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Purpose of this Memorandum

Congressman Ray Thorton has introduced H.R. 6249 which would establish a uniform Government policy as regards rights in inventions made by Government employees, contractors, and grantees. It would also provide legal authority where it is now lacking for the licensing of Government-owned (patented) inventions. A decision is required as to what position the Administration should take on this bill.

Summary of H.R. 6249

Probably the most controversial and politically sensitive portion of the bill is Chapter 1 of Title III which deals with the allocation of patent rights in Government grants and contracts, and, accordingly, most of this paper is devoted to that subject. As for the rest of the bill, Title I contains a statement of findings and purposes which should not be controversial. Title II provides an institutional framework through OSTP and the FCCSET to assure uniform implementation of the Act's provisions. This, also, should not be controversial. Chapter 2 of Title III is an effort to codify the criteria of Executive Order 10096 initially issued by President Truman concerning rights of Federal employees in inventions made by them that are job related. It also includes authority for incentive programs. Again, this should not present controversy. Title IV provides all Federal agencies authority to license Federally-owned inventions. Since a number of agencies already have such authority, this should not be controversial. However, there may be some debate concerning the procedures established for granting licenses, especially exclusive licenses, although as written the bill would seem to contain sufficient procedural limitations to satisfy

most critics of exclusive licensing. Indeed, these safeguards may prove overly restrictive in the sense that they may make it difficult to carry out effective licensing programs. Title IV also provides the Department of Commerce with certain additional authorities so that a centralized Government licensing program could be undertaken by it. This does not appear controversial. Title V contains definitions and amendments and repealers of existing statutes.

Chapter 1 of Title III would supplant the current multiplicity of statutory and administrative policies and procedures in the area of contractor and grantee inventions with a uniform approach. It would allow contractors and grantees to have the option of retaining title to inventions made by them under their grants or contracts subject to various rights that would be retained by the Government. But it does allow case-by-case deviations by individual agencies which might be invited, for example, in isolated cases when the Government is fully funding the development of a product or process to the point of commercial application.

Genesis of H.R. 6249

H.R. 6249 is the culmination of years of discussion and agency operating experiences. It has its genesis in and is basically an adaptation of a draft bill that was prepared in 1976 by the Interagency Committee on Government Patent Policy of the FCST (now the FCCSET). This draft bill was, in turn, partially inspired by the Report of the Commission on Government Procurement which was issued at the end of 1972. This bipartisan commission made up of Congressional, executive branch, and private members recommended that Government patent policy continue to be guided by the President's Memorandum and Statement of Government Patent Policy first issued in 1963 by President Kennedy and revised in 1971 by President Nixon. However, the Commission also

put forth an alternative recommendation for legislation quite similar to the H.R. 6249 approach in the event experience under the then recent 1971 revisions was not satisfactory. Subsequent to that report an internal Justice Department memorandum (subsequently withdrawn) and lawsuits filed by Public Citizens, Inc. (dismissed for lack of standing) have thrown a cloud over Government patent policy. In addition, the Congress has enacted a number of piecemeal patent statutes applying to individual programs since the 1972 Commission report. As a result of these developments and actual operating experience there appears to be fairly widespread support for legislation along the lines of H.R. 6249 among the operating agencies, and, in fact, it was these developments that led the Committee on Government Patent Policy to develop a draft bill.

Current Contract Clauses and Procedures and the Goal of Uniformity

The primary issue that H.R. 6249 focuses on is what type of provisions should be included in Government research and development grants and contracts concerning rights in inventions. Essentially there are three options (although not all potential contractors would be willing to accept certain of the options). One could include a clause giving the Government title to all contractor inventions. One could provide that the contractor will retain title, subject to whatever licenses and other rights it is agreed that the Government would obtain. Or one could provide that the Government will have the right to determine the disposition of rights in any invention after they are identified (the "deferred determination" approach.) For the most part, Government agencies now use clauses following the last two alternatives since even most so-called "Title in the Government" clauses provided that the contractor may request greater rights than a nonexclusive license. DOD, for example, uses a "Title in the Contractor" clause

in 90 percent of their contracts with profit-mal[illegible] HEW and NSF generally use a deferred determination clause, although they have entered into standing agreements with certain universities with effective technology transfer programs allowing them the option of returning title to inventions. However, there are a number of statutes which limit the use of "title-in-the-contractor" with respect to certain agencies or program of agencies. Agency procedures and policies concerning the granting of rights under deferred determination clauses also vary considerably.

Currently there are 19 piecemeal statutes governing patent policies. These range from statutes that provide extremely general guidance (the NSF Act), to statutes requiring title in the Government but allowing waivers (NASA and ERDA), to statutes incorporating the President's Statement of Patent Policy. There is no consistency among these statutes although most are title-in-the-Government oriented. Of course, most agencies have no statutory provisions governing their policies. For the most part, these agencies have been guided by the Presidential Statement of Government Patent Policy, and, in fact, many of the agencies with statutes have generally followed the policy to the extent it is not incompatible with their statutes. However, the Presidential Policy Statement only establishes general guidelines as to when title in the Government, title in the Contractor, or deferred determination clauses should be used. It has not prevented the development of a maize of individual agency regulations, clauses, and procedures; and has provided no guarantee that agencies would consider similar contracts as requiring similar clauses. Universities and private firms dealing with the Government are thus confronted with a variety of clauses, waiver provisions, forms, and procedures. H.R. 6249 has as one of its objectives the elimination of this current maize of statutes and regulations. If enacted, it does appear likely that this objective would be achieved.

Title-in-the Contractor vs Deferred Determination/Title in the Government Approach

Of course, the primary issue remains as to whether the approach taken in the bill is the best one. Opponents of the bill will probably argue that allowing contractors to retain title is a "give away," "anticompetitive," and provides contractors with a "windfall." It can be expected that some will argue that the uniform approach that should be taken is a deferred determination approach with emphasis on the Government retaining title. The ensuing discussion concerns these two approaches.

There is general agreement that the primary objects of Government patent policy should be to (1) promote further private development and utilization of Government-supported inventions, (2) ensure that the Government's interest in practicing or having practiced for it inventions supported by it is protected, (3) ensure that patent rights in Government-owned inventions are not used in an unfair or anticompetitive manner and that the development of Government-supported inventions is not surpressed, (4) minimize the cost of administering patent policies, and (5) attract the best-qualified contractors.

Objective (2) is satisfied equally well by either approach since the Government will retain a royalty-free license even if the Contractor has title. Objective (4) will clearly be more adequately met by the H.R. 6249 approach. There is little question that enormous amounts of contractor and Government time would be required to process requests for rights made under deferred determination clauses. There can also be little debate that objective (5) will best be met by the H.R. 6249 approach.

That is, there is little question that many firms, with established commercial positions and not solely engaged in Government contracting, would refuse to undertake or compete for Government research and development contracts in the area of their established positions if a deferred determination clause were insisted upon by the Government.

The real debate, therefore, centers on objectives (1) (2) and (3) of promoting further development and guarding against misuse. Opponents of H.R. 6249 will argue that it will not really ensure greater development and will lead to abuses, i.e., either suppression of inventions in some cases or higher prices ("a windfall") in others because of the patent monopoly. Proponents argue that the H.R. 6249 approach will maximize commercialization of inventions, that the potential abuses are more theoretical than real, and that, in any case, the bill's "march-in" provisions are available to rectify any real abuses that might develop. They would also argue that the issue of higher prices, to the extent it is true, assumes that the invention is commercialized. They would argue that under the deferred approach many fewer inventions will be commercialized and for those that are not the issue of price is moot and the public is plainly not as well off with fewer improved products.

We are convinced that the proponents of the H.R.6249 approach are on much sounder ground and recommend it for reasons that will be outlined below. It should be emphasized that one can easily develop hypothetical situations which would demonstrate that keeping title in the Government under a deferred approach would be the desirable alternative in a given case. Conversely, one can build hypotheticals the other way. However, we are convinced that in actual practice the hypotheticals that can be

put forward by opponents of H.R. 6249 are few and far between. On the other hand, practical experience readily demonstrates the need in many cases for leaving rights in inventions to inventing contractors or grantees if expeditious further development is to take place. There is also considerable doubt, in any case, whether the federal agencies have the resources and expertise to conduct the type of technical, economic, and marketing studies that would be needed to determine with any degree of certainty the best way to have a given invention commercialized, i.e., by leaving it with the inventing contractor, by dedicating it to the public, or by Government patenting of the invention and licensing.

A decision by any firm to invest in the development and marketing of an embodiment of a patentable invention is dependent on numerous factors. Obviously patent rights will not be a factor in such decisions unless a potential market is envisioned. But all other things being equal, the existence of patent rights is a positive incentive for investment in commercialization. And it should be kept in mind that normally the cost of bringing an invention from its initial conception or reduction to practice (which is as far as most government supported inventions are funded by the gov't.) to the commercial market is many times the cost expended in first inventing it under a government grant or contract.

As a general proposition, the inventing organization is more likely to be interested than will other organizations in commercializing an invention. It is probably also better qualified or at least as qualified as any other firm to promote or undertake further technical development. It may have know-how not necessarily available to other companies. It will also normally have an inventor and technical team interested in seeing

their idea brought to fruition; i.e., the reverse of the "not invented here syndrome." And, in the case of many commercial contractors, a government supported invention may only be one piece of a larger contractor-owned portfolio. It should be kept in mind that most patents cover only improvements. Few and far between are inventions that standing alone can form the basis for a major new commercial line.

Because of the above circumstances, there seems to be little reason not to allow the inventing contractor the opportunity to retain title to the invention and commercialize it. Indeed, in the case of nonprofit organizations or smaller nonmanufacturing firms, it would be unreasonable to expect any development or promotional efforts to be undertaken without such rights except in extremely unusual circumstances. There seems little point in the Government taking title and licensing the inventions or going through a deferred determination process if the Government's objective is to maximize utilization. These latter approaches assume that Government personnel will either be in a position (i) to determine if the existence of exclusive patent rights is needed as an incentive to further development or (ii) to find a better qualified firm to commercialize the invention with exclusive rights.

As regards the question of whether exclusivity is needed, it should be recognized that if the Government determines that exclusivity is not needed but is wrong, no products will be developed. On the other hand, if the Government was right consumers might save the hypothetical difference in price that would be charged by someone holding exclusive rights as opposed to someone who developed the product without exclusive rights.

In any case, the public will presumably get an improved product or process which they find more beneficial than its previous alternative. Moreover, for the Government to be right more often than not would require rather extensive technical, marketing, and economic studies of the firms, technology, and markets industries involved. The cost of such processes would probably cost the taxpayers more over the long run than any savings they would make as consumers. This is especially true because in most cases exclusivity will be needed, and the costly determination process will have been engaged in to simply confirm this fact. Moreover, the inevitable length of the process would probably cause many potential developers to lose interest before a decision was made.

Similarly, as regards the possibility of the Government taking title and offering the invention for exclusive licensing, this assumes that commercial developers, other than the inventing contractor, can be found. That may be in some cases, but there is no effective means of ensuring that other firms would do any better job of developing the invention than would the contractor or a licensee of the contractor. As noted previously, other firms will lack some of the "know how" and will not have the inventor or coinventors working for them. And one can be quite sure that in most cases the inventing organization will have little interest or incentive to transfer its know how to another firm, possibly a competitor. Moreover, the very process of attempting to find alternative developers will simply serve to delay private investment or cool the interest of the inventing contractor. It may also force the Government into the expense of filing patent applications to prevent bars running during the course of the decision making process. Moreover, again, a deferred determination that was truly geared to answer the questions that trouble opponents of the H.R. 6249 apporach would be so costly, elongated, and time consuming

as to discourage many contractors from requesting rights in the first place, especially small business and universities. They might even neglect to report the invention in the first place under those circumstances. In all likelihood, without a request for rights to trigger the process, most agencies will have no real incentive to do anything with the disclosure and the invention will fall into the public domain to be available to all and, in most cases, practiced by no one. Indeed, the agencies will most likely be devoting so many resources to those cases where rights are requested that there will be insufficient personnel or interest to study inventions where rights are not requested.

Thus, it does appear that the H.R. 6249 is more likely to maximize the commercialization of Government-supported inventions than are any alternative approaches. This leaves open the question of which policy will best guard against abuse. It seems axiomatic that a policy favoring title in the Government will give Government contractors less opportunity to misuse patent rights, but this is at the extremely high cost of a markedly lower rate of commercialization of inventions. In any case, there is little evidence that the hypothetical abuses that are feared have actually materialized. Government contractors and grantees have been allowed to retain title to numerous inventions over the years. But opponents of the H.R. 6249 approach have never given examples of actual abuses. In any case, H.R. 6249 provides the Government with a variety of remedies through its march-in right provisions in instances where an abuse or problem did develop.

We would also note that an argument could be made that allowing contractors to retain patent rights (the H.R. 6249 approach) will promote

competition whereas a title-in-the-Government approach will tend in the opposite direction. Of course, opponents of H.R. 6249 will argue that the opposite is the case. However, their arguments are very much dependent on the assumption of a competitive market place. In fact, like it or not, many industries are oligarchial in structure and do not fit the model of pure competition. When this is the case, the retention of rights in the Government and a policy of free public use tends to serve the interests of the dominant firms for whom patent rights are not normally a major factor in maintaining dominance. Rather control of resources, extensive marketing and distribution systems, and superior financial resources are more important factors in maintaining dominance and preventing entry of new firms. On the other hand smaller firms in an industry must often rely on new innovations and products in order to compete and grow. Because of this patent rights tend to be a much more significant factor affecting their investment decisions. They may need the exclusivity of patent rights to offset the probability that a successful innovation would otherwise lead to copying by a more dominant firm who could soon undercut their market because of marketing, financial, and other advantages. Thus, a title-in-the-Government oriented approach may, in fact, be anticompetitive, since it encourages the status quo.

On the whole then, it is believed that H.R. 6249 would best meet the various objectives of Government patent policy.

Agency Comments

Agency views on H.R. 6249 were solicited by OMB. The only agency opposed was the Department of Justice which over the years has advocated

a title in the Government approach. Among the principal R&D agencies the following urged support of the bill, although some felt that refinements of the march-in provisions of the bill were needed so as not to discourage potential investors and thus defeat one of the primary purposes of the bill. Other principal R&D agencies took neutral stands on the bill. These included _____.

It is our understanding that the University community is strongly in favor of the bill with some minor refinements, and it seems axiomatic that industry will support it. The main opponents seem likely to be some of the public interest and consumer groups whom, mistakenly we believe, will view the bill as promoting monopoly. In short, the bill will be opposed by groups having a distrust or dislike of the patent system.

The bill has been referred jointly to the House Science and Technology Committee and the Judiciary Committee. Hearings are expected by the Science and Technology Committee in January 1978 where the bill should receive a favorable reception. The real battle will probably take place when the Judiciary Committee takes up the bill, although the House S&T hearings should surface the opponents and proponents of the bill.

Recommendations and Decision

Three options appear available to the Administration.

[ ] Option 1. Support the bill with the understanding that minor amendments or refinements will be needed.

[ ] Option 2. Oppose the bill.

[ ] Option 3. Remain neutral, but allow the individual agencies to support or oppose the bill as they feel appropriate.

We recommend Option 1 (or) as a fallback, ~~or~~ Option 3. We believe the bill ~~on its face would~~ represents a substantial improvement in the law and merits support. On the otherhand, neutrality at this point might have the advantage of letting the Administration get a better feel for the political forces that will be both for and against. It is possible that opposition to the bill will prove less than expected since some of the past Congressional title-in-the-Government advocates such as former Senator Hart are no longer in office. It has been around 10 years since comprehensive legislation in this area was last surfaced. A policy of neutrality would mean that we would be allowing the bill to continue as a Congressional initiative while allowing the individual agencies to support or oppose the bill as they see fit until such time as a definitive Administration position is formulated. Under Option 3 it would seem appropriate to reassess the situation after the House S&T Committee acts on the bill.