



NOV 18 1985

MEMORANDUM FOR: J. Michael Farrell
General Counsel, DOE

FROM: Robert H. Brumley ^{RHB}
Deputy General Counsel

SUBJECT: Government Patent Policy

The Commerce Department has no objection to reviewing current processes for classifying patents relating to national security. We agree that every effort should be made to prevent the public release of inventions which should have been classified under appropriate national security standards. We do not believe it is necessary or appropriate to question the Administration's continuing adherence to a policy of encouraging the transfer to the private sector of rights to federally-sponsored technology.

The President has specifically endorsed this policy. Unless there is compelling evidence that this policy is flawed we should confine our review to technical issues that impede its application.

In addition:

- ° We disagree that SDI should be considered an "exceptional circumstance" under 35 USC § 202 for national security reasons. We believe that decisions as to national security must be made with regard to the particular invention, not the fact that it is associated with a particular program. Perhaps more importantly, the suggestion reveals a misinterpretation of the "exceptional circumstance" provision. Section 202(a)(ii) of Title 35 merely provides that the Government shall retain title, in exceptional circumstances, to the extent necessary to further the purpose of that chapter. That purpose is defined as "promot(ing) the utilization of inventions arising from federally supported research or development." It does not appear to provide a basis for creating exceptions for national security reasons.
- ° We disagree that allowing successful contractors to acquire ownership of a resulting invention decreases competition for Government contracts, as your memorandum suggests at Section B, page 4. If anything, it is more logical to assume that the potential reward to a contractor should increase competition for research contracts and lead to lower costs.

° We disagree with your suggestion that Government policy should require agencies to recoup R&D costs in the form of royalty returns from contractors who successfully commercialize federally funded inventions (Section C, pp. 4-5). This could create a disincentive to commercialization efforts by the contractor and impose a paperwork burden on the Government and the contractor. Moreover, the contractor's successful commercialization efforts already results in benefits to the Government from increased employment and tax revenue.

The Department of Commerce will not support any efforts at this time to study any issues beyond classification procedures and other management-oriented issues, such as the extent, if any, to which royalties or patent acquisition costs are factored into a contractor's overhead and charged back to the Government.