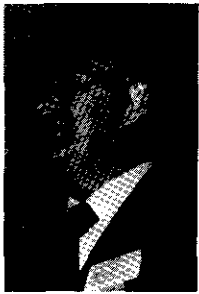


Effect of Government Data Policies

Discussion of adverse practices affecting data policies; licensing with and without data rights

BY CHARLES S. HAUGHEY*

I will review briefly the major government agency data policies which affect the ability of a contractor to retain licensable data. The agencies are the Department of Defense (DOD), the Energy Research and Development Administration (ERDA), which is about to become the Department of Energy (DOE), and National Aeronautics and Space Administration (NASA). I will then take up agency changes and adverse practices affecting data policies. I will conclude with some general remarks on licensing the government with and without data rights.



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Government data policies used to be quite simple. In most agencies, any data the government ordered, they had the right to do with as they pleased, but companies resisted selling proprietary data. Within the Department of Defense, the system was developed by which data which was desired was ordered, but trade-secret data, even though ordered under contract, unless specifically identified as required to be delivered could be deleted from the data ordered. This "withholding" policy was also known as the "swiss cheese" or "holy drawings" approach to data rights.

NASA POLICY

This withholding policy was adopted by the National Aeronautics and Space Administration shortly before the Department of Defense made a major change in its policy and shifted to what is known as the "limited rights" policy. In NASA, for many years the policy has allowed the withholding of proprietary data so long as functional data was substituted sufficient to identify what was withheld. Although procedures were established for requiring a justification for withholding data, as a practical matter, most of the time sufficient data was delivered to enable NASA to perform its mission. Few challenges to proprietary data were encountered so long as the data really required was delivered.

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DOD POLICY

In the 1964-1965 period, the Department of Defense through its ASPR Committee, adopted the policy of requiring all data to be delivered which was specified for delivery, but, with the exception of certain defined categories of data, data which related to items, components or processes developed at private expense

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could be delivered with limited rights. Limited rights allow the government to make any internal use, duplication or disclosure of data so long as it is not disclosed outside of the government and so long as it is not used by the government for manufacture.

Originally, the Armed Services Procurement Regulations (ASPR) limited rights provision prohibited the use of limited rights data for procurement. After discovering that the concept of procurement was not fully agreed upon by the lawyers and the buying personnel within the government, the restriction on use for procurement was withdrawn. Now the government, and necessarily industry, relies on the prohibition against disclosure outside the government to prevent misuse of the data in procurement situations. This does, however, allow the use of the data internally to be compared with data submitted by alternate suppliers to determine whether the two data elements are identical. The present ASPR data policy requires all data which is generated directly in performance of a government R & D contract requirement to be furnished with unlimited rights. Accordingly, reports of R & D work is customarily required with unlimited rights even though some disclosure must be made of the background proprietary information relating to items developed at private expense. This requires either great care in writing reports or an advance agreement that proprietary portions of the report may be separately bound and submitted with limited rights.

Major Problems

A major problem which the Department of Defense had for many years was its receipt of successive versions of data for the same equipment, especially in complex systems. Eventually it had great difficulty in resurrecting this data when it was required in the final current form for subsequent procurement. This was solved by the adoption of the policy of *deferred ordering* of technical data. It is now quite common for a DOD contract to require the contractor to submit lists of data items generated in performance of this contract, but only to deliver that data which is needed for

current purposes. At the end of contract or for three years thereafter, the contracting officer may order any other data generated in performance of the contract.

A slightly different approach is also available to the government in its *deferred delivery* of technical data by which the items of technical data subject to deferred delivery are listed on a Contract Data Requirements List but have no present delivery requirement at the time the contract is signed. If at a future time during or within two years after contract the government decides to order the data, it will then order those data items listed on a Contract Data Requirements List. They will be furnished by the contractor and he will be paid for the cost of preparation and delivery of the data but not for any data rights.

If data is to be submitted to the Department of Defense with limited rights, there is a specified legend which is to be applied to every sheet of each document for identifying the data. This legend is quite lengthy and virtually spells out the entire agreement. Although it would be much nicer if a short form legend could be used, as is often done in commercial practice, this has not been authorized in the ASPR.

ERDA POLICY

The Energy Research and Development Administration (ERDA), which swallowed up the Atomic Energy Commission and is now about to be merged into the Department of Energy has developed its own rights in data clauses. These do not always use the same words to define data concepts as are used in the ASPR or in NASA regulations; and where the same words are used, they don't always have the same meaning. The same meaning applies to the NASA regulations. This makes it rather difficult to keep track of the various agency regulations and requires a tremendous amount of attention if you are to be an expert in this field. Fortunately, it is generally possible to set up some general instructions on the handling of proprietary data, and on each contract to follow the language of the rights clauses for use of legends or withholding of data. In most cases, the differences between what is protectable and how to protect the data are not critical except where you must exercise your own initiative to avoid the delivery of data or where you must select the appropriate legend to mark the data when submitted. ERDA has just reissued its "Patents, Data, Copyrights and Related Matters" regulation in 41 CFR Part 9-9 and related parts, effective July 13, 1977. These regulations generally follow the policy originally adopted by ERDA upon the demise of the AEC. This policy generally requires that you withhold proprietary data and furnish substitute form, fit and function when doing so. However, there is an optional clause, which may or may not be a part of the contract, depending upon the negotiation, which authorizes the ERDA contracting officer to order the delivery of any of the withheld data subject to its form of limited rights protection. When this is done, you will be paid for the preparation and delivery of that data. The rights which ERDA acquires in the data still leave protection which is closely parallel to the limited rights protection offered by the Department of Defense.

RECENT PRACTICES AND CHANGES

I now shall touch on recent practices and changes in the various agencies which effect data policy — in many cases, adversely. First, the Department of Defense or ASPR. Within the ASPR there have been, for a long time, *predetermination* procedures by which the government and the contractor are supposed to predetermine and agree which data to be furnished will be furnished with limited rights. The procedure for doing this is carefully spelled out in detail in ASPR section 9-202.2(f). Subparagraph (b) very strongly enjoins the government from using this procedure to acquire with unlimited rights data which under the policy should be deliverable with limited rights. Further, this procedure is only to be used to that technical data for which rights may be practically identified. Thus, on an R&D contract when suppliers have not yet been selected and in many cases where the basic design to be developed and tested has not yet been produced, much of the data should not be subject to the predetermination procedure.

There is a growing practice within the DOD for requiring the contractor as a condition of the contract to agree to submit all data with unlimited rights, or without the limited rights marking. This is couched very broad terms so that there is presumably no way to get out of it. It is a basic policy set forth in the contract. Sometimes this is not set forth or even referred to until after considerable negotiations in a competitive situation and after prices and designs have been fixed and the procurement is down to the last procedure. The contracting officer may ask for a last and final offer or even a model contract to be signed, and for the *first* time, he will insert as a part of the proposed contract that all technical data shall be furnished with unlimited rights. This particular use is quite widespread and has been complained of by industry to the Department of Defense for several years. The Air Force Space and Missiles System Organization routinely uses special clauses for predetermination of data rights which go far beyond the limitations expressed in ASPR 9-202.2(d).

If you succeed in passing this kind of negotiation and you hold out for the protection of your data, or at least the right to so protect it by submission with limited rights, you then find that *challenges* to your marking of technical data are becoming much more commonplace.

About two years ago, a new clause was added to the ASPR and made mandatory whenever technical data is to be delivered. The new clause is the *Restrictive Marking of Technical Data*, ASPR 7-104.9(k). This clause has several requirements, the first of which is that any contractor submitting technical data must have a written procedure which will assure that whenever the limited rights legend is placed on technical data furnished under contract, the marking is authorized by the contract. This means that you must have a procedure by which you don't mark with limited rights data which does not relate to an item, component or process developed at private expense, or to data which has been previously published or the like.

Many *challenges to data rights* are being made in an effort to persuade contractors to improve their pro-

cedures and techniques for identifying and marking technical data. The proof required of the right to mark is clear and convincing evidence. Accordingly, you are often faced with the requirement to dig out of your files evidence relating to a developmental program at company expense which occurred ten or fifteen years back. You must produce clear and convincing evidence that it was done at private expense, that the design then produced relates to the design now being furnished, and that in the meantime there have been no publication of this data. You are also expected to show that, at the time the development occurred, there was no government contract in-house for development to which this development task could have been properly charged.

Severe Standard

In connection with these challenges of data rights, many government agencies, contracting officers, and patent attorneys are attempting to impose upon the contractor a very *severe standard* of what may be marked with limited rights. They attempt to demonstrate that only those data items which are substantially unchanged from the privately-developed form may be marked with limited rights. If this view were to carry, that would mean that virtually no modifications to a privately-developed item or process which were generated under an R&D program could be protected with limited rights. We would then face the problem that in order to accept a developmental contract, we would have to abandon all protection and background proprietary data relating to the project.

Assuming we get by the problem of initially marking our technical data with limited rights and submitting it, and not getting challenged or in the alternate persuading the contracting officer to leave the markings on, we then have a major problem with the *Freedom of Information Act* 5 U.S.C. 552. This act requires that, with certain exceptions, all government records shall be made available upon demand to any member of the public. It includes very strong enforcement procedures that make it difficult for the government not to turn loose government records unless they fall within one of the specific statutory exceptions. One exception is that the data constitutes trade secrets or confidential financial or business information.

Even though you fall within this category, you then face a new hazard — the government may refuse to defend your trade secrets. According to a recent *letter from the Attorney General*, his staff is so swamped with defending against the release of information under the Freedom of Information Act that he will only protect such data from release where it can be shown that the disclosure will be demonstrably harmful. Where the information to be protected belongs to business the courts generally require that the business prove that such release would result in substantial competitive harm. Otherwise, the private interest would not be protected. Fortunately, most government agencies are establishing procedures to promptly inform the private owner of the data which is requested for release, thus giving the owner the opportunity to consider the matter and possibly institute its own suit for what is known as a "reverse FOIA" case. It may

attempt to enjoin the government from the release of the proprietary data.

Recent Problems

A more recent problem within the Department of Defense is its policy of *Recoupment of Nonrecurring Cost* for its developments. This used to be a policy that was selectively applied and was utilized to obtain a contribution from foreigners who bought the resulting military systems after the U.S. had paid the development costs. The fees charged to the foreign government were designed to recover only a proportion of share of the development. More recently, the policy has been changed to require a recoupment of nonrecurring costs on all military systems costing more than \$5,000,000 a much lower rate than the previous \$100,000,000. The base for the recoupment percentage is now a percentage of the U.S. Government's end-use expectancy rather than that plus the foreign use. This results in a windfall to the U.S. Government. It has a more serious consequence in that the developing contractor must accommodate a fee to recoupe the non-recurring cost in the cost of his sale. This fee is not usually established until after he has negotiated his sale in the first place, thus subjecting him to the possible loss of a sale after considerable sales effort. Also, with the tremendous risk to his proprietary position, previously discussed, he stands considerable risk of not having any preferred position relating to the item. When all the data relating to a military item is released to the public under the Freedom of Information Act and the data becomes available to his domestic and foreign competition, he is the only party subject to the recoupment fee unless another party wins a contract from the U.S. Government and also has to accept the obligation to impose a recoupment fee.

Although the basis for protection of limited rights data within the Department of Defense has been quite well accepted over the last 12 to 15 years as data relating to items, components or processes developed at private expense, ERDA and NASA have adopted the trade-secret data protection. There has been insufficient experience at this time to determine how much this will effect the ability to protect this kind of technical data. While trade secret protection has been the basis for NASA for some time, it has been emphasized by the adoption by ERDA of this basis. This has been particularly tied to the exemption of the Freedom of Information Act on the assumption that all technical data acquired in the course of a contract becomes immediately a record subject to the Freedom of Information Act. This is subject to challenge. Under 44 U.S.C. 3301 there is a definition of a "record" for the purpose of the Freedom of Information Act. This statute was referred to in recent final regulations of the Defense Contract Audit Agency in its section 290.22. It specifically states that formula designs, drawings, research data, computer programs, technical data packages, etc. are not considered records within the intent of 5 U.S.C. 552, even though maintained in documentation form, because of development cost, utilization or value. These items are considered property, not preserved for informational value or as evidence of agency functions. They are considered exploitable

resources to be utilized in the best interest of the public. This would seem to be entirely consistent with the recovery of nonrecurring-cost concept, but it certainly goes counter to much of the experience of industry in attempting to protect its technical data from release. It's quite well known in Europe that the Freedom of Information Act has made available to anyone who wishes, including Europeans, detailed drawings of many of our latest military systems.

New Twist

One new twist in the area of protection of protectable data has recently been adopted by NASA. It has now proposed that when technical data is submitted subject to protection, the protection will be limited to a seven-year period. However, NASA recently internally authorized the buying of contracting officer to negotiate an extension of the seven-year period where he sees it in the best interest of the government. There is, however, a strong pressure to have a time limit on the data. A suggestion to NASA to return or destroy the data when it is no longer useful, rather than having the protection expire and the data subject to publication, has been listened to and taken under advisement. It has been suggested that prior to expiration of the seventh year, upon the request of the contractor, if the government no longer needs the data, it may then be willing to destroy or return the data, in which case it would not be published at the end of the seventh year.

The new copyright law which comes into effect at the first of the year will have substantial effect on the wording of the various data right clauses but probably will not have a major effect upon the substance of the clauses. This is, however, under intense study and the Department of Defense has just issued a draft of changes which the department believes are not required to adapt their clauses to the new copyright law. Under the new law, data is copyrighted when recorded, not just when published with notice. The conventional government copyright license language must be changed to avoid the broad license to all data, rather than that which is published.

When the government wishes to acquire a license under your technical data other than the normal limited or unlimited rights, it will customarily do that under statutory authority 10 U.S.C. 2386, or under authority within the ASPR in 9-202.2(f) specific acquisition of unlimited rights in technical data. Within this section, before unlimited rights are acquired the contracting officer is required to make four findings upon a documented record: (1) that there is clear need for reprourement of the item, component or process to which the technical data pertains; (2) that there is no suitable item, component or process of alternate design or availability; (3) that the item or component can be manufactured or the process performed through the use of such technical data by other competent manufacturers without the need for additional technical data which cannot be purchased reasonably or is not readily obtained by other economic means; and (4) anticipated net savings and reprourements will exceed the acquisition cost of the technical data and rights therein. It will be seen, of course, that the contracting officer, since he must make this set of findings on

documented record, much prefers to acquire an additional data license under the statute which has no such requirements and this is commonly done.

The most abusive practice within the government, however, is the attempt to negotiate for procurement of additional rights by a predetermination procedure which simply states that all data will be submitted with unlimited rights, and then the negotiator attempts to avoid payment for such data. This is directly contrary to the first paragraph of 9-202.2(f), "Specific Acquisition of Unlimited Rights and Technical Data", which provides "such unlimited rights and technical data shall be stated in the contract schedule as a separate item and shall be separately priced." There is also the authority in ASPR, in the same section, to utilize a clause on major systems and subsystems which involve in excess of \$50,000,000 of RDT&E funds or in excess of \$200,000,000 of production funds. This clause, 7-104.9(k), authorizes the use of limited rights data of a contractor by suppliers, if they have such data, for direct sale to the government of spare parts for systems which were procured from the prime. This is a mandatory licensing of proprietary data for spare parts manufacture without payment of any compensation for such use of the data by the subcontractor. While this clause is an optional clause authorized in the ASPR and supposedly subject to negotiation, it is quite commonly required by the contracting officer whenever the contract is in the major category as defined.

CONCLUSION

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I shall conclude with a comment on the power of the "double rights," or the combination of patent rights and data rights. When working with the government and attempting to license the government, all of the government personnel are acutely aware of their power to disregard patents under the Authorization and Consent statute. Anyone having a patent which is not freely licensed to the government has the right to make an administrative claim for compensation and, either following an unsuccessful claim or bypassing that procedure, he may also sue the government in the Court of Claims for reasonable compensation for use of the patented invention. It is common practice for the government to refuse to even negotiate for a license under any patent if it wishes to second source the item. However, if some of the data required by an alternate source is submitted with limited rights under contract — and this is quite commonly the case if the second source must build to the precise design that was generated under the original contract — then the technical data package required for manufacture is an important key to the license. If the government must have a license under that data, then the existence of limited rights even in a small amount of data is critical. The problem then arises that is difficult to charge a significant royalty rate for reproduction of an entire item or system based on a small amount of proprietary data as a licensing base. At this point an unlicensed patent becomes very helpful if it covers a major amount of the system to be purchased.

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Controls on Exporting Technology

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9. Foreign Assets Control Regulations, 31 C.F.R. pt. 500; Transaction Control Regulations, *id.* pt. 505; Cuban Assets Control Regulations, *id.* pt. 515; Foreign Funds Control Regulations, *id.* pt. 520; Rhodesian Sanction Regulations; *id.* pt. 530. See *LES Eastern Europe Book*, *supra* note 8, Ch. VII at 210.
10. 50 U.S.C. App. §5.
11. 10 C.F.R. §§36-70.
12. 22 C.F.R. pt. 121. See, generally, *LES Eastern Europe Book*, *supra* note 8, Ch. VII at 208.
13. 35 U.S.C. §184.
14. See, generally, *LES Eastern Europe Book*, *supra* note 8, Ch. VII at 207.
15. See note 2 *supra*.
16. 15 C.F.R. §§370-399.2. All references hereafter to section numbers without further identification refer to sections of these Regulations.
- 16a. §379.3.
17. §379.4.
18. §379.1(a).
19. §379.1(b)(1).
20. §379.1(b)(2).
21. See Supplement No. 1 to Part 370 of the Export Administration Regulations.
22. 15 C.F.R. §399.1.
23. §379.5(f).
24. §379.3(a).
25. §379.3(b).
26. §379.3(c).
27. §379.4(a).
28. See §385.1.
29. §379.4(b)(1).
30. §379.4(b)(2).
31. *Id.*
- 31a. *Id.*
32. *Cf.* §379.1, n.2.
33. §379.4(c).
34. §379.4(d).
35. See §§379.4(e)(1) and (2).
36. §379.4(e)(1), n.3; §379.4(e)(2), n.2.
37. §379.4(e)(2)(ii).
38. §379.4(e)(1); §379.4(e)(2)(iv).
39. §379.8(a)(2).
40. 27 Fed. Reg. 12487 (1962).

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Where a small but key amount of data covers 5% of the item to be reproduced or reprocurd from a competitor, but a patent or several patents covers 60% of the hardware, you, as the owner of data may refuse the licensing of the data, thus forcing the government to accept the license under the patent as a condition to receiving a license under the data. Once the government accede to the licensing of those rights which you have, a reasonable royalty rate covering all of the hardware which is protected by either patents or data rights then becomes a significant amount of royalty. Where it is known that the government intends to second-source the military system which you are about to take a contract to develop, it is quite often made apparent to the contractor prior to the issuance of his prime contract that a reprocurment-data package, together with a license to use it for competition will be a

requirement. It may be imposed upon the contractor at the time he enters the original development contract or it may be negotiated at some later time. The issuance to the government of a license to use technical data which is combined with a predetermination agreement that the data so licensed is in fact proprietary or does relate to an item, component or process developed at private expense will at least eliminate one problem downstream — the problem of the constant challenge of the data to be marked with limited rights. Although the government representatives like to insist that no data may be limited rights unless it properly falls within the category of data relating to items, components or processes developed at private expense, if there is a dispute as to whether you can prove this with clear and convincing evidence, the granting of a license can be accompanied with an agreement that the data is properly limited rights and the limited rights data to be furnished can be identified in many cases in advance of the contract or in the course of it.

From University to Marketplace

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proposal would not be suitable for grant support by the government because it is the byproduct of research programs previously funded by the government and it is applied rather than basic.

Establishment of an internal funding program (or grant support from a patent management organization) made available by way of a grant award to university researchers under carefully controlled criteria can help bridge the gap between conception and utilization of those concepts with good commercial promise. Typically, a grant proposal should have as its objective the demonstration of feasibility at the end of one year at a cost (excluding overhead) of 15K to 20K normally used to support a postdoctoral candidate. The concept must be novel, should solve problems looking for a solution, and provide for a strong patent position. The commercial market should be large or growing. Finally, at the end of one year, the intent would be to license and/or to seek support from the private sector so as to subsequently bring the invention to the marketplace. Cost of the grant and any patent applications would be recovered prior to any distribution of royalties. Such a program, even if modest, would encourage disclosure of such breadboard concepts, enhance utilization of university-developed inventions, and increase the probability of generating royalty income since such proposals would have direct commercial application.

In conclusion, U.S. university-developed inventions can be surfaced and brought to the marketplace if the university is willing to make the necessary commitments. A commitment by the president of the university to make a patent program visible is a prerequisite to success.