Subpart 27.2 - Patents and Copyrights

Parent topic: Part 27 - Patents, Data, and Copyrights

27.200 Scope of subpart.

This subpart prescribes policies and procedures with respect to-

(a) Patent and copyright infringement liability;

(b) Royalties;

(c) Security requirements for patent applications containing classified subject matter; and

(d) Patented technology under trade agreements.

27.201 Patent and copyright infringement liability.

27.201-1 General.

(a) Pursuant to 28 U.S.C. 1498, the exclusive remedy for patent or copyright infringement by or on behalf of the Government is a suit for monetary damages against the Government in the Court of Federal *Claims*. There is no injunctive relief available, and there is no direct cause of action against a contractor that is infringing a patent or copyright with the authorization or consent of the Government (*e.g.*, while performing a contract).

(b) The Government *may* expressly authorize and consent to a contractor's use or manufacture of inventions covered by U.S. patents by inserting the clause at 52.227-1, Authorization and Consent.

(c) Because of the exclusive remedies granted in 28 U.S.C. 1498, the Government requires notice and assistance from its contractors regarding any *claims* for patent or copyright infringement by inserting the clause at 52.227-2, Notice and Assistance, Regarding Patent and Copyright Infringement.

(d) The Government *may* require a contractor to reimburse it for liability for patent infringement arising out of a contract for *commercial products* or *commercial services* by inserting the clause at 52.227-3, Patent Indemnity.

27.201-2 Contract clauses.

(a)

(1) Insert the clause at 52.227-1, Authorization and Consent, in *solicitations* and contracts except that use of the clause is-

(i) Optional when using *simplified acquisition procedures*; and

(ii) Prohibited when both complete performance and delivery are outside the *United States*.

(2) Use the clause with its *Alternate* I in all R&D *solicitations* and contracts for which the primary purpose is R&D work, except that this *alternate shall* not be used in *construction* and architect-engineer contracts unless the contract calls exclusively for R&D work.

(3) Use the clause with its *Alternate* II in *solicitations* and contracts for communication services with a common carrier and the services are unregulated and not priced by a tariff schedule set by a regulatory body.

(b) Insert the clause at 52.227-2, Notice and Assistance Regarding Patent and Copyright Infringement, in all *solicitations* and contracts that include the clause at 52.227-1, Authorization and Consent.

(c)

(1) Insert the clause at 52.227-3, Patent Indemnity, in *solicitations* and contracts that *may* result in the delivery of *commercial products* or the provision of *commercial services* unless-

(i) part 12 procedures are used;

(ii) The *simplified acquisition procedures* of part 13 are used;

(iii) Both complete performance and delivery are outside the *United States*; or

(iv) The *contracting officer* determines after consultation with legal counsel that omission of the clause would be consistent with commercial practice.

(2) Use the clause with either its *Alternate* I (identification of excluded items) or II (identification of included items) if-

(i) The contract also requires delivery of items that are not *commercial products* or the provision of services that are not *commercial services*; or

(ii) The *contracting officer* determines after consultation with legal counsel that limitation of applicability of the clause would be consistent with commercial practice.

(3) Use the clause with its *Alternate* III if the *solicitation* or contract is for communication services and facilities where performance is by a common carrier, and the services are unregulated and are not priced by a tariff schedule set by a regulatory body.

(d)

(1) Insert the clause at 52.227-4, Patent Indemnity-*Construction* Contracts, in *solicitations* and contracts for *construction* or that are fixed-price for dismantling, demolition, or removal of improvements. Do not insert the clause in contracts solely for *architect-engineer services*.

(2) If the *contracting officer* determines that the *construction* will necessarily involve the use of structures, *products*, materials, equipment, processes, or methods that are nonstandard, noncommercial, or special, the *contracting officer may* expressly exclude them from the patent indemnification by using the clause with its *Alternate* I. Note that this exclusion is for items, as distinguished from identified patents (see paragraph (e) of this subsection).

(e) It *may* be in the Government's interest to exempt specific U.S. patents from the patent indemnity clause. Exclusion from indemnity of identified patents, as distinguished from items, is the prerogative of the *agency head*. Upon written approval of the *agency head*, the *contracting officer may* insert the clause at 52.227-5, Waiver of Indemnity, in *solicitations* and contracts in addition to the appropriate patent indemnity clause.

(f) If a patent indemnity clause is not prescribed, the *contracting officer may* include one in the *solicitation* and contract if it is in the Government's interest to do so.

(g) The *contracting officer shall* not include in any *solicitation* or contract any clause whereby the Government agrees to indemnify a contractor for patent infringement.

27.202 Royalties.

27.202-1 Reporting of royalties.

(a) To determine whether royalties anticipated or actually paid under Government contracts are excessive, improper, or inconsistent with Government patent rights the *solicitation* provision at 52.227-6 requires prospective contractors to furnish royalty information. The *contracting officer shall* take appropriate action to reduce or eliminate excessive or improper royalties.

(b) If the response to a *solicitation* includes a charge for royalties, the *contracting officer shall*, before award of the contract, forward the information to the office having cognizance of patent matters for the *contracting activity*. The cognizant office *shall* promptly advise the *contracting officer* of appropriate action.

(c) The *contracting officer*, when considering the approval of a subcontract, *shall* require royalty information if it is required under the prime contract. The *contracting officer shall* forward the information to the office having cognizance of patent matters. However, the *contracting officer* need not delay consent while awaiting advice from the cognizant office.

(d) The *contracting officer shall* forward any royalty reports to the office having cognizance of patent matters for the *contracting activity*.

27.202-2 Notice of Government as a licensee.

(a) When the Government is obligated to pay a royalty on a patent because of an existing license agreement and the *contracting officer* believes that the licensed patent will be applicable to a prospective contract, the Government *should* furnish the prospective *offerors* with-

(1) Notice of the license;

(2) The number of the patent; and

(3) The royalty rate cited in the license.

(b) When the Government is obligated to pay such a royalty, the *solicitation should* also require *offerors* to furnish information indicating whether or not each *offeror* is the patent owner or a

licensee under the patent. This information is necessary so that the Government *may* either-

(1) Evaluate an *offeror*'s price by adding an amount equal to the royalty; or

(2) Negotiate a price reduction with an *offeror* when the *offeror* is licensed under the same patent at a lower royalty rate.

27.202-3 Adjustment of royalties.

(a) If at any time the *contracting officer* believes that any royalties paid, or to be paid, under a contract or subcontract are inconsistent with Government rights, excessive, or otherwise improper, the *contracting officer shall* promptly report the facts to the office having cognizance of patent matters for the *contracting activity* concerned.

(b) In coordination with the cognizant office, the *contracting officer shall* promptly act to protect the Government against payment of royalties-

(1) With respect to which the Government has a royalty-free license;

(2) At a rate in excess of the rate at which the Government is licensed; or

(3) When the royalties in whole or in part otherwise constitute an improper charge.

(c) In appropriate cases, the *contracting officer* in coordination with the cognizant office *shall* demand a refund pursuant to any refund of royalties clause in the contract (see 27.202-4) or negotiate for a reduction of royalties.

(d) For guidance in evaluating information furnished pursuant to 27.202-1, see 31.205-37. See also 31.109 regarding advance understandings on particular cost items, including royalties.

27.202-4 Refund of royalties.

The clause at 52.227-9, Refund of Royalties, establishes procedures to pay the contractor royalties under the contract and recover royalties not paid by the contractor when the royalties were included in the contractor's fixed price.

27.202-5 Solicitation provisions and contract clause.

(a)

(1) Insert a *solicitation* provision substantially the same as the provision at 52.227-6, Royalty Information, in-

(i) Any *solicitation* that *may* result in a negotiated contract for which royalty information is desired and for which *certified cost or pricing data* are obtained under 15.403; or

(ii) Sealed bid *solicitations* only if the need for such information is approved at a level above the *contracting officer* as being necessary for proper protection of the Government's interests.

(2) If the *solicitation* is for communication services and facilities by a common carrier, use the provision with its *Alternate* I.

(b) If the Government is obligated to pay a royalty on a patent involved in the prospective contract, insert in the *solicitation* a provision substantially the same as the provision at 52.227-7, Patents-Notice of Government Licensee. If the clause at 52.227-6 is not included in the *solicitation*, the *contracting officer may* require *offerors* to provide information sufficient to provide this notice to the other *offerors*.

(c) Insert the clause at 52.227-9, Refund of Royalties, in negotiated fixed-price *solicitations* and contracts when royalties *may* be paid under the contract. If a fixed-price incentive contract is contemplated, change "price" to "target cost and target profit" wherever it appears in the clause. The clause *may* be used in cost-reimbursement contracts where agency approval of royalties is necessary to protect the Government’s interests.

27.203 Security requirements for patent applications containing classified subject matter.

27.203-1 General.

(a) Unauthorized disclosure of classified subject matter, whether in patent applications or resulting from the issuance of a patent, *may* be a violation of 18 U.S.C. 792, *et seq*. (Chapter 37-Espionage and Censorship), and related statutes, and *may* be contrary to the interests of national security.

(b) Upon receipt of a patent application under paragraph (a) or (b) of the clause at 52.227-10, Filing of Patent Applications-Classified Subject Matter, the *contracting officer shall* ascertain the proper security classification of the patent application. If the application contains classified subject matter, the *contracting officer shall* inform the contractor how to transmit the application to the *United States* Patent Office in accordance with procedures provided by legal counsel. If the material is classified "Secret" or higher, the *contracting officer shall* make every effort to notify the contractor within 30 days of the Government’s determination, pursuant to paragraph (a) of the clause.

(c) Upon receipt of information furnished by the contractor under paragraph (d) of the clause at 52.227-10, the *contracting officer shall* promptly submit that information to legal counsel in order that the steps necessary to ensure the security of the application will be taken.

(d) The *contracting officer shall* act promptly on requests for approval of foreign filing under paragraph (c) of the clause at 52.227-10 in order to avoid the loss of valuable patent rights of the Government or the contractor.

27.203-2 Contract clause.

Insert the clause at 52.227-10, Filing of Patent Applications-Classified Subject Matter, in all classified *solicitations* and contracts and in all *solicitations* and contracts where the nature of the work reasonably might result in a patent application containing classified subject matter.

27.204 Patented technology under trade agreements.

27.204-1 Use of patented technology under the United States-Mexico-Canada Agreement.

When questions arise with regard to use of patented technology under the *United States*-Mexico-Canada Agreement, the *contracting officer should* consult with legal counsel. Note that Article 20.6(a) of the Agreement discusses public health and pharmaceuticals.

27.204-2 Use of patented technology under the General Agreement on Tariffs and Trade (GATT).

Article 31 of Annex 1 C, Agreement on Trade-Related Aspects of Intellectual Property Rights, to GATT (Uruguay Round) addresses situations where the law of a member country allows for use of a patent without authorization, including use by the Government. Article 20.40 of the *United States*-Mexico-Canada Agreement preserves parties' rights under Article 31.