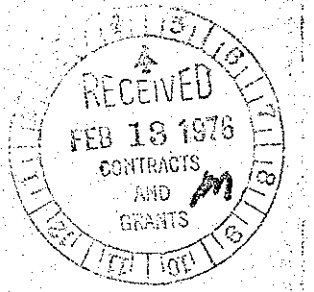
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE



JAN 14 1976

Dr. Betsy Ancker-Johnson
Chairman, Committee on Government
Patent Policy
Department of Commerce
Room 3862
Washington, D.C. 20230

Dear Dr. Ancker-Johnson:

This is in response to your invitation to all Committee members for additional agency comments on the Committee's January 6, 1976 preliminary indication to pursue option 2(b) permitting Government contractors to retain an exclusive license in inventions they generate in performance of Government-funded research and development contracts.

My review indicates that the differences between the title and exclusive license options appear to be more serious within HEW than could be highlighted and discussed in the limited time available at the January 6 meeting. This is especially true where the contractor will not himself deliver the invention to the marketplace but must license a third party to attract the risk capital necessary to accomplish such delivery. While such licensing by an industrial contractor may be infrequent, it is a primary and rapidly-growing mechanism in bringing university and non-profit institution inventions to the marketplace.

Historically, university and other non-profit research institutions generally utilize the services of either (1) an in-house but separately-incorporated patent management organization, such as the Wisconsin Alumni Research Foundation, or (2) a nationwide non-profit patent management organization, such as Research Corporation, when involved in patent licensing for the purpose of technology transfer.

Traditionally these patent management organizations have required assignment of title from the university and non-profit organizations they serve. I am advised that assignment of title is considered essential in order to negate any appearance that the patent management organization is acting as an agent rather than the owner of the invention. An agency relationship with the patent titleholder raises the question of whether the non-profit patent management organization

1) is licensed to practice law, 2) can maintain its tax exempt status since there is an appearance of selling a service to the public which is unrelated to its charitable purpose, and 3) can successfully deal with potential licensees who attempt to negotiate directly with the principal in order to obtain better terms. While 1) and 2) may pose no problems to industrial contractors, 3) may impact equally on industrial contractors seeking to license their rights. Whether one deems these problems insoluble or not, the assignment of title is a requirement of existing non-profit patent management organization, and attempts to change the established procedure will, no doubt, meet with resistance.

In light of the above, we consider the 2(b) option to be an unacceptable course when applied to universities and non-profit organizations. Although applying the 2(b) option to industrial contractors who themselves will be delivering to the marketplace may have lesser complications, we perceive other problems in that area, which should be considered prior to pursuing the 2(b) option further.

In this regard, some understanding of what will transpire at the time an exclusive license terminates must be reached. If it is intended to return management of a substantial number of inventions to the Government after an exclusive license ends, we envision substantial administrative difficulties in bringing the departments and agencies of the Executive up-to-date on the exclusive licensee's experience in the marketplace before the Government could grant additional licenses. Further, we believe that a policy requiring the Government to assume the responsibility of granting nonexclusive licenses after the exclusive license ends will act as an additional disincentive to the involvement of university and non-profit organizations in technology transfer. This result is but the natural consequence of diminishing prospects for income from nonexclusive licensing.

In conclusion, we must advise that, in our opinion, the 2(b) option is more than cosmetically different from the 2(a) option, especially as it applies to the university and non-profit research sector. This option should not be pursued further without a fuller examination of its ramifications. It is suggested that the protection afforded by the Government through the use of option 2(b) could as easily be

obtained by permitting contractors to retain title subject to well defined march-in rights. Such a policy would come closest to creating the optimum conditions for contractor participation in Government research and development and ultimate utilization of its results without the administrative costs highlighted above.

Sincerely yours,

Dr. Lowell T. Harmison
Special Assistant to the
Assistant Secretary for Health