STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF

THE HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING

WITH REGARD TO

HR 12112 LOAN GUARANTEES FOR DEMONSTRATION FACILITIES

JUNE 2, 1976

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity of appearing before the Subcommittee with regard to certain patent aspects of HR 12112, which amends the Federal Nonnuclear Energy Research and Development Act of 1974 by adding a section on Loan Guarantees for Demonstration Facilities.

The Society of University Patent Administrators (SUPA) of which I am the President, is a recently established organization whose purposes as stated in its Articles of Incorporation are:

"1. To function as a nonprofit professional and educational society;

"2. To assist administrators of patent and copyright programs at institutions of higher learning in the licensing of technology and in encouraging faculty, research personnel and students to produce inventions;

"3. To cooperate with other organizations having purposes related to the advancement of the interests of institutions of higher learning in patents and copyrights.

"4. To make appropriate recommendations for the purpose of assuring effective transfer to the public of the fruits of inventiveness and literary creativeness."

Since the likelihood of a university availing itself of a loan under HR 12112 is very slim although not necessarily out of the question, my primary objective in appearing before you today is the fourth purpose stated above for which SUPA was organized.

My main concern is with Section 18(r) of HR 12112 which subjects inventions, made or conceived in the course of or under a guarantee, to the title and waiver requirements and conditions of Section 9 of the basic Federal Nonnuclear Energy Research and Development Act of 1974. My concern is reinforced by the manner in which the Energy Research and Development Administration has interpreted the Act.

There are two principal reasons for my concern. The first of these is equity. The second is the public interest.

From the standpoint of equity, one might use an analogy. A patent is issued by the Government. A fishing license is also issued by a government (a different government to be sure). But a fishing license is no guarantee that any fish will be caught. The fisherman may have fished the wrong stream, or used the wrong bait or tackle, or he may be just an incompetent fisherman. In somewhat like fashion, the issuance of a patent is no guarante that an invention will be used, or that a product or process that embodies the invention will be developed to the point of commercial utilization, or that a using public will want it. All of these activities, beyond the point of patenting, require ingenuity, energy and skill. A patent doesn't grant these attributes any more than a fishing license does.

The fundamental principle underlying Section 9 of the basic Act and the implementing ERDA regulations appears to be that the Government should have title to all inventions and patents made under ERDA contracts. To be sure there are provisions for waivers, but waivers are time consuming, costly, and sometimes impossible to obtain. If obtained, waivers include onerous

march-in and compulsory licensing conditions. For an energy program, a waiver of title to a patent by the Government is pretty worthless if the Government can step in and require licensing because the patent is necessary to fulfill energy needs. When one considers all of the additional steps that must be taken after a patent issues before the results can be publicly used, and these steps are rarely paid for by the Government, it is as if the issuer of the fishing license claimed all the fish that were caught. There is a basic inequity.

There is a much greater inequity if the Government claims the same patent rights where it only guarantees a loan. Here the Government is paying for nothing, except in the rare instance where there might be a default. All of the measures that must be taken for a successful enterprise will be paid for by nongovernment funds, including recruiting and supporting a staff that might make inventions. If the organization involved expects to and does pay back its loan, obviously with interest, why should it grant patent rights to the Government with whom it presumably does not have any direct relationship at all.

In addition to the matter of equity, there is the question of the public interest. The Constitution provided for patents because they are in the public interest. But the public interest will only be served if patented inventions are developed and marketed to the point where they are available for use. In a large majority of cases, this means that the organization that develops and markets an invention needs to have some assurance, such as title or an exclusive license, for some reasonable period of time, so that others will not step in and reap the fruits of its endeavors. Government ownership of inventions rarely provides this sort of protection. The problems with waivers have been discussed earlier. Fundamentally, what is needed is energetic, ingenious and skillful development of an invention to

the point of public use in a free market. Government ownership or control over inventions will not provide the energy, ingenuity or skill that are needed.

For reasons both of equity and of the public interest, I would urge deletion of Section 18 (r).