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PATENT INFRINGEMENT IN GOVERNMENT PROCUREMENT:
A REMEDY WITHOUT A RIGHT?

Gerald J. Mossinghoff* and Robert F. Allnutt**†

Introduction

Since World War II government contracting has formed a substantial part of the business of most large corporations and all or most of the business of many small concerns. While government purchases include many of the most sophisticated devices known to modern science and technology, they also include thousands of everyday items, running the entire gamut of American manufacture.

In many ways the government supplier or contractor finds that the normal rules of the market do not apply to his government sales. Among the differences between commercial practice and government contracting, few if any are more striking than that arising when a prospective contractor owns, or is licensed under, a patent.

Although in the commercial realm it has been said that "within his domain, the patentee is czar," under present rules a patent owner finds that his patent, even if valid, is irrelevant to his bid to furnish the patented items or services to the Government. And a licensee under a valid patent finds that he is actually at a disadvantage compared to his unlicensed competitor.

Prior to 1910, it could be said that a patent owner whose patent was infringed by the Government had a right without a remedy. The patent owner’s

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† The opinions expressed in this article are those of the authors and are not necessarily those of the National Aeronautics and Space Administration.

† Victor Talking Mach. Co. v. The Fair, 123 Fed. 424, 426 (7th Cir. 1903). Of course, the "domain" today is not what it was in 1903; see 1955 ATT’Y GEN. NAT’L COMM. ANTITRUST REP. 223-60, NORDHAUS & JUROW, PATENT-ANTITRUST LAW (1961).
"right" to damages for past infringement or an injunction was negated by sovereign immunity — immunity which had not been waived by the United States. After 1910 for direct infringement by the Government, and after 1918 for infringement for the Government by its contractors, a waiver of immunity and an assumption of liability by the Government provided a remedy of reasonable compensation. More important to the typical businessman, who is far more interested in sales than in lawsuits, governmental contracting practices afforded a preferential position to patent holders when the Government purchased their patented supplies or services. However, under a series of Comptroller General decisions beginning in 1958, this right to a business preference has been held to be destroyed by the remedy provided generations before.

How this complete departure from normal commercial experience came to pass is often not fully understood. Dissatisfaction with the present state of affairs is widespread, and a variety of cures, both administrative and legislative, have been suggested in recent years. This article reviews the steps leading to the anomaly and analyzes various proposed solutions. The authors conclude that an appropriate change is needed and that the necessary elements of such a change can be determined and defined.

The Evolution of 28 U.S.C. § 1498

A valid United States patent grants to the owner "the right to exclude others from making, using, or selling the invention throughout the United States" and its territories. The district courts have jurisdiction both to award damages for past patent infringement and to "grant injunctions in accordance with the principles of equity" to prevent future infringement. The patentee, therefore, has virtually absolute control over the patented invention. He may or may not practice the invention himself; he may or may not license others to practice the invention either exclusively or nonexclusively; and within the framework of antitrust principles, if he grants licenses, he may dictate their terms and conditions. These rules apply only to commercial use of a patented invention, and when a patent is practiced by, or on behalf of, the Government, an entirely different set of rules and policies controls.

Prior to 1910, when the Government utilized an invention covered by a privately owned patent, it committed a tortious infringement of the patent.

2 Schillinger v. United States, 155 U.S. 163 (1894); Pitcher v. United States, 1 Ct. Cl. 7 (1863).
4 Act of July 1, 1918, ch. 114, 40 Stat. 705.
5 See Switlik Parachute Co., unpublished decision of the Comptroller General, B-77738 (Jan. 10, 1944). [Hereinafter, unpublished Comptroller General decisions are cited by number and date.]
10 See note 1 supra. For a compilation of cases indicating the impact of antitrust law and the doctrine of misuse of the patentee's rights, see 1965 AMERICAN BAR ASSOCIATION, SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW, SUMMARY OF PROCEEDINGS, App. D, 193-223.
However, no suit could lie for this infringement, not due to any inherent right or license to practice the patented invention, but due to the United States' not having consented to be sued for patent infringement. To alleviate this situation and to afford the patent owner an opportunity to assert his patent against the Government, Congress passed the Act of June 25, 1910, which provided that whenever a patented invention was "used by the United States without license of the owner . . . such owner may recover reasonable compensation for such use by suit in the Court of Claims." The scope of this act was defined by the Supreme Court in Crozier v. Krupp, decided in 1912, and in Cramp & Sons v. International Curtis Marine Turbine Co., decided in 1918. Crozier held that under the act an officer of the United States, as an individual, could not be enjoined from infringing a privately owned patent while acting in his official capacity. If the patent owner's right had been infringed, his only remedy was an action against the United States in the Court of Claims for reasonable compensation. On the other hand, in Cramp the Court concluded that the Crozier interpretation did not extend to work by a government contractor, and that a patentee could enforce his rights, including, presumably, his right to injunctive relief, against the contractor in the district courts. The Cramp ruling was based upon the view that a private party "is not vested with the powers to take the property of others upon the assumption that . . . he enjoys the right to exercise public and governmental powers possessed by the United States," merely because he is a contractor of the United States.

Concern that the precedent established in Cramp would impair the war effort prompted enactment in 1918 of an amendment extending the act's provisions to the manufacture or use of patented inventions "by or for the United States." (Emphasis added.) As explained by the Supreme Court in Richmond

11 Schillinger v. United States, 155 U.S. 163 (1894); Pitcher v. United States, 1 Ct. Cl. 7 (1863).
13 224 U.S. 290 (1912).
14 246 U.S. 28 (1918).
17 Id. at 43.
18 40 Stat. 705 (1918), 14 U.S.C. § 1498(a) (1964). The concern is evident in a letter signed by the Acting Secretary of the Navy, Franklin D. Roosevelt, on April 20, 1918:

My Dear Senator Tillman: This department is confronted with a difficult situation as the result of a recent decision by the Supreme Court affecting the government's rights as to the manufacture and use of patented inventions, and it seems necessary that amendment be made of the Act of June 25, 1910, entitled "An act to provide additional protection for the owners of patents of the United States, and for other purposes." The case in which the court's decision was rendered is that of William Cramp & Sons' Ship & Engine Building Co., Petitioner, v. International Curtis Marine Turbine Co. and Curtis Marine Turbine Co. of the United States, and the decision is, in effect, so far as it is of importance here, that a contractor for the manufacture of a patented article for the government is not exempt, unless he is only a contributory infringer, from injunction and other interference through litigation by the patentee.

A prior decision of the Supreme Court, that in the case of Crozier v. Krupp, had been interpreted as having the opposite meaning, and the department was able up to the time of the later decision, on March 4 last, to proceed satisfactorily with the procuring of such patented articles as it needed, leaving the matter of compensation to patentees for adjustment by direct agreement, or, if necessary, by resort to the Court of Claims under the above-mentioned act of 1910. Now, however, manufacturers are exposed to expensive litigation, involving the possibilities of prohibitive injunction[.]
The purpose of the amendment was to relieve the contractor entirely from liability of every kind for the infringement of patents in manufacturing anything for the Government and to limit the owner of the patent and his assigns and all claiming through or under him to suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. The word "entire" emphasizes the exclusive and comprehensive character of the remedy provided. As the Solicitor General says in his brief with respect to the Act, it is more than a waiver of immunity and effects an assumption of liability by the Government.¹⁹

The provisions of the Act of 1910, as amended in 1918, have remained substantially unchanged.²⁰ It was judicially determined at an early date,²¹ and it is now specifically set forth in the statute, that the assumption of liability by the Government for infringing acts of its contractors obtains only if these acts were performed "with the authorization or consent of the Government."²² In view of this requirement, it is standard practice for federal agencies to include "Authorization and Consent" clauses in their contracts to insure that the provisions of 28 U.S.C. § 1498 will apply to the contract work and, at the same time, to specify the limits of the authorization and consent granted.²³ And it has

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²⁰ Similarly, in a statement to the House of Representatives on the 1918 amendment, Congressman Padgett declared:

²¹ It makes only a slight change in the existing law, but the urgency and necessity of it were such that the Senate deemed it proper to place it on the bill.... [T]he new law would prevent the injunctive process from the courts being used to prevent private manufacturers doing government work. That is the whole change made in the law and the conditions are such as to require that it should be done.


²³ For the Department of Defense, the Armed Services Procurement Regulation [hereinafter ASPR], prescribes the use of "Authorization and Consent" clauses of two types, a broad form for research or development contracts, ASPR § 9-102.2, 32 C.F.R. § 9-102.2 (Supp. 1966) and a limited form for supply contracts, ASPR § 9-102.1, 32 C.F.R. § 9-102-1 (Supp. 1966). While the broad clause authorizes and consents to all infringement in the performance of contract work, the supply contract clause authorizes and consents only to infringement (1) embodied in delivered items that are accepted by the Government, or (2) otherwise necessary to performance of the contract. Of identical effect is the corresponding regulation of the National Aeronautics and Space Administration [hereinafter NASA], at NASA Procurement Regulation 9.102(a) (supply contracts) and 9.103(b) (research, experimental, design, engineering, or developmental contracts). 41 C.F.R. § 18-9.103 (Supp. 1966). Other agencies follow similar, if not identical, procedures.

been held that such clauses are effective, even though the contractor may be contractually obligated to indemnify the Government for any patent infringement liability incurred as a result of the contract work.\(^{24}\)


State of the Law

In practical effect, section 1498 insulates the Government and its contractors against being enjoined from patent infringement. Although the Act of 1910 was essentially a remedial measure enlarging a patentee's rights by permitting infringement suits against the United States, as amended in 1918, the act took on the aspects of an eminent domain statute under which the Government and its contractors could utilize privately owned patented inventions, subject to the payment of reasonable compensation to the patentee.\(^{25}\) This did not mean, however, under policies prior to 1958, that government agencies were to disregard private patent rights in awarding contracts for patented items. To the contrary, in a 1933 decision, the Comptroller General, after reviewing the history of the governing statutes, concluded that:

Where it is known with certainty that patents are involved, bidders may properly be required to show legal right to manufacture thereunder, or the United States may directly obtain such right for its own use or use through its contractors . . . .\(^{26}\)

Similarly, in Switlik Parachute Co.,\(^{27}\) it was held that “sound practice” required an agency to consider the possible infringement liability of the Government in evaluating bids of competing concerns to supply patented items. The Comptroller General stated:

Obviously, in such circumstances [i.e., when a patent owner submits a bid higher than the low bid] sound practice would require a determination as to the possible liability of the United States for patent infringement. A determination that a bid submitted by the patent owner — under which the total cost to the United States was definitely established — although not the lowest bid as to price, represented the bid most advantageous to the United States, clearly would afford justification for the award of a contract to such patent owner . . . .\(^{28}\)

Thus, after 1918 not only was a patent owner afforded a remedy where his patent had been infringed by the Government or its contractors, but more im-


\(^{26}\) B-77738 (Jan. 10, 1944).

\(^{27}\) Ibid. Concerning such practice, see the statement by G. C. Bannerman, Director of Procurement Policy, Office of Assistant Secretary of Defense (Supply and Logistics), which included the following pertinent information:

It was our practice over quite a few years when faced with the situation where it was necessary for us to buy an item which was patented, and where we had determined, first, that the patent was valid and, second, that our requirements necessitated an infringement . . . to buy either from the patent holder or one of his licensees.

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portantly, he also enjoyed a preferential position in the award of contracts to supply the patented goods or services to the Government.

In recent decisions of the Comptroller General, however, this earlier interpretation of section 1498 has been rejected in favor of the present policy under which patent infringement liability is not considered in evaluating bids or proposals. This later policy was first formulated in 1958 in *Herbert Cooper*, which held that in a formally advertised procurement where all bidders agreed to indemnify the Government for any patent infringement liability, the contract should be awarded to the low bidder without regard to whether he was a licensee under the patent covering the items to be purchased.

The *Herbert Cooper* case involved the procurement by the Air Force of tube assemblies for oxygen masks. The Herbert Cooper Company submitted the lowest of seven bids but was not licensed under patents determined by the Air Force to cover the manufacturing methods and construction of the assemblies. Since three of the bidders were licensed under these patents, the Secretary of the Air Force requested the Comptroller General’s advice on whether it would be proper to reject the Herbert Cooper bid and award the contract instead to a licensed concern. In his decision, the Comptroller General concluded:

> In our opinion, to reject the low bid and make an award to one of the licensees for the purpose of enforcing and protecting the rights of the patent owners and their licensees would constitute an improper restriction of competition under the circumstances, and would not serve the interest of the United States which 28 U.S.C. 1498 was intended to secure, but would limit the application of the provisions of that statute.

Following receipt of this opinion, the Secretary of the Air Force requested clarification of what he felt were the “broader implications” of the opinion on the Government’s policy of procuring patented articles. In response to this request, the Comptroller General explained his position at some length, answering the charge that section 1498 was not intended to permit knowing infringement of privately owned patents where a patentee was willing to supply the needed items to the Government at a reasonable price. He stated:

> It is suggested that the indiscriminate use of the right afforded to the Government under 28 U.S.C. 1498 would be inimical to and destructive of the public policy considerations underlying the patent law. It is our view, however, that section 1498 appears clearly to constitute a modification of the patent law by limiting the rights of patentees insofar as procurement of supplies by the Government may be concerned, and by vesting in the Government a right to the use of any patents granted by it upon payment of reasonable compensation for such use. We believe that the statute is not consistent with any duty on the part of a contracting agency of the Government to protect the interests of patentees or licensees with respect to articles

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30 Ibid.
31 Ibid. The patentees in the *Herbert Cooper* case sought to enjoin the Secretary of Defense on the ground that, as long as the Defense Department could procure the patented hose assemblies from qualified licensees at a reasonable price, the provisions of 28 U.S.C. § 1498 could not be invoked. This suit was dismissed. F. T. Roberts v. United States, Civil No. 1878-58 (D.D.C. 1958) (unpublished).
which it proposes to purchase, since the statute itself defines and provides an exclusive remedy for enforcement of the patentee’s rights as to the Government. Any other interpretation would appear to us to impose an impossible burden upon Government procurement officials to determine the applicability and validity of any patents affecting any articles desired.

Where the procurement is to be made by formal advertising, it is our opinion, notwithstanding what was said in 13 Comp. Gen. 173, that there is no alternative to the securing of the maximum amount of competition from firms qualified and willing to undertake the production of the articles, subject, of course, to their willingness and ability to indemnify the Government against claims of patentees.\textsuperscript{32}

This latter qualification, requiring an unlicensed supplier to indemnify the Government before the ruling could be applied, was subsequently dropped by the Comptroller General. In effect the \textit{Herbert Cooper} ruling was extended to apply to all procurement situations, including cases in which an unlicensed supplier was not required to indemnify the Government for infringement liability.\textsuperscript{33} The rationale underlying this expanded doctrine was summarized by the Comptroller General in \textit{General Dynamics Corp.}:


Regarding your [General Dynamics'] contention that if patent indemnity is not provided in the invitation possible patent infringement liability must be provided for in the evaluation of bids in accordance with 10 U.S.C. 2305(c) providing for consideration of “price and other factors” in ascertaining the low bid, we concur with the Bureau [of Ships] that patent infringement liability is not for evaluation in the consideration of bids. The matter of infringement and the ultimate fixing of a reasonable compensation therefor is for ultimate resolution by the Court of Claims as provided by 28 U.S.C. 1498, with the possible exception of an administrative settlement under the authority of 10 U.S.C. 2386. Until a settlement is reached the matter is speculative...\textsuperscript{34}

\textsuperscript{32} 38 Decs. Comp. Gen. 276, 277-78 (1958).
\textsuperscript{33} Globe Indus., B-148135, 133 U.S.P.Q. 496 (1962); Pfizer Co., 39 Decs. Comp. Gen. 760, 125 U.S.P.Q. 477 (1960) (semble). The Pfizer ruling provided more impetus to attempts to overrule the Comptroller General than possibly any other. This case involved a protest by the Charles Pfizer Company of a Defense Department decision to procure tetracycline hydrochloride tablets from an Italian drug company that had submitted the lowest price proposal. The Pfizer Company had patented this drug in the United States, but because Italy does not permit patenting of drugs, the company could not patent its invention there. The Comptroller ruled — even though the procurement was negotiated rather than formally advertised (see note 91 infra) and there were no patent indemnity provisions in the contract (this is not apparent in the Pfizer opinion, but is spelled out in the discussion of this opinion in the Globe case, 133 U.S.P.Q. at 498) — that it would be improper to consider the Pfizer Company patent in evaluating the competing proposals. As a result of the ruling the Italian concern could manufacture the drug in Italy and although it could not market the drug commercially in the United States, it was free to sell it to the United States Government, the largest single domestic user. \textit{Hearings on S. 1047 Before the Subcommittee on Patents, Trademarks and Copyrights of the Senate Judiciary Committee,} 89th Cong., 1st Sess. 14-24, 37-53, 84 (1965) [hereinafter cited as \textit{Hearings on S. 1047}].

A Critique

Governed by the present position of the Comptroller General, every federal department and agency refuses to consider the possible infringement liability of the Government in evaluating bids or proposals in the procurement of patented items. Thus, government contracts are currently awarded without regard to private patent rights, and if a patent owner concludes that his patent has been infringed, he may file an administrative claim for patent infringement, provided the agency involved has authority to settle such claims, or he may sue the Government for patent infringement in the Court of Claims under section 1498. Under the Comptroller General's decisions, therefore, the existence of a judicial remedy in section 1498 for patent infringement has destroyed any right the patent owner may have had to a preference in the award of government contracts.

However, while section 1498 has as its underlying purpose to provide a remedy for a patent owner whose patent has been infringed by the Government, from the viewpoint of the patent owner this remedy may be less than adequate. A patent owner, for example, may be unable to afford the expense of a Court of Claims suit, or he may feel that his "reasonable compensation" may not be of an amount sufficient to warrant risking the expense of such an action. This inadequacy would be particularly evident where the patent was owned by a small business concern having limited resources to devote to litigation or where infringement had taken place on only a small scale. Also, there is an understandable reluctance on the part of the patent owner to confront the vast resources of the Government in a test of his patent. Moreover, he may fear that such a suit would prejudice his chances for future business with the agency involved. Finally, a patent owner may be unwilling to commit the valuable time

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1 One anomaly resulting from the Comptroller General's position is that the owner of a patentable invention in which the Government is interested is in a far better position to get a government contract before his patent application issues as a patent than after. Barish Associates, 42 Decs. Comp. Gen. 346 (1963); Gayston Corp., B-143711 (Dec. 22, 1960). In the commercial world, the monopoly begins the day the patent issues. Under these cases, it ends that same day so far as government markets are concerned.


36 See text accompanying notes 72-74 infra.

37 Estimates of "out-of-pocket" costs of a patent suit in the Court of Claims run as high as $250,000. Yeaton, The Administrative Claim Procedure, 25 Fed. B.J. 106, 108 (1965). Coupling this with the fact that of 143 patent cases closed in the Court of Claims from 1952 to 1964, the patentee prevailed in only forty-seven, or less than one out of three, Dreyfus, Government Counterclaim for Patent Infringement, 9 PTC J. Res. & Ed. 459, 463 (1965), the deterrent to such suits is clear.

38 "We have pointed out and have numerous examples showing that for small business (the primary sufferer) a suit in the Court of Claims is no remedy at all because of its cost and the delay involved." Letter from Henry J. Cappello, National Small Business Association, to Hon. John L. McClellan, July 20, 1965, set forth in Hearings on S. 1047, at 88, 91.

39 Obviously, attorneys representing the Government in either an administrative claim for
of his scientists and engineers to prepare for litigation and to remain available for
depositions and testimony. For all of these reasons, section 1498 often falls
short of its intended objective of providing reasonable compensation for patent
infringement by the Government.

There is no question that the current practice simplifies the procurement
process by removing the rather complex variable of a bidder's patent and its
relevance to the procurement. On the other hand, awarding a contract to the
"low bidder" and later compensating the patent owner could ultimately cost the
Government more than awarding the contract to the patent owner or one of his
licensees. The administrative costs of investigating an infringement claim or the
costs of defending a Court of Claims action increase this likelihood. More impor-
tant, however, present practice creates a double bias: first, against the patent own-
er, who presumably must attempt to recoup the research and development expense
that led to the patented invention; second, against his licensees, who have oblig-
ated themselves to pay a royalty to the patent owner if they are awarded a
contract. This practice, in turn, could be expected to have the anomalous effect
of removing the incentives of the patent system from privately financed research
and development programs in areas of government interest, and of discouraging
prospective licensees from taking out licenses under privately owned patents
where the patented invention would be useful in government programs. In
this respect, current practice is not in harmony with the Government's policy
of encouraging private research efforts in fields important to the Government.
For example, in establishing the National Aeronautics and Space Administration
(NASA), in 1958, Congress gave the agency the mission of maintaining this
nation's leadership in aeronautical and space science and technology and of
achieving "the most effective utilization of the scientific and engineering re-
sources of the United States." In view of this mandate, NASA has expressed
concern that its present procurement procedures for purchasing patented items
do not contribute to these objectives.

The widespread dissatisfaction with the present situation is best docu-
mented in hearings held last year by Senator McClellan's Subcommittee on
Patents, Trademarks and Copyrights. While virtually all segments of industry
were represented, spokesmen for the drug industry and related labor unions were
particularly incensed by the present policies. Dr. Austin Smith, President of
the Pharmaceutical Manufacturers Association, summarized the feelings of the
drug industry in these words:

patent infringement or a court action must consult in considerable detail with government
scientific and technical experts on the merits of the claim. These same experts are usually
potential "customers" for equipment or services in the area involved. An understandable re-
action often encountered is a feeling of antagonism toward the party claiming compensation
from the Government. For this reason, most government attorneys make a practice, usually
successful, of explaining to potential witnesses that by bringing a claim the patentee is merely
exercising his legal rights in a wholly appropriate manner.

40 See Yeaton, supra note 37 , at 108. Under its recently amended rules, the Court of
Claims discovery, in many respects, is virtually coextensive with that under the Federal Rules
of Civil Procedure. Lane, Certain Rules of the United States Court of Claims in Patent Suits,
42 Address by Robert F. Allnutt, Monthly Meeting of the Los Angeles Council, Western
43 Hearings on S. 1047.
This then is the plight of the American patentholder: The U.S. Government issues a patent and says to him by so doing "This is the guarantee of the U.S. Government that (at least in this country) your invention is protected from pirating — protected, that is, from pirating by anybody except the U.S. Government." A foreign manufacturer, in a land which will give no protection to the U.S. patentholder, pirates the protected invention. The foreign manufacturer was put to no expense to develop the invention. He did not have to invest in the complicated apparatus of modern research; he did not have to think any original thoughts; he did not have to sweat over the invention, or test it, or develop it, or market it. He did not have to nurse it to commercial maturity. In most instances, he need not pay American social security or State and Federal income taxes. He is free from the burden of various laws enacted to protect American labor. His costs are low, his investment small. Yet, under the policies which are being pursued, the biggest single customer in the United States, namely, the U.S. Government, is his.

Meanwhile, the American patentholder is told that all he can do is sue the United States for a limited amount of damages. Whether even limited damages will be paid depends altogether upon whether the patentholder can afford to bring an action in the Court of Claims and wait through the 2 to 4 years an adjudication of his rights is likely to require in that court, and wait through a possible appeal as well. Meanwhile, the Government and its infringing supplier are free to invade the patentholder's rights again and again because the patentholder cannot get an injunction against the Government to stop the infringement, as he could were a private party guilty of similar tortuous [sic] conduct.\textsuperscript{44}

Representative Roudebush of Indiana pointed out that present government practices had cost the drug industry alone an estimated ten million dollars during the preceding five years and that over 500 jobs had been lost in the industry as a direct result of this policy.\textsuperscript{45}

Senator McClellan was more impressed with the basic principles underlying the problem. He stated:

> We grant these patents and the same Government undertakes by the patent system to provide a protection to those who receive the patents. . . . [T]he Federal Government itself engages in a practice calculated to impair that system and impair that protection, I just wonder about the consistency of it. . . . The principle involved here is bigger to me, much bigger, than the loss of maybe $10 million every 5 years in wages that would be paid.\textsuperscript{46}

A number of measures are being considered to reverse the \textit{Herbert Cooper} rationale — or at least to soften its impact. They include suggested administrative proposals that could be adopted within the framework of existing statutory authority and are, presumably, consistent with the viewpoint of the Comptroller General. More significantly, the reforms include legislative proposals to limit the scope of section 1498, expand the settlement authority of federal agencies or amend the procurement statutes to authorize agencies to negotiate with the patent owner or his licensees for the procurement of patented items.

\begin{itemize}
\item \textsuperscript{44} Id. at 16.
\item \textsuperscript{45} Id. at 29.
\item \textsuperscript{46} Id. at 29, 30.
\end{itemize}
**Patent Indemnity**

Before detailing these proposals, patent indemnity should be considered, since it is symptomatic of the problem and is seen by some as a partial solution to the problem. On the question of whether to include patent indemnity provisions in government contracts, essentially two approaches have been followed: one has been adopted by the Armed Services Procurement Regulations (ASPR) and the other is typified by NASA's policy. In general, ASPR requires patent indemnity across the board in formally advertised procurements and permits indemnity in negotiated supply contracts (1) where the supplies normally are sold or have been sold or offered for sale to the public, or (2) where the patent owner contends that the prospective procurement would infringe his patent and the low bidder or offeror is willing to indemnify the Government without an increase in price. The NASA practice has been to use patent indemnity only in rare instances in supply contracts, and then only with respect to an identified patent or group of patents. Both ASPR and NASA proscribe patent indemnity clauses in research and development contracts; however, ASPR permits indemnity for supplies when such purchases are contemplated under research and development contracts.

Proponents of patent indemnity argue that it properly gives a patent owner a competitive advantage in obtaining government contracts, since he does not have to include in his bid a “cushion” against contingent liability which presumably his unlicensed competitors must include. Moreover, it is argued, if such clauses were generally enforced, they would free the Government of liability for the infringing acts of its contractors, thereby lessening the Government’s ultimate procurement costs. Patent indemnity clauses are not generally enforced by the Government, however, and thus, they do not achieve this result.

A principal objection to the use of patent indemnity clauses is that they make

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47 Id. at 67.
50 ASPR § 9-103(i), 32 C.F.R. § 9-103 (Supp. 1966). In Van Valkenburgh, Nooger & Neville, Inc., B-139585 (July 2, 1959), the Comptroller General stated that “there is no mandatory requirement that a patent indemnity clause be included in a Government contract . . . . The advisability of using the indemnity clause is the primary responsibility of the procuring agency . . . .” But see Electro-Neutronics, Inc., B-154001 (June 22, 1964), where the Comptroller General stated that the matter is “subject to review by our Office on the basis of the facts and circumstances of each case presented.” Where an indemnity clause is included in an invitation for bids, a bidder who takes exception to the clause is nonresponsive. ACF Industries, B-155640 (Feb. 5, 1965).
51 As concluded by Lawrence Glassman, Chief, Patents Procurement Branch, Office of the Chief Signal Officer, U.S. Army:

There is an extreme lack of information as to the monetary benefits which the Government has derived from the clause. The best available estimate which is admittedly based on very incomplete studies is that the saving has been about $40,000. The Lane Lifeboat case [United States v. C. M. Lane Lifeboat Co., 118 F.2d 793 (2d Cir. 1941), cert. dismissed, 314 U.S. 579 (1941)] is the only published decision which refers to a recovery by the Government based on an indemnity clause. However, there have undoubtedly been cases in which indemnifying contractors have voluntarily contributed to the settlement of infringement claims or of suits in the Court of Claims without any cumulative record having been kept from which the overall benefits to the Government could be calculated. It is unlikely that any of these settlements were very large or they would have been better known among government officials concerned with this subject.

it difficult, and in many cases impossible, for an agency to settle a patent owner's administrative claim for infringement. To be obligated to reimburse the Government for any administrative settlement, the indemnitee must first agree to the settlement, and it is usually to his advantage not to agree, thus forcing the patent owner into a suit against the Government in the Court of Claims. In this way the indemnitee can have his competitor's patent litigated at no cost to him. Patent indemnity clauses may also have the effect of unnecessarily increasing contract costs because of the inclusion by bidders of a contingency fund; they may discourage prospective bidders from taking part in procurements because of the uncertainties of infringement liability; finally, they may encourage contractors to use second-best materials to avoid possible infringement liability.

In view of these factors, the present NASA policy is based on a conclusion that, on balance, across-the-board use of patent indemnity clauses creates more problems than it solves for both the patent owner and the Government. Regardless of whether this conclusion is valid and whether indemnity is used, there is no question that there is legitimate concern over the present government procedures for the procurement of patented items. As noted above, this concern has prompted a number of proposals designed to change present policies.

**Proposed Reforms**

*The Williams Bill, S. 1047*

Senate Bill S. 1047, introduced by Senator Williams of New Jersey in 1965, would reverse the Herbert Cooper ruling by limiting the scope and application of 28 U.S.C. § 1498. This bill, which adopts the approach of similar bills pending in the House, would add a new paragraph to section 1498, providing:

> Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the

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53 In Glassman, *supra* note 51, at 280, the author noted:
At least eight contractors, including several of the largest in the electronic field, have indicated that at least on occasion they include such contingency reserves in the contract price and that these reserves vary from 1 percent to 5 percent of the price. During World War II, one company refunded approximately $410,000 representing a contingency reserve accumulated under a number of contracts in return for the Government's agreement to cancel the indemnity provisions of the contracts. The [Report on the Under Secretary of War Patent Conference held at Aberdeen Proving Ground, Maryland, December 15 and 16, 1944] describes on pages 87 and 88, a similar situation involving $8,100,000, although at the time the discussion reported on took place, the matter had not yet been finally concluded.

In view of this he concluded:
According to the best available evidence, [use of patent indemnity clauses] substantially increases the cost of government procurement, yet produces only a very minor benefit in indemnification with respect to administrative infringement claims and suits in the Court of Claims. It complicates the Government's placing of contracts, settlement of infringement claims and purchase of licenses. *Id.* at 287.

54 Representative Roudebush of Indiana introduced bills identical to the Williams proposal in the 87th, 88th and 89th Congresses. See, e.g., H.R. 150, 89th Cong., 1st Sess. (1965). Sixteen bills similar to the Williams Bill were introduced in the House of Representatives during the 89th Congress. *Hearings on S. 1047*, at 28.
Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture.55

S. 1047 was among the bills considered at hearings held last year by the Subcommittee on Patents, Trademarks and Copyrights of the Senate Judiciary Committee.66 Comments on the Williams Bill were received from the federal departments and agencies most concerned with the procurement of patented items,67 from industry and bar associations, from the International Chemical Workers Union and from the State of Alabama.

Although there was virtually unanimous support for Senator Williams' objective, serious concern was expressed that the bill might not attain this result. NASA, for example, questioned the nature of the cause of action that a patent owner would have if an agency were to purchase products the patent owner felt infringed his patent. Under the bill it is not clear whether a suit in the nature of a mandamus action would lie against officials of the procuring agency or whether the patent owner could enjoin the infringing supplier under the provisions of 35 U.S.C. § 283.68 The General Counsel of the Department of Commerce concluded:

By removing authorization for use of patented inventions without license, S. 1047, under the rationale of Crozier v. Krupp, would also remove U.S. liability for Federal acts of infringement. . . . Thus, as before 1910, only Federal employees would be liable for acts of infringement by the Federal Government in the absence of a determination by the Secretary of Defense, or his delegate, that the national security requires such infringing acts.59

A similar view was expressed by the State Bar of Texas, which opposed S. 1047 on the ground, inter alia, that "the longstanding right of owners of U.S. patents to recover compensation for the unlicensed manufacture or use by or for the Government in the Court of Claims would be clouded by the amendment."60

The Department of Justice did not comment on the legal implications of the bill, deferring instead to the views of the procuring agencies, which would be most affected by its enactment.61 All of the other agencies that commented, including NASA and the Department of Defense, strongly opposed enactment on the ground that essential government programs — including those

57 Agencies commenting included the Department of Commerce, the Department of Defense, General Services Administration, the Department of Justice, and NASA. Hearings on S.1047, at 2-14.
58 Id. at 13. 35 U.S.C. § 283 provides: "The several courts having jurisdiction of cases under this Title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by a patent, on such terms as the court deems reasonable."
59 Hearings on S.1047, at 3.
60 Id. at 95.
61 Id. at 12.
not directly related to national security—could be delayed and presumably enjoined by a patent owner alleging that his patent had been infringed. Mr. John M. Malloy, Deputy Assistant Secretary of Defense, summarized Defense Department opposition to S. 1047 while offering possible alternative solutions:

Although S. 1047 would authorize the Secretary of Defense to determine that unlicensed utilization was necessary in the interest of the national security, such a procedure would introduce serious delay and uncertainty into the procurement process. Moreover, there are agencies other than the Department of Defense which engage in procurement having national security implications, such as the Atomic Energy Commission and the National Aeronautics and Space Administration, but the proposed bill makes no provision for their relief, unless it is intended that the Secretary of Defense shall also act on their behalf.

Moreover, S. 1047 would forgo one of the valuable powers which the Government has to assure fair prices to Government, and would free the price of patented articles required by the Government from the force of competition. While instances of deliberate infringement because of exorbitant pricing are rare, the Government should keep, in our opinion, the authority to obtain competitive prices in those circumstances where it is necessary, regardless of the possible involvement of patented items.

Accordingly, the Department of Defense strongly opposes S. 1047. The only amendment to 28 U.S.C. 1498 we would recommend is to permit a suit by a patent owner directly against an infringing contractor in a case in which the Government is satisfied that infringement has taken place, and the contractor has indemnified the Government against patent infringement but refuses to settle. Other than this type of amendment, a practicable way to accord greater recognition to patent owners is to restore discretion to contracting officials to deal solely with patent owners and their licensees in appropriate circumstances. This would require amendments to the procurement statutes.62

The drug industry, supported by the United Chemical Workers Union, gave its unqualified support to S. 1047. Its remarks were not directed to the legal effect of the bill; rather, its position was based upon a conviction that in the area of drug procurement American industry and labor were being treated unfairly by the Government, and that some change was necessary.

As expected, the Comptroller General opposed S. 1047. After reviewing the Herbert Cooper ruling and its extension in later decisions, the Comptroller General stated:

We adhere to the views expressed in these decisions which we believe are consistent with the congressional purpose and intent of 28 U.S.C. 1498, relating to the use or manufacture of patented inventions by or for the United States, and the cardinal principle that contracts for Government requirements based on formal advertising must be awarded to the lowest responsible bidder.63 (Emphasis added.)

62 [Id. at 70-71. This latter suggestion is embodied in a bill, H.R. 10022, 89th Cong., 1st Sess. (1965), introduced by Representative Morris of New Mexico. This bill is discussed in detail infra.]
63 [Hearings on S. 1047, at 6. See also Statement of J. Edward Welch, Deputy General Counsel of the General Accounting Office. Id. at 64-68.]
After the conclusion of the Hearings on S. 1047, Senator Williams analyzed and rebutted the criticisms in a letter to the Subcommittee. He stated:

If my bill is enacted, a patentholder, whose patent is thereafter infringed by the U.S. Government, will still be able to sue the Government for damages in the Court of Claims and he won’t be able to enjoin the Federal Government. If there is the slightest doubt about the validity of either of these points . . . such doubt could be eliminated in the report of the committee covering my bill.

Presumably because reaction to S. 1047 was mixed even among strong supporters of its underlying objectives, no action on this bill by the Senate Subcommittee is predicted. The hearings, however, have served to focus attention on the problem and, to many observers, to demonstrate the need for some remedial action.

Section 9 of the Saltonstall Bill, S. 789

An alternative approach is contained in S. 789, introduced by Senator Saltonstall of Massachusetts. Although this bill primarily concerns the allocation of rights in inventions made under government sponsorship, section 9 provides in part:

In addition to the rights and remedies conferred by section 1498 of title 28, United States Code, the owner of any patent which has been infringed pursuant to a Government contract, or Government manufacture or use, may have his claim for infringement determined by the head of the appropriate executive department or agency pursuant to section 7, subsection (c) hereof.

Section 7(c) of S. 789, provides for formal notice and the opportunity for a hearing under the Administrative Procedure Act. Section 9 of S. 789 further specifies:

Upon determination of the claim of the patent holder by the head of the appropriate executive department or agency, the finding may be appealed by any party to the original claim under section 8 hereof.

Section 8, in turn, permits appeal of an agency’s determination either to the Court of Appeals for the District of Columbia or to the court of appeals for the circuit in which the claimant resides; and thereafter, for review by the Supreme Court by writ of certiorari.

64 Id. at 96.
65 Id. at 97. But see a statement earlier in the same letter: “once you get outside the area of the national security, I can perceive of no good reason why the Federal Government should not be in the same situation with respect to the procurement of patented items as anyone else.” Id. at 96.
66 In its annual report dated June 30, 1966, the Senate Subcommittee on Patents, Trademarks and Copyrights merely noted that S. 1047 had been considered by the Subcommittee at the Hearings. No action on the bill was predicted. S. REP. No. 1350, 89th Cong., 2d Sess. 10 (1966).
70 S. 789, 89th Cong., 1st Sess. § 9(b) (1965).
71 Id. § 8.
Although there is presently no government-wide authority under which agencies may settle administrative claims for patent infringement, the three major procuring agencies, the Department of Defense, NASA and the Atomic Energy Commission, are authorized under their respective statutes to settle such claims. The procedures implementing this authorization are quite informal, usually consisting of an investigation by an agency patent counsel for a communication to determine if settlement of the claim is advisable. See, e.g., Yeaton, The Administrative Claim Procedure, 25 Fed. B.J. 106 (1965).

72 Express authority had been granted to agency heads under § 3 of the Royalty Adjustment Act, ch. 634, 56 Stat. 1013 (1942), to settle claims against the United States for the unauthorized manufacture or use of patented inventions. However, the Royalty Adjustment Act, having been extended by the Act of July 5, 1952, 66 Stat. 330, finally expired on April 1, 1953, and the settlement authority presumably was not effective after this date. See 37 Deos. Comp. Gen. 199 (1957).

It had been suggested that the General Accounting Office, under the plenary authority of the Budget and Accounting Act, 42 Stat. 24 (1921), 31 U.S.C. § 71 (1964), to settle "all claims and demands" against the Government, is authorized to settle claims for patent infringement, Saragovitz, Administrative Claims for Patent Infringement Against Agencies of the U.S. Government, 42 J. Pat. Off. Soc'y 111, 112 (1960); however, the Comptroller General subsequently held that in view of "the exclusive nature of the remedy afforded under 28 U.S.C. 1498 ... the asserted claims [for patent infringement] properly may not be considered or settled by our office." Duo-Matic, Inc., B-149392 (Aug. 1, 1962).

Under 35 U.S.C. § 183 (1964) agency heads are authorized to enter into an administrative settlement with any person who sustained damages as a result of his patent application being withheld from issuing as a patent for security reasons under 35 U.S.C. § 181 (1964). Although these damages may have been caused by the Government's use of the invention during the period that the application was withheld, the provisions of 35 U.S.C. § 183 (1964) do not confer any general authority to compensate a patentee for the use of his invention by the Government.


74 Typical requirements for an administrative claim are set forth in § 9-105.52 of the Army Procurement Procedures. 32 C.F.R. § 599-105.52 (1966).

The following minimum requirements should be met to constitute a claim for patent infringement:

(a) There must be a communication in writing to either the Department of Defense, the Department of the Army, or any organization, office, or field establishment of the Department of the Army;

(b) The communication must allege infringement;

(c) The communication must include a request for compensation, either expressed or implied;

(d) There must be a citation of the patent or patents alleged to be infringed;

(e) The communication must designate the alleged infringing item or process sufficiently to permit identification with certainty, giving the military or commercial designation if known to claimant;

(f) Claimant must designate at least one claim of each patent alleged to be infringed; or

(g) In exceptional cases, as an alternative to paragraphs (e) and (f) of this section, claimant must certify that he has made a bona fide attempt to determine the item or process which is infringing, but was unable to do so, giving reasons, and also a reasonable basis for his belief that the Department is infringing his patent or patents.

For a discussion of these requirements and of the administrative claim procedure generally, see Helvestine, Processing Administrative Claims, APLA BULL. 490 (October, 1960); Herbert, Negotiation of a Settlement, APLA BULL. 494 (October, 1960); Hill, Basis for Services Authority to Settle Administrative Claims, APLA BULL. 480 (October, 1960); Saragovitz, Administrative Claims for Patent Infringement, 25 Fed. B.J. 113 (1965); Yeaton, The Administrative Claim Procedure, 25 Fed. B.J. 106 (1965).
of questions of validity and infringement and, if a determination to settle is made, the negotiation of a patent license agreement. Further, the claimant is not entitled under existing practice to a hearing as such; the rules of the Administrative Procedure Act are not followed, nor is there any requirement that the claimant exhaust his administrative remedy. At any time he may file suit in the Court of Claims under section 1498.

Accordingly, enactment of section 9 of the Saltonstall Bill would establish a government-wide administrative claims procedure, require that this procedure be conducted in accordance with the formalities of the Administrative Procedure Act and provide for appellate review of agency determinations. To the extent that it would provide a government-wide administrative claims procedure, it would serve desirably to strengthen the position of a patent owner whose patent had been infringed by the Government. On the other hand, many of the advantages of the present administrative claims procedure, both to the claimant and to the Government, follow from its informality, and it is at least questionable whether a procedure conducted under the Administrative Procedure Act with the possibility of appellate review would retain these advantages. Moreover, even if section 9 of S. 789 were enacted, a patent owner more interested in sales to the Government than in claims against the Government would still find his patent irrelevant in obtaining government contracts. In this respect, then, section 9 of the Saltonstall Bill would fail to provide a full solution to the patent owner's dilemma.

The "Preprocurement License" Approach

Concerned with its present procurement practices involving patented items and realizing that the significant objections raised to the Williams Bill made early

75 Because of its informality, filing and maintaining an administrative claim is considerably less expensive than a suit. Moreover, the patent upon which a claim is based is not placed in jeopardy of being judicially declared invalid. Finally, and perhaps most significantly, many companies feel that it is better public relations for a government contractor not to sue its customer, the Government, but instead to attempt to settle a claim amicably within the infringing agency. Yeaton, The Administrative Claim Procedure, 25 Fed. B.J. 106 (1965).

76 In commenting on § 9 of S. 789, NASA questioned the advisability of using the rather elaborate administrative procedures of § 7 of S. 789 as a mechanism to determine the merits of a claim, and the advisability of judicial review by the various courts of appeal rather than by Court of Claims infringement actions. As an alternative, NASA suggested:

To implement the rationale behind section 9 of the Saltonstall bill, and to carry out to some extent the objective of the Williams bill, NASA would favor amendment of 28 U.S.C. 1498. In 1960, section 1498 was amended by Public Law 86-726 to add a new section (b) directed to copyright infringement by the Government. This new section (b) was patterned generally after the then-existing section on patent infringement, with one important change. It was provided that before such action against the United States has been instituted the appropriate corporation owned or controlled by the United States or the head of the appropriate department or agency of the Government, as the case may be, is authorized to enter into an agreement with the copyright owner in full settlement and compromise for damages accruing to him by reason of such infringement and to settle the claim administratively out of available appropriations. NASA strongly urges that a similar provision be included in section 1498(a), giving similar authority to all agency heads to settle meritorious claims for patent infringement. Such authority, coupled with a policy of honoring well-founded claims, would go a long way toward achieving the objectives of the Williams bill and section 9 of the Saltonstall bill.

Hearings on S. 1047, at 14.
passage of remedial legislation unlikely, NASA has proposed an administrative change to alleviate the problems created by the Herbert Cooper line of decisions. It should be emphasized that NASA's suggestion falls short of a full solution, which the authors are convinced can come only through legislation.

Inherent in the Comptroller General's decisions since 1958 seems to be the feeling that potential patent infringement liability is too speculative a matter to become a factor in evaluating bids or proposals. But where the Government is a licensee under the patent in question, obligated to pay a predetermined royalty for procurements from an unlicensed source, the cost of such procurements could be readily and precisely determined. Thus, NASA has concluded that a significant part of the Comptroller General's concern over consideration of patent infringement liability in evaluating bids or proposals could be alleviated in cases where the Government was already a licensee. The integrity of the governmental procurement processes could be maintained if potential contractors were notified that royalty charges under licenses existing at the time of selection of a contractor might be a factor in such selection.

With these facts in mind, a procedure for entering into "Preprocurement Licenses" has been suggested by NASA. Under the proposed policy, NASA would exercise its existing statutory authority to become a licensee under a privately owned patent in appropriate instances prior to the award of a contract for the procurement of patented items. A definite royalty would be established, which NASA would be obligated to pay to the patent owner if the patented items were procured from someone other than the patent owner or his licensees. This would put NASA in a position to determine with certainty which bid or proposal would be "most advantageous to the United States, price and other factors considered."

Under this policy, if the price offered by an unlicensed supplier plus the fixed amount of royalty due under a preprocurement license were less than the bid of the patent owner or one of his licensees, the contract would be awarded to the unlicensed supplier and the royalty would be paid to the patent owner under the license agreement. On the other hand, if accepting the lowest bid of an unlicensed supplier would cost the Government more than accepting the lowest bid of the patent owner or one of his licensees, the contract would be awarded to whichever of the latter submitted the lowest bid. In either case — and this is an important advantage of the proposal — there could be no subsequent claim or suit for patent infringement since the contract would be awarded either to the patent owner or to one of his licensees or, if to an unlicensed supplier, under a preprocurement license with NASA.

80 By its terms the preprocurement license would be applicable only to a single proposed procurement, so that the substantial administrative burden of submitting periodic royalty reports required under standard running-royalty license agreements would be avoided altogether.
The conditions under which NASA would enter into a preprocurement license have been specified in detail in a proposed regulation.\textsuperscript{81} A standard form would be used to enter into a license whenever:

1. a patent owner calls a patent to NASA's attention and identifies a proposed procurement which will infringe his patent;
2. NASA patent counsel determines that this patent will be infringed by the proposed procurement;
3. the statutory presumption of validity of the patent\textsuperscript{82} is strengthened by a court decision holding the patent valid, or by the fact that the patent is respected commercially as evidenced by one or more royalty-bearing commercial license agreements under the patent; and
4. the patent owner is willing to enter into the standard form license agreement prior to the award of the contract and thereby license NASA at a reasonable rate which in no event would exceed the lowest rate at which he has licensed a private concern.

As an overriding consideration, the proposed licensing procedure would not be applicable in any case where its use would unduly delay a procurement. Whenever the procedure would not be applicable, competing bids or proposals would be evaluated without regard to patent infringement liability, and the patent owner would be left to file an administrative claim for patent infringement or to sue in the Court of Claims.

The proposed policy would not curtail competition in NASA procurements of patented items, however; it would merely reduce an uncertain or speculative factor under current practice to an established royalty, which may be considered in determining realistically which bid or proposal is most advantageous. In every instance, NASA would determine (1) the legal right of the patent owner to license NASA, (2) whether the Government had a royalty-free license to use the patent, (3) whether the patent had ever formed the basis for an administrative claim or an infringement action, and (4) whether the patent had been involved in litigation casting doubt upon its validity.

In order to notify prospective bidders or offerors of this policy, the regulations would require each invitation for bids and request for proposals to include the following clause:

In the event of a determination by NASA that this procurement will infringe private patent rights, NASA may enter into a patent license agreement with the owner of the patent prior to an award of a contract pursuant to this Invitation for Bids [or Request for Proposals, as the case may be]. In such a case royalties which will be payable under such a license agreement to the patent owner should the contract be awarded to an unlicensed supplier will be considered by NASA in determining which bid is most advantageous to the United States. Before any royalty payments are considered for evaluation purposes, each bidder will be given an opportunity to show that he is a licensee under the patent determined by NASA to be infringed by the procurement.\textsuperscript{83}

\textsuperscript{81} The regulations will appear as NASA Procurement Regulation § 9.102, to be codified as 41 C.F.R. § 18-9.102.
\textsuperscript{83} See note 81 \textit{supra}. 
It should be emphasized that, in implementing the proposed licensing policy, where doubt exists as to a patent's validity or its applicability to a procurement, the policy would not be applied and the procurement would proceed under the present practice as outlined above.

Realistically, it is anticipated that the proposed licensing procedure would be applicable only in a limited number of cases in view of the conditions which must be satisfied under the proposed regulations. In instances where it would be used, however, it would remove the bias that presently favors an unlicensed supplier of patented items over a patent owner and his licensees, and it would obviate the need for a costly and time-consuming administrative claims procedure or Court of Claims suit.

At the date of this article's preparation, NASA had initiated discussions with the Comptroller General to ascertain his views on its proposal, and actual implementation had not yet occurred.84

The Morris Bill, H.R. 10022

The most recent legislative proposal for according greater recognition to a patent owner in government procurements is H.R. 10022,85 introduced by Representative Morris of New Mexico in July, 1965. This bill would amend both the Federal Property and Administrative Services Act of 194986 and the Armed Services Procurement Act of 194787 by adding a new exception to the general rule that government contracts are to be awarded after competitive bidding.

The new exception would authorize negotiation of contracts in cases where it was determined by the agency head "that a valid claim against the United States for patent infringement is likely to result" if the contract is not awarded to "the patent holder or its licensees."88

To place these proposed amendments in proper context, it is necessary

84 Just recently the Comptroller General indicated his general approval of the preprocurement license approach, B-131916 (Sept. 12, 1966). As an alternative approach it has been suggested that the objectives sought to be achieved by the preprocurement license policy could be attained if the Government were to limit its authorization and consent for patent infringement in supply contracts, and in appropriate cases, expressly withhold its authorization or consent for patent infringement. Address by Leonard Rawicz, Patent Counsel, Goddard Space Flight Center, NASA, to the Patent, Copyright and Trademark Committee at the Annual Convention of the Federal Bar Association, Chicago, Ill., September 17, 1965. If this approach were adopted and if it were held that a "nonauthorization and nonconsent" clause were effective even if the Government accepted the supplies (but cf., Bereslavsky v. Esso Standard Oil Co., 175 F.2d 448 (4th Cir. 1949)), then the infringing contractor would presumably be liable for infringement under 35 U.S.C. §§ 283, 284 (1964). This, of course, would place the patent owner in the same advantageous position he enjoys in the commercial sphere. Whether the Comptroller General would object to the Rawicz proposal is uncertain; however, he would undoubtedly continue to require that the contract be awarded the lowest bidder. See Davis Aircraft Prods., Inc., B-147536 (March 22, 1962); Moore & Hanks Co., B-158790 (April 15, 1966).

88 This exception would read, in the case of the Federal Property and Administrative Services Act of 1949, 63 Stat. 393 (1949), as amended, 41 U.S.C. § 252 (1964), as follows: [Contracts may be negotiated] for property or services as to which the agency head determines that a valid claim against the United States for patent infringement is likely to result if the purchase is not made from or the contract not made with the patent holder or its licensees.

The same amendment, conforming to the terminology of the Armed Services Procurement Act of 1947, 10 U.S.C. § 2305 (1964) would be made to the latter Act.
first to outline briefly the basic statutes to be amended. The Armed Services Procurement Act of 1947 concerns the general procurement activities of the Department of Defense, the Coast Guard and NASA. It applies to all purchases except real property. Section 2304 of the act provides that "purchases of and contracts for property or services . . . shall be made by formal advertising," but where formal advertising or competitive bidding is "not feasible and practicable" the agency may negotiate the contract, provided one of seventeen specified conditions is found to exist. Of similar effect is section 302(c) of the Federal Property and Administrative Services Act of 1949, requiring contracts of agencies other than those covered by the Armed Services Procurement Act to be awarded by competitive bidding unless one of fifteen specified exceptions applies.

The Morris Bill would add to each of these statutes additional authority to negotiate, thereby providing an alternative to following formal advertising procedures. Further, where negotiation authority existed under one or more of the other exceptions, the agency would, under the "Morris exception," be permitted to limit negotiations to those firms licensed to practice, or owning, the patent. The manner in which this authority could be exercised is not provided in the bill: however, remarks made by its sponsor are instructive. Speaking to the House of Representatives in May of this year, Congressman Morris stated:

I introduced H.R. 10022 on July 22, 1965, as the reasonable legislative solution to a complex problem which has plagued Federal agencies for years. The question is, How do we preserve the integrity of a U.S. patent and guarantee its rights and privileges when, in making purchases and awarding contracts for the Federal Government, we invite infringement of that very patent?

It is important to note here that the provisions of 28 U.S.C. 1498 remain unchanged by my bill. However, the procuring statutes which, under certain conditions, permit direct negotiations by the agency head would be further amended to authorize the negotiation of purchases and contracts, by the Federal Government, for property and services in a situation where it is likely that a valid claim against the United States for patent infringement will otherwise be made.

H.R. 10022 would provide a needed flexible authority to solve procurement problems when the possibility of patent infringement is present. Simply stated, the bill would allow the agency head, at his discretion, the latitude of negotiating with a patent holder or his licensee whenever he determines that patent infringement would be likely to result from a proposed procurement and that exercise of this authority to negotiate would be in the public interest, taking into consideration all the factors bearing on the procurement.

91 As defined in the Armed Services Procurement Act of 1947, 10 U.S.C. § 2305 (1964), "formal advertising" means more than mere advertised, or competitive, procurement. Instead, it means contracting on the basis of formal, publicized invitations for bids, with contract award to the lowest responsive, responsible bidder. See generally 10 U.S.C. § 2304(g) (1964); NAVY OFFICE OF GENERAL COUNSEL, NAVY CONTRACT LAW, Ch. 2 (1961).
The authority afforded by H.R. 10022 would not make negotiation mandatory; the agency head would simply be given the opportunity to recognize private patent rights in appropriate cases.\(^9\)

Analysis of the Morris Bill in light of the foregoing comments leads to several conclusions. First, it is clear that the bill would not impose upon the agencies an obligation in every case to determine whether the goods or services proposed to be purchased under a contract would infringe any patents.\(^9\) Therefore, by inference, an agency would need to advert to the question of patent infringement only when the matter was raised by a prospective contractor. Thus, the authority of H.R. 10022 would normally be exercised only after an invitation for bids or a request for proposals had been issued, and only after the owner of a patent called attention to the patent, indicating the manner in which the proposed procurement would allegedly infringe it. Upon receipt of the bids or proposals and after analysis of the validity, infringement and enforceability of the patent, the agency could determine whether exercise of the authority to negotiate with the patent owner or a licensee, instead of merely awarding the contract pursuant to the original solicitation, was "in the public interest, taking into consideration all the factors bearing on the procurement."\(^9\)

Second, in view of the latter statement, it is clear that the author of the legislation intended that patent infringement would simply become a factor for evaluation rather than preempting any or all of the numerous factors bearing on a procuring agency's selection of its contractors. Other factors, such as the need for adequate price competition and multiple sources of supply, small business and labor surplus area considerations, and concern for problems of monopoly, would continue to be weighed in deciding when to exercise the authority. In net effect, the question of patent infringement would merely be restored as an element of the decision-making process.

Third, established administrative and judicial procedures for compensating patent owners where infringement does take place would not be disrupted, since the provisions of section 1498 and applicable administrative settlement authority would remain unchanged.

Fourth, by retaining the basic safeguard of section 1498, H.R. 10022 would assure that governmental programs could continue unhampered by any fears of delay or injunction based on patent litigation.

Finally, the bill would vest a considerable amount of discretion in the procuring agencies. As indicated above, notwithstanding an allegation of patent infringement, an agency could decide to proceed with a contract with an unlicensed supplier if such action seemed warranted. In so acting, the agency could decide to obtain patent indemnification from the contractor or proceed separately to negotiate a license with the patent owner.

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\(^9\) With almost 800,000 United States patents currently in force, and with many thousands of government contracts being awarded each year, any other approach would, in the language of the Comptroller General, "impose an impossible burden upon Government procurement officials to determine the applicability and validity of any patents affecting any articles desired." Herbert Cooper Co., 38 DECS. COMP. GEN. 276, 278 (1958). This the Morris Bill would not require.

\(^9\) This the Morris Bill would not require.

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Since its introduction, H.R. 10022 has received widespread industry support,\textsuperscript{98} and it may be expected to receive support from government agencies.\textsuperscript{99} Agency comments on the measure have been requested by the House Committee on Government Operations to which the bill was referred, and it is understood that hearings on the bill will be scheduled after these comments are received.

The impact of the Morris Bill would, of course, depend upon its implementation by the various departments and agencies. Difficulties inherent in determining prior to contract performance whether a patent will be infringed by the contract work, together with the possible delays in determining whether a patent is valid and enforceable against the Government, would necessarily limit the application of the bill. Where applicable, however, the bill would restore a more appropriate balance between the Government's needs to procure patented items and the rights and equities of patent owners seeking to supply these items to the Government.

Summary

In a series of decisions beginning in 1958 the Comptroller General has ruled that the remedy afforded by 28 U.S.C. § 1498 for patent infringement by or on behalf of the Government has effectively nullified any right a patent owner or his licensees may have had to a preference in the awarding of government contracts for patented goods or services. In sharp distinction from the normal commercial practice of purchasing patented items from the patent owner or his licensees, or at least of considering possible patent infringement liability as a factor in selecting a supplier, government agencies must now award contracts to the "low bidder" even though this will result in a knowing infringement of a privately owned patent.

Reaction to the Comptroller General's rulings — particularly among small business concerns, which depend heavily upon patents in obtaining business — has prompted a variety of measures designed to overturn these rulings or at least to soften their impact. The most sweeping of these measures is the Williams Bill, S. 1047, which would severely limit the scope of section 1498 and subject government contractors, and perhaps even the Government, to injunctions for patent infringement. Many feel the Williams Bill goes too far in attempting to rectify an admittedly unsatisfactory situation. On the other hand, the licensing approach NASA has proposed would provide only a partial solution. There is

\textsuperscript{98} Western Electronic Manufacturing Ass'n Legislative Bull. 1966 No. 3 (June 9, 1966); WEMA Strongly Backs Measure to Protect Small Company Patents, THE WESTERNER, June, 1966, p. 1. Support for the Morris Bill has also been expressed by the National Security Industrial Ass'n, Government Contracts Reports No. 27, March 9, 1966, p. 3; and by the American Patent Law Ass'n. Letter from the APLA to Representative William A. Dawson, Chairman of the House Committee on Government Operations, March 28, 1966, referring to a resolution of the APLA Board of Managers, March 9, 1966, specifically endorsing H.R. 10022.

\textsuperscript{99} Statement of John M. Malloy, Deputy Assistant Secretary of Defense, Hearings on S. 1047, at 71; Comments of Robert E. Giles, General Counsel of the Department of Commerce, Hearings on S. 1047, at 3:

If the relationship between the patent owner and the United States deserves attention, it should be dealt with . . . through changes in procurement policy . . . rather than through repealing the authority for unlicensed federal use of inventions.
serious question whether it would be applied in a sufficient number of cases to have a meaningful and beneficial effect.

The best approach to the problem, in the authors’ view, is embodied in the Morris Bill, H.R. 10022, which would permit government agencies to provide greater recognition to patent owners in government procurements, but at the same time, would allow sufficient flexibility for these agencies to carry out essential government programs without undue hindrance or delays. Under that bill, each case could be considered on its individual merits in the context of the particular needs of the Government, balanced against the equities and rights of the patent owner.

One thing is clear: The widespread concern regarding the effects of section 1498 as presently interpreted will continue until greater discretion than is now available is restored to government agencies to provide meaningful recognition of private patent rights in government procurements.