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Senator Edward M. Kennedy
Chairman, Judiciary Committee
United States Senate
Washington, D. C. 20510

Re: S.414
Our File: AA HIE M00

Dear Senator Kennedy:

Thank you for your letter of March 21 and the enclosed copies of S.414. In accordance with your request I have solicited comments concerning the realistic impact on this proposed legislation from the viewpoint of the small businessman or inventor.

I support the bill because it represents a major advance in establishing a uniform federal policy in dealing with patent rights on inventions made with federal assistance designed to encourage developing these inventions to a point where they benefit the public. Before dealing with each section in order, there is a minor point. The title of Chapter 18 should be changed from "PATENTABILITY OF INVENTIONS MADE WITH FEDERAL ASSISTANCE" to -- PATENT RIGHTS IN INVENTIONS MADE WITH FEDERAL ASSISTANCE --. Patentability of inventions is dealt with in chapter 10 and refers to what inventions may be patented and how rights to a patent may be lost.

Section 200 deals with policy and objective. The impact of this statement of policy and objective is likely to encourage small businesses, universities and non-profit organizations to undertake government-sponsored research which they feel has commercial applications in contrast with present practices of refraining from seeking government funding for the development of inventions having commercial impact. Many small businesses are reluctant to undertake government-sponsored research because present government policy ordinarily requires them to transfer their patent rights in inventions made under contract to the Government.

A possible adverse impact of the policy and objective statement is that a Federal agency believing that title should remain in the Government might well elect to choose a larger

enterprise as a contractor for a particular project over a small business because the larger business would not be subject to the provisions of chapter 18 and the Government could then obtain title to the patent rights arising from the funding agreement. It might be appropriate to include language providing that the intention of a small business firm or nonprofit organization to promote the commercialization and public availability of inventions arising from a particular funding agreement shall be a factor favoring the award of the funding agreement to that small business firm or nonprofit organization. This language would be consistent with section 211(c)(3) favoring licensing small business firms under federally owned inventions.

The definitions in section 201 are helpful in interpreting the provisions of the remaining sections and are consistent with present terminology used in dealing with patent rights under government contracts.

Section 202 deals with disposition of rights. Paragraph (a) allows the nonprofit organization or small business firm to retain title to an invention within a reasonable time after disclosing the invention to the funding agency. These provisions have the positive effect of encouraging the contractor to promptly disclose subject inventions to the funding agency with the option of electing to retain title within a reasonable time.

The exceptions in paragraph (a) allowing the funding agreement to dispense with this opportunity to elect would likely have a negative impact on promoting the commercialization and public availability of inventions made under a funding agreement. Exception (i) applies when the subject invention is made under a contract for the operation of a Government-owned research or production facility. While this exception will probably have a negligible impact on the small businessman or inventor, I would expect a nonprofit organization or small business firm operating a government-owned research or production facility would be motivated to seek potential commercial applications of inventions arising from the funding agreement if the right to retain title was available to that contractor. Exception (ii) authorizing restriction or elimination of the right upon determination by the agency that restriction or elimination will better promote the policy and objectives of the chapter could serve as a loophole for an agency opposing the policy of allowing the contractor to retain title. Paragraph (b) in providing for the determination in writing accompanied by a written statement of facts justifying the determination and submission to the Comptroller General and the Chief Counsel for

Advocacy of the SBA provides moral dissuasion from using this exception as a loophole; however, there is not even a provision for an appeal of a determination adverse to contractor ownership.

It is difficult for me to conceive of a situation in which this exception can properly be invoked at the time a funding agreement begins. At all other times it seems to me that the march-in rights in section 203 adequately protect the public interest. The impact of exception (ii) on small businessmen and inventors will be negligible if properly exercised. If improperly exercised small businessmen and nonprofit organizations will either be discouraged from entering into a funding agreement invoking exception (ii) or unlikely to make a commitment to bring subject inventions to the point of practical application.

A positive reason for incorporating exceptions (i) and (ii) is that their presence may help obtain votes for the bill from those who believe that there are situations in which funding agreements should not allow a contractor to retain title in subject inventions.

Paragraph (b)(3) requires the Comptroller General to report at least annually to the Congress on the implementation of the bill and other aspects of government patent policies. Preparing the report necessarily requires time of personnel to prepare the reports. Hopefully, the Comptroller General could develop a simple reporting procedure for the agencies that would facilitate presenting to the Committees a concise report of the information essential to perceive how the system is operating.

Paragraph (c) contains reasonable provisions dealing with disclosing subject inventions, electing to retain title, filing patent applications, reporting on utilization, a royalty-free license to the Government and a statement in the U. S. patent application about the government support, and rights consistent with existing practices that will have no significant impact on small business or inventors. While the bill uses the words "within a reasonable time" for certain acts to be taken, it might well be expected that the funding agreements will include specific time periods for taking the respective actions. It may be desirable to add -- specified -- after "reasonable." The policy of the patent laws is to encourage prompt disclosure of inventions and bringing their benefits to the public as soon as practical.

Paragraph (c)(5) in allowing the agency to require periodic reporting on the utilization will have the positive effect of stimulating the owner of the patent rights to expeditiously develop

the invention to the point of practical application. If the information is treated as privileged and confidential and not subject to disclosure under the FOIA, contractors should be encouraged to candidly disclose this business information.

Paragraph (c)(7) deals with limitations on nonprofit organizations as to (1) assigning rights to a subject invention without the approval of the federal agency except to an invention management agency, (2) limiting the duration of exclusive licenses that can be granted (3) requiring that the contractor share royalties with the inventor and that the balance of the royalties or income be used for the support of scientific research or education. These provisions are likely to encourage a nonprofit organization to seek prompt commercialization and motivate inventors of the organization to make commercially useful inventions and assist the organization in obtaining, licensing and enforcing patent rights. I find that inventors so motivated are helpful in preparing, prosecuting and licensing patent applications. A possible negative aspect of limiting the length of exclusive licenses is that the limited initial exclusive license may be insufficient to enable a nonprofit organization to find a commercial licensee willing to make the commitment necessary to bring the invention to the point of practical application. I regard this impact as insignificant.

Paragraph (c)(8) incorporating the requirements for sections 203-05 dealing with march-in rights, return of government investment and preference for United States industry, has an impact and effect discussed below in connection with these sections.

Paragraph (e) in allowing the federal agency employing a federal employee co-inventor to transfer its rights in the subject invention to the contractor subject to the conditions set forth in the bill facilitates commercialization of such joint inventions. Since under the patent laws and in the absence of an agreement among the co-owners, each co-owner has the right to use and license the patented invention, the absence of the provisions in paragraph (e) might well result in a contractor uninterested in commercializing a subject invention because the Government as co-owner could freely grant licenses without the consent of the contractor.

Section 203 deals with march-in rights which enable the agency to require the contractor to license others when he is not taking effective steps to achieve practical application of the invention, the needs of the public for the invention are not reasonably being satisfied, or the invention is not manufactured substantially in the United States. These provisions are generally in accord with existing provisions dealing with march-in rights,

will encourage contractors to promptly commercialize subject inventions and make their benefits available to the public in sufficient quantity and at reasonable cost through manufacture in the United States. A potential negative aspect of these requirements is that the incentive for prompt commercialization may be so great that the contractor may allocate less time for development than is required to produce a good product. I think this consideration would have small impact on small business or inventors. The requirement that the invention be manufactured substantially in the United States could have the adverse impact on the public of receiving the invention at a price and/or quality that is less than obtainable if the contractor were allowed to have the invention made outside the United States by a manufacturer having better quality control than available domestically and/or able to sell at lower cost.

Section 204, dealing with return of government investment, has the positive aspect of returning funds to the Government for general use by it. The negative aspect involves taking funds from the small business or nonprofit organization that would otherwise likely be reinvested by the small business to enhance its growth and create new jobs and products or used by the nonprofit organization in support of scientific research or education required by section 202(c)(7). These provisions are not likely to deter a small business or nonprofit organization from helping to achieve the policy and objective of the chapter toward bringing inventions promptly to the point of practical application; however, I think that leaving these funds with the small business or nonprofit organization is likely to benefit the public more as a result of the reinvestment and support of scientific research or education than if these sums were returned to the general treasury. The presence of these provisions may help obtain support for this bill, and I do not believe small businessmen would object to them.

Section 205 in requiring manufacture substantially in the United States is likely to stimulate contractors to manufacture here and thus provide jobs and other benefits to the domestic economy. A possible negative aspect is that contractors who would bring inventions to the point of practical application if allowed to manufacture abroad, but who determine that commercially feasible domestic manufacture is not practical will not bring the invention to the point of commercial application. These provisions authorize the agency to waive the domestic manufacturing requirement upon shwoing that reasonable but unsuccessful efforts have been made to license domestic manufacturers. A contractor is not likely to seek a domestic manufacturing licensee when he initially determines that domestic manufacture is not commercially feasible. Perhaps these provisions could be amended by authorizing waiver upon a showing

by the contractor that domestic manufacture is not commercially feasible. I do not believe that these provisions would have a significant adverse impact on small businesses or inventors.

Section 206 dealing with confidentiality of inventions is beneficial in allowing the contractor a reasonable time to apply for patent protection in a manner that will not destroy foreign patent rights. These provisions allow the agency to withhold disclosure for a reasonable time to allow for filing patent applications. Although a U. S. patent is not invalidated if the invention was described in a printed publication or in public use less than a year prior to the date of the application for patent, many foreign countries consider invalid any patent on an application having an effective filing date after the date on which the invention was first publicly known through publication, sale or otherwise anywhere in the world. Since international treaties regard the U. S. filing date as the effective date of the foreign application in many countries if the foreign application is filed within a year of the U. S. filing date, delaying disclosure of the invention until the U. S. application is filed enables the contractor to avoid having this disclosure invalidate the patent in most countries.

Section 207 dealing with uniform clauses should have the beneficial effect of contractors and agencies having to deal with a single set of funding agreement provisions in contrast with the existing practice of dealing with the provisions chosen by each agency. A possible negative aspect is that some agencies may feel that they require certain provisions peculiarly acceptable to them. I consider it unlikely that any agency needs special provisions. Dealing with a uniform set of funding agreement provisions applicable to all federal agencies will have a beneficial impact on small business and inventors.

Section 208 in authorizing each agency to apply for and license patent rights almost like any other patent owner, except for assigning title to patent rights, has the positive effect of enhancing the chances that government-owned patent rights may be used to get inventions to the point of practical application. A negative aspect of these provisions is that the Government will continue to apply for many patents on inventions having no commercial application and thereby use an unnecessary portion of Patent and Trademark Office patenting facilities and Government patent lawyer time in preparing and prosecuting these applications without giving the Government a commensurate benefit. The Government could be just as well protected from being charged with infringement of a patent owned by a private party on an invention previously made by the Government by filing an application for defensive publication

describing the invention. It may be appropriate to amend subparagraph (1) by limiting the authority to apply for, obtain and maintain patents or other forms of protection on inventions where patent protection will maximize utilization by the public of the inventions covered thereby. I doubt that these provisions will have much impact on small businesses or inventors. Yet, with the possibility of obtaining an exclusive license under Government patent rights, it is possible that these provisions will stimulate industrial innovation.

Section 209 dealing with authorizing the Administrator of General Services to promulgate regulations specifying the terms and conditions on which federally owned inventions may be licensed should have a positive effect of establishing uniform terms and conditions. Whether these provisions will eventually lead to positive or negative effects depends largely on the nature of the regulations promulgated under them.

Section 210 dealing with coordinating federal licensing practices will have the positive effect of providing the machinery for developing a sensible uniform federal licensing policy.

Section 211 deals with restrictions on licensing of federally owned inventions. Paragraph (a) in requiring a license applicant to supply the federal agency with a plan for development and/or marketing of the invention will have the positive effect of insuring that only persons genuinely interested in developing the invention to the point of practical application will apply for a license. These provisions have the negative aspect of deterring applications because businessmen do not want to spread their business plans on the public record. I think that this requirement will deter small business from applying for licenses unless the information supplied is treated as commercial and financial information privileged and confidential and not subject to disclosure under the FOIA.

Paragraph (b) normally limiting the grant to a licensee manufacturing domestically will have the same benefits and disadvantages set forth above in connection with the requirement for domestic manufacture in section 205.

Paragraph (c)(1) dealing with public notice and the opportunity to file written objections before granting a license has the advantage of allowing the public to comment on the application before it is granted and limiting the scope of exclusivity to that reasonably necessary to provide the incentive for bringing the invention to practical application. It has the disadvantage of introducing delay in granting the license and deterring an applicant

with a present interest from taking steps to develop the invention because of uncertainty as to whether the application will be granted. If the agency publishes promptly and acts promptly after the notice is published, I do not think that many small businesses will be deterred from seeking exclusive rights in inventions in which they are truly interested. Section 211 will probably have their greatest impact during the initial period following the enactment of the bill. Contractors who developed inventions covered by patents owned by the government are the ones most likely to be interested in commercializing them. It is very difficult to get a stranger interested in promoting somebody else's invention.

Paragraph (c)(2) prohibiting granting licenses producing anticompetitive effects will have the beneficial effect of enhancing compliance with the antitrust laws while having the negative effect of preventing the public from obtaining the benefits of an invention where the only applicant interested in developing the invention will do so only under a limited exclusive license but is barred from obtaining it because of antitrust considerations. These provisions will have negligible impact on small businesses.

Paragraph (c)(3) giving preference to small businesses for licenses will have the benefit of promoting the ability of small businesses to compete with larger businesses while bringing the invention to practical application. The disadvantage is that a small business may not bring the invention to practical application as soon or as well as a larger business.

Paragraph (d) in authorizing the grants of licenses under foreign patent rights is likely to have the practical effect of granting foreign and U. S. rights in the same invention.

Paragraph (f) in effect requires the licenses to include the substance of the march-in provisions of section 203 and the periodic reporting requirements of section 202(c)(5). These provisions will have negligible adverse effect on small businesses.

The provisions of section 212 have the effect of overriding other acts dealing with the disposition of rights in subject inventions of small business firms or nonprofit organizations without affecting the disposition of patent rights with other entities on inventions made in the performance of funding agreements.

Section 212 has the effect of preventing the bill from being used as a defense in antitrust law actions.

Section 3 of the bill repeals or amends inconsistent provisions in the Atomic Energy, Space and Energy Acts.

I hope that you will find these comments useful. If you or your staff have any questions or would like suggestions on amendments to overcome objections or advance certain desirable policies, please let me know. I was a member of the Legislative Research Bureau in law school and have some limited amateur experience in drafting legislation.

As a first step toward giving my views from a practical standpoint in the patent area, I enclose a copy of a talk entitled "Special Problems in Patent Cases" presented by Chief Judge Howard T. Markey before the Judges Seminar conducted by the Federal Judicial Center on October 16, 1974. Judges familiar with this article are using it for guidance in handling patent cases. My clients are as receptive to his suggestions as the judges. We use it as the basis for trying patent cases. I think his principles are applicable for trying any complex case. I think that Chief Judge Markey is largely responsible for the Court of Customs and Patent Appeals being one of the few federal courts that is current.

The late Professor Henry Hart taught us that an important aspect of a legal system is to guide what he called primary conduct; that is, the day-to-day conduct of a person in his business and personal relations. In advising clients in the area of patent law we are fortunate in having a whole title of the United States Code and many cases interpreting key provisions for advising on this primary pre-litigative conduct. While the subject matter of many patents is highly technical, the patent law itself is no more difficult to grasp than many other areas of the law, such as taxation, bankruptcy and securities regulation. I welcome the opportunity to give you my views from a practical standpoint in this area of the law.

Returning to S.414 I think that the small businessman or inventor and the country will benefit from this legislation. In the period after World War II it was generally governmental policy to allow contractors to retain the commercial rights in patents on inventions made under government contracts, reserving a royalty-free nonexclusive license to the Government. I believe that this policy led to the development of many small businesses, which relied on Government support at the beginning, into viable growing businesses in the commercial sector. When the Government retreated from this policy, many companies were unwilling to accept research and development contracts which would require them to give patent rights to the Government. Those interested or willing to take the contracts, had little incentive to and seldom tried to commercialize inventions covered by patents owned by the Government.

The Space Act required assignment of patent rights to the Government, and the result was negligible commercialization of these inventions. Recognizing the unsoundness of this policy, the Space Agency made efforts to allow contractors to retain greater rights in an effort to promote commercialization.

An individual inventor that I advised purchased a patent for a machine useful in agriculture. The proposed development was favorably reviewed by a University of Massachusetts faculty member who recommended obtaining federal support. The machine had not actually been constructed and would have been first actually reduced to practice under the proposed contract. Under the present federal policy, that would have given the Government title to the patent on the machine, a patent which my client had bought from the inventor. My client decided against seeking federal funding and tried to obtain private financing. While he has received expressions of interest, he has not yet received private financing, and the machine remains unbuilt. If S.414 is adopted, my client would not hesitate to obtain federal funding.

I remember about thirty years ago the late Norbert Weiner predicting that New England would have to shift emphasis from products where freight costs represented a significant fraction of the selling price to products where freight was an insubstantial fraction. that prediction came true as high technology industries replaced declining industries, such as shoes and textiles. I believe that S.414 in providing support for research and development by small businesses while allowing them to retain commercial patent rights will materially enhance the growth of high technology industry in Massachusetts and elsewhere and encourage creative individuals to undertake the risk of starting a new business. I expect that some of these new businesses will provide the technical solutions we need to meet the future challenges, such as providing adequate environmentally acceptable fixed and transportable energy sources. S.414 may not be the only answer to stimulating industrial innovation; however, I think it is an important step. The reports of the Industrial Advisory Committee on the Domestic Policy Review on Industrial Innovation make other sound suggestions.

Your four recent selections to the federal bench were excellent. It was especially satisfying to me to congratulate my trial practice professor, Judge Keeton, following his inauguration at Faneuil Hall.

With much appreciation for your interest in patent law and your enlightened proposals in so many other areas, I am,

Very cordially,

Chuck

Charles Hieken

CH/ck

Enc. - S.414 & xc Judge Markey's article