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Mr. James M. Frey
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for Legislative Reference
Office of Management and Budget
Washington, DC 20503

PATENT BRANCH, OGC
DHEW

MAR 27 1978

Dear Mr. Frey:

This responds to Mr. Bernard H. Martin's memorandum of February 22, 1978, requesting the views of the National Aeronautics and Space Administration on a draft decision paper on Federal Patent Policy. The following comments are structured to correspond to related sections of the draft, and to respond to the specific requests made in the accompanying memorandum.

1. BACKGROUND

Although generally accurate, the Background discussion is overly broad, such that it creates potential for misinterpretation and misunderstanding. Accordingly, the following comments and suggestions are made:

Page 1, paragraph 1:

The statement of the alternative ways to allocate rights needs clarification and amplification. While this is an accurate statement of the extremes of the title and license policies, respectively, it does not indicate the manner within these extremes in which agencies actually allocate rights today.

In practice none of the major R&D agencies, whether operating under a statutory title policy, the Presidential statements, or some combination thereof, allocate rights at either extreme, but in a range nearer the center. From

NASA's viewpoint, the issue is not one of who technically holds title, but of defining and narrowing the center range in the interests of commercial utilization, uniformity and predictability, contractor participation, and administrative ease. A clear understanding of the present policies and practices would aid in placing this issue in a proper perspective.

Page 2, paragraph 2:

NASA's waiver policy, as well as the comment regarding NASA's waiver experience, is incompletely stated. NASA's statutory waiver authority is broadly stated (broader, for example, than that of DOE because of inherent differences in agency missions). NASA's implementing waiver regulations are guided by the Presidential statement and all waivers granted are consistent therewith. These regulations allow for either blanket waiver (in advance of contract) or waiver for individual identified inventions (after contract) under variously stated circumstances (essentially as set forth in the Presidential statement). With this understanding of NASA's waiver policy, the parenthetical statement regarding NASA's waiver experience is more accurately stated: "(NASA waives title upon request approximately 60% of the time in the case of waivers in advance of contract, and 85% in the case of identified inventions. Overall, however, NASA has waived title (commercial rights) to less than 5% of the inventions resulting from NASA contracts)."

Page 3, paragraph 1:

This is an incomplete summary of the recommendation of the Commission on Government Procurement and subsequent activities of the "interagency committee" thereafter. The basic recommendation of the Commission (I-1) was for all agencies to implement the revised (1971) Presidential statement of Government patent policy "promptly and uniformly" (to the extent consistent with existing statutes). This was achieved by the nonstatutory agencies by the issuance of Part 1-9, Subpart 9.1 of the Federal Procurement Regulations and amendment of Section IX, Part 1 of the Armed Services Procurement Regulations. NASA (among other agencies with express statutory requirements) followed suit by

revising their respective regulations to conform with similar provisions in the FPR and the ASPR to the extent consistent with statute.

The Commission also drafted legislation for the purpose of identifying the alternatives it considered (which became known as an "alternate approach") for the allocation of invention rights between the Government and its contractors. This alternate approach would have allowed contractors to retain "principle rights" (not specified as being either title or an exclusive license) at the time of contracting in most situations. Exceptions were made where the Government funded the invention to the point of commercial application, and in certain situations relating to nonprofit institutions. There were also strengthened "march-in" rights, and the establishment of a review board to administer such rights. This was therefore a balanced approach somewhere in the middle of the title vs. license spectrum.

In the fall of 1975 the Chairman of the former Committee on Government Patent Policy (of the Federal Council for Science and Technology) requested its Executive Subcommittee to explore options for Government-wide legislation in this area, and to draft legislation based on a selected option. Several options were reviewed, two of which were based on variations of the Commission's alternate approach. After extensive discussion, the Committee selected a variation of the alternate approach which would define the "principle rights" retained by the contractor as a defeasible title in the contractor, subject to strengthened and extensive march-in rights. The other variation would have been title in the Government with the contractor obtaining a guaranteed period of exclusivity subject to essentially the same march-in rights. In both variations it was felt that, in the interests of uniformity and administrative ease, there would be no exceptions at the time of contracting, but that the balancing of interests would be achieved by the strengthened march-in rights. As the result of this decision the Executive Subcommittee drafted the legislation which was subsequently approved by the Committee and forwarded to OMB in the fall of 1976.

Page 3, paragraph 3:

As a matter of clarity, the coverage of Federal employees' rights and the licensing of Government-owned patents in H.R. 8596 is virtually the same as the coverage of these issues in the bill forwarded by the Committee on Government Patent Policy to OMB. Such coverage is not new; rather, it merely codifies existing policies, regulations and procedures. Specifically, the employee rights coverage is based on Executive Order 10096 (1950) applicable to most agencies, including NASA. The licensing coverage is consistent with the Federal Property Management Regulations and similar regulations of agencies (such as NASA) having statutory authority in this area, as well as the licensing activities of NTIS in coordination with, and support of, other agencies. There are no known substantive areas of controversy on these issues as there is with the allocation of rights issue.

2. POSSIBLE ALTERNATIVES

All the possible policy alternatives have not been adequately stated. This is because the license and title options are set forth in a manner that highlights the extremes of each position, and do not contain an adequate discussion of the balancing of interests, safeguards (i.e., "march-in" rights) and/or flexibility (i.e., waiver criteria) necessary to allow consideration of a center position. Such balancing and safeguards, with attendant flexibility, have been sufficiently developed in the course of past reviews such that debates over the adoption of either a title or license are no longer very useful. In our view, basic objectives such as commercial utilization, uniformity and administrative ease can be achieved while at the same time allaying concerns over undue market concentration and windfalls. Taking this approach, it is quite possible that legislation along the lines of either the alternate approach of the Procurement Commission or the draft of the Committee on Government Patent Policy could achieve an acceptable center position and avoid extensive debate over who, technically, holds title. Since this alternative represents concepts closer to the present policies or stated preferences of most major

R&D agencies, we recommend that it be positively stated as an option rather than alluded to as possible only after either first selecting a title or license option or formulating a new policy.

A presentation of this balanced alternative is particularly important to the extent that comments on the Draft Decision paper will be utilized to formulate a position on H.R. 8596. There is needed, to achieve this position, a substantive comparison of H.R. 8596 to an agreed-upon center position and not additional comments on H.R. 8596, per se. (The position of NASA on H.R. 8596 was submitted to OMB in mid-1977). To the extent the Draft Decision paper presently deals with H.R. 8596, it implies that H.R. 8596 is tantamount to the broadly-stated extreme of the license policy, an implication that is misleading.

3. PRESENTATION OF ALTERNATIVES

The statements presented in support of the various policies options are directed in the main to the consequences of adopting or not adopting the particular policy in question, with no clear, concise statement of the objectives of a Government-wide patent policy, independent of the option selected to achieve these objectives. Particularly, the proponents of the title policy focus on the negative aspects of not adopting their policy, with no clear indication of the positive objectives to be sought by adopting such a policy.

What is needed, NASA feels, is a statement of positive objectives to be sought by any patent policy, and when a consensus is reached, an approach adopted to best achieve these objectives. This approach can be structured to contain the balancing and safeguards needed to alleviate any perceived negative consequences. When this is done the issue of where title resides should become a secondary consideration. With this in mind, the following specific comments are made regarding each option, as presented:

a. Option I, License Policy

The policy places greatest emphasis on commercial utilization, an objective which NASA supports. Other

stated attributes are also consistent with various objectives found in the Procurement Commission report and the Presidential statement. However, the comment on administrative burdens regarding domestic and foreign filing is not understood. The issue of administrative burdens (in the context of a policy for the allocation of rights) relates to the question of case-by-case determinations of whether or not to leave title with the contractor, and generally does not relate to the question of the Government filing for, and licensing, patents. Any policy only affords the contractor an option or right to file on elected inventions, and agencies may file for, obtain and license patents (both domestic and foreign) when the contractor does not elect to file. This practice is essentially the same for the major R&D agencies whether operating under a statutory title policy (with waiver authority) or the Presidential statement. Thus, the statement regarding filing and licensing, and the statement regarding the "small number of government patents," is unclear in that the United States Government is the largest single holder of domestic patents, and does license these patents.

b. Option II, Title Policy

The objectives the proponents seek under this policy are unclear; emphasis is on perceived negative aspects of the license policy rather than positive results to be achieved under a title policy.

Most Government R&D contracts are in support of the Government's needs, missions and objectives, and not to make and commercialize inventions. If inventions are made, they are often ancillary to contract requirements, and in many instances require additional private risk capital to achieve commercialization. Thus, the "windfall" argument appears relevant only in those limited situations where the intent of the Government is to fund inventions made under a contract to the point of commercial application.

c. Option III, Status Quo

No specific comments.

d. Option IV, Formulation of New Policy

As stated, this appears to be a reiteration of the purposes of the Presidential policy statement, and therefore difficult to distinguish from the status quo. Any reviews towards the formulation of a new policy should take cognizance of the efforts of the Procurement Commission and the former Committee on Government Patent Policy subsequent to the revised Presidential statement.

e. Option V, Compromise

It is not clear that extensive drafting of new legislation is required under this option. Rather, contentions of "windfalls" should be analyzed to determine to what extent, and under what circumstances they occur. If there is real reason for concern, then the issue could be resolved by adjustments (for example, to the march-in rights) to existing balanced approaches such as the Procurement Commission's alternate approach or the approach drafted by the Executive Subcommittee.

4. NASA'S POSITION ON STATED ALTERNATIVES

a. Given the alternatives as presented, NASA prefers Option III. While the status quo may not be the optimum for all agencies, NASA believes that under Section 305 of the Space Act (as augmented by the Presidential Policy Statement), it has a flexible policy and procedures that work well, are well understood by its employees, contractors and licensees, and achieve commercial utilization of its inventions (both through waiver to contractors and licenses to third parties). NASA does recognize, however, the desirability of uniformity, and would support middle-ground legislation that maintains a balance between the interests of the Government, its contractors and the public while at the same time emphasizing commercial utilization of Government-funded technology.

b. Thus, NASA would, as its second position, be willing to participate, under Option IV, in a review group convened by FCCSET to formulate a Government-wide policy. It is, however, NASA's position that there is

no need to review the title vs. license dichotomy. The arguments concerning both positions are well established. More recent reviews and recommendations by experts (including representatives of the major R&D agencies) have evolved to a near-center position. This position also has the general support of the business and university communities. Examples are the alternate approach of the Procurement Commission and the draft bill prepared by the Executive Subcommittee (of the Committee on Government Patent Policy). Thus, efforts should be focused on identified, isolated, and substantive areas of differences that need to be resolved to achieve an acceptable middle position, rather than the philosophic extremes of a title or license policy.

c. NASA cannot support either Option I (license policy) or Option II (title policy) as presented; that is, lacking any definition or guidelines for the "march-in" rights or assurances needed to protect the interests of the Government and the public on the one hand, or the waiver flexibility needed to promote commercial utilization on the other. Were such definitions and guidelines provided, the possibility exists that either option could be rather close to a center position which NASA would seriously consider.

d. NASA cannot, based on present information and experience, support Option V. This is a totally new concept regarding Government patent policy. NASA's present policy, like that of most other agencies, is based on such factors as commercial utilization, contractor participation, and competition, not on return of monies to the Government either as patent royalties or recoupment. It is important to maintain a distinction between the underlying concepts of recoupment (relating to the sale of physical products or processes) and the legal rights embodied in a patent under which permission may be granted in return for a royalty or fee. Recoupment (as set forth, for example, in the CIEP DM 23 Guidelines) is limited to contracting situations where Government-funded technology (in physical form) may subsequently provide a special benefit to the contractor, usually through resale of the same product or services provided to the Government. The presence or absence of inventions

or patents in a "recouped" contract is irrelevant to the recoupment operation. Patent rights represent legal rights regarding the permission to practice inventions, and not the physical embodiment of the inventions themselves. In many instances a patent holder has to invest additional risk capital to achieve commercialization by developing a physical embodiment. For the Government to impose a money return requirement in these circumstances could be a disincentive to commercialization, and would add to the cost of the product or service provided to the public. NASA believes, therefore, that such requirements should be applied only where Government-funding of a physical embodiment provides special benefit to the contractor (based on criteria such as found in the CIEP DM 23 Guidelines), and not merely as the result of allocation of patent rights.

The only area where recoupment may be relevant is in those instances where it is the intention of the Government to fund the inventions made under contract to the point of commercial application. The traditional approach in such instances has been for the Government to normally acquire title, or to grant waiver or principle rights only under stringent circumstances. This results in a mixed <u>title</u> and <u>license</u> policy, depending on the Government's intention in a given contracting situation, with the potential for inconsistencies, delays and administrative burdens associated with case-by-case determinations. An alternative could be to require a royalty payment in this specifically defined circumstance, while at the same time maintaining a uniform and consistent policy regarding the exclusive or principle rights retained by the contractor at the time of contracting. This could be achieved by modification to a middle-ground license policy such as the Executive Subcommittee's draft bill; it would not require extensive drafting of new legislation.

Also, lacking any information as to the criteria for, or extent of, using patent rights as a mechanism for return of royalties to the Government, a good possibility exists that if implemented as a general policy the administrative burdens and expense of managing such a program would be substantial.

In our discussion with Mr. James Jura in which NASA received a one-week extension for our comments, Mr. Jura asked NASA, in addition to commenting on the draft policy statement, to suggest any specific changes we believe would be appropriate. We would be pleased to work with Mr. Jura on specific changes, and in that connection Mr. Robert Kempf, Assistant General Counsel for Patent Matters, stands ready to assist. However, given the amount of interagency work already done in this area, we believe that any drafting effort on a policy should include representatives of the most interested agencies. In the past, as you know, the interagency efforts were carried out by sub-groups under FCCSET. As pointed out in greater detail above, the first step in any redrafting should be a formulation of the objectives to be sought by whatever policy is recommended.

We appreciate the opportunity to provide comments and suggestions in this important policy area, and are willing to provide whatever assistance we can in developing a uniform, Government-wide patent policy.

Sincerely,

Original signed by
Gerald J. Mossinghoff
for S. Neil Rosenball
General Counsel

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