



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

The Honorable James T. McIntyre, Jr.
Acting Director, Office of Management
and Budget
Washington, D. C. 20503

Dear Mr. McIntyre:

This is in response to your request for a report on H.R. 6249, a bill "To establish a uniform Federal System for management, protection, and utilization of the results of federally sponsored scientific and technological research and development; and to further the public interest of the United States domestically and abroad; and for other purposes".

In summary, we recommend that the Administration not take a definitive position on H.R. 6249 until early next year. The Department is currently undertaking an overall assessment of federal patent policy and will present its recommendations in this complex area by the end of February. Moreover, we have reservations as to the bill's granting for-profit contractors the first option to ownership of inventions resulting from federally sponsored research; the Department currently retains that option in almost all for-profit contracts.

The bill would establish a single patent rights clause which is to be used in all federally sponsored research and development contracts (including research grants), with certain specified exceptions. The allocation of patent rights is currently based on a number of statutes covering individual agencies and research programs, executive orders, presidential statements, and regulations.

The single patent rights clause would provide to the contractor the first option to all inventions resulting from such contracts, subject to provisions requiring the contractor to license competitors upon a determination that (1) the contractor is not effectively pursuing utilization, (2) it is necessary to meet important and imminent public needs, (3) the contractor's position has "tended substantially to lessen competition," or (4) the contractor's prescribed exclusive period of ownership has ended, and it is equitable to require such licensing.

The bill would provide in general for federal ownership of federal employee inventions (currently provided for by executive order), and for an incentive awards and royalty-sharing program to reward and recognize employees, stimulate inventive creativeness, and encourage disclosure of inventions. The bill would also authorize federal agencies to license federally owned inventions.

The allocation of invention rights under the single patent rights clause would substantially parallel the allocation made under the Department's institutional patent agreement program for nonprofit institutions. Under this program, 71 nonprofit institutions with identified technology transfer capabilities have a first option to inventions resulting from Department sponsored grant research, subject to compulsory licensing provisions similar to those in the bill. The bill would, however, give the contractor greater freedom to issue licenses, particularly exclusive licenses, than the Department currently grants. The use of the single patent rights clause would, in effect, expand the concept of first option in the contractor to those nonprofit institutions not now covered by the Department's institutional patent agreement program. Since the 71 institutions having agreements are now the recipients of a substantial majority of departmental research and development funds available to nonprofit institutions, the effect of the change would be modest.

The bill's most important effect on this Department would be on the Department's dealings with for-profit contractors. Under the bill, such contractors would have the first option to ownership of resulting inventions, whereas presently the Department retains that option in substantially all contracts.

H.R. 6249 would have little effect on this Department's allocation of employee inventions. However, implementation of the incentive awards and royalty-sharing program could increase invention reporting. Increased reporting, plus the bill's authority to grant exclusive licenses for federally owned inventions, could result in increased utilization of inventions owned by this Department.

H.R. 6249 represents one approach to the many complex issues involved in the area of federal patent policy. We are currently conducting a comprehensive analysis of this area, with particular attention to the effects on this Department of various alternative approaches. We intend to present our recommendations, based on this analysis,

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by the end of February. We feel that it would be undesirable for the Administration to endorse or oppose the particular approach in H.R. 6249 until a careful review of the alternative approaches in this area has been completed.

We therefore recommend that the Administration defer taking a position on H.R. 6249 at this time.

Sincerely,

Joseph A. Califano, Jr.