U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
COMMITTEE ON BANKING, CURRENCY AND HOUSING
NINETY-FOURTH CONGRESS
WASHINGTON, D.C. 20515

RATIONALE FOR AMENDMENT TO SECTION 18 (r) : PATENT POLICY

Section 18 (r) of H.R. 12112 currently provides that:

> "inventions made or conceived in the course of or under a guarantee authorized by this section shall be subject to the title and waiver requirements and conditions of Section 9 of this Act."

Briefly, section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 states that title to any inventions arising under an ERDA contract vests in the United States government unless the Admininstrator of ERDA waives all or any part of the rights of the government to such inventions. Thus, section 18(r) renders the section 9 title and waiver requirements applicable to inventions under a loan guarantee scheme, establishing government ownership of patent rights for the new technology contemplated by the H.R. 12112 loan guarantee provisions.

The proposed McKinney amendment to section 18(r) reads in whole as follows:

> "(r) Inventions made or conceived in the course of or under a guarantee authorized by this section shall <u>not</u> be subject to the title and waiver requirements and conditions of section 9 of this Act <u>except in the event of a default as defined under subsection (g) of this section.</u>" (Note: Proposed changes are underscored.)

The essential change envisioned by the amendment is to vest title to patent rights in the program participants rather than in the government. The provisions of section 9 and government entitlement to patents produced under Federal loan guarantees would be triggered

only in the event of default.

The need to redress the balance between Federal versus program participant ownership to which the amendment is addressed has been corroborated by the testimony heard before the Subcommittee on Economic Stabilization of the House Committee on Banking, Currency and Housing. The following statements were heard by the subcommittee on June 2, 1976, regarding the patent policy under H.R. 12112:

1. Howard Bremer - American Council on Education
2. Edward Brenner - Association for the Advancement of Inventors and Innovation
3. Joseph A. Degrandi - American Bar Association
4. W. Brown Morton, Jr. - American Patent Law Association
5. Raymond Woodrow - Society of University Patent Administrators

In addition, ERDA has commented in favor of the needed change.

The policy rationale for the amendment is twofold: the change is demanded in the public interest as well as in light of the equities of the situation. First, the public interest in the success of the synthetic fuels program set forth by H.R. 12112 would best be served by providing for participant retention of patent rights. Mr. Degrandi has testified that a program of technological development is best promoted by security of invention through patents. Private rights to title afford the vital incentive to private enterprise to invest capital to develop and utilize technology. Mr. Brenner, concurring, stressed that to insure program success the participation of qualified entities must be encouraged. The patent mechanism would provide the much needed incentive to lure potential participants into the program. Section 18(r) in its present form in fact discourages private investment and involvement in the program by allowing Federal entitlement to patents in deprivation of private

rights.

Mr. Woodrow's testimony elaborated on the need to assure against disruptive outside intervention in the process of technological development which impedes the necessary progress of the program. Government ownership of inventions neither provides this protection nor does it provide the necessary energy, ingenuity or skill needed to most effectively carry the project through to completion. Hence, section 18(r) should be modified to permit participant entitlement to patents.

The strong preference for private retention of patent rights is yet further buttressed by Mr. Brenner's observation that the previous cases of "Government-Take-Title" programs evidence instances of overwhelming failure.

Significantly, the testimony before the subcommittee is underscored by the concurrence of ERDA in its Fact Book: Proposed Synthetic Fuels Commercial Demonstration Program of March 1976. Therein, it is stated that there:

> "is a need to provide an incentive to firms which have made substantial investments in developing technologies which might be commercially demonstrated under the Program....Outright Government acquisition of title to inventions under guarantees could have a negative impact on the willingness of certain companies to participate in the program."

Therefore, the public interest in the success of the synthetic fuels program compels the adoption of appropriate incentives to encourage the necessary private involvement in the program. Vesting title to patent rights in the participant developer is vital to achieve this end.

Second, the policy rationale is premised on the conception that it is inequitable to permit the Federal government to demand patent

and other rights or inventions produced in projects under loan guarantees as opposed to those directly financed by the government. The difference between loan guarantees and other modes of financing must be emphasized. Mr. Degrandi stressed that to allow the government, which is merely guaranteeing loans, to own a part of the assets of the party obtaining the guarantee is an unnecessary and unprecedented display of governmental power. Messrs. Morton, Bremer, Brenner and Woodward testified that in the case of a loan guarantee, the government has no legitimate claim to title and that to enact section 18(r) as currently drafted constitutes an unwarranted incursion on the exclusive proprietary rights of inventors to their discoveries.

The consensus of the testimony before the subcommitee demonstrates the inequity of section 18(r) under which developers are expected to risk funds of their own or funds borrowed from private sources while being denied the availability of title to their inventions. ERDA endorsed this approach in its Fact Sheet:

> "ERDA has interpreted Sec. 9 of the Federal Nonnuclear R&D Act of 1974, which requires ERDA to obatin title to the inventions made under its contracts, as not being applicable to loan guaranties, because guaranties provide only limited financial assistance, rather than outright Federal support of all or most of the cost project. It is not generally the practice for the Federal Government to acquire title to incremental improvements to existing patented technologies where such limited assistance is provided. For example, other government agencies, (e.g. HUD, Maritime Administration, Department of Agriculture, SBA) that administer loan guaranty programs do not acquire patent rights under agreements they have executed."

The McKinney amendment rectifies the situation so as to place patent rights in the private participant. However, the policy rationale underlying the change would shift in the event of default

as the Federal government would then be bearing the risk of immediate loss as it does with a directly financed project. The proposed change to section 18(r) would therefore recognize the need to allow participant retention of patents while providing the mechanism to invoke section 9 of the Act in the event of a default triggering direct Federal outlay of resources. The underlying principle is to view the intellectual property as collateral under the H.R. 12112 loan guarantee program. Should default occur, the United States government may claim title to the patents under Section 9 provisions.