

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

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

SEP 17 1976

Dear Mr. Lynn:

This is in response to your request for a report on the ~~Department of Commerce's draft bill "To establish a uniform Federal policy for intellectual property arising from Federally-sponsored research and development; to protect and encourage utilization of such technology and to further the public interest of the United States domestically and abroad; and for other related purposes."~~

H.R. 6249 a bill cited as the "Uniform Federal Research and Development Utilization Act of 1977"
 In summary, we support the ~~draft~~ bill because we believe it would allocate rights to inventions resulting from federally supported research and development between Federal agencies and their contractors or employees under uniform principles which recognize each party's equities while preserving the incentive for technological innovation and commercial application. We also enclose some suggested amendments to improve the ~~draft~~ bill.

In general, the ~~draft~~ bill provides for the first time a clear Government-wide legislative foundation based on uniform principles for the allocation of rights to inventions resulting from federally supported research and development. To date, allocation of such rights has been based on a number of statutes covering individual agencies and research programs, executive orders, presidential statements, and regulations. These authorities allow for differing allocation of invention rights in similar situations. Further, to the extent that a research program is now governed only by executive order, presidential statement, or regulation, as is the case in this Department, there is a question raised by litigation, not yet resolved, as to whether such a program has the authority to dispose of invention rights without statutory authority.

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GCL	<i>[Signature]</i>	9/10/76	ESOS	<i>[Signature]</i>	9/13			9/15
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The ~~draft~~ bill would establish a single patent rights clause which is to be normally used in all federally sponsored research and development contracts (including research grants) with certain specified exceptions. The single patent rights clause provides 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, or (2) it is necessary to meet important and imminent public needs, or (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.

We anticipate that the single patent rights clause will encourage participation of the most qualified and competent contractors in federally sponsored research and development, foster competition, promote the widespread utilization of inventions resulting from such research and development, and reduce administrative burdens for both Federal agencies and their contractors.

The ~~draft~~ bill provides in general for Federal ownership of employee inventions. The ~~draft~~ bill further provides for an incentive awards and/or royalty-sharing program which is intended to monetarily reward or recognize employees, stimulate inventive creativeness, and encourage disclosure of inventions.

The Federal licensing program established by the ~~draft~~ bill should enhance the possibility of private development and utilization of employee inventions and inventions that contractors have assigned to the Federal agencies under the provisions of the ~~draft~~ bill due to contractor disinterest or failure to diligently pursue utilization.

The ~~draft~~ bill's most important effect on this Department, in addition to resolving the question of authority, will be on the Department's dealings with for-profit contractors. Under the ~~draft~~ bill, such contractors will have the first

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with pre-profit contractors

differs from present Department policy it is noted that the substantial majority of Department's research funding goes to nonprofit institutions in the form of grants and contracts.

option to ownership of resulting inventions, whereas presently the Department retains that option in substantially all contracts. The contractor presently can obtain ownership rights only on submission of a petition after identification of an invention. Since over 90 percent of such petitions have been granted, the draft bill would end an unnecessary administrative burden, while probably encouraging greater participation of more qualified contractors in the Department's research and development programs and expediting private development and utilization of inventions.

Accordingly, the effect of the change would be modest compared to strict agencies who contract primarily with pre-profit contractors.

Though the bill's treatment of for-profit contractors... The allocation of invention rights under the single patent rights clause substantially parallels the allocation made under the Department's institutional patent agreement program for nonprofit institutions. Under this program, 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 draft bill. Accordingly, use of the single patent rights clause will, 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 64th 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 should be modest.

Passage of the draft bill should have little effect on Department allocation of employee inventions. However, implementation of the incentive awards and/or royalty-sharing program should increase invention reporting. Increased reporting plus the legislated authority to grant exclusive licenses should result in increased utilization of Department-owned inventions.

While we support the draft bill, we believe it would be enhanced if amended as suggested in the technical attachment. We are particularly concerned with the need to provide to

The bill substantially parallels a draft bill prepared by the Government Patent Policy Committee of the Federal Council on Science and Technology at which the Department commented favorably on Sept. 17, 1976.

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the head of a Federal agency the authority to deviate on a class basis from the single patent rights clause if necessary to expedite resolution of an imminent public health problem.

~~We therefore recommend that the draft bill incorporate our suggested amendments and be submitted to the Congress.~~

Sincerely,

~~Marjorie Lynch~~
/s/ Marjorie Lynch

Under
Secretary

Enclosures

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