EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

JUL 19 1976

MEMORANDUM FOR DR. BETSY ANCKER-JOHNSON
Chairman, Committee on Government Patent Policy

REFERENCE: Your memorandum of July 9, 1976

SUBJECT: Proposed Omnibus Administration Bill

A companion memorandum raises certain questions with regard to the form and specifics of the draft of a new bill to establish uniform patent policy. Again, with a view of eliciting supporting explanation and rationale and not to reflect an OFPP or OMB position or inclination, this memorandum addresses the basic question whether a uniform patent policy is feasible, desirable, and ripe for immediate consideration in lieu of continuance of a flexible patent policy which accommodates the various circumstances of different transactions. In this connection, consider the following:

(1) The original Department of Justice study advocated and the President's policy of 1963 concurred in the need for a flexible patent policy.

(2) The Harbridge House study of 1967 found that Government patent policy had substantial or little impact on utilization of innovations, the continued interest of contractors in doing business with the Government, and the commercial market of contractors, depending upon the different missions of Government agencies, the different kinds and practices of contractors, and the different kinds of Government contracts.

(3) The 1968 report of the Committee on Government Patent Policy, with the concurrence of the Federal Council on Science and Technology, found no basis for fundamental change in the President's flexible patent policy but recommended relatively minor changes in the direction of allocating more march-in rights to the Government.

(4) The President's patent policy changes of 1971 accepted the recommendations of the Committee on Government Patent Policy for continuance of a flexible policy.

(5) The 1972 report of the Commission on Government Procurement recommended implementation of the President's flexible patent policy pending future reevaluation on the basis of further experience, with minimum changes in legislation to overcome statutory impediments to the President's patent policy. At the same time, the Commission recognized that future experience might indicate a need for patent policy revision, in which event it recommended consideration of an alternate approach favoring a Government license policy with strong march-in rights. In this regard, what experience data have we accumulated over the last three or four years to show a need for a basic change from a flexible to a uniform policy?

(6) After coordination among the agencies, an executive branch position was adopted in 1974 to approve the Commission's recommendation for continuance and implementation of the President's flexible patent policy. Specific implementation thereof and presumably significant experience thereunder has been somewhat suspended because of pending litigations.

(7) The proposed patent statute, in lieu of carrying out the assignment for implementing the executive branch position, proceeds along the lines of the more fundamental alternative approach offered by the Commission for consideration after experience indicates the need therefor.

(8) In the meantime, Congress has further shown an inclination toward a Government patent title policy by enacting the Nonnuclear Authorization Act and requesting a study of ERDA patent policy experience. This study is now pending. In view of the ERDA public mission, the Nonnuclear Authorization Act might be said to be consistent with the President's flexible patent policy.

Charles Goodwin
Alternate Observer
Committee on Government
Patent Policy

cc:
Mr. O.A. Neumann

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The following comments are offered in my role as an alternate observer to the Committee and do not reflect the views of OFPP. They are intended to focus the Committee's and Council's attention on questions that will have to be considered by OFPP and OMB and to elicit any explanation and rationale which will be helpful in the final action by OFPP and OMB.

Page 5, line 7: What is the need for the Council? Should the Council be established by and frozen in the statute? Can it not be done by OSTP under its own authority and would it not be better and more flexible for it to do so by administrative action? Was not OSTP intended as a replacement for the Council on Science and Technology and its subsidiary committees?

Page 5, lines 24, 25: These provisions, in combination with other provisions, overlap and conflict with the responsibility of OFPP to provide uniformity in Government procurement regulations.

Page 6, line 3: These provisions and those under (d) below, suggest that the Council recommendations when approved by OSTP "will" and therefore must be promulgated. OSTP is now only an advisory organization. Is it intended to make it an administrative agency with directory authority? If so, it conflicts with the congressional purpose to establish OFPP with full responsibility to integrate and unify procurement policy and regulations. Should it not be made clear that Council proposals like those of OSTP will remain advisory. Compare line 26 which characterizes additional Council duties as "advisory."

Page 6, line 5: Are these specifics under (d) necessary. If the Council is part of OSTP, does not OSTP have the authority to acquire data, review actions, consider problems, and publish a report?

Page 6, line 28: The above comments as to need and desirability of statutory rather than administrative establishment of the Council and as to changing OSTP from an advisory to a directory office apply also to the establishment of the board or boards for intellectual property. This is particularly true with respect to giving the boards authority to approve or disapprove agency contract actions, issue orders, and hear appeals in contract dispute cases. If they are to be part of management, should they not be in a management agency, such as the Department of Commerce?

I am particularly concerned that contract disputes are now being fragmented with patent disputes being decided by this new board rather than in the normal fashion by the boards of contract appeals.

Page 7, line 9: On what basis are board decisions to be appealable to the Court of Claims? Will the Wunderlich Act or other standards or no standards apply? How can the Court of Claims handle disputes as to who is entitled to what patent rights when its contract jurisdiction is limited under its own statute to claims involving monetary relief?

Page 8, line 8: The provisions for issuance of patent policy regulations by the GSA and DOD, if taken literally, would exempt them from the OFPP authority for providing uniform procurement regulations and raises the question as to whether this is intended and how it is to be reconciled with the OFPP responsibilities? Also, is there any need for this provision? Are not the current DOD, GSA and OFPP responsibilities sufficient to assure appropriate regulations and uniformity to the extent practicable?

Page 8, line 11: The provision for making exceptions in the regulations over and above certain minimum rights which must be acquired by the Government is so wide open as to permit agencies to revert, at least on an exception basis, to the patent title approach instead of the license approach which is the major theme of the Uniform Patent Policy bill. Is this intended? How is it to be justified and how controlled? How sold to Congress?

Page 8, line 14: Simply as a matter of appropriate technique, I question the feasibility and desirability of freezing specific lengthy and complicated clause language in a statute rather than merely prescribing the essence and leaving the specific language to be worked out by regulation. See for example the Nonnuclear Authorization Act and the

alternate proposal of the Commission on Government Procurement. I also question the need to go into such detail as reporting and notice requirements. Can these not be left to regulation? By way of example, consider the following as an alternative approach for Section 311:

> "(a) Except as provided in Section 312(c) [Note: This section would be amplified to include the preceding references to regulations and minimum rights.] contracts shall provide in substance for allocation of property rights in subject inventions as follows:
>
> > '(1) Where the contractor elects not to file a patent application on a subject invention in any country or does not agree to commercialize or otherwise achieve the widespread utilization of an invention by the public, the Government shall acquire patent rights thereto, subject to any nonexclusive license which the contractor may be permitted to retain.
> >
> > '(2) Where the contractor elects to file a patent application on a subject invention and agrees to commercialize or otherwise achieve the widespread utilization of the invention by the public, the contractor shall have the right to retain the patent rights thereto in his own name or in the name of his designee with the permission of the Government, except that the Government shall have (A) a nonexclusive, nontransferable license to practice or have practiced for the Government any subject invention throughout the world by or on its behalf (including any Federal agency) and the right to acquire rights to sublicense any State or domestic local Government -- etc.; (B) a right to require the contractor [pick up the essentials of (C) --]; (C) the right to require [pick up the essentials of (D)]; (D) [pick up the essentials of (E)]; and (E) [pick up (F)].'"

In the above substitution the Government rights are put in the name of the Government and references to the board or the contracting agencies are omitted since who does what might better be left to regulations rather than frozen in the statute. Also, this comment is addressed only to the form and not to the substance of the allocation provisions.

Page 8, lines 26-30: This sentence is an outstanding example of detail which might better be omitted from a statute and left to regulations.

Page 9, lines 13-19: Ditto.

Page 9, line 6: The bill inconsistently refers sometimes to title to an invention and at other times to patent rights in an invention. Should we not be consistent and don't we really mean the patent rights in an invention? What else is meant by title to an invention?

Page 10, line 1: With regard to the march-in rights under (C), (D), (E) and (F), while I am not sure that human ingenuity can do any better, I am concerned that the Government march-in rights are based on such nebulous, elusive and indefinite standards as to raise questions as to their practical utility for contract administration and for legal adjudication by contract disputes procedures. What are royalty rates and other "terms reasonable" for a license; "effective steps to commercialize or otherwise achieve utilization;" actions necessary to "alleviate health, safety or welfare;" deficiencies in "satisfying such needs consistent with conditions reasonable" under the circumstances or "satisfying market needs;" "regulations consistent with conditions reasonable;" "relevant and material information as the board may require;" uses which "tended substantially to lessen competition or to result in undue market concentration;" or "other situations inconsistnet with the antitrust laws?" Are these highly controversial and somewhat esoteric standards such that contracting people can understand and administer and courts or boards adjudicate sensibly? Can contractors and lawyers make any reliable prediction as to how they will be determined? In some respects, the draft bill of the AIA offers more definite and certain criteria for determination of third party patent rights, though it fails to meet the need to provide third party exclusive rights.

In this connection, the Department of Justice proposes to take the position with regard to H.R. 2223, under which a Copyright Royalty Tribunal would be established, that the absence of meaningful standards for the Tribunal's decision-making raises a question of due process.

Obviously it is the function of contract clauses to let both parties know where they stand and what they can achieve under the contract. Here their expectations will turn upon things beyond the control of the contractor, such as the petition and intervention of third parties, new health, safety or welfare needs, and new Federal regulations. Why should we not candidly recognize, as is done in the above copyright bill, in the alternate proposal of the Commission on Government Procurement, and I believe in the Federal Nonnuclear Energy Research and Development Act, that the proposed criteria are not definitive and justiciable issues and therefore should be treated as matters of administrative discretion subject to very restricted judicial review?

Will these march-in rights actually be administered or will they lie fallow just as they have under existing patent clauses? What actions and machinery are contemplated to motivate and assist enforcement by contracting officers? ERDA and HEW may be highly motivated because commercialization and public use are their missionary objectives. What about DOD and GSA, whose focus is primarily on their hardware and service needs? In view of the highly uncertain and contentious nature of these march-in criteria and the delay and costs involved, how many third parties will be inclined to initiate and carry through on third-party licensing petitions? In short, are the so-called march-in rights meaningful or merely congressional selling points? How much confidence can we have that they will really bring inventions to market? Or do any better in this regard than the current congressional and presidential mix of patent policies? Consider what Richard I. Miller of Harbridge House has to say in "Legal Aspects of Technology Utilization" (1974), p. 10:

> "On the contrary, it would appear that although changes in the laws of intellectual property profoundly affect the rights of parties to disputes, they have little direct influence on the rate of utilization of innovations .... Changes in legal detail appear to affect utilization only in marginal cases and special sections of the economy, such as universities and nonprofit research institutions."

Page 10, line 24: The concept of a third person initiating a contract dispute over patent rights is unprecedented in other areas and raises a question whether this is compatible with the typical one-on-one contract confrontation. Who is an "interested person?" A competitor, a consumer or a public interest group?

Page 11, line 21: Ditto.

Page 12, line 1: What is the need or justification for a five or a ten-year limitation upon the contractor's exclusive patent rights in addition to all the prior march-in rights provided? What situations not previously covered are contemplated under this provision? With regard to the march-in criterion of what "would best support the overall purposes of this act," see the above comments as to nebulous and indefinite standards.

Page 12, line 21-23: This provision for consultation with the agencies in resolving patent contract disputes is incompatible with normal concepts of due process limitations on ex parte discussions by an adjudicatory tribunal.

Page 12, line 25: Why the need to call it a "defeasible" title? Does this add anything to the specific march-in rights reserved to the Government?

Page 13, line 1: Why the need to refer to the contractors' employees? If the contractor retains patent title, does this not necessarily carry with it the right to assign to an employee? Should this not be handled by regulation rather than in the statute?

Page 13, line 7: This provision for extending the five or ten-year exclusive patent rights for the contractor by agency action subject to appeal to the board seems inconsistent with the requirement for direct board action on third party license petitions following the five or ten-year period under Section 311(d)(2)(F).

Page 13, line 22: These factors are so nebulous and so broad in scope as to be hardly fit subjects for contract disputes adjudication in the normal fashion. They are more in the mode of administrative discretion and negotiation and a hearing going into all such matters could be almost interminable, particularly if subject to judicial review on the basis of a lack of substantial evidence.

Page 15, line 1: See prior comments about OSTP through the board being given administrative responsibility over the agencies.

Page 16, line 17: These standards are so broad they could conceivably embrace an invention to a typewriter made by a Government typist or stenographer, though the presumptions under Section 323(a) are helpful in minimizing the problem.

Page 18, lines 26, 27: Is the review to be within or outside the agency and whose or what regulations are contemplated?

Page 26, line 17: Does the reference to "including provisions" mean they must be included or that they are subject to the agency determinations as to whether they are appropriate?

Page 28, line 5: The definition of "Federal agency" raises questions as to the exclusion of the Postal Service and the inclusion of the General Accounting Office.

Page 28, line 16: The reference to subcontracts of any tier raises a question as to whether a subcontract is intended to be covered because it by itself is primarily for R&D work though it is only an incidental part of a predominately non-R&D prime contract.

Page 28, line 28: "Or otherwise protectable" could literally cover trade secrets.

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cc:
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Dr. Betsy Ancker-Johnson

6) On p. 10, Sec. 311 (b) 2 C appears to narrow the march-in-rights where an invention is not being worked to the satisfaction of the market, as compared to Sec. 1 f of the President's Statement. I suggest that Sec. 311 (b) 2 C be broadened expressly to authorize march-in if the patent owner is not satisfying the market at a reasonable price.

Sincerely yours,

Charles F. Brown

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cc: Mr. O. A. Neuman, Exec. Secy.
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