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MICHIGAN STATE UNIVERSITY

MAY 15 1978

OFFICE FOR RESEARCH DEVELOPMENT

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238 ADMINISTRATION BUILDING

May 10, 1978

Mr. William O. Burke, Chairman  
University Patent Committee  
University of Georgia  
Office of Vice President for Research  
Athens, Georgia 30602

Dear Mr. Burke:

Receipt is acknowledged of your recent letter requesting documentation of the effect of title-in-the-government or deferred-determination government patent policies on the level of private R & D funding at universities.

While we are very supportive of the concept that institutional patent agreements for all federal agencies is a highly desirable and reasonable goal, and would be pleased to provide the requested documentation, specific examples illustrative of the issues you raised are not available from our files.

Although we cannot respond with specifics to your items 1, 2, and 3, perhaps we can provide some inputs regarding item 4, namely, our opinions and impressions as to the overall effect of government title-in-inventions or deferred-determination policies on the interest of industry in supporting university-based research.

Our overall impression is that the effect of either of the above two conditions has a marked chilling effect on attracting industry support. So much has been written and/or said regarding this topic that it is veritably impossible to add anything new in the way of insights, but a brief summary of the salient points as we see them might be useful.

In order to attract industrial R & D funds for the development of an invention, we must be in the position to offer that industry the opportunity to recoup its original investment and make a reasonable profit. The customary fashion of providing such opportunities is, of course, through a patenting/licensing program. Our experience has been that industry is not enthusiastic about supporting university-based research which may lead to patentable inventions unless they can acquire an exclusive license to practice such inventions. In those instances where title resides, or may reside, in the federal government, it is difficult to attract the necessary industrial support. The possibility that a competing firm may also acquire a license at a later stage of development on equally favorable terms and without the original investment of R & D funds, is a strong disincentive to a licensing program. Indeed, companies view such licenses as being not on equally favorable terms, but substantially more attractive terms

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than their own license since the new licensee need not duplicate all of their initial investment. On the other hand, when the university retains title and is obligated only to issue a nonroyalty-bearing license to the government, as in our IPA with DHEW, it is much easier to attract industrial interest in a patent or license.

Michigan State University has worked directly in licensing inventions to companies such as:

- American Cyanamid Company
- AVCO New Idea Farm Equipment
- Canners Machinery Limited
- FMC Corporation
- Pro-Rico Industries, Incorporated
- Richmond Instruments Company
- Tresco, Incorporated

Research Corporation has assisted the University in licensing inventions to the following companies:

- American Cyanamid Company
- Bristol-Myers
- Mid-America Dairymen

Federal funds were not involved in developing the research that led to all of the inventions. Nevertheless, it is our perception from this experience that the industries with which we have experience do not view cases where the government is a co-licensee as a threat to their investment, but it is our belief that they would most assuredly view the possibility of the government issuing a license, as in the case where the government retains title, as a distinct threat to their position.

Some individuals in universities, government and consumer groups have argued that inventions developed at state universities, which are supported by tax dollars from the citizens of that state, really belong to the people and should be dedicated to the public so that the people are not "taxed" again by having to pay a price which includes a royalty on that item when it reaches the marketplace. One might observe at the outset that royalty rates tend to be very modest fractions of product cost. Further, as desirable as this scheme may be, we know of no company that would undertake an R & D program in today's highly regulated environment, develop a marketing program, advertising, distribution, sales and the myriad of other details necessary to successfully put a product on the market, if they cannot realize a profit. In order for the firm to realize that profit they usually consider it vital that the competition be excluded or at least reduced to a minimum, if at all possible. Very early in the evolution of our federal government the need for such protection was recognized. A realistic patenting/licensing program has gradually emerged for universities, one which permits the University to retain title to the invention instead of the federal government. To relinquish title is to relinquish our bargaining position, and we believe to do that can only result in inventions not being developed in the U.S., which will be to the ultimate misfortune of U.S. citizens. It should also

Mr. Burke

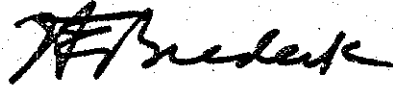
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be noted that royalty earnings coming to U.S. universities are utilized for facilitating education, research and public services -- the missions of U.S. higher education.

Thank you for providing an opportunity to participate in a most worthwhile effort. We will be pleased to support your future efforts in any way possible.

Sincerely,

A handwritten signature in dark ink, appearing to read "H. Bredeck". The signature is written in a cursive style with a large initial "H" and a long, sweeping underline.

Henry E. Bredeck  
Associate Director

HEB/jms