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EG

DEPARTMENT OF STATE

Washington, D.C. 20520

SEP 7 1976

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

Dear Mr. Lynn:

We have examined the Federal Intellectual Property Policy Act of 1976 as requested in the OMB memo of August 24, 1976.

The Department of State fully supports the objectives of this bill, especially those of promoting the foreign protection of industrial property rights in inventions resulting from Government-sponsored research and development and the exploitation of those rights in foreign markets. Hopefully this legislation will remedy the situation of past years when, either because of the lack of agency authority or insufficient incentives to the contractor, foreign patent protection has not been obtained and valuable industrial property rights have fallen into the public domain. The Department also supports the mechanisms set up under Title IV whereby Federal agencies can handle patent filing for Government-owned inventions and technology marketing activities themselves or assign those responsibilities to the Department of Commerce. We anticipate that over the coming years these mechanisms will promote efficiency in government and result in significant benefits to the taxpayer.

Despite our over-all support for the bill as described above, we feel it necessary to bring to your attention one possible problem area from a foreign policy viewpoint. In recent years the less-developed countries (LDCs) have begun to focus on technology as a key factor in the process of industrialization. The official U.S. Government response to this newly-identified interest is, in part,

that most industrial technology is owned by private firms which are the most effective and efficient vehicles to transfer such technology. The U.S. has lent its support to making available Government-owned technology to LDCs on concessionary terms. The rationale for this policy is based purely on our national interests and has at least two aspects: (a) the offering of Government-owned technology and elaborating programs for its transfer may dissuade the LDCs from other courses of action inimical to our interests (for example, a rigid international code of conduct for the transfer of technology or a radical revision of the Paris Convention for the Protection of Industrial Property); and (b) the economic development and resulting political stabilization of the LDCs contribute directly to US national security and a peaceful world.

The Federal Intellectual Property Policy Act of 1976 appears to conflict with this policy in that, under the Act, it is anticipated that, over time, the quantity and importance of the technology available for licensing to LDC governments by the US either through outright ownership or through march-in, will diminish.

The Department of State has attempted to bring the foregoing foreign policy considerations to the attention of the Committee on Government Patent Policy in an effort to have them reflected in the bill. The Committee, however, apparently believed that the amendments we proposed would increase the uncertainty for contractors in applying for patents abroad since they would face the prospect of the U.S. Government sublicensing competitors in LDCs. It was felt that such a prospect would discourage contractors from applying for patents in the first place, thus frustrating the basic purpose of the bill. As a result of these concerns the Committee made only minor changes in the bill. We understand that these changes are still troubling to certain Federal agencies.

We have reexamined the bill and we believe we may be able to offer a compromise which would be more acceptable to the other agencies as well as to the Department of State. In the present bill our understanding is that the "march-in" rights contained in Section 311(b)(2)(C) and in Section 311(b)(2)(D)(i) apply to foreign as well as U.S. patents owned by a contractor, and further, we understand

that the Committee intends the term "responsible applicant or applicants" to cover foreign applicants as well as domestic applicants. It is also understood that the term "interested person" in Section 311(b)(2)(D) is interpreted to include other Federal agencies.

If the foregoing interpretation is correct and is clearly reflected in the legislative history, we believe that our concerns would be met by amending Section 311(b)(2)(D) as follows: on page 10, between lines 12 and 13 add the following: "(iii) To facilitate the implementation of United States foreign policy objectives regarding the promotion of economic development and political stability in developing countries."

Making this amendment would, we believe, be consistent with the intent of the section since a sound and effective foreign policy is as much in the national interest as health, safety, welfare, etc. If this proposed amendment is accepted, we imagine that the new "march-in" provision would be used infrequently, and then only after review by the Board and upon "terms reasonable under the circumstances."

If the other agencies find our proposed amendment acceptable, we would be more than willing to see the earlier changes made at our request deleted. These changes are located on page 8, line 28; page 16, line 9; and page 25, line 30.

We believe we understand the intent of section 311(b)(1) but think that, as presently drafted, the section may be open to misinterpretation. We suggest, therefore, that the words "any country" in line 6 be replaced by the words "the United States..." This would make section 311(b)(1) consistent with and complimentary to section 311(c). As 311(b)(1) is presently drafted, a situation could occur where the contractor filed for a foreign patent but not for a US patent. Under this situation neither the contractor nor the Federal Agency could obtain title to a Subject Invention. This is merely a drafting suggestion and we would defer to judgement of the experts at the Office of Management and Budget and on the Committee if it is felt that this change is unnecessary.

We note that section 311(a) does not require the contractor to designate in which countries he will file patent applications abroad. We believe contractors should be required to make such designations within a reasonable period, e.g. six months, after filing his original U.S. patent application.

By so doing, the Federal agency (or the Department of Commerce) would then have time to evaluate the commercial prospects in those countries which the contractor did not designate and to file for patents accordingly before the expiration of the twelve-month priority period. A less preferable solution would be to leave this type of detail for inclusion in the regulations issued under this bill.

We would also like to call to the attention of the Office of Management and Budget the fact that section 401(e) is expressed in a way which could act as a disincentive to contractors without offering any apparent benefits. As presently drafted, Federal agencies are authorized under section 401(e) to withhold information to avoid prejudicing the filing of patent applications, but are not required to do so. In order to avoid the prospect of premature release of information which might make it impossible to obtain a patent, we suggest that the withholding of such information by agencies be made mandatory. This might be accomplished by moving Section 401(e) and renumbering it 402 and drafting it as follows:

> "S.402. The Federal agencies shall withhold publication or release to the public of information disclosing any invention in which the Federal Government owns a right, title or interest for a reasonable time in order for a patent application to be filed."

This would require that the present Sections 402, 403 and 404 be renumbered. This, like our immediately preceding suggestion, is merely an attempt to improve and strengthen the bill and not to change its substance. If the experts at the Office of Management and Budget or on the Committee disagrees with this suggestion, we would certainly defer to their judgement.

We are aware that time is short for further revision of the Federal Intellectual Property Policy Act of 1976 prior to its presentation to Congress and therefore we would like to emphasize that the inclusion of a new Section 311(b)(2)(D)(iii) is the most important concern

of the Department of State. While we feel it important to mention the other suggestions contained herein, we defer to the Office of Management and Budget for any final decision in these issues.

Sincerely yours,

Robert J. McCloskey
Assistant Secretary for
Congressional Relations