



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

NOV 14 1985

MEMORANDUM FOR: DOMESTIC POLICY COUNCIL
WORKING GROUP ON PATENT POLICY

FROM: Alton G. Keel, Jr.
Associate Director for
National Security and
International Affairs

SUBJECT: Government Patent Policy

In response to the November 5 memorandum from J. Michael Farrell, I am submitting comments on the issues posed concerning Government patent policy.

Issues concerning national security and title to patents from Government-supported research and development are not unique to the President's Strategic Defense Initiative (SDI) and laser technology. Thus, the Working Group should not focus on SDI in the examination of these issues.

The national security implications of new technologies (such as export controls, dual-use technologies, and classified research within the universities) continue to be discussed in existing forums. If there are technology transfer or classification problems, they can be dealt with in established review procedures. I question the need for duplication of effort on defense-related issues in a DPC Working Group.

I do not believe a reexamination of the Administration's position on granting title to patents resulting from Federally funded research is needed. The Administration's general approach toward technological innovation, including policy toward title to patents arising from Federally funded research, has been set. Moreover, changes in the President's statement of February 18, 1983, would not affect existing legislation.

If the DPC Working Group does examine issues related to Government patent policy, it could examine the need for possible changes in agency policies or practices for ensuring that the Government is able to use patents arising from Federally sponsored research without paying royalties.

Specific comments on the issues raised by Mr. Farrell's memorandum are attached.

Attachment

DPC Working Group on Patent Policy

J. Michael Farrell, DOE
Theodore Harris, DOE
Donald Carter, DOD
Alexander Platt, NSC
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Douglas A. Riggs, DOC
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Allan Gerson, DOJ
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COMMENTS ON GOVERNMENT PATENT POLICY ISSUES

Issue:

In the classification process, how does the Government protect classified materials and our country's national security interests regarding technology resulting from Government-sponsored research?

Discussion:

We understand that all patent applications are reviewed by the Patent and Trademark Office (PTO) for national security considerations without respect to the source of funds. Applications that fall under the criteria established are kept secret.

Issue:

How does Government policy on ownership of patent rights affect the Government's ability to protect national security interests?

Discussion:

Government policy on ownership of patent rights does not affect its ability to prevent disclosure of patent applications for reasons of national security regardless of the source of research funds. Where research is done under Government auspices, particularly research expected to have national security implications, both the funding agencies and the performing organizations have the responsibility of ensuring that the work is conducted under the appropriate security conditions. If patentable technologies result from that research, the PTO national security screening process takes over. As part of that process, the funding agencies inform the PTO about potentially classifiable technologies.

In the case of technologies that are not patented (or patentable), the problem is in finding the technologies to screen. Research that is not performed under Government auspices may miss a national security screening, but a change in Government patent policy will not address this issue. The screening of research performed with Federal funding depends on the awareness of security considerations and the quality of the project monitoring.

Issue:

How do we put a "value" on technology resulting from Government-sponsored research?

Discussion:

Placing a value on technology resulting from Government-sponsored research is extremely difficult. In perhaps most cases, even with a patented technology, an industrial firm must make substantial investments in order to get a commercially viable product or process. In addition, the research performer may have used his own previously patented technologies and know-how in order to develop the new technology. (Indeed, a performer without a prior track record in the area is much less likely to get substantial amounts of Federal research funding).

For research supported for national security or other public need purposes, the resulting technologies may well be brought close to commercialization by industry (at Government expense) because they are designed to be used for military purposes. In these cases, the incremental investment needed for civilian commercialization may be relatively small.

Perhaps the most efficient way to place a value on technologies resulting from Government-sponsored research is to let the private sector users decide what the value is. Patented technologies to which the Government has title could be sold to the highest bidder after the fact, i.e., after the patent is issued. Alternatively, there could be a competition before the fact, i.e., during the research and development phase prior to the patent filing. This competition might be reflected in the amount of cost sharing the contractor is willing to bear. For example, with the introduction of a contractor-title policy, the operation of some national laboratories has been recomputed.

The value of Government-funded technologies is not simply the cost to the Government; it also depends on the availability and cost of private-sector-funded commercial alternatives. The alternatives include existing technologies as well as the cost of redoing the research, perhaps with less rigorous technical criteria. If the research has been conducted for the Government's own use, then any industrial application is a "spillover," or side benefit, and only adds to the payoff from the original research.

Issue:

Should the Government attempt to recoup a portion of the technology's "value"? If so, how should such a recoupment be undertaken? For what purposes (budgetary, R&D funding, etc.) should recoupment be sought?

Discussion:

We understand that the executive branch already has a recoupment policy, as established by the Council on International Economic Policy in 1974. (This policy was implemented by DOD and NASA in the late 1970's.) The Bayh-Dole Act as originally submitted to the Senate had a complex recoupment provision; the bill as passed did not. However, neither Bayh-Dole nor the President's 1983 memorandum prohibits recoupment.

It is possible to set up recoupment schemes (as proposed initially under Bayh-Dole), but the issue is more one of cost-effectiveness than fairness. Based on the experiences of other nations, little money is likely to be recovered. Many policy officials have concluded that the complexity of the proposed schemes adversely distorts incentives to commercialize existing technologies; these officials generally conclude that the tax revenue from successful commercialization may be sufficient payback.

If recoupment schemes are judged not cost-effective, what becomes important is ensuring that the initial "give-away" is a fairly open process -- that firms have equal access. This principle is not inconsistent with having a contractor title policy; what it does require is that there be competition for the initial research phase. The principle also does not preclude exclusive licenses as long as there is open bidding for the license.

Funds recovered by the Federal Government on its research investments in the form of royalties from patent licenses could go into general Federal revenues or be targeted into the budgets of the agencies that funded the research. OMB is currently reviewing this issue in connection with several Congressional bills. For the purposes of maintaining adequate controls and review over agency budgets, OMB believes that funds recovered by the Government on its research investments should go into the general revenue. While direct recovery by the agencies would provide some information on the commercial value of different research areas, such information is not necessary for efficient

agency functioning because Federal agencies do not fund R&D for the sake of immediate commercial payoffs. In addition, direct agency recovery could, over time, turn an agency's focus to business rather than to the business of the Government.

Issue:

Should the President's memorandum on Government patent policy of February 18, 1983, be reviewed to ensure that the memorandum addresses and adequately provides for the Government's national security and budgetary concerns?

Discussion:

A reexamination of the Administration's position on granting title to patents resulting from Federally funded research is not needed. Revisiting the President's memorandum would have no effect on the two existing statutes that mandate that Federal agencies grant patent titles to small businesses, universities, and nonprofit organizations with some very specific exceptions (one of which is national security).

The issue of obtaining commercialization of Government-funded technologies was one of the factors driving the current Government patent policy. A legitimate issue on the other side is whether efforts directed at improved civilian commercialization of defense technologies will harm national security. The issue of dual-use technologies has been discussed extensively by the SIG-Tech Transfer. If there are problems with our current approach, they should be raised with the NSC. Thus, I have strong reservations about the need for the Domestic Policy Council as a forum for these and other national security and defense research issues.

An issue for possible DPC Working Group discussion is whether the implementation of the current Government patent policy has posed problems for the royalty-free use of Government-funded patents for Government purposes.