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

Dear Mr. Lynn:

This is in response to your request for the views of the Department of Justice on the Commerce Department-Office of Science and Technology Policy 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."

The draft bill purports to propose a uniform policy for the allocation of rights in inventions resulting from Federally-funded research and development, the protection of these rights through domestic and foreign patenting, and the licensing and commercialization of the patented and related technology.

Title I of the proposed legislation presents findings and a declaration of purpose.

Title II concerns functions of the Office of Science and Technology Policy.

Title III establishes a uniform policy with respect to property rights in inventions resulting from research and development funded in whole or in part by the Federal Government, as between the Government and its R&D contractors and as between the Government and its employee-inventors.

Title IV covers the authorizations of the Executive agencies with respect to obtaining patent protection and the granting of patent licenses of Government-owned inventions, clarifying the authority of Executive agencies regarding exclusive licenses.

In general, the bill provides that at time of contracting, title to inventions under the contract shall go to the contractor,

subject to certain conditions, including "march-in" rights in the Government for antitrust and other purposes. The bill further provides authority for the agencies to grant exclusive or partially exclusive licenses in any invention covered by a Federally-owned patent or patent application, subject to certain conditions, including antitrust conditions and "march-in" rights. The bill also sets out criteria for the determination of rights by Government employees, codifying basic policy concepts of Executive Order 10096, which presently governs the subject.

For many years a controversy has existed between advocates of the so-called "title" and "license" policies regarding the disposition of rights in inventions arising under Federal R&D financing. Advocates of a "title" policy have called for the Government at the time of contracting to take title to inventions resulting from Government-financed R&D, with the results available to the public through non-exclusive licensing or dedication of patents. For the last 30 years, this Department has supported a "title" policy. Supporters of a "license" policy have argued for title in the contractor, with a royalty-free license to the Government for Governmental purposes. With the exception of a few agencies where the allocation of rights in inventions from R&D contracting has been guided by statute, the disposition of such rights has been left to agency policy.

When Congress has acted with respect to certain agencies, it has shown a decided "title" policy orientation, while providing for waiver of title by the Government in certain situations after evaluation of various factors, such as the field of technology involved, the intended use of the invention, and the invention's importance to public health, welfare, and safety. Congress has provided, with respect to a number of specific circumstances and particular agencies, that whenever the Government finances the research, it is entitled to any patent arising from such research. In a more limited number of particular circumstances affecting certain specific agencies, Congress has provided that the Government is entitled to a license of its contractors' background patents as well, to the extent that such patents are needed for utilization of the first patent. There is, however, no general legislation establishing a policy with respect to Government-funded research activity.

The disparity in policies and practices among agencies lacking statutory guidance led to the promulgation of President Kennedy's Statement of Government Patent Policy in 1963, a compromise attempt to achieve uniformity among all agencies without imposing either a "title" or "license" policy across the board.

This Presidential Policy Statement was slightly revised in 1971. The Presidential Policy Statement, subject to those specific statutes affecting the policies of some agencies, is presently the basic guideline to the contracting agencies in the disposition of invention rights with respect to R&D contractors.

With respect to the draft bill, the preference of the Department of Justice is against proposing legislation at this time.

A major goal of the proposed legislation is the facilitation of commercialization of inventions resulting from Government-financed R&D. This Department is unconvinced that there is an objective factual basis for the view that a "title in the contractor" policy will achieve commercialization of inventions more rapidly than a "title in the Government" policy. We also believe that there is a definite competitive risk to a title in the contractor policy. The essence of the patent right is the ability to restrain competition; with respect to inventions developed by private parties these restraints are deemed warranted by the incentive to innovate which is created by the patent system. With respect to Government-developed inventions, however, Society should receive a quid pro quo if private restraints are to be allowed. This is particularly so because the "title in the contractor policy" runs the further risk of entrenching the already strong market positions of some Government contractors. Because we have not been convinced that a title in the contractor policy provides such a quid pro quo, this Department through the years has favored Government retention of title.

However, it has become apparent that various contracting agencies in their experience believe that a uniform "title in the contractor" approach at time of contracting, and the granting of exclusive licensing rights to contractors under Government-owned patents, would accelerate utilization of inventions, and that strong Government regulatory provisions ("march-in" rights), if enforced, could protect the public interest in competition.

We have worked closely with the Committee on Government Patent Policy which drafted this bill, and we believe the Committee did a conscientious job of attempting to draft meaningful Government regulatory provisions to prevent anticompetitive situations from developing under the "title in the contractor" approach. We do have grave reservations, however, at the efficacy of any Government regulatory mechanism such as the "march-in"

rights provided in the bill to prevent anticompetitive situations from developing. In practice, will such rights be exercised, and is the bill best structured to encourage their exercise, remain disturbing questions.

Recognizing the significant importance of accelerated utilization of new technology, while we would prefer continued operation under the President's Statement of Government Patent Policy and existing statutes to see if ultimately empirical evidence develops from the present flexible policy mixture which would clearly suggest the superiority of one or the other --"title" or "license" policy--we deferred to the consensus of the contracting agencies supporting the policy of the draft bill in its aim to facilitate invention utilization, and did not object to submission of the draft bill to the Office of Science and Technology Policy.

Nevertheless, the proposed legislation raises complex economic issues that involve evaluating technological growth in relation to the many existing incentives now provided by the United States Government. In this respect, the recently enacted provisions applicable to ERDA dealing with Government patent policy have not yet been allowed the time to develop and be utilized, in order to evaluate the strengths and weaknesses of this latest Congressional attempt to deal with this controversy. Moreover, the Board for Intellectual Property that would be created under this legislation would itself create certain legal and organizational peculiarities involving the authority of this Board over the practices of various Government agencies, and the independent action possible by these diverse agencies. Ambiguities surrounding such matters as the decision appeals procedure may raise complicated difficulties. The issue of whether a license policy would in fact lower government procurement costs, and if so, how much, is still unresolved. These are illustrative of matters largely over and beyond the expertise so far brought to bear in the drafting of the bill, an expertise largely concentrated in the area of contracting and patent policy.

Thus, although we abstained from voting against this legislative proposal in the Committee on Government Patent Policy, we believe these policy issues should be explored in detail by the Office of Management and Budget, before the Administration takes a firm position that would preclude the agencies from exploring them before Congress, in testimony and correspondence.

If the short deadline indicated for transmittal to Congress prevents such study and decision is made to submit the proposed

bill for Congressional consideration, we request authority to comment on this legislation critically, and to explore fully the various economic and other policy issues before the Congress when, and if, we are requested to do so.

In conclusion, for the reasons as indicated, the Department of Justice recommends that this proposed legislation not be submitted to Congress until there has been a careful evaluation of all of the implications and policy issues involved in this complex piece of legislation. Until this evaluation has been completed, we cannot support this proposed legislation.

Sincerely,

(Signed) Michael M. Uhlmann

Michael M. Uhlmann
Assistant Attorney General