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PATENT INFRINGEMENT IN GOVERNMENT PROCUREMENT: GAO'S ROLE

J. EDWARD WELCH* †

Serious problems have existed for a number of years in connection with the award and performance of Government contracts and the handling of administrative claims where infringement of patent rights is or might be involved. These problems have been dealt with generally and authoritatively in several law review articles and articles in other publications.¹

This article has a twofold purpose. First, to explain why, in the author's opinion, the General Accounting Office (GAO) feels that the Government should be and is free under existing law to utilize a patented invention under a Government contract without a license from the owner to whom the Government has granted the patent. Second, to show that a patent owner who believes his patent has been used in the performance of a Government contract cannot (successfully) seek relief before the GAO or the administrative contracting agencies who have not been specifically authorized to grant such relief. Also, related matters involving patent indemnification, authorization and consent, and proposed legislation, as viewed from the standpoint of Comptroller General decisions, will be discussed.

HISTORY AND STATUS OF APPLICABLE LAW

To understand more clearly the basis for these problems, it might be well to trace briefly the evolution of the pertinent laws and decisions as they apply in this area.

Prior to 1910, it was recognized that when the United States Gov-

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† The opinions expressed in this article are those of the author and do not necessarily represent the official views of the General Accounting Office.

1. See, e.g., Mosinghoff and Allnut, *Patent Infringement in Government Procurement: A Remedy Without a Right?*, 42 NOTRE DAME LAW 5 (1966); Rotondi and Dobkin, *Government Competitive Procurement and Patent Infringement: Substance and Solution*, 27 FED. B. J. 325 (1967); TeSelle, *Authorization or Consent to Infringe Patents in Production for the Government*, 26 GEO. WASH. L. REV. 583 (1958).

ernment made use of a patented invention without a valid license, it was acting as an infringer liable in tort to the patent owner. However, because the Government exercised its right of immunity from suit as a sovereign, the patent owner was left without a remedy, except through special bill in Congress. To remedy this situation, Congress passed the Act of June 25, 1910,² which provided generally that where the United States made use of a patented invention without lawful right, the owner might recover reasonable compensation for such use by suit in the Court of Claims. Shortly thereafter, the Supreme Court established that the Act of 1910 made full and adequate provisions for the Government to obtain a license under patents through eminent domain and that a suit to enjoin the exercise of that right would not lie where the Government itself was utilizing a patented invention.³

However, in a later case the Supreme Court ruled that the provisions of the Act of 1910 did not extend to a contractor who violated a valid patent in the course of his Government contract work and held that an injunction against such contractor would lie.⁴ This ruling led to the Act of July 1, 1918,⁵ which amended the earlier Act to prevent injunctive interference with Government work conducted by private contractors. The 1918 amendment has been codified as section 1498 of title 28, United States Code, and is generally referred to simply as "section 1498."

Subsection (a) of section 1498 provides in pertinent part:

Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

2. Act of June 25, 1910, ch. 423, 36 Stat. 851.

3. *Crozier v. Krupp*, 224 U.S. 290 (1912).

4. *Cramp & Sons v. Curtis Turbine Co.*, 246 U.S. 28 (1918).

5. 28 U.S.C. 1498(a) (1964), formerly 40 Stat. 705 (1918).

The reason for including Government contractors as well as the Government itself within the coverage of the amendment was that urgent procurements by the Government were subject to delay by injunctive suits against its contractors and that manufacturers were exposed to expensive litigation and were reluctant to take contracts which might result in such severe consequences as prohibitive injunctions, payment of royalties and punitive damages.

The legislative history of section 1498 makes it clear that the statute's purpose was to furnish the patent owner an adequate and effective remedy while protecting the Government from having its procurements delayed and thwarted while private parties carried on drawn-out litigation.⁶ In a 1928 decision the Supreme Court, after reviewing

6. *Wood v. Atlantic Gulf & Pacific Co.*, 296 F. 718, 720 (S.D. Ala. 1924). Letter from Franklin D. Roosevelt as Acting Secretary of Navy to Senator Benjamin R. Tillman, Chairman of then Committee of Naval Affairs, April 20, 1918, set forth in the *Wood* decision at pages 720 and 721, reads:

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 & Son's 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 payment of royalties, rendering of accounts, and payment of punitive damages, and they are reluctant to take contracts that may bring such severe consequences. The situation promised serious disadvantage to the public interests, and in order that vital activities of this department may not be restricted unduly at this time, and also with a view of enabling dissatisfied patentees to obtain just and adequate compensation in all cases conformable to the declared purpose of said act, I have the honor to request that the act be amended by the insertion of a proper provision therefor in the pending naval appropriation bill. . . .

Similarly, Congressman Padgett explained to the House of Representatives the purpose

the legislative history of section 1498, stated that the basic Act, as amended, effected an assumption of liability by the Government, thereby precluding litigation against the actual infringer. In effect, this relieved him entirely from every kind of liability for infringement in his production for the Government.⁷

of the amendment which became section 1498 (quoted on page 721 of the *Wood* decision) as follows:

This is an amendment of the patent law, and, generally speaking, it would not be appropriate on the naval appropriation bill. It makes only a slight change in the existing law, but the urgency and necessity of it was such that the Senate deemed it proper to place it on the bill. It is strongly recommended in a letter from the Acting Secretary of the Navy, Mr. Roosevelt. The existing law provides that, when the government wrongfully uses a patent, the remedy of the patentee shall be to sue the government. The conditions now are such that it becomes necessary for the government to have contracts with various private manufacturers, and for them to use these patents where disputes may arise over the use of the patent. Now, if the government itself is manufacturing, they cannot enjoin the government, but under existing law must sue in the Court of Claims for the recovery of their rights under the use of the patent. If a man makes a contract with the government to perform the work, the patentee can enjoin the private contractor and the private manufacturer from doing the government work. Now the only change that is made is to provide that the private contractor, who is doing the government work under contract with the government, shall be placed on the same basis, and shall bring suit against the government of the United States to recover certain compensation from the use of their patent, or such damage for the use of the patent, as they could recover if the government of the United States was doing the work itself. Thereby it would prevent the injunction 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.

7. *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331, 343-45; (1928). The Supreme Court made the following pertinent statements:

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.

....

... The intention and purpose of Congress in the Act of 1918 was to stimulate contractors to furnish what was needed for the War, without fear of becoming liable themselves for infringements to inventors or the

AWARD OF GOVERNMENT CONTRACTS

For many years after the enactment of section 1498, it was not considered improper or illegal for the federal contracting agencies to give patent owners preference in the award of Government contracts. Such practice was in fact sanctioned by two decisions⁸ of the Comptroller General.⁹ It was against the legislative background outlined above,¹⁰ however, that the Comptroller General issued his 1958 decisions in the *Herbert Cooper* case which have led to the criticism that section 1498 has been subverted to a Government policy which promotes infringement of patents and is inimical to and destructive of the public policy considerations underlying our patent laws.

Herbert Cooper involved a Department of the Air Force contract for urgently needed requirements. The Department requested the Comptroller General's consideration of a proposal to reject the low bid submitted by the Herbert Cooper Company under the formally advertised invitation for bids and then to negotiate a contract with a licensee of a patent holder submitting a higher bid. The stated purpose of the Air Force proposal was to enforce and protect the rights of the patent

owners or assignees of patents. The letter of the Assistant Secretary of the Navy, upon which the Act of 1918 was passed, leaves no doubt that this was the occasion for it. To accomplish this governmental purpose, Congress exercised the power to take away the right of the owner of the patent to recover from the contractor for infringements. This is not a case of a mere declared immunity of the Government from liability for its own torts. It is an attempt to take away from a private citizen his lawful claim for damage to his property by another private person which but for this Act he would have against the private wrongdoer. . . .

8. 13 COMP. GEN. 173, 176 (1933); COMP. GEN. B-77738, Jan. 10, 1949. Hereafter, unpublished decisions of the Comptroller General will be cited simply by B-number and date.

9. Budget and Accounting Act, § 304, 42 Stat. 24 (1921). See also, 31 U.S.C. §§ 74 82(d) (1964). For information generally concerning GAO's authority and role in Government procurement see FUNCTIONS OF THE GENERAL ACCOUNTING OFFICE, S. DOC. No. 96, 87th Cong. (1961); MACHINERY AND ALLIED PRODUCTS INSTITUTE, *The Government Contractors and the General Accounting Office* (1966); Keller, *The Role of the General Accounting Office*, 21 BUS. LAW. 259; Meyer, *The Role of the Comptroller General in Awarding Formally Advertized Government Contracts*, 18 AD. L. REV. 39 (1966); Shnitzer, *Changing Concepts of Government Procurement—The Role and Influence of the Comptroller General on Contracting Officer's Operation*, 23 FED. B. J. 90 (1963); Welch, *The General Accounting Office in Government Procurement*, 14 FED. B. J. 321 (1954).

10. E.g., *Hearings on S. 1047, Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary*, 89th Cong., 1st Sess., June 1, 2, 3; July 6, 7; Aug. 17, 19 (1965).

owner and its licensees. However, the Comptroller General rejected the proposal by a decision dated August 25, 1958.¹¹ Essentially he held that where procurement by advertised competitive bids is required, the governing statutes properly may not be construed as eliminating or restricting competition on behalf of patent owners and their licensees; that where full and open competition results in a bidder's being required to infringe patent rights in order to comply with Government contract requirements, section 1498 explicitly provides the patent owner with a remedy against the Government for "reasonable and entire compensation" for the property right taken from him.

In a subsequent letter, the Air Force requested clarification of the decision of August 25, 1958. The Department urged that the indiscriminate use of the section 1498 authority "is inimical to and destructive of the public policy consideration underlying the patent laws" and that the exercise of such authority should be discretionary as the interest of the Government may dictate. In his reply of October 6, 1958,¹² the Comptroller General adhered to the view that the military departments have no authority to dispense with the requirements of formal advertising on the ground that such procedures would tend to impair the patent system and that the Congress has made no exception to the advertising statutes in that respect, but rather has provided patent owners a remedy in the Court of Claims under section 1498.

These conclusions were premised on the view that section 1498 is, in effect, an eminent domain statute which constitutes a modification of the patent laws by limiting the rights of patentees, so far as concerns procurement of supplies by the Government, and by vesting in the Government a right to use any patent granted by it upon payment of reasonable compensation.

In reaching these conclusions, the GAO was not unmindful of the inherent conflict with the public policy considerations underlying the patent laws and the rights granted to patent owners under those laws. The Office recognized that it can be argued that general reliance upon section 1498 to avoid subjecting Government contractors to injunctive suits for patent infringement conflicts with the declared public interest in granting patents and in otherwise allowing such suits.

However, it is also in the public interest to provide for the procurement of public needs through full and free competition and to establish

11. B-136916, Aug. 25, 1958 (First Herbert Cooper decision).

12. 38 COMP. GEN. 276 (1958) (Second Herbert Cooper decision).

multiple sources of supply unhampered by the effects of time-consuming suits against Government contractors who may or may not be infringing valid patent rights. This seems to have been recognized by Congress in enacting not only section 1498 but also the federal procurement statutes. These statutes require award of formally advertised contracts to the lowest responsible, responsive bidder without providing any exemption in favor of patent holders.¹³

Those statutory and policy requirements relating to the necessity of providing for the placement of certain Government contracts with small business concerns and in distressed labor areas, should be considered.¹⁴ Obviously, restriction of contracts to patent owners and their licensees could conflict seriously with the procedures used in awarding contracts which are required to be set aside under those programs.

The basic question is, how should these competing policy considerations be resolved to best promote the public interest? The Comptroller General's decisions in the *Herbert Cooper* cases are based on the belief that under present law the overall public interest has been resolved in favor of reserving to the Government the right to award its contracts to the lowest responsible, responsive bidder after securing the maximum benefits derived from full, free, and open competition.¹⁵ The Comptroller General has consistently adhered to the position taken in the *Herbert Cooper* decisions in a number of subsequent decisions in similar cases.¹⁶

In addition, there are strong practical reasons why the Government should be free to award its contracts for needed supplies and equipment without having to assess the rights of patent owners. To make such an assessment with any degree of certainty before awarding contracts, the numerous Government procurement offices throughout the

13. Armed Services Procurement Act, 62 Stat. 21 (1948), *as amended*, 10 U.S.C. §§ 2301-14 (1964); Federal Property and Administrative Services Act, title III, 63 Stat. 393 (1949), *as amended*, 41 U.S.C. §§ 251.60 (1964).

14. Small Business Act § 15, 15 U.S.C. 644 (1964), *formerly* 72 Stat. 395 (1958); 32 C.F.R. § 1.700 *et seq.* (1968); and 41 C.F.R. §§ 1-1.700 *et seq.* (1968); Defense Manpower Policy No. 4, Rev. Oct. 18, 1967, 32A C.F.R. ch. 1 (1968); U.S. Department of Labor Regs., Rev. Oct. 18, 1967, 29 C.F.R. pt. 8 (1968); 32 C.F.R. § 1.800 *et seq.* and 41 C.F.R. § 1-1.800 *et seq.* (1968).

15. See statement of J. Edward Welch, Deputy General Counsel, GAO, made during *Hearings on S. 1047, Before Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary*, 89th Cong., 1st Sess. at 64 (1965).

16. See, e.g., published decisions 46 COMP. GEN. 205 (1966); 40 COMP. GEN. 294 (1960); 39 COMP. GEN. 760 (1960); 39 COMP. GEN. 6 (1960). There are a number of unpublished Comptroller General decisions on this point also.

country would have to determine first whether there was a *valid* outstanding patent covering the items to be procured. Although up-to-date figures are not readily available, it must be borne in mind that, despite the presumption that a patent is valid, a large percentage of court cases in which infringement has been alleged ultimately resulted in determinations that the patents relied upon were invalid.¹⁷

In addition to having to determine the validity of alleged patents, the contracting agencies would be required to decide whether valid licenses to practice the patents had been issued; whether the use of the patent would be involved in manufacturing the item being procured; and finally, whether any such use would amount to infringement of the patent.

Many procuring agencies do not have the trained technical and legal staffs to deal with these complex problems and the uncertainties inherent in making these determinations as they might affect particular procurements could place an unbearable if not impossible burden on Government procurement officers.

For all these reasons it seems doubtful that the Comptroller General could be persuaded to change his views as expressed in the *Herbert Cooper* and subsequent similar decisions in the absence of legislative changes.

SETTLEMENT OF CLAIMS FOR PATENT INFRINGEMENT

Many patent owners feel that the remedy provided by section 1498 for patent infringement (suit against the Government in the Court of Claims) is time-consuming, expensive, and inadequate. Therefore, they feel that GAO should settle claims for patent infringement under Gov-

17. In 1963 (the last year for which the writer has been able to find statistics), the Federal Circuit Courts of Appeals held 53.2% of the patents adjudicated to be invalid. *THE ENCYCLOPEDIA OF PATENT PRACTICE AND INVENTION MANAGEMENT*, (Calvert ed. 1964). For the years prior to 1955, see the statistics relating to invalid patents adjudicated by the federal courts published in *AMERICAN PATENT SYSTEM, Hearings Before the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary*, 84th Cong., 1st Sess., 176-85 (pursuant to S. Res. 92). Also of interest on this point is Justice Jackson's dissenting opinion in *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949), where he remarked that:

It would not be difficult to cite many instances of patents that have been granted, improperly I think, and without adequate tests of invention by the Patent Office. But I doubt that the remedy for such Patent Office passion for granting patents is an equally strong passion in this Court for striking them down so that the only patent that is valid is one which this Court has not been able to get its hands on.

ernment contracts in instances where the contracting agency does not have specific statutory settlement authority. GAO believes that, in addition to relieving the Government from patent infringement problems in awarding its contracts for supplies and equipment, section 1498 was designed to furnish patent owners and licensees an adequate and effective remedy for infringement of their patents by Government contractors. This was pointed out in the *Herbert Cooper* decisions. As was stated in those decisions and as already pointed out, the statute provides that the patent owner's remedy for infringement by the Government or its contractors shall be by suit against the United States in the Court of Claims for the recovery of his "reasonable and entire compensation" for such use and manufacture. Although section 305 of the Budget and Accounting Act of 1921, which established the General Accounting Office, provides that "[a]ll claims and demands whatever by the Government of the United States or against it . . . shall be settled and adjusted in the General Accounting Office,"¹⁸ the Comptroller General has held that notwithstanding this broad claims settlement authority the GAO cannot properly consider and settle claims for patent infringement.¹⁹ The Comptroller General's position is based on the general rule of law that where Congress creates a right and provides a remedy for enforcement of that right, the remedy so provided is exclusive unless otherwise indicated. He pointed out that the Supreme Court has stated that the effect of the word "entire" added to the 1910 statute by the 1918 amendment was "to emphasize the exclusive and comprehensive character of the remedy provided."²⁰

It is significant that certain major executive departments and agencies have been granted statutory authority to settle patent infringement claims. These are the Defense agencies,²¹ the National Aeronautics and Space Administration (NASA),²² the Atomic Energy Commission (AEC),²³ and agencies procuring in furtherance of the purposes of the Foreign Assistance Act.²⁴

Practical considerations are involved here also. The procedure GAO

18. 31 U.S.C. § 71 (1964).

19. B-160745, Feb. 13, 1967, and July 27, 1967; B-149392, Aug. 1, 1962.

20. B-160745, July 27, 1967, citing *Richmond Screw Anchor Co. v. United States*, 275 U.S. 33 (1928).

21. 10 U.S.C. § 2386 (1964); 10 U.S.C. §§ 5151, 7210(a) (1964).

22. 72 Stat. 429, as amended, 42 U.S.C. 2473(b) (3).

23. 42 U.S.C. § 2201(g) (1964).

24. 22 U.S.C. § 2356(b) (1964).

would be required to follow to properly consider and settle a patent infringement claim would necessitate determinations similar to those mentioned above, plus a further determination as to the extent and value of the damages, if any, resulting from the infringement. As in the case of many procuring agencies, the GAO does not have the personnel with the patent and engineering expertise which would be required to make such difficult, expensive, and time-consuming determinations.²⁵

PATENT INDEMNIFICATIONS

As protection to the Government in the event of a successful suit by a patent owner under section 1498, the procuring agencies are free to require the inclusion of a contract provision under which the contractor expressly agrees to indemnify the Government against liability for patent infringement. Section 9-103 of the Armed Services Procurement Regulation (ASPR), with certain specified exceptions, requires the use of a patent indemnity clause in construction and supply contracts "in order that the Government may be reimbursed for liability for patent infringement arising out of or resulting from the performance of construction contracts or contracts for supplies which normally are or have been sold or offered for sale to the public in the commercial open market or which are the same as such supplies with a relatively minor modification thereof."²⁶ A standard patent indemnification clause is prescribed in ASPR 9-103.1(a).

In the event a military department desires to exempt one or more United States patents from the patent indemnity clause, ASPR 9-103.4 provides that authority to do so shall first be obtained from the Secretary concerned or his authorized representative. This section also provides for a Waiver of Indemnity Clause.

ASPR 2-407.8 provides that when a patent indemnity clause is to be included in a contract, award of the contract shall not be refused to the low bidder merely because he is not the owner or a licensee under any of the patent rights which may be involved. The Comptroller General has gone further. He has held that even though indemnification for

25. In B-160745, July 27, 1967, the Comptroller General stated:

In view thereof, and since we have neither the necessary expertise required to pass upon the validity of the patent involved nor the requisite facilities for making a sound judgment as to the alleged infringement and value of the use of the patent, we feel that such claims properly may not be considered or settled by our Office.

26. 32 C.F.R. § 9.103 (1968).

patent infringement is not provided for in an invitation to bid, a low bidder may not be rejected on the basis that the Government might incur liabilities under section 1498 for patent infringement.²⁷

NASA's procurement regulations also prescribe patent indemnity clauses.²⁸ It appears, however, that NASA does not favor the use of patent indemnity as a general practice. Apparently, the Agency's objection is based on the proposition that as a prerequisite to obligating the contractor to reimburse the Government for an administrative settlement with the patent owner, the contractor must consent to the settlement agreement. In addition, NASA feels that the patent indemnity requirement can induce prospective contractors to include a contingency in their bid prices; can serve as a possible deterrent to prospective bidders in accepting Government contracts under which patent infringement might be necessary in performing the contract; and can encourage contractors to use second rate materials in order to avoid patent infringement.²⁹

27. 45 COMP. GEN. 13 (1965); 39 COMP. GEN. 760 (1960). The rationale underlying this position was explained in 45 COMP. GEN. 13, 16 (1965):

Regarding your 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 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. . . .

28. NASA Procurement Regulation, 41 C.F.R. § 18-9.104 (1968).

29. Letter from the Administrator of NASA to the Comptroller General, June 13, 1966, requesting approval of NASA's proposed licensing procedure, stated:

NASA does not generally include 'Patent Indemnity' clauses in its contracts, since such clauses in NASA's opinion may have the effect of unnecessarily increasing contract costs because of the inclusion by bidders of a contingency factor in their bids; they may discourage prospective bidders from taking part in procurements because of the uncertainties of infringement liability; and they may encourage contractors to use second-best supplies and materials to avoid possible infringement liability. Moreover, such clauses would not be appropriate in contracts involving research and development, and these, of course, constitute the major portion of NASA contracts. Finally, an important legal objection to the use of patent indemnity clauses stems from the fact that under *Martin Co. v. United States*, 163 F. Supp. 376 (Ct. Cl. 1958), such clauses make it difficult and in many cases impossible for an agency to settle a patent owner's administrative claim for patent infringement. To be obligated to reimburse the Govern-

AUTHORIZATION AND CONSENT

Because section 1498 refers to the use or manufacture of an invention "with the authorization and consent of the Government," ASPR 9-102 requires an Authorization and Consent Clause in Government contracts "to insure that work by a contractor or subcontractor under a Government contract may not be enjoined by reason of patent infringement." This section further provides that since "an authorization and consent clause does not detract from any patent indemnification commitment by the contractor or subcontractor . . . both a patent indemnity clause and an authorization and consent clause may be included in the same contract."

ASPR 9-102.1 sets forth a standard authorization and consent clause for contracts for supplies (including construction). The clause provides that the Government thereby gives its authorization and consent for all use and manufacture in performance of the contract or any subcontract thereunder of any invention described in or covered by a patent of the United States (1) if the Government accepts an item which embodies an infringement and (2) if infringement necessarily occurs in complying with the contract or subcontract specifications.

In the *Herbert Cooper* decisions, the Comptroller General gave considerable weight to the fact that in the procurement under consideration the Government gave its authorization and consent for patent infringement pursuant to ASPR 9-102.1. The question can arise, however, as to the legal effect of omitting the authorization and consent clause from a contract under which patent infringement reasonably could be expected to occur. This question was presented in a case considered by the Comptroller General in April, 1966, which involved a procurement by the National Bureau of Standards.³⁰ There the second low bidder, whose bid was only slightly higher than the low bid, protested against the award of the contract to the low bidder on the basis that performance by any other bidder in accordance with the advertised specifications would infringe on a patent assigned to the second low bidder by the inventors.

ment for any administrative settlement, the indemnitor must first agree to the settlement; and it is usually to his advantage not to agree and thereby force the patent owner into a suit against the Government in the Court of Claims. In view of these factors, the present NASA policy resulted from a conclusion that, on balance, across-the-board use of patent indemnity creates more problems than it solves.

30. B-158790, April 15, 1966.

The Comptroller General stated that ordinarily where there is no authorization and consent clause in the contract, as was the situation in that case, the contractor assumes the liability for any delay or damages resulting from infringement of patents and performance of the contract. He pointed out, however, that the invitation for bids contained the "Notice of Assistance Regarding Patent and Copyright Infringement" clause which is part of Standard Form 32, June, 1964, and under which the contractor would be required to report to the contracting officer each notice of claim of patent or copyright infringement and to furnish to the contracting officer all evidence and information in his possession pertaining to such suit or claim. The Comptroller General expressed the opinion that in view of the "Notice of Assistance" clause and the fact that the Government was on notice of possible infringement, a court might interpret these circumstances as sufficient to imply authorization and consent by the Government to the contractor's infringement of the patent. On that basis, the Comptroller General ruled that there was no valid objection to awarding the contract to the low bidder.

Because this case involved a contract awarded by a civilian agency of the Government, it brought to GAO's attention the fact that, unlike ASPR, the Federal Procurement Regulation (FPR)³¹ did not provide any instructions for use of clauses providing for the authorization and consent to infringe patented inventions and patent indemnity in supply contracts entered into by the civilian agencies. The Comptroller General, therefore, recommended to the Administrator of General Services Administration (GSA) that consideration be given to the issuance of appropriate regulations to govern the utilization of such clauses.³²

Another case decided by the Comptroller General in 1966 presented an interesting question concerning the application of the requirement for the use of the authorization and consent clause.³³ That question was whether it was proper for a contracting agency to expressly withhold the Government's authorization and consent to infringe a patent under a Government contract. The case involved a subcontract to be awarded by a prime contractor of the AEC. AEC proposed to include in the subcontract a clause which would have withheld the Government's authorization and consent to infringement. The purpose of the proposed "nonauthorization and consent clause" was to avoid any implica-

31. 41 C.F.R. §§ 1-1.001 *et seq.* (1968).

32. GSA advised that these regulations are being issued as chapter IX of FPR, 41 C.F.R. 1-9 (1968).

33. 46 COMP. GEN. 227 (1966).

tion that AEC was giving its authorization and consent to, or was encouraging infringement of, patents in performing the subcontract.

The Comptroller General decided that the proposed clause would have been legally ineffective to shift the liability of an infringement suit to the subcontractor where the Government obligated itself to accept a product which would infringe a patent because the assumption of that obligation by the Government would bring the infringement within the coverage of section 1498. In reaching this conclusion, the Comptroller General stated:

Therefore, we conclude that the contractual obligation to accept a product which may infringe patent No. 3,129,188 is sufficient in itself to provide the Government's 'authorization and consent' for the use or manufacture of a patented invention by the contractor, and that incorporation of the 'authorization and consent' language in the Royalty Adjustment Act of 1942 into 28 U.S.C. 1498 did not so drastically change pre-existing law as to provide contracting officers with the option of withholding or, more accurately, withdrawing the 'authorization and consent' which the Government actually establishes by its contractual obligation. We believe this view is supported by the various decisions holding that acceptance of allegedly infringing goods by the Government is sufficient to bring the alleged infringement within the ambit of 28 U.S.C. 1498

It is important to note that the Comptroller General drew a distinction between the situation where the invention would be embodied in the item to be delivered under the contract and where the invention merely might be used at the option of the contractor as a means to and an aid in manufacturing the item. He expressed the opinion that the question whether a district court would assume jurisdiction of an infringement suit against the Government in the latter situation would depend upon whether the contractor's alleged use of the patented process was at his option and for his own convenience, rather than with the authorization and consent of the Government.

NASA'S LICENSING PROCEDURE

Naturally, contractors, industry associations, patent lawyers, and certain congressional interests agree that unrestricted patent infringement under Government contracts results in inequities and is damaging to

inventive industry and the patent system. Some Government agencies also are sympathetic to the problem of Government contract patent infringement; but, except for one agency (NASA), they have thus far been unable or unwilling to take any affirmative action toward solving the problem.

By a letter dated June 13, 1966, the Administrator of NASA submitted to the Comptroller General a proposed new approach to the procurement of patented items. NASA has statutory authority "to acquire (by purchase, lease, condemnation, or otherwise) . . . real and personal property (including patents), or any interest therein, as the Administrator deems necessary. . . ." ³⁴ Acting under this authority, the Agency proposed a procedure under which it would secure a license (a procurement license) from the patent holder in appropriate cases *prior* to a NASA procurement of a patented item. A royalty would be established, payable to the patent holder if the patent were secured from an unlicensed source. That is, the amount of the royalty would be added to the prices quoted by the unlicensed bidders. The "procurement license" *would be applicable only for the single procurement*. This procedure would be invoked only if (1) the contracting officer had determined that entering into the license agreement would not unduly delay the procurement; (2) NASA patent counsel were satisfied a valid patent right might be involved; and (3) the patent owner was willing to enter into a license agreement at a reasonable rate prior to award.

By decision of September 12, 1966, the Comptroller General approved NASA's proposal with the following statement:

The legislative intent of section 1498 is to assure that the Government will have available to it the resources of private industry unfettered by private patent rights. See cases collected in the annotations to 28 U.S.C.A. 1498. You do not propose to inhibit the Government's right to solicit all potential sources for Government contracts. Every firm, whether licensed by the patent owner or not, would still be free to submit a bid or proposal on a patented item. Your invitation or proposal would provide, however, that any agreed-upon license fee would be added to the bid or quotation of an unlicensed supplier for evaluation purposes. This is not a restriction on competition. Indeed, the proposed evaluation of the license fee represents perhaps a more realistic approach in

34. 42 U.S.C. § 2473(b)(3) (1964).

determining the most advantageous price that exists under the current procedure where possible infringement damages are not considered.

... [W]e do not object to the issuance of the proposed regulation for a trial period, leaving resolution of any problems which may arise for a later date, when experience is gained.³⁵

On October 24, 1966, NASA issued a procurement regulation directive formalizing the procedure which is now generally referred to as NASA's "Preprocurement" or "Instant Licensing" procedure.³⁶ Informal inquiry to NASA elicited the information that the procedure has been found to be appropriate only in a few cases.³⁷ Also, no other

35. 46 COMP. GEN. 205 (1966).

36. NASA Procurement Regulation Director 66-10; now NASA Procurement Regulation 9-102, 41 C.F.R. 18-9.102.

37. In a letter of March 26, 1968, to the Comptroller General the Administrator of NASA reported on the results of NASA's experience during 1967 on the new policy and advised that NASA planned to continue the trial for at least another year in order to accumulate additional experience on the effectiveness of the policy. It was reported that during 1967 NASA considered four specific instances in which a patent owner requested NASA to become a licensee, and in each NASA determined that it should not enter into a license agreement. The Administrator gave the following reason why, in his view, there have been so few requests to NASA for preprocurement licenses:

... Basically, NASA's posture as a research and development agency severely limits NASA's basis for making precontractual determinations of whether items to be developed in the research effort will infringe a particular patent. I suspect that patent holders may realize that a preprocurement license will not be available since NASA will be unable to make the necessary precontractual determinations concerning infringement in these research and development efforts.

Conversely, I feel that the policy would be applied in more cases if NASA's procurement requirements dictated that this agency place large contracts for standardized commercial items, for example, through 'brand name or equal' procurements. Since procurements of this nature are more susceptible to precontract determinations of patent infringement and would undoubtedly provide a broader basis for monitoring the effectiveness of the licensing policy, NASA requested the comments of several other government agencies on the licensing approach. As you suggested, we contacted the Department of Defense to solicit its views on NASA's procedure. The question of whether the Department of Defense should implement a similar licensing procedure was presented to the Armed Services Procurement Regulations Committee in May of 1967, but the Committee determined at that time that the Department of Defense would not adopt this policy. We have been informed, however, that the Department of Defense will monitor the results derived from our experience. We also discussed NASA's policy with the General Services Administration; however,

agency has adopted the procedure. It appears that if the procedure is a step in the right direction, it is only a short step.

PROPOSED LEGISLATION

In recent years a number of bills have been introduced in Congress proposing legislative solutions to the Government contract patent infringement problems. Bill S. 1047 which was introduced in the 89th Congress by Senator Harrison A. Williams, Jr., of New Jersey, is typical of such bills. It would have amended section 1498 of title 28 of the United States Code as follows:

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 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.

By letter dated June 4, 1965, to the Chairman, Committee on the Judiciary, United States Senate, the Comptroller General reported unfavorably on S. 1047.³⁸ He stated that GAO adhered to the views expressed in the *Herbert Cooper* decisions which the Office believes are consistent with the congressional purpose and intent of section 1498 and with the cardinal principle that contracts for Government requirements based on formal advertising must be awarded to the lowest responsible bidder.

In mid-1965, the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary, under the chairmanship of Senator John L. McClellan, held hearings on S. 1047. GAO representatives testified against the bill for substantially the same reasons

we note from your November 20, 1967, letter to the Northrop Corporation . . . that the General Services Administration has chosen not to initiate this type of licensing procedure.

In response to NASA's report the Comptroller General stated that he had no objection to the trial's continuation as proposed and looked forward to receiving NASA's further report. B-136916, April 15, 1968.

38. B-132729, June 4, 1965.

as stated in the Comptroller General's report on the bill.³⁹ The bill was never reported and similar bills have not received favorable consideration by Congress.

During the 89th Congress, Congressman Thomas G. Morris of New Mexico introduced a bill, H.R. 10022, designed to provide more equitable treatment to patent holders. That bill would have added the following negotiation exception to the Federal Procurement Statutes:

A BILL To authorize the negotiation of purchases and contracts for property and services in situations where it is likely that a valid claim against the United States for patent infringement will otherwise be made.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 302(c) of the Federal Property and Administrative Services Act of 1949, as amended, is further amended by renumbering paragraph (15) as paragraph (16) and by adding immediately after paragraph (14) a new paragraph (15), reading as follows:

(15) 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.

SEC. 2. Section 2304(a) of title 10, United States Code, is amended by renumbering paragraph (17) as paragraph (18) and by adding immediately after paragraph (16) a new paragraph (17), reading as follows:

(17) The purchase or contract is 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.

In his report on H.R. 10022 to the Chairman, Committee on Government Operations, House of Representatives, the Comptroller General recommended against favorable consideration of the bill, stating:

Summarizing, we feel that the proposed exceptions for eliminating or restricting competition on behalf of patent holders or their licensees proposed by this bill may adversely affect matters of basic public policy heretofore established by the Congress. These include:

39. *Hearings on S. 1047, supra* note 10 at 64-9.

1. Maintenance of high standards of full and open competition
2. Establishment of multiple sources of supply to meet national emergencies
3. Placement of a fair proportion of Government requirements with small business enterprises
4. Maintenance of reasonable prices for requirements of acceptable quality and value
5. Maintenance of adequate safeguards of fair and just dealing and protection against monopolistic and unscrupulous practices

Consideration of national interests such as these pertaining to the vast procurement requirements of the Government, in our opinion, far out-weigh those designed to enhance the interests of private commercial enterprises at increased cost and expense to the public. Many inherent advantages are realized by the great number of firms and industrial enterprises who compete for and obtain a share of Government business. We are not aware, however, of any cogent reason for granting a preferred position to a particular firm merely because it is a patent owner or licensee or because it has a large patent portfolio or extensive license arrangements when competing for Government business as would be permitted by the amendment proposed by the bill. Nor may it reasonably be said that an individual inventor would, as a rule, receive any benefit under the legislative changes proposed.⁴⁰

Congressman Morris has since introduced in the 90th Congress a second bill, H.R. 2898. This bill would require the procuring agencies to negotiate licensing agreements with patent holders in cases where it appeared that the proposed procurements might result in the use of a patent. The agreed upon royalties would be considered in evaluating the bids received in much the same way as under NASA's "Instant Licensing" procedure.

Thus far, Congressman Morris' bills have failed to meet with favorable consideration in the Congress. However, these and the other legislative proposals referred to, along with the hearings which were held by the Senate Subcommittee and the promulgation of NASA's licensing procedure, no doubt have served to focus attention on the problems discussed in this article and, to some observers, to demonstrate the need for some kind of remedial action.

40. B-140660, Aug. 25, 1965.