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TESTIMONY

of

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Chairman, Itek Corporation
and
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Committee for Economic Development

on

H.R. 5715, Uniform Federal Research and Development
Utilization Act of 1979

and

Administration's Proposed Bill,
Government Patent Policy Act of 1980

before

COMMITTEE ON SCIENCE AND TECHNOLOGY
SUBCOMMITTEE ON SCIENCE, RESEARCH AND TECHNOLOGY

UNITED STATES HOUSE OF REPRESENTATIVES

February 8, 1980

My name is Franklin Lindsay and I am Chariman of Itek Corporation and Chairman of the Research and Policy Committee of the Committee for Economic Development. As you know, CED is a nonprofit organization of 200 trustees, including many corporate executives and university presidents.

I welcome this opportunity to testify. CED has just recently issued a major policy statement on Stimulating Technological Progress. In it, we have proposed an overall strategy to reverse the declining trend in innovation in the U.S. Among the remedies we recommended for this comprehensive approach are increasing innovation through the market economy; raising investment in new plant and equipment through tax policy changes; reducing regulatory uncertainties and constraints; and directing Federal R & D support toward basic research. These proposals may be the subjects of future hearings before this committee and others.

Improving the effectiveness of the patent system is another vital part of the CED proposals. One of the major conclusions of the CED policy statement is that the current patent system falls short of what was meant to be its number one objective: providing effective incentives for developing new inventions and encouraging the utilization of the successful results of research and development. I understand that you have been provided with a copy of Stimulating Technological Progress. With your permission Mr. Chairman, I wish to submit for the record, the summary recommendations and the chapter and

appendix of the CED policy statement which deal with patent policy's role in the innovation process.

Mr. Chairman, both H.R. 5715 and the Administration's proposal are aimed at the utilization of the results of government-funded R & D. We applaud the intent of these bills. Our own study convinced us that change in this direction was necessary. Several major features of these proposals call for further comment.

1. The Need for a Consistent Patent Policy to Encourage the Utilization of Government-Funded R & D

It may not be immediately obvious that title to inventions made during the course of work on government contracts should not go to the government. However, there are compelling reasons why it is highly desirable to vest title with the contractor that makes the invention.

Government funding of R & D can have a significant impact on future innovation and the productivity of the economy. While R & D is an essential component of the innovation process, if technology stopped at the R & D phase society would gain comparatively little from this rather large investment of public funds. R & D efforts account for a relatively small proportion of the total cost of bringing new products and processes to the marketplace. The non-governmental sector must invest many times the R & D costs in order to commercialize the results of successful federally-funded R & D. At the present time the inventor's rights under a government R & D

contract vary among government agencies and departments. This confusion and uncertainty leads to a disincentive to firms which may wish to invest the funds necessary to commercialize a federally developed invention.

Experience has shown that the entity most likely to carry the results of government-funded R & D to the marketplace is the contractor itself. If the contractor will be subject to a claim by the government under the patents, and/or if its competitors can quickly copy its product (as by reverse engineering) without any patent deterrent, there is much less reason for the contractor to risk its funds in commercialization. The same general principle applies to the results of government-funded R & D work done by nonprofit contractors, such as universities. Unless the universities obtain substantial rights from patents, there is absolutely no incentive for them to spend funds to establish technology transfer and patent programs which may lead to commercialization of the research.

Similarly, if the contractor is an individual scientist, he or she will be discouraged from risking the additional personal time, money and effort it would take to commercialize a new idea in the absence of clear-cut patent rights and the attendant possibility of personal reward.

I suspect there are substantial commercial possibilities lying undeveloped because of our over-zealous government restrictions in this field. In the process of trying to keep contractors from profiting from ideas born in the course of government contracts, we are probably

(a) We strongly believe that this distinction among institutions (Administration Proposal, Sections 202 and 203) will, for most government contracting, inhibit the commercialization of any attendant new inventions and discoveries. In practice, the goal of commercialization is always easier to achieve if the firm has the option to license the patent with other firms. We believe that to encourage the use of government-funded research and development for commercial products, contractors should, in most instances, receive title to the inventions and patents made under government contract. However, the government should be able to require the contractor to offer licenses to others in certain circumstances (e.g., if the contractor fails to produce enough products to supply the market or if he does not actively pursue some applications that would significantly benefit the public).

(b) Because the Administration's proposal fails to provide most contractors with title to the invention, that proposal necessitates the development of a complex system for determining under what conditions the government will grant a contractor a license to commercialize the invention. For example, determining the potential "fields of use" (Section 201) will be difficult for contractors. All of the "fields of use" are rarely known at the time a discovery is made. Determining the "fields of use" will inevitably lead to lengthy discussions with the government before both parties agree

preventing the development and distribution of innovations that could benefit all of society.

2. The Need for Uniform Treatment of All Types of Contractors

In both H.R. 5715 and the Administration's proposal there are several features of the proposed policy changes which make a distinction between small businesses and nonprofit organizations, and other contractors. This type of differential treatment does not seem to us to be desirable. Government patent policies should build on the profit motive no matter what the class of contractor, for it is the expectation of profits (or licensing income, in the case of the universities) which will encourage the investment in private funds necessary to commercial programs. There is no question that current patent policy poses problems for small businesses, but on the basis of the CED policy statement we do not believe their problems are unique in the area of patent rights under government contracts. We would therefore suggest that Congress and the Administration reconsider the following features of the proposed policy changes:

In the Administration's proposal, we are especially concerned that the granting of title under a government contract is only given to nonprofit organizations and small businesses. Title to inventions made under contract for all other contractors will be held by the government. In our view this would lead to several disadvantages.

to the definition of these fields. In our opinion, this will lead to unnecessary delays and will increase the cost of administration to both the contractors and the government.

Mr. Chairman, we therefore believe that the approach taken in H.R. 5715 which provides title to all contractors is the best approach and is the most effective way of ensuring that the results of R & D will be brought to the marketplace for the benefit of the public.

3. Contractors' Payments to the Government

Conceptually, perhaps it is possible to make a case for the contractor to repay the government some part of the funds the government supplied when the original contract resulted in a successful invention. Section 318 of H.R. 5715 attempts to recognize the merits of this case.

It seems to us, however, that any such "recoupment" proposal is likely to impose direct costs on the government which amount to more than the revenue it produces for the government and additional costs on contractors. Any recoupment proposal could also be counterproductive in the sense that it may create an unnecessary disincentive to commercialize an invention. We therefore believe that it would be undesirable and

probably administratively impractical to apply a royalty on the future profits from an invention as implied in Section 318 of H.R. 5715.

It will be extremely difficult for contractors, or the government to determine which federally supported invention resulted in a specific increase in profits. This is especially the case when the invention results in a new process. But even in the case of a new product, more than a single patent is frequently involved in a complex production process which involves considerable management and labor know-how which has nothing to do with the original federally-funded invention.

Mr. Chairman, we recognize the intent of Section 108 but would ask you to reconsider whether it is desirable to try to design and implement a cost recoupment procedure for successful inventions. After all, the present corporate and personal income tax system practically makes the federal government a 50-50 partner in any successful enterprise. By striving so hard for the last of dollar recoupment, the government may forestall more revenue than it recoups.

4. Conclusions

Mr. Chairman, concerning other areas covered by H.R. 5715 and the Administration's draft bill, we favor provision for suitable government march-in rights and the general simplification of patent procedures.

We are also pleased that the Congress and the Administration are working towards much needed improvement in our patent policy. As we all know, however, the bills we are discussing are only a part of our patent

system. As someone who has been fortunate to participate in the growth of a small business to a successful high-technology corporation, I am fully aware of the importance of patent policy to small businesses. The cost and delay in acquiring and defending patents are especially difficult for small firms. It is for this reason that CED has urged policymakers to consider a number of other changes in patent policy, such as voluntary arbitration of patent disputes, and the adoption of a first-to-file patent system. We believe that these types of changes in patent policy will benefit all firms -- and that they will be especially helpful to small firms. Most of all, such improvements will help the American public achieve the benefits of new inventions and discoveries quickly and efficiently.

I hope you will encourage your colleagues on other committees and the Administration to quickly move forward with these broader patent policy improvements. Mr. Chairman, I thank you for the opportunity to testify today. If any of my colleagues at CED can be of any further assistance in achieving a more effective patent law, we will be pleased to help.