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Intellectual Property Considerations for Manufacturers Contracted under the Defense Production Act

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Patent Counseling and Prosecution; Government Contracts

On March 18, 2020, the President invoked a portion of the Defense Production Act, 50 U.S.C. §§ 4501 *et seq.*, (the "DPA"), in order to address shortages of personal protective equipment and ventilators needed to treat patients affected by the COVID-19 pandemic.[1] As outlined in a previous post, the DPA grants the executive branch broad powers to "shape national defense preparedness programs and take appropriate steps to maintain and enhance the domestic industrial base." 50 U.S.C. § 4502(a)(4). These include the power to require private companies to prioritize government contracts for these items over any other contractual obligations. 50 U.S.C. § 4511(a). The executive branch can also require private companies to accept and perform government contracts to manufacture needed items, *id.*, effectively requiring prioritized specific performance of those contracts.[2] The DPA also provides broad authority "to allocate materials, services, and facilities . . . to such extent as [the President] shall deem necessary or appropriate to promote the national defense." *Id.* Failure to comply with an order pursuant to the DPA is a criminal offense punishable by a fine of up to $10,000 or up to one year imprisonment. 50 U.S.C. § 4513.

What are the patent infringement liability considerations for manufacturers that produce goods (such as masks and ventilators) deemed essential and necessary under a DPA order, when the goods may be protected by one or more third-party patents? The answers appear to depend on whether a manufacturer produces the needed items pursuant to a contract with the government, or whether a manufacturer voluntarily manufactures the items on its own initiative.

If the manufacturer is producing the goods pursuant to a government contract—such that the items are "used or manufactured by or for the United States"—then a patent owner's sole remedy for infringement will be a claim for damages against the United States in the Court of Federal Claims "for the recovery of his reasonable and entire compensation for such use and manufacture." *See* 28 U.S.C. § 1498. Equitable relief, like an injunction, probably cannot be obtained. *See Astornet Techs. Inc. v. BAE Sys., Inc.*, 802 F.3d 1271, 1277 (Fed. Cir. 2015). Effectively, a patent holder may be able to obtain reasonable compensation for the

[1] https://www.whitehouse.gov/presidential-actions/executive-order-prioritizing-allocating-health-medical-resources-respond-spread-covid-19/.

[2] *See* C. Stanley Dees, *The Future of the Contract Disputes Act: Is it Time to Roll Back Sovereign Immunity?*, 28 Pub. Cont. L.J. 545, 555 (1999).

government's use of the intellectual property under the DPA, but the government will still be able to use the intellectual property for its needs by way of private manufacturers.[3] The availability of this mechanism—payment of a reasonable royalty in exchange for use of a patented invention—was discussed in the legislative history of the original DPA. It was concluded that patents were not among the "materials" that the government could "take over" under the DPA because § 1498's predecessor statute provided a mechanism for the government to use a patented invention even without the patent holder's consent.[4]

Section 1498 would apply whether the contract was entered into voluntarily or whether the government compelled acceptance, performance, and prioritization of the contract under § 4511(a). However, if a manufacturer voluntarily decides to produce needed items and supplies, the manufacturer may be liable for patent infringement. The DPA itself contains no provision immunizing would-be infringers from liability. The DPA does, however, provide that "[n]o person shall be held liable for damages or penalties for any act or failure to act resulting directly or indirectly from compliance with a rule, regulation, or order issued pursuant to this chapter[.]" 50 U.S.C. § 4557. But, this provision has been construed relatively narrowly to only extend to breach of contract suits by third parties against parties whose performance may have been disrupted by an order under the DPA.[5]

We further note that government contracts issued in this context may include clauses from the Federal Acquisition Regulations ("FAR"), including FAR 52.227-1, which authorizes a contractor to practice any invention covered by a U.S. patent in performance of the contract. That said, if the contract also includes FAR 52.227-3, the contractor may be required to indemnify the government for patent infringement claims arising out of the contractor's performance. Conceivably, this indemnity clause could allow the government to compel a contractor to manufacture a patented product while seeking indemnification from resulting infringement claims. Importantly, a contracting officer typically has discretion regarding the inclusion of this clause in the contract and, therefore, a contractor would be well advised to resist the inclusion of this indemnity clause. If the government insists on the inclusion of this clause in the contract, a contractor faced with a potential requirement for indemnification may be able to argue that the clause does not apply to the extent the contract was mandated under DPA authority, and therefore directed the contractor to perform in a manner inconsistent with the way it normally performs. *See* FAR 52.227-3(b).

Also, from a practical perspective in view of the current COVID-19 crisis, it may be the case that patent holders will choose not to assert rights in medical supplies necessary to combat a pandemic. Nevertheless, manufacturers that wish to voluntarily produce needed medical supplies should proceed cautiously and investigate the patents that may cover the items they

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[3] Indeed, the Supreme Court has acknowledged that the policy behind § 1498's predecessor statute was "to stimulate contractors to furnish what was needed" by the government, "without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents." *Astornet Techs.*, 802 F.3d at 1277 (quoting *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 344 (1928)).

[4] *See Defense Production Act of 1950, Hearings before the H. Comm. on Banking and Currency*, 81st Cong. 35 (1950).

[5] *See, e.g., United States v. Vertac Chem. Corp.*, 46 F.3d 803, 812 (8th Cir. 1995); *Hercules, Inc. v. United States*, 24 F.3d 188, 203-04 (Fed. Cir. 1994), *aff'd*, 516 U.S. 417 (1996).

plan to produce. Such manufacturers may also consider negotiating limited licenses that allow for production during the current crisis, and/or expressing to the government their willingness to contribute manufacturing capabilities so that the government may consider contractual negotiations.

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