ANNUAL REPORT ON GOVERNMENT PATENT POLICY

Federal Council for Science and Technology

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APPENDIX C

Interpretive Statement on the President's Memorandum and Statement of Government Patent Policy

INTRODUCTION

The President's Memorandum and Statement of Government Patent Policy issued on October 10, 1963, (28 Federal Register 10942–10946, October 12, 1963) promulgated a government-wide patent policy to be followed by all federal departments and agencies, except where otherwise provided by statute. The Policy Statement provided for the establishment of the Patent Advisory Panel under the Federal Council for Science and Technology for the purpose of (a) developing by mutual consultation and coordination with the agencies common guidelines for implementing the Policy and providing overall guidance as to the disposition of invention and patent rights, (b) encouraging the acquisition of data for use in policy review and development, and (c) making recommendations on the use and exploitation of government-owned domestic and foreign patents.

The Patent Advisory Panel and the subcommittees formed thereunder have been studying the President's Memorandum and Statement of Government Patent Policy and its effect on the patent policies of the various federal departments and agencies. As a result of the Panel's activities, it has become apparent that the agencies are experiencing difficulties in interpreting various key phrases and words within the Policy Statement. Therefore, in order to achieve greater consistency, the Patent Advisory Panel has developed the following interpretations for the guidance of the various departments and agencies.

Various subcommittees of the Patent Advisory Panel are presently considering the application of the President's Policy Statement to special types of contracting situations. Therefore, additional interpretive statements may be issued in the future as necessary to further interpret or provide guidelines for implementation of the Policy Statement.

GENERAL APPLICATION OF POLICY STATEMENT

Section 1(a) of the Policy Statement sets forth contracting situations where the government normally should acquire or reserve the right to acquire principal or exclusive rights to inventions in the public interest. For contracting situations which do not fall within the criteria of Section 1(a), Section 1(b) defines the conditions under which the contractor normally retains principal or exclusive rights. Contracting situations

which do not fall under Section 1(a), and do not meet the conditions of Section 1(b), are handled in accordance with the provisions of Section 1(c). Sections 1(a) and 1(b) deal with the allocation of patent rights at the time of contracting, whereas Section 1(c) prescribes deferment of the patent rights allocation until after the invention has been identified.

PRINCIPAL OF EXCLUSIVE RIGHTS UNDER SECTION 1(a)

> ". . . . the government shall normally acquire or reserve the right to acquire *principal or exclusive rights* throughout the world in and to any inventions made in the course of or under the contract."

Acquiring "principal or exclusive rights" by the government will mean taking title to the inventions in question in most cases, but where it appears to be desirable in the public interest, the intent of this phrase can be fulfilled by taking those attributes of ownership to the inventions which will assure the full availability of the inventions to the government and will assure that the government can control the inventions, domestically and abroad, subject to the rights reserved to the contractor.

EXCEPTIONAL CIRCUMSTANCES UNDER SECTION 1(a)

> ". . . In exceptional circumstances the contractor may acquire greater rights than a non-exclusive license at the time of contracting, where the head of the department or agency certifies that such action will best serve the public interest."

This part of the Policy Statement recognizes that exceptional circumstances may exist, even though the contracts are of the type defined by subsections 1–4 of Section 1(a). Examples of exceptional circumstances of the type contemplated by Section 1(a) might be where the objectives of the research would appear to be materially advanced by leaving principal or exclusive rights to the contractor and the public interest is otherwise protected, or where the public interest will be advanced by leaving principal or exclusive rights to a nonprofit educational institution that agrees to administer inventions in a manner deemed by the agency to be consistent with the public interest.

Exceptional circumstances could also be found in regard to inventions identified at the time of contract, for example, when the contractor has established substantial equities at his own expense in the development of the invention.

GREATER RIGHTS UNDER SECTION 1(a)

> ". . . . Greater rights may also be acquired by the contractor after the invention has been identified, where the invention when made in the course of or under the contract is not a primary object of the contract, *provided* the acquisition of such greater rights is consistent with the intent of this Section 1(a) and is a necessary incentive to call forth private risk capital and expense to bring the invention to the point of practical application."

The Policy Statement also allows greater rights to be given to the contractor after the invention has been identified where, (1) the invention is in a technical field which is not directly related to a primary object of the contract, (2) the invention is not of the type intended to be covered by Section 1(a), and (3) such rights are a necessary incentive to call forth private risk capital and expense to bring the invention to the point of practical application. Even where the invention is in a technical field which is directly related to a primary object of the contract, but is also susceptible of uses outside of that contemplated by the contract, greater rights could be left with the contractor for such uses provided that, with respect to such uses, the acquisition of greater rights is consistent with the intent of Section 1(a) and is a necessary incentive to call forth private risk capital and expense to bring the invention to the point of practical application.

SUBSECTION 1(a)(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;"

This subsection is intended to cover those situations where a principal objective of the contract work is the development of knowledge, a product or process for use by the public. On the other hand, when the purpose of a contract is for the development of products or processes intended for military or other Federal Government uses, and not for use by the general public, the contract would not fall within this subsection even though some inventions developed under such contracts may have some incidental commercial uses.

Examples of situations falling within this subsection would be the development by the government of improved fertilizers, material handling equipment for particular agricultural industries and civil defense equipment.

SUBSECTION 1(a)(2)

> ". . . a principal purpose of the contract is for exploration into fields which directly concern the public health or public welfare;"

The principal difference between this subsection and subsection (1) is that this subsection covers contracts whose purpose is to conduct research in fields which directly concern the public health or welfare, and, therefore, it is immaterial whether or not the object to be achieved under the contract is intended for use by the public. Rather, the test is whether the field being explored under the contract is directly concerned with the public health or welfare, and contracts for the development of military items, as well as for civilian items, will be included as long as this test is met.

The phrase "public health or public welfare" is not intended to be so broadly interpreted as to include all research supported by the Federal Government. Health and welfare is intended to cover those fields which directly relate to man's continued existence, as distinguished from his

comfort, and therefore would basically include (1) medicines, instruments, and processes for the treatment of disease, (2) those items necessary to his body, as air, water, and food, and (3) items of public safety, as opposed to items of a purely military or governmental nature. Examples in the public health field would be contracts for research on drugs, medical instruments or prosthetic devices. Examples in the public welfare category would include water desalting, air safety, and weather modification and control.

SUBSECTION 1(a)(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 government, 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;"

The application of this subsection requires that two criteria be met: that the contract be in a field of science or technology which has been principally funded or developed by the government; and that the acquisition of exclusive rights at the time of contracting might confer on the contractor a preferred or dominant position. The intent of this subsection is to guard against the possibility of a contractor being placed in a preferred or dominant position through patents in a scientific or technological field when the same has been wholly or largely developed by the government. The prime example of the type of situation which was intended to be covered by this subsection was the field of atomic energy. This field was virtually unexplored when the government took over the entire research and development effort, and for reasons of security and the large scale development costs involved, the basic research and development work was contracted to but a relatively few contractors. To have allowed any company to obtain a dominant position in such a field of science which was almost totally government supported would have inequitably placed that company in a position of patent dominance in the field of atomic energy merely because of government contracts.

The scope and application of this subsection will largely depend upon the interpretation of the phrase "field of science or technology," and, therefore, it is important that this phrase be properly construed. If a very narrow construction is given, the approximate scope of the contract work description would constitute the "field of science or technology." Such an interpretation would result in the government taking principal or exclusive rights in substantially all cases, and would be inconsistent with the intent of the Policy Statement. Conversely, the phrase should not be construed in a manner that would place the contractor in a preferred or dominant position in a field of science or technology created at public expense, such as atomic energy.

It should be kept in mind that this subsection deals with the field of science or technology involved in the research and development work to be performed under the contract, and not with the end product of the contract or with the system in which the end product may be incorporated. Accordingly, this subsection would not be applied merely because the

contract called for the development of or improvement in military-oriented armaments or systems which have been principally or solely developed by the government, as missile systems, military aircraft and vessels, or subcomponents thereof, unless the scientific or technological fields on which the research or development is based is of the character defined by this subsection.

The field of science or technology must be one in which "there has been little significant experience outside of work funded by the government, or where the government has been the principal developer of the field." This phrase is meant to define those fields of science or technology which, at the time of the contract, have been solely or principally developed by the government, or which, being new, are without significant commercial or private history. It is, of course, the field of science or technology, as defined above, that must meet this test, and not merely the small portion thereof which may be covered by the work to be performed under the contract.

Because of the difficulties in identifying fields falling within this subsection and because the situation in a field may change, it is recommended that the agencies not leave the determination of such fields to the individual contracting officers, but identify, at the agency level, those fields or areas which should be considered as meeting the criteria of this subsection.

SUBSECTION 1(a)(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, . . ."

This subsection is intended to cover situations where the contractor has little or no equity in inventions, or where retention of principal or exclusive rights would be inconsistent with his responsibility under the contract.

The first situation is where the government owns research and development facilities, and the contractor is retained to manage and operate such facilities for the government. This subsection is not intended to include within its scope any contract which incidentally includes the use of some government-owned materials, facilities, equipment or the like.

The second situation is where the contractor's efforts in the research and development work is in directing and coordinating the work of others. This does not refer to the usual contractor-subcontractor relationship, but refers instead to that type of contract where an organizational conflict of interest might result. An example would be where the contractor is to provide primarily systems engineering and technical direction services in a systems contract, which involves the determination of specifications and the preparation of work statements for other contractors, and where the contractor is to perform little or no research and development work himself but has access to the work of other contractors which he coordinates.

Even though a prime contractor falls within this subsection, this would not prevent a subcontractor from obtaining greater rights where the subcontractor otherwise qualifies under this Policy.

"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 contract is in a field of technology in which the contractor has acquired technical competence (demonstrated by factors such as know-how, experience, and patent position) directly related to an area in which the contractor has an established nongovernmental 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."

This section is intended to cover situations other than those falling within Section 1(a), where the purpose of the contract is to build upon existing knowledge and technology and develop items for use by the government, and not to develop items for use by the general public as covered in subsection 1(a)(1). This section should be used where the contract meets the criteria above, and where the contractor has technical competence (demonstrated by factors such as know-how, experience, and patent position) in the field of technology covering the work called for by the contract, and has an established nongovernmental commercial position in an area of his business which is directly related to the same field of technology.

The criterion governing the relationship between an area of the contractor's business in which he has a nongovernmental commercial position and the field of technology covering the work called for by the contract is satisfied where (1) the contractor has a commercial business of selling goods or services in the domestic or foreign markets, outside of sales to the United States Government, (2) this business is based upon the same knowledge, technology, and scientific principles involved in the field of technology covering the work called for by the contract, and (3) it appears that the contractor's nongovernmental commercial position and business outlets would be directly applicable in the commercial exploitation of the inventions which are likely to result from performance of the contract work.

Where the contractor is a division of a corporation, the criteria of this section may be met even where the division works solely on government business as long as other divisions of the corporation have nongovernmental commercial (or industrial) positions in the same field of technology. This is to achieve the fullest possible cross-flow of commercial background knowledge and know-how from all segments of the corporation to the government's research problem.

As an illustration, in a contract for the development of an improved nitrogen propellant, this section would be applicable where the contractor had a nongovernmental commercial position in the manufacture and sale of nitrogen chemical compounds, even though he has not previously manufactured and solid propellants. On the other hand, if this contractor's business in the chemical field is solely in the research, development, manu-

facture, and sale to the government, then this section would not be applicable even though the contractor may have a nongovernmental commercial position in a nonrelated area, as in the manufacture and sale of commercial machinery. In the first illustration, it is very likely that a company in the business of manufacturing and selling nitrogen chemical compounds could commercially exploit, through his same sales outlets, inventions likely to result from a research and development contract involving propellants. It does not necessarily follow, however, that the contractor of the second illustration could use his commercial outlets for the sale of machinery to exploit inventions in the nitrogen chemistry subdivision of the chemical field.

SECTION 1(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 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 inventions 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."

Where the situations do not fall within Section 1(a) or 1(b), Section 1(c) stipulates that the disposition of rights normally be made after the invention has been identified.

The guidance given in Section 1(c) is that the disposition be made using the Policy Statement's concept of serving the public interest, and particularly taking into account the guidelines of Section 1(a) and the contractor's intentions of bringing the invention to the point of commercial application (meaning to the point of practical application as defined in Section 4(g)). Even though the contract is not of the type defined in Section 1(a), the invention, after it is identified, may be of the type which Section 1(a) is attempting to reserve for unrestricted public access, and, in this case, principal or exclusive rights should be acquired by the government.

On the other hand, where the invention is not the type intended to be covered by Section 1(a), and even though the requirements of Section 1(b) are not met, the contractor may be given principal or exclusive rights in certain circumstances after the invention has been identified. For example, a contractor could be given principal or exclusive rights where he has a past history of promoting the utilization of inventions through his own commercial use or by means of an active licensing program, or where he has a definite plan for bringing the particular invention to the point of practical application.

Section 1(c) also permits the granting of greater rights to the contractors in inventions resulting from 1(c) types of contracts *at the time of contract* in special situations prescribed by agency regulations where the public interest in the availability of the inventions would be best served thereby. An example might be where a nonprofit educational institution, which obviously does not have a nongovernmental commercial position, has a reasonable program for promoting the utilization of inventions consistent with the Policy. This provision also could be used to stimulate commercial competition by encouraging government oriented contractors to direct their efforts towards commercial markets rather than depending solely upon government business. Special situations may also be found in regard to a particular invention identified at the time of contract where the contractor has established substantial equities at his own expense in the development of the invention.

SECTION 1(h)

> "Where the government may acquire the principal rights and does not elect to secure a patent in a foreign country, the contractor may file and retain the principal or exclusive foreign rights subject to retention by the government of at least a royalty-free license for governmental purposes and on behalf of any foreign government pursuant to any existing or future treaty or agreement with the United States."

Question has arisen as to the scope of application of this section, since the phrase "Where the government may acquire the principal rights . . ." seems to apply to situations where the government has acquired principal or exclusive rights, as well as to situations where the government had the right to acquire such rights but elected not to do so (for example, under Section 1(a) or 1(c) where the contractor is given greater rights after identification of the invention). As Sections 1(b) and 1(c) set forth the license rights that the government should acquire where the contractor retains principal or exclusive rights, Section 1(h) should be interpreted as applying only where the government actually *does* acquire principal or exclusive rights under any section but does not elect to secure a patent in particular foreign countries.

SECTION 4(d)

> "Contract—means any actual or proposed contract, agreement, grant, or other arrangement, or subcontract entered into with or for the benefit of the government where the purpose of the contract is the conduct of experimental, developmental, or research work."

The word "contract" is defined to include any "proposed contract," and the question has been raised as to the point in time at which a proposed contract or other arrangement would constitute a contract within the meaning of this definition. It would seem logical, however, that the interpretation be placed on the concept of obtaining rights under a "proposed contract" when there is an understanding between the parties that a contract would be awarded.

> "Governmental purpose—means the right of the Government of the United States (including any agency thereof, state, or domestic municipal government) to practice and have practiced (made or have made, used or have used, sold or have sold) throughout the world by or on behalf of the Government of the United States."

The definition of "governmental purpose" has been interpreted by some as covering a state or municipal government performing a state or municipal function, and by others as covering a state or municipal government only while performing a federal function. As federal agencies may finance research and development programs which have as one purpose the assisting of state or municipal governments, it would seem that the full purpose of obtaining a license "for governmental purposes" in these cases could only be achieved by interpreting the license as extending to state and local governments performing not only federal functions, but also purely state and municipal functions. However, because agencies obtain invention rights under authorities and circumstances than the President's Memorandum and Policy Statement, and these rights frequently extend only to the Federal Government, it is recommended that when it is intended that the government's rights extend to state and municipal governments, this should be expressly stated.