



Joint CIIE-CSTP Workshop on Demand-led Innovation Policies

Intellectual Property Issues Arising in
Government Procurement for Innovation:
The Case of the United States



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Historical model for U.S. procurement

- Historically, the U.S. Government had a top-down procurement approach driven by the Defense Department.
- DOD's practice was to develop "captive" defense contractor suppliers, who conveyed all rights to the Government buyer – a follow-the-money approach.
 - Needed to support legacy systems with long life-spans.
 - Needed to competitively source replacement parts.
 - Needed to control dissemination overseas.
- But this model made less sense for the Civilian agencies (DOE, DOA, NIH, etc.).
- And it essentially closed the "true" private sector out of the procurement process – meaning that in many areas (IT, encryption, motor vehicles, etc.), Government-purchased products were inferior to those available in the private marketplace.
 - Private contractors needed assurances that IP would be protected, or selling to Government would destroy their proprietary private markets.
 - Private contractors did not want to undergo rigorous and complicated mandatory "competitions" for each contract – including lucrative follow-on contracts.

Historical model for U.S. procurement

- The Government thus faced three imperatives:
 - It needed to entice private-sector companies to do business with the Government.
 - But if it was to rely on private-sector technology, it needed ways to help channel technological development.
 - And it needed to find better ways to disseminate or commercialize Government-owned technology.
- The U.S. has done an excellent job responding to the former imperative, readjusting the procurement process to favor private-sector ownership of IPRs.
 - The Bayh-Dole Act
 - “Other Transactions” Authorities
 - Commercial contracting regulations.
- The effort to disseminate or commercialize Government IP has been less successful, but is promising.
 - CRADAs
- And it is only now experimenting with novel ways to channel technological development.
 - Venture funding by the Government
 - Prize authorities.

Readjusting procurement to favor the private sector

- U.S. Government policies concerning demand-side innovation now rely critically on mechanisms for creating and distributing intellectual property *back to the private sector*.
- This consensus was given concrete form with the passage of the Bayh-Dole Act in 1980.
- Bayh-Dole was “perhaps the most inspired piece of legislation to be enacted in America over the past half-century. ... More than anything, this single policy measure helped to reverse America’s precipitous slide into industrial irrelevance.”
 - The Economist, *Innovation's Golden Goose* (Dec. 12, 2002). Quoted with approval in House Report 109-409 - EXPRESSING THE SENSE OF THE CONGRESS REGARDING THE SUCCESSFUL AND SUBSTANTIAL CONTRIBUTIONS OF THE AMENDMENTS TO THE PATENT AND TRADEMARK LAWS THAT WERE ENACTED IN 1980 (PUBLIC LAW 96-517; COMMONLY KNOWN AS THE `BAYH-DOLE ACT'), ON THE OCCASION OF THE 25TH ANNIVERSARY OF ITS ENACTMENT.

Readjusting procurement to favor the private sector

- Policy choices built in to the Bayh-Dole framework.
 - It seeks “maximum participation of small business firms.”
 - Policy extended to larger businesses by Executive Order 12591 in 1987
 - Inventions are to be “used in a manner to promote free competition and enterprise”
 - It encourages “the commercialization and public availability of inventions made in the United States by United States industry and labor”
 - It allows march-in, second-sourcing, and other remedies “to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions.”
 - It promotes “collaboration between commercial concerns and ... Universities,” most of which are private; some of which are State-funded; none of which are Federal; but nearly all of which accept Federal funds.
 - “Technology transfer organizations and offices will soon begin preparations to celebrate and recognize thirty years of Bayh-Dole legislation.” AUTM 2007 Survey.

Focus on actual Government needs

- U.S. Government needs for intellectual property
 - General policy is not to acquire more rights than necessary.
 - So the Government generally *does not own* IPRs.
 - There are more than 50,000 U.S. Government-owned patents - only 1.3% of total.
 - http://www.uspto.gov/web/offices/ac/ido/oeip/taf/all_tech.htm#PartA1_1b
- Needs are Agency-dependent
 - DOD, NASA, DOE, DHS
 - Used to force market competition and new business creation
 - Focus is on long term use: 15+ years in the field
 - DARPA, EPA, NIH, DOA
 - Create new products
 - Generate revenues
 - Protect downstream use
 - Focus is on short term use of IP, long term commercial potential

Focus on actual Government needs

- Patents

- The Government generally is content with a license, except:
 - NASA requires a waiver or the Government owns all IP
 - DOE:
 - Atomic Energy Act provides that inventions or discoveries useful in the production or utilization of special nuclear material or atomic energy, made or conceived in the course of or under any contract, subcontract, or arrangement entered into with or for the benefit of DOE, regardless of whether the arrangement involved the expenditure of funds by DOE, shall belong to DOE.
 - Federal Nonnuclear Energy Research And Development Act of 1974 grants title to the United States in inventions made or conceived in the course of or under any contract with DOE, other than nuclear research under the Atomic Energy Act.
- License right is broad:
 - Right to allow Government to use
 - Right to allow third party use for Government purposes
- March-in rights can be exercised to compel additional licensing if the licensor is not commercializing the invention.

Focus on actual Government needs

- Trade secrets
 - Need sufficient trade secret rights to accomplish Agency purpose
 - Civilian agencies have different needs (and therefore different rules) versus Defense:
 - Civilian agencies favor dissemination – they oppose trade secrets unless for commercial items (e.g., software).
 - Defense agencies want to second-source goods over the long term – more favorable to trade secrecy.

Focus on actual Government needs

- Copyrights
 - The Government wants to disseminate copies freely
 - Copyright ownership is impossible for Government works
 - For most technical data, limited right to make copies
 - For software, limited to number of copies given
 - Need to accept commercial licenses for commercial software – new authority in Federal Acquisition Regulation
- Trademarks
 - Still a new frontier
 - Necessary to the extent needed to disseminate information and support a product
 - Prevent consumer confusion
 - Rights in trade dress to allow re-procurement, repair
 - Rights to establish certification program
 - Example: ENERGY STAR

Procurement contracts: FAR/Bayh-Dole

- Applies to “procurement contracts,” which also includes grants, contracts, and cooperative agreements – nearly anything with R&D involved.
 - Rights in inventions - waivable
 - March-in
 - NIH is petitioned periodically to march-in
 - Licensing restrictions
- Strong public policies underlying Bayh-Dole
 - Government helped in most important phases of inventive activity:
 - Conception: paid contractor to think up solution; or
 - Actual reduction to practice.
 - Government help was *not* for purpose of allowing the patentee to withhold technology
- Problem is in the lack of flexibility
 - No special license rights as in technical data and computer software

Procurement contracts: “Other Transactions”

- Prototyping authority, inspired by NASA’s 1958 Space Act
- Authorized only for DOD, DOE, and DHS; other Agencies are seeking similar authority.
 - IP and funding sources are flexible
- Allows parties to negotiate IP without Bayh-Dole or other statutory encumbrances
 - No standard form: contracting partner can submit
 - One of the few vehicles in which the Government participates in a battle of the forms
- While negotiable, agreements will often contain standard IP rights clauses in at least initial drafts
 - Standard IP clauses from Bayh-Dole and FAR represent important public policy statements and corporate memory
 - So OTs have not yet achieved their full potential.

Licensing of Government IP: Bayh-Dole

- Bayh-Dole allows the Government to license Government-owned IP obtained via procurement or intramural research, subject to several restrictions:
 - License should be to U.S. entity, and preferably a small business.
 - Strict reporting requirements, including an approved commercialization plan.
 - Public notice requirement: Licenses must be announced in the Federal Register in time for companies to object.
 - License should not be exclusive or include a right to sue unless “reasonable and necessary ... to call forth the investment capital and expenditures needed to bring the invention to practical application.”
 - This is becoming a problem – several “patent trolls” are now acquiring rights to Government patents and using them to sue going concerns.
 - March-in rights for public health, false statements in application, or failure to achieve “practical application” of the invention.
 - Government always retains the right to use and have used for Government purposes.

Licensing of Government IP: CRADAs

- Cooperative Research and Development Agreements (CRADAs)
 - An alternative to a standard FAR procurement contracts, first authorized in 1986.
 - In a CRADA, the Government contributes its intellectual property, know-how, or equipment in a “research joint venture” with a private party.
 - But unlike a procurement contract, the Government can only contribute in-kind; it cannot pay the contractor.
 - Because CRADAs are not procurement contracts, they are not subject to open-competition laws.
 - However, the CRADA’s purpose still must be consistent with the mission of the Government laboratory party.
 - And the Government still obtains Government-purpose rights to any inventions developed under the CRADA.

Directing development: Government funding

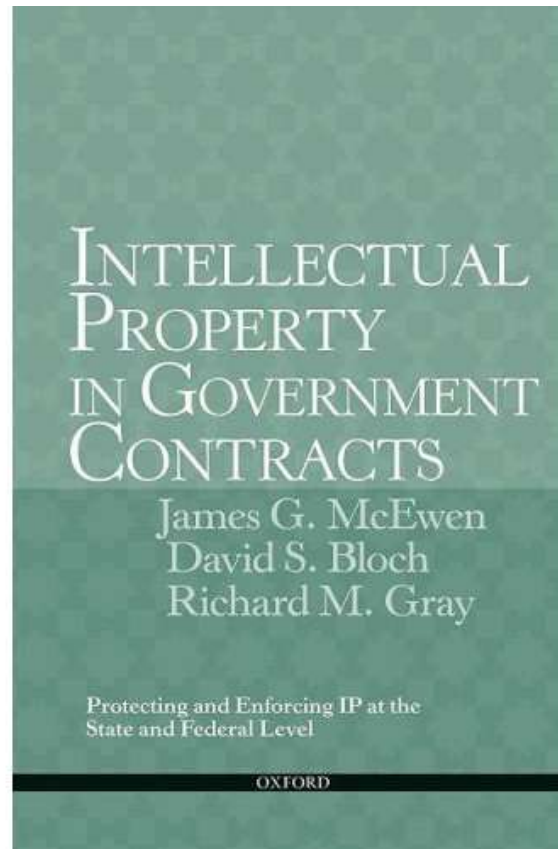
- Venture Funding (e.g., CIA's In-Q Tel): Venture funds are used to develop commercial solutions.
- The Government invests in technology companies, obtains a seat on the Board, and helps steer the company's development program--somewhat as a private investor would, but with Government goals in mind.
- Benefits:
 - Relies on commercial market to develop products; the Government merely provides help in form of an investment
 - Similar to how commercial companies (drug companies) use investment to spur research in area of interest for long term benefit
 - Allows Government to spur growth of desirable technology industry
 - Familiar business model
- Problems:
 - Potentially more invasive than Bayh-Dole
 - Government is not a licensee but rather a part-owner of company
 - Currently, In-Q-Tel only has observer seat, but not required
 - Crowd-out problem: Government interest in voting/company direction may be different from shareholders interest in profit

Directing development: prize authorities

- Prize Authorities (*e.g.*, DARPA's desert race and X-Prize, DOE's H-Prize): Set up competitions to attract talent to solve a problem of importance to Government.
- Benefits
 - Allows smaller entities (garage inventors, high schools, engineering departments) to participate
 - Maximizes competition in research
 - Generates excitement in field
 - Easily adapted to social interests/needs
- Problems
 - Need well-defined goals
 - But don't want to over-manage technological explorations
 - No guarantee that industry will develop

About the Speaker

All of these issues are discussed in detail in our book, published in March by Oxford University Press:



About the Speaker

David S. Bloch,

a partner with Winston & Strawn LLP in San Francisco, focuses his practice on complex intellectual property litigation. The author or co-author of more than 25 published articles as well as a book, *Intellectual Property in Government Contracts* (OUP 2009), Mr. Bloch has a particular area of specialization in the use of intellectual property in Government contracts. He is a graduate of Reed College (B.A., ΦBK) and The George Washington University (M.P.H., J.D. with honors), and was formerly a Fellow in International Trade Law with the University Institute of European Studies, Turin, Italy.

A biography and publication list are available online at www.winston.com/dbloch

