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Before The

COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES AND THE ADMINISTRATION OF JUSTICE
HOUSE OF REPRESENTATIVES

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Mr. Chairman and Members of the Committee:

I welcome this opportunity to testify at this hearing on Federal Patent Policy.

In Fiscal Year 1983, the Federal government intends to spend over 40 billion dollars in research and development programs. That represents a substantial portion of our overall national investment in science and technology. Government-funded research and development are necessary to support directly the line programs of agencies such as the Departments of Defense, Health and Human Services, Energy and Agriculture, as well as NASA and the National Science Foundation. Those programs must also be made to contribute significantly to the overall capability of this nation to increase our productivity generally and our ability to compete in world markets. To achieve that result we must have a coherent and understandable policy to stimulate the widespread use in the private sector of the results of Federal research and development efforts. And yet, after more than 30 years of studies and debate, we are still operating under a patchwork of differing laws and regulations.

This committee played a key role in enacting effective legislation last year to govern the allocation of rights to inventions made by nonprofit and small business concerns under Federal sponsorship. The goal in that legislation was to get inventions that are made in government programs into the market place. We have a unique

opportunity this year to extend such a coherent policy to all government contactors. This would encourage the development and commercialization of new technology resulting from government programs. The Administration strongly supports the provisions of H.R. 4564 which would leave commercial rights in the form of title to contactors to stimulate such commercialization.

An effective Federal patent policy must be supported by an effective patent system. To provide background on H.R 4564, let me discuss briefly the Administration's plan for improving the U.S. patent system generally. We feel that these improvements are necessary in order to derive the full beneficial impacts envisioned by H.R. 4564.

There was a time not long ago that the very basis for the U.S. patent system was seriously questioned. President Johnson's Commission on the Patent System in the mid-1960's was formed in part to examine whether the system itself was attuned to modern needs. That Commission, and all subsequent studies, confirmed that the incentives of the patent system are as important now as they ever have been in our Nation's history. Internationally, patent systems are being instituted where there were none, for example in China and in Thailand, and strengthened in other regions, for example in Brazil and through the European Patent Office. In this country, issues regarding the patent system itself now center not on whether it is needed, but rather on how well it is working to serve inventors and industry.

Unfortunately, the Patent and Trademark Office is not serving this nation as well as it should. We now have a backlog of more than 207,000 patent applications. During fiscal year 1981, we processed approximately 88,000 applications, approximately 20,000 less than we received during the fiscal year. That means the backlog is growing by about 10% each year. It now takes almost 23 months on the average to get

a patent. That time will grow to over two years no matter what immediate steps the Administration takes. It now takes longer to register a trademark -- about 25 months -- than at any previous time in history. In the documentation area, an average of 6-7% of the patents in the examiner's files are missing or are misfiled, and in rapidly developing fields that number is as high as one out of four.

Patent holders continue to face uncertainty in enforcing their patent rights. The 12 federal circuit courts continue to apply differing standards to determine whether or not a patent is valid. On the critical issue of whether an invention meets the test of being "unobvious" over earlier work, those courts do not even agree on whether the test is a question of fact or one of law. The issue of whether combination inventions need to produce a synergistic result to be patentable is still being debated among the circuits and in individual decisions.

Given the critical importance of the patent and trademark systems to this nation, the current situation is totally unacceptable. To turn things around, the Administration is pursuing a four-point plan designed specifically to redress these very real problems:

(1) The anchor of the plan concerns the Patent and Trademark Office itself and the overriding need for increased resources. In the patent area, we are committed to achieving an 18 month pendency by 1987 and to building the foundation for a fully automated Patent and Trademark Office.

(2) The second component is the institution of reexamination under P.L. 96-517, enacted in December 1980. Under reexamination, for the first time in history a patent owner, or his or her competitor, can request a ruling of the Office on whether a patent should be amended or cancelled because of evidence of earlier work.

1980 Reexamination

(3) The third component of the four-point plan is the Administration's decision to support the establishment of a new Court of Appeals for the Federal Circuit ("CAFC") to handle all patent litigation nationwide. We are pleased by the Senate and House passage last fall of bills to establish such a court. And I am optimistic that differences in those bills will be reconciled early this year.

(4) Finally, the Administration is strongly supporting enactment of legislation to establish a coherent Federal patent policy -- one applicable to all Federal agencies and to all of their contractors -- which is designed to stimulate the commercial use of inventions resulting from Federal research and development programs by leaving commercial rights, in most instances, in the hands of the contractor doing the work.

The first three points of our plan, concerning the patent system itself, are indirectly related to the issue of Federal patent policy. A smoothly operating system that can deliver defensible patents in a timely fashion is necessary in order to realize the full incentive potential of the policy in H.R. 4564. Therefore, I look forward to working with this Committee to ensure that the incentives provided by a strong and well-working patent system are maintained and strengthened.

Those incentives -- to invest in new plants and equipment and in the engineering and marketing needed to get new products into the marketplace -- are as important to stimulate the use of new technology resulting from Federal sponsorship as they are to stimulate the use of new technology resulting from privately funded research and development. Constructive efforts over the years to develop a

comprehensive patent policy have focussed on how to harness the incentives of the patent system to encourage use of federally sponsored inventions, while maintaining appropriate safeguards.

This Committee is well aware of the long history of the debate on Federal patent policy and the three major milestones:

- The issuance in 1963 by President Kennedy of the Memorandum and Statement of Government Patent Policy;

- The revision of that policy in 1971 by President Nixon; and

- The enactment last December of P.L. 96-517, which affords important incentives to encourage the development and use of new technology resulting from Federal programs, but which by its terms applies only to nonprofit and small business concerns.

H.R. 4564, for the first time, would establish a truly uniform patent policy, one that applies to all government agencies and to all of their contractors. And that policy is specifically designed to spur business executives to invest in inventions resulting from Federal sponsorship. The bills draw upon the extensive experience of the government which has shown that the likelihood of an invention being developed and commercially used are increased significantly when exclusive commercial rights in the form of title are given to the contractor.

Contractor ownership of patented inventions also provides another significant benefit: it relieves the government of the responsibilities, burdens and costs of seeking commercial uses for inventions made by others under Federal sponsorship. The rate of commercialization of government-owned inventions made under contract is very low. This is so principally for two reasons: First, when

the government takes title and attempts to license others, it takes the invention away from the persons most interested in its development, namely the inventor and his coworkers. Secondly, the government simply has not been able to devote the resources necessary to market aggressively the patent portfolio of the 28,000 patents it owns.

Major goals of the Department of Commerce are to promote private sector capital formation, job creation and productivity. The general policies established by H.R. 4564 are designed specifically to contribute to those goals. By permitting government contractors, except in narrowly defined areas, to retain commercial rights to their inventions, subject to a broad government license and "march-in rights," the bill is intended to encourage the most qualified and competent contractors to participate in government programs, thereby stimulating the introduction of new products into commerce and promoting competition.

Another major goal of the Department is to minimize regulatory and administrative barriers to business growth, profitability, trade and competitiveness. By establishing easily understood standards for the allocation of rights to inventions, H.R. 4564 would permit business judgments to be made and carried out with a minimum of bureaucratic delays and uncertainties.

Before concluding, I would like to address several of the specific issues in H.R. 4564. The first is recoupment, i.e., whether the government should share in royalty income or profits from a contractor who successfully used the incentives of the act to market an invention. H.R. 4564, as introduced, contained a provision for recoupment. The House Science and Technology Committee amended the recoupment provision to limit the likelihood of recoupment and the amount which may be recouped. The Administration is opposed to a

specific provision on recoupment in this bill. Recoupment is a procurement issue. It should be considered separate and apart from the issue of the allocation of patents to inventions developed in Federal R&D programs. If the purpose of the legislation is, as we believe, to stimulate the use of new technology and to do so in a way easily understood and carried out by private concerns, whether small or large, we believe the bill should be silent on the matter of recoupment.

The second area I would like to address is the exceptions to the general policy established in H.R. 4564. I believe they are too broad. I do not believe that the the Federal government should retain title in such broad and undefined areas as "public health, safety, or welfare". Broad exceptions like this could have a very significant effect on agencies such as the Department of Health and Human Services, for example. Depending on how such a provision would be implemented, it could very well have HHS be a title-in-the government agency. This would not be consistent with the goals of this bill. I also do not think that it is a wise policy to exclude specific technologies, such as recombinant DNA research, from the general applications of the policies which allow a contractor to retain title to inventions developed in government programs.

The final issue I would like to raise is one which concerns responsibility for developing regulations for implementing H.R. 4564. In order to ensure uniformity in the patent policy area, the Administration has taken the position that the bill should be amended to assign responsibility for developing uniform patent policy guidance to OMB. This amendment would be consistent with the general thrust of H.R. 4564 which is to extend the very good policy in P.L. 96-517 to all government contractors.

In closing, Mr. Chairman, let me again express our belief that you have a unique opportunity, building on P.L. 96-517, to establish a uniform, coherent and flexible patent policy, one designed so that

all government contractors can use the incentives of the patent system to seek and develop commercial uses of federally funded inventions.

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