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Government vs. the Federal Employee: Who Owns the Patent?

Government vs. the Federal Employee: Who Owns the Patent?[1]

Pharmaceutical companies frequently offer federal employees conditional gifts for research purposes. One condition often requested by pharmaceutical company attorneys is the exclusive right to any ideas or inventions developed at the federal facility by the federal employee working with products or equipment donated by the pharmaceutical company. Unfortunately for the pharmaceutical company, this is not allowable under federal regulations, which supersede any such contractual condition.

In this column, I will discuss the evolution of the patent laws governing federal employees and the rationale behind them. I will also explain the circumstance under which federal employees can hold patents to products they develop.

Historical Basis for the Laws

With the dawning of the Atomic Age at the end of World War 2, the federal government found itself and its employees immersed in the advancement of technology. Not only was the DoD developing security technology, but also other sectors of the government were making great strides in the area of health care research, for example, with the use of antibiotics. All of this raised government concerns about the use and ownership of patent rights developed on government time by the government employees.

While the government recognized that the patent system, as President Lincoln so aptly described it, adds "the fuel of interest to the fire of genius," it also held that the rights of individual inventors had to be balanced against the rights of the public. If taxpayers supported research through salary and the use of government facilities, then the government, as a representative of the taxpayers, had proprietary rights to the invention.

Such was the thinking that, on January 23, 1950, led President Truman to sign Executive Order 10096, which is the basis for all federal laws governing ownership of patents for products developed on federal government time by federal government employees at the direction of federal government supervisors. The authority to sign this Executive Order came from several sources. Federal courts also have upheld the authority. See Heinemann v. U.S., 796 F.2d. 451 (Fed. Cir. 1986) cert. denied, 480 U.S. 930 (1987).

President Kennedy subsequently modified this Executive Order, transferring jurisdiction of patent determinations from the Government Patents Board to the Secretary of Commerce. In 1988, partly as a result of President Reagan's initiative to transfer government technology to the private sector and encourage federal employees to generate inventions, the Commerce Department issued regulations (37 C.F.R. part 501), which specifically addressed federal government ownership rights to patents developed by federal employees at Federal government facilities.

Criteria for Determining Rights

In part 501 of the Commerce regulations, the criteria for determining rights in and to inventions are quite clear and are essentially the same as the 1950 Executive Order: "The Government shall obtain, except as herein otherwise provided, the entire domestic right, title and interest in and to any invention made by any Government employee: (i) during working hours, or (ii) with a contribution by the Government of facilities, equipment, materials, funds or information, or of time or services of other Government employees on official duty, or (iii) which bears a direct relation to or is made in consequence of the official duties of the inventor." 37 C.F.R. 501.6 (a)(1)(i)-(iii)There are two noted exceptions:

- When the respective agency or department determines that it is "insufficient equitably" to justify an assignment to the government of the title 37 C.F.R. 501.6(a)(2)
- If the government has "insufficient interest" in an invention, the government agency concerned shall "leave title" to the invention to the employee, but reserve the right to a "nonexclusive, irrevocable, royalty-free license in the invention with the power to grant licenses for all governmental purposes" 37 C.F.R. 501.6(a)(2)

[1] This article was published previously in the Federal Practitioner, February 2001. The author and publisher holds no copyright.

Each agency can create its own procedures for determining how it will assert or decline to assert its right to the invention.

These regulations and the Executive Order make it clear that any inventions developed by federal employees during working hours with a contribution by the government (e.g., equipment, money, time, or material) made because of the official duties of the inventor belongs to the government. Such regulations, therefore, prevent pharmaceutical companies from asserting rights in inventions developed on government time at government facilities. The only rights a pharmaceutical company could obtain, perhaps by way of assignment, would be the rights of the federal employee. Such rights to an invention would be worthwhile to a pharmaceutical company only if the government agency does not assert its right to the invention.

Good News for Federal Employees

Federal employees in the Executive Branch are further subject to the Standards of Conduct and the criminal conflict of interest laws, which prohibit them from receiving compensation from non-federal sources to perform their government job. On this front, however, there is some good news for federal employees: The Justice Department issued an opinion in September 2000 stating that if the government declines to assert a patent right to an invention (in effect, giving the right to the employee), the employee can accept royalties from the invention without violating the criminal statute. According to the opinion, royalty payments do not satisfy the definition of compensation outlined in 18 U.S.C. § 209. The opinion further stated that if the federal employee holds a patent to a product, he must obtain a waiver under 18 U.S.C. § 208 to continue work that would result in the financial success of the product if the work occurs during federal government working hours, using federal government time or equipment.

Finally, both the Office of Government Ethics and the Office of Legal Counsel have interpreted the Federal Technology Transfer Act of 1986, the purpose of which was to encourage federal employees to develop ideas and inventions, as permitting federal employees to retain a certain percentage of royalties received through a Cooperative Research and Development Agreement for an invention discovered during official duty time. [3] No violation of federal ethics rules occurs because this law concerns the royalty interest as part of the federal employee's compensation and the employee actually receives the money from the agency or department for which he works.

The views expressed in this article are the personal views of the author and are not necessarily the views of the Department of Defense or of the U.S. government.

[2] 18 U.S.C. § 209