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STATEMENT OF
J. JANCIN, JR., VICE-PRESIDENT
AMERICAN PATENT LAW ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON CONSTITUTION
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE
JUNE 6, 1979

ON
S.414 - THE UNIVERSITY AND SMALL BUSINESS PATENT PROCEDURES ACT

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THE AMERICAN PATENT LAW ASSOCIATION (APLA) IS A NATIONAL SOCIETY OF LAWYERS ENGAGED IN THE PRACTICE OF PATENT, TRADEMARK, COPYRIGHT, LICENSING, AND RELATED FIELDS OF LAW PERTAINING GENERICALLY TO INDUSTRIAL, COMMERCIAL AND INTELLECTUAL PROPERTY RIGHTS. APLA MEMBERSHIP INCLUDES LAWYERS IN PRIVATE LAW FIRM, CORPORATE AND GOVERNMENT PRACTICE; LAWYERS ASSOCIATED WITH UNIVERSITIES, SMALL BUSINESS AND LARGE BUSINESS; AND LAWYERS ACTIVE IN THE INTERNATIONAL ARENA AS WELL AS WITH MATTERS OF NATIONAL CONCERN. THE APLA POSITION ON BILL S.414 WAS DEVELOPED THROUGH THE WORK OF THE ASSOCIATION COMMITTEE ON SMALL BUSINESS AND THE COMMITTEE ON GOVERNMENT PATENT POLICY.

THE APLA SUPPORTS S.414. WE APPRECIATED THE OPPORTUNITY TO COOPERATE IN THE DEVELOPMENT OF THIS LEGISLATION IN THE 95TH CONGRESS RELATIVE TO PREDECESSOR BILL S.3496, AND WELCOME THE OPPORTUNITY TO TESTIFY TODAY IN SUPPORT OF S.414. APLA SUGGESTIONS TO S.3496 WERE ADOPTED IN S.414, AND IN THE SPIRIT OF ADDING CONSTRUCTIVELY TO THIS LEGISLATION, ADDITIONAL RECOMMENDATIONS WILL BE OFFERED SHORTLY AS A PART OF THIS TESTIMONY RELATIVE TO S.414.

FIRST, HOWEVER, WE WANT TO THANK THE CHAIRMAN OF THE SUBCOMMITTEE FOR HIS RECENT ACTIVE INTEREST IN A REVIEW TO DETERMINE ADEQUATE FUNDING FOR THE UNITED STATES PATENT & TRADEMARK OFFICE. THIS FUNDING MATTER IS DIRECTLY CONCERNED WITH INDUSTRIAL INNOVATION GENERALLY, AND HAS A REAL RELEVANCY TO THE WAY IN WHICH UNIVERSITY AND SMALL BUSINESS RELATED INVENTION RIGHTS ARE DEVELOPED AND SAFEGUARDED VIA THE PATENT SYSTEM INCLUDING THE PATENT & TRADEMARK OFFICE.

THE ENACTMENT OF S.414 WILL BE IN THE NATIONAL INTEREST. ITS ENACTMENT SHOULD PRODUCE THE FOLLOWING FAVORABLE RESULTS IN ADDITION TO MEETING POLICY OBJECTIVES RECITED IN SECTION 200 OF THE BILL:

(A) GREATER AND FASTER COMMERCIALIZATION OF INVENTIONS RESULTING FROM RESEARCH, DEVELOPMENT AND EXPERIMENTATION WHOLLY OR PARTLY FUNDED BY THE AMERICAN TAXPAYERS.

(B) A STRENGTHENING OF THE RESEARCH & DEVELOPMENT CAPABILITIES OF AMERICAN UNIVERSITIES AND SMALL BUSINESS.

(C) AN ENCOURAGING CLIMATE FOR SUBJECT INVENTION DISCLOSURE (AND THEREBY A FORM OF TECHNOLOGY TRANSFER) BECAUSE OF SPEEDIER INVENTION PROCESSING AND MORE CERTAIN DISPOSITION OF SUBJECT INVENTION RIGHTS.

(D) ELIMINATION OF ANY LEGAL UNCERTAINTY SURROUNDING THE ABILITY OF THE FEDERAL GOVERNMENT TO LICENSE PATENTS AND PATENT APPLICATIONS IT OWNS.

IN SUMMARY, THE ENACTMENT OF S.414 SHOULD BRING IMMEDIACY, SIMPLICITY, RATIONALITY, UNIFORMITY AND CERTAINTY TO THE OPERATION OF GOVERNMENT PATENT POLICY IN UNIVERSITIES AND SMALL BUSINESSES.

THE LACK OF SUCH A GOVERNMENT PATENT POLICY ALSO IMPACTS NEGATIVELY UPON INDUSTRIAL INNOVATION. THE APLA SUBSCRIBES TO THIS WIDELY RECOGNIZED

AND GENERALLY ACCEPTED COMMENT --- E.G., AS SET FORTH IN THE DECEMBER 22, 1978 DRAFT REPORT OF THE ADVISORY SUBCOMMITTEE ON FEDERAL PROCUREMENT POLICY OF THE ADVISORY COMMITTEE ON INDUSTRIAL INNOVATION ESTABLISHED AS PART OF THE DOMESTIC POLICY REVIEW INSTIGATED BY THE WHITE HOUSE:

> "IT IS BECOMING QUITE EVIDENT THAT EXISTING FEDERAL POLICIES REGULATING THE ALLOCATION OF RIGHTS IN INVENTIONS RESULTING FROM GOVERNMENT-SPONSORED CONTRACTS FAIL TO STIMULATE INDUSTRIAL CREATIVITY INNOVATION AND TECHNICAL GROWTH. QUITE THE CONTRARY, CURRENT AGENCY POLICIES APPEAR TO DELAY, AND EVEN DISCOURAGE, COMMERCIAL DISCLOSURE AND UTILIZATION OF SUCH INVENTIONS, THEREBY DEPRIVING THE AMERICAN CONSUMER OF THE BENEFITS OF THE ENORMOUS ANNUAL NATIONAL INVESTMENT IN TECHNOLOGY DEVELOPMENT, THE UNITED STATES MUST BE ABLE TO TAKE ADVANTAGE OF THE TECHNOLOGY THAT IS BEING DEVELOPED USING GOVERNMENT FUNDS AND APPLY IT TO AN AREA OF THE ECONOMY. IT IS IMPORTANT THAT FULL ADVANTAGE IS TAKEN OF THE NATION'S INVESTMENT SO THAT THE NATIONAL TECHNOLOGICAL LEAD IS MAINTAINED IN THE WORLD AND THAT INNOVATIVE IDEAS AND TECHNOLOGY ARE STIMULATED...THIS COMMITTEE THEREFORE URGES THE ENACTMENT OF LEGISLATION PROVIDING A UNIFORM GOVERNMENT PATENT POLICY UNDER WHICH NORMALLY A CONTRACTOR, SHOULD HE SO ELECT, WOULD RETAIN TITLE TO EACH INVENTION CONCEIVED OR FIRST ACTUALLY REDUCED TO PRACTICE IN THE COURSE OF DEVELOPMENT UNDER A GOVERNMENT RESEARCH AND DEVELOPMENT CONTRACT."

THE APLA BELIEVES THAT SUCH POLICY SHOULD APPLY TO ALL GOVERNMENT CONTRACTS. A GOVERNMENT-WIDE POLICY WOULD PROVIDE AN EVEN STRONGER ECONOMIC AND INNOVATION-INCENTIVE STIMILUS THAN WILL BE PROVIDED WITH THE LIMITATIONS OF S.414 TO UNIVERSITIES AND SMALL BUSINESS. HOWEVER, WE ARE NOT URGING THAT SUCH AN AMENDMENT BE MADE TO S.414. THE APLA SUPPORTS ENACTMENT OF THE S.414 UNIVERSITY AND SMALL BUSINESS PATENT PROCEDURES ACT, AND IS PREPARED TO CONTINUE TO WORK FOR BROADER LEGISLATION WITH THE CONGRESS AND SENATOR SCHMITT RELATIVE TO HIS BILL S.1215 SO AS TO REACH AN OBJECTIVE EXPRESSED BY SENATOR BAYH IN THE MAY 22, 1979 CONGRESSIONAL RECORD REGARDING THE SCHMITT BILL --- I.E., "TO ENACT THE

BEST POSSIBLE LEGISLATION TO DELIVER THE FULL BENEFITS OF GOVERNMENT-SUPPORTED RESEARCH AND DEVELOPMENT TO THE MARKETPLACE WHERE THEY CAN BENEFIT THE PUBLIC."

THE APLA RECOMMENDS DELETION OF SECTION 204 IN S.414. THIS IS THE RETURN OF GOVERNMENT INVESTMENT PROVISION. WE RECOGNIZE THAT IT LIKELY REPRESENTS A BALANCING OF COMPETING INTERESTS, AND THAT A FORM OF GOVERNMENT SEED-MONEY RECOUPMENT MAY BE A POLITICAL NECESSITY FOR SOME S.414 SUPPORT. A PRINCIPLE PROBLEM WITH SECTION 204 AS WE SEE IT --- AND IT IS A SIGNIFICANT ONE --- LIES WITH CONCEPT AS WELL AS DRAFTSMANSHIP. WE SUBMIT THAT THE GOVERNMENT'S "INVESTMENT" WILL BE RETURNED ORDINARILY IN THE FORM OF TAXES PAID, AN INCREASE IN THE LABOR FORCE THROUGH CREATION OF NEW JOBS, AND THE TRANSFER OF TECHNOLOGY FROM A CREATOR TO A USER WHO IN BUILDING-BLOCK FASHION IS LIKELY TO BE HIMSELF A CREATOR IN FOLLOW-ON ORDER. IF THE OBJECTIVE IS TO STIMULATE INNOVATION AS WELL AS THE PARTICIPATION OF FIRMS IN RELATIVELY HIGH RISK AREAS WHICH OFTEN INVOLVE CREATION OF NEW PRODUCTS AND SOMETIMES NEW MARKETS FOR THOSE PRODUCTS, THEN THERE SHOULD BE NO LIMITATION ON INCENTIVE TO MEET THIS OBJECTIVE. AS A PRACTICAL MATTER, THE REQUIREMENTS FOR CAPITAL WITH RESPECT TO A HIGH RISK VENTURE WILL BE SO ENORMOUS THAT THE IMPOSITION OF SECTION 204 COULD LIKELY DETRACT FROM THE AVAILABILITY OF PRIVATE VENTURE CAPITAL AND FUNDS FROM CREDITORS.

SOME SEE SECTION 204 AS AN ACCOUNTING NIGHTMARE. THIS IS THE EXPRESSION USED BY DR. BARUCH S. BLUMBERG IN THIS TESTIMONY ON S.414 LAST MAY 16, 1979. IF I COULD SPEAK WITH DR. BLUMBERG, I WOULD TELL HIM THAT THIS MIGHT BE ONE PART IN A GOOD NEWS/BAD NEWS STORY. THE OTHER PART OF THE STORY RESIDES WITH THE INTERPRETATION APPLICABLE TO LANGUAGE

IN SECTION 204. FOR EXAMPLE, IT TALKS TO MONEYS RECEIVED FROM THE LICENSING OF ANY SUBJECT INVENTION WITHIN TEN YEARS FOLLOWING DISCLOSURE OF THE INVENTION, AND TO MONEYS RECEIVED ON SALES OF PRODUCTS EMBODYING OR MANUFACTURED BY A PROCESS EMPLOYING A SUBJECT INVENTION DURING A TEN YEAR PERIOD COMMENCING WITH COMMERCIAL EXPLOITATION OF THE SUBJECT INVENTION. THE TERM "SUBJECT INVENTION" AS SUCH IS NOT A PRECISE TERM. IT WOULD BE PREFERABLE FOR PURPOSE OF CLARITY AND DEFINITENESS TO TALK FROM THE LICENSING OF A PATENT CLAIMING A SUBJECT INVENTION, AND FROM SALES OF PRODUCTS OR MANUFACTURING PROCESSES COVERED BY, OR INFRINGING, A CLAIM IN AN UNEXPIRED PATENT FOR A SUBJECT INVENTION. A PATENT CLAIM PROVIDES THE DEFINITION THAT IS MISSING FROM USE OF THE TERM "SUBJECT INVENTION" IN A LICENSING CONTEXT.

THERE IS ALSO A POSSIBILITY THAT SECTION 204 MAY PLACE A CONTRACTOR IN AN UNFAVORABLE COMPETITIVE POSTURE BECAUSE OF MEASURING MONEYS ON THE BASIS OF SUBJECT INVENTION RELATED PRODUCT SALES. IF THAT SUBJECT INVENTION IS NOT PATENTED FOR WHATEVER REASON, IT WILL BECOME AVAILABLE TO COMPETITION THROUGH REVERSE ENGINEERING ---A COMPETITION THAT WILL NOT HAVE TO PAY ROYALTIES TO THE GOVERNMENT WHEREAS THE CONTRACTOR WILL UNDER SECTION 204.

THE FOREGOING UNDERSCORES THE NEGOTIATING CARE, AND CONCOMITANT ADMINISTRATIVE BURDEN, THAT LIKELY WILL BE REQUIRED OF THE CONTRACTOR. THIS ON TOP OF A POSSIBLE DETRACTION OF VENTURE CAPITAL COULD CREATE A NEGATIVE INCENTIVE SITUATION WHICH SUPPORTS THE APLA RECOMMENDATION TO DELETE SECTION 204. IF IT DOES REMAIN IN S.414 AS A MATTER OF POLICY DECISION, WE WANT THE SUBCOMMITTEE TO KNOW THAT THE APLA IS EAGER TO ASSIST IN FINE-TUNING THE PROVISION.

THE APLA RECOMMENDS AT LEAST A NON-EXCLUSIVE LICENSE FOR THE CONTRACTOR. THIS PRINCIPLE AS EXPRESSED BELOW IN THE FORM OF A SUGGESTED SECOND PARAGRAPH IN SECTION 202(c)(4) REPRESENTS CURRENT GOVERNMENT PRACTICE:

> "WITH RESPECT TO ANY INVENTION IN WHICH THE CONTRACTOR DOES NOT ELECT RIGHTS, THE CONTRACTOR SHALL HAVE A NONEXCLUSIVE, PAID-UP LICENSE TO PRACTICE OR HAVE PRACTICED SUCH INVENTION THROUGHOUT THE WORLD, AND SHALL INCLUDE THE RIGHT TO GRANT SUBLICENSES OF THE SAME SCOPE."

IF A CONTRACTOR ELECTS NOT TO RETAIN TITLE, THERE IS NO REASON TO PRECLUDE THE CONTRACTOR FROM THE BENEFITS OF A SHOP RIGHT WHICH IS NORMALLY RETAINED IN ACCORDANCE WITH CLASSIC COMMON LAW WHEN THE INVENTION IS MADE UTILIZING THE EMPLOYER'S (I.E., CONTRACTOR'S) RESOURCES.

COMPTROLLER GENERAL ELMER B. STAATS MADE THE FOLLOWING STATEMENT IN HIS TESTIMONY BEFORE THIS SUBCOMMITTEE ON MAY 16, 1979:

> "BUT IT HAS BEEN THE EXPERIENCE OF AGENCIES WITH POLICIES OF GRANTING TITLE TO THE CONTRACTOR THAT A WILLING CONTRACTOR-INVESTOR IS MORE LIKELY TO EXPEDITIOUSLY COMMERCIALIZE AN INVENTION THAN A GOVERNMENT-LICENSEE."

WE IN THE APLA FIND THIS STATEMENT TO BE APPLICABLE TO THE WISDOM OF LEAVING THE CONTRACTOR WITH A SUBJECT INVENTION LICENSE AND RIGHT TO SUBLICENSE.

THERE SHOULD NOT BE ANY CONCERN ABOUT SUCH LICENSE RETENTION BY A CONTRACTOR IMPEDING A FUTURE RIGHT BY THE GOVERNMENT TO LICENSE ANOTHER PARTY BECAUSE, WITH THE AVAILABILITY OF MARCH-IN RIGHTS, S.414 CAN MAKE THE CONTRACTOR'S NON-EXCLUSIVE LICENSE REVOCABLE TO THE EXTENT NECESSARY

FOR THE GOVERNMENT TO GRANT AN EXCLUSIVE LICENSE SHOULD THE CONTRACTOR OR ITS SUBLICENSEE NOT BE MEETING ITS OBLIGATION TO BRING THE SUBJECT INVENTION TO PRACTICAL APPLICATION.

THE APLA BELIEVES THAT SMALL BUSINESS SHOULD BE AN EXCEPTION TO THE TIME LIMIT OF EXCLUSIVE LICENSE PROVISION IN SECTION 202(c)(7)(B). THIS PROVISION READS IN PERTINENT PART AS FOLLOWS:

> "(7) IN THE CASE OF NONPROFIT ORGANIZATION,...(B) A PROHIBITION AGAINST THE GRANTING OF EXCLUSIVE LICENSES UNDER UNITED STATES PATENTS OR PATENT APPLICATIONS IN A SUBJECT INVENTION BY THE CONTRACTOR FOR A PERIOD IN EXCESS OF THE EARLIER OF FIVE YEARS FROM FIRST COMMERCIAL SALE OR USE OF THE INVENTION OR EIGHT YEARS FROM THE DATE OF THE EXCLUSIVE LICENSE, EXCEPT IF THE LICENSEE IS A SMALL BUSINESS, AND EXCEPTING..." (APLA RECOMMENDS ADDING THE UNDERLINED LANGUAGE)

CREATING OR PENETRATING A MARKET MAY ENTAIL A HEAVY CAPITAL INVESTMENT, AND FIVE YEARS OF EXCLUSIVITY FROM THE TIME THE PRODUCT IS ON THE MARKET MAY BE SIMPLY INADEQUATE TO JUSTIFY SUCH AN INVESTMENT. AS A RESULT THE OBJECTIVE OF BRINGING FORTH NEW TECHNOLOGY MAY BE STYMIED. INDEED, IF THE LICENSEE IS A SMALL BUSINESS AND IT NEEDS TO RAISE FUNDS SO THAT IT CAN MAKE THE NECESSARY INVESTMENTS TO PROMOTE A NEW PRODUCT, EXCLUSIVITY FOR ONLY FIVE YEARS MAY NOT PROVIDE ADEQUATE TIME TO RECOUP THE INVESTMENT. THE S.414 LEGISLATION SHOULD NOT BE SO WORDED ON THE ONE HAND AS TO SEEK TO HELP AND ENCOURAGE THE GROWTH OF SMALL BUSINESS AS WELL AS ITS UTILIZATION OF INVENTIONS, WHILE ON THE OTHER HAND FRUSTRATING THAT GROWTH WITH INAPPROPRIATE LIMITATIONS.

THE APLA SUPPORTS A STRONG CONFIDENTIALITY PROVISION IN S.414. THIS IS NEEDED TO PROTECT THE PATENTABILITY OF SUBJECT INVENTIONS IN

CERTAIN ABSOLUTE-NOVELTY COUNTRIES AND REGIONS OF THE WORLD. ALTHOUGH SECTION 206 APPEARS TO PROVIDE THE BASIS FOR REGULATIONS THAT COULD OFFER SUCH PROTECTION, WE DEEM IT IMPORTANT TO COMMENT UPON THIS POINT BRIEFLY BECAUSE IT IS NOT TOO WIDELY UNDERSTOOD. A SUBJECT INVENTION DISCLOSED IN TECHNICAL DATA REPORTED TO THE GOVERNMENT MUST BE VIEWED IN THE CONTEXT OF AVAILABILITY UNDER THE FREEDOM OF INFORMATION ACT, AND UNLESS PROTECTED FROM FURTHER DISCLOSURE UNDER THE ACT BY TRADE SECRET OR THE LIKE, MAY PRECLUDE THE OBTAINING OF PATENTS IN SUCH ABOSOLUTE-NOVELTY COUNTRIES AS FRANCE AND SUCH REGIONS AS THE NEW EUROPEAN PATENT CONVENTION. A STRONG AND CLEAR CONFIDENTIALITY PROVISION IS NECESSARY TO PROTECT PATENT RIGHTS IN THESE AREAS FOR THE GOVERNMENT AND ITS CONTRACTORS.

WE APPRECIATE THE ADDITION OF SECTION 212(c) TO S.414. ITS OBJECTIVE AS WE UNDERSTAND IT IS TO MAKE IT CLEAR IN THE PROSPECTIVE STATUTE AS WELL AS IN THE S.414 LEGISLATIVE HISTORY THAT ALL CONTRACTORS NOT COVERED UNDER S.414 WILL CONTINUE TO OPERATE UNDER EXISTING AGENCY PROGRAMS. THE ABSENCE OF SUCH ASSURANCE COULD CREATE A QUESTION ABOUT CONGRESSIONAL INTENT IN AREAS OUTSIDE THE SCOPE OF S.414.

IN CONCLUSION, AND TO REPEAT, THE APLA DOES SUPPORT ENACTMENT OF S.414. NOTWITHSTANDING THE RECOMMENDATIONS THAT HAVE BEEN MADE TO CLARIFY, STRENGTHEN AND IMPROVE S.414, THE APLA DOES SUPPORT EARLY FAVORABLE ACTION BY THE SENATE SO THAT THE HOUSE CAN HAVE TIME DURING THIS 96TH CONGRESS TO ACT UPON CORRESPONDING LEGISLATION. WE RESPECTFULLY REQUEST FAVORABLE CONSIDERATION OF OUR RECOMMENDATIONS, AND SHALL MAKE OUR SERVICES AVAILABLE TO THE SUBCOMMITTEE STAFF IN THE HOPES OF FINE-TUNING S.414.