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DECISION

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

FILE: B-201573 DATE: April 28, 1981

MATTER OF: American Sealcut Corporation DLG06607

DIGEST:

[Protest of Agency decision to conduct sole-source negotiated procurement was improper where record indicates that only colorable basis for decision was claim that article to be procured is subject to patent, since such claim, standing alone, does not justify sole-source negotiated procurement with patent holder where competition is otherwise possible.

DLG06608

American Sealcut Corporation (ASC) protests the negotiation of a sole-source contract with Principle Business Enterprises, Inc. (PBE), under request for proposals (RFP) No. M1-Q44-81 by the Veterans Administration (VA) for convalescent patient's slippers. AGC00016 We believe the protest has merit. No award has been made pending our decision.

It appears that the slippers sought under the procurement may be covered by a patent held by PBE, which is currently the subject of litigation brought by the protester regarding its validity and alleged infringement.

The protester argues that the contracting officer's decision to negotiate solely with PBE was improper, since a claim that the article to be procured is subject to a patent does not by itself justify a sole-source negotiated procurement with the patent holder. ASC also contends that the contracting officer failed to identify the statute or regulation authorizing the negotiated procurement, as required by VA regulations.

The agency has not specified the grounds for the decision to negotiate, other than adopting the argument advanced by PBE that contracting without regard to patent rights would be in derogation of the patent laws

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and foster patent infringement. PBE argues that 28 U.S.C. § 1498 (1976), the statute establishing recourse to the Court of Claims as the exclusive remedy for patent infringement in the context of Government contracts, was intended solely to provide a remedy and does not justify commission of the underlying legal wrong.

Our review of a contracting officer's decision to conduct a negotiated procurement is limited to ascertaining whether there is a reasonable basis for the determination. See Self-Powered Light, Ltd., B-195935, March 13, 1980, 80-1 CPD 195. With respect to the instant case, we note that the contracting officer apparently did not prepare a determination and findings justifying the decision, as required by Federal Procurement Regulations (FPR) § 1-3.301 (1964 ed. amend. 112), and VA did not elaborate on the grounds for the decision in its report to our Office. Based on the record before us, however, we conclude that there is no evidence to support a sole-source negotiated procurement.

Subject to enumerated exceptions, there is a statutory preference for the use of formal advertising as a means of procurement. 41 U.S.C. § 252(c) (1976). On the present record, the only colorable basis for invoking an exception to the statutory preference is that it would have been impracticable to secure competition because of the existence of a patent for the slippers. See 41 U.S.C. § 252(c)(10). To support its argument that a sole-source negotiated procurement is warranted, PBE relies principally on the following illustration in FPR § 1-3.210(a)(2) (1964 ed.) of a situation appropriate for sole-source negotiation:

> "When competition is precluded because of the existence of patent rights, * * * or similar circumstances (however, the mere existence of such rights or circumstances does not in and of itself justify the use of this authority)."

Specifically, PBE contends that its pursuit of litigation to enforce the slipper patent and its expertise in this area of supply indicate that the sole-source

negotiated procurement is supported by more than the "mere existence" of the patent.

We find PBE's contentions to be without merit. First, there is no support in the record for PBE's assertion that its expertise in manufacturing and supplying the slippers qualifies it as the sole source for procurement of the slippers. Second, the above-quoted regulation indicates that the existence of patent rights does not in and of itself justify sole-source negotiation. There is no indication in the present case that PBE's patent has eliminated competition; to the contrary, ASC has indicated its desire to compete and contends it can supply slippers meeting the solicitation's specifications.

Moreover, under 28 U.S.C. § 1498, Government contractors and subcontractors are relieved of liability for infringing patents embodied in items accepted or to be accepted by the Government pursuant to its contracts. The statute provides that the patent holder's remedy is exclusively against the Government by an action in the Court of Claims for damages. The courts have recognized section 1498 as constituting, in effect, an eminent domain statute, which vests in the Government the right to use any patent granted by it upon payment of reasonable compensation to the patent holder. Richmond Screw Anchor Co. v. United States, 275 U.S. 331 (1928); Stelma, Inc. v. Bridge Electronics Co., 300 F.2d 761 (3d Cir. 1962). The statute was intended to give patent holders an adequate and effective remedy for infringement of their patents while saving the Government from having its procurements thwarted, delayed or obstructed pending litigation of patent disputes. Bereslavsky v. Esso Standard Oil Co., 175 F.2d 148 (4th Cir. 1949).

Considering the statute and its purposes, this Office has concluded that Government contracts should not be restricted to patent holders and their licensees where patents are held. Beckman Instruments, Inc., B-195193, August 14, 1979, 79-2 CPD 122; Controlled Environment Systems, Inc., B-191851, August 15, 1978, 78-2 CPD 119. Instead, all potential sources should be permitted to compete for Government contracts regardless of possible patent infringement. 46 Comp. Gen. 205 (1966); 38 id. 276 (1958).

Accordingly, we conclude that the contracting officer acted contrary to statute and regulation in negotiating on a sole-source basis with PBE based solely on the existence of a patent allegedly covering the slippers and sustain the protest. We are recommending that the agency cancel the RFP and conduct a competitive procurement. By letter of today, we are advising the Acting Administrator of the VA of our recommendation.

Since this decision contains a recommendation for corrective action to be taken, we are furnishing copies to the Senate Committees on Governmental Affairs and Appropriations and the House Committees on Government Operations and Appropriations in accordance with section 236 of the Legislative Reorganization Act of 1970, 31 U.S.C. § 1176 (1976), which requires the submission of written statements by the agency to the Committees concerning the action taken with respect to our recommendation.

Finally, we note that PBE has questioned whether ASC can meet the flame-resistance requirements of the RFP. ASC contends that it can. Whether ASC, or any other potential supplier, can meet the specification should be determined on the basis of the recommended competition.

Milton J. Socolar

Acting Comptroller General
of the United States