

HR 2414/ File
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March 5, 1980

Honorable Robert W. Kastenmeier
Chairman
House Subcommittee on Courts, Civil
Liberties and the Administration
of Justice
Room 2232
Rayburn House Office Building
Washington, D.C. 20515

Re: Battelle Memorial Institute: Inclusion in provisions of HR 2414 Section
201(i), Government Patent Policy Act

Dear Congressman Kastenmeier:

HR 2414 is pending before the Subcommittee on Courts, Civil Liberties and the Administration of Justice. We understand that hearings will be held on the Bill early in March. We request that Section 201(i) be amended to comprehend Battelle Memorial Institute ("Battelle") in the definition of nonprofit. This is a small technical detail, but nonetheless one having tremendous impact on Battelle.

Section 201 of the Bill characterizes universities, small businesses, and "non-profits" as the types of organizations which have desired attributes for making, and promoting the utilization of, inventions from research and development supported by the Federal Government ("contract research").

HR 2414 is identical to S. 414, which was recently reported to the Senate floor by unanimous vote of the Senate Judiciary Committee.

Battelle supports the objectives of HR 2414 and S. 414. However, although Battelle is a nonprofit organization which has the desired attributes, it is not now comprehended by the definition of nonprofit. Failure to include Battelle probably was an oversight. For a variety of reasons, the definition should comprehend Battelle.

HR 2414 and S. 414 Should Comprehend Battelle.

Both Bills include in their objectives the following:

1. To use the patent system to promote the utilization of inventions arising from federally supported research and development.
2. To promote collaboration between commercial concerns and nonprofit organizations, including universities.
3. To promote the commercialization and public availability of inventions made in the U.S., by U.S. industry and labor.

These objectives are emphasized at page 3 of the Senate Committee on the Judiciary Report (Report 96-480) covering S. 414. A careful study and analysis of this report makes it clear that the Senate Committee on the Judiciary did not have an opportunity to consider the Battelle type of organization. If it had, it would surely have included Battelle.

Battelle is a unique organization, ideally qualified to meet these objectives. It is a nonprofit organization created, over 50 years ago, as a charitable trust as required by the Will of Gordon Battelle. It has the broad objective to benefit mankind by the advancement and utilization of science through technological innovation and educational activities. It has a long history and acknowledged excellence in contract research, and is well known in government and industry as a pioneer in the contract research approach to research problems - a technique now utilized by many nonprofit research institutes. Battelle even assisted in forming some of these other institutes, such as SRI (formerly Stanford Research Institute), and Southern Research Institute. A description of Battelle is appended to this letter.

It is clear that Battelle is an organization of the type contemplated by HR 2414 and S. 414, and its expertise, excellence, and ongoing activities in contract research should unmistakably be directly involved in the achievement of the objectives of these Bills. Battelle, both by the nature of its organization and by its widespread experience and recognized competence and excellence in the areas contemplated by HR 2414 and S. 414, is precisely the type of organization which the sponsors of these Bills desire to foster. In short, HR 2414 and S. 414 seek to nurture "lots of Battelles".

The "Nonprofit" Facet of Battelle.

Battelle is a "nonprofit", but a nonprofit which pays taxes to the Federal Government. As a charitable trust, it is necessary that Battelle's activities meet both ethical and public benefit tests, to demonstrate that these activities are in the public interest -- Battelle has and continues to meet these tests. Battelle agreed, as a result of negotiations which began in 1961 and were ultimately resolved in 1974 by an agreement between Battelle and the United States Internal Revenue Service, to become a Federal income tax paying organization. The background on this is set forth in the enclosure entitled "Background on Tax Status of Battelle". Hence, it is not now, and does not expect to be, exempt from taxation under Section 501(a) of the Internal Revenue Code. Looked at from another viewpoint, the fact that Battelle is a Federal income tax paying organization is really more in line with the objectives of HR 2414 and S. 414, since Section 404 provides for recouping of government investment. Battelle, because of its tax paying status, is already providing a return to the Federal Government on its activities, and would provide increased "recoupment" if it were comprehended by the Bills.

Battelle's net earnings, as required by the Will and in line with this objective, can only be used in two ways: (1) to further support research projects, thus sustaining the invention/development cycle, and (2) to make charitable distributions to qualified recipients. These recipients are a wide range of organizations and programs concerned with educational activities and community services.

In conclusion, Battelle should be included in HR 2414 and S. 414, because for all practical purposes it is a "nonprofit" as contemplated by the Bills, the work at Battelle is directly in line with the stated objectives of HR 2414 and S. 414, and Battelle is charitable in character. In addition, since Battelle is a highly successful organization in the field of contract research (e.g., as measured by such criteria as its past record of innovations introduced, patents acquired, and the high level of investment in research and development facilities, equipment and instrumentation), Battelle affords an advantageous cost-benefit opportunity for the efficient and productive employment of government funds to ensure that the objectives of the Bills are achieved.

We would welcome an opportunity to cooperate with you in an effort to develop and incorporate appropriate language in HR 2414 for the purpose of including Battelle. Some alternatives are provided in the enclosure, entitled "Alternative Bill Amendments to Comprehend Battelle". I, or a representative of Battelle, will call you in the near future to further explore this matter.

Thanking you in advance for your serious consideration of this matter which is a small technical detail as far as the substance of the Bill is concerned, but one having tremendous impact on Battelle, I remain

Respectfully yours,

ORIGINAL SIGNED BY

S. L. Fawcett

Sherwood L. Fawcett
President and Chief Executive Officer

Enclosures:

- (1) "Battelle, Science Serving Human Needs, a History of Battelle Memorial Institute"
- (2) "Battelle, The President's Report and Annual Review, 1978"
- (3) "Linking Invention to Human Needs, Battelle Development Corporation"
- (4) "Background on Tax Status of Battelle"
- (5) "A Description of Battelle"
- (6) "Alternative Bill Amendments to Comprehend Battelle"

BACKGROUND ON TAX STATUS OF BATTELLE

In 1974, Battelle relinquished its tax-exempt status. The Trustees of the Institute were faced with the fact that the concept of scientific research under the Internal Revenue Code may be at odds with the Purposes of Battelle Memorial Institute, as described in the Will and as implemented by the Board over the years. The Trustees rejected the idea of conforming to any concept of scientific research which would be more restrictive than required by the Will, and which may require discontinuing many of the activities of the Institute. Faced with the alternative of living with great uncertainty during the years which would be required to obtain a final ruling as to the meaning of the Internal Revenue Code, and the possibility of eventually being confronted with a much larger liability and additional tax problems, the Trustees concluded that the better course of action was to settle the tax dispute and go forward as a tax paying organization while remaining nonprofit and charitable under the laws of Ohio. Thus, it was impossible for the Trustees to continue, in conformity with Gordon Battelle's Will and Ohio law, the scope of the Institute's activities and to remove the threat to the continuance of the Institute represented by the pending tax case, and possible further disputes and liabilities. In making this difficult decision, the Trustees called upon and received the advice of counsel, as well as those with direct management responsibility.

A DESCRIPTION OF BATTELLE

Battelle is a nonprofit organization dedicated to scientific research, education, and the utilization of technology for the public benefit. It began operation in 1929 and has grown into an organization of almost 7,000 people. Its headquarters are in Columbus, Ohio, but it has research laboratories in the State of Washington, Geneva, Switzerland, and Frankfurt, Germany. In 1964, the U.S. Atomic Energy Commission selected Battelle to operate the Hanford, Washington Laboratories, and continue to do so. In 1979, it carried out almost 300 million dollars of contract research activities for the U.S. Government and industry.

In the usual case, its research for industrial sponsors is conducted to solve specific problems so that in some respects Battelle may be regarded as "inventing to order". More importantly, its work for industrial sponsors has caused it to be very much informed of the needs of industry, so it has a substantial advantage in transferring technological developments from the research stage into use by industry. Recently it has undertaken several thousand contract/research projects in each year. Battelle's wide range of activities, both currently and over its 50-year history, is illustrated in the enclosed copy of its 1978 Annual Report and in the enclosed history of Battelle Memorial Institute.

The success of Battelle is a direct result of its recognition that efficient solution of practical problems requires understanding and development of scientific theory, but that scientific theory becomes useful only as it is reduced to practical application. This search for basic scientific knowledge, in which Battelle has been engaged in connection with numerous projects over its long history, results in a continuous enhancement of Battelle's understanding of the chemical, physical and biological principles upon which applied research and engineering are built. Battelle has prospered because it has recognized that the efficient solution of practical problems requires an understanding and development of scientific theory, and that scientific theory becomes useful only as it is reduced to practical application by use of scientific method and sound research technique. Further, being a nonprofit organization with extensive experience in dealing with industry, it is in an ideal position to promote increased cooperation and collaboration between the nonprofit and commercial sectors. Finally, because of its objectives and its direct experience over many years, it is well equipped to promote the commercialization and public utilization of inventions made under contracts with the United States. It has had notable success assisting in the utilization of products and processes resulting from research and development in many technical areas. Probably its most widely known effort was its contribution to the development of xerography where it developed the invention of an independent inventor, Chester Carlson, and then succeeded in convincing a then small company, Haloid Corp., to commit the necessary resources to bring the product to market. Other areas of technical development and commercialization in which Battelle has been engaged include nuclear research, oceanography, coal gasification, sewage treatment, development of new materials, environmental studies and health care. In the area of nuclear research, scientists working on the Manhattan District Project came to Battelle in the early 1940s to learn

how to fabricate uranium for use in nuclear reactors. Battelle has been heavily involved since that time in atomic energy research and has played a key role in many important developments in nuclear technology, one of which was the development of methods for fabricating the fuel elements for nuclear submarines.

Also, Battelle expended a substantial amount of its own funds for the public good to provide research leadership in dealing with the energy crisis. It is of particular interest that this energy research program was initiated by Battelle in advance of the OPEC embargo.

Battelle also develops and transfers inventions and new ideas through the Battelle Development Corporation ("BDC"), a nonprofit subsidiary established in 1935. BDC's function is to identify and develop useful scientific, technological and educational inventions and new ideas to a point where their usefulness is demonstrated. BDC provides the means to develop innovations to the stage where they may be licensed or sold to industrial concerns, which will ultimately make them available to the public, or until it is demonstrated that this cannot be done. A pamphlet entitled "Linking Invention to Human Needs" is enclosed to indicate the significant nature of the work of BDC, including work both with independent inventors and work in assisting universities in handling and commercializing their inventions.

BDC assumes responsibility for all necessary technical feasibility work, for patent work, for the research and development necessary to bring the invention to the point of licensing or sale, and for the marketing and legal effort required to consummate a suitable arrangement with industry. Net earnings derived from this activity, as well as all other activities of Battelle, are used to further Battelle's purposes, thus sustaining the invention/development cycle.

BDC has developed ongoing relationships with a number of companies, who provide it with marketing information and licensing opportunities. Because of ongoing relationships with these companies and many others for whom it performs continuing research, including companies for whom it conducts research and makes inventions to fill specific needs, Battelle is in a particularly favorable position to move technology from the invention to the utilization (commercialization) stage. Because of its demonstrated expertise, it is now being used by a number of universities to assist in developing, licensing and commercializing the results of university-conducted research, much of it being conducted on the basis of government funding. In fact, Battelle, like universities, is also a recipient of sponsored research contracts under Institutional Patent agreements ("IPA"). For instance, it provides the vehicle to involve the inventor actively in the commercialization process. Industrial organizations (companies) are rarely interested solely in the legal rights under a patent. They want a close tie with the inventor and those involved in the invention and development phases to aid them in the further development effort that will be required. Battelle is uniquely equipped to provide this bridge between researchers and industry.

Battelle, under an IPA, (a) provides a vehicle for an interested company to rapidly obtain licensing rights, without the delay and uncertainty of

petitioning a Government agency, and (b) provides the opportunity, when justified, for an industrial concern to obtain the critically needed period of exclusivity, so that the company can justify the investment of time and money in the commercialization process.

An important facet of Battelle's demonstrated ability to promote utilization of inventions is the ownership by Battelle of patent rights and the ability to transfer such rights as part of a commercialization package either by assignment or by the granting of exclusive licenses.

ALTERNATIVE BILL AMENDMENTS TO COMPREHEND BATTELLE

The definition of "nonprofit organization" set forth in Section 201(i) of HR 2414 and S. 414, reads as follows:

"(i) The term 'nonprofit organization' means universities and other institutions of higher education or an organization of the type described in Section 501(c)(3) of the Internal Revenue Code of 1954 [26 USC 501(c)] and exempt from taxation under Section 501(a) of the Internal Revenue Code [26 USC 501(1)]."

We defer to your expertise as to how to specifically include Battelle in the provisions of HR 2414. One thought is that the definition for nonprofit in S. 1250, which is simple and precise, can be substituted.

- (1) Substitute for Section 201(i) the following nonprofit definition of "nonprofit organization" employed at Section 4(5) of S. 1250, a Bill which, like HR 2414 and S. 414, is directed to promoting technological innovation: "'Nonprofit institution' means an organization owned and operated exclusively for scientific or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual".

The following proposed amendments to the nonprofit definition exemplify alternatives:

- (2) Add to the definition the language: "... or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute"; or
- (3) Substitute for Section 201(i) the following definition based on the Ohio statute [ORC 1702.01(C)] under which Battelle operates in Ohio:
"'Nonprofit organization' means an organization which is not formed for the pecuniary gain or profit of, and whose net earnings or any part thereof is not distributable to, its members, trustees, officers or other private persons, provided, however, that payment of reasonable compensation for services rendered shall not be deemed pecuniary gain or profit or distribution of earnings"; or
- (4) Add the following to Section 201(i):
"or any nonprofit organization which
 - (a) is qualified under a state nonprofit organization statute and
 - (b) does not directly engage in manufacturing operations".