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United States Senate

COMMITTEE ON
ENERGY AND NATURAL RESOURCES

WASHINGTON, D.C. 20510

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June 22, 1982

MEMORANDUM

TO: Bill McCloskey

FROM: Paul Gilman

RE: Previously Discussed Modifications to S. 1657

You will find attached (Attachment 1) some language intended to resolve our concerns regarding the treatment of government owned contractor operated (GOCO) facilities. The intent would be to provide a liberal labor policy for the Departments under whom GOCO's operate, with the presumption in favor of granting patent rights on individual inventions unless it was determined that such rights should not be granted.

Also attached (Attachment 2) is language intended to capture an exclusion on the grounds of national security interests. The third area of concern, that of preserving the Federal government's residual foreign rights, appears to be more involved than my understanding at the time of our meeting. I have attached (Attachment 3) the language suggested by the Office of Management and Budget. It would appear that your effort to provide a reasonable time for electing to file is in conflict with the need to preserve the Federal government's residual foreign rights. I will discuss this issue further with the Department of Energy in view of the fact that your language has been taken from the regulations presently governing this procedure under Public Law 96-517. However, I believe the Department of Energy maintains that those regulations and the authority provided in Public Law 96-517 may also destroy the Federal government's residual foreign rights.

Lastly, because it appears the intent of S. 1657 is to impose a uniform patent policy over those Federal efforts directed at research and development and not commercialization, we would suggest that the provisions pertaining to the Synthetic Fuels Corporation be deleted.

1. Add a sixth subparagraph to Section 301(a) as follows:

"(6) The contract is for the operation of a Government-owned research or production facility, provided that the Federal agency shall normally grant waivers under the authority of Section 303(d) of this title."

2. Add a new paragraph (d) to Section 303 as follows:

"(d) (1) Where a Federal agency has reserved the right to acquire inventions under contract for the operation of a Government-owned research or production facility as authorized in Section 301(a)(6) of this Act, the Federal agency shall normally grant waivers upon request to any identified subject invention to either the contractor, or a third party sponsoring research or development activities at the facility, unless the agency determines that such action will not best serve the interests of the United States and the general public.

(2) In making determinations under subsection (d)(1) of this Section, the agency shall consider at least the guidance of Section 301(a) of this Title, the objectives of subsection (c) of this section, whether the agency is still funding development of the invention, and whether ownership of such invention could result in a conflict of interest."

Add a fifth subparagraph to Section 301(a) as follows:

"(5) the agency determines, on a case-by-case basis, that such action is necessary to protect the national security nature of such activities; or"

1 within a reasonable time, effective steps to
2 achieve practical application of the invention;

3 (2) to alleviate serious health or safety
4 needs which are not reasonably satisfied by the
5 contractor, his assignees or licensees; or

6 (3) to meet requirements for public use
7 specified by Federal regulation which are not
8 reasonably satisfied by the contractor, his
9 assignees or licensees.

10 (b) A determination made pursuant to this section
11 shall not be considered a contract dispute and shall
12 not be subject to the Contract Disputes Act (41 U.S.C.
13 601 et seq.). Any contractor adversely affected by a
14 determination under this section may, at any time
15 within 60 days after the determination is issued, file
16 a petition in the United States Court of Claims, which
17 shall have jurisdiction to determine the matter de
18 novo and to affirm, reverse, or modify as appropriate,
19 the determination of the Federal agency.

20 GENERAL PROVISIONS

21 Sec. 305. Each contract entered into by a Federal
22 agency shall employ a patent right clause containing
23 appropriate provisions to provide --

24 (1) that the contractor disclose each subject
25 invention to the Federal agency within a reasonable
26 time after it ^{is made} becomes known to contractor personnel

and that the Federal Government may
receive title to any subject invention not
disclosed to it within such time; and

1 responsible for the administration of invention and
2 patent matters,] and that the Federal Government may
3 receive title to any subject invention not
4 disclosed to it within such time; and

5 (2) unless the Government acquires title to
6 the subject invention under section 301(a) of this
7 title, that--

8 (A) the contractor make a written
9 election to the Federal agency within ^{a reasonable time} [two
10 years] after disclosure under paragraph (1) of
11 this subsection [or such additional time as may
12 be approved by the Federal agency whether the
13 contractor will retain title to a subject
14 invention pursuant to the provisions of
15 section 302 of this title: Provided, That, in
16 any case where publication, on sale, or public
17 use has initiated the one-year statutory
18 period wherein valid patent protection can
19 still be obtained within the United States,
20 the period for election of title may be
21 shortened by the Federal agency to a date that
22 is no more than 60 days prior to the end of
23 the statutory period;]

24 (B) a contractor which elects rights in a
25 subject invention agrees to file [a] patent
26 application] [prior to any statutory bar date

1 that may occur under title 35, United States
2 Code, due to publication, on sale, or public
3 use, and shall thereafter file corresponding
4 patent applications in other countries in
5 which it wishes to retain title within
6 reasonable times, and that the Federal
7 Government may receive title to any subject
8 inventions in the United States or other
9 countries in which the contractor has not
10 filed patent applications on the subject
11 invention within such times; and

12 (C) the contractor, in the event a United
13 States patent application is filed, by or on
14 its behalf or by any assignee of the
15 contractor, will include within the
16 specification of such application and any
17 patent issuing thereon a statement specifying
18 that the invention was made with Government
19 support and that the Government has certain
20 rights in the invention.

21 (3) When a patent issues on an invention under a contract
BACKGROUND RIGHTS

22 Sec. 306. Nothing contained in this Act shall be
23 construed to deprive the owner of any background patent
24 or of such rights as the owner may have under such
25 patent.

26 TITLE IV - MISCELLANEOUS

The notification of the Patent's issuance that appears
in the Official Gazette of the U.S. Patent and
Trademark Office shall contain a statement specifying
that the invention was made with Government support
and that the Government has certain



RESEARCH AND
ENGINEERING

THE UNDER SECRETARY OF DEFENSE

WASHINGTON D.C. 20311

28 JUN 1982

Honorable Harrison H. Schmitt
United States Senate
Washington, D.C. 20510

Dear Senator Schmitt:

In accordance with our telephone conversation, I am enclosing a brief summary of the DoD position on your bill, S. 1657, the "Uniform Science and Technology Research and Development Utilization Act." The version to which we refer, and believe to be the most recent, is that reported out on May 5, 1982, by your Senate Committee on Commerce, Science, and Transportation. The points we would like to make are essentially these:

- o The bill is headed in the right direction, but there remain a few problems.

- o In March this year, the Administration, DoD concurring, submitted to the staff of your Committee certain language changes which would have overcome all objections, at least from Federal agencies.

- o The latest version of S. 1657 still does not contain all of the recommended changes. There are two which in our view are essential for a Federal patent policy:

- disclosure and reporting of inventions must be based on a time certain, e.g., their making or reduction to practice;

- DoD must have the right in cooperative programs to sublicense allied governments.

- o With the changes, DoD would support the bill.

There are some indications that the Armed Services Committee is concerned about the technology transfer aspects of the bill. In our view, this bill is and should be a patent policy bill. Technology transfer, particularly as involves the industrial base and the Soviet threat, is a far broader subject, and should be treated elsewhere.

I hope this is responsive to your question.

Sincerely,

Attachment
as stated

S. 1657
DoD Position

On March 8, OMB invited agencies to a meeting to discuss a Senate staff draft of S. 1657, and to formulate an Administration position on the legislation.

Like earlier versions of S. 1657, the revised draft provided that the contractor shall have the option of retaining title to subject inventions (Section 302), subject to at least a nonexclusive, paid-up license in the Government (Section 301(c)(2)), except in certain circumstances (Section 301(a)). The basic concept would thus parallel the President's Patent Policy, which presently governs most DoD research and development contracts, and is one which essentially we would support.

There were some provisions of the staff draft which the research and development agencies found objectionable. The research and development agencies principally interested are DoD, NASA, and DOE. OFPP and OSTP were also represented. At the meeting, an Administration consensus was reached, and language agreed upon which would have overcome the objections of the agencies. We understand that OMB transmitted the language changes to the staff of the Senate Committee on Commerce, Science, and Transportation, to which the bill had been referred.

The bill, as since revised, remains unchanged in two essential provisions. One concerns Section 305, which relates to the requirement for contractors to disclose and report contract inventions, and to take action either to file patent applications, or to elect not to file and to so advise, thereby giving the Government the option of securing patent protection itself. As presently written, the bill bases these obligations on the point at which the invention "becomes known" to contractor personnel responsible for patent administration. ~~There is no requirement on the contractor to make the invention known. This problem has been avoided by DoD over the years by basing the reporting and filing requirements on the event of the invention being first made or reduced to practice. This affirmative requirement sets the running of the contractor's obligation at a time certain, and enables the Government to assure that patent applications are filed by the contractor, or that the Government's right to file domestically and overseas is not barred by the patent laws of this and other countries. The language submitted by the Administration would have cured this weakness in S. 1657.~~

The second problem with S. 1657, as it presently stands, concerns the ability of the Government to enter into cooperative armaments programs with NATO and other allied governments. We have long held the view that it is important to the conduct of our international cooperative programs that the Government retain the authority in appropriate circumstances to grant rights to allied and friendly governments to utilize DoD-sponsored technology. Language submitted by the Administration but not adopted in the current version of S. 1657 would have accomplished the desired result by providing that the royalty-free license in the Government carries with it the additional right to grant sublicenses to foreign governments when determined to be in the national interest pursuant to existing or future treaties or agreements.

WAF
garbled
incorrect

You have asked for my advice as an attorney concerning certain organizational conflict of interest questions which have been raised concerning the national laboratories in the event the Schmitt bill should be enacted into law with its present language granting a first option to Federally funded inventions first conceived or reduced to practice at a GOCO facility to the operator or contractor of the GOCO facility. Specifically, you indicated that the following situation had been postulated as an argument to show organizational conflict of interest at a laboratory such as this one.

An invention is made with Federal funds at this Laboratory and an option is granted under the provisions of the Schmitt bill to pass title to either the operator of the Laboratory or to a nonprofit entity acting on behalf of the Laboratory. Thereafter, a royalty-bearing, exclusive license is granted to a corporate entity with the royalties being applied for the benefit of the contractor and the Laboratory. Subsequently, a procurement is sought on behalf of the DOE or the Laboratory involving a project wherein the licensed invention could appropriately be used but is not necessarily required, i.e., there are satisfactory alternatives. Moreover, Laboratory staff are on the selection panel determining which industrial bidder will get the contract. The licensee bids on the contract.

The argument is made that in the circumstances noted above there is an organizational conflict of interest because it would be in the Laboratory's interest to have the licensee obtain the contract since this would result in the payment of royalties accruing to the benefit of the contractor or the Laboratory. It is my opinion that such an argument is clearly erroneous in that the express language of the Schmitt bill precludes any payment of royalties in these circumstances.

Thus, Section 301(c) requires that any contract entered into by a Federal agency include appropriate provisions whereby unless greater rights are acquired by the United States under Section 301(a), at least an irrevocable, nonexclusive, nontransferable, paid-up license to make, use, and sell any subject invention throughout the world by or on behalf of the United States is reserved to the United States. The term "contract" is defined in Section 103(l) as including any assignment, substitution of parties or subcontract of any type entered into or executed for the conduct of experimental, developmental, or research work in connection with the performance of a contract with a Federal agency for the performance of the same type of work, i.e., experimental, developmental, or research.

It is therefore apparent that if the Schmitt bill is enacted into law with its present language, the prime contracts under which the various national laboratories operate would of necessity be modified to conform them to the requirement set forth in Section 301(c) as well as the various other requirements imposed by the Schmitt bill or P.L. 96-517 as amended by the Schmitt bill.

Since it is not seen how Laboratory staff when acting in an official capacity could authorize or approve any contract or subcontract which would be other than by or on behalf of the United States, there could be no royalties paid as a result of the use of a licensed invention and hence no monetary benefit to the Laboratory. In this circumstance it is my opinion that there is no organizational conflict of interest.

To the extent it may be contended that the grant of a contract to the licensee even in such circumstances would nonetheless provide an indirect benefit to the Laboratory and thus still constitute an organizational conflict of interest, such contention is also without merit. The only indirect benefit argument of which I am aware appears postulated on the theory that the use of a licensed invention in a contract or subcontract authorized or approved by Laboratory staff would redound to the benefit of the Laboratory in that it would aid in the commercialization of the invention and thereby ultimately result in greater royalties to the contractor and/or the Laboratory.

There are several reasons why such an argument does not validly support a finding of organizational conflict of interest. First of all, contracts let on behalf of the Laboratory are almost invariably for programmatic purposes as ultimately defined and approved by DOE or other Federal program managers. As such, they are not intended for commercialization and it is an unusual circumstance when in and of themselves, i.e., without substantial and significant additional effort by the licensee, they result in a commercial product. Secondly, any contracts or subcontracts authorized or approved by Laboratory staff are required to conform to procurement policy and regulations authorized and approved by DOE. Clearly, the letting of a contract or subcontract merely for the purpose of aiding in the commercialization of a licensed invention would result in disapproval of the contract during the contract review cycle by DOE. Finally, to the extent that it can be reasonably perceived that the granting of title to a Federally funded invention would likely result in an organizational conflict of interest, this would presumably constitute an obvious exceptional circumstance justifying a refusal of the agency to grant rights to the invention to the operator of the GOCO. In appropriate circumstances, such refusal would be justified under Section 301(a)(2) of the Schmitt bill.

Accordingly, it is my opinion that passage of the Schmitt bill will not result in organizational conflict of interest for this Laboratory.

THE WHITE HOUSE

WASHINGTON

July 21, 1982

Dear Senator McClure:

This letter presents the Administration's position on the provisions of S.1657, the "Uniform Science and Technology Research and Development Utilization Act," concerning rights to inventions resulting from research performed by Government-Owned Contractor-Operated (GOCO) entities.

The Administration strongly supports the approach to this issue embodied in S.1657. That Bill, as reported by the Senate Committee on Commerce, Science, and Transportation, provides GOCOs the first option to ownership of inventions made with federal support, unless "exceptional circumstances" dictate otherwise. This approach is consistent with the central thrust of this important legislation -- private sector ownership of rights to patents resulting from federally-funded research, unless such ownership is contrary to the national interest.

Although this approach reverses the long-standing patent ownership practice of DOE and its predecessor agencies, as well as that of some other agencies, we have concluded, after careful study, that there is need for the change reflected in S.1657.

Successful technology development and commercialization by the private sector are critical to efforts to revitalize our economy and enhance our international stature. To this end, the Reagan Administration is committed to removing barriers to, and providing incentives for, increased private sector technological innovation and productivity. The major thrust of S.1657 is to stimulate innovation and productivity in the United States by encouraging transfer of federal R&D results to the private sector for commercialization. We, therefore, support S.1657 as a means of enhancing this country's efforts to commercialize technologies, increase productivity, and contribute substantially to job creation. Because GOCOs represent a tremendous source of technological innovations with significant commercial potential, they should have every incentive to identify and transfer these innovations to the private sector. Patent ownership has proven to be a powerful incentive to innovation and commercialization of technology.

Those promoting retention of the present policy suggest it is necessary to maintain GOCO commitment to agency goals and prevent the possibility that GOCO ownership of inventions might diminish or distract from the performance of assigned tasks and lead to a conflict of interest. In our review, no such conflicts were identified in the performance of any long-term government R&D contracts where contractors retained ownership of government-funded inventions. Absent compelling arguments to the contrary, we believe it inappropriate to establish any sweeping exceptions to the general policy proposed by S.1657.

In those specific situations where government ownership of inventions by GOCOs is justified, S.1657 authorizes agencies to limit the rights of a contractor simply by determining "that there are exceptional circumstances requiring such action to better promote the policy and objectives" of the act (Section 301(a)(2)). This is consistent with the policy established in Section 101(5), to "guarantee the protection of the public interest."

We hope that this discussion clarifies the Administration's strong support for Senate passage of S.1657, including its handling of the GOCO issue. We will be pleased to discuss this issue with you and your Committee further as required.

We are advised by the Office of Management and Budget that there is no objection to the submission of this report for your consideration and that the adoption of the recommendations made herein would be consistent with the program of the President.

Sincerely,



G. A. Keyworth
Science Advisor to the President

The Honorable James A. McClure
United States Senate
Committee on Energy and Natural Resources
3121 Dirksen Office Building
Washington, D.C. 20510



STATEMENT OF ADMINISTRATION POLICY

June 25, 1982
(Senate)

S. 1657 -- Uniform Science and Technology
Research and Development Utilization Act
(Schmitt (R) NM and 5 others)

The Administration supports Senate passage of S. 1657, which extends to large businesses the same approach to the allocation of rights to inventions resulting from federally funded R&D as granted under P.L. 96-517 to small businesses and non-profit organizations.

* * * * *

