DRAFT:OGC:AJK:ss 3/2/78

Mr. James M. Frey
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Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

Your Legislative Referral Memorandum of February 22, 1978, asked for the Foundation's comments on the draft decision paper on Federal patent policy for possible submission to the President in response to his request for a review of the Government's patent policy. Specifically, you asked that we review the draft paper to ensure that:

(1) All background information is correct and fairly stated;

(2) All policy alternatives were considered; and

(3) The policy alternative which the Foundation preferred was fairly and concisely presented.

You also noted that the arguments in support of the alternative policy positions would be developed further and that arguments for alternatives III-V would be presented more completely than in the present draft.

Since you state that the policy alternative positions are intended to be further developed in future drafts, and particularly since alternatives III-V are to be presented more completely, it is difficult to assess the impact which the draft position paper may have. As the draft now

stands, however, we believe that it needs serious revision to more fully develop each of the options and to give better balance to the pros and cons presented under each option. In answer to your specific questions:

(1) Have all policy alternatives been considered? The paper gives the impression that the options listed are mutually exclusive, but we do not think they are. One could, for instance, recommend support for the Thornton bill (Option 1) and at the same time consider both Options IV and V. In our letter of February 16, 1978 (copy enclosed for your convenience), setting forth the Foundation's basic position on Federal patent policy, we indicated that one could agree to work with Congressman Thornton on legislation embodying the basic thrust of his bill while at the same time formulating specific requirements that would be desirable. We recommend that the draft paper be revised to make clear to the President that a mix of options is possible.

Additionally, the paper presupposes that a " Government-wide" patent policy would be uniform, i.e., it would impose the same policy upon all agencies, perhaps with specified exceptions. One alternative not presented is to adopt an approach where each agency has the option of selecting a license policy or a title policy or some mix, depending upon the circumstances, either on a case-by-case

basis or a class of cases basis. It may be argued that Option IV embodies this, but Option IV is vague and it is hard to tell in choosing ~~Option IV~~ it where one would come out pending further study and discussion. This option seems to merely postpone the problem of grappling with a Federal patent policy. ¶ We think the paper could also be

strengthened with a paragraph discussing "deferred determination", i.e., that in certain individual cases or classes of cases under Option I, agencies might include contract or grant provisions allowing them to defer decisions until after inventions are identified.

The paper could make more clear that the "status quo" option has the serious drawback in that it is not likely to be maintained for long. There has been a continuing history of piecemeal legislation on patent policy. Without enactment of a Government-wide policy, the Congress will very likely continue to legislate on a piecemeal basis and eventually foreclose all Presidential options. This point should be made in the paper.

Finally, the paper while listing options and presenting arguments for some of them is itself neutral and gives the President no useful analytical framework within which to make a choice or to judge the arguments. He is given little idea of the reason that lead to the options or the percentage of cases in which they may be valid. As you know, patent policy impacts on economic growth, job expansion, foreign and domestic competition, administrative

costs, and contractor participation in Federal projects. We recommend that the President be given either a more detailed analysis of the situation or that a firm recommendation be made as to which option, on balance, should be selected by him.

(2) Accuracy of background information.

a. The statement on the top of page 2 concerning lack of data is not entirely accurate. It is true that there is little or no evidence of any harm that has ever occurred from allowing a Government contractor or grantee to retain rights. However, GAO Report B-164031(2) documents the negative effects of DHEW's policy during the early 1960's of retaining rights to inventions. The 1968 Harbridge House report also documents that in some cases a title in the Government policy will have a negative effect on commercialization and contractor participation.

b. On page 2 we question the need for the sentence concerning the 1947 Attorney General Report. It does not appear germane to the remainder of the paragraph.

c. The summary of the President's Patent Policy on page 2 seems to us not entirely accurate, especially the third sentence of the paragraph. We recommend that the statement be redrafted and simplified.

d. On page 3, the description of the Commission on Government Procurement recommendations does not appear to be entirely accurate. For example, it is implied that an interagency committee was formed as the result of the

Commission's recommendations, and this could be misleading. The FCST Committee on Government Patent Policy existed before the Procurement Commission, and in fact, the FCST proposal for a bill stemmed from Public Citizens cases and the enactment of further piecemeal legislation during the period when ERDA was formed. This effort was separate from and after the Committee's review of the recommendation of the Commission on Government Procurement.

e. The description of H.R. 8596 on page 3 does not make the critical point that under the bill agencies can retain title in individual cases.

f. The last paragraph on page 3 implies that the Administration take no stand on H.R. 8596 because there has not been "extensive discussion" of licensing and employee rights issues. We disagree. During the drafting of a substantially similar FCST Committee on Government Patent Policy bill, such discussions were held and there appears to be general agreement on these matters.

g. Finally, it is our belief that specific classes of R&D exist where it is relatively clear that the title-in-the-contractor option is best. For example, we see no reason why colleges and universities and, perhaps, small businesses should not normally be allowed to retain title. At present around two-thirds of all basic and applied research is performed at universities and other nonprofit organizations and around 30% is done at such institutions.

We recommend that this point be incorporated in subsequent revisions of the policy paper.

(3) Policy Alternative Favored by NSF.

As stated in more detail in our letter of February 16, 1978, the Foundation favors the approach of H.R. 8596, the Thornton bill, with certain specific and important modifications. Given the options presented, this position could be described as favoring Option I, but Option IV as well. As we noted above, we think the options need to be more fully developed and balanced. In short, our preference is not squarely with any of the presently listed options, but falls somewhere in between them. Our February 16 letter remains the basic statement of the Foundation's position on Federal patent policy.

We appreciate having had the opportunity to comment.

Sincerely yours,

Maryann B. Lloyd

Acting General Counsel

Enclosure