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Government Recognition and Acquisition of Patent Rights

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THE STATUS AND VALUE OF PATENT RIGHTS owned by private enterprise may be materially affected by the procurement policies and practices of the Federal Government. The most publicized and controversial policies are found in the rules and regulations of the Department of Defense, the Atomic Energy Commission and the National Aeronautics and Space Administration. It is the purpose of this article to delineate the major differences being promulgated by these three governmental agencies.

In the furtherance of tremendously large and far-reaching procurement activities, the Federal Government, vested with the authority to own and dispose of patent rights, must determine the recognition it will afford patents, the identity of patent rights it must obtain, and the methods by which it will acquire such rights. It is faced with the necessity of both meeting military needs and maintaining world prestige, and simultaneously protecting the constitutional rights and trade practices of private enterprise which comprise the heart of the American system. Because of the belief that normally accepted business practices of arms-length negotiation will not always suffice for Government needs, there has developed in recent years a practice of regulating or acquiring patent rights through contract negotiations for research and development work and, in some instances, for materials and supplies. Authorized by separate legislative enactments and administered by numerous administrative departments, these rules and acquisition practices differ materially.

The Patent Act of 1952 specifies that each patent shall contain a "grant to the patentee, his heirs, or assigns, for the term of seventeen years, of the right to exclude others from making, using or selling his invention throughout the United States" [1] and provides that "patents shall have the attributes of personal property." [2] The latter section goes on to say "Applications for patents, patents or any interest therein, shall be

* Member of the Ohio Bar; Member of the Legal Dept., Thompson Ramo Wooldridge Inc., of Cleveland.

1 35 U. S. Code, Sec. 154.

2 35 U. S. Code, Sec. 261.

assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States." The Armed Forces Act of 1956 provides "Funds appropriated for a military department available for making or procuring supplies may be used to acquire any of the following if the acquisition relates to supplies or processes produced or used by or for, or useful to, that department. (1) Copyrights, patents, and applications for patents (2) Licenses under copyrights, patents and applications for patents." [3]

Department of Defense Policy

The Department of Defense policies dealing with procurement of patents and proprietary rights, and related matters, are set forth in Section IX of its regulations entitled *Armed Services Procurement Regulations,* more commonly known as ASPR. These regulations evolved from operating experiences gained by the military services in procuring services and supplies under authority vested by several chapters of Title 10 of the United States Code.[4] The regulations were issued in their present basic form on July 1, 1949, and have been subjected to numerous revisions. The latest issue on July 1, 1960 includes the 1955 Edition and the 54 revisions which were appended.

Part 1 of Section IX deals with the subject of patents as related to government contracts for experimental, developmental or research work or supplies. First encountered is the provision dealing with the rights and remedies of the owner of an infringed patent.[5] Referring to 28 USC 1498, the regulation provides that the Government may authorize and consent to the use of any patented invention in the performance of the contract, and the holder of an infringed patent must thereafter sue the Government in the Court of Claims, rather than pursuing the infringing party in more generally practiced actions.

Patent Indemnification of Government by Contractor[6] contains several provisional clauses and exemptions whereby the contractor may be required to reimburse the Government for liabilities incurred in the performance of contracts, including

[3] 10 U. S. Code, Sec. 2386.

[4] Chapters 137, 139, 141.

[5] Armed Services Procurement Regulations, Sec. IX-102.

[6] *Id.* at Subsec. 103.

those containing Authorization and Consent, Clauses, supra. Thus, procedural but not substantive changes may be instituted by contractual regulation. There are provisions for the exemption of indemnification for certain supply contracts, the conditions and details of indemnification in advertised and negotiated contracts, and the waiver of indemnity entirely.

The contractor may be required to notify and assist the Government in case of notice of patent infringement.[7] If the contractor has indemnified the Government, he bears the expense of assistance.

The policies to be followed by the Government in the acquisition of patents or patent rights are dealt with in detail.[8] Instructions indicate that as a general policy the Government shall acquire an "irrevocable non-exclusive, non-transferable and royalty-free license" for any invention "conceived or first actually reduced to practice" in the performance of any contract having "experimental, developmental, or research work as one of its purposes, or in the course of performing any prior experimental, developmental or research work done upon the understanding in writing that a contract would be awarded." The assignment of full title may be required in certain situations in which it is deemed desirable in the public interest to acquire the patent. It is spelled out in the regulation that exclusive of the above required licenses, occasional assignment of full title, and exceptions for certain foreign contracts, the Government shall negotiate separately for license rights or the assignment of patents, and shall recognize and pay reasonable compensation for the use of patents enforceable against the Government, reserving for department personnel the right to decide on infringement, validity and enforceability questions. There are further provisions for a contracting officer, upon certain findings of fact, to exclude from the required licensing section those inventions which have been conceived and made the subject of a patent application prior to the consummation of the contract, even though such inventions are actually reduced to practice in the performance of the contract. In the event the party contracting with the Government elects not to file a patent application, the Government requires an assignment of the patent right; and, in this circumstance, foreign rights and a non-exclusive royalty-free license may be retained by the contracting party.

[7] *Id.* at Subsec. 104.

[8] *Id.* at Subsec. 107.

Necessary exceptions to the basic policies are to be found in clauses which afford recognition to Atomic Energy Commission and National Aeronautics and Space Agency requirements, when such agencies are served by Department of Defense Contracts.

Reporting of Royalties[9] requires reports from contractors when royalties in excess of certain amounts must be paid to patent owners by the contractor in order to perform the contract, and provides for review and negotiation of the Government's position.

Part 2 of Section IX of ASPR, *Data and Copyrights,* bears indirectly on the subject of patent recognition and ownership. It is specifically provided in the basic data right clause that "nothing contained in this clause shall imply a license to the Government under any patent, or be construed as affecting the scope of any license or other right otherwise granted to the Government under any patent. Attention is thus drawn to the significance of patents, and the relative position of a patent owner versus the holder of a non-patented proprietary right may be determined by a study of this Part 2 of the Section on Patents.

Atomic Energy Commission Policy

Broad powers for the control and acquisition of patent rights were authorized to the Atomic Energy Commission by the Atomic Energy Act of 1946 and the amended Act of 1954. Chapter 13 of the Act, Title 42 of the United States Code, regulates issuance, acquisition and licensing of patents. Historically these policies were formulated by the Manhattan Engineer District and justified in the present legislation on the premise that the Atomic Energy Commission is responsible for both military and commercial development of atomic energy.

Insofar as Military Utilization[10] and Commission contracts[11] are concerned, the Act provides that no patents shall be granted on any invention or discovery which is useful solely in the utilization of special nuclear material or atomic energy in an atomic weapon. It further provides that no patent shall confer any rights with respect to any invention or discovery to the extent that same is used in the utilization of special nuclear material or atomic energy in atomic weapons.

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[9] *Id.* at Subsec. 110.

[10] 42 U. S. Code, Sec. 2181.

[11] 42 U. S. Code, Sec. 2182.

Any person who makes an invention or discovery in (1) the production or utilization of special nuclear material or atomic energy; (2) utilization of special nuclear material in an atomic weapon; or (3) utilization of atomic energy in an atomic weapon, must file a report with the AEC containing a complete description thereof, unless a description is contained in an application for patent, in which event the Commissioner of Patents must notify the AEC and give them access to the application. Any such invention made or conceived under any contract arrangement or other relationship with the AEC, regardless of expenditure of AEC funds, is deemed to have been made by the AEC. The AEC can direct the Commissioner of Patents to issue the patent to itself as an agent of the Government.

In the area of Non-Military Utilization, the AEC has the power to decide that any patent is of primary importance in the production or utilization of special nuclear material or atomic energy, and declare the patent to be affected with the public interest, whereupon the AEC is licensed under the patent.[12] The AEC may, at its discretion, sub-license or require the patent holder to license any applicant under such patents for the furtherance of its activities, and establish reasonable royalties for such license.

National Aeronautics and Space Administration Policy

The National Aeronautics and Space Act of 1958 lacked historical experience and considerations of patent policies for promoting its purposes when it was rushed into legislation in the interest of accelerating our space activities. Section 305 of the Act, 42 USC 2457, appears to extend the administrator's authority to acquire patent rights beyond any previous statutory enactment.

Any invention which is made[13] in the performance of any work under any contract of the Administration is subject to review by the Administrator. If the Administrator determines that the inventor was employed to perform research or development work, and the invention is related to the employment regardless of whether or not it is made during working hours, or the invention is made with Government funds, then the invention is the exclusive property of the Government and any patent thereon is assigned to the Administrator unless he waives

[12] 42 U. S. Code, Sec. 2183.

[13] Defined as "conceived or first actually reduced to practice."

the Government right. If the inventor is not employed to do research or experimental work, but the invention is related to the contract and was made during working hours or with Government funds, the same assignment is required unless waived.

Each contract with the Space Act Administration requires that a full and complete written report concerning any invention be furnished promptly to the Administrator.

The Commissioner of Patents may not issue a patent to anyone other than the Space Act Administration for any invention which appears "to have significant utility in the conduct of aeronautical and space activities" [14] unless the applicant files an affidavit of full facts concerning the circumstances under which the invention was made and any relationship to performance of work under contract with the Space Act Administration. After the affidavit is filed the Administrator may request the patent, and the applicant must request a hearing before the Board of Patent Interferences and appeal to the Court of Customs and Patent Appeals if he objects to the request. If, within five years after the issuance of any patent, the Administrator has reason to believe that the affidavit was false, he may request assignment of the patent and the applicant must appeal as above.

The Administrator may waive the assignment of any patent, providing the interests of the Government are being served, and accept in lieu thereof a non-exclusive, royalty-free license to the Government. He may also license patents owned by the Government upon such terms and conditions as he may specify. Appropriate ASPR clauses may supplement any Space Act Clauses.

Practical Effect of Agency Policies

Each of the mentioned Agencies implements its statutory authority and formulated policy by the insertion of clauses during contractual negotiation. It is obligatory that each Government contracting officer and private contractor understand the nature and intent of the contract and the effect of the disposition of patent rights if these clauses are to be equitably and judiciously utilized.

The Department of Defense policies and instructions afford the most favorable climate for negotiating competitive contracts.

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[14] 42 U. S. Code, Sec. 2457 C.

The acquisition of a non-exclusive, royalty-free license provides the Government with those rights necessary to make full use of that for which it has paid. There are no restrictions in the license and on the business activities of the Government in domestic or foreign activities. The contractor usually retains the title to the patent and is free to fully exercise the constitutional and legislative rights provided for patent holders in commercial areas. The stimulus thus provided to private industry to prepare for and bid on Department of Defense contracts can provide a wider range of Government sources and a more competitive atmosphere. There is an incentive for the private contractor to perfect his patent right and develop uses beyond those required by the Government contract.

The emphasis placed on Department of Defense willingness to negotiate for patent rights in existence prior to contracts, and the provision for exemption of even a license in the case of a prior concept not actually reduced to practice, encourages industry to invest its own funds in basic research and to utilize the patent system. There is the recognition that no patent rights will be inadvertantly lost while attempting to completely fulfill a contractual obligation.

The Atomic Energy Commission authority for withholding patents entirely from certain critical areas and taking title to those having a relationship to AEC work appears to have received more academic than practical attention because of the subject matter of AEC activities. With increased potential for atomic energy application in commercial fields, the requirement that all patent rights be assigned to the AEC may be scrutinized much more closely. It is of particular importance to recognize that while the Department of Defense permits freedom to procure and use, by non-exclusive license and not patent title, that for which it pays, the Atomic Energy Commission may require title to pass even though no financial consideration is involved. Also totally absent from Department of Defense policy, and specifically extending into the area of commercial interests without regard for military necessity, is the provision that the AEC may compel the patent holder to license others simply by holding that the license will further its activities.

It seems that private industry is offered little incentive to enter contractual relationship with the Atomic Energy Commission insofar as commercial patent values are concerned. The development of commercial applications of atomic energy may

result in greater use of existing AEC clauses patterned after the ASPR clauses, as authorized under 42 USC 2183, which provides for a license rather than assignment of patent title. There is no assurance that uncertainties will cease to exist.

The National Aeronautics and Space Act is a significant departure from the Department of Defense policy, and extends, with some modification, the Atomic Energy Commission authority for acquisition of invention rights into broad areas of subject matter. The finding by the Space Act Administrator that any relationship, including the vague area of "understandings" and "arrangements," as well as contractual, exists at the time the invention is conceived or reduced to practice, can result in the Government taking all right and title to the invention. Of particular import in this authority is the possible loss of all rights in and to background inventions, which are those conceived as a result of privately sponsored research, but not developed or applied to a particular use prior to the relationship with the Space Act activity. The word "invention" is inclusive of patent, but encompasses non-patented subject matter as well.

The fact that all patent applicants have to supply the Commissioner of Patents with an affidavit, setting forth the facts surrounding the making of a patentable invention, complicates the uncertainty associated with the Space Act Administrator's authority to announce certain findings and request patent rights. Complete and accurate records, which can be substantiated beyond any doubt, are a necessity for a private contractor who has a patent application which could have "significant utility in the conduct of aeronautical and space activities," and who considers any type of relationship with the National Aeronautics and Space Administrations.

The net effect of the prime contractor's potential lack of commercial patent rights, the uncertainty of the Administrator's "findings" which may result in loss of rights to valuable, privately financed inventions, and the burden of proof requirement, is to cause concern on the part of private enterprise. The liberal use of the ASPR type provision permitting the Administrator to waive a patent assignment and secure a license may alleviate this concern, but not completely dispel it so long as the alternate authority exists.

Current Legislative Considerations

The diverse regulations and policies for the acquisition or disposition of patent rights are currently the subject of a great deal of study and consideration. A focal point of interest and ultimately a possible subject of legislative revision is Section 305 of the National Aeronautics and Space Act. Two recently debated bills, HR 1934 and HR 3239 (87th Congress) were directed specifically to this section.

Receiving the most immediate attention, however, are two Government patent policy bills, S 1084 and S 1176. Both bills would provide a uniform policy of Government ownership for all patent rights which result from Government sponsored research and development work. S 1176 would in addition create a Federal Inventions Administration which would administer Government owned patents.

Proponents of the various viewpoints on this subject of ownership of patent rights have formulated numerous opinions and proposals of policy. One which may have had significant effect on the most recent practices of the various agencies, and may well serve as a policy guide for future standardization of Government policy, is the *Statement of Congressional Intent* from the Report of the Sub-committee on Patents to the House Committee on Science and Astronautics.

"Recognizing that continuation of the free enterprise system is dependent upon maintenance of adequate incentive in private ownership of inventions and patents thereon lies in the prospect of commercial utilization of the inventions, the committee urges the Administrator of the National Aeronautics and Space Agency to take from private ownership only so much of the property right in inventions and patents thereon as may be necessary to fulfill the requirements of Government and protect the public interest.

"In determining the disposition of the rights in inventions and patents arising out of research and development work done in connection with NASA contracts, it is here believed that the public interest, the equities of the inventors and their assignees, and the needs of the Government may best be served by obtaining for the Government not less than a royalty-free, non-exclusive, irrevocable license for the Government to use, for governmental purposes, the inventions or patents resulting from such work, leaving the remaining rights as well as title to the inventions and patents thereon to the inventors and their assignees.

Where, however, retention of the remaining rights or title to such inventions or patents thereon in the inventors or their assignees would appear likely to run counter to the public interest or the needs of the Government, the Administrator should secure for the Government such additional rights, including the entire right, title and interest if necessary, to prevent, reduce, or eliminate such adverse effect." [15]

Summary

A brief examination of Government regulations and policies for the recognition and acquisition of patent rights reveals divergencies between the policies of different departments and agencies. A tremendous burden is placed on Government officials and private contractors to accurately and equitably negotiate for patent rights related to contractual relationships between the parties. Resident within these property rights are tremendously valuable commercial potentials and prime factors for the propagation and perpetuation of Government interests and private enterprise. Legislative enactments which will materially alter current policies are imminent and worthy of conscientious attention and judicious analysis.

[15] H. R. 12049, 86th Congress.