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April 15, 1985

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The Honorable Malcolm Baldrige  
Secretary of Commerce  
Washington, DC 20230

Dear Mr. Secretary:

I am writing on behalf of Intellectual Property Owners, Inc. (IPO) concerning S. 65 and H.R. 695, the "Federal Laboratory Technology Utilization Act of 1985."

IPO is a nonprofit association whose members own patents, trademarks, and copyrights. Our members include large corporations, small businesses, universities, and individuals. Our members are responsible for a significant portion of the research and development conducted in the United States.

We are sympathetic to the objectives of improving the effectiveness of Federal laboratories and encouraging cooperative research and development arrangements. Nevertheless, we urge the Administration not to support S. 65 and H.R. 695 in their present form, because of our concerns about section 3.

Section 3 would give Federal employees "at least 15 percent of the royalties or other income" when government-owned inventions made by the employees are licensed to the private sector. The bill thereby links compensation for Federal employees to the commercial success of government-owned inventions.

Based on the extensive experience of our member companies in managing inventors in a team research environment, we believe compensation schemes like section 3 are unwise. Such compensation leaves no discretion for the managers of research teams to make judgments about the amount of compensation to be paid to their employees. This fundamentally changes the relationship between managers and employees.

As you know from leading a company yourself, Mr. Secretary, the success of an invention in the market place depends not only upon the creative effort of the inventor, but also upon the efforts of research directors, production engineers, marketing personnel, and many others. Even fashion trends and consumers fads can be important factors in determining the success of an invention. We believe management is in the best position to judge the importance of the contributions made by the employees working in a research laboratory, whether it is a Federal laboratory or a private sector laboratory.

Federal managers already possess statutory authority to give substantial cash awards to their exceptional employees including inventors. For example, 5 U.S.C. 4502 authorizes awards of up to \$25,000 for inventions, suggestions, and other superior accomplishments. It is our

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understanding that some agencies have authority to give larger awards than \$25,000. If a need exists for additional incentives for Federal employee inventors, we suggest that the best approach would be to seek legislation to increase the amount of cash awards.

Teamwork among the employees in a research laboratory is vitally important. If only the inventor is entitled to financial rewards, it can cause jealousy among team members and inhibit the exchange of ideas. It has been the experience of our members that laws requiring special compensation for employee inventors in West Germany and certain other foreign countries do not improve productivity in research laboratories.

We agree with the testimony given by former Commissioner of Patents and Trademarks Gerald J. Mossinghoff last year on behalf of the Administration. Mossinghoff opposed H.R. 3285 both as it related to government employee inventors and as it related to private sector employee inventors. H.R. 3285 was somewhat similar in concept to section 3 of the present bill.

Not only might section 3 reward Federal employee inventors out of proportion to their contributions, but it could have other undesirable effects. Most people seem to agree that the primary role for the government in research and development should be to do basic research and to work on long term or high risk projects where the likelihood of financial return is so remote that the private sector is unable to make the necessary investment. Section 3 of the bill, however, would provide incentives for Federal laboratories to give highest priority to research and development which is likely to pay off financially in the short term.

We also question the desirability of establishing a compensation system for Federal inventors which would give them a financial interest in having a policy of very aggressive enforcement of government-owned patents. The scope of subject matter protected by a patent is not always clear. Decisions on whether to file infringement suits are governed in part by prospective litigation costs. Section 3 could cause government inventors to urge their attorneys to file more infringement suits against private companies.

In addition, government employees may be encouraged by section 3 to urge agencies to file more patent applications. The government already has been filing unneeded applications. Congress last year enacted legislation to give agencies the option to save money and relieve some of the burden on the Patent and Trademark Office by obtaining statutory invention registrations instead of patents. Agencies will be unlikely to elect statutory invention registrations if section 3 is enacted.

Finally, we are concerned that enactment of Section 3 would be viewed as a precedent justifying similar legislation covering private sector employee inventors. American industry strongly opposes legislation which would mandate special compensation for the private sector's

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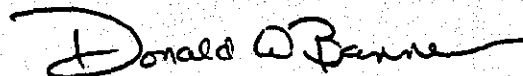
employee inventors. It seems to us that in principle the incentives used to motivate inventors in Federal laboratories are the same as the incentives used to motivate inventors in private laboratories. We know of no rationale for why section 3 could be a bad idea for private businesses but a good idea for government agencies.

For these reasons, we urge you to withhold Administration support for S. 65 and H.R. 695 as long as Section 3 ties employee compensation to commercial success of the invention.

We have not had an opportunity to take a position on any other section of the bill. It has been suggested to us by several people that careful study is needed of the provisions which relax the conflict of interest laws for Federal inventors, but we have not fully studied those provisions yet.

I hope you find our views helpful.

Sincerely,



Donald W. Banner  
President

cc: The Hon. D. Bruce Merrifield ✓  
The Hon. Donald J. Quigg  
The Hon. Richard H. Shay