P&C Sub

ALVIN BROWDY
SHERIDAN NEIMARK
ROGER L. BROWDY

JAMES R. GAFFEY
ALEX MAZEL (PAT. AGENT)

LAW OFFICES
BROWDY AND NEIMARK
PATENT AND TRADE MARK CAUSES
MUNSEY BUILDING
WASHINGTON, D. C. 20004

TELEPHONE (202) 628-5197
CABLE ADDRESS: OVERTURE
TELEX 248633

January 11, 1979

Mr. Milton Goldberg
Committee on Governmental Relations
National Association of College and University
Business Officers
One Dupont Circle, N.W.
Suite 510
Washington, D.C. 20036

Dear Milt:

This is in answer to your request for an update on both pending legislation dealing with disposition of government-funded inventions (Dole-Bayh - S.3496 and Schmitt - S.3627) and other possible legislation on that subject which might be introduced by the Executive Branch.

I believe any legislation on the disposition of government funded inventions must fall within one of two general catagories:

1) Title to possible <u>future</u> inventions in the contractor/grantee subject to conditions the Government deems necessary in its interest. (Needless to say such conditions can vary all the way from lax to onerous or anywhere in between); and

2) Deferring disposition until the invention has been identified. (Deferred determination legislation clearly includes any legislation which specifies that title to future inventions is in the Government since such legislation nearly always includes the ability in the Government to waive or license its rights <u>after</u> the invention has been identified).

The major arugment used in favor of catagory (2) legislation is that when dealing with an existing invention one can better determine the equities of the parties. Unfortunately, notwithstanding over 30 years of major Federal R&D funding <u>definitive guidelines for waiver by the Executive</u>

Branch have yet to be developed by any one. While in the past some agencies, have made concerned attempts at objective waiver, i.e. HEW, NASA, most agencies have either non-existent or visceral approaches to requests for rights.

While legislation falling in category(1) has always been attacked on the "give-a-way" or unnecessary monopoly arguments, its major attribute vis-a-vis (2) is certainty vs. uncertainty. Thus, certainty of ownership permits the contractor/grantee to commit management and financial resources to the identification, protection and licensing of inventions which would not otherwise be committed in the uncertain ownership situation of category (2). Of course if such resources are not committed legislation of the category (2) type becomes counter-productive as it is assumed that many inventions will not reach the point of utilization because the inventing organization will have no incentive to be involved in their identification, protection or licensing.

The Schmitt Bill

This bill is deemed to fall within category (2) since section 201 of the bill (attached) requires title in the government at the time of contracting if the agency head determines that the "invention" falls within any one of seven categories. The categories are extremely broad as illustrated by sec. 201 (4) - "retention of title by the Government is necessary to assure the adequate protection of the public health, safety and welfare". Since at the time of contracting no invention exists it seems impossible to make the judgement of sec. 201 (4), as well as other sections of 201, at the time of contracting making it appear very probable that the agency head would need to defer determination until the invention is made in order to assure that he make no mistake. This as noted, would characterize the legislation as category (2).

The drafters recognize that there will be at least some cases in which title remains in the government since they provide for a waiver provision in sec. 203. As in all previous legislation of this type of criteria for waiver is not very definitive and basicly provides for waiver only when in the public interest.

Most damaging to the non-profit sector is the fact that the single definitive criteria included in sec. 203 is the statement that in making a waiver the agency shall consider --- " ... the extent to which such institution has a technology transfer capability and program approved by the agency head". (No where on the bill or the law is the term "technology transfer capability" defined). Thus, while a profit making organization is faced only with the hurdle of showing

that a waiver is in the public interest, the non-profit sector is faced with the additional burden of evidencing a technology transfer capability.

In short, this bill as drafted must be viewed as a step backward since even existing deferred determination policies whether legislative or administrative do not differentiate between profit and non-profit to the disadvantage of the non-profit in waiver situations -- if anything the oposite has existed. (The ERDA patent provisions allude to a technology transfer capability as a factor to be taken into consideration in granting waivers but to my knowledge, has not been read to disadvantage the non-profit sector).

But even assuming amendment or legislative interpretation of the bill which placed the non-profit in a favored ppsition vis-a-vis the profit sector in waiver situations, the bill is still category (2) legislation which is "not favored by any university or non-profit organization having an on-going patent management program because of the uncertainties and administrative load involved.

In my view, the drafter of the bill has demonstrated a lack of understanding on how a non-profit patent management program operates. He further does not seem to recognize the present political atmosphere which is concerned with needless regulation which may effect new product introduction since deferred determinations is by definition regulatory by nature. Further, it is curious that the bill was assigned to the Committee on Government Affairs of which Senator Schmitt is not a member and where no member is identified as having any interest in the subject matter of the bill. Under the circumstances merely ignoring the bill may be the Associations best course of action.

Dole - Bayh

It seems unnecessary to repeat the many attributes of S.3496 here since they are well known to Association members other than noting that it is clearly intended to be category (1) legislation of the type that the non-profit sector has sought since 1971 because of the recognized need for certainty of rights to enhance technology transfer and speed invention utilization. The conditions attached to ownership are not considered onerous and, indeed, give the appearance of being well balanced. I would also note that the support in Congress for Dole-Bayh seems to be continuing to grow especially in light of Chairman Rodino's decision to introduce the bill in the house judiciary joined by at least Congressmen Edwards of California.

Possible Executive Branch Legislation

There are persistant rumors that Dr. Jordan Baruch the Asst. Sec. for Science and Technology and Chairman of the Committee on Intellectual Property (CIPI) will be recommending legislation that falls within category (2) with some possible deviation in the treatment of the non-profit sector. The information we have to date (which can obviously change at anytime since no proposed bill has emerged and Dr. Baruch's sometime mercurial attitudes) indicates that Dr. Baruch will recommend a title-in-the-Government approach with a strong licensing capability established in the Government. (No mention has been heard of a waiver provision for identified inventions). It has been further indicated that a special section will include covering the non-profit sector. Whether this will be category (1) treatment is unknown. Most startling is the information that the bill will carry a provision for criminal penalties for non-reporting. (Whether this extends to non-profits is unknown). As shocking as this provision sounds, it seems to fit the concept of a Government licensing program.

Even if the special treatment suggested for non-profits parallels that afforded by Dole-Bayh, the introduction of such a bill by Senator Kennedy as head of the Judiciary Committee could have grave consequences since it appears Dr. Baruch means to cover the entire spectrum of contractors and grantees. (It is known that Dr. Baruch has visited Senator Kennedy and discussed the possibility of proposing legislation covering disposition of Government funded inventions.) One of the major purposes of the Dole-Bayh bill was to exclude for consideration, at least for now, the treatment of big business who carry with them the difficult arguments over concentration and monopoly.

At this point it seems in my opinion highly speculative that the Baruch proposal will emerge from the Executive Branch in the form discussed above. This is based on the fact that Dr. Baruch has not coordinated any of these ideas at CIPI meetings with the major R&D agencies who have vested interests in policies that are substantially different from those he is proported to be proposing and would probably fight when surfaced.

Notwithstanding, if the alleged Baruch proposal does reach the Congress as a proposed bill, it will raise controversial problems over the treatment of big business which the Associations may wish to avoid through 1) continued support of Dole-Bayh and 2) possible attempts to meet with Dr. Baruch to determine his direction and to redirect his efforts if the above information is assessed to be accurate. (The second recommendation has been suggested by a number of concerned high level administrators in the Executive).

Sincerely,

Norman J. Latker

NJL/dh

cc: Joe Keyes
Sheldon Steinbach
Newton Cattell
Jerry Roschwalb

P.S. Enclosed is an interesting article on innovation.