FEB 23 1998

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Technology
Washington D.C. 20230

FEB 23 1998

TO: JOE ALLEN
(304) 243-4389

Honorable Constance A. Morella
Chairwoman, Subcommittee on Technology
Committee on Science
U.S. House of Representatives
Washington, D.C. 20515-6301

Dear Madam Chairwoman:

In response to the request of the Subcommittee staff, we have prepared comments on H.R. 2544. These were developed by the Interagency Working Group on Federal Technology Transfer, which includes the Departments of Agriculture, Commerce, Defense, Energy, Health and Human Services, Interior and Transportation, as well as the National Aeronautics and Space Administration.

We fully support the goal of H.R. 2544 to simplify the requirements imposed on Government-owned and operated federal laboratories in the licensing of their inventions. An additional important goal is ensuring federal agencies maintain the ability to exercise proper stewardship over the commercialization of government technologies. Each federal agency has a mission which ultimately provides benefit to the public. To achieve that mission, each agency must be able to exercise its stewardship responsibilities and ensure that commercialization is achieved in an appropriate and timely manner.

However, we believe several provisions of the bill should be revised in order to better achieve these goals. A few technical changes to related statutes are recommended to facilitate the transfer of federal technologies. They are included, per the request of Subcommittee staff.

The Office of Management and Budget advises that there is no objection to the transmission of this report from the standpoint of the Administration's program.

We look forward to working with you and your staff on this important bill.

Sincerely,

Gary Bachula
Acting Under Secretary
for Technology

Enclosure: Consensus Comments

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Thank you.

Oct 28, 1997

TO: NORMAN LATKER

FROM: JOE ALLEN

SUBJECT: WRITTEN COMMENTS ON MORELLA BILL

Thanks (as always) for your help! Enclosed is a copy of my draft letter. If you see anything missing or left out (or wrong) please let me know.

I've also attached a copy of the bill as introduced. Note that they changed our suggested notification procedure in Sec. 3(e). Let me know if this is a problem.

October 28, 1997

Honorable Constance A. Morella
Chair
House Subcommittee on Technology
2319 Rayburn House Office Building
Washington, D.C. 20515-6307

Dear Representative Morella:

During my recent testimony before your Subcommittee on your "Technology Transfer Commercialization Act of 1997," I was asked to comment in writing on the proposed amendments to the bill contained in the testimony of Federal Laboratory Consortium Chairman Dan Brand. I have listed below the FLC suggestions and my comments on them.

1. *Provide notice of invention availability and intent to license.*

H.R. 2544 has already adopted this suggestion in Section 3 (e) which requires agencies to provide public notice that inventions are available for licensing for at least 30 days before the license is granted.

2. *A related issue has to do with the information that must be included in the notice of intent .*

H.R. 2544 simply states that a notice must be given and does not list what information must go into the notice. I recommended in my testimony that agencies be encouraged to provide notices electronically as the most efficient method of alerting as many potential licensees as possible that a license is available. The current regulations calling for another round of notifications when someone has sought an exclusive license would be negated by the current bill. This is a significant step forward toward the goal of efficiently commercializing Government-owned inventions. I believe that the current bill language is appropriate as currently drafted.

3. *Potential licensees should be required to submit a commercial development plan prior to the granting of an exclusive license.*

~~H.R. 2544 has adopted this provision in~~ Section 3 (d)(2). permits Agencies to require such a plan at their discretion which I consider adequate

4. *Language should be restored to 15 USC 3710c(1)(A)(i) to read, "The head of the Agency or laboratory, or such individual's designee shall pay each year the first $2,000, and thereafter at least 15 percent, of the royalties or other payments to the inventor or coinventors* ***whose rights in the invention have been assigned to the United States*** *...*

I agree with this recommendation.

5. *Provide that the Government can license as well as assign its rights to an invention to the co-inventing party and that a co-inventor may voluntarily assign its rights to the Government for licensing.*

I am not aware that this has been a serious problem. I am concerned, however, that while the intent is clear that a co-inventing party should make such an assignment "voluntarily," such a provision raises the possibility that entities receiving sizable Government grants or contracts might feel coerced to make such assignments rather than upset their funding source. I suggest that this provision receive careful study and that it should probably not be placed in the current legislation until the university and small business community have an opportunity to comment and testify on its implications.

6. *Just what constitutes an invention is not always consistent in the statutes-regulations covering government funded inventions (Bayh-Dole), Government-owned inventions, patent statutes, Federal Technology Transfer Acts, CRADAS, etc.*

This suggestion is true, but raises several very controversial issues that far exceed the scope of the current bill. Legislation has already been introduced in previous Congress' by Rep. Morella attempting to allow Government-owned and Operated laboratories to copyright software under CRADA's. This is indeed a serious legal deficiency, but its inclusion would substantially cloud the current bill's chances of passage.

Similarly, many procurement agencies would probably have serious concerns with restricting their rights to inventions "conceived" under federal support and not also including "or first actually reduced to practice." Again this is a legitimate issue, but would raise possible formidable opposition to enactment.

I recommend that both issues be delayed for separate legislation and hearings since they are not directly related to the scope of the current bill and the important issues it already addresses.

7. *It is recommended that the proposed language be modified to state that authority is limited to the licensing of federal technologies directly related to the scope of work under the CRADA and such licenses are subject to the requirements of Section 209 of the Bayh-Dole Act.*

I have no problem with this recommendation.

8. *The legislation should be amended to continue to state that it is preferable to have non-exclusive licenses but permit the use of exclusive licensing as deemed appropriate by the federal agency.*

I do not agree with this comment. The current bill in no way restricts an agencies' ability to license non-exclusively if that is the most appropriate means of insuring prompt commercialization and protecting the rights of the American public. The comments implies that non-exclusive licensing is somehow morally superior and intrinsically in the public interest more than exclusive licensing. This is not justified. Licensing is difficult enough without Government artificially imposing these kinds of artificial barriers to commercialization. The language in the Morella bill should be retained.

9. *The proposed amendment removes current subparagraph 209(c)(1)(D), requiring that the terms and scope of an exclusive license not be greater than reasonably necessary to provide the applicant with incentives to develop the invention.*

This provision seems redundant since Section 3(d) TERMS AND CONDITIONS, states that "Licenses granted under this section shall contain such terms and conditions as the granting agency considers appropriate." Section 3(d)(2) further allows agencies to require that prospective licensees supply them with a "plan for development or marketing the invention." It would seem that these provisions would provide adequate authorities for agencies to conclude that the terms of the license should be tailored to these requirements.

There is no implication in the Morella bill that agencies are required to provide exclusivity to fields of use outside the marketing plan or to all applications of the invention. Agencies should not need legislation in order to exercise good judgment. I recommend keeping the bill language as presently constituted.

10. *The proposed amendment retains language aimed at antitrust considerations, but revises it to delete consideration of "undue concentration in any section of the country in any line of commerce to which the technology to be licensed relates," currently contained in 209(c)(2)(d).*

I am not sure what this change actually does to improve the language in Section 3(a)(4) or how useful it is in real life.

11. *Changes in the termination language (d)(1)B)(I) which deletes the demonstration to the satisfaction of the government that the licensee has taken or is likely to take steps to achieve practical utilization of the invention.*

I do not see specifically what terms are missing from the Morella bill that is being sought. Section 3(d)(1) requires periodic reporting from the licensee on their utilization of the invention and allows the agency to terminate it if the licensee is not achieving practical utilization within a reasonable time, is not manufacturing the product substantially within the U.S., or because termination is necessary to meet requirements for public use as specified by Federal regulations issued after the date of the license, and such requirements are not reasonably satisfied by the licensee. This seems to exactly parallel the current termination requirements in Section 209 of Bayh-Dole.

I hope that this has been helpful. If I can provide any additional information to you or other members of the Subcommittee, please let me know.

Sincerely,

Joseph P. Allen
President, National Technology Transfer Center

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HR 2544 IH
105th CONGRESS
1st Session
To improve the ability of Federal agencies to license federally owned inventions.

IN THE HOUSE OF REPRESENTATIVES
September 25, 1997

Mrs. MORELLA introduced the following bill; which was referred to the Committee on Science, and in addition to the Committee on the Judiciary, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To improve the ability of Federal agencies to license federally owned inventions.

[Italic->] Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, [<-Italic]

SECTION 1. SHORT TITLE.

This Act may be cited as the `Technology Transfer Commercialization Act of 1997'.

SEC. 2. COOPERATIVE RESEARCH AND DEVELOPMENT AGREEMENTS.

Section 12(b)(1) of the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. 3710a(b)(1)) is amended by inserting `or, subject to section 209 of title 35, United States Code, in a federally owned invention directly related to the scope of the work under the agreement,' after `under the agreement,'.

SEC. 3. LICENSING FEDERALLY OWNED INVENTIONS.

(a) AMENDMENT- Section 209 of title 35, United States Code, is amended to read as follows:

`Sec. 209. Licensing federally owned inventions

`(a) AUTHORITY- A Federal agency may grant an exclusive or partially exclusive license on a federally owned invention if--

`(1) granting the license is a reasonable and necessary incentive to--

`(A) call forth the investment capital and expenditures needed to bring the invention to practical application; or

`(B) otherwise promote the invention's utilization by the public;

`(2) the Federal agency finds that the public will be served by the granting of the license, as indicated by the applicant's intentions, plans, and ability to bring the invention to practical application or otherwise promote the invention's utilization by the public;

`(3) the applicant makes a commitment to achieve practical utilization of the invention within a reasonable time;

`(4) granting the license will not substantially lessen competition or create or maintain a violation of the antitrust laws; and

`(5) in the case of an invention covered by a foreign patent application or patent, the interests of United States industry in foreign commerce will be enhanced.

`(b) MANUFACTURE IN UNITED STATES- Licenses shall normally be granted under this section only to a licensee who agrees that any products embodying the invention or produced through the use of the invention will be manufactured substantially in the United States.

`(c) SMALL BUSINESS- First preference for the granting of licenses under this section shall be given to small business firms having equal or greater likelihood as other applicants to bring the invention to practical application within a reasonable time.

`(d) TERMS AND CONDITIONS- Licenses granted under this section shall contain such terms and conditions as the granting agency considers appropriate. Such terms and conditions--

`(1) shall include provisions--

`(A) requiring periodic reporting on utilization of the invention, and utilization efforts, by the licensee; and

`(B) empowering the Federal agency to terminate the license in whole or in part if the agency determines that--

`(i) the licensee is not adequately executing its commitment to achieve practical utilization of the invention within a reasonable time;

`(ii) the licensee is in breach of an agreement described in subsection (b); or

`(iii) termination is necessary to meet requirements for public use specified by Federal regulations issued after the date of the license, and such requirements are not reasonably satisfied by the licensee; and

`(2) may include a requirement that the licensee provide the agency with a plan for development or marketing the invention. Information obtained pursuant to paragraph (1)(A) shall be treated by the Federal agency as commercial and financial information obtained from a person and privileged and confidential and not subject to disclosure under section 552 of title 5, United States Code.

`(e) PUBLIC NOTICE- No license may be granted under this section unless public notice of the availability of a federally owned invention for licensing in an appropriate manner has been provided at least 30 days before the license is granted. This subsection shall not apply to the licensing of inventions made under a cooperative research and development agreement entered into under section 12 of the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. 3710a).'.

(b) CONFORMING AMENDMENT- The item relating to section 209 in the table of sections for chapter 18 of title 35, United States Code, is amended to read as follows:

`209. Licensing federally owned inventions.'.