United States Senate
SELECT COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

July 18, 1978

Lester A. Fettig, Administrator
Office of Federal Procurement Policy
Office of Management and Budget
Room 9001 New Executive Office Building
Washington, D. C. 20503

Dear Mr. Fettig:

The Monopoly and Anticompetitive Activities Subcommittee of the Senate Select Committee on Small Business now has completed five days of hearings on the history, legal basis and implications of Institutional Patent Agreements (IPAs) as an implement of Government patent policy.

As you know, the hearings were held because the General Services Administration announced that a newly worded IPA was being incorporated in Federal Procurement Regulations for Government-wide use effective March 20. At my request, you agreed to stay the new patent regulation for 120 days, until July 18, to permit it to be scrutinized by congressional committees and the Executive Office of the President.

The subcommittee invited 17 witnesses to testify at the hearings May 22-23, June 20-21 and 26. As the concluding witness on June 26, you said, according to the unedited transcript of the hearing:

> The stay order I requested does run out on July 18th, and, frankly, I have not decided what the most appropriate course of action will be at that time.
>
> Clearly we will need to consult with a wide variety of interests, Dr. Baruch, and his Committee, other interests, other interests in OMB, and the White House, and certainly the interests of this Committee.

I can see arguments on both sides for extending the stay, and I can also see arguments for in (sic) the interim, particularly if we are looking at a six to 14 month study period, to establishing an interim uniformity at least.

I want to thank you for your participation, for the cooperation of your office with subcommittee staff in the conduct of the hearings, and for your willingness to receive recommendations by July 18 from me or any members of the subcommittee regarding the patent regulation.

RECOMMENDATION

Based on the testimony and information presented at the subcommittee hearings, and on some relevant factors not discussed at the hearings, I recommend that the stay of the GSA patent regulation be extended indefinitely.

In the explanation that follows, numbers in parentheses -- keyed to a numbered witness list, which is attached -- will be used to indicate the source of testimony and information cited.

POLICY CONSIDERATIONS

As a matter of policy, it would be premature to allow the GSA patent regulation to go into effect at this time, for these reasons:

1. While the Office of Federal Procurement Policy clearly has the authority to "prescribe policies, regulations, procedures, and forms" to be followed by executive agencies in the procurement of "services, including research and development," President Carter's Executive Order 12039, relating to the transfer of certain science and technology policy functions, published in the Federal Register on February 28, 1978, delegates to the director of the Office of Management and Budget "the responsibility for fostering any policies to facilitate the transfer and utilization of research and development results."

Witnesses at the subcommittee hearings (5, 7, 8, 10, 11, 12) contended that the purpose of the Government-wide IPA contained in the GSA patent regulation is to facilitate the transfer and utilization of research and development results.

If they are correct, the GSA patent regulation should not be allowed to go into effect unless and until it represents OMB policy.

2. Dr. Jordan Baruch, speaking as chairman of the interagency Committee on Intellectual Property and Information (CIPI) of the Federal Coordinating Council for Science, Engineering, and Technology, testified that CIPI's 16 member agencies are presently studying such questions as:

-- How does Federal patent policy affect competition and economic concentration within the private sector?

-- How can Federal patent policy better promote technological innovation?

He said CIPI's goal is to recommend to the President "a set of options with enough detail so that his choices can be welded together into a coherent policy with a clear delineation of who benefits and who bears the costs," that he was sure one of CIPI's recommendations would address the structure and performance of IPAs, and that it probably would take CIPI six months to arrive at a set of recommendations.

While Dr. Baruch disclaimed concern about the GSA patent regulation going into effect before CIPI makes its recommendation to retain, modify or withdraw it, I would like to raise these points about doing so:

a. The GSA patent regulation does not confer authority upon an agency to use an IPA (4). Any authority an agency believes it has to use an IPA it has already. If the GSA patent regulation does not go into effect, agencies presently using their own IPAs would be free to continue using them, and agencies not now using IPAs would remain free to develop their own (17). In other words, putting the GSA patent regulation into effect would not add to an agency's existing authority and options, and staying it would not take away anything an agency may already have. Where then is the compelling public need to implement the GSA patent regulation in the short run while the structure and performance of IPAs undergo study by a committee advising the President?

b. The Department of Health, Education and Welfare and the National Science Foundation presently use their own IPAs and would have to switch over to the standard IPA

contained in the GSA patent regulation if it goes into effect (4, 17). If no other agencies plan to resort to the standard IPA, then the sole -- and insufficient -- short-run result of implementing the GSA patent regulation is standardization of practice between HEW and NSF. If other agencies do plan to resort to it, they and their IPA signatories would run the risk of having their arrangements nullified in a few months as a result of CIPI's recommendations to the President. Given the eagerness of leading research institutions to have the GSA patent regulation implemented (5), a crisis of rising expectations would result which could leave the universities resisting and resentful of the Carter Administration's eventual patent policy.

c. Letting the GSA patent regulation take effect on a frankly interim basis would not square with the rationale underlying the proposal in the President's fiscal year 1979 budget that the Government Patent Program of the National Technical Information Service be converted from a self-sustaining activity -- funded from program revenue -- to one funded entirely from appropriations.

When he appeared before a House Appropriations Committee subcommittee on March 10, 1978, Dr. Baruch said, "The Office of the President made that decision" (to change the funding basis). The following information was subsequently provided for the hearing record:

> There would be more accountability. More specifically, it would facilitate the Administration's monitoring of the program and review its development in accordance with future directions in Federal patent policy. Program revenues are expected to exceed program costs in the future; ...

It would be inconsistent to make that change for that purpose effective October 1 while allowing the use of Institutional Patent Agreements to be expanded on an interim basis.

d. The GSA patent regulation cannot be implemented on an experimental basis. It was not constructed as an experiment, and baseline data do not exist to permit it to be treated as such. With respect to detailed information on its experience with IPAs thus far, the NSF acknowledged (2) that "we do not have the detail we would like to provide,"

that the reports it has received on the status of inventions "have not followed any consistent format and have not always been complete or timely," and conceded, "Moreover, our record keeping has not been sufficiently systematic." HEW appears to have much more detailed information, but some of the information submitted to the subcommittee (1) raised questions of currency and completeness, e.g. the list of IPA holders presented at the hearing of May 22 was current to December 7, 1977, more than five months earlier; the list of patent management organizations utilized by IPA holders omitted University Patents, Inc., and A. D. Little.

One witness proposed that the GSA patent regulation be given a "fair trial" (12), but could offer no suggestion of what would be counted as evidence against the Government-wide IPA in such a trial.

THE GOVERNMENT-WIDE IPA

Two defects of substance and one of procedure mar the standard IPA contained in the GSA patent regulation:

1. The Government-wide IPA provides, "The Institution shall administer those Subject Inventions to which it elects to retain title in the public interest . . .," but it does not define the phrase.

What does the phrase mean? It cannot be left to each institution holding an IPA to define "the public interest." Each institution wanting to negotiate an IPA will have to provide the agency with a copy of its "established patent policy, together with the date and manner of its adoption." Will the Government abdicate its policy-making role and allow universities to define "the public interest" in terms of their own perceptions and interests?

On this point, the NSF witness (2) declared in his prepared statement:

> Ultimately, in any event, I have concluded and advised the Director of the Foundation that under the President's Statement as it now stands, as well as under NSF's basic Act, the legal propriety of the IPA mechanism depends ultimately on a determination of where the public interest lies. That, of course, comes down to a policy judgment for policymakers -- which is, again, as we think it should be.

2. The standard IPA contained in the GSA provides that when a university decides to retain the rights to inventions resulting from Government-sponsored research, it shall "make them available through licensing on a nonexclusive, royalty-free, or reasonable royalty basis to all qualified applicants," except that:

> The institution may license a subject invention on an exclusive basis if it determines that an exclusive license is required in the public interest because (A) it is necessary as an incentive for development of the invention or (B) market conditions are such as to require licensing on an exclusive basis in order to bring the invention to the point of practical application.

As one might have guessed, exclusive licenses are the rule and not the exception under patent rights awarded by HEW pursuant to the IPA -- containing comparable language -- that it has been using for a decade.

Again, the NSF witness (2) said he appreciated the point that had been made

> in this connection about "government by exception." Of course, the unanticipated expansion of exceptions as rules are applied in practice, particularly over many years, is not uncommon in the law. It indeed can be a way of circumventing, or at least modifying, the original expectations held when the rule was promulgated. But it can also, on the other hand, be one of the heal thy ways in which new times, new problems, and new perceptions are accommodated within the old rules.

Several witnesses (7, 11, 12) argued for the need for exclusive rights, raising the prospect that the exceptional use of exclusive licensing permitted in the standard IPA will become the rule just as it has under the HEW IPA.

The grounds (A) and (B) for allowing an exclusive license should be conjunctive instead of disjunctive -- connected by "and," not "or" -- to require both tests to be

met before an exclusive license may be issued.

3. Universities and other insiders dominated the process by which the Government-wide IPA was developed. When the draft of the standard IPA was forwarded to Federal Procurement Regulations staff, GSA solicited comments on it from 32 Government agencies, 41 professional associations and 66 educational institutions (4). There was no solicitation of public comment through the Federal Register, on grounds that the Administrative Procedure Act exempts contract matters from the public rule-making requirement "and our practice over the years has been to invoke that exemption" (4).

That old APA provision notwithstanding, most agencies do publish such proposals for public comment, and I understand that both your office and GSA favor revising the APA provision. Furthermore, in your prepared statement you explored the distinctions between procurement and assistance transactions set forth in Public Law 95-224. You explained that in Section 4 it defines a procurement transaction and directs the use of a procurement contract under certain circumstances, and that in Sections 5 and 6 it defines an assistance transaction and directs the use of grants or cooperative agreements under certain different circumstances. You added:

> Federal research and development involves both procurement and assistance and it is important to consider the type of transaction when we consider patent policy.

The Government-wide IPA is too important in terms of policy and procedure to be drafted privately by agency patent counsel, university grantees and their agents. It should be redrafted in public view.

OTHER FACTORS

In closing, I want to mention two factors that relate to the discussion of Government patent policy but do not bear directly on your decision whether or not to continue the stay of the GSA patent regulation:

1. Witnesses at the hearings often shifted their ground from performance to principle and back again. In arguing that the Government should not take title to inventions

resulting from research and development work it sponsors, they would refer to the Government's bulging patent portfolio and its poor licensing performance. In discussing university licensing efforts, they would concede that performance has been spotty and not particularly profitable, then stress the principle of technology transfer and urge greater cooperation between Government, academia and industry to move discoveries out of the laboratory into the marketplace.

In his prepared statement for that House Appropriations subcommittee on March 10, Dr. Baruch said:

> Government laboratories and Government R&D contractors generate over 2,000 new patentable inventions each year for a total portfolio in excess of 27,000 inventions to which the Government has title and which are available for licensing. Fewer than 1,700 of these patents have been licensed and fewer still have actually been used. This program (of the NTIS) provides the mechanism for greater utilization of this tremendous technology resource.

A decade ago, according to NTIS, Government inventions generally were not evaluated for commercial potential and were not actively promoted. The condition of the Government's patent portfolio is not of itself a reason to suppose that universities could do better.

2. When it began a study of the department's patent policy last August, the HEW Office of General Counsel stopped processing requests from non-IPA holders for retention of patent rights, and there is a backlog of between 25 and 30 cases (1). No similar restriction has been placed on IPA holders, which appears to place non-IPA universities at a distinct disadvantage. Releasing the GSA patent regulation at this time would underscore that inequity.

Again, I appreciate your participation in our hearings, your cooperation and your willingness to receive these recommendations. Thank you.

Sincerely,

Gaylord Nelson

GAYLORD NELSON
Chairman

GN/gsy
Encl.