DECISION

THE COMPTROLLER GENERAL
OF THE UNITED STATES
WASHINGTON, D.C. 20548

FILE: B-207138

DATE: October 27, 1982

MATTER OF: Cryo-Technologies Marketing Group

DIGEST:

1. Where protester contends that IFB clause imposing liability for patent infringement upon the contractor results, in effect, in sole source award to patent holder, but record shows that procuring agency had a reasonable basis for concluding that use of the indemnity clause was authorized by DAR § 1-903 and that competition could be anticipated despite possible patent infringement, agency action is unobjectionable. In such circumstances award is required to be made to the lowest bidder meeting the specification without regard to possible patent infringement; Government assumption of infringement liability would defeat that requirement.

2. Contention that IFB clause requiring contractor to indemnify the Government against liability for patent infringement occurring during performance imposes an unreasonable burden upon bidders other than patent holder is denied since bidders are expected to account for such risks in computing bid prices and mere presence of risk does not make solicitation improper.

Cryo-Technologies Marketing Group, trading under the name Cryotech, protests the requirement that the contractor indemnify the Government against liability for patent infringement set forth in invitation for bids No. N00383-82-B-0586 issued by the Naval Aviation Supply Office, Philadelphia. Cryotech argues that contract performance will undoubtedly infringe patent No. 3,710,584 held by Cryogenic Energy Company (CEC). For the reasons stated below, we deny the protest.

The invitation for bids for the supply of trailers used to store and transfer liquid oxygen (LOX) warns

offerors that CEC's patent may be violated and incorporates the Patent Indemnity clause from Defense Acquisition Regulation (DAR) § 7-104.5 (1976 ed.), requiring the contractor to indemnify the Government for liability incurred as a result of patent infringement. In Cryotech's opinion the LOX trailer design specified by the Navy is that described by CEC's patent, and any firm that is not licensed by CEC necessarily will infringe CEC's patent. Cryotech contends that this arrangement imposes an unacceptable risk upon bidders that are not licensed under CEC's patent, such that they are unable to compete with CEC, with the result that the procurement is, in effect, a sole source to CEC. Cryotech seeks to have the Navy resolve the question of liability for patent infringement in a manner that relieves bidders of that risk.

The Navy advises that it was concerned that performance of the contract might infringe CEC's patent and, because it could not negotiate a royalty-free license for the procurement, inserted the Patent Indemnity clause in the solicitation in accordance with DAR § 9-103, together with a notice highlighting this fact. The Navy argues that it had reason to believe that competition could be obtained despite the potential patent infringement and that its judgment was confirmed by the fact that four firms responded to the solicitation. While it did not formally consider the question in advance, the Navy notes that CEC has furnished evidence that it has both offered and sold LOX trailers of this type on a commercial basis, which satisfies the requirements of DAR § 9-103.1. Finally, the Navy does not agree that it must resolve questions relating to the ownership of the patent or infringement of it; rather, it believes such matters are for the courts to decide, and offerors should consider the potential cost of patent litigation when calculating their bid price.

Section 1498, Title 28, United States Code, was designed for the purpose of furnishing patentees adequate compensation for the use of their patents by or on behalf of the Government, and at the same time preventing the obstruction of Government activities by disputes or litigation between private parties respecting such patents. 38 Comp. Gen. 276, 277 (1958). Consequently, where the procurement is to be made by formal advertising, there is no alternative to the securing of the maximum amount of competition from firms qualified and willing to

undertake the production of the article, subject, of course, to their willingness and ability to indemnify the Government against claims of patentees. DAR § 9-103.1(a). It is therefore our view that this solicitation should not be restricted to patent holders and their licensees, but rather all potential sources should be permitted to compete regardless of potential patent infringement. See W.S. Spotswood and Sons, Inc., B-201326, May 21, 1981, 81-1 CPD 399.

With respect to Cryotech's concern over the financial risks imposed upon bidders by the Patent Indemnity clause, we have recognized that some uncertainty or risk is inherent in most types of contracts and bidders are expected to take such uncertainties into account in the computation of bid prices. The mere presence of patent litigation risk in a procurement does not make the solicitation improper. W.S. Spotswood and Sons, Inc., supra.

In view of the above, we see no reason to object to the invitation as issued.

The protest is denied.

Milton J. Socolar

Acting Comptroller General
of the United States