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July 18, 1977

Dr. Jordan Baruch
Assistant Secretary for Science & Technology
U.S. Department of Commerce
Washington, D.C.

Subject: H.R. 6249, "Uniform Federal Research and Development Utilization Act of 1977"

Dear Dr. Baruch:

The purpose of this letter is to urge your support of the thrust of the above bill, which was introduced by Representative Thornton this past April. The bill represents a very large step forward to enabling utilization by the public of results of Federally sponsored scientific and technological research and development. It will, however, surely draw opposition as being a "giveaway" notwithstanding that only oligopolies can benefit from government technology languishing in a huge patent pool. Thus, obtaining enactment will take great perserverence, and the support of your office is critical.

There are certain changes I believe would strengthen the bill and which are recommended for your consideration.

I. Inventions of Contractor-Employees

1. Section 312 - Add the following phrase after the word "invention" in line 4 on page 8: ", which election may be deferred to date certain upon authorization by the Federal agency designated patent administrator;"

We have found in many cases an invention which should be disclosed to an agency but for which invention there is insufficient justification to make a filing decision at the time of disclosure. In such cases, specific authority is needed for the agency patent administrator to approve (or not) a contractor's request for deferral of the filing decision. By way of actual example, a somewhat similar DOD patent clause did not provide the Contracting Officer with the authority to defer the time for a filing decision. It then became necessary to submit lengthy "ASPR deviation" requests in

such situations, the effort of preparing and processing of which were neither justifiable from our point of view or from DOD's point of view. The Contracting Officer would find himself in the same dilemma as we in that the alternative of filing by the Government was also not wise because the Government also did not have adequate information or justification to make a filing decision.

2. Section 313(a)(2)(B) - Add the following phrase to this subparagraph: ", which reports, when containing proprietary information of the Contractor, may be designated by the Contractor to be exempt from disclosure under the Freedom of Information Act;"

   For a Federal agency to receive useful, candid reports on utilization by companies, the company must be assured that their report will be held in confidence. We have found companies are particularly concerned about the information which will reveal when they will introduce a new product or information which can reveal amount of sales in a particular area.

3. Section 313(a)(2)(D)(i) - In lines 12 and 13, substitute the words "health or safety" for the words "health, safety, or welfare."

   The Government has historically retained march-in rights for "health or safety needs." Presumably, reasonable people could agree when a contractor is not satisfying health or safety needs by the retention of rights to an invention. However, to determine when a contractor is not satisfying welfare needs seems subject to wide interpretation and could overly broaden march-in rights to undesired situations.

4. Section 313(a)(2)(E) - Substitute, in lines 4 and 5, the words, "of the patent application covering the subject invention" for the words "the subject invention was made".

   Determining when an invention was "made" is subject to varying interpretation. By using the date of filing of the patent application, the beginning of the period will be unambiguous.

5. Section 313(a)(2)(E) - Add after the word "apply" in line 18 the words "to non-profit institutions, their agents, or".

As a university is not (and cannot be) a manufacturer, this paragraph would be inapplicable. The only basis for a university to acquire rights to an invention is to further license such rights to industry. Such licensing is on a limited term exclusive basis when necessary, and on a non-exclusive basis otherwise. The purpose of referral to "agents" is that many universities have their licensing handled by either related non-profit foundations (the most notable example being the Wisconsin Alumni Research Foundation) or by agents such as the non-profit Research Corporation, which represents well over 200 universities.

6. Section 316 - Substitute in line 23 the words "A contractor, in relation to its subject invention," for the words "Any person".

It appears the intent of Section 316 was to refer to a contractor adversely affected by a Federal agency determination, and not a third party, which interpretation could possibly be made with the present wording. A contractor's competitors would be quick to maintain they were "adversely affected" when a subject invention is successfully developed.

II. Federal Employee Inventions

Title IV of the bill covers domestic and foreign protection and licensing of Federally owned inventions. In contrast to Title III, which covers inventions of Federal contractors, procedures are established which appear to diminish the likelihood of utilization of Federally-owned inventions.

1. Section 401(8) - This paragraph specifies the Department of Commerce is to receive any income received from management of Federally-owned inventions. However, alternative schemes for distribution of royalty income might provide more direct incentives. One alternative could be designating royalty income for unrestricted research at the particular government laboratory where the invention was originated, after recovery of licensing expenses. There is nothing quite so attractive to a research laboratory as "free" research money with no strings attached.

It can be used, for example, as seed money to pursue research problems not otherwise fundable to the point where funding can be obtained.

2. Section 404 - The public notice requirement of this Section of intention to grant an exclusive or partially exclusive license can be expected to reduce the amount of utilization of government technology. Larger companies follow the Federal Register with regularity and, if the Federal Register notification covers an exclusive license to a possible competitor, a company would logically file a written objection to the grant of such exclusive license and request a non-exclusive license, frustrating the incentive for development available from patent rights.

   If an exclusive license is given without public notice, even if later determined the invention could have been licensed nonexclusively, the proprietary position afforded the exclusive licensee will have been a spur to competition to invent around that proprietary technology, thus further aiding, not inhibiting, innovation.

   The value of a patent to the innovation process comes from the right to exclude. If that right is not granted, an alternative with similar result is to publish government inventions rather than file patent applications to save the time, effort, and money in patenting and administering inventions of government research.

   Here it is important to reflect that government inventions represent undeveloped technology and eventual market success will be determined in part by the right to exclude but more by the skill and investment at risk of the licensed company in developing the invention for public use. It may be worth considering seriously whether the public interest would be best served by requiring exclusive licenses. With an exclusive license, strong diligence provisions can be negotiated and, as noted before, a strong proprietary position is a spur to competition to invent alternate solutions to the same technical problem.

One cannot deny, however, the allegation of the Anti-trust Division of the Department of Justice or Ralph Nader that through exclusive rights a company may achieve substantial profits from monopolizing a particular technological solution for a period of time. However, without profits, we will not have the money we all like to spend, and without that technological monopoly, there would be sharply reduced incentive for the patent holder to develop the invention to achieve such profits or for the competition to seek a better technological solution.

If any of the foregoing comments are not clear, or if more information will be helpful, please let me know.

Very truly yours,

Niels J. Reimers
Manager, Technology Licensing

cc: The Honorable Ray Thornton
NJR:sh