STATEMENT ON BEHALF OF

THE AMERICAN COUNCIL ON EDUCATION

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BEFORE THE SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF THE

HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING

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Mr. Chairman and Members of the Subcommittee:

My name is Howard Bremer. I appear before you this morning as the representative of the American Council on Education. Founded in 1918, the American Council is the nation's largest association of colleges and universities. Its membership includes approximately 1300 institutions of higher education, 20 national and regional associations, and 80 affiliated institutions and organizations concerned with higher education in the United States.

Testimony given on behalf of the university community during the hearings on ERDA's legislative patent policies and regulations emphasized the need for universities with approved technology transfer capabilities to retain title to inventions made under ERDA grants and contracts. It was then urged, as a matter of firm belief, that such action was and is in the public interest since universities needed such rights to encourage the investment of private capital to develop and ultimately utilize the technology for the benefit of the public. Such belief is based upon:

(1) the past records of many universities as successful agents for the transfer of technology;

(2) the willingness, as taught by experience, of the private business sector to deal equitably and in good faith with universities in such technology transfer endeavors;

(3) the good experience which has been enjoyed by the universities in the integrity of its technology transfer business "partner";

(4) the unwillingness, based upon experience, of the private business sector to become a licensee of the U.S. Government;

(5) the lack of successful technology transfer as represented by Government-owned patents to the private sector.

As evidenced by the report of an interagency task force evaluating the current patent policies of ERDA, it appeared that the position advanced by the university community did receive a favorable ear. Although the basic recommendation of the task force was to recommend no change in ERDA's "Title" approach, it expressed "some reservations whether this patent policy will ultimately achieve its basic objectives of making the benefits of the program available to the public in the shortest time practicable, promoting utilization of inventions, encouraging participation and fostering competition."

After all the thoughtful consideration given to the testimony presented at the ERDA hearings, after probing questions directed to establishing the validity of such testimony by the interagency task force represented at those hearings, after the careful evaluation of the testimony, and after the issuance of an official report from the interagency task force, with specific recommendations for modification of the ERDA legislation, some of the same questions are again presented by Section 18(r) and Section 18(g)(4) of H. R. 12112. These Sections are representative of the type of piecemeal legislation which is at the least burdensome and in operation inequitable.

It is submitted that H. R. 12112, in the two provisions noted, ignores the thrust of the previous testimony given on behalf of the university community and others. If these two provisions are intended to be "safeguards" for the Government in this Bill, they are "safeguards" which will tend to discourage rather than encourage participation by the private sector in the development of new or alternative energy sources and the ancillary technology necessary to their realization and practice for the ultimate benefit of the public.

The two sections referred to, namely, 18(r) and 18(g)(4), are both inequitable in terms of their impact upon the proprietary rights of others. Section 18(r) is inequitable since under its provisions the Government, through ERDA, would take title to all inventions made where a loan guarantee was in effect, even where no default or payment under the guarantee occurred. Section 18(g)(4) will treat as project assets, in the case of loan default, not only the background patent rights owned by the demonstration facility contractor, but any patents, title to which may have been waived to a university under Section 9 of the Federal Nonnuclear Energy Research and Development Act, but under which the contractor may have been licensed.

It is the desire of the Government, generally, to obtain support from the private sector in financing the development of inventions initially made with Government funds. This has been admirably accomplished under the enlightened patent policies subscribed to by the Department of Health, Education and Welfare and by the National Science Foundation. Under the policies of these agencies, title to inventions is generally left with a university which has an approved technology transfer program, which university can then seek out suitable licensees who, under license,

can be given some incentive to call forth the necessary private capital to develop the invention for the benefit of the public. In all cases, the public is adequately protected through appropriate provisions in the agreement between the particular agency supporting the research and development and the university.

In contrast, in the situation to which the present proposed legislation applies, there has already been an indicated willingness by the private sector to spend its own money on a development project -- and it is still its own money whether borrowed or not. An important adjunct result of such development can be valuable patentable inventions as well as valuable trade secrets and knowhow. If these are not available for the developer to own, although the initial monetary risk was his (and they will not be available to him to own under Section 18(r) of H. R. 12112), why should he risk his own funds or funds borrowed from private sources on the development project? The guarantee under H. R. 12112 is another step removed from a direct grant or contract from ERDA and may never have to be utilized. Why should potentially valuable proprietary rights be sacrificed for a contingency?

In particular regard to Section 18(r), the following remarks recently made by Elmer B. Staats, Comptroller General of the United States, in a statement before the Subcommittee on Domestic and International Scientific Planning and Analysis of the House Committee on Science and Technology are of interest:

> "Perhaps the major subjective problem inhibiting Government-industry cooperation is the lack of mutual trust. Many Government officials are suspicious of industrial motives and the potential economic and political power of large corporations, especially those with multi-national affiliations. On the other hand, industry is concerned that Government officials do not understand and appreciate the profit motive. Industry also believes there is a lack of understanding by Government officials of the technology innovation process."

and

> "Some Government officials hold the view that patents derived from federally funded R&D must be owned and controlled entirely by the Government. However, in most cases, the public interest may best be served when private industrial contractors, with a few provisos, are granted exclusive licenses for commercial development."

Section 18(g)(4), as a result of its broad scope, presents a number of problems. The inclusion of background rights in patents and technology and other proprietary rights, as anticipated by this Section, would have an adverse effect upon active participation by any high technology group. Moreover, and speaking in particular from the university community viewpoint, there would be great reluctance to license university owned inventions or knowhow to a demonstration program participant, since the proprietary rights in such inventions and knowhow could be lost to the university through the operation of Section 18(g)(4). The fact that this Section provides for the availability of such proprietary rights "to the United States and its designees on equitable terms, including the consideration to the amount of the United States default payments" is of little comfort. The licensor, not having a direct connection with the loan and default, may find himself devoid of the property licensed and without recourse or recompense.

Section 18(v) can also be construed as bearing upon knowhow acquired by the Government as the result of the functioning of Section 18(g)(4).

One can be practically assured that dissemination of proprietary information or knowhow so acquired to all or many of the parties listed would, as a practical matter, function to place such material in the public domain, whether intended or not, and regardless of the penalty recited in the Section.

It is respectfully and strongly urged that Section 18(g)(4) and Section 18(r) be at least appropriately amended to take into account the foregoing remarks and to recognize and preserve the proprietary rights of others. This can be accomplished in Section 18(r) by leaving title to inventions made or conceived in the course of, or under a guarantee, with the demonstration project contractor where no default has in fact occurred and no guaranteed payment has been made; and in Section 18(g)(4) by treating only those patents owned by the borrowing contractor or waived to it as project assets and, further, by recognizing specifically and assuming any obligations of the borrowing contractor to a licensor.