BARKER:sb 1 1

H.R. 12112

DEVELOPMENT OF SYNTHETIC FUELS

- - -

Wednesday, June 2, 1976

- - -

House of Representatives,
Subcommittee on Economic Stabilization
of the Committee on Banking, Currency and Housing,
Washington, D. C.

The Subcommittee met, pursuant to notice, at 9:35 o'clock a.m., in Room 2128, Rayburn House Office Building, the Honorable William S. Moorhead (Chairman of the Subcommittee) presiding.

Present: Representatives Moorhead (presiding), Schulze, and McKinney.

Also present: Representative Rousselot.

Also present: Ike Webber, Staff Director; and Larry Feldman, Minority Counsel.

- - -

Mr. Moorhead. The Subcommittee on Economic Stabilization of the House Committee on Banking, Currency and Housing will please come to order.

Today, hopefully, we conclude our hearings on synthetic fuels legislation pending before the Congress. The bill, H.R. 12112, was referred on a sequential basis to this Committee, following th report of the legislation by the Committee on Science and

sb 5

STATEMENT OF MR. HOWARD W. BREMER, AMERICAN COUNCIL ON EDUCATION

Mr. Bremer. Mr. Chairman and members of the Subcommittee, my name is Howard Bremer. I appear before you this morning as a representative of the American Council on Education. The Council was founded in 1918, and is the nation's largest association of colleges and universities. Its membership includes approximately 1300 institutions of higher education, 20 national and regional associations, and 80 affiliate institutions and organizations concerned with higher education in the United States.

I might add that I am also here on behalf of ~~one of the subsidiary organizations is~~ the National Association of College and University Business Officers, which is a group representing 100 major universities.

I appreciate the opportunity to address the Subcommittee on behalf of the groups I represent relative to certain provisions of H.R. 12112 having to do with ownership and disposition of proprietary rights ~~on~~ in inventions, patents, and know-how.

The concerns of the Council and the universities which it represents ~~is~~ are in the provisions of Sections 18(r) and 18(g)(4). These provisions present some of the same concerns as did comparable provisions in the Federal Non-Nuclear Energy Research and Development Act, which were amply aired in the public hearings held on November 19, 1975, and which are a matter of public record.

Consequently, it appears that in having again to consider the

sb 6

impact of such provisions in H.R. 12112, we are dealing with piecemeal legislation which is not only burdensome but in fact inequitable in its effect. More importantly, this is the first time in history that the Government seeks to take title to inventions for which it has not paid.

The mere presence of Section 18(g)(4) and 18(r) in the bill would appear to indicate that the thrust of the previously given testimony on behalf of the university community and others, and the recommendation of the Conference Committee of ERDA on patent policy was either not considered or was ignored during framing of the bill.

If these two provisions are included to function as safeguards for the Government in this bill, they are safeguards which it is believed will tend to discourage rather than to encourage participation by the private sector in the development of new or alternative energy sources, and just as importantly, in the development of the ancillary technology necessary for the utilization of such sources, or the more efficient use of known energy sources for the benefit of the public.

Both of the sections are believed inequitable in terms of their impact upon the proprietary rights of others. For example, under Section 18(r), the Government, through ERDA, would take title to all inventions made where a loan guarantee was in effect and where no default of payment to the Government under the guarantee occurred. Thus, in its operation, Section 18(r) would

sb 7

appear to contravene what was understood to be the desire of the Government relative to its support of research and development effort; namely, to encourage the expenditure of funds ~~for~~ from the private sector to develop and market inventions initially made with Government funds.

This approach to invention development has worked admirably under the patent policies of the Department of Health, Education and Welfare and the National Science Foundation. There, the universities with proven technology transfer capability have been permitted to retain title to inventions made with funds from these agencies. They have been further permitted to license such inventions under conditions which will provide the necessary incentive to the private sector to invest the capital necessary to develop the inventions for the public benefit.

In all cases, the public is adequately protected by suitable provisions ~~and~~ in agreements between the funding agencies and universities.

Under H.R. 12112, we are presented, peculiarly enough, with a reversal of that situation. Under the guarantee approach, there has already been an indicated willingness by the private sector to spend its own money on the development of the project. One can also assume that any competent developer will recognize that such expenditure could generate valuable proprietary rights in patentable inventions, as well as in trade secrets and know-how.

sb 8

Where, then, is the contractor's incentive to engage in such a development effort, spending his own money, whether borrowed or not, if such proprietary rights are to be vested in the Government, as they must under Section 18(r), and whether or not the borrower defaults on the loan? That the Government will waive such rights to the contractor is a chancy gamble, at best. This is not a direct funding situation, where the risk to the grantee or contractor is minimum. Here, the contractor is assuming a substantial risk to itself, and such actions should be encouraged by the Government.

Section 18(r) would operate to take proprietary rights from the contractor on the basis of a contingency which may never occur. It is most likely that retention of this section would discourage, rather than encourage, participation in the program.

Section 18(g)(4) is inequitable in that it would treat as project assets, in the case of a loan default, not only the background patent rights owned by the demonstration facility contractor, but any patents under which that contractor would operate that have been waived under Section 9 of the Federal Non-Nuclear Energy Research and Development Act.

This would include any patents which might have been previously waived to a university or another under Section 9, and which have then been licensed to the demonstration facility contractor. Under such a prevailing condition, there would be great reluctance to license such waived inventions, or any other

sb 9.

inventions, or know-how, to a demonstration program participant with a loan guarantee, since the proprietary rights to such inventions and know-how could be lost through the operation of Section 18(g)(4) and without recourse or recompense.

It is also believe highly doubtful that any high-technology group would knowingly subscribe to an arrangement susceptible to the Section 18(g)(4) conditions.

It is respectfully and strongly urged, on behalf of the American Council on Education, that Sections 18(r) and 18(g)(4) be deleted from H.R. 12112. Thank you, gentlemen.

Mr. Moorhead. You mean delete it completely?

Mr. Bremer. Delete it.

Mr. Moorhead. Thank you, sir.

The Subcommittee would like to hear now from Mr. Raymond Woodrow, Society of University Patent Administrators. Mr. Woodrow?

acs 3

Mr. Morton. That is right. That is what I think is just.

Mr. McKinney. Because there is the matter that the Government does not mind operating a redline operation, whereas private enterprise would not be able to live up to the loan, if it is a redline enterprise, for too long.

Mr. Bremer. Mr. McKinney, one suggestion I might have for Section 18(g)(4) would be by treating only those patents which are ~~owed~~ owned by the borrowing contractor, or which are waived to it specifically, as project assets. This would be one place to begin with the revision of Section 18(g)(4). In addition, the Government ~~start and by further recognizing specifically and the Government assuming~~ should specifically recognize and assume the any obligations ~~of~~ that borrowing contractor may have to a licensor of patents or know-how germane to the demonstration facility.

In those circumstances the licensor is protected. ~~and~~ He would not lose his licensed proprietary rights and would be guaranteed the same return that he was guaranteed by the contractor ~~to~~ engaged in ~~complete~~ the project.

Mr. McKinney. Right. In other words, if someone has licensed a process to Gulf Oil for liquefaction or something of that sort, somewhere along the line, and Gulf has agreed to pay them X number of dollars for the use of this process, the Government would continue to pay the same license fee if they took over the patent and the process as part of the collateral.

I thank you gentlemen. I think this section needs

acs 11

does not pay if off, you have got two possibilities: take the car and pay if off yourself, or pony up as they say, to the bank for the unpaid amount.

And, then you have some rights you can argue to the property, I would assume, and against the individual that you co-signed for. But, once a guaranteed program -- it is not even a loan, which is what bothers me, because, you are going one step even further back so that to say that the Government has intrinsic rights afterwards.

And, I find, Mr. Chairman, great problems with these words that we throw around all the time, you know, the national security or the public protection. What in God's name is the public protection? That is my problem.

I mean, I could argue that the public protection is not good in almost any of them.

Mr. Moorhead. We had that experiencewith classified material, and they have used language that is not even as broad as that.

Mr. McKinney. The Pentagon still has top secret on their jello recipe probably.

Mr. Bremer. Mr. Chairman, I would like to comment on this. I think the same error was made on this as was made in drafting the ~~ERDA legislation~~ original ERDA Procurement Regulations in that the university community was not considered at all, ~~because~~ the peculiar nature of the an exclusive royalty-free license for the use of the patents commercially does not mean

acs 12

anything to the university community.

It must have the right to license or sub-license those rights, the proprietary rights, to others. Because they have no manufacturing facility, they are not capable of engaging, commercially, in the project. And, the language, as it is presented here, excludes, literally, the university community from consideration.

Mr. Moorhead. Thank you, Mr. Bremer, for that comment. And, I also appreciate your taking the chance of reading this very complicated language and having it just thrown at you, and then commenting on it. That is why I was so careful not to make any suggestion of insisting that the comment be made.

But, I think for overall patent policy procedures, your comments are most welcome. And, while I doubt that we get into that with this Subcommittee during the balance of the loan guarantee situation, I think it is good to have these things on the record for the Congress generally.

Mr. McKinney. As a layman questionner and ex-retailer, do the universities at the present time make money by licensing out patents and ideas?

Mr. Bremer. Yes, very definitely.

Mr. Woodrow. Not a great deal, most of them.

Mr. McKinney. Knowing the one or two that keep asking for money, I am sure it is not a great deal.

acs 13

Mr. Bremer. It can be very substantial though. ~~And,~~ I think the major benefit is that the technology is transferred; which does not occur with Government patents. When you have a portfolio, as the Government does, of some 26,000 patents with a very, very small percentage, in the 2 or 3 percent range, that are being used in a commercial sense, as opposed to a much better record for the transfer of technology from the university system. I think the record speaks for itself. ~~on that.~~

Mr. McKinney. Thank you.

Mr. Schellin. Mr. Chairman, I would like to make a comment on the text of the material handed to us. Part of the material is very much akin to our proposal number one in the statement that you have, Mr. Chairman, some changes we would suggest.

Let me quote to you just two small lines from recommendation one: "Further that qualified small business be given special preference who may or may not be the contractor in acquiring an exclusive license which may be for a field of use or geographic for a reasonable royalty for a period of time less than the life of the patents, with a right to sue."

And, then we jump and we say, "unless the contractor has demonstrated expertise by possessing background patents and/or revealed trade secrets and the contractor has given evidence of an intent to commercialize the invention or has in fact