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Mr. Norman J. Latker
Chief, Patent Branch
Office of the General Counsel
Department of Health, Education
and Welfare
5233 Westbard Avenue, Room 5A03
Bethesda, Maryland 20014

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

Dear Norm:

Having finally read all of the above bill, I am overall very pleased and hope that it can be successfully implemented without detrimental changes. I did, however, have a few comments which I would like to pass on to you.

Section 312. I think the last sentence of this section, which indicates "the Federal Government shall withhold publication..." is sufficiently susceptible to broad interpretation that it might be best to leave it as is rather than pressing for more expanded wording on protection from public disclosure of potential intellectual property rights similar to, for example, section 1817 of the first version of SB1217.

Another thought with regard to Section 312 is that flexibility is needed for situations when a filing decision needs to be deferred. For example, we will often have an invention which should be disclosed but for which there is insufficient justification to make a filing decision at the time of disclosure. In such cases, the agency patent counsel should be able to approve (or not) a contractor's request for deferral of the filing decision. (This problem occurred frequently at Stanford in the emerging technology of surface acoustic waves. This technological area is anticipated to be of great future importance but only now are some products beginning to reach the marketplace. The disclosure would be submitted to a DOD agency with the indication that we did not have adequate information either to make the determination to file, or not to file; and further recommend that we and

the agency review the case again at X months in the future. Unfortunately, the DOD clause did not provide the Contracting Officer with authority to extend the time for making the filing decision so it was necessary to submit "ASPR deviation requests," the effort of preparing and processing of which were neither justifiable from our point of view or from the agency 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 not wise because the government also did not have adequate information or justification to file.)

Section 313(a)(2)(B). This subsection requires reports on commercial use of an invention. For us or an agency to receive useful candid reports on commercial use, we need to assure the licensee that their report will be held in confidence. Companies are particularly concerned about information which will reveal when they will introduce a new product, or information which can reveal their amount of sales in a particular area, which information can easily be inferred from report of earned royalties paid. A specific exemption from disclosure of such reports is needed.

Section 404. I believe the public notice requirement of intention to grant an exclusive or partially exclusive license will act to reduce the amount of innovation of government technology. First, only larger companies follow the "Federal Register" with any regularity, and if any technology is useful to such a company reading the "Federal Register," they would certainly file a written objection to the grant of an exclusive and seek a non-exclusive license. If an exclusive license is given without public notice, and even if it is later determined it could have been licensed nonexclusively, the proprietary position afforded the exclusive licensee will have spurred competition to invent around that proprietary technology, thus further aiding, not inhibiting, innovation.

The deleterious effect upon innovation of homogenization of technology can be illustrated by the auto industry. If Ford Motor Company developed an important proprietary engine design which it would use only for Ford production, it would certainly spur General Motors and Chrysler to develop better engine designs of their own. It should also be observed that when an exclusive position is broken, it also is broken to foreign companies. The value to innovation of a patent really comes from the right to exclude and, without that right being granted, it would seem logical for the government not to waste the time and effort in patenting. It is important to reflect upon the fact that when we are discussing government inventions, we are talking about undeveloped technology and the eventual market success will be determined more by the skill of the licensed company in developing the marketable product than the patent grant.

Additional concerns about the public notice procedure are both the bureaucracy of it all and the extreme conservatism this likely will inflict upon some government administrators. I do feel the public interest would actually be best served by requiring exclusive licenses with, where appropriate, a requirement to sublicense after a negotiated period of time. Here at Stanford we receive some 50-80 inventions per year. Our experience is that it simply would not be cost effective to conduct our licensing program if we were to be required to follow the procedure that a government agency would have to follow pursuant to Section 404. It would only make sense for us to "skim" for the few inventions received per year that have potential for substantial royalties.

One cannot deny, however, the allegation by the Anti-Trust Division of Justice or Ralph Nader that, through exclusive rights, a company may achieve substantial profits or monopolize a particular technological method for a particular period of time. However, without profits, we would not have the money we all like to spend, and without that technological monopoly, there would not be incentive for the competition to try to invent a better technological method. Only oligopolies can benefit from following the Justice-Nader position.

Section 321. This section has to do with "Federal employees." At present, it does not appear that this section will cover contractor operated facilities such as Lawrence Radiation Laboratory operated by the University of California or the Stanford Linear Accelerator Center (SLAC) operated by Stanfor. The AEC (now ERDA) handles inventions from Stanford employees at SLAC quite differently from inventions from other research grants or contracts to the University. We are advised that there is much less chance of release of an invention developed by employees at SLAC because they are, in a sense, ERDA employees. This illustrates some paranoia, but I am fearful that an amendment to this section may be offered to expand the definition of "Federal employees" to employees of facilities such as SLAC. It is interesting to observe that while the ERDA funding at Stanford is close to that of the HEW, we have yet to receive a single release of rights to an ERDA invention; this contrasts with the record of licensing of HEW-supported technology that has been achieved.

I'll plan to call you in a week or so to discuss H.R. 6249 and where we might go from here.

Very truly yours,

Niels J. Reimers
Manager, Technology Licensing

cc: Tom Arnold - Arnold, White & Durkee

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