Advanced Program

"Advanced Technology Transfer: An International Course" will be presented June 13-15. Tom Arnold (Houston) and Robert J. Radway (New York City) will be the course leaders. Guest speakers will discuss a variety of subjects during the three-day program, including "Special Problems in Licensing of Trademarks" and "Anti-Trust, Patent Misuses, Restrictive Business Practices & Other Problems in U. S. & Foreign Licensing."

The fee for the introductory course is $350 for AMA members and $400 for nonmembers. The advanced course is $495 for AMA members and $560 for nonmembers. Members may attend both meetings for $625; nonmembers for $720. Continuing education units will be awarded.

To register, write American Management Associations, 135 West 50th Street, New York, New York 10020; or call the registrar at (212) 246-0800. For additional information, call Cliff Topping at (212) 586-8100.

Legislation, Compulsory Licensing: Two bills now pending before the House Judiciary Committee provide for the compulsory licensing of patents, trademarks, and energy technology.

Under H.R. 46, the "Prescription Drug Patent Licensing Act" (introduced by Representative Benjamin S. Rosenthal (D-N.Y.) on January 15th), any patented drug which carries a price tag of more than 500% of the cost of production would be subject to an "unrestricted patent license to any qualified applicant * * * and, if necessary to open the relevant market to competition, and if in the public interest, an unrestricted trademark license."

H.R. 746, the "Energy Technology Availability Act," would require licensing of certain energy technology if the owner has either unreasonably suppressed such technology or failed to make it available to qualified license applicants. (Representative John F. Seiberling (D-Ohio) introduced this measure on January 15th.)

Trademarks, Injunctions: The U. S. District Court for Arizona has granted a preliminary injunction barring the sale of trademarked "Kirby" vacuum cleaners that have been rebuilt with parts which were not manufactured by the trademark owner. (Scott and Fetzer Co. v. Dile, 4/13/79)

Judge Murphy finds that the defendant sold a number of the reconditioned vacuum cleaners as new "Kirby" products and identified himself as a factory authorized dealer. Thus, the court concludes that "defendant Dile has infringed on Kirby's trademarks and engaged in unfair competition by blatant misrepresentations and palming off."

Associations, Officers: The Peninsula Patent Law Association (San Francisco) has elected the following persons to office for the 1979-80 term:

Michael L. Harrison, President
Henry K. Woodward, Vice President
Warren M. Becker, Secretary
Edward L. Mandell, Treasurer

Government Patents, Licensing: The National Technical Information Service has listed a number of Government-owned inventions which are available for licensing.

The inventions are available for domestic and possibly foreign licensing in accordance with the licensing policies of the agency-sponsors. The sponsors are the Air Force, the Department of Agriculture, the Department of Energy, the Department of Transportation, the Department of Health, Education, and Welfare, and the Navy. See 44 Fed. Reg. 24333, 4/25/79.

-- End of Section A --

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TEXT

BNA's
PATENT, TRADEMARK & COPYRIGHT JOURNAL

MEMORANDUM FROM ASS'T ATTORNEY GENERAL BARBARA BABCOCK TO ALL AGENCY GENERAL COUNSELS ON "REVERSE" FREEDOM OF INFORMATION ACT CASES, ISSUED JUNE 21, 1979

June 21, 1979

TO: All Agency General Counsels

FROM: Barbara Allen Babcock
Assistant Attorney General
Civil Division

SUBJECT: Current and Future Litigation Under Chrysler v. Brown

The purpose of this letter is to direct your attention to a recent Supreme Court decision, Chrysler Corp. v. Brown, 47 U.S.L.W. 4434 (April 18, 1979), which will have a significant impact upon the Government's litigation of so-called "reverse" Freedom of Information Act cases--lawsuits for injunctive relief brought against the Government by private parties who, having submitted information to federal agencies, seek to prevent agency disclosure of this information pursuant to FOIA requests. Inasmuch as your agency may at this time or in the future be a party defendant to at least one such pending case, you should become fully apprised of the import of the Chrysler decision and of the approach which the Department of Justice now intends to pursue in such cases in light of Chrysler. I apologize for the length and complexity of what follows, but urge you to address it carefully because we are very close to a just resolution of this difficult problem.

I would first like to emphasize that the Supreme Court's ruling in Chrysler decisively resolved a number of important issues in the Government's favor, such that our ability to defend Government disclosure in "reverse" cases is now greatly enhanced. The Court unequivocally determined, for example, that an agency's invocation of the Freedom of Information Act's exemptions is permissive, not mandatory, and that a private party which submits data to the Government has an enforceable interest under the FOIA in the confidentiality of such data "only to the extent that this interest is endorsed by the agency collecting the information." 47 U.S.L.W. at 4437. The Chrysler decision similarly put to rest any notion that a private cause of action to enjoin Government disclosure of submitted data may be implied either from the Freedom of Information Act, 5 U.S.C. §552, or from the Trade Secrets Act, 18 U.S.C. §1905; such a cause of action, the Court ruled, may arise only under the general judicial review provisions of the Administrative Procedure Act, 5 U.S.C. §§701, et seq. See id. at 4444. Significantly, the Court further held that such judicial review should "ordinarily" be limited to review of the administrative record and should not be undertaken de novo by district courts. See id. Thus, the Supreme Court in Chrysler upheld the significant procedural victories won by the Government in the Third Circuit below and in the other circuits which followed the Third Circuit's lead. See Chrysler Corp. v. Schlesinger, 565 F.2d 1172 (3rd Cir. 1977); see also Sears, Roebuck & Co. v. Eckerd 575 F.2d 1197 (7th Cir. 1978); General Dynamics Corp. v. Marshall, 572 F.2d 1211 (8th Cir. 1978).

However, the Court did rule adversely to the Government regarding the impediment to disclosure posed by 18 U.S.C. §1905 and the ability of federal agencies to overcome that impediment through the promulgation of disclosure regulations in satisfaction of §1905's exception for disclosures which are "authorized by law." By holding that there must exist some identifiable "nexus" between such a disclosure regulation and the delegation of legislative authority for its promulgation, the Court adopted a standard more demanding than that advocated by the Government for the satisfaction of §1905's "authorized by law" exception. See id. at 4438-44. Although the Court thus dealt with §1905's "authorized by law" exception, it expressly decline to define the substantive scope of §1905, and remanded that vital issue to the Third Circuit. See id. at 4444 & n.49.

Chrysler's interpretation of §1905's "authorized by law" exception has created the necessity in almost all pending "reverse" FOIA cases for agencies to determine for the first time whether the disputed data falls within the substantive scope of §1905. Because of this necessity for further agency review, and in light of the fact that most "reverse" FOIA cases have been in litigation for many months or years, the Department of Justice has determined that it is in the Government's best interest to seek their immediate remand to the agencies for the creation of new administrative records. Although such an undertaking will of course involve a substantial expenditure of administrative resources in the new future, I am firmly convinced that it is absolutely essential to the Government's defense of the pending litigation and that it will ultimately minimize both the administrative and litigative burden of defending the Government's disclosure determinations in all such cases. Only through the careful re-creation of the administrative process for these pending cases can we maximize our future ability to defend all such "reverse" cases successfully in the wake of Chrysler.

In order to facilitate this administrative process on remand, I have outlined the following procedures and standards as appropriate guidelines for your agency's creation of new administrative records.

(1) First, you should undertake to contact the original data requester in order to ensure that there continues to exist an actual case or controversy surrounding the data at issue. It could well be that with the passage of time the requester has lost interest in the request, has obtained the data (or like data) elsewhere, or possibly even now considers the data to be uselessly out of date. It would not be at all unreasonable to require an updated expression of interest from at least one bona fide Freedom of Information Act requester before considering the matter to be still "live." Indeed, you should invite the requester's active participation in the administrative process through the submission of any evidence known to the requester that would support disclosure.

(2) Second, you should take all steps necessary to ensure that the administrative record generated on remand will be fully adequate for judicial review under the Administrative Procedure Act. You should be cognizant of the factors which some courts have deemed relevant in examining administrative records under the APA in "reverse" FOIA cases. See, e.g., Chrysler Corp. v. Schlesinger, 565 F.2d 1172, 1192 (3rd Cir. 1977), vacated on other grounds, 47 U.S.L.W. 4434 (April 18, 1979); GTE Sylvania, Inc. v. Consumer Product Safety Commission, 404 F.Supp. 352, 366-67 (D.Del. 1975), aff'd, No. 78-1328 (3rd Cir., April 30, 1979). You should solicit from the submitter detailed written objections to disclosure, and your administrative decision should include a full explanation and documentation of all reasons supporting your acceptance or rejection of the submitter's various objections. Furthermore, to the extent that your decision is based upon evidence submitted by the requester, you should explain the relevance of such evidence to your decision.

(3) The following primary legal arguments are routinely raised by submitters in "reverse" FOIA cases: (a) that the submitted data falls within a non-disclosure statute that triggers the FOIA's Exemption 3; (b) that the data falls within the scope of Exemption 4; (c) that the data falls within the scope of Exemption 6; and (d) that

please consult Part V of the attached memorandum from the Department's Office of Information Law and Policy.

(5) After completing a new administrative record upon remand by making the ultimate disclosure determinations as requested in paragraph (4), above, and prior to disclosing any disputed data, please promptly contact the Department of Justice attorney assigned to the case who will both inform you regarding the status of any pending injunction prohibiting disclosure, and will also request your assistance in filing the new record before the district court.

I realize that the above approach may at first appear difficult to follow, but I am confident that upon careful analysis and implementation you will agree that adherence to such an approach on remand will provide the optimum basis for favorable judicial review of your agency's disclosure determinations. Daniel J. Metcalfe, 633-3183, and Vincent Garvey, 633-3442, of my staff will be available to answer any questions and to provide any assistance required with respect to this process. We look forward to a mutually cooperative relationship which will maximize our ability to defend all Government disclosure determinations in the wake of Chrysler.

Attachments

ATTACHMENT

15 U.S.C. §176a(1940)

"Any statistical information furnished in confidence to the Bureau of Foreign and Domestic Commerce by individuals, corporations and firms shall be held to be confidential, and shall be used only for the statistical purposes for which it is supplied. The Director of the Bureau of Foreign and Domestic Commerce shall not permit anyone other than the sworn employees of the Bureau to examine such individual reports, nor shall he permit any statistics of domestic commerce to be published in such manner as to reveal the identity of the individual, corporation, or firm furnishing such data."

18 U.S.C. §216(1940)

"It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the operations, style of work, or apparatus of any manufacturer or producer visited by him in the discharge of his official duties, or the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdeameanor and be punished by a fine not exceeding $1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment."

19 U.S.C. §1335(1940)

"It shall be unlawful for any member of the commission, or for any employee, agent, or clerk of the commission, or any other officer or employee of the United States, to divulge, or to make known in any manner whatever not provided for by law, to any person, the trade secrets or processes of any person, firm, copartnership, corporation, or association embraced in any examination or investigation conducted by the commission, or by order of the commission, or by order of any member thereof. Any offense against the provisions of this section shall be a misdemeanor and be punished by a fine not exceeding $1,000, or by imprisonment not exceeding one year, or both, in the discretion of the court, and such offender shall also be dismissed from office or discharged from employment."

June 15, 1979

TO: All Federal Department and Agencies
Attention: Principal Legal and Administrative Contacts on FOIA Matters

FROM: Robert L. Saloschin, Director Office of Information Law and Policy

SUBJECT: Statement Concerning The Supreme Court's Decision in Chrysler v. Brown, ____ U.S. ____ (April 18, 1979).

The following statement pertains to important matters involved in the administration of the Freedom of Information Act (FOIA) by most federal agencies, particularly agencies which receive requests for access to information submitted by and pertaining to business firms. The statement has been adopted by this Office, after full discussion within the Department's Freedom of Information Committee.

This statement sets forth the position of the Department of Justice on some of the questions left undecided by the recent Supreme Court decision in Chrysler Corp. v. Brown, 47 U.S.L.W. 4434 (April 18, 1979), and is being issued as guidance to agencies in this field.

I. Narrative Summary of the Chrysler case to present time.

Chrysler Corporation, as a party to numerous Government contracts, was required to comply with Executive Orders 11246 and 11375, which charge the Secretary of Labor with ensuring that corporations that benefit from Government contracts provide equal employment opportunity regardless of race or sex. Regulations promulgated by the Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) require Government contractors to furnish reports about their affirmative action programs and the composition of their work forces, and provide that notwithstanding exemption from mandatory disclosure under the Freedom of Information Act (FOIA), such records shall be made available for inspection if determined to be in the public interest, except in the case of records whose disclosure is prohibited by law. After the Department of Defense's Defense Logistics Agency (DLA), the designated compliance agency responsible for monitoring the corporation's employment practices, informed Chrysler that third parties had made a FOIA request for disclosure of certain materials that had been furnished to the DLA by Chrysler, Chrysler objected to their release. The DLA determined that the materials were subject to disclosure under the FOIA and OFCCP disclosure rules, and Chrysler then sued to enjoin release of the documents.

The United States District Court for the District of Delaware found in 1976 that release of lists of internally used job titles and the number of people who perform each job, known as "manning tables," could cause the company substantial competitive harm within the test of National Parks and Conservation Association v. Morton, 498 F.2d 765, 770 (D.C. Cir. 1974). The Court further found that an employee disclosing the manning tables would face criminal liability under 18 U.S.C. §1905; that such disclosure was forbidden by 29 C.F.R. §70.21(a), regulations promulgated by the Secretary of Labor pursuant to 5 U.S.C. §301, the general housekeeping statutes; and entered a permanent injunction against the disclosure of the manning tables. The Court held that its jurisdiction over the matter arose from 28 U.S.C. §1331 and in part under

18 U.S.C. §1905. However, if the records do contain exempt business information, 18 U.S.C. §1905 may prohibit its release and therefore must be considered, in two respects.

First, as to the scope of 18 U.S.C. §1905, the legislative history of §1905 shows that the scope of that section is not as broad as its literal language. Section 1905 is a product of the 1948 codification to Title 13. It was intended to consolidate three predecessor statutes. The Supreme Court has twice analyzed the same 1948 codification and held that Congress did not, in the predecessor statutes, intend to make substantive changes in the predecessor statutes, including those consolidated. Therefore, seeming substantive changes inadvertently resulting from the codification would not be given full force and effect. Muniz v. Hoffman, 422 U.S. 454 (1975); United States v. Cook, 384 U.S. 257 (1966). Construing the statute literally would seem to produce unreasonable results; e.g., making it a crime for a federal employee to disclose that the telephone company is in the telephone business unless the employee was "authorized to law" to do so. Moreover, even if the 1948 codification is read to have effected substantive changes, the meaning of §1905 must still be determined in light of the predecessor statutes.

Second, the applicability of 18 U.S.C. §1905 to particular information may be conditioned by other legislation. Therefore, we recommend that agencies examine the statutes under which they operate before receipt of a FOIA request to determine if they provide a sufficient "nexus" for regulations providing for the discretionary release of exempt, privately-submitted commercial or financial information. (This Office would welcome information from your agency on the results of such an examination.) It is preferable to make these determinations in advance rather than in the often pressurized context of responding to a specific request. In this regard agencies will wish to consult a post-Chrysler decision, Cedars Nursing & Convalescent Center v. Aetna Life and Casualty, C.A. No. 70-1416 (E.D. Pa. May 7, 1979), in which the Court found that 42 U.S.C. §1306 provided a sufficient "nexus" for the promulgation of a discretionary disclosure regulation which satisfied the "authorized by law" requirement of §1905.

V. Position Concerning Exempt Business Information to which 18 U.S.C. §1906 is not, or may not be, applicable.

Although the Justice Department has consistently maintained what the Supreme Court confirmed in Chrysler, namely, that FOIA exemptions give agencies discretion to withhold and do not prohibit release, this does not mean that agencies have unlimited discretion to make releases regardless of the circumstances and the effects upon legitimate private interests. Where Exemption 4 clearly applies because of the likelihood of substantial competitive injury to the firm which submitted the information, its release by the agency without justification would be an abuse of discretion and, as such, contrary to law. Normally, justification, if it exists, will be based upon the public health, safety, or some other recognized aspect of the public interest, including the advancement of the agency's mission. The prospect of private benefit to the submitter's competitors would not in itself constitute such justification.

VI. Administration action where submitter may object to release.

Where a FOIA requester seeks access to business information over the objections of the submitter, the agency should be prepared to support a decision either to release or to withhold. Agencies planning to deny a FOIA request have always been faced with the possible need to sustain the burden of justifying a denial in court. Agencies planning to grant access over a submitter's objections must also face the possible need to defend such a proposed release in a "reverse" suit. In preparing to do this, the most pressing concern facing agencies is the necessity of developing adequate administrative records to explain a possible decision to disclose. This must be done to fulfill the Government's responsibility to make an informed, well-reasoned administrative determination. The legitimate concerns of the private commercial sector must be adequately protected by the Government. The Justice Department is committed to the policy that federal agencies should always give private submitters of commercial and financial information an opportunity to express their views on whether such information can, should, or must be withheld. Either upon receipt of a FOIA request for these types of records or as soon as any question arises of granting access the agency should notify the submitter.

Each agency should attempt to establish equitable and expeditious procedures for insuring that adequate consideration will be given to submitters' objections to release, together with any supporting information, and to requesters' arguments in favor of release, and that an administrative record is made of the basis for a possible agency decision to disclose. In designing such procedures, agencies may wish to consider the thoughtful discussion in House Report 95-1382 of July 20, 1978, entitled "Freedom of Information Act Requests For Business Data and Reverse FOIA Lawsuits."

If the agency determines that the records are exempt but wishes to release them as a matter of discretion over the submitters' objections, it must consider whether such a discretionary release would be an abuse of discretion or contrary to law within the meaning of the Administrative Procedure Act. The first step in this analysis is to determine whether the records are within the scope of §1905. If they are not, release would be appropriate in any instance where release is not otherwise prohibited and a counterbalancing public interest would be served by such action. If they are, however, the agency must ascertain whether there is an applicable statute which either authorizes release itself or provides a sufficient "nexus" within the meaning of Chrysler to support the promulgation of a disclosure regulation, and whether such a regulation has been validly promulgated. If either of these criteria is met, release is "authorized by law" within the meaning of §1905. In either situation, the agency should develop an administrative record which sets forth the basis for its decision to make a discretionary release in sufficient detail. If the agency determines that the records are not exempt and must be released despite the submitters' objection, an administrative record should also be made of how that determination was reached.

For further assistance in establishing agency procedures for handling disputes involving objections by submitters to requests for access, see the attached copy of Assistant Attorney General Barbara Allen Babcock's Letter to the General Counsels of agencies which are parties to reverse cases currently pending in court. The procedures there suggested for administrative action on remand in these cases may be largely adaptable to situations where suit has not been filed.

-- End of Section D --

CHRYSLER CASE IS ANALYZED
FOR IMPACT ON TRADE SECRETS

Those who are still attempting to parse the Supreme Court's decision in Chrysler Corp. v. Brown, 426 PTCJ A-1, D-1, may be interested in knowing that others are also having difficulty. In fact, an analysis prepared recently for the American Bar Association's Section of Public Contract Law observes that the Court "left unresolved several important issues at the heart of the 'reverse-FOIA' problem."

The analysis, prepared by Washington, D.C. attorney W. Stanfield Johnson, notes that although the Court dispensed with "reverse" Freedom of Information Act suits, it simultaneously suggested other avenues of legal recourse to prevent disclosure of trade secrets by federal agencies. Unfortunately, the Court was not very clear in mapping out those avenues. According to Johnson:

> [Text] Although the Court resolved one highly visible issue against the contractors (i.e., jurisdictional basis for reverse-FOIA actions), it did not leave contractors without a cause of action. Indeed, by focusing the cause of action upon 18 U.S.C. §1905 and by severely limiting the agencies' authority to avoid 18 U.S.C. § 1905 through regulations, the Court provides an as yet vaguely defined but promising judicial remedy.
>
> Of course the crucial question remains: What is the specific nature of the cause of action provided by the Court?
>
> The Court seems to contemplate that a contractor would, without referring to the FOIA, simply complain that threatened disclosure would violate 18 U.S.C. § 1905 and therefore be contrary to law. The Court contemplates an APA review of some sort under 5 U.S.C. §702 and finds federal court jurisdiction under 28 U.S.C. §1331 (disposing of some interesting jurisdictional questions in fn. 47).

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The Court's approach is very simple compared to the prolonged reasoning of Westinghouse Electric Corp. v. Schlesinger, 542 F.2d 1190 (4th Cir. 1976), cert. denied 431 U.S. 924 (1977) and the step-by-step procedure of Charles River Park "A," Inc. v. HUD, 519 F.2d 935 (D.C. Cir. 1975). Under the Chrysler scheme, the FOIA would become an issue only when raised by the Government as a defense; and anyway, the Court considers it unlikely that material covered by the §1905 prohibition would ever be subject to mandatory disclosure under the FOIA (see fn. 49).

As noted above, the Court does not address a number of questions that must be resolved before the meaningfulness of this judicial recourse will be clear.

Most significant is the unresolved question of the form and standard of review. The Court comments that:

> De Novo review by the District Court is ordinarily not necessary to decide whether a contemplated disclosure runs afoul of §1905. [Slip op. at 34]

The basis for this observation is not set forth and one wonders whether any presumption should be applied to any agency decision that it is not about to commit a crime. Moreover, the statute is like a checklist; it protects "any information" provided to a Government officer or employee in the course of the performance of his duties:

> . . . which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing an abstract or particulars thereof. . . . [18 U.S.C. §1905]

No agency expertise is required to find whether information concerns or relates to the listed categories, and many courts may find the question of applying the statute to be most appropriately a judicial function.

A related question -- also left unresolved -- is whether competitive harm, of the type specified in National Parks and Conservation Ass'n v. Morton, 498 F.2d 765 (D.C. Cir. 1974) and National Parks and Conservation Ass'n v. Kleppe, 547 F.2d 673 (D.C. Cir. 1976), as requisite proof under Exemption 4, must be shown for data to be protected under §1905. The Court postulates that Exemption 4 and §1905 are coextensive, and it is possible that the National Parks test must therefore be met in connection with the contemplated §1905 action; but such an inference is no more likely (and certainly less desirable) than the conclusion that the §1905 list of non-disclosables are per se items.

Chrysler Corp. v. Brown may be a rejection of "reverse-FOIA" in name, but it may also be a significant step toward a meaningful means of protection from threatened disclosures. Without question, the Supreme Court has brought 18 U.S.C. § 1905 out of the closet which the Justice Department has for years tried to keep it in. The agencies will no doubt have to examine the implications of this development on their regulations and practices, and contractors should give new prominence to §1905 in their protective legends and related communications with agencies.

Legislative Matters -- Activities of the Public Contract Law Section

Based on this analysis, it is my view that the Public Contract Law Section (like the Supreme Court) should leave a question unresolved -- whether Congress would pass a special statute protecting government contract information under the third exemption.

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I think it is less likely that Congress would approve such legislation than that the agencies and courts will provide meaningful protection based on Chrysler Corp. v. Brown. In any event, the present effort should be to capitalize on what the Supreme Court has done, rather than tinker with the statutory provisions.

A question has also come up with respect to legislation recently proposed by Senator Dole which would overturn the elements of the Supreme Court's decision adverse to "reverse-FOIA" actions. [See 427 PTCJ A-3.] Based upon my reading of the decision, such an effort is unnecessary. Indeed it might end up being counterproductive because the public information interests on Capitol Hill might well be able to reverse the favorable elements of Chrysler.

One other development should be noted. The 1977 proposal to reform the federal criminal laws (in particular S. 1437) would have, if enacted, materially affected 18 U.S.C. § 1905. The criminal code reform proposals passed the Senate, but failed badly in the House. My understanding is that they have not been reproposed in this session, but obviously the Section should monitor this front in order to make certain that the basis for the possible protection afforded by the Chrysler decision will not be legislatively repealed or emasculated. [End Text]

- 0 -

FIRST HEARINGS HELD ON BAYH-DOLE PATENT BILL

Hearings were held last week on S. 414, a bill that would allow universities, small businesses, and nonprofit organizations to obtain patent rights in technology resulting from Government-funded research and development contracts (see 417 PTCJ A-3, E-1). The sponsors of the "University and Small Business Patent Procedures Act," Senators Birch Bayh (D-Ind.) and Robert Dole (R-Kans.), asserted that their bill would provide the incentives necessary to foster innovation and increase productivity.

The hearings took place May 16th before the Senate Judiciary Committee's Subcommittee on the Constitution. Bayh, the Subcommittee Chairman, made the following opening statement:

[Text] This moring the Senate Judiciary Committee is holding its first day of hearings on S. 414, the University and Small Business Patent Procedures Act.

I have become very concerned that the United States is rapidly losing its preeminent position in the development and production of new technologies, which historically has been our strong suit. Some examples of this disturbing trend are the following facts:

Importation of foreign manufactured goods is second only to foreign imported oil as the biggest drain on U.S. dollars. In the first half of 1978 we suffered a $14.9 billion deficit on this importation. Countries like Japan and West Germany with fewer natural resources than the U.S. are paying for their imported oil with money that they received from exporting goods.

The number of patents issued each year has declined steadily since 1971;

The number of U.S. patents granted to foreigners has risen since 1973 and now accounts for 35% of all patents filed in the U.S.;

Investment in research and development over the past 10 years, in constant dollars, has failed to increase;

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American productivity is growing at a much slower rate than that of our free world competitors;

Small businesses, which have compiled a very impressive record in technological innovation, are receiving a distressingly low percentage of Federal research and development money;

The number of patentable inventions made under Federally-supported research has been in a steady decline.

There are a number of theories on the cause of this trend, but one area where progress could be made immediately is with inventions arising from Federally supported university and small business research.

Presently, there are over 20 different statutes and regulations in existence which govern ownership of inventions that are reported to the Government each year from its research programs. The underlying philosophy of these policies is that the funding agency should retain title to these inventions even if the agency has provided only a small percentage of the funding. Unfortunately, the agencies have had very little success attracting private industry to develop and market these inventions because when the agencies retain the patent rights there is little incentive for any company to undertake the risk and expense of trying to develop a new product.

This problem is especially serious in the field of biomedical research programs where delays by the agencies in granting patent waivers for new drugs and processes have condemned many people to needless suffering. Unless universities and small businesses receive the right to retain the patent on these inventions, valuable discoveries wind up wasting away on the funding agency's shelves, benefiting no one.

The Departments of Energy and HEW frequently take months, and in some cases even years, to review these petitions for patent rights. Many inventions could make significant contributions to the health and welfare needs of our country if they were utilized. When the Government decides to retain patent rights on these inventions, there is a very great chance that they will never be developed. Of the 30,000 patents that the Government presently holds, less than 4 percent are ever successfully licensed. This is very little return on the billions of dollars that we spend every year on research and development.

Another problem that this legislation addresses is the distressingly low percentage of Federal research money that goes to small businesses. The Office of Management and Budget released a study which said that firms with 1,000 employees or less are credited with almost half of the industrial innovations made between 1953 and 1973. Small businesses have been found to get more from each research and development dollar than larger contractors. In light of these facts it is very disturbing to learn that small business receives less than 4% of the Federal research and development expenditure. One major reason that many of these innovative small companies have avoided Federal grants is the uncertainty over whether or not they will be allowed to retain patent rights on resulting inventions. The University and Small Business Patent Procedures Act will end this uncertainty.

The bill that we are considering today would allow universities, small businesses, and nonprofit organizations to retain patent rights to inventions that they make under Federally supported research and development programs when they are willing to spend the needed money to develop and market these inventions. The bill also protects the legitimate rights of the funding agency to use the invention on behalf of the Government. A section of the bill would also require the patent holder to reimburse the Government whenever a subject invention achieves a certain level of success in the marketplace within 10 years.

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S. 414 would create for the first time a uniform patent policy for every agency and thus end the confusion caused by over 20 different, and sometimes even contradictory, policies.

The United States has built its prosperity on innovation. That tradition of unsurpassed innovation remains our heritage, but without continued effort it is not necessarily our destiny. There is no engraving in stone from on high that we shall remain number one in international economic competition. In a number of industries we are no longer even number two. New incentives and policies are needed to reverse this trend. The University and Small Business Patent Procedures Act will be a step in the direction of encouraging innovation and productivity in the United States. I am pleased that 26 of my Senate colleagues have now joined me in support of this important bill.

Today the Committee will hear from a number of witnesses who have had first-hand experiences in research and development and who should be able to shed much light on what would constitute an effective, efficient Government patent policy.

It is in everyone's interest to insure that the fruits of American inventive genius are delivered to the marketplace as quickly as possible, and are not simply left to rot because of indifference or bureaucratic delays. [End Text]

In a statement similar to Bayh's, Senator Dole told the subcommittee that administrative "red tape" should not be allowed to frustrate "America's innovative genius":

[Text] Mr. Chairman, the present patent policy generally encourages retention by the Government of rights to inventions it sponsored. This policy has resulted in a reluctance by universities and industry to invest the necessary funds for the development and marketing of inventions emanating from federally funded research. This is understandable in view of the fact that the development process is not only risky but expensive, and estimated to cost ten times the cost of the initial research.

By obstructing patent rights and innovations, the Government increases the factor of uncertainty in an already uncertain area, that of technology end result. By denying the modicum of protection that the granting of patent rights for a limited period of time would afford, the Government removes the incentive that would stimulate the private sector to develop and market inventions.

IMPACT OF FEDERAL POLICY

The effect of this policy is twofold, bearing on the consumer as well as on the economy in general. In both cases, the public is the victim. When large amounts of taxpayers' money are directed to the research field, the public expects and deserves to reap the benefit of its investment in the form of products available for its consumption. When this fails to materialize, it is obvious that the Government has reneged on its promise. This is evidenced by the fact that, of the 28,000 inventions funded by the Government, only about 5 % have been used.

The damaging impact of the federal patent policy on the economy is dramatic. That we have lost our leadership role to Japan in the fields of electronics and shipbuilding is no accident. Without short-term exclusive rights, small firms cannot take the risk of bringing innovations to the commercial market, but large foreign firms can and are doing so, with ideas gleaned from U. S. funded research. That the richest nation on earth has a trade deficit with Japan amounting to $13 billion leaves room for reflection, when one considers the fact that Japan has no natural resources on her mainland. Our annual growth is 3% as opposed to 8% in Japan. Our newly established ties with China make the People's Republic a candidate for emulation of the Japanese example. With a population of 900 million people, through the potential use of U. S. technology to which its access is now guaranteed, China could become a most formidable competitor.

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The development of technological innovation by government and industry in countries such as Japan and Germany, is a contributing factor in their dominance of world trade.

WHAT IS THE ANSWER?

Protectionism is not what I am advocating. Such a theory would be counterproductive and one I do not adhere to on general principles. What I am rather suggesting is that the answer to foreign competition lies neither in an increase of export subsidies, nor in an increase of tariffs, but in an increase in productivity. I believe that the protection that patent rights for a limited amount of time would guarantee to American business would be a giant step towards providing incentives for greater productivity.

Our economy is one which has always run on America's innovative genius. This resource must not be allowed to waste away on account of unnecessary delays and red tape. Complex rules and regulations devised by federal agencies are detrimental to stimulating productivity and enterprise. They are particularly harmful to small businesses from which, traditionally, innovative and creative programs have emanated. In the field of medical innovation, the obstruction of patent rights by federal agencies is an extremely serious problem. Indeed, when medical inventions, offering potential cures for diseases are withheld, it is the very lives of Americans which are affected.

The almost adversarial relationship that now exists between business and Government must be replaced by a true and genuine partnership, a partnership in which the Government will act as impresario in bringing industry and universities together with new fields of knowledge, and their practical implementation.

GOAL OF LEGISLATION

The University and Small Business Patent Procedures Act that Senator Bayh and I have introduced would establish a uniform policy, guaranteeing rights for a limited period to inventions made under federally sponsored research. Such a policy would help promote the utilization of inventions and would encourage the participation of contractors in Government sponsored R & D. By doing this, the public investment in R & D would be protected, and the public interest would be served, according to the direction given by the Constitution in Article One, Section Eight. [End Text]

Bill Favored

Panels of health researchers and small business representatives spoke in favor of S. 414, and discussed problems caused by current Government patent policies. U.S. Comptroller General Elmer B. Staats indicated that the bill would "go a long way to clarify the muddled patent situation that presently exists." Further hearings on S. 414 have been scheduled for June 6th.