Federal Patent Policy

Attached is a draft decision paper that has been prepared for possible submission to the President in response to his request for a review of the Federal government's patent policy.

The arguments in support of the alternative policy positions in the memorandum will be developed further and arguments for alternatives III-V will be presented more completely than they are in this draft.

Please review the draft paper to insure that:

-- all background information is correct and fairly stated;

-- all policy alternatives are considered; and

-- the policy alternative your agency prefers is fairly and concisely presented.

We also request that you (a) advise us of which policy alternative your agency favors so your position can be accurately recorded on the last page of the memorandum; and (b) have that position approved by the appropriate policy official in your agency.

Background

For over thirty years, a controversy has existed over how the Federal Government should allocate rights to patents resulting from federally-funded R&D. There are essentially two alternative ways in which the Government is able to allocate these patent rights: (1) the so-called title policy where the government takes title to the rights and grants nonexclusive licenses to all who wish to utilize the invention; or (2) the so-called license policy where the contractor takes title to the patent rights, subject to a royalty-free license being retained by the Government.

These alternatives can be considered opposite ends of a spectrum. Proponents of either position generally allow some movement towards the center. For example, Admiral Rickover and the Justice Department favor a title policy, but both would allow a contractor to obtain exclusive rights under certain circumstances. The major R&D agencies favor a license policy, but would require Government retention of title in some instances. The controversy centers on the rule to govern the mainstream of cases.

Unfortunately, the dispute has arisen more from differing philosophic goals than from facts. There are few concrete examples of harm arising from adoption of a license or title policy. Indeed, one of the major problems of considering this issue is the absence of adequate data.

In 1947 a report of the Attorney General concluded, in effect, that if the Government paid for the research from which an invention resulted, the Government should own the property rights to the invention. There are approximately 20 statutes governing patent policy in various agencies. Most of the statutes allow some flexibility in the allocation of rights. For example, the two most comprehensive statutes, that of NASA in 1958 and of ERDA (now nonnuclear energy contracts of DOE) in 1974, give the Government title but allow for the waiver of rights on a case-by-case basis. (NASA waives title upon request 80 to 85% of the time; ERDA less often.)

In 1963 and 1971, Presidential statements formulating government-wide patent policy were issued. These provided criteria for allocation of patent rights for agencies not governed by statutory policy. Where the government has primary interest, it would obtain title; where the contractor has an established non-governmental commercial position, he would be able to retain exclusive rights. Both Presidential statements agreed that the Federal patent policy should serve the public interest by insuring maximum utilization of government inventions, attracting the best qualified contractors, and ensuring that patent rights in government-owned inventions are not used for unfair or anti-competitive purposes or to suppress commercial development of the invention.

In 1972, a Commission on Government Procurement issued a Report to Congress which recommended supplanting the various limited statutes with a uniform government-wide Federal patent policy, following the lines of the 1971 Presidential Statement. As a result of the Commission's recommendations, an interagency committee of the major R&D agencies was formed to review Federal patent policy. Late in the 94th Congress, the committee proposed draft legislation incorporating a license policy. Because of objections to the proposed bill by the Justice Department a number of issues were unresolved and the bill was not transmitted as a Ford Administration bill.

However, Congressman Thornton (D-Ark.), Chairman of the House Subcommittee on Science, Research and Technology, introduced similar legislation (H.R. 8596) in the 95th Congress. That bill would, among other things, automatically allow a private contractor to obtain title to patents arising from Federal R&D contracts or grants, with the Federal Government receiving a royalty free license, if the contractor agrees to commercialize or otherwise achieve widespread utilization of the invention. Certain so-called "march-in" rights are included that would allow government intervention to protect public health, to assure use, or to prevent undue market concentrations.

The Thornton bill also raises a number of other issues--rights of Federal employees to their inventions, creation of a program in the Department of Commerce to license government-owned patents--which need extensive discussion within the Executive Branch. This memo only discusses the allocation of rights issue.

In response to OMB's request for comments on the Thornton bill, a wide range of views were received. Many of these views articulated the arguments developed in the course of the thirty-year controversy over "title" and "license" policy. The Department of Justice voiced the strongest opposition to the bill and the Department of Commerce, which contains the U.S. Patent Office, strongly supported it. The major Federal R&D agencies support the concept of the Thornton bill but expressed reservations with it on technical issues (not all related to allocation of rights).

Congressional opposition to the license policy proposed by the Thornton bill surfaced recently when Senator Nelson (D-Wisc.), Chairman of the Monopoly and Anticompetitive Activities Subcommittee of the Senate Small Business Committee, held hearings in December on Government Patent Policy and announced that his Subcommittee will be conducting a two-year study of the issue. His witnesses--including Senator Long, Admiral Rickover, Justice (speaking on its own behalf), and the FTC--favored a "title" policy, and opposed the Thornton bill approach. No proponents of a license policy were asked to testify.

Because Congressman Thornton is planning to conduct hearings on H.R. 8596 this spring, an Administration position may be needed.

Policy Alternatives

In considering what the Administration position on patent policy (and consequently the Thornton bill) should be, we have identified the following alternatives.

I. License Policy--Contractor Retains Ownership of Possible Patent Rights

Proponents of a license policy believe that in the public interest it will:

-- promote timely commercial utilization of inventions that will make new technology available to the consumer. Substantial investments are often necessary to develop a patent/idea into a marketable product and such investments will not be made if an imitator can reap the benefit. Thus, title is necessary if some inventions are to be brought to market.

-- minimize government regulation of the commercial marketplace.

-- maximize the participation of the best qualified contractors by encouraging them to participate in Federal R&D efforts. There are companies which will not bid on government R&D contracts because the restrictive patent clauses may threaten the companies' proprietary position. Further, the prospect of a useful patent (and potential royalties) is an additional incentive for participation.

-- assure the protection of the public interest through application of march-in rights.

-- provide consistency among Federal R&D agencies and uniformity in treatment of contractors and grantees.

-- provide performer equity in government procurements where recoupment is specified or in assistance transactions where cost-sharing is specified.

-- minimize administrative burden to the government--domestic and foreign filing not required, marketing to effect licensing not required, and enforcement through courts not required.

-- help small businesses who generally rely on patents for protection rather than tend to promote greater concentration of economic power in large corporations, as under a title policy with nonexclusive licenses.

-- be consistent with the fundamental principle of the patent system: namely, exclusive protection for a given period enhances technological application.

Proponents of a license policy further believe that in the absence of quantitative data, the commercial market practices should serve as the model for government policy.

This option would be implemented by supporting legislation along the lines of the Thornton bill. The bill has the approval of small businesses, industry in general, and the university community. In view of the small number of government patents this could be an easy way to solve the dilemma of title vs license; however, there appears to be considerable Congressional opposition to this approach.

II. Title Policy--Government to Take Title with Exceptions for Waiver in Limited Situations

Proponents of a title policy believe:

-- Government ownership of inventions resulting from federally funded contracts and grants would assure that they will be used to promote the public interest, rather than the not necessarily synonymous interests of private parties.

-- Granting ownership of inventions to contractors will concentrate economic power in large corporations.

-- There is little social purpose to permitting the contractor to retain title to the inventions arising from government R&D funding. For privately funded research, the patent system supplies an incentive to undertake risks of research by offering monopoly profits on successful results. Public funding of R&D, however, is in effect a government underwriting of the risk of research effort.

-- A license policy gives the contractor an unjustified wind-fall. In effect, under a license policy, the public may pay the contractor twice--first, through the governmental research support, and then again, through the patent monopoly surcharge in the marketplace.

-- Federal contractors do not need exclusive rights in government-financed inventions to induce them to accept government R&D con-

tracts, and they do not lower their contract price because of the government's grant of patent rights.

-- Government R&D contracts confer many benefits beyond the simple contract price--the opportunity to train key personnel, expand research facilities, develop knowhow: these assets are then applied to further the contractor's own commercial objectives.

This option could be implemented with an Executive Order for those agencies without statutes; however, the uniformity of new legislation may be more desirable. Much of the private sector, including industry and universities, would oppose this, considering it excessive government regulation.

III. Status Quo--Continue to Operate Under the Existing Statutes and Presidential Policy Statement

Good arguments can also be made for the option of maintaining our present policy.

-- it provides adequate flexibility for agencies to determine their appropriate patent policy;

-- it would permit the Administration to continue to review the Federal Government's patent policy and develop a more uniform policy once more and better facts are available to support it;

-- in the absence of convincing arguments for change, the status quo is a safe course; and

— it would not require legislation.

Government agencies and contractors have had much experience with the existing President Policy Statements, and the particular statutes. An effort to change the current balance of patent right allocations may result in a statute going arbitrarily to one extreme or the other, limiting necessary agency flexibility.

IV. Formulation of a Flexible, Government-Wide Patent Policy

This option would provide for a uniform, but flexible, policy in which the allocation of patent rights could be tailored to a particular situation. A flexible policy is needed because, in some instances, the public is benefited by government retention of title, whereas in others it is benefited by allowing the contractor to obtain exclusive rights. A policy of this type could incorporate some of the best parts of a title or license policy and will provide definitive guidelines for the government as a whole, rather than specifics for each agency. Criteria to be included in a uniform policy would be developed considering the objectives of Federal funding and the type of work to be done (i.e., research, development, demonstration or production). Research performers in a particular field would have predictable treatment no matter which agency provided the funding.

In order to properly develop guidelines for a government-wide policy, a review of patent policy considerations should be made which gives particular emphasis to how patent policy may best be used to stimulate innovation. A review group would be convened under FCCSET and would include people with policy and legal viewpoints from the R&D agencies and other interested agencies, such as the Department of Justice. The

work of such a group (developing guidelines and proposing draft legislation) would be completed within a year. Eventually this option would require an Administrative proposal to the Congress and the repeal of existing legislation.

V. Compromise--New Legislation Providing for a License Policy with Protection of Government Equity

This option is similar to Option 1, but in addition would provide for royalty payments to the Government to protect against "windfalls."

Proponents of this option believe:

-- Federal patent policy has been studied exhaustively. Legislation can be developed which would provide the benefits of uniformity and also protect the Federal government interest.

-- royalty payments would provide benefit to the Government when commercialization takes place and the benefit would be proportional to commercial success, thus preventing windfall profits.

This option would require drafting new legislation. The Administration proposal could be developed by OFPP along with their work on recoupment and cost-sharing regulations.

Decision

_____ Option I - License Policy
(Favored by)

_____ Option II - Title Policy
(Favored by)

_____ Option III - Status Quo
(Favored by)

_____ Option IV - Formulation of a Flexible Government-Wide Policy
(Favored by)

_____ Option V - New Legislation Providing for a License Policy with Protection of Government equity
(Favored by)