁹² *Id.* at 170.

⁹³ In order for the United States to comply with its treaty obligations, it must first seek authorization from the patentee on reasonable terms and conditions. See *Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods*, Dec. 15, 1993, ART. 30, Annex IC, *LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND* vol. 31, 33 I.L.M 81 [hereinafter *TRIPS*]. Article 31 of *TRIPS* states that a compulsory license may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. *Id.*

government did not offer enough (i.e., fair market value).⁹⁴ The government knows it can pay less (i.e., a reasonable royalty) by using its eminent domain power. Consequently, compensation is not “just” from the patentee’s perspective in condemnation proceedings and may have detrimental economic effects as discussed below.⁹⁵

Just compensation is also likely to be affected by what the government actually took from the patentee. The “bundle” of rights that make up our concept of ownership in real property also exists in the context of IP. For instance, a patentee has an exclusive right to make, use, and sell his patented invention. The government could take the right to use the invention but leave the right to make and sell the invention to the patentee. Furthermore, a patent is made up of several claims, which can cover distinct inventions and property rights. The government may only be interested in condemning claim 1 of a patent and will leave all other property rights associated with claims 2 through 10 with the patentee.

The real property analog to this occurrence is conceptual severance, where the government makes a compensable taking of a *portion* of someone’s disaggregated property rights.⁹⁶ The general rule is against applying the theory of conceptual severance, except when the government physically invades the property.⁹⁷ When the government physically invades or takes possession of a fragment of a larger section of property, applying

⁹⁴ AREEDA, *supra* note 31, at 429-30.

⁹⁵ See *infra* text accompanying notes 126-30 and 144-46.

⁹⁶ Pa. Coal Co. v. Mahon, 260 U.S. 393 (1922).

⁹⁷ Tahoe-Sierra Preservation Council, Inc. v. Tahoe Reg’l Planning Agency, 216 F.3d 764, 774 (9th Cir. 2000), *aff’d*, 535 U.S. 302 (2002).

conceptual severance is the norm.⁹⁸ Physical invasion of real property has several IP analogs that would warrant applying conceptual severance. The taking of a patent license is akin to condemning an easement across land. The taking of an entire patent, particular claims of a patent, or the right to make, use, or sell all encompass a right to exclude others and is equivalent to the condemnation of an entire piece of property or a fragment thereof. However, conceptual severance would probably not apply to government regulations affecting the way certain patented inventions can be exploited because the invasion of the property rights is often indirect and does not deprive the patentee of all economically beneficial use of the invention.⁹⁹

Conceptual severance would give the patentee the ability to receive compensation for taking a portion of the patent. Calculating just compensation for a fraction of the patent still requires taking into account monopoly effects, but those effects are limited to the right to exclude based on a particular claim and not the patent as a whole. Therefore, the large costs of compensating for a monopoly would be mitigated because the patentee retains monopoly rights in the part of the patent not condemned.

⁹⁸ *Id.* at 779; *see also* *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 426 (1982).

⁹⁹ *Lucas v. S.C. Coastal Council*, 505 U.S. 1003, 1027 (1992); *see also* *Penn Cent. Transp. Co. v. New York City*, 438 U.S. 104, 130-31 (1978). In refusing to consider airspace above building as a separate property interest, the court explained:

“Taking” jurisprudence does not divide a single parcel into discrete segments and attempt to determine whether rights in a particular segment have been entirely abrogated. In deciding whether a particular governmental action has effected a taking, this Court focuses rather both on the character of the action and on the nature and extent of the interference with rights in the parcel as a whole—here, the city tax block designated the “landmark site.”

Id.

Consequently, the problems associated above suggest caution when the government seeks to condemn IP. Nevertheless, these considerations, although significant, do not necessarily provide a reason to create a *per se* bar against governments condemning IP because the possible public use justifications may outweigh the difficulties.

VI. WHAT KIND OF PUBLIC USE WOULD JUSTIFY CONDEMNING INTELLECTUAL PROPERTY?

Courts have advanced and commentators have suggested various public uses to justify taking IP, specifically patents, by eminent domain. As mentioned above, there are basically two ways to condemn a patent: (1) the more invasive taking of the entire patent, and (2) the less invasive taking of a compulsory license.

A. *Justifications for Taking a Compulsory License*

Courts will often create compulsory licenses when the patentee's actions constitute an antitrust violation or patent misuse.¹⁰⁰ Even the patentee's refusal to license is seen as an antitrust violation in Europe.¹⁰¹

¹⁰⁰ *United States v. Glaxo Group, Ltd.*, 410 U.S. 52, 64 (1973) ("Mandatory selling on specified terms and compulsory patent licensing at reasonable charges are recognized antitrust remedies."); *see also* AREEDA, *supra* note 31 at 163. Compulsory licensing has been used as a remedy for antitrust settlements in over 100 cases, specifically in the areas of basic biotechnology patents. *Making New Technologies for Human Development*, U.N. HUMAN DEV. REPORT 2001, ch. 5: *Global Initiatives to Create Technologies for Human Dev.* at 107 (available at http://www.undp.org.np/publications/hdr2001/11_chapter5.pdf).

¹⁰¹ *See generally* STEVEN D. ANDERMAN, *EC COMPETITION LAW & INTELLECTUAL PROPERTY RIGHTS: THE REGULATION OF INNOVATION* 195-220 (1998).

Although not usually considered in the context of eminent domain, compulsory licenses could be viewed through the antitrust lens, where the public purpose for taking a license is the elimination of illegal anticompetitive behavior from the marketplace.

A more extreme extension of this antitrust remedy is the taking of a royalty-free compulsory license.¹⁰² Commentators suggest that where a patent was obtained by fraud on the Patent and Trademark Office, royalty-free compulsory licenses should be used to obviate the practical difficulty of proving inequitable conduct necessary to invalidate a patent.¹⁰³ This kind of taking does not appear to be an extension of eminent domain but rather a penalty for antitrust violations because just compensation is not required. This view has not been highly favored because it amounts to dedication of the patent to the public, which is not usually necessary to restore competition.¹⁰⁴

Another popular justification for the government taking a compulsory license is when the patentee chooses not to commercialize or "work" his invention.¹⁰⁵ The practice of creating a compulsory license scheme when the patentee suppresses his invention is common in many

¹⁰² See AREEDA, *supra* note 31, at 164.

¹⁰³ Lawrence Schlam, *Compulsory Royalty-Free Licensing as an Antitrust Remedy for Patent Fraud: Law, Policy and the Patent-Antitrust Interface Revisited*, 7 CORNELL J.L. & PUB. POL'Y 467, 470 (1998) (arguing for the use of royalty-free compulsory licenses especially in the context of consent decrees).

¹⁰⁴ AREEDA, *supra* note 31, at 164.

¹⁰⁵ See Martin J. Adelman, *Property Rights Theory and Patent-Antitrust: The Role of Compulsory Licensing*, 52 N.Y.U. L. REV. 977, 1001-05 (1977) (suggesting that courts should deny injunctive relief against an infringer if the patentee has not worked the patent, resulting in a *de facto* compulsory license).

countries, including the United Kingdom¹⁰⁶ and other European countries, Australia, Southeast Asia, and Latin American countries.¹⁰⁷ It is sometimes difficult to see why a company would choose to have fallow monopoly rights, but in certain situations it may be profitable.¹⁰⁸

For instance, if working a patent requires a company to completely retool while its current related products are highly profitable, it may delay the introduction of their newly patented invention.¹⁰⁹ Another example might involve a pharmaceutical company that receives substantial revenues from its drug therapy treatment of AIDS. If the company invented a more effective treatment or even a vaccine, it may choose not to commercialize the invention if it can make more money on its old drug therapy treatment. Concededly the latter example seems more egregious than the former, mainly because public health and safety concerns¹¹⁰ are at odds with the patentee's choice not to commercialize the invention.

Taking a compulsory license through a refusal to enjoin infringement because of patent suppression is problematic. First, under the current patent statutes, even if injunctive relief is denied, treble damages may still be

¹⁰⁶ Paul Gormley, *Compulsory Patent Licenses and Environmental Protection*, 7 TUL. ENVTL. L.J. 131, 135-36 n.20 (1993).

¹⁰⁷ Claudio R. Frischtak, *Harmonization Versus Differentiation in Intellectual Property Right Regimes*, in GLOBAL DIMENSIONS OF INTELLECTUAL PROPERTY RIGHTS IN SCIENCE & TECHNOLOGY 89, 91 (Mitchel B. Wallerstein et al. eds., 1993).

¹⁰⁸ See Adelman, *supra* note 105, at 164.

¹⁰⁹ *Id.*

¹¹⁰ See *infra* text accompanying notes 114-20.

available for willful infringers;¹¹¹ however, it is unlikely that the same court that refuses to enjoin will award treble damages. Second, the *quid pro quo* of the patent statute is an enabling public disclosure of how to best make and use the invention in exchange for a temporary exclusive right to make, use, and sell the invention. The right of the public to have the patented product during the patent term is not part of the bargain.¹¹²

The Supreme Court addressed the propriety of a patentee suppressing his invention in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, stating:

If he [a patentee] sees fit, he may reserve to himself the exclusive use of the invention or discovery. If he will neither use his device nor permit others to use it, he has but suppressed his own, . . . his title is exclusive, and so clearly within the constitutional provisions in respect to private property that he is neither bound to use his discovery himself or permit others to use it.¹¹³

However, subsequent to the *Paper Bag* decision, several courts and dissenting justices have voiced concern over the practice of patent suppression. The Ninth Circuit ruled it a “public offense to withhold” a

¹¹¹ 35 U.S.C. § 284 (2000).

¹¹² See 35 U.S.C. § 271(d)(4) (2000) (“No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . refused to license or use any rights to the patent.”).

¹¹³ *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 425 (1908) (alterations in original) (quoting *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 294 (6th Cir. 1896)).

process of irradiating food which made Vitamin D to help combat rickets.¹¹⁴ Additionally, Justice Douglas of the U.S. Supreme Court noted:

[S]uppression of patents has become commonplace. Patents are multiplied to protect an economic barony or empire, not to put new discoveries to use for the common good. . . . As often as not such maneuvers retard, rather than promote, the progress of the useful arts.

. . . How may the words "to make, use, and vend" be read to mean "not to make, not to use, and not to vend"? Take the case of an invention or discovery which unlocks the doors of science and reveals the secrets of a dread disease. Is it possible that a patentee could be permitted to suppress that invention for seventeen years . . . and withhold from humanity the benefits of the cure?¹¹⁵

Two points should be addressed here in response to Justice Douglas's argument. First, it is difficult to argue that the public is harmed by suppression of an invention: is the public truly harmed by depriving it of something it never had? The suppression of patents usually occurs in the context of one patentee wanting to obtain revenues from an inferior patent by suppressing for a time the superior patent. Neither technology would have existed were it not for the patentee, and the public has been benefitted by its increased technological understanding from full and complete

¹¹⁴ *Vitamin Technologists, Inc. v. Wis. Alumni Research Found.*, 146 F.2d 941, 945, 63 U.S.P.Q. (BNA) 262, 267 (9th Cir. 1945). The patentee in this case refused to license the patented process for the irradiation of margarine, the "butter of the poor." *Id.* The court held, "[i]t is now well established that a patentee may not put his property in the patent to a use contra to the public interest." *Id.* at 944, 63 U.S.P.Q. (BNA) 262, 266.

¹¹⁵ *Special Equip. Co. v. Coe*, 324 U.S. 370, 382-83, 64 U.S.P.Q. (BNA) 525, 531 (1945) (Douglas, J., dissenting).

disclosure required by the patent statute and free use of the invention after the patent term expires.

Moreover, if the government feels a compelling need to prevent patent suppression of critical inventions, such as a breakthrough in curing a dreaded disease, it could exercise its eminent domain power on a discretionary basis and take a license. What seems problematic is the *automatic* extension of the eminent domain power to take a license in every instance of patent suppression.

A third justification that courts and commentators have given for taking a compulsory license is over public interest concerns related to patents that affect the public's health, safety, environment, and national defense.¹¹⁶ The Federal Circuit has said, "If a patentee[] . . . frustrates an important public need for the invention, a court need not enjoin infringement of the patent. . . . [C]ourts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest."¹¹⁷

*City of Milwaukee v. Activated Sludge, Inc.*¹¹⁸ provides an appropriate example of a court creating a compulsory license when the public's health is at stake. The patentee in that case sought an injunction against the City of Milwaukee for its use of the patented process in a sewage treatment

¹¹⁶ Rafael v. Baca, Note, *Compulsory Patent Licensing in Mexico in the 1990s: The Aftermath of NAFTA and the 1991 Industrial Property Law*, 8 *TRANSNAT'L LAW*. 33, 36 (1995).

¹¹⁷ *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1547, U.S.P.Q.2d (BNA) 1065, 1071 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 867 (1995) (citing 35 U.S.C. § 283 (1988)).

¹¹⁸ 69 F.2d 577 (7th Cir. 1934), *cert. denied*, 293 U.S. 576 (1934).

plant.¹¹⁹ The court noted that if an injunction issued, “it would close the sewage plant, leaving the entire community without any means for the disposal of raw sewage other than running it into Lake Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities.”¹²⁰ Given the aforementioned expansion of the public use doctrine of eminent domain, the taking of a patent license for strong public interest concerns seems justified on a case-by-case basis.

A fourth reason commentators call for the taking of a compulsory license is when the price is “too high” for the patented goods.¹²¹ The public could then obtain a discount through the compulsory licensing scheme because compensation for the license would be based on a reasonable royalty instead of a lost profits theory, which is unattractive to the

¹¹⁹ *Id.*

¹²⁰ *Id.* at 593. Other examples of courts creating a compulsory license for the public’s interest include *Hybritech Inc. v. Abbott Labs.*, 4 U.S.P.Q.2d (BNA) 1001 (C.D. Cal. 1987) (no injunction of sale of medical test kits not marketed by patentee); *Vitamin Technologists*, 146 F.2d at 956, 63 U.S.P.Q. (BNA) at 287 (compulsory license created to allow irradiation of margarine to help combat rickets). For more examples of public interest inspired compulsory licenses see Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1077 n.230 (1989).

¹²¹ It should be noted that the patentee will often not be able to take advantage of sharp changes in demand during an emergency situation. Many states have price gouging statutes that prevent such activity. See e.g. N.Y. C.L.S. GEN. BUS. § 396-r (2003) (price protections in place during emergencies caused by strikes, power failures, severe shortages, or other extraordinary adverse circumstances); FLA. STAT. § 501.160 (2002) (price increases prohibited during declared state of emergency).

patentee.¹²² The problem with taking a license to get a price discount is that the government grant of a patent tolerates temporary monopoly pricing by the patentee in exchange for public disclosure of the invention. Condemning IP to reduce prices also expands the public use requirement to include almost anything.¹²³

However, the acuteness of the problem is best illustrated in the context of expensive drugs from breakthrough pharmaceutical patents, such as effective treatment of AIDS, Alzheimer's, or cancer. There is a history of legislation seeking a licensing scheme in these situations.¹²⁴ Other countries, such as Brazil, have used the mere threat of taking a compulsory license to obtain price discounts on pharmaceuticals.¹²⁵

Ironically, it is not clear that consumers will get overall lower prices if the state takes a compulsory license on an expensive drug. Because a pharmaceutical company will lose profits on a drug subject to a compulsory license, it will have to either increase the price of other existing drugs or reduce research expenditures.¹²⁶ If price increases are attempted in a competitive market where there are bioequivalent or therapeutic alternatives to the drug, consumers would buy the competitor's product, so the drug

¹²² See *supra* text accompanying notes 87-95.

¹²³ See EPSTEIN, *supra* note 91, at 78.

¹²⁴ See Tom Arnold & Ed Goldstein, *Compulsory Licensing: The "Uncentive" for Invention*, 7 PAT. L. REV. 113, 121-22 (1975).

¹²⁵ *Intellectual Property: Patently Problematic*, ECONOMIST, Sept. 14, 2002, at 76.

¹²⁶ Alan M. Fisch, *Compulsory Licensing of Pharmaceutical Patents: An Unreasonable Solution to an Unfortunate Problem*, 34 JURIMETRICS J. 295, 304 (1994).

company will not be able to recoup lost profits.¹²⁷ Furthermore, the drug company will not attempt to increase prices in a market where there is no competition (i.e., a monopolistic market) because, by definition, a monopolist can charge what the market will bear.¹²⁸ The market will not bear a price increase.¹²⁹

The only practical way to compensate for lost profits is to reduce expenditures in research and development. Diminished R&D investments reduces the quantity of new drugs taken to market, which decreases future revenue for firms, and deprives the public of further pharmaceutical breakthroughs.¹³⁰ In the final analysis, taking a compulsory license because the invention is priced too high either increases prices of other drugs or stifles innovation.

It has also been suggested that governments should use eminent domain in taking a patent license for the purpose of protecting biodiversity.¹³¹ This argument suggests that if biotechnology companies derive their technology from endangered resources in genetically rich countries, the companies should make the technology available in that country, or else a compulsory license will be taken.¹³² Consequently, the "stick" of eminent domain would be exercised over patent rights to create the "carrot" of an economic incentive for genetically rich countries to

¹²⁷ *Id.* at 306-07.

¹²⁸ *Id.* at 307.

¹²⁹ *Id.*

¹³⁰ *Id.* at 313.

¹³¹ Paul Gormley, *Compulsory Patent Licenses & Environmental Protection*, 7 TUL. ENVTL. L.J. 131, 155 (1993).

¹³² *Id.*

preserve their biodiversity. An unintended consequence of threatening the use of eminent domain in this way may be to reduce the incentive for foreign biotech companies to invest in that country.¹³³

B. *Justifications for Taking the Entire Patent*

It is difficult to imagine why a government would choose to condemn an entire patent instead of taking a license. However, the following situations illustrate a public use justification for doing so. One situation is where a government takes a business and condemns along with it all of its associated IP. Just as the City of Oakland would have likely taken the Raiders trademark if it won its eminent domain action, another city could take a business's patents if it condemned the entire business itself to prevent closing or relocation.¹³⁴

A second situation is where, in times of war, the government tries to take over an entire industry, including the associated IP. During the Korean War, President Truman issued an order directing the Secretary of Commerce to take possession of and operate most of the nation's steel mills.¹³⁵ Although the President's attempt to do so was unsuccessful, it does not mean Congress could not have authorized the taking. Had the President been successful, the federal government would have had to pay just compensation for the business and its associated IP. However, in times of war, some takings are not compensable if the loss is attributed to the "fortunes of war."¹³⁶ Such was the case when the U.S. Army destroyed a

¹³³ *Id.* at 156.

¹³⁴ 8A NICHOLS, *supra* note 7, § 22.03[1].

¹³⁵ *Youngstown Sheet & Tube Co. v. Sawyer*, 343 U.S. 579, 582 (1952).

¹³⁶ *United States v. Cal. Tech. Phil.*, 344 U.S. 149, 155 (1952).

petroleum facility in the Philippines so it would not fall into the hands of the advancing Japanese during World War II.¹³⁷

Other national emergencies, such as smallpox or anthrax outbreaks, might justify the taking of an entire patent. If a pharmaceutical company suppressed needed technology and was unwilling to negotiate, or if the situation was time-sensitive, it appears that the government would need only to take a license in order to use the technology.¹³⁸ However, if the response to the outbreak required the treatment or vaccination of the entire U.S. population, there would arguably be a *de facto* taking of the entire patent. Everyone in the country would have used and benefitted from the technology, and there would no longer be a demand for a patented vaccine after the entire country has been inoculated.

Another public use suggested for taking patents is to address the world's development problems.¹³⁹ Starting from the premise that the well-fed have a moral obligation to help the less fortunate, it has been advanced that government intervention is needed to create a mechanism that allows

¹³⁷ *Id.* at 151. Justice Douglas dissented, arguing that the facility was destroyed to help win the war, not because it was a public nuisance (which requires no compensation under the Fifth Amendment). *Id.* at 156. Normally, food and supplies requisitioned by the government for defense purposes constitute a compensable taking. However, the loss of the petroleum facility was inevitable. Either the U.S. military destroyed it before it could fall into enemy hands, or the Japanese would have consumed its reserves and destroyed the remainder if it were to fall back into U.S. hands.

¹³⁸ See *supra* text accompanying notes 105-10.

¹³⁹ David G. Victor & C. Ford Runge, *Farming the Genetic Frontier*, FOREIGN AFFAIRS, May-Jun. 2002, at 107.

the world's poor to use the innovations that are now in private hands.¹⁴⁰ One suggestion is the forced pooling of patents of related genetically modified foods.¹⁴¹ It is argued that patent pooling would be beneficial because one critical plant could have many genetic modifications that span several patents and would give a single point of negotiation between patentees and developing countries.¹⁴² Another suggestion is that the government condemn the most "critical" patents outright (which requires the payment of just compensation) and then provide low-cost access to the unfettered IP for the world's poorest farmers.¹⁴³

C. *Unintended Consequences of Taking a Patent*

The aforementioned justifications for taking a patent vary in their strengths and must be weighed against the unintended adverse effects of this kind of taking. Some consequences are not readily apparent, but further examination reveals possible economic harm that should warrant caution when condemning IP.

First we must examine the disparity between what the government believes is just compensation and what the patentee believes is fair. As discussed earlier, in the context of patents, the government is not going to pay the true fair market value but will pay a "reasonable" royalty that is considerably less.¹⁴⁴ Multinational firms will become less willing to invest in a sector where the government is disposed to taking things for what the firms view to be less than fair. This sentiment would be especially acute in

¹⁴⁰ *Id.* at 118.

¹⁴¹ *Id.* at 119.

¹⁴² *Id.*

¹⁴³ *Id.*

¹⁴⁴ *See supra* text accompanying note 89.

the pharmaceutical industry where the patentee may not be able to fully recoup costs of research and development expended on the condemned patent and on other failed products. It would either increase the costs of other technologies marketed by the patentee or stifle innovation by cutting expenditures related to further research and development.¹⁴⁵

Furthermore, the determination of just compensation in eminent domain proceedings against IP could vary widely and be seen as unpredictable. Foreign venture capital firms would be less willing to invest if they view the patent system as unstable, and inventors may look elsewhere to exploit their invention under a stronger IP system if widespread condemning of patents is viewed as a weakness.¹⁴⁶

Another consequence would be the inventor resorting to another form of IP protection, namely trade secrets. As was mentioned earlier, a trade secret could be subject to condemnation just as easily as could a patent *if* the trade secret is also protected by the condemning governmental entity. If the regular exercise of eminent domain against patents severely weakened the IP system in the United States, multinational corporations would likely use trade secret protection whenever it could in another country.

The first implication of using trade secrets is that it represents a major shift in domestic manufacturing and research and development investment to outside the United States because the U.S. eminent domain power is unable to reach foreign trade secrets. The second implication is that the public is denied access to the technology. A major disadvantage of

¹⁴⁵ Fisch, *supra* note 126, at 304.

¹⁴⁶ See generally Robert M. Sherwood, *Why a Uniform Intellectual Property System Makes Sense for the World*, in GLOBAL DIMENSIONS OF INTELLECTUAL PROPERTY RIGHTS IN SCIENCE & TECHNOLOGY 68, 77-78 (Mitchel B. Wallerstein et al. eds., 1993) (explaining that resources will not be allocated to research in weak intellectual property systems because the results can be taken by others).

the trade secret system is the lack of public disclosure on how to make and use the invention. A shift to trade secret protection would essentially stifle innovation and shift investment out of the country.

Another consequence of governmental commandeering of patents is that it may violate the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS"). Government action violates Article 30 of TRIPS if it "unreasonably conflict[s] with a normal exploitation of the patent," or "unreasonably prejudice[s] the legitimate interests of the patent owner."¹⁴⁷ These conditions must be viewed against the backdrop of Article 31, which allows for condemnation of IP if the right holder is paid "adequate remuneration" for the "economic value of the authorization."¹⁴⁸ Consequently, it appears that the taking of IP must meet a reasonableness standard and arguably must pay the true "economic value" of the taking, which could amount to lost monopoly profits.

Furthermore, TRIPS mandates that when the government condemns IP, it must not reserve exclusive rights for itself.¹⁴⁹ In order to comply with this provision the government must either take a non-exclusive compulsory license or dedicate to the public the entire patent. Reserving a right to exclude others seems to be improper.

Lastly, some commentators argue that it is beyond the power of any government to take patents or copyrights by eminent domain because the U.S. Constitution forbids it.¹⁵⁰ Basically, it is argued that the "exclusive

¹⁴⁷ TRIPS, *supra* note 93, art. 30.

¹⁴⁸ *Id.* art. 31(h).

¹⁴⁹ *Id.* art. 31(d).

¹⁵⁰ Kenneth J. Nunnenkamp, *Compulsory Licensing of Critical Patents Under CERCLA?*, 9 J. NAT. RESOURCES & ENV'T L. 397 (1993-94).

right" language in the Constitution¹⁵¹ gives patentees the right to exclude everyone, including the government from infringing their patents.¹⁵² Accordingly, whether the constraints on patent condemnation are derived from the constitution, the economy, or the interest in promoting innovation, governments should be careful to use the least intrusive means possible to take IP rights.

VII. CONCLUSION

Courts have assumed that the eminent domain power can be extended to all forms of property, including intangibles, but the extension of this power to IP is in fact more problematic than the courts seem to suggest. There are significant differences between IP and real property that create barriers for the government's taking of IP, such as the jurisdictional reach of the condemning body, the effect on interstate commerce, the payment of just compensation, and the potential abuse of the power by extending the public use doctrine too far.

This article does not intend to criticize *all* taking of IP by eminent domain but to provide a framework for evaluating such takings. Courts and commentators have suggested a number of possible public uses that would justify the taking of IP. The legitimate purposes appear to be in the context of antitrust violations, national emergencies, and meeting strong public interests such as health and safety. The less legitimate justifications for taking IP are patent suppression, high prices, protecting biodiversity, and helping the world's developmental problems. The latter justifications

¹⁵¹ U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the *exclusive Right* to their respective Writings and Discoveries.") (emphasis added).

¹⁵² Nunnenkamp, *supra* note 150, at 397.

appear less legitimate when they are weighed against the consequences of adverse economic effects, the stifling of innovation, the possible violation of treaty obligations, and constitutional concerns.