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# HOW THE "NEW GM" CAN STEAL FROM TOYOTA

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# HOW THE “NEW GM” CAN STEAL FROM TOYOTA

*Adam Mossoff*

“**W**HAT IS GOOD FOR General Motors is good for the nation.”<sup>1</sup> This iconic statement by Charles (“Engine Charlie”) Wilson, the then-U.S. Secretary of Defense and former CEO of GM has long been condemned as an exemplar of corporate hubris. But last summer it achieved something even more important: It became true. When GM moved out of bankruptcy in July 2009, the federal government took a 60.8% ownership stake in this classic American automobile manufacturing company.<sup>2</sup> Uncle Sam is now in the business of making cars. With this in mind, someone somewhere in the federal government might even now be preparing a very special memorandum for the GM board of directors. That memorandum is the subject of this essay, and the subject of the memorandum is how GM can cut its costs by lawfully stealing what it needs to build better cars.

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*Adam Mossoff is a Professor of Law at George Mason University School of Law. In the interest of full disclosure, his first car was a 1988 Pontiac LeMans, but he now drives a Honda Civic. Copyright © 2010 Adam Mossoff.*

<sup>1</sup> TOM LEWIS, *DIVIDED HIGHWAYS: BUILDING THE INTERSTATE HIGHWAYS, TRANSFORMING AMERICAN LIFE* 106-07 (1999) (quoting Wilson’s 1953 statement to Congress).

<sup>2</sup> Peter Whoriskey, *With Bankruptcy Behind It, GM Focuses on a Culture Change*, WASH. POST, at A10 (July 10, 2009).

This essay proceeds in three parts, with the first two parts roughly paralleling the form and content of that special memorandum. First, it discusses the 2006 decision by the U.S. Court of Appeals for the Federal Circuit in *Zoltek Corp. v. United States*,<sup>3</sup> which held that “patent rights are a creature of federal law” and thus what the government giveth, the government can taketh away.<sup>4</sup> The practical effect of *Zoltek* was that a military contractor was given a free hand to profit from the unauthorized use in a foreign jurisdiction of a U.S. patent. Second, the essay explains how GM may now exploit *Zoltek* to advance its own cost-cutting goals, which will certainly make its majority shareholder – the federal government – very happy. In a hypothetical case developed below, GM may use a patented process owned by Toyota, such as a manufacturing process for constructing lightweight composite fiber sheets, without having to pay either license fees or patent infringement damages. Such a windfall for GM can certainly help it make more fuel-efficient automobiles at lower cost as it uses Toyota’s intellectual property to its own advantage. Last, but certainly not least, the essay concludes by explaining how this situation highlights the unintended consequences of denying to patentees their constitutional rights in their intellectual property.

## BUILDING THE F-22 FIGHTER JET

**I**n order to understand how GM may be able to benefit from a patented process owned by Toyota, we first must understand the 2006 decision in *Zoltek* that makes doing so possible.

First, the facts. The federal government contracted with Lockheed Martin Corp. to develop and build the Air Force’s new F-22 Raptor fighter jet.<sup>5</sup> (The lawsuit was originally filed with respect to the development and construction of the B-2 Stealth Bomber, but

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<sup>3</sup> 442 F.3d 1345 (Fed. Cir. 2006).

<sup>4</sup> *Id.* at 1352.

<sup>5</sup> The factual background is summarized here from the trial court’s two decisions, *see Zoltek Corp. v. United States*, 51 Fed. Cl. 829, 831-34 (Fed. Cl. 2002); *Zoltek Corp. v. United States*, 58 Fed. Cl. 688, 689-90 (2003).

## *How the “New GM” Can Steal from Toyota*

by the time the trial court was ruling on summary judgment motions, the case involved only the F-22 Raptor.) Lockheed, in turn, subcontracted with two Japanese companies to manufacture the composite fiber sheets used in the F-22 Raptor. The subcontractors produced the sheets in Japan, using a manufacturing process claimed in Zoltek Corp.’s reissued U.S. Patent No. 34,162 (’162 patent). Lockheed imported the fiber sheets into the U.S., where it used them to build the F-22 Raptor, which is now flying the unfriendly skies.

Second, the law. (This part is a bit longer and more convoluted thanks to Congress’s machinations in enacting different statutes at different times under different titles of the U.S. Code.) Normally, if Lockheed had done what it did with regard to the ’162 patent, it would have been liable for patent infringement. It’s important to recognize, though, that Lockheed’s use of the composite fiber sheets was not the problem. Zoltek’s patent did not cover composite fiber sheets, but rather only the *process* for making these products. Thus, Lockheed would not have been liable for importing or using the fiber sheets in the U.S. under 35 U.S.C. § 271(a), the primary liability provision in the Patent Act.<sup>6</sup> Nor would the Japanese subcontractors have been liable for using Zoltek’s patented process in Japan, because U.S. patent law does not have extra-territorial force.<sup>7</sup>

Nevertheless, Lockheed still would have been liable to Zoltek for patent infringement under § 271(g), which Congress added to the patent statutes in 1988. This provision prohibits anyone from importing into the United States a product made abroad with a

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<sup>6</sup> 35 U.S.C. § 271(a) (stating that patent infringement arises for “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention”). The patented invention in this case is the manufacturing process, not the products (fiber sheets) that are the result of the manufacturing process. Since Lockheed neither used nor imported the process into the United States, it is not liable for patent infringement under § 271(a).

<sup>7</sup> See *AT&T v. Microsoft Corp.*, 550 U.S. 437, 441 (2007).

process patented under U.S. law.<sup>8</sup> The purpose of § 271(g) was to close an inadvertent infringement loophole in the 1952 Patent Act, which penalized the importation of an unauthorized patented product but permitted the importation of a product from an unauthorized use of a patented process.<sup>9</sup> After 1988, owners of patented products and patented processes received equal protection for their intellectual property under U.S. law.

The catch in *Zoltek* was that Lockheed was not acting for private purposes in importing the composite fiber sheets manufactured abroad with Zoltek's patented process. Lockheed was a government contractor. Under the Tucker Act,<sup>10</sup> the use of a patented invention by a government contractor or subcontractor "shall be construed as use or manufacture for the United States,"<sup>11</sup> which meant that Zoltek's legal claim had to be brought against the U.S. government. Thus, Zoltek could not sue Lockheed under § 271(g) of the Patent Act, but rather had to pursue its legal remedy against the U.S. under § 1498 of the Tucker Act.<sup>12</sup>

Here's where things got tricky for Zoltek, because § 1498(c) provides a safe harbor for government liability against "any claim arising in a foreign country." As the Court of Federal Claims recognized in granting the government's motion to dismiss, "As the pat-

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<sup>8</sup> See 35 U.S.C. § 271(g) (providing that "[w]hoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer . . .").

<sup>9</sup> See H.R. Rep. No. 60, 100th Cong., 1st Sess. 3 (1987) (stating that § 271(g) will provide "meaningful protection to owners of patented processes" because there was to date "no remedy against parties who use or sell the product, regardless where it is made").

<sup>10</sup> 28 U.S.C. § 1491 et. seq.

<sup>11</sup> 28 U.S.C. § 1498(a).

<sup>12</sup> See *id.* ("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.")

## *How the “New GM” Can Steal from Toyota*

ent statute has been expanded to provide additional protection to patent owners from infringing parties, Congress has failed to update section 1498 to make these additional protections applicable against the Federal Government.”<sup>13</sup> Thus, the trial court found that a “legislative gap exists” in § 1498, because the government would have been liable under § 1498(a) but for the safe harbor provided under § 1498(c).<sup>14</sup> The court subsequently ruled that, given the absence of a statutory remedy under § 1498(c), Zoltek could pursue a constitutional claim for “just compensation” under the Takings Clause of the Fifth Amendment.<sup>15</sup>

On appeal to the Federal Circuit, the government prevailed in its argument that neither § 1498 nor the Fifth Amendment applied to Lockheed’s importation of the composite fiber sheets manufactured with Zoltek’s patented process. But the Federal Circuit expanded the scope of the government’s immunity, concluding that there was no need to reach the safe harbor in § 1498(c) because the government was not liable under the primary liability provision in § 1498(a). The court reasoned that the express terms of § 1498(a) impose liability on the federal government only when a patented invention “is used by . . . or for the United States,” and thus does not provide a remedy when a government contractor *imports* products produced by a patented process in a foreign jurisdiction.<sup>16</sup>

Since it held that § 1498(a) did not even apply to the facts of the case, the *Zoltek* court concluded that the “trial court’s remaining conjectures on takings jurisprudence do not require consideration.”<sup>17</sup> Of course, the same “legislative gap” under § 1498 originally identified by the trial court exists regardless of whether one finds the government immune from liability under the express

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<sup>13</sup> *Zoltek Corp. v. United States*, 51 Fed. Cl. 829, 838 (Fed. Cl. 2002). The predecessor statute to § 1498 was first enacted in 1910. See Act of June 26, 1910, ch. 423, 36 Stat. 851, 851-52 (1910) (codified as amended at 28 U.S.C. § 1498).

<sup>14</sup> *Zoltek*, 51 Fed. Cl. at 837-83.

<sup>15</sup> See *Zoltek Corp. v. United States*, 58 Fed. Cl. 688 (Fed. Cl. 2003), *rev’d*, *Zoltek v. United States*, 442 F.3d 1345 (Fed. Cir. 2006).

<sup>16</sup> See *Zoltek Corp. v. United States*, 442 F.3d 1345, 1349-50 (Fed. Cir. 2006).

<sup>17</sup> *Id.* at 1352.

terms of either § 1498(a) or § 1498(c). The Federal Circuit thus rejected Zoltek's takings claim by implication, stating that "patent rights are a creature of federal law," and as such the only legal route for it to obtain compensation is for "Congress [to] provide[] a specific sovereign immunity waiver for a patentee to recover for infringement by the government."<sup>18</sup> Lacking both a constitutional remedy under the Takings Clause and a statutory remedy under § 1498(a) there was no basis for Zoltek to obtain compensation from the government.

Through this somewhat tangled web of statutory construction ranging between two separate but intertwined pieces of legislation – the Patent Act and the Tucker Act – the Federal Circuit confirmed that an owner of a patented process could not sue the government for importing a product that resulted from the unauthorized use of that process abroad. The constitutional issue was no less important. In two separate concurrences, one joining the court's per curiam opinion and another joining the order denying Zoltek's petition for rehearing en banc, Judge Timothy Dyk made explicit Zoltek's implication that patents do not fall within the ambit of the Takings Clause.<sup>19</sup> The cert petition to the United States Supreme Court was denied as well.<sup>20</sup>

## BUILDING NEW GM CARS

The government's victory in *Zoltek* is now government-owned GM's opportunity four years later. After watching its sales evaporate over the years, the "new GM" (as it now calls itself<sup>21</sup>)

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<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 1345 (Dyk, J., concurring) ("Patent rights are creatures of federal statute. . . . There is thus no basis for a Fifth Amendment takings claim in this case . . . ."); *Zoltek Corp. v. United States*, 464 F.3d 1335, 1339 (Fed. Cir. 2006) (Dyk, J., concurring in denial of rehearing en banc) ("The panel decision here, in rejecting the constitutional claim and in finding no infringement, is faithful to section 1498, to the decisions of the Supreme Court, and to the decisions of this court.").

<sup>20</sup> See *Zoltek Corp. v. United States*, 127 S. Ct. 2936 (2007).

<sup>21</sup> *GM Press Release on 'New GM'* (June 1, 2009), available at [blogs.wsj.com/autoshow](http://blogs.wsj.com/autoshow)

## *How the “New GM” Can Steal from Toyota*

must claw its way back to profitability.<sup>22</sup> For obvious reasons, it is under “intense pressure” to do so by those who have chosen to invest in this company with monies from the public fisc.<sup>23</sup> What is GM to do? *Zoltek* points the way to one source of financial relief for the beleaguered auto manufacturer: GM can now have automobiles built abroad using patented processes and then import and sell the cars in the U.S. market – and it can reap the windfall of not having to pay either license fees or patent infringement damages for its use of these patents.

For this to happen, the fact pattern need only vary by a slight degree from that of *Zoltek*. Suppose that some enterprising Toyota engineers have invented a new process for manufacturing composite fibers that represents a major advance in technology beyond even the valuable process covered by *Zoltek*’s ’162 patent. This isn’t a wild leap of the imagination, as automobile manufacturers have begun using composite fiber materials to reduce the weight of cars, which improves fuel efficiency and reduces emissions.<sup>24</sup> In this scenario, Toyota will use this new process to manufacture more effi-

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/2009/06/01/gm-press-release-on-new-gm/ (vis. July 17, 2010).

<sup>22</sup> See Peter Whoriskey, *GM loses \$4.3 billion, gains faith in profitability*, WASH. POST, at A14 (Apr. 8, 2010) (reporting that “GM has not earned an annual profit since 2004 and lost \$88 billion between 2005 and its bankruptcy filing in June 2009”).

<sup>23</sup> Sharon Terlep, *GM Behind on Some Goals, CEO Says*, WALL ST. J., at B2 (Oct. 8, 2009) (“Mr. Henderson [GM’s Chief Executive] faces intense pressure from GM’s new chairman and the U.S. Government – the company’s new majority owner – to stem the sales slide and improve GM’s financial performance.”).

<sup>24</sup> See Sebastian Blanco, *Megacity will be BMW’s first to use carbon fiber “on a large scale,”* AutoBlogGreen (Oct. 29, 2009), available at [green.autoblog.com/2009/10/29/megacity-will-be-bmws-first-to-use-carbon-fiber-on-a-large-sca/](http://green.autoblog.com/2009/10/29/megacity-will-be-bmws-first-to-use-carbon-fiber-on-a-large-sca/) (vis. July 17, 2010) (quoting BMW’s press release that “carbon fibre technology is becoming increasingly important . . . [and] will help to reduce CO2 emissions and save our natural resources”); Sam Abuelsamid, *Lotus creates lightweight structures division*, AutoBlogGreen (May 18, 2008), available at [green.autoblog.com/2008/05/18/lotus-creates-lightweight-structures-division/](http://green.autoblog.com/2008/05/18/lotus-creates-lightweight-structures-division/) (vis. July 17, 2010) (quoting Lotus’s press release that “Weight reduction is one of the most attainable ways to lowering CO2 emissions in vehicles today, as well as improving fuel economy and performance”).

ciently the materials used in its popular cars, like the Prius. To ensure that Toyota retains its competitive advantage against its rivals in one of its largest car markets, the engineers obtain a U.S. patent for this new manufacturing process and they assign it to their employer.

Sometime later, GM contracts with a Chinese firm to construct composite-fiber panels for use in its remaining automobile lines. In fulfilling its contract with GM, the Chinese firm uses the manufacturing process claimed in Toyota's patent and it decides to avoid the hassle and expense of paying Toyota a licensing fee. GM doesn't mind, because it's obtaining its parts at cheaper prices. Thus, GM imports the composite-fiber parts, assembles its new cars and trucks, and sells them in the U.S., touting their improved fuel efficiencies and environmental benefits at lower costs to consumers.

Here, Toyota falls within the exact same legislative and constitutional gap imposed on *Zoltek* by the Federal Circuit in 2006. If Toyota sought relief for the unauthorized use of its patented manufacturing process, it would be forced to sue government-owned GM under the Tucker Act for the same reason that *Zoltek* was forced to sue the U.S. given Lockheed's unauthorized use of its patent. If Toyota sues for compensation under § 1498(a), GM would successfully file a motion to dismiss the complaint given *Zoltek's* holding that § 1498(a) does not permit suits against the government based on the importation of products made from unlicensed patented processes used abroad. Alternatively, even if § 1498(a) was deemed to apply, then the foreign-jurisdiction safe harbor in § 1498(c) would still exempt GM from liability. If Toyota then claimed a constitutional taking of its property – the patented manufacturing process – a court would still dismiss the complaint on the basis of *Zoltek's* second holding that patentees have no constitutional protection under the Takings Clause.

There is admittedly one important difference between GM's manufacture of its new lightweight cars and the situation in *Zoltek* in which Lockheed manufactured the F-22 Raptor. In *Zoltek*, Lockheed was a contractor of the federal government, which explains why *Zoltek* argued for the application of § 1498(a)'s language that "use

## *How the “New GM” Can Steal from Toyota*

or manufacture of an invention . . . by a contractor [or] subcontractor . . . shall be construed as use or manufacture for the United States.”<sup>25</sup> In the hypothetical scenario of GM’s manufacture of cars and trucks built with patented manufacturing technology used abroad, the Chinese firm is a contractor of GM, not the federal government.

A court would likely find, however, that this is a distinction without a difference. Beyond its specification of immunity for contractors and subcontractors, § 1498(a) also provides that “any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.” The Federal Circuit has thus recognized that § 1498 provides broad immunity against infringement claims under § 271 of the Patent Act, even in the absence of an express agency relationship.<sup>26</sup>

Moreover, the federal government is exercising control over GM and other firms in which it has assumed ownership stakes.<sup>27</sup> As the majority shareholder of GM – indeed, GM was operating under the oversight of the Obama Administration months before the federal government assumed formal ownership of the corporation<sup>28</sup> – there is at least a colorable argument under long-established corporate and securities law precedents that GM is a functionary of the federal government.<sup>29</sup> The “Government Motors”<sup>30</sup> epithet makes

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<sup>25</sup> 28 U.S.C. § 1498(a).

<sup>26</sup> See *Adv. Software Design Corp. v. Fed. Res. B. of St. Louis*, 583 F.3d 1371, 1379 (Fed. Cir. 2008) (recognizing that “an agency relationship need not exist in order for § 1498(a) to apply” in immunizing a private entity from a patent infringement lawsuit).

<sup>27</sup> See J.W. Verret, *Treasury, Inc.: How the Bailout Reshapes Corporate Theory and Practice*, 27 YALE J. REG. 283 (2010) (discussing numerous ways in which the federal government is exerting control over Citibank and other firms).

<sup>28</sup> See Jacob Sollum, *Illegal: The Auto Bailout Makes a Mockery of the Rule of Law*, REASON 24 (Aug/Sep 2009) (reporting how GM’s receipt of TARP funds was invoked by House Majority Leader Steny Hoyer as a justification for, among other things, President Obama firing GM’s CEO, Rick Wagoner, on March 29, 2009).

<sup>29</sup> See generally Verret, *supra* note 27.

sense to so many people today precisely because GM is no longer a privately-owned firm acting for solely private purposes.<sup>31</sup>

Of course, a judge might balk at the uncertain policy implications of granting GM sovereign immunity, such as whether this implies that GM acquires constitutional obligations along with its newly acquired constitutional immunities. Would the Due Process Clause or the Equal Protection Clause also now apply to GM? A judge might find such concerns to be sufficient enough to justify coming up with a new test for determining the sovereign immunity in a government-owned corporation; a test that GM might fail. But the plain language of § 1498 seems to apply to GM, as there is evidence in both law and fact that GM is now acting as a “corporation for the Government and with the authorization or consent of the Government.”<sup>32</sup>

A four-year-old court decision that appeared at the time to benefit only a limited set of government military contractors now points the way for government-owned GM to return to profitability by cutting its operating costs. Following the statutory and constitutional holdings in *Zoltek*, GM may now benefit from patented processes without having to pay royalties and without worrying about infringement liability. GM will likely not want to miss the opportunity to exploit this loophole to the benefit of its majority shareholder – the American people.

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<sup>30</sup> See Shika Dalmia, *Still Government Motors*, FORBES.COM, Apr. 23, 2010, [www.forbes.com/2010/04/23/general-motors-economy-bailout-opinions-columnists-shikha-dalmia.html](http://www.forbes.com/2010/04/23/general-motors-economy-bailout-opinions-columnists-shikha-dalmia.html) (vis. July 17, 2010).

<sup>31</sup> See, e.g., Neil King, Jr., *Politicians Butt In at Bailed-Out GM*, WALL ST. J., at A12 (Oct. 30, 2009) (quoting Representative Denny Rehberg that “The simple fact is, when GM took federal dollars, they lost some of their autonomy.”); *A Leak in the Transmission; Congress Tries to Thwart Automakers’ Efforts to Economize on Distribution*, WASH. POST, at A26 (Dec. 13, 2009) (criticizing congressional intervention to stop GM’s decision to close dealerships as “a sop to a lobby with influence in practically every congressional district”).

<sup>32</sup> 28 U.S.C. § 1498(a); see also King, *supra* note 31 (“Companies in hock to Washington now have the equivalent of 535 new board members – 100 U.S. senators and 435 House members” and that “no company has been more on the receiving end of congressional attention than GM.”).

## THE END, OR THE BEGINNING?

This essay reveals the unforeseen consequences of the statutory and constitutional loophole created by the 2006 decision in *Zoltek*. I have explained elsewhere how the *Zoltek* decision conflicts with longstanding patent-takings decisions by the Supreme Court and lower courts reaching back to the nineteenth century, as well as with the original meaning of § 1498.<sup>33</sup> When combined with the equally unprecedented actions taken by the federal government in the past two years in pursuit of its economic policies, there is now a gap in the legal protection of patents through which the government could drive the proverbial Mack truck (or perhaps a GM truck). *Zoltek* now points the way for a government-owned GM, and other firms in which the government has a controlling stake, to engage in piracy of intellectual property rights. This piracy is limited only by the number of process patents that GM finds useful in propping up its bottom line.

Ironically, at the time *Zoltek* was decided, the federal government argued to the Supreme Court that “it is unlikely that the court of appeals’ decision will prove to have exceptional importance.”<sup>34</sup> This did not seem to be an outlandish claim; the government rightly pointed out that this “appears to be the first case” of its kind arising from a statute that had “been in effect for decades.”<sup>35</sup> The statutory loophole in § 1498 – the federal government’s retaining sovereign immunity against liability arising from importing products of unauthorized patented processes employed in foreign jurisdictions – and the concomitant denial of constitutional protection for patents under the Takings Clause seemed insignificant in 2007. Although it is arguable that denying constitutional protection to patents is unexceptional, the events in the ensuing years suggest that the federal government may have spoken too soon.

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<sup>33</sup> See Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents under the Takings Clause*, 87 B.U. L. REV. 689 (2007).

<sup>34</sup> See Brief for the United States in Opposition to Petition for Writ of Certiorari, *Zoltek Corp. v. United States*, No. 06-1155 (May 11, 2007), at 20.

<sup>35</sup> *Id.*