

To: Members of the JCOTS Intellectual Property Advisory Committee

From: Lisa Wallmeyer, Executive Director, & Wenzel Cummings, JCOTS Staff Attorney

Re: The Evolution of State Intellectual Property Policy

Date: November 15, 2010

Executive Memorandum 4-95

The Commonwealth first adopted a statutory intellectual property (IP) policy in 1985.¹ The provision was rather straight-forward, and stated that patentable and copyrightable materials developed by a state employee during working hours, within the scope of his employment, or using state-owned or state-controlled facilities, were property of the Commonwealth. The Code then authorized the Governor to develop policies implementing the section.

The most recent gubernatorial guidance was issued by Governor George Allen in 1995. He issued Executive Memorandum 4-95 (herein referred to as EM 4-95), a six-page document that outlined the requirements for applying for patents and copyrights, ownership of patents and copyrights, disclosure, disposition of income, etc.

Of particular note of EM 4-95 are the following:

- When potentially patentable or copyrightable material is developed by a state employee or third party in cooperation with a third party, ownership automatically vests with the Commonwealth if it was developed during working hours, within the scope of employment, or using state-owned or state-controlled facilities.
- It is up to the Commonwealth whether to apply for copyright registration or a patent.
- If the Secretary of Administration determines that the materials is not marketable or should not be marketed by the agency, the Secretary of Administration may give written approval to license the material to the employee or a third party, or release state rights, title, and interests.

EM 4-95 also sets up the processes that must be followed by state employees and agencies. It establishes a duty for all state employees to report to the agency all creations and innovations that may reasonably be expected to have some commercial value. The agency then has a duty to report this to the Secretary of Administration, on a form developed by the Secretary. This disclosure form includes the agency head's

¹ § 2.1-20.1:1 (1985). This section was renumbered as § 2.2-2822 in the 2001 recodification of Title 2.1.

recommended course of action for the Commonwealth. Once this form is received, the Secretary may:

- Secure the proprietary interests of the Commonwealth;
- Approve a transfer of ownership to the Innovation and Entrepreneurship Investment Authority² or the Center for Innovative Technology, third parties, or the inventor/creator;
- Assign commercialization responsibility;
- Approve grants of licenses; and
- Approve the release of the Commonwealth's rights.

EM 4-95 also sets out provisions regarding the disposition of income generated by the IP.

Finally, EM 4-95 requires the Secretary of Administration to report to the Governor biennially on the requirements of the policy, and allows the Secretary to require reporting from agencies. Furthermore, the Secretary is authorized to require agencies to develop procedures to implement this policy. Finally, the Governor provided that the policies and requirements of EM 4-95 could be promulgated as personnel policies, as appropriate.

2009 Changes to Intellectual Property in the Commonwealth

Legislation adopted in 2009 (HB 1941, SB 1174) made substantial amendments to § 2.2-2822. The legislation retained the general premise that the Commonwealth owns IP created by state employees in the scope of their employment. However, this legislation directed the Secretary of Administration, in cooperation with the Secretary of Technology, to establish IP policies (in lieu of the Governor, as specified previously in the Code).

The new legislative language also specifically indicated various issues that such a policy must address, and in doing so created a significant departure from existing IP policies. These changes include:

- Requiring the policy to grant state agencies authority over the protection and release of IP created by its employees.
- Authorizing state agencies to release all potentially copyrightable materials under the Creative Commons or Open Source Initiative licensing systems.
- Authorizing an agency to seek patent protections **ONLY** when agency determines the patent has *significant commercial value*.
- Establishing a procedure for state agencies to use to determine whether to license or transfer any interest in potentially patentable material to an employee or private entity.

² At the time the Executive Memo was issued, this entity was known as the Innovative Technology Authority.

As can be seen, then, while the Code has retained its original premise that all IP developed by state employees is the property of the Commonwealth, the requirements for the guidelines take away quite a bit of discretion from the executive branch in the development of IP policy. The day-to-day decision-making process as to when IP should be protected is delegated to agency heads. In addition, the new language could be read to prohibit an agency from seeking patent protection unless the patent has significant commercial value. However, the Code is silent as to what happens if the agency determines that a particular piece of IP does not have significant commercial value -- does the Commonwealth still own that property? Does the employee now have rights to the IP?

Proposed 2010 Changes to Intellectual Property Law

Senate Bill 242 (2010) would have made further amendments to the § 2.2-2822 relating to IP. Some of the proposed changes were stylistic in nature. However, others of the proposal were more substantive in nature, such as requiring the Secretary of Administration's policies to be in writing. In addition, agencies would only be authorized to control the protection and release of IP developed within the agency if the agency had adopted its own IP policy that was consistent with the Secretary's policy. Finally, the bill would have required annual reporting to the Secretary of Administration by any agency that licensed or transferred an interest in IP to an employee or private entity. These changes were not adopted by the General Assembly, but instead were referred to the Joint Commission on Technology and Science for further study.

Other States & Intellectual Property

At the first meeting of the Intellectual Property Advisory Committee, staff was asked to review how other states addressed IP issues in their statutory codes. Research revealed that state statutes regarding state-owned IP -- through the form of copyrights, patents or trademarks -- have no particular trend or uniformity from one state to another. In fact, well over half of the states have not even addressed the issue in any form within their code. For those states that do deal with state-owned IP, the statutory scheme is driven most likely through individual needs as they arise on a case-by-case basis within each affected state agency. As a result, there is a highly diverse patchwork of statutory treatments of state-owned IP -- sometimes even within each state.

To the extent that statutes throughout the country can be organized into a general categorization, set forth below is a snapshot of the various state laws that address state-owned IP.

1. State Agencies Maintaining Intellectual Property Rights

Most state laws mention state-owned IP only when the state has an interest in advancing a particular field of study because it relates to a significant source of state revenue or industry. This is particularly common in states where farming and ranching are a significant part of their economy, such as in Florida (Department of Citrus), North Dakota (Crop Protection Board), Oklahoma, Oregon, South Dakota, Washington (Potato

Commission). In Kansas, the state takes great interest in the development of bioscience, so Kansas law allows for the ownership by the Kansas Bioscience Authority of any IP developed in that regard (KAN. STAT. ANN. § 74-99b09). Lotteries are also sources of IP over which states delegate authority to lottery-control agencies; such is the case in both Iowa and West Virginia.

Most states do not maintain centralized control over state-owned intellectual property through any kind of government head or agency. Instead, the vast majority of states that allow for state-owned IP grant each individual government agency the authority to develop, create, and retain intellectual property. Three states have general statutes that apply to any state agency or employee: Connecticut, New Mexico, Virginia. Oklahoma only allows its Department of Central Services to negotiate and contract for the retention of patents and copyrights, no matter which other agency actually develops the IP.

2. Intellectual Property Ownership Rights by State Employees

Of the four other states that explicitly address ownership of IP by state employees within their code, Connecticut's and New Mexico's codes most closely approximate that of Virginia. According to CONN. GEN. STAT. § 4-61a, the state may own the "entire right, title and interest in and to any invention" conceived by state employees within the course of their routine employment duties. Employees are obligated to execute any necessary patent applications for these inventions on behalf of the state and to assign any ownership rights to the state. Likewise, New Mexico, in N.M. Stat. Ann. § 57-3C-3, assumes the ownership of any "inventions, innovations, works of authorship and their associated materials" that are developed by state employees within the scope of their employment, or when using "state-owned or state-controlled" facilities or equipment.

In New York, the state statutes do not explicitly assume state-ownership of patents developed by state employees within the scope of their employment; however, N.Y. PUB. OFF. LAW § 64-A provides for the "participation in royalty . . . or the payment of additional compensation" to be made for an employee's development of intellectual property. In Texas, the state does not "own" its intellectual property, but when the comptroller of public accounts applies for any patents, he may "hold" it on behalf of the state. Also, according to TEX. GOV'T CODE ANN. § 403.0301, the comptroller may "award an employee of the comptroller" an equity interest in the IP he helps to create, discover or develop.

Conclusion

Several issues are ripe for discussion concerning the state of IP law in the Commonwealth. These issues include, but are not limited to:

1. How much detail should be included in the Code of Virginia concerning IP law? How much discretion should be reserved for the Governor and his administration?

2. Does the current statutory language set forth the proper standard? (i.e. -- A general premise that the Commonwealth owns all IP, but giving agencies the responsibility of determining when intellectual property protections should be sought, and authorizing an agency to seek patent protection only when the patent has significant commercial value?)
3. What is the overarching goal of the state's IP policy -- retention of rights, commerce, accurate inventory of the state's IP, and/or encouraging entrepreneurship? Should the policy encourage the state to retain most of its IP, or make it easier to license or assign interests in IP to its employees and third parties?
4. What reporting is necessary?
5. Should the Code of Virginia contain references to Creative Commons Licensing and Open Source Initiative? These are nonprofit initiatives, and not legal terms. While encouraging use of these licensing systems may be appropriate in some circumstances, is this best done in the Code or through the Secretary's policies?
6. Should any statutory changes be made now, while the Secretary of Administration is developing the guidelines required by the 2009 changes?