AMERICAN BAR ASSOCIATION

GOVERNMENTAL RELATIONS OFFICE • 1800 M STREET, N.W. • WASHINGTON, D.C. 20036 • (202) 331-2200

STATEMENT OF

JOSEPH A. DEGRANDI

on behalf of the

AMERICAN BAR ASSOCIATION

before the

SUBCOMMITTEE ON ECONOMIC STABILIZATION

COMMITTEE ON BANKING, CURRENCY AND HOUSING

UNITED STATES HOUSE OF REPRESENTATIVES

pertaining to

H.R. 12112

June 2, 1976

Mr. Chairman and Members of the Subcommittee:

I am Joseph A. DeGrandi, a practicing attorney here in Washington, and a member of the Council of the Section on Patent, Trademark and Copyright Law of the American Bar Association. Accompanying me is Gene W. Stockman, a Washington attorney and member of the ABA Patent, Trademark and Copyright Law Section. It is a privilege to appear before you on behalf of the Association to express our views on Section 18(r) of H.R. 12112.

H.R. 12112 would amend the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5901, et seq.) by adding a new Section 18 authorizing a loan guarantee program for the development of synthetic fuels. The American Bar Association opposes Section 18(r) of the bill which 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." Under Section 9, title to any inventions made or conceived in the course of or under any contract vests in the Government unless the Administrator of ERDA waives all or any part of the rights of the Government to such inventions.

The American Bar Association believes the application of the provisions of Section 9 to loan guarantees constitutes an unfair and inequitable allocation of patent rights in favor of the Government which would discourage participation by private

enterprise in the loan guarantee program. Section 18(r) therefore should be deleted from H.R. 12112 and Section 18(g)(4), relating to default by the borrower, amended accordingly.

The American Bar Association has consistently taken the position with regard to patent rights under Government sponsored research that the progress of the useful arts is best promoted when inventors are made secure in the exclusive right to their discoveries. The protection of such exclusive rights affords a vital incentive to private enterprise to assume the economic risks involved in developing new products, in introducing them to the public, and in promoting their use. This position was reaffirmed as recently as 1973.

Legislative provisions such as those contained in Section 9 of the 1974 Act, generally follow the guidelines set forth in the President's Statement of Government Patent Policy of August 23, 1971 and basically are intended to vest title in the Government to only those inventions developed under federally financed research and development contracts where federal funds are actually utilized. Government loan guarantees, however, are far removed from those situations in which the Government is financing, in whole or in part, research and development programs. Under a loan guarantee, the Government is not actually investing any public funds but is only entering into a fiscal arrangement similar to an insurance program whereby the loan is guaranteed to the lender in case of default by the borrower. The purpose of the loan guarantee is to encourage

the conduct of independent research, development or demonstration work by private enterprise which is not for or on behalf of the Government. Under these circumstances, the Government has no legitimate basis for claiming title to any inventions.

A loan guarantee is a common fiscal arrangement in commercial transactions. In the event of a default, the guarantor is entitled to recover any payments under the guarantee from the assets of the defaulting borrower. Section 18(g)(4) of the bill makes it clear that any inventions and patents thereon and technology resulting from any demonstration facility shall be treated as project assets of such facility. Accordingly, in the event of default, patents as well as any other project assets may be appropriated to recover the amounts of any payments made under the guarantee. This is as far as the bill should go regarding patent rights. Since no other assets of the project for which a guarantee has been made are considered to be government property, there is no reason why patents should be so considered.

Certainly any arrangement whereby a party merely guaranteeing repayment of a loan would end up owning a part of the assets of the party obtaining a loan, in the absence of a default, would represent a radical departure from the realities of present day commerce. Such extraordinary exercise of governmental power should only be exercised, if at all, by a showing of compelling circumstances. Such compelling circumstances are not present with respect to inventions.

It is the view of the American Bar Association that the application of the provisions of Section 9 to any inventions made under a loan guarantee constitutes an unwarranted invasion of the exclusive rights of inventors to their discoveries which would impede the progress of the useful arts. The result of applying Section 9 to loan guarantees would be to substantially lessen the amount of participation by private enterprise in the loan guarantee program, thus frustrating the primary objective of the bill, i.e., to promote the development of synthetic fuels. It is the conviction of the Association that commercial use of any inventions developed under any project subject to a loan guarantee would be most effectively promoted by permitting title to such inventions to remain vested in the inventor rather than the Government.

Accordingly, the American Bar Association strongly urges that Section 18(r) of H.R. 12112 be deleted and Section 18(g)(4) be amended by deleting reference to Section 9.

I want to thank the Subcommittee for this opportunity to appear before you. Mr. Stockman and I would be happy to address any questions you may have.