DRAFT:OGC:JEL:ss 12/27/77

Dear Mr. Bell:

I am writing to you on behalf of the_____ to urge you to personally review and consider the Department of Justice's position on H.R. 8596, a bill which would provide for long-needed improvements in Government patent policy. We assume that the views of the Justice Department will carry some weight in the decision-making process leading to a position by the Administration. Unfortunately, Mr. Schenefield of the Antitrust Division, in his recent testimony before the Senate Select Committee on Small Business, indicated that the Department of Justice would push for a "title-in-the-Government" approach to Government-wide patent policy.

We believe that the adoption of such a policy would seriously impede the commercialization of inventions made at the universities. We also believe it will have other adverse consequences, and that contrary to the belief of Mr. Schenefield, would lead to a lessening of competition rather than an increase.

As a representative of a university-related organization, it is not normally my role to act as an advocate for small business. However, as participants in the technology transfer process many of us have found that in many instances it is small business that is willing to invest in the further development of university inventions that are developed, usually as by-products, of Government-sponsored

research. A Government patent policy that made the licensing of Government-supported inventions unattractive to small business (and, also, in some cases, large business) would destroy years of effort on the part of numerous persons to develop an effective means of moving university inventions to the marketplace and of combining the talents of the university and business sectors.

For the above reasons, I am compelled to address this letter to issues that are somewhat broader than the effect implementation of the approach advocated by Mr. Schenefield would have on the transfer of university research from the laboratory to the consumer. Instead, I think it appropriate to address its impact on small business. For once this impact is understood, it should be readily apparent that the same considerations would negatively impact on the development of university inventions.

A title-in-the-Government policy will actually impact adversely on small business in two different ways. One of these, which is of less concern to the university sector, per se, is that small business would probably be further disadvantaged in competing for Government contracts and subcontracts if a title-in-the-Government policy were used. Despite Mr. Schenefield's assertion, "We are not aware of any convincing showing that exclusive rights in government-financed inventions need be granted to contractors in order to induce them to accept government R&D contracts . . .," we think common sense and some experience with

Government procurement indicates that many small, commercially-oriented, high-technology firms would be reluctant to propose on Government prime and subcontracts if a title-in-the-Government clause were used. Larger, dominant firms on the other hand can afford to be less concerned with patent terms, especially when competing for major prime contracts.

More importantly, the taking of title by the Government will have little or no impact on the position of large firms vis-a-vis inventions they make under their contracts, whereas it could have a truly stifling impact on small business. Large firms normally maintain their position, not through patents, but through superior financial resources, extensive marketing systems, economies of scale, access to resources and other non-patent related factors. For the Government to take title to inventions they make during Government contracts will have little affect on their position, especially for those inventions that are merely minor improvements on existing products. The other barriers listed above would, except in extremely unusual circumstances, prevent small firms from utilizing the inventions of a larger firm to make inroads on that firm. On the other hand, taking title from small contractors will eliminate the main weapon that such firms have to protect their investment. When a small firm invents something in the course of a Government contract it is not likely to be able to rely on "trade secret" protection. Hence, its patent position may be its only real means of preventing

larger firms from undercutting it after it develops the market for the new product. If one destroys the incentive for small business to invest, one must assume that the position of the dominant firms will be enhanced.

Mr. Schenefield's conclusions flow, I think, in part, from a failure to fully understand the various purposes and types of Government R&D efforts. He claims, "The expenditure of public funds for F&D is in effect a government underwriting of the risk of the research effort." However, that is really not usually the case. Most Government R&D grants and contracts are not devoted to the development of specific commercial products. Certainly very few university grants or contracts are. Often the inventions are by-products. With some exceptions, most Government development progrms are devoted to military or space applications, and there is relatively little funding for the development of civilian products. For the most part, inventions made under Government contracts will not get developed into commercial products for the civilian economy unless private funds are invested in them.

In this letter we stress the impact of Government patent policy on competition because that seems to be the lone objective upon which Mr. Schenefield would base policy. However, as we have tried to explain, the policy advocated by Mr. Schenefield would be counterproductive to the achievement of the goal he seeks. We do not understand how anyone can expect to achieve a more competitive economy

by advocating policies that favor larger firms or, at least, have clear negative impact on smaller companies.

Moreover, I feel obliged to note that we believe the Justice Department would be taking a rather narrow viewpoint if it only developed its position on its perception of how patent policy will effect competition. Other factors which need to be considered by your Department include the effect of patent policy on innovation, economic growth, U.S. versus foreign industry, and military procurement. One does not get the feeling from reading Mr. Schenefield's testimony that these matters have been considered. ~~Instead~~ Indeed, one gets the feeling that Mr. Schenefield is unaware of the range of options open in formulating Government patent policy. He seems to take the position that the choice is all or nothing. In describing the "license" approach, he ignores completely the "march-in" rights retained by the Government. He also seems to ignore the possibility, recognized under H.R. 8596, that agencies could use "deferred determination" or other more restrictive clauses on a case-by-case basis even under a policy where contractors are normally allowed to retain title. The university community, and we assume most others, recognize that there will be cases when the Government should retain the right to determine disposition of inventions. But we are convinced that unless a general presumption is established in favor of leaving title with contractors or grantees, the present maze of inconsistent

and counterproductive Government patent legislation, regulations, policies and practices will continue to the detriment of the nation.

Again, we ask you to reconsider the Justice Department position as espoused by Mr. Schenefield and others before him. A more realistic appraisal of the objectives to be sought, the alternatives available, the types of Government R&D, the types of performers and the real impacts of alternative policies is sorely needed.

I would be pleased to meet with you or provide you with additional materials if you would find that helpful.

Sincerely yours,