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FUTURE DEVELOPMENTS IN FEDERAL PATENT POLICY

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I. Introduction

The last two years have been very active for the issues regarding Government patent policy. Late in the 96th Congress, P.L. 96-517 was passed establishing a Government-wide patent policy for small businesses and nonprofit organizations (Bayh-Dole Bill), and this legislation was implemented through the issuance of OMB Circular A-124 and individual Government agency regulation. Also, the House, Senate, and the Executive Branch considered the bills introduced by Senator Schmidt (S. 1657) and by Congressman Ertel (H.R. 4564) which would have established patent policies normally allowing the contractor to retain title to inventions made under Government contract. There was also considerable effort in trying to develop a patent section for the Federal Acquisition Regulation (FAR) amid this legislative activity, as well as during a time when a new Presidential patent policy was in the midst of formulation. Work was also in process in trying to develop, for the first time, a policy on the acquisition of, and the obtaining of rights in, technical data developed under Government R&D contracts which would satisfy the needs of both the defense agencies' design, procurement, and utilization needs, as well as the civilian agencies' need to support research in the civilian areas.

As I am sure you all are aware by now, a new Presidential Memorandum on Government Patent Policy was issued on February 18 of this year. I entitled my remarks "Future Developments in Federal Patent Policy" because what has

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taken place in the last two years is not nearly as significant as the activity that will be taking place with the implementation of this Presidential patent policy. The policy itself appears to be, at least at first blush, relatively simple and straight forward in that it directs the heads of all executive departments and agencies to follow the policy of P.L. 96-517, to the extent permitted by law, for all funding agreements regardless if the recipient of such an agreement is a small business or nonprofit organization. I will address my remarks this afternoon to (a) the language of the Patent Policy Memorandum in an attempt to identify the issues raised by the Memorandum, and (b) the past implementation of P.L. 96-517 in order to identify the issues that might be now applicable to all recipients of contracts, grants, and cooperative agreements.

II. New Presidential Government Patent Policy

The first paragraph of the Memorandum to the Heads of Departments and Agencies on Government Patent Policy sent by the President this February 18 states as follows:

> To the extent permitted by law, agency policy with respect to the disposition of any invention made in the performance of a federally-funded research and development contract, grant or cooperative agreement award shall be the same or substantially the same as applied to small business firms and nonprofit organizations under Chapter 38 of Title 35 of the United States Code.

A. To the Extent Permitted by Law

The first phrase of the policy "To the extent permitted by law ..." is likely to be the most interesting and perhaps controversial issue raised by the new Memorandum. It would ordinarily be self-explanatory in view of the fact that a Presidential policy cannot take precedent over a patent policy established by legislation. Hence, patent policies of the DOE or the National Aeronautics and Space Administration (NASA) would not be changed, particularly not in those areas where the Presidential policy and the legislative policy are in direct conflict.

However, both DOE's and NASA's policies have a substantial amount of flexibility and discretion, and waivers to their policies of acquiring title to inventions can be granted, for example, where "... the interest of the United States will be served ..." (Space Act, 42 U.S.C. 2457), where DOE "... may deem appropriate ..." (Atomic Energy Act, 42 U.S.C. 2182), and where "... the interests of the United States and the general public will best be served ..." (ERDA Nonnuclear Act, 42 U.S.C. 5908). Each of these acts has its own legislative history and several years of precedence, and operational fine-tuning of issues have resulted from practical experience, administrative review, and review by congressional oversight committees and General Accounting Office (GAO) investigations. In view of this legislation and adminstrative history, I do not believe that the waiver guidance applied to DOE's and NASA's legislative patent policy can be substituted for the guidance that may be provided in P.L. 96-517 because of a Presidential Memorandum, even where the guidance applied to DOE's and NASA's statutory waiver policies allows for some measure of discretion.

For example, the legislative history behind DOE's nonnuclear patent policy states that the policy is based upon the Atomic Energy and Space Acts under which relatively few waivers were granted, and that Congress expected the same would be true under DOE's nonuclear statutory patent policy. Accordingly, I do not believe DOE's legislation would allow us to waive in all situations except for those situations provided for in P.L. 96-517 for GOCOs, exceptional circumstances, and areas of national security. To do so would completely reverse the legislative intent of DOE's nonuclear patent policy. This does not mean, however, that DOE and NASA will not follow the guidance of and the implementation of P.L. 96-517 where contrary statutory guidance is not provided, just as we have been following the 1971 Presidential Memorandum and its implementation to the extent permitted law.

The White House Fact Sheet, as issued by the Press Secretary along with the Presidential Memorandum on Government Patent Policy, states that agencies like DOE and NASA would have to continue to follow their own legislation but states that these agencies are expected to make the maximum use of the flexibility under the legislation to comply with the provisions and spirit of the Presidential Memorandum. This is not a particularly difficult problem with patent policies of the type set forth in the DOE and NASA legislation because, as stated above, the legislative history and congressional oversight of these policies make it clear that the policies require the agencies to normally take title to inventions made with agency support.

The White House Fact Sheet also states, after repeating the phrase "To the extent permitted by law ...", that the Memorandum "... is applicable to all

statutory programs including those that provide for inventions to be made available to the public." This reference is obviously directed to those agencies, like the Departments of Interior and Agriculture, or agency programs, having legislation requiring that inventions be "available to the public" (7 U.S.C. 427(i)), "freely available to the general public" (40 U.S.C. 302(e)), or "freely and fully available to the general public" (42 U.S. 1961 c-3). These "available" statutory patent policies have a long history based upon legislative history, congressional oversight, and Executive Branch interpretation as requiring the Government to take title, with no exceptions, to inventions made under support by those agencies.

There appears, therefore, to be direct conflict between the President's Memorandum, as interpreted by the White House Fact Sheet which suggests that discretion exists in these laws and that the Presidential Memorandum should be made applicable, and the long history of interpreting this type of "available" legislation as having no discretion. Inasmuch as the agencies have universally interpreted the legislation as lacking discretion, there appears to be no discretion or flexibility to which the Presidential Memorandum could apply. If discretion could be applied, application of the Memorandum would cause a total reversal of the agencies' previous positions, and would, in effect, change these agencies from "title taking" to acquiring title in inventions only in those limited situations permitted in P.L. 96-517. It would seem that these agencies are caught in a dilemma between finding that they had been interpreting their legislation incorrectly for all these

years, or simply saying that their laws, having no flexibility, are not affected by a Presidential Memorandum, notwithstanding the statement in the White House Fact Sheet.

This also raises an interesting question of what standing, legislative history, or instructional value is a "fact sheet" issued by a press office at the time an Executive Branch memorandum is issued. Having raised that issue, I am going to use my discretionary authority and flexibility and elect not to discuss it further.

B. Agency Policy

The Presidential Memorandum goes on to say that "... agency policy ..." will follow P.L. 96-517. This phrase is important in view of the fact that early drafts of the memorandum used the phrase "... agency policies, regulations, procedures, and patent rights clauses ..." would follow P.L. 96-517. During the period of interagency comments, the major R&D sponsoring agencies were in total agreement that the "policies" of P.L. 96-517, that is, the policy of allowing a contractor the first option to acquire title to inventions, was appropriate and should be applied to all types of contractors, as opposed to only nonprofit organizations and small business firms. There was substantial objection by DOE, DOD, and NASA, however, to the implementation of this legislative policy as it is applied to small business firms and nonprofit organizations in OMB Circular A-124, and in particular, to the specific clause language which was particularly developed, under the objection of many, to address the concerns and limited capabilities of the university

community. Accordingly, these agencies only agreed to the issuance of the Memorandum if the reference to regulations, procedures, and contract clauses was deleted.

While I am on the subject of the implementation of P.L. 96-517, I might say a few words in regard to how OMB Circular A-124 was developed. Although the R&D-sponsoring agencies were heavily involved in the development of the first draft of the Bulletin that preceeded the Circular and, like everyone else, were provided an opportunity to make comments on the Bulletin, the agencies were not given an opportunity to comment on the final language that was placed in the OMB Circular. As a result, there are many areas of the Circular that the major R&D-sponsoring agencies -- and in particular DOE, DOD, and NASA -- find objectionable.

Probably the most important objection is the structuring of the clause set forth in the Circular which allows nonprofits and small businesses to publish subject inventions prior to (1) any attempt being made to elect whether the contractor wishes to retain title, or (2) the Government being given the opportunity to protect those rights that the contractor does not want. Additionally, the clause allows the contractor the full U.S. statutory one year period after publication in which to file the patent application. If the contractor fails to file, or changes its election to file, there is no requirement that the sponsoring agency be given sufficient time to even protect U.S. rights in such inventions. The contractor is thereby permitted to destroy both domestic and foreign rights in inventions developed under

such funding agreements. In my opinion, this is in direct violation of the clear statutory intent of P.L. 96-517 which provides for residual rights to go to the sponsoring agency any time the contractor either fails to report, elect, or file within a reasonable time, or elects not to protect the invention.

Even if this and other objectionable features of OMB Circular A-124 were corrected, it was the position of at least DOE, DOD, and NASA that the application of the Circular to contractors other than nonprofit organizations and small business firms is inappropriate. In view of the fact that the primary beneficiary of P.L. 96-517 was the university community in grant situations, the major R&D-sponsoring agencies approved a flexible and even imprecise patent rights clause which provided inordinately long time periods to make decisions on election and filing. For example, the clause in Circular A-124 does not even have a positive reporting requirement in view of the fact that reports are only necessary where a subject invention is disclosed in writing to the contractor's "personnel responsible for patent matters." Additionally, record keeping requirements and authority to inspect records, as well as withholding of payment provisions, were not included in the clause when they have been boiler plate for many years in patent rights clauses found in the Federal Procurement Regulations and the Defense Acquisition Regulations. Such a "watered-down" clause, although perhaps justifiable in grant situations with the universities, were considered as totally inappropriate for patent rights clauses with contractors performing

the main, directed research efforts of the major R&D-sponsoring agencies. It is for this reason, therefore, that DOE, DOD, and NASA withheld their concurrence from a proposed Presidential memorandum which extended the application of the implementing regulations of P.L. 96-517 to all Government contractors.

C. Disposition of Any Invention

The next phrase of the policy statement also raises some interesting issues. The Memorandum states that agency policy "... with respect to the disposition of any invention made in the performance ..." of an R&D contract, grant, or cooperative agreement shall follow P.L. 96-517. The phrase "disposition of any invention made" normally refers to the basic allocation of rights between the Government and its R&D contractor, grantee or awardee, and primarily refers to whether the Government or the contractor acquires title. It would appear not to be an idle question as to whether the other rights or obligations of the parties under P.L. 96-517 were intended to be included.

In this regard, it is noted that the last paragraph of the Presidential Memorandum is as follows:

> In addition, agencies should protect the confidentiality of invention disclosure, patent applications and utilization reports required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws.

If the word "disposition" of the first paragraph was intended to cover requirements of confidentiality of invention disclosures and patent applications found in 35 U.S.C. 205, or confidentiality of utilization reports found in Section 35 U.S.C. 202(c)(5), there would appear to be no necessity for the last paragraph of the policy.

Additionally, the second paragraph of the Memorandum indicates that the rights of the Government or obligations of the contractor set forth in 35 U.S.C. 202-204 may be waived or omitted by the agency. These provisions include such items as: the Government's nonexclusive license; the Government's march-in rights; the contractor's obligations to make certain statements in a patent application; limitations on acquiring rights to the contractor's background patents; and requirements that exclusive licenses cannot be granted for the use or sale of the invention within the U.S. without an agreement to substantially manufacture the invention in the U.S. (hereafter referred to as the preference for U.S. manufacture). In view of the second and third paragraphs of the Memorandum, a logical interpretation of the first paragraph is that only the disposition of title in inventions made under R&D contracts are to follow the policies of P.L. 96-517.

D: Substantially the Same

The last area of interpretation of the Memorandum's first paragraph is that policies "... shall be the same or substantially the same ..." as set forth in P.L. 96-517. I personally have no idea what the phrase "substantially the same" was intended to mean, or how it will be interpreted. I, along with you, will watch the possible use of this flexible language with substantial interest.

E. Waiver of Rights and Obligations

An additional area of flexibility that will bear watching is the application of the second paragraph of the memorandum which states as follows:

> In awards not subject to Chapter 38 of Title 35 of the United States Code, any of the rights of the Government or obligations of the performer described in 35 U.S.C. 202-204 may be waived or omitted if the agency determines (1) that the interests of the United States and the general public will be better served thereby as, for example, where this is necessary to obtain a uniquely or highly qualified performer; or (2) that the award involves co-sponsored, cost sharing, or joint venture research and development, and the performer, co-sponsor or joint venturer is making substantial contribution of funds, facilities or equipment to the work performed under the award.

The "bottom line" of almost any Government patent policy, legislative or administrative, has been the retention by the Government of a nonexclusive license for its own use, and the ability of the Government to require licensing to others under certain limited circumstances -- as where the patent owner fails to commercialize or attempt to commercialize the invention, i.e., the Government "march-in" rights. The Memorandum, therefore, allows the agencies to waive these minimum Government rights as well as the preference for U.S. manufacturing obligation, and the obligation to provide utilization reports to the Government agency.

The findings that must be made in order to grant any or all of these waivers is that the interests of the U.S. will better be served by such a waiver, and the example that is given is where such action is necessary to obtain a unique or highly qualified contractor. Also, a finding that the contract

involves substantial co-sponsored, cost shared, or joint venture R&D will also justify a waiver determination. The reason that I find these particular guidelines of interest is that these types of contracting situations are not particularly unique or unusual in the Federal Government, and particularly not unique or unusual in the DOE. In DOE, many of our major program efforts involve a substantial amount of cost sharing or cooperative R&D agreements, and an argument could be made that any sole source justification would be enough to make a finding that the contractor is "unique." If these guidelines are interpreted so broadly, we have indeed entered a new era of Government patent policy where substantial cost sharing or a sole source justification will be enough to give up the Government's license rights, the right to inquire about commercial utilization, and the right to take any action where a contractor is effectively suppressing utilization of the R&D results.

Here again, the manner in which these provisions, or areas of flexibility, are implemented will bear watching, and will be of substantial importance to, for example, DOD's use of its own R&D results, and the general public's use of the results of much of the civilian agencies' R&D efforts.

III. Public Law 96-517

In addition to the issues and problems of interpretation caused by application of the public law to contractors other than small businesses and nonprofits set forth above, P.L. 96-517 itself has some areas that need interpretation totally apart from the application of the law under the Presidential Memorandum.

A. Funding Agreement

For example, DOE has been struggling with the definition of what is a "funding agreement" for some time. " The definition in the legislation refers to a "contract, grant, or cooperative agreement," which in turn is language that comes directly from the Federal Grant and Cooperative Agreement Act of 1977 (41 U.S.C. 401) which does not, in itself, define these terms. Additionally, implementing guidance by OMB and OFPP has not provided precise definitions of these terms.

We at DOE entered into a large variety of agreements involving R&D activities which at least some people do not consider as falling into the area of contracts, grants, or cooperative agreements, as the clauses mandated by the acquisition and assistance regulations are not used -- that is, clauses such as equal opportunity, covenants against contingent fees, and a whole raft of social and economic provisions. Examples are where DOE makes its national laboratories, or particularly designated research facilities, available to the general public for privately-sponsored research activities. In addition, DOE permits all manner of domestic and foreign persons to work in its national laboratories, and provides support to educational activities through fellowship agreements. Most of the agreements covering this type of research support are not written in the form of a contract, grant, or cooperative agreement, and do not follow legislative and regulatory requirements for such agreements. They are, therefore, being interpreted as falling outside the classification of a funding agreement.

Informal discussion with attorneys of other agencies indicate that other agencies have come to the same conclusion. The problem is, however, that when such agreements fall outside of P.L. 96-517, they fall within DOE's title-taking legislation which includes any "... contract, grant, agreement, understanding, or other arrangement which includes research ...." Therefore, when NSF concludes that fellowship agreements do not fall under P.L. 96-517, they are free to utilize any patent policy they desire. When DOE makes such a decision, the result is not as flexible.

B. Government-Owned Research or Production Facility

P.L. 96-517 need not apply to funding agreements for the "... operation of a Government-owned research or production facility ...", or what is otherwise normally referred to as a "GOCO." Here again, DOE may be in a unique position because we seem to be the only agency that admits to having contracts for the operation of Government-owned research or production facilities. As a matter of fact, we have: contractors which operate facilities on Government-owned land, in Government-owned buildings, using Government-owned equipment; contractors which operate facilities in Government-owned buildings, having Government-owned equipment, on contractor-owned land; contractors which operate facilities having Government-owned equipment, on contractor-owned land, and in contractor-owned facilities where the entire justification of the facility is to operate the Government-owned equipment. In addition, any of these factual situations can be further complicated by free use of contractor-owned lands and facilities, minimum payments for

such leases, and "full market" payments for such leases. We also have contracts for the operation of Government-owned equipment in Government-owned buildings on Government-owned land where the contractor has been permitted to mix in its private equipment for its private R&D purposes. Needless to say, we are having great difficulty in determining exactly how to define a "GOCO."

C. Agency Approval

There are several places in P.L. 96-517 where the contractor's actions are restrained unless approval is obtained from the contracting agency. Examples are the limitations on nonprofit organizations to assign invention rights or to grant exclusive licenses without agency approval, and the requirement for contractors to provide for preference for U.S. manufacturing unless a waiver is obtained from the agency. The issue has been raised to DOE as to whether such approvals can be made on a class basis at the time of contracting, rather than on an invention by invention basis. The issue is clear for those not under P.L. 96-517 because of the second paragraph of the Presidential Memorandum. The issue is not so clear for those falling under P.L. 96-517 in view of the fact that the type of decision to be made would appear to preclude an advance waiver or approval because of the individual invention nature of the determination to be made, and yet there is no express prohibition to a class, or advanced type, decision-making process in the legislation itself.

IV. Summary

In summary, there appears to be many areas in the public law itself which need to be addressed on a Government-wide basis, as well as the issue raised by the application of the public law as required by the new Presidential Memorandum on Government Patent Policy. I personally had been hoping that the Department of Commerce, as lead agency under OMB Circular A-124 and in response to their obligation to consult with representatives of the R&D-sponsoring agencies, would by now have established an interagency group in order to help uniformly interpret the public law, develop implementations under it, and address the objectionable areas in the Circular itself. Hopefully, the issues regarding interpretation and implementation of the public law under the Presidential policy will be guided by such a committee established under the Federal Coordinating Council for Science, Engineering, and Technology as envisioned by the White House Fact Sheet.