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GOVERNMENT PATENT POLICY

By Charles L. Shelton†

I. INTRODUCTION

FOR MANY YEARS THE question of the disposition of rights to patents for inventions made by contractors in the performance of research and development work paid for with government funds has been discussed, written about, and debated in Congress. Congressional committees have heard hundreds of witnesses and have developed an extensive record; yet, to date, no general legislation has been enacted. There are statutes dealing with individual situations such as the Atomic Energy Act, the National Aeronautics and Space Act, Saline Water Conversion Act, etc.; but there is still no law dealing with an overall patent policy which would apply uniformly to all government agencies.

The controversy centers on the question of title to the patents for inventions made by private industry while performing research at government expense. It is well settled that the Government will receive at least a nonexclusive right for the life of the patents to use these inventions for governmental purposes without the payment of royalties. Thus, government ownership of title is unnecessary so far as governmental operations are concerned, and, if the invention is useful solely in products for the Government, title is of no value to industry. However, if the invention has possible utility in the commercial field, the matter of title becomes important to the contractor since it provides exclusive rights to the invention. Without the potential to acquire title or an exclusive license to these inventions with commercial possibilities, a contractor often finds ways to deploy his most competent employees in other areas.

Unfortunately, practically all of the studies on government patent policy have ignored what is by far the most important aspect of the problem—how best to accomplish the research and development work. So far these studies have resulted in numerous statistics on the number of inventions reported to the various government agencies and the extent to which they have been commercialized. These figures would be informative if the Government were letting contracts for the purpose of creating new technology and inventions having commercial utility, but this is not the

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4 Such provisions have been in the Department of Defense Armed Services Procurement Regulation (ASPR) for many years and this has also been true for other agencies of the Government.
The government's research and development contracts seek the development of hardware for achieving a certain result. Contracts of this type do not require that any patentable inventions be made. Those inventions which do arise out of these contracts are merely incidental to its real purpose and are often referred to as "fall-out." Frequently they have no commercial significance whatsoever, and if they do it is apt to be accidental. Moreover, there is a very substantial percentage of government research and development contracts which are successfully performed without a single patentable invention being created as a by-product. Conversely, there are research and development contracts which produce patentable inventions but which do not achieve any results which are of practical significance to the Government. In 1966 Drs. Watson and Holman of The George Washington University wrote a report, the Evaluation of NASA's Patent Policies, in which they stated: "The greatest of the myths is that the patented inventions coming from government-financed research and development are numerous and valuable. ... But the inventions from government-financed R & D are neither numerous, given the vast amounts of R & D paid for by the federal government, nor are they, as a group, particularly valuable."

This report would seem to undermine the arguments of those who favor the Government taking title to these inventions. Their arguments are based on the premise that inventions arising out of government-financed research and development are very valuable, that they bear some relation to expenditures, and that these valuable rights should not be given away to private companies. For example, in 1960 Senator Long of Louisiana spoke out in the Senate, "Mr. President, yesterday I made a speech explaining how the patent policies of the Department of Defense amount to a $6-billion-a-year giveaway of private rights at public expense. I am going to try to correct this situation in this Congress. Undoubtedly, there will be tremendous pressure brought to bear by large corporations which benefit from this tremendous bonanza at public cost." The inference here is that the patent rights for inventions arising out of government research and development have a value of six billion dollars a year whereas the facts found by the Watson-Holman study indicate that they are neither numerous nor particularly valuable as a group.

It would seem very shortsighted to base the philosophy of the government patent policy, as it affects the entire research and development program of the Government, on the basis of who obtains title to patent rights which are not particularly numerous or valuable as a group. Instead, the most important question appears to be that of leaving the various government agencies in a position where they can attract the best qualified companies to perform their research and development contracts in the most efficient way and at the least cost.

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In 1961 Graeme C. Bannerman, Deputy Assistant Secretary of Defense, asserted the position of the Department of Defense:

At the outset, I wish to make clear that I am talking about the area where substantially all the patentable inventions derived from our contracts occur; that is, in the development of military hardware. It is in this field that our patent policy has the greatest effect.

The national public interest is heavily and most importantly identified with the defense structure. National defense is the responsibility of the Department. To discharge this responsibility, we seek the best scientific and technological resources we can find, and our research and development contracts must necessarily be awarded to the firms—large or small—which have these resources and will freely devote them to military work. Our primary aim is to acquire military equipment incorporating the most advanced scientific knowledge, technology, and industrial know-how for military purposes. It is necessary that science and technology be pushed to the absolute limit.

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Our objective in these major programs is the rapid development of constantly improving weapons. We are not seeking patentable inventions, the likelihood of their occurrence is unpredictable, and whether they do or do not occur is actually irrelevant so long as our development goals are achieved or surpassed.

Those who advocate that title to patents should be in the Government say the question is a simple one. Testifying before Senator McCollan's subcommittee on 3 June 1965, Senator Long said, "The public pays for the research, and the results are given away to a contractor as his private monopoly. It is as simple as that." On the other hand Senator Kennedy of New York, during a Senate debate on whether a rider proposed by Senator Long should be added to an appropriation bill for the National Aeronautics and Space Administration [hereinafter NASA] bill denying NASA the right to waive title to patents by contract, said:

The popular press has characterized the issue as being a dispute between those who want private industry to make a financial killing with Government money, and those who want complete Government retention of title to inventions discovered as a result of Government-financed research. That is not the issue at all. Instead, what is involved is an extremely complicated dispute between two groups, both of which are basically oriented toward Government ownership of inventions, but which differ on the question of how much flexibility should be left for waiving Government ownership and allowing contractors with the Government to retain title to their inventions.

This matter is so delicate and so complicated that it should be resolved only after full and ample hearing.

This debate on the rider to the NASA appropriations bill clearly showed the Senate realized that the problem was extremely complex and that a decision on the question as to who should receive title should await recom-

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3 111 CONG. REC. 11842 (1965).
mendation by the McClellan subcommittee. That subcommittee has since made a recommendation in the form of a bill, S. 1809,10 which will be fully discussed later.

II. GOVERNMENT OWNERSHIP OF PATENT RIGHTS

The Constitution gives Congress the power to regulate patent rights: "The Congress shall have the Power . . . to promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries."11 In considering the question of the advisability of government ownership of patents it is important to remember that the purpose of the patent statutes is not to create monopolies for the benefit of inventors and their assignees as a class but to abide by the constitutional directive to "promote the Progress of . . . useful Arts . . . ." The promotion of the useful arts is the key to the nation's economy and results in benefits to the public as a whole rather than to inventors as a class. Therefore, any disposition of patent rights which does not allow for the normal incentives of the patent system to encourage the promotion of the useful arts is failing to carry out the intent of the Constitution.

The nature of the right conferred on a patentee is not always understood. It does not grant to the patentee the right to make, use, or sell the patented article; rather, it confers the right to exclude others from making, using, or selling, for a period of seventeen years from the date on which the patent is granted, that which is patented.12 At the end of the seventeen-year period the patent expires and the invention is dedicated to the public for the free use of everyone.

Thus the patent, with its seventeen-year monopoly, may be a valuable piece of property if the patented invention turns out to be both useful and marketable and is capable of returning a profit to the owner through manufacture on his own behalf or through licensing or sale of the patent. The patent system basically provides the incentive to perform two steps; first, to perform the research necessary to originate a new product or process which may result in a patentable invention and second, to risk whatever capital is required to develop the invention to a practical form and attempt to create a profitable market for it. It is only after these two steps have been taken that the patent has fulfilled the role intended for it by the Constitution.

It is easy to see how a patent in the hands of a private company gives that company an advantage over its competitors. The patent can be used to prevent them from copying the patented product and underselling the patentee company during the period when it must recover its research

and development costs in its prices. It is this temporary competitive advantage in the form of the patent monopoly which induces the company to take the initial financial risk of investing its money in research and development.

But what about a patent in the hands of the Government? The Government is not competing with anyone in the manufacture, use, or sale of products and therefore the right to exclude others is a completely useless right so far as government needs are concerned. The Government may be interested in the free right to buy the patented products from several sources for its own use, but a mere nonexclusive, royalty-free license is all that is needed for this purpose. As far as government operations are concerned then, the Government does not need title to patents—that is, the right to exclude others from making, using, or selling that which is patented—and, indeed, it would seem to be an anomaly for the Government to exercise that right since, to do so, it would have to sue a United States citizen for infringement of a patent which it had acquired for the benefit of all the people, including the so-called infringer.

If the Government does not require title to patents for its own operations, then the only other possible reason for acquiring title would be on the theory that it would be in the public interest. The only way the Government can further that interest is to attempt to have the patented inventions used commercially for the benefit of the public. If it does this by offering everyone the free right to use the patented invention, the Government is really saying that it will not enforce its right to exclude anyone from making, using, or selling the patented invention. Since these are the only rights granted by the patent statutes, this policy would amount to a cancellation of all government-owned patents and a dedication of all of the inventions to the public for their free use. Such a course is certainly not in keeping with the mandate of the Constitution which speaks of promoting the progress of the useful arts by securing limited exclusive rights. Dedication to the public destroys the possibility of exclusive rights and raises the question of whether such a policy would really be in the public interest.15

The only remaining way in which the Government can acquire title and still preserve the incentives of the patent system is either to grant exclusive licenses under its patents or to sell the patents to private industry where the temporary patent monopoly may induce the investment of private risk capital necessary to attempt to reduce the new invention to a commercially practical form and to launch it on the commercial market.

III. The Evolution of Government Patent Policy

The question of the disposition of patent rights arising out of government-funded research and development is by no means a new one. On 5 February 1943 President Roosevelt sent the following letter to Attorney General Francis Biddle:

My Dear Attorney General: There appears to be need for a uniform Government-wide policy with respect to the ownership, use or control of inventions made by employees of the Federal Government, or by employees of Government contractors in the course of performing contracts financed by the United States.

I should like you to make an investigation of the present policies and practices of the several departments and agencies under regulations, agreements or otherwise, and to submit to me your recommendations as to a uniform policy for the entire Government. In the course of this investigation, will you confer with and obtain the views of the other Departments and agencies, and examine such data and records as they may have which are pertinent or applicable to your investigation.

The final report was made in 1947 and contained a recommendation that the Government should be entitled to all rights to inventions arising from federally-financed research and development with only very minor and limited exceptions. It also contained a recommendation that all government-owned inventions should be dedicated to the public or freely licensed on a nonexclusive basis. The report went on to recommend that these inventions be advertised for free use and even demonstrated at key industrial and scientific centers.

As previously pointed out, the most troublesome aspect of government ownership of patents is where the invention cannot be put on the commercial market without the investment of risk capital. The manner in which the report handled this situation is most interesting and significant. In the first place it found that normally the inventions can be exploited on a nonexclusive basis. The report goes on to say:

In the occasional situation where the commercial use and exploitation of worth-while inventions is discouraged by the need for a substantial investment in promotional, developmental and experimental work, with the attendant risk of loss, the Government should finance such operations, in whole or in part, to demonstrate or prove the commercial value of the invention. This method of encouraging the use of the invention is preferable to the grant of an exclusive license.

The issuance of exclusive licenses under Government-owned inventions presents the difficulties of selecting one out of numerous applicants (for which purpose competitive bidding is undesirable and unsuited), policing the licensee's operations, and detecting and prosecuting infringers. The outright sale of an invention would deprive the Government of control over its use and would permit its suppression or the exaction of an unreasonable charge for its use by the public. Moreover, the price received by the Government for the invention is apt to be far less than the ultimate cost to the public of using it.

As a general rule, the licensing of Government inventions on a royalty basis is objectionable because it may be difficult to fix a royalty which will be fair to all; it will necessitate detecting and prosecuting infringers; and it involves the imposition upon the public of a charge for the use of technology paid for with public funds. The financing of research by general taxation appears to be a simpler and more equitable method.

The licensing of Government inventions under conditions relating to the

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use of the invention or its resulting product is likewise objectionable as a general rule, because it will require policing of the licensee's operations, and the detecting and prosecution of infringers. Control over the use of the invention or its product may more effectively be imposed by other means.\(^15\)

It is difficult to imagine the Government's expending significant sums of money to develop and promote products for the commercial market. To do so in order to interest a commercial company in exploiting an invention would result in an astronomical ultimate cost to the taxpayer. Yet the report says this is preferable to the grant of exclusive licenses. The Attorney General foresaw great difficulty in the government selection of one licensee over many applicants for an exclusive license, policing the licensee's operations, and detecting and prosecuting infringers. The report also advises against licensing on a royalty basis or with any restrictions which might require policing the licensee or suing infringers.

Thus, the report recognized two of the serious problems inherent in government ownership of patents. First, if the Government dedicated all of its patents freely to the public, and did nothing more, it might forever bury some very worthwhile inventions requiring the investment of risk capital. The suggestion of the Attorney General that the Government assume the risk of developing inventions for commercial use seems clearly impractical and apparently has never been seriously considered. Second, the report recognized the political implications of granting exclusive licenses and the fact that if it granted exclusive or royalty-bearing licenses it would have to police them and possibly bring infringement suits. The Attorney General was unwilling to recommend this arrangement.

This all seems to point up rather forcibly that, although the patent can be a valuable and beneficial piece of property in the stream of commerce, it is virtually destroyed when it falls into ownership of the Government. In the hand of the Government a patent loses its meaning as a temporary monopoly to promote the progress of the useful arts since it can offer no incentive to the Government, not even to build and demonstrate for commercial use as suggested by the Attorney General.

The report seemed to have little effect on patent policy at the time of issuance and most government agencies, notably what is now the Department of Defense, continued to follow the "license theory"; i.e., the contractor retains title and the Government receives a free nonexclusive license for all governmental purposes.

A. The Atomic Energy Act

The first major legislation which gave title to patents to the Government was the Atomic Energy Act.\(^16\) Here was a brand new technology which, for obvious reasons of national security, was completely controlled by the Government. Being a technology with obvious commercial possibilities, it seemed to Congress that it would be theoretically possible for a private contractor, working entirely at government expense, to obtain

\(^{15}\) Id. at 6.

very broad patents which might dominate the commercial field and therefore secure for that contractor a very strong position at no expense to itself. This seemed to justify government acquisition of title to patents for inventions relating directly to atomic energy.

However, there is nothing in the act which prevents the Atomic Energy Commission from negotiating contracts for research and development and permitting the contractor to retain title to resultant patents. Actually, the Commission has entered into many contracts of this sort. So, while the Atomic Energy Act is referred to as a "title" law, it is true only in the specific field of atomic energy, or what the Commission calls the "infield," and contractors are permitted to retain title in their own field, or the "outfield."

B. The National Aeronautics And Space Act Of 1958

With space developments Congress again reasoned that here was another new technology where government ownership of patents was proper in order to prevent any company from acquiring a dominant position in a commercial area. Accordingly, the National Aeronautics and Space Act of 1958 provided that "Whenever any invention is made in the performance of any work under any contract of the Administration . . . such invention shall be the exclusive property of the United States . . . ." Note that the Space Act was designed to cover all inventions made in performance of work for the National Aeronautics and Space Administration. Unlike the Atomic Energy Act there were no so-called "outfield" inventions. Hence the Space Act was the first one hundred percent "title policy" law. However, the act also provided that NASA could "waive all or any part of the rights of the United States under this section with respect to any invention or class of inventions made or which may be made by any person or class of persons in the performance of any work required by any contract of the Administration if the Administrator determines that the interests of the United States will be served thereby."

For some time NASA interpreted this to mean that it could not agree, at the time of contracting, that the company could acquire title to all inventions which it might make in the performance of work under the contract, even though that contract might be in the contractor's special field of commercial products. This resulted in a reluctance on the part of industry to contract with NASA, a reluctance which the Atomic Energy Commission has not experienced because it did not take title to "outfield" inventions. The House Subcommittee on Patents and Scientific Inventions held extensive hearings in 1959 at which the various interests of the parties concerned were represented. The testimony overwhelmingly favored a change in the existing patent provisions of the Space Act. NASA proposed that its Administrator be given authority to put provisions in NASA contracts "governing the

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disposition of the rights to inventions conceived or first actually reduced to practice thereunder in a manner calculated to protect the public interest and the equities of the contractor. Thus the Administrator would be able to determine what patent provisions would be in the best interests of NASA, the contractor, and the public. The Department of Defense endorsed and recommended the enactment of this provision.

Mr. Roland A. Anderson, Assistant General Counsel for Patents of the Atomic Energy Commission, testified in its behalf. In the first place, he stood firmly in back of the Atomic Energy Act:

> It is the Commission's view that where the Commission sponsors and pays for research and development in the field of atomic energy, the resultant inventions and discoveries should be the property of the Government for the benefit, not only of the particular contractor, but of the general public. This policy of the acquisition of all rights in inventions and discoveries in the atomic energy field, together with a corollary technical data provision under which the Commission acquires rights in the data to use the same as it sees fit, has permitted the Commission and the Government generally complete freedom of action as respects the dissemination of scientific and technological atomic energy information prepared and developed under Commission contracts to the entire public in the public interest and not just to contractors and other selected groups. The Commission's ownership of the rights in the discoveries and inventions in the atomic energy field has avoided the granting of special privileges and the establishment of preferred positions by its contractors.

But it is clear that he did not approve of an inflexible policy in which the Government would take title to all patents:

> I feel that in the field of patents, and I have always felt this, that there is a balance of public interest and equity. There may be situations which would warrant the Government only acquiring a nonexclusive license. There may be other situations where it would warrant the Government taking the entire right, title, and interest. The difference and the basis for that is that where the Government, as in the atomic energy field, was the sole sponsor in the early days, and there was no question of going into a phase of work where there was an industrial position. I think the Government was justified in taking and acquiring all rights in the inventions.

> I think, for example, in connection with such departments as the Department of Agriculture, and I believe their policy is of the character where they try to acquire in their research and development work greater rights than a nonexclusive right for the Government—they may only require a nonexclusive license with the right to grant sublicenses to anyone. But in the Department of Agriculture, I think again it is a situation where if the public is to benefit and they let a contract for research and development work, we will say, to develop a new fodder for cattle, or feed, and then they give that contractor the exclusive right except as against the Government, the benefit that the public is to get out of that may be very little. And consequently in that kind of a situation they may be justified in requiring

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21 Ibid.

the contractor to license everyone or to acquire all the rights for the benefit of the Government.\textsuperscript{22}

The House subcommittee, in its report of 8 March 1960,\textsuperscript{24} recommended amendment of the patent provisions of the Space Act along the lines suggested by NASA. The subcommittee stated that NASA should 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" and then went on to establish the following guidelines to assist the Administrator:

In determining whether the public interest and the equities of the contractor would be best protected by the reservation of an irrevocable, non-exclusive, non-transferable, royalty-free license, by the acquisition of the entire right, title, and interest to the invention involved, or by the reservation or acquisition of other rights, the National Aeronautics and Space Administrator should consider:

(1) Any of the following elements which may exist, being circumstances normally favoring retention of title by the contractor:
   a) Where the technological field being explored under the contract is so related to fields of commercial endeavor that the inventions likely to result would have substantial promise of commercial utility and their early development would be apt to benefit the national economy;
   b) Where insistence upon more than an irrevocable, nonexclusive, non-transferable, royalty-free license for governmental use would preclude or seriously impair contracts for the desired research and development work and alternative sources for the contract are not readily available;
   c) Where inventions likely to be involved under the contract have been conceived and constructively reduced to practice by the contractor prior to the contract; and
   d) Where the contractor has extensive competence and experience in the field of technology which is to be explored under the contract and inventions likely to result would be attributable to such competence and experience;

(2) Any of the following elements which may exist, being circumstances normally favoring the right to acquire title by the Government:
   a) Where the contract calls for exploration into fields which directly concern the public health, safety, or welfare and the inventions likely to result would be useful directly in such fields, and the public interest would be best served by making such inventions available for all to produce or use without payment of royalties;
   b) Where it is likely that any inventions actually reduced to practice under the contract will have depended in substantial degree upon the prior or parallel conceptions and work of other parties, governmental or private;
   c) Where the Government has been, at the time of contracting, the sole or prime developer of the field of technology involved, or has provided all or virtually all of the funds required for the operations and activities of the contractor in such field; and
   d) Where the field of technology involved in the contract is entirely new, without significant commercial or private history, and with little chance of nongovernmental development in the foreseeable future; and

\textsuperscript{22} Hearings Before the Subcommittee on Patents and Scientific Inventions of the House Committee on Science and Astronautics, 86th Cong., 1st Sess., ser. 47, at 126 (1959).

\textsuperscript{24} House Report on Proposed NASA Patent Section Revisions at 11.
(3) The following additional elements:
   a) The applicability of other laws of the United States relating to property rights in inventions;
   b) Whether conformity with the policies of other agencies of the United States in drawing up contract terms is desirable or necessary; and
   c) Such other standards and criteria as the Administrator may consider desirable or appropriate in carrying out the purpose of the space program.25

The subcommittee did not attempt to solve the problem of the government-owned patent which would not be exploited unless someone could obtain exclusive rights under it. However, one reason contained in the report for giving NASA ownership was that “NASA may wish to affect a dedication of the invention to the public where the invention sought will provide universal benefits for mankind or have crucial meaning for the Nation’s security; in such cases, dedication might obviate the risk of excessive costs or the danger of nondevelopment by a private owner.”26

The subcommittee’s proposed amendment passed the House handily but no action was taken by the Senate. Thereafter, the subcommittee was asked to continue the study of the subject in the Eighty-Seventh Congress. It heard thirty-seven additional witnesses before coming to the following conclusion:

The evidence makes it apparent that the patent section of the National Aeronautics and Space Act is making an already difficult task more difficult. Removing or failing to remove this handicap may mean the difference between a paramount position in space for the United States or merely a secondary role therein.

The subcommittee’s studies have shown beyond argument that virtually all of NASA’s contractors and subcontractors could do their work in an atmosphere more conducive to creative effort, efficiency, and dependability if their relationship with NASA were not distorted by existing patent restrictions.

It is significant that NASA itself has testified to the administrative burden imposed upon it by present law. While NASA officials have testified that they are not having “major” difficulties in securing contractors, the evidence . . . demonstrates that the ease of securing contractors has little to do with the issues under consideration here. On the other hand, the record shows that research difficulties do exist because of NASA patent restrictions and that they are important difficulties.27

Accordingly, the subcommittee again recommended amending the patent provisions of the Space Act in essentially the same form except that this time the guidelines for the Administrator were included within the amendment. However, no action was ever taken on the recommendation in either house.

C. A Uniform Government Patent Policy

In the meantime there was activity in the Senate on the question of an

overall patent policy applicable to all government agencies. Chaired by Senator Joseph C. O'Mahoney, the Subcommittee on Patents, Trademarks, and Copyrights (a subcommittee of the Committee on the Judiciary), initiated study of the problem and heard witnesses. Senator McClellan, upon assumption of his duties as chairman, submitted a report that had been prepared under the supervision of Senator O'Mahoney before he relinquished his duties. The report opens with this paragraph:

Patents obtained or processes developed as a byproduct of public funds appropriated for general research should be reserved for public use. They should not be given as unearned bonuses from the U. S. Treasury to research contractors whose efforts have been made possible by general congressional appropriations without any legislative provision for a patent policy. Thus by executive action alone without the approval of Congress or for that matter by review of the Bureau of the Budget, the Defense Department has established a policy which allows commercially valuable patents to be obtained by research contractors who have already been paid for their work by the billions of dollars appropriated for research and who are not necessarily the authors or inventors whose writings and discoveries are the subject of the limited monopolies granted by Congress under paragraph 8 of section 8 of article I of the Constitution of the United States.

The report went on to develop the case for government ownership of patents. It pointed out that some agencies, such as the Department of Agriculture and the Federal Aviation Agency, took title to patents but the fact that the largest agency, the Department of Defense, left title in the contractor made it more difficult for them to negotiate contracts requiring title to be assigned to the Government. The subcommittee therefore proposed that, pending general legislation, the Department of Defense conform its policies to those of the title-taking agencies. As a result, the Department of Defense did amend its procedures to spell out conditions under which the Government might acquire title to inventions. It was made clear, however, that the general policy was to acquire a non-exclusive license and that title would be acquired only under certain special conditions.

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30 Department of Defense, Armed Services Procurement Reg., Rev. 10, 30 July 1962, § 9-107, Patent Rights, p. 907. The general philosophy was expressed in the following paragraphs adopted the first part of 1962:

(a) The License Policy. In framing a policy on the division of property rights in inventions and discoveries resulting from research work performed under contract for the Department of Defense, the Department recognizes that the American patent system was established as an incentive to invention, disclosure, and commercial exploitation of new ideas. In order to take advantage of the incentives implicit in the patent system and to secure American industry's unreserved participation in military research and development under both contracts and subcontracts, while acquiring the rights necessary for the Government freely to carry out its programs, the Department of Defense generally obtains on behalf of the Government a comprehensive license of free use but does not require that full title to the new inventions be assigned to the Government.

(b) The Comprehensive License. The comprehensive license, which is irrevocable, nonexclusive, nontransferable, and worldwide in scope, permits royalty-free, any use of the inventions by the Government by itself, any use by a Government contractor or subcontractor in connection with the performance of a Government contract, and
D. Proposed Legislation

Three government patent policy bills were introduced in the first session of the Eighty-Seventh Congress. Senator McClellan introduced S. 1084\(^1\) which provided for government acquisition of title to all patents arising from government-sponsored research and development. Senator McClellan made it clear from the start that he was introducing the bill for the purpose of getting something before the subcommittee to form the basis for hearings and that he did not necessarily endorse the bill. Senator Long of Louisiana introduced S. 1176\(^2\) which provided that the Government would generally acquire title. Senate bill 2601\(^3\) was introduced by Senator Wiley subsequent to hearings held by the subcommittee. That bill provided that the contractor would normally acquire title.

Testimony given by witnesses at the hearings on S. 1084 and S. 1176 seemed to indicate that there were some conditions under which the contractor should obtain title and other conditions favoring government retention of title so that there was no single, simple solution to the problem. The question was also discussed as to whether the determination of title should be made at the time the contract is signed or delayed until after the invention has been made and identified. The Department of Defense insisted that the determination should be made at the time of contracting so that the contractor would know what rights he would be entitled to prior to the beginning of the research and development work.

Actually, this is a very important consideration and any law on the subject should give the Government the right to determine, \textit{at the time of contracting}, who will receive title to patents. It is clearly in the best interest of the Government and the taxpayer that the Government be in a position to obtain the most for its research and development dollar. To do this it must attract the most highly qualified contractor who will usually be the one with the best background in the field. Yet a company which has invested its own money in a commercial business will be the

one least likely to accept a contract requiring forfeiture to the Government of title to patents. Any inventions under the contract will most likely be based to a considerable extent on its prior work and such a company will not want to give away its commercial rights. The company, therefore, will want to know at the time the contract is signed whether it is going to retain title to the patents. If the Government is to receive title, the company is apt to steer the work away from its commercial line. This would undoubtedly increase costs and could result in an inferior end product.

The report of the McClellan subcommittee\(^4\) indicates that the important considerations are coming into focus. Primarily it recognizes that a uniform patent policy must be sufficiently flexible to take into account relevant equities and the guidelines should be established to assist the agencies in achieving equal treatment for all government contractors. Although the subcommittee has not yet realized the advantages to the government agencies in being able to determine the disposition of title at the time of contracting, it does list this as an important point to be considered. The report points out that the Government has a duty to see that inventions are available for use and, if a contractor has title but is not using the invention, proposes some procedure for permitting access by others to the invention. The report concludes by recognizing that, if a government-owned patent is not being used, it may be necessary to provide an incentive in the form of an exclusive license. Nothing is said about the Government's taking the risk of proving commercial utility as suggested in the Attorney General's report of 1947.

E. The Executive Position

On 10 October 1963 President Kennedy issued a Memorandum to the Heads of the Executive Departments and Agencies on Government Patent Policy to which was attached a statement of that policy. This statement reflects the influence of the testimony given before congressional committees as well as the views of the committees as set forth in their reports. In his memorandum the President said:

This statement of policy seeks to protect the public interest by encouraging the Government to acquire the principal rights to inventions in situations where the nature of the work to be undertaken or the Government's past investment in the field of work favors full public access to resulting inventions.

On the other hand, the policy recognizes that the public interest might also be served by according exclusive commercial rights to the contractor in situations where the contractor has an established non-governmental commercial position and where there is greater likelihood that the invention would be worked and put into civilian use than would be the case if the invention were made more freely available.

One of the basic considerations set forth in the statement of policy itself is:

The prudent administration of government research and development calls

for a government-wide policy on the disposition of inventions made under
government contracts reflecting common principles and objectives, to the
extent consistent with the missions of the respective agencies. The policy
must recognize the need for flexibility to accommodate special situations.\(^{35}\)

The statement then goes on to provide guidelines to assist the agencies
in determining the question of title. Category (a) provides that the Gov-
ernment shall normally acquire title where:

1. a principal purpose of the contract is to create, develop or improve
   products, processes, or methods which are intended for commercial use
   (or which are otherwise intended to be made available for use) by the
   general public at home or abroad, or which will be required for such use
   by governmental regulations; or
2. a principal purpose of the contract is for exploration into fields which
directly concern the public health or public welfare; or
3. the contract is in a field of science or technology in which there has
   been little significant experience outside of work funded by the govern-
   ment, or where the government has been the principal developer of the
   field, and the acquisition of exclusive rights at the time of contracting
   might confer on the contractor a preferred or dominant position; or
4. the services of the contractor are
   (i) for the operation of a government-owned research or production
       facility; or
   (ii) for coordinating and directing the work of others.\(^{36}\)

However, in exceptional circumstances the contractor may receive greater
rights at the time of contracting than just a nonexclusive license if this
will best serve the public interest. It also provides that the contractor may
get greater rights after the invention has been made. “Greater rights”
could, of course, include title.

Category (b) provides for title in the contractor:

In other situations, where the purpose of the contract is to build upon
existing knowledge or technology to develop information, products, processes,
or methods for use by the government, and the work called for by the con-
tract is in a field of technology in which the contractor has acquired tech-
nical competence (demonstrated by factors such as know-how, experience,
and patent position) directly related to an area in which the contractor has
an established non-governmental commercial position, the contractor shall
normally acquire the principal or exclusive rights throughout the world in
and to any resulting inventions, subject to the government acquiring at least
an irrevocable non-exclusive royalty free license throughout the world for
governmental purposes.\(^{37}\)

Finally the statement sets up category (c):

Where the commercial interests of the contractor are not sufficiently
established to be covered by the criteria specified in Section 1(b), above,
the determination of rights shall be made by the agency after the invention
has been identified, in a manner deemed most likely to serve the public
interest as expressed in this policy statement, taking particularly into account

\(^{35}\) Memorandum of the President to the Heads of the Executive Departments and Agencies on
\(^{36}\) Id. at 3.
\(^{37}\) Ibid.
the intentions of the contractor to bring the invention to the point of commercial application and the guidelines of Section 1(a) hereof, provided that the agency may prescribe by regulation special situations where the public interest in the availability of the invention would best be served by permitting the contractor to acquire at the time of contracting, greater rights than a non-exclusive license. In any case the government shall acquire at least a non-exclusive royalty free license throughout the world for governmental purposes.38

The flexibility built into the foregoing categories appears to recognize a fundamental truth. Judgment must be exercised in determining the disposition of title and good judgment simply cannot be reduced to law or written directions and regulations. The statement of policy gives the public a final protection by providing for “march-in rights” whereby a contractor who retains title to a patent must satisfy the Government that he is taking proper steps to meet the public’s need for the invention. Otherwise, the Government may require him to license the invention to others. Thus a contractor is prevented from acquiring title to a patent and then simply keeping it off the market. He must either commercialize it himself or permit others to do so.

The President’s patent policy statement has had the effect of guiding the patent practices of all of the agencies who contract with private industry for research and development. The Department of Defense, for example, which previously followed a “license policy” almost entirely, has now completely revamped its regulations and has adopted the language in the President’s patent policy statement almost verbatim.

NASA has accomplished practically the same result by rewriting its waiver regulations. Initially NASA maintained that Congress, in passing the Space Act, did not intend that NASA contract on the basis that a determination of title be made at the time of contracting. Now NASA will contract on this basis if it can be shown that the facts come within category (b) of the President’s patent policy statement. At present the main difference between contracting with the Department of Defense and NASA is that with the former the disposition of patent rights is determined by negotiation at the time of contracting whereas with NASA, because of the provisions of the Space Act, the contractor must file a formal petition for waiver with NASA’s Inventions and Contributions Board if he wishes to retain title to patents. However, as noted above, this can be made effective as of the date of signing the contract.

The Atomic Energy Commission has also modified its regulations to bring them more into line with the President’s patent policy statement. The statement actually appears to have almost the force of law since it is being followed so closely. Nevertheless, there will undoubtedly be legislation on this subject.39

38 Ibid.
39 In opening hearings before his subcommittee on 1 June 1965, Senator McClellan stated: From the attention which Congress has given to this subject it is clearly its intent that the basic guidelines of Government patent policy should be determined by the Congress. In an effort to find a basis for a reasonable solution of this complex ques-
IV. Congressional Action

During the Eighty-Ninth Congress five bills were introduced in the Senate and one in the House dealing with patent policy.40

A. Senate

In S. 789, introduced by Senator Saltonstall, there is a presumption that title should be left in the contractor with the Government receiving a royalty-free, nonexclusive license. Section 3 (c) states that except under specified conditions required to rebut the above presumption and excepting any invention which "has given rise to new, unusual, and compelling factors related directly to the national security, public health, or welfare, which did not exist at the time the contract was negotiated," the non-exclusive license to the Government shall be deemed sufficient in all cases to protect the public interest. Thus Senator Saltonstall's bill can, with certain exceptions, be classified as one leaving title in the contractor.

Senator Dirksen's bill, S. 2326, requires each contract for research and development to contain provisions to acquire a nonexclusive, royalty-free license for the Government. It further provides that "Such license should ordinarily be deemed sufficient for governmental purposes and to protect the public interest." As in the case of the Saltonstall bill, this bill contains certain conditions under which the Government may obtain greater rights provided that the Government prove its case. Otherwise, title remains in the contractor. Thus the Dirksen bill, with certain exceptions, also leaves title in the contractor.

Senator Long's bill, S. 1899, departs radically from the philosophy of the Saltonstall and Dirksen bills. Section 3 (b) reads:

The United States shall have exclusive right and title to any invention made by any person if the invention was made in the course of or in consequence of any scientific or technological research, development, or exploration activity undertaken by that person or any other person for the performance of any obligation arising directly or indirectly from any contract or lease entered into, or any grant made, by or on behalf of any executive agency.

Under this bill it would be impossible to determine at the time of contracting that title to inventions would remain in the contractor. Section 10 does give the Government the right to waive all or any part of its title, I introduced, during the 88th Congress, S. 1290. After the introduction of my bill, President John F. Kennedy issued a memorandum of Government patent policy.

I then indicated that I regarded President Kennedy's statement as a constructive contribution which would be of considerable assistance, but that the need for legislation persisted. I believe subsequent events have amply confirmed the desirability of Congress discharging its constitutional responsibility in patent matters by enacting a comprehensive Government patent policy.


rights to any invention after it has been made and identified. However, the conditions are so rigid that a contractor would be likely to petition for such a waiver only in the most unusual and important case. In any event, in each case the opinion of the Attorney General must be obtained that the waiver would not facilitate monopolistic control of a product (a patent is a limited monopoly) or concentrate economic power with respect to any part of the trade or commerce of the United States. Thus Long’s bill is definitely a government-take-title bill with certain very limited exceptions.

Senator Hart’s bill, S. 2715, provides that the United States “shall have the exclusive right (title) to inventions.” As in the Long bill, this bill provides that the Government can waive its rights to an invention after the invention has been made. But here again, the conditions are very stringent and the agency head must build up a strong case for granting the waiver. Although the grant of a waiver is subject to review, if the agency head refuses to grant a waiver, his actions are not reviewable. Therefore, the Hart bill is very much a government-take-title bill.

Finally Senator McClellan’s bill, S. 1809, as amended, is what might be called a middle-of-the-road or compromise bill. There is no presumption that title should go either way. Instead, it is a realistic bill that recognizes and takes into account two very important factors. First, that there is no simple, single solution as to who should have title to inventions arising from government-sponsored research and development; that there are situations where it is in the overall public interest for the Government to take title and there are other situations where it is in the overall public interest for the contractor to keep title; and that the head of the contracting agency of the Government must exercise his judgment in determining where title will rest, keeping in mind the guidelines set forth in the bill. Second, the bill recognizes that there can be no inflexible rules so that the agency head is left free to recognize in the case of unusual or exceptional circumstances that exceptions should be made to the general guidelines set forth in the bill. Whereas the first four bills discussed attempt to legislate the decision as to who gets title to an invention, the McClellan bill seeks to set forth a philosophy in the form of guidelines for the agency head to follow while leaving him with enough flexibility to deviate therefrom in order to make an equitable contract in the light of special circumstances which could not possibly be known at the time the legislation is acted upon.

There are other important differences among the Senate bills. The point in time at which a contractor can be assured of acquiring title to patents for inventions made under the contract has not received uniform treatment. It has been argued with some force that a contract which, by its terms, gives the contractor title to any inventions he may make provides much more incentive to the contractor, not only to put his best men and facilities into the performance of the contract, but also to contribute, to the extent it is useful, the results of work previously performed at
company expense. The fear that, if important inventions are made, the commercial rights may be freely disbursed to others who have contributed nothing can affect contract performance. Senator McClellan stated in his report of 16 August 1966:

Deciding upon the allocation of rights at the time of contracting for work in fields relating to the commercial line of the contractor is important in obtaining the best work of such contractors. Allocation of rights at the same time to small businesses and nonprofit institutions with effective plans for commercialization will strengthen these important segments of private enterprise and enable them to better continue their useful roles in the national economy.41

The Government would be powerless under both the Long and Hart bills to assure the contractor, at the time he signs the contract, that he would receive title to any inventions. They propose that determination would be made as to each individual invention only after it has been made and identified. The bills all agree, however, that if title or exclusive rights have been granted to the contractor and the contractor has not developed the invention and put it on the market for the benefit of the public within three years from the date the patent was granted, the patent will be opened up for compulsory licensing. Thus it would be impossible under all of the bills for any contractor to suppress a patent.

It is interesting to note how these various Senate bills deal with the problem of what to do with a patent which, because it is owned by the Government and is freely available to everyone, is not being used but which might be used if someone could acquire an exclusive license. The Saltonstall bill does not provide for granting exclusive rights to a third party. However, it does provide that where the Government has taken title and the invention is not being used by third parties within three years of the taking of ownership by the Government, the latter will grant an exclusive license to the contractor upon application by him.42 Nothing is said about the right to charge royalties. Section 4(c) of the Dirksen bill would seem to prevent the granting of exclusive rights to anyone under a patent owned by the Government:

No interest acquired by the agency head shall deprive the contractor of at least a nonexclusive royalty-free right to practice the invention, nor shall any citizen of the United States or any enterprise in which the controlling interest is held by citizens of the United States be deprived of an irrevocable, royalty-free nonexclusive license in any patent owned or controlled by the United States.43

The McClellan bill provides that if nonexclusive licensing fails to result in the utilization of the invention, the Government may grant an exclusive license subject to the grant of a nonexclusive license to the contractor.44

Specific authority to charge royalties is given.\textsuperscript{45} Senator Long’s bill would give the Government the right to grant licenses on terms and conditions to be determined by the Government.\textsuperscript{46} Since the language does not specifically exclude the granting of exclusive licenses, presumably this could be done. The right to charge royalties is specifically granted.\textsuperscript{47} The Hart bill also gives the Government the right to grant exclusive licenses.\textsuperscript{48} There is nothing in the language to prohibit the charging of royalties so presumably this could be done.

The bills that would permit the granting of exclusive and royalty-bearing licenses still leave the Government with the problems which bothered the Attorney General in his 1947 report—those of the Government having to sue infringers to protect its exclusive licensees and of also having to police its royalty-bearing licenses to ensure compliance by its licensees with their agreements. These are problems which need careful and serious study by both the Government and the Bar. They arise only where the Government takes title to a piece of property (a patent) which has meaning and usefulness only in the hands of an individual or commercial company.

\textbf{B. House}

The Daddario bill, H.R. 17167,\textsuperscript{49} while it is very much like the McClellan bill in its philosophy, makes two very significant changes which were explained by Congressman Daddario at the time he introduced his bill on 22 August 1966. One change is in section 3 (a) of the McClellan bill which reads:

\begin{quote}
Whenever a contract is entered into, there shall be deemed to be included therein contract provisions, in accordance with regulations promulgated by the head of the contracting agency or under section 5 (a), to carry into effect the requirements of this Act.\textsuperscript{50}
\end{quote}

This would afford the opportunity to second-guess the negotiators. They could put one clause in the contract and someone could later say that the parties misinterpreted the regulations and therefore a different contract provision is deemed to be included in the contract. Under these conditions the contractor would never be certain that contract provisions would not be switched on him at a later time.

To remedy this, the Daddario bill has been changed to read:

\begin{quote}
Whenever a contract is entered into, there shall be included therein contract provisions, in accordance with regulations promulgated by the head of the contracting agency (consistent with those promulgated under section 5 (a)) to carry into effect the requirements of this Act.\textsuperscript{51}
\end{quote}

Under the Daddario bill it will be the provisions in the contract which

\textsuperscript{45} Ibid.
\textsuperscript{46} S. 1899, § 8 (a) & (b), 89th Cong., 1st Sess. (1965).
\textsuperscript{47} Ibid.
\textsuperscript{48} S. 2715, § 5 (a), 89th Cong., 1st Sess. (1965).
\textsuperscript{50} H.R. 17167, § 3 (a), 89th Cong., 2d Sess. (1966).
\textsuperscript{51} Ibid.
will be controlling and they cannot be unilaterally changed at a future time.

The second major change is in section 6(b) of the McClellan bill which deals with the troublesome question of what to do with patents owned by the Government in order to channel them into the commercial stream for the benefit of the public. The McClellan bill reads:

Government-owned inventions shall be made available and their technological advances brought into being through dedication to the public, publication, or licensing. Licensing within the United States, its possessions and territories normally shall be on a royalty-free, nonexclusive basis. If such nonexclusive licensing either fails to result in the practice of the invention, or if it initially appears that exclusive licensing will more effectively promote utilization of an invention in the public interest, each Government agency may grant exclusive licenses for the practice of such invention, subject to the rights retained by the Government in section 3 and subject to a nonexclusive license to the contractor on terms that are reasonable in the circumstances, in lieu of the license specified in section 3(b)(4), such terms to be determined by the agency head only after affording the contractor the opportunity to present such facts as may be pertinent. Exclusive licenses for use of an invention either domestically or in foreign countries may be granted under such terms as the agency head may determine to be in the public interest, and may be granted for the unexpired term of the patent or for a more limited period of time, and may be granted with or without the payment of royalties to the United States.\[53\]

The Daddario bill substitutes for McClellan's section 6(b) the following:

Rights to any invention acquired by the United States under the provisions of this Act, shall be made available and their technological advances brought into being through dedication to the public, publication, or licensing. Licensing within the United States, its possessions, and territories, normally shall be on a nonexclusive basis. If, after a reasonable period, no nonexclusive licensee has made substantial progress toward bringing an invention so licensed to the point of practical application, the agency head may, after publication of notice that application for an exclusive license has been received, grant an exclusive license to an applicant who demonstrates reasonable plans to bring the invention to the point of practical application. Such exclusive license shall be subject to the rights retained by the Government in section 3 and subject to the nonexclusive license retained by the contractor in section 3(b)(4). Exclusive licenses for use of an invention either domestically or in foreign countries may be granted under such terms as the agency head may determine to be in the public interest, and may be granted for the unexpired term of the patent or for a more limited period of time, and may be granted with or without the payment of royalties to the United States: Provided, however, that all licenses granted to United States citizens shall be royalty-free.

The grantee of any exclusive rights in any invention covered by a United States patent owned by the United States shall have the right to bring suit for patent infringement in the United States courts to enforce such rights without joining the United States as a party in such suit.\[53\]

One obvious difference between the two is that Daddario would make all

licenses free to United States citizens.\textsuperscript{54} In addition, the Daddario bill deals with the problem recognized by the Attorney General in his report of 1947 of the Government suing a citizen for patent infringement by giving the exclusive licensee the right to sue without joining the United States as a party to the suit. This should help to alleviate the problem which the Attorney General considered so serious that he recommended against any government grant of exclusive licenses.

V. Conclusion

The issues have been adequately joined by the Senate and House bills. Of the six pieces of legislation the Long and Hart bills represent the title policy (title in the Government), the Saltonstall and Dirksen bills represent the license policy (Government gets a nonexclusive license only), and the McClellan and Daddario bills represent the compromise or middle-of-the-road approach. Before any of these bills are acted upon it is hoped that Congress will appreciate two highly important facts. First, it is relatively unimportant to the public whether or not the contractor acquires title to patents for inventions arising out of government-sponsored research and development since they are not very valuable as a group. This is particularly true if, as provided in the McClellan and Daddario bills, the contractor may be compelled to license others in the commercial field if he is not meeting the public need for the invention himself. Second, it is, however, extremely important to both the taxpayer and the Government that the latter be able to offer sufficient incentives to industry to attract the contractor who can achieve the best results in the least time and at the lowest possible cost. Any policy which does not achieve this end must be a failure regardless of the number of patents to which the Government may acquire title because the purpose of government research and development is to enable the contracting government agency to fulfill its own carefully defined mission. Government acquisition of the right to use inventions arising out of the contract is of secondary im-

\textsuperscript{54}Ibid. On this he says:

Whereas the Senate bill would permit any exclusive license to be granted on a royalty-bearing basis, the substitute language provides that any such license granted to a U. S. citizen would be royalty free. If the Government continues to acquire inventions, it will be under pressure to set up some form of patent administration. The primary objective of the administration of Government-owned patents should be to stimulate the further development and useful application of the underlying technology in the civilian economy. To this end, it seems better that the risk taking involved in the further development and promotion of unproven concepts be undertaken by private interests with private funds, so that the costs and any losses will occur in the private sector and not needlessly add to public expenditures. Likewise, the gain, if any, will affect the private sector and provide employment and taxable revenue.

To add a royalty burden to the investment of risk capital sought to be encouraged would compromise these objectives.

To add any impedance to the further development of these inventions for civilian use is in my view too high a price to pay for whatever royalty dollars could be gained for the U. S. Treasury. I submit that the basic objectives would be better achieved by obtaining from an exclusive licensee a commitment to expend an equal amount of his own funds in further developing and promoting the invention involved. In this way, the patent incentive could be used directly to achieve the desired purpose.
portance since the probability of any of these inventions being made at all is completely unpredictable at the time the contract is signed. Furthermore, their applicability to the commercial market is equally unpredictable. Indeed, there is considerable testimony to the effect that the public might benefit most from the inventions if title remained in the contractor to begin with.

To state it simply, Congress should work toward a patent policy which will encourage industry to work with the Government in a spirit of harmony and trust instead of in a constant fear that, by taking a government contract, it may weaken a commercial position which it has built up wholly or largely at private expense. Congress should not enact a patent policy which will obtain for the Government patent rights of little or no real value to the public at the expense of endangering the government's entire multi-billion dollar research and development program to the extent of increasing its cost and adversely affecting the quality of results sought to be achieved.