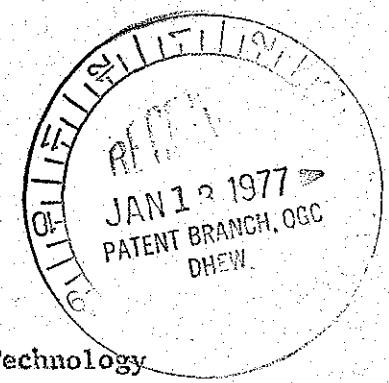

December 17, 1976

MEMORANDUM FOR: Dr. Betsy Ancker-Johnson
Assistant Secretary for Science and Technology

From: Howard I. Forman
Deputy Assistant Secretary for Product Standards

Subject: Analysis of Position of the Department of Justice re the Proposed Omnibus Government Patent Policy Bill

Executive Summary

Attached are three documents: Part I, selected abstracts I have made from each of 6 meetings of the FCST Committee on Government Patent Policy between January 18, 1974 and July 17, 1976 and from a Department of Justice letter dated July 23, 1976; Part II, my analysis of the position of the Department of Justice which vacillated from views expressed in one direction as developed in Part I, to a view aimed in quite a different direction when presenting its "official" position in response to a request from OMB; and a list showing the agencies which indicated general approval, and those which registered disapproval, of the draft bill, "Federal Intellectual Property Policy Act of 1976."

In Part I, it is clearly shown that Justice, while holding to its traditional view favoring title-in-the-Government, almost at the outset of the meetings expressed approval of the granting of exclusive licenses to contractors, endorsed the concept that commercial utilization of Government-subsidized inventions was highly desirable, and showed confidence in the workability of "march-in" rights provisions by proposing one form of such a provision. By July 1976 Justice, although not altering its traditional view and preference, conceded that legislation could be drafted which would protect competition and the public interest in general even with a "title-in-contractor" approach by incorporating appropriate "march-in" rights, and in fact assisted the drafters of the bill in that regard.

In Part II, it is revealed that Justice, in the representation of its "official" position to OMB, reversed its previous position and expressed doubt as to the efficacy of any "march-in" rights in protecting the public interest in avoiding anticompetitive effects. It further cast doubts about the effectiveness of a "title-in-the-contractor" approach in promoting invention utilization.

The attached list shows a preponderance of the agencies generally favoring the bill. Of particular significance is the fact that those agencies which are heavily involved in R&D by contractors favor the bill, whereas the agencies opposing the bill have relatively little contractual R&D activity.

At your request, I have reviewed the Minutes of each of the six meetings of the Committee on Government Patent Policy which have been held from January 18, 1974 to January 27, 1976, inclusive, and other relevant documents. In this review I have sought to track the position of the Department of Justice with regard to the proposed legislation.

In Part I I have set forth a chronology of events in which the Justice representative on the Committee participated. In Part II I have analyzed the position of the Department of Justice as reflected in the views expressed at the Committee meetings and in correspondence, and submit my personal conclusions and recommendations with regard thereto.

Part I

Meeting on January 18, 1974

Chairman Ancker-Johnson expressed concern over the fact that so "little of the excellent research funded by the Government is transferred into the private sector." She stated a desire to have the many proposals considered by the Committee with a view toward developing "an overall proposal for the more effective transfer of technology resulting from Government funded research." One such proposal involved the licensing of Government-owned inventions, and the Chairman announced that she contemplated development of a Commerce Department program along those lines. The Committee indicated it was in favor of a pilot program of that type to determine its value.

The Justice Department member, Bruce B. Wilson, Deputy Assistant Attorney General for Antitrust was absent from this meeting.

Meeting on September 23, 1975

Chairman Ancker-Johnson discussed the December 31, 1972 Report to the Congress by the bipartisan Committee on Government Procurement. She pointed out that the report contained 16 recommendations in the area of patent, data and copyright matters concerning which the Committee had been assigned the task of preparing Executive Branch positions. She then proceeded to the major agenda item which was:

> "Should the Committee recommend to the Federal Council for Science and Technology that the Administration submit Government-wide patent policy legislation, and if so, what guidance should it give the Executive Subcommittee in formulating such legislation."

Chairman Ancker-Johnson further suggested that the questions to be considered were: "should legislation be drafted; what basic form the draft policy should take; should it include special provisions for universities and nonprofit organizations; should it include authority for exclusive licensing, or should this authority be sought by a separate bill; and should the draft legislation include provisions regarding 'march-in rights' and 'background patent rights.'"

A motion was made by Vice-Chairman Read of GSA that the Committee move forward with comprehensive legislation in the area of Government patent policy. All members voted for the motion except the Department of Justice representative (Miles F. Ryan) who abstained.

Two proposed options for legislation were considered. In one, title would vest with the Government, and waivers would be permitted on a case by case basis, with a march-in rights provision 3 or 4 years down the road included. This option also provided for the granting of exclusive licenses. In the other, the so-called "Alternative Approach" of the Commission on Government Procurement, title is vested in the contractor with the Government having march-in rights exercisable on various grounds including failure of the contractor to utilize the inventions commercially.

The HEW representative (Norman Latker) moved that legislation be drafted exclusively along the lines of the Alternative Approach. The motion failed to carry. Justice, incidentally, voted against the motion.

The GSA representative (Mr. Read) moved that legislation be drafted to cover both options, and this motion carried unanimously.

A report on a proposed University Patent Policy was given by the HEW representative (Mr. Latker) who explained that it parallels the concept of the Alternative Approach, except that it is limited to inventors and non-profit organizations having a patent management capability. The ERDA representative (Leonard Rawicz) moved for the adoption of that report with a view towards its inclusion in the draft legislation. With the exception of the representatives from the Departments of Transportation and Justice (Mr. Miles Ryan), the motion carried unanimously.

Meeting of January 6, 1976

Chairman Ancker-Johnson stated that the purpose of this meeting was to determine which legislative option should be followed in developing the proposed Administration Bill covering a Government-wide patent policy. Two draft bills were considered. They ranged from a provision in one which would let the contractor retain title under the condition that he seeks to patent and commercialize the invention, to the other in which the Government kept title with an exclusive license in the contractor for a guaranteed period of time.

The Department of Justice representative, Bruce Wilson, expressed the view that the approach to be sought should be clear, standardized, readily administered procedures which should be easy to implement. He favored leaving title in the Government, and thereafter the head of an agency would have the prerogative of entering into either a nonexclusive or exclusive license with the contractor. He suggested that there be a certain standard which would assure that the invention would be brought to the marketplace promptly, and that royalties should be collected under the Government's licensing program.

Mr. Wilson further stated that for years there had been talk of "march-in" rights and nothing had been done. He suggested that the actions of an agency could be solved by a 3-member panel; one member to be appointed by the Attorney General, one by the Secretary of Commerce, and the third to be appointed by these two.

Mr. Wilson further observed that a review board would provide the necessary clout to assure early commercialization, and also proposed that any statute enacted by Congress should self-destruct three years after enactment in the event it is not working satisfactorily.

Mr. Wilson moved that the bill to be developed should be one which would leave title in the Government with an exclusive license in the contractor. This motion carried (12 for, 1 against, 1 abstention, 1 absent).

Meeting of February 17, 1976

A discussion was had at length concerning the policy of leaving title with contractors subject to march-in rights in the Government. Mr. Tenney Johnson of ERDA explained this policy and expressed the view that with proper safeguards it should be workable, and the Government's needs would be satisfied as well as the needs and equities of the contractor.

Mr. Don Farmer, representing Justice, questioned Mr. Johnson as to whether ERDA was having any difficulty finding acceptable contractors notwithstanding its title-in-Government with waivers policy. Mr. Johnson replied that the problem of lack of contractor interest in participating in Government contracts may have been overstated, however, he was of the view that as a whole, contracting parties may find a title-taking policy too restrictive.

It was decided not to vote on the choice of options (title vs. license policies) until the next meeting in order to give all concerned a chance to study the matter fully.

Meeting of February 23, 1976

Mr. Farmer, of Justice, stated that "the problem seems to be that a large number of patents are not being used, whether the Government or the contractor has title." He expressed the view that there are a small number of patents that have commercial use, and that the problem is one of identifying them.

Farmer indicated a belief that there is a clear difference of burden in asserting the public rights. He doubted that the Review Board would act to withdraw rights. He also expressed concern that the real problem to consider was the degree of rights which the contractor would retain; and the degree of incentives provided thereby. He offered the opinion that an exclusive license probably was a more adjustable legal document for balancing those rights.

Mr. Latker of HEW spoke out strongly against the proposal to have the Government keep title and grant exclusive licenses, based on experiences with such arrangements which HEW had over the years. He explained that all inventions are different and therefore all licenses must be tailored to each case. The net result is to impose such a tremendous burden on the Government agency involved in such licensing that the office responsible for it would find the task extremely expensive, difficult, and probably not worth the benefits derived thereby.

The question of "control" was discussed; that is, whether it would be a serious problem for the Government to exercise its "march-in" rights, and just how the Government could acquire title to a patent after having permitted the contractor to keep it. Mr. Tenney Johnson of ERDA emphasized that the important objective of the title-in-contractor policy was to keep the Government out of the normal commercial world as much as possible, and only to become involved in situations where it was really important to do so. In the light of this objective he suggested that the question of "control" would not be insurmountable, and in the comparatively few cases when necessary to be exercised would be a reasonable effort in view of the overall benefits to be derived from the general policy of leaving title with the contractor.

Mr. Farmer of Justice noted that the problem of "control" would be more difficult under the "title-in-contractor" policy, but agreed it would not necessarily be insurmountable.

Mr. Farmer moved that legislation be drafted requiring the contractor to grant the Government title and receive in return an exclusive license. The motion was seconded by Mr. Read of GSA but failed to carry (7 voting against, 6 in favor, and HUD and EPA absent).

Chairman Ancker-Johnson noted that most of the agencies which voted against the proposal to have the Government take title (Patent and Trademark Office, Defense, NASA, Agriculture, Nuclear Regulatory Commission, HEW and ERDA) were mostly those which generate inventions, whereas those which voted in favor of title-in-the-Government (GSA, Justice, Transportation, Interior, State and NSF) were normally not sources of inventions.

In an effort to develop a compromise that might be more acceptable to the agencies that were in favor of having the Government take title, Chairman Ancker-Johnson asked them to state their preferences for a period of exclusivity. Most of them favored a 5-year minimum, but with some flexibility to take care of special situations.

Various other proposals were considered at some length. The Agriculture representative, Mr. Getshell, explained why he had switched his vote to leaving title with the contractor (from the vote he had cast at the January 6 meeting). He said he had had some experience in the private sector, and he was convinced it was very important to provide the greatest incentive to the contractor in order to obtain satisfactory contractors. Mr. Getshell moved that a bill be drafted which would provide for "exclusive commercial rights" in the contractor, such rights to be defined by the contracting agency including as options title or an exclusive license for the life of the patent. This motion carried, 9 to 3 (the negative votes being cast by Justice, Transportation and NSF) and 1 abstention (State), with 2 absentees (HUD and EPA).

The University Patent Policy Report previously approved by the Committee was discussed, and it was agreed that it should stand and be implemented and included in the proposed Administration Bill that would be prepared by the Committee.

Letter from Department of Justice dated July 23, 1976

This letter was written to Chairman Ancker-Johnson by Mr. Farmer, Special Assistant to the Assistant Attorney General for Antitrust. He explains that he wrote it after consultation with Mr. Wilson, Deputy Assistant Attorney General for Antitrust.

The letter contained two amendments which Justice proposed to request the Committee to consider at its meeting on July 27, 1976. It starts out with an explanatory note on the Justice Department policy. The points made are as follows.

1) Justice's "preference would be for the Administration to avoid proposing Government patent policy legislation at this time."

2) Justice is "not convinced that there is an objective factual basis for the conclusion that Government-produced inventions would be commercialized more rapidly under a 'title in the contractor' policy than under a 'title in the Government' policy." Justice also believes "there are some definite competitive risks to the former approach." For these reasons Justice "has in the past favored Government retention of title."

3) However, it has become "clear that several agencies believe a 'title in the contractor' approach would accelerate commercialization, and that strong Government regulatory provisions ('march-in' rights) could protect the public interest in competition. Because the accelerated utilization of new technology is such an important objective, (Justice) felt obligated to give careful consideration to those agency views, although some agencies may hold contradictory views. Accordingly, (Justice has) been working with the group to develop the best bill possible on the 'title in the contractor' approach."

4) With the changes it proposed, Justice stated: "We believe the draft bill would do a good job of implementing a 'title in the contractor' approach with regulatory 'march-in' rights in the Government to protect competition and other public interest considerations."

5) Having conceded that legislation could be drafted that would protect competition and the public interest in general, with a 'title in the contractor' approach, Farmer (Justice) expressed the view: "we remain unconvinced that it is desirable to adopt

that approach as a uniform Government-wide policy. We would prefer continuing to operate under the existing mixture of the two policies, monitoring them closely to see if evidence develops that either should be adopted as a uniform system." (Justice went on to state that, assuming the bill were to be amended as it suggested, it would nevertheless expect to abstain from voting on the draft bill because of the conflicting considerations outlined above.)

6) A final observation was made by Farmer that he had become convinced that many of the major issues the Committee is considering "deal as much with industrial organization and the economic incentives of business enterprises as with the technical aspects of Government contracting and patent law." Accordingly, he suggested that the Committee should consult with or include in its membership representatives of economic policy agencies such as the Council of Economic Advisors.

7) The amendments which Justice proposed were: (a) to eliminate a provision for waivers of the antitrust march-in right under specified situations, and (b) to empower, but not compel, the Board to require licensing of inventions five years (not ten years) after they were made, or three years (not five years) after they were first placed in public use or on sale.

Meeting on July 27, 1976

This meeting was devoted to consideration of comments on a draft of a proposed Federal Intellectual Property Bill which had been prepared by an ad hoc Drafting Committee. One of the major issues discussed had to do with providing each Federal agency with flexibility to assume responsibility for Federal employee invention rights determinations, to issue regulations, to approve deviations on a case-by-case basis, etc.

Mr. Farmer of Justice expressed the view that flexibility should remain in individual Federal agencies, but he did not believe it was necessary to provide for deviations from the march-in rights provision in order to maintain patent incentives for the contractor. This led him to move that the draft bill be revised so as not to permit a waiver of any march-in rights. The motion failed to carry for lack of a second to the motion.

Mr. Farmer later moved that the bill's antitrust march-in rights provision not be waived under any circumstances. This motion was carried unanimously except for HEW which abstained.

At one point a proposal was made by the NSF representative that the march-in rights provision be broadened so as to permit it to be invoked if the patent owner is not satisfying the market at a reasonable price. He made a specific motion to that effect and it was carried. The only vote against it was cast by HEW; abstaining were the Patent and Trademark Office, Interior, Agriculture and Defense.

A discussion ensued as to the meaning of the phrase "substantially to lessen competition" in the march-in rights clause. Mr. Denny of ERDA stated that the words were intended to reflect the antitrust violations spelled out in prior Court decisions which have found an antitrust violation. Mr. Farmer of Justice agreed with Mr. Denny as to how the words were to be interpreted. He further noted that the words would tend to balance the patent and antitrust positions of two seemingly opposing laws.

A later discussion centered around the proposition that the agencies should have discretion to share royalties with their employees. Mr. Latker of HEW moved that such a provision be included in the bill, and Mr. Farmer of Justice seconded the motion. The motion was carried with only Defense opposing and NASA abstaining.

* * * * *

As an additional note, David J. Eden, Esq., called my attention to a colloquy which was understood to have taken place at one of the meetings, between the Justice representative and others present, regarding the enforcement or enforceability of the march-in rights. After failing to find a reference to this colloquy I discussed it with Mr. O. A. Neumann, the Committee's Executive Secretary. He recalled and confirmed the facts regarding the incident alluded to by Mr. Eden, which are as follows.

Apparently, the Justice representative had expressed some misgivings about the interest in and effectiveness of each agency in enforcing any form of march-in rights. At this juncture the suggestion was made informally that if Justice so wished it could be given the sole responsibility to determine when and how the march-in rights should be invoked and the responsibility for taking the necessary action to invoke those rights when it is in order to do so. In this way, Justice would be sure to have complete control over the situation. But the Justice representative declined and so such a provision was not included in the bill.

* * * * *

On the last page is a list of the agencies which responded to letters from OMB asking for their views concerning the proposed "Federal Intellectual Property Policy Act of 1976."

Part II

The Position of the Department of Justice re the Proposed Omnibus Government Patent Policy Bill

The views of the Department of Justice regarding the proposed omnibus Government Patent Policy Bill represent a study in contrasts.

After some 30 years of steadfastly holding to the view that the Government should take title to all inventions arising out of research which has at least in part been subsidized by Federal funds, the DoJ representatives on the interagency Committee on Government Patent Policy began to indicate recognition of the merits in changing from a strict "title in the Government" policy to something else.

The DoJ representatives took an active part at the Committee meetings in proposing changes in the proposed bill which would take care of their concerns, and yet would permit adoption of a "title in the contractor" approach. Yet, in the recent official representation of the DoJ position to the Office of Management and Budget, a negative position was taken with regard to the bill that appears to overlook or discount the constructive compromises and accords reached by the Committee with DoJ on the working level and which are reflected in the bill in its present form.

The contrasts are to be noted in comparing two recent letters on this subject written by DoJ. One, dated July 23, 1976, was written by Don Farmer, Special Assistant to the Assistant Attorney General, Antitrust Division, and current DoJ representative on the Committee, to Dr. Betsy Ancker-Johnson, Chairman, FCST Committee on Government Patent Policy. The other, dated September 10, 1976, was sent by Michael M. Uhlmann, Assistant Attorney General, to James T. Lynn, Director, OMB.

In stating DoJ's policy position, Farmer referred to the traditional Justice Department view that the Government should retain title, and as having a preference for not proposing a new Government-wide patent policy at this time. He expressed reservations that there was insufficient factual basis for the conclusions that Government subsidized inventions would be commercialized more rapidly under a "title in contractor" rather than a "title in Government" approach.

However, Farmer pointed out, that as the Committee worked on the proposed draft of the bill it became clear that a number of agencies believe a "title in the contractor" approach would accelerate commercialization, and that strong Government regulatory provisions ("march-in" rights) could protect the public interest in promoting competition. As Farmer further put it:

> "Because the accelerated utilization of new technology is such an important objective, we felt obligated to give careful consideration to those agency views, although some agencies may hold contradictory views. Accordingly, we have been working with the group to develop the best bill possible based on the "title in the contractor" approach.

Farmer suggested certain changes in the wording of the bill, and stated that, if those changes were made, "we believe the draft bill would do a good job of implementing a 'title in the contractor' approach with regulatory 'march-in' rights in the Government to protect competition and other public interest considerations."

Having voiced this belief, Farmer went on to state that DoJ was still "unconvinced that it is desirable to adopt that approach as a uniform Government-wide policy," and "would prefer continuing to operate under the existing mixture of the two policies, monitoring them closely to see if evidence develops that either should be adopted as a uniform system."

Apparently, either in the broader spirit of effecting reasonable compromises, or with due appreciation and regard for the merits of the views expressed by those agencies who favored the "title in the contractor" approach, Farmer further indicated that, notwithstanding the conflicting considerations he had expressed, DoJ could be expected to abstain from voting on the bill if it was amended as he had suggested.

The bill, as finalized and submitted to OMB for further action, does reflect revisions which were made effectively to accommodate the request for amendments proposed by Farmer. Accordingly, in view of Farmer's statement it was to be expected that when OMB sent the bill to DoJ for comment the response from Justice, in effect, should have been to abstain from taking any position, pro or con, regarding its proposed submission to Congress. That is not what happened. Instead, DoJ's response to OMB was quite negative.

The Uhlmann letter points out that DoJ has supported the "title in the government" policy for the last 30 years. It goes on to state that there is no general legislation establishing a policy with respect to Government-funded research activity, but that when Congress has acted on such matters with respect to certain agencies "it has shown a decided 'title' policy orientation" (i.e. title in the Government).

Referring to the proposed new legislation, Uhlmann observes that a major goal for it is the facilitation of commercialization of inventions resulting from Government-financed R&D. He states that DoJ "is unconvinced that there is an objective factual basis for the view that a 'title in the contractor' policy will achieve commercialization of inventions more rapidly than a 'title in the Government' policy."

Mr. Uhlmann goes on to state "that there is a definite competitive risk to a title in the contractor policy." He adds that with respect to Government-developed inventions "Society should receive a quid pro quo if private restraints are to be allowed" (by private restraints he means the ability of a patent owner to restrain competition as to the invention covered by the patent during its lifetime). With this premise, Uhlmann states further: "Because we have not been convinced that a title in the contractor policy provides such a quid pro quo, this Department through the years has favored Government retention of title."

Notwithstanding this "traditional" view of the Justice Department, Uhlmann acknowledges that it has noted the view of the various Federal contracting agencies that the "title in contractor" policy would accelerate utilization of inventions, and that strong Government march-in rights could protect the public interest in competition. Justice, however, has grave reservations as to the efficacy of such "march-in" rights in preventing anticompetitive situations from developing, primarily because of concern as to how and whether those rights will in fact be exercised in appropriate situations.

The Uhlmann letter goes on to discuss other issues, many of them a rehash of old concerns, and in some a critique of specifics in the structure of the bill. An example of the latter is the expression of concern that the proposal to establish a Board for Intellectual Property would create "certain legal and organizational peculiarities involving the authority of this Board over the practices of various Government agencies, and the independent action possible by these diverse agencies." However, no explanation is given as to the nature of the alleged "peculiarities." In any event, the provision for this Board has been eliminated from the bill now under consideration.

In conclusion, Uhlmann states that "although we abstained from voting against this legislative proposal in the Committee on Government Patent Policy, we believe these policy issues should be explored in detail by the Office of Management and Budget before the Administration takes a firm position that would preclude the agencies from exploring them before Congress, in testimony and correspondence." The letter concludes with a recommendation that the bill not be introduced until a further evaluation of the implications and policy issues in the bill is completed.

Apart from demonstrating its own internal vacillations and inconsistencies in its views and positions, it would appear the the official DoJ position reflects a concern that is based on considerations which more appropriately should be weighed by agencies other than Justice. Admittedly, potential antitrust or anticompetitive effects are matters that belong almost entirely in Justice's domain, but these possibilities are not stressed anywhere near as much as Justice's doubts that the bill's "title in contractors" approach will achieve commercialization more effectively than the present "title in Government" approach. Since most of the agencies which have as a major concern the promotion of invention utilization are of the view that the bill will accomplish that objective much better than the present state of affairs, their concern and their views on this point should prevail.

If it is agreed that the legitimate primary concern of Justice should be restricted to the possible anticompetitive effects of the bill, we then should note that even on this point Justice found itself vacillating. Farmer stated that the bill's "march-in" rights would protect competition and other public interest considerations; Uhlmann expresses doubts that they will do so. Note, however, that Uhlmann's doubts are based primarily on the notion that the administrators of the bill's provisions will not enforce those "march-in" rights in appropriate situations. This would appear to be a weak reason to oppose any legislation which contains provisions for enforcement of rules. It is a particularly peculiar reason to be advanced by Justice. Such reasoning, carried to an extreme, would place Justice in the position of having to oppose any legislation containing requirements

for enforcement of criminal as well as civil legal violations on the grounds that the administrators of the legislation might not do their jobs properly. Hopefully, OMB will recognize the hollowness of such reasoning, and recognize the probability that Justice is using it as a "fall-back" position in the event that its other reason -- the point that the "title in the contractor" approach will not achieve commercial utilization of inventions -- is rejected.

Responses to OMB's Requests of August 24-25, 1976
for Views Concerning
"Federal Intellectual Property Policy Act of 1976"

Agencies generally approving bill

Department of Commerce
Department of Defense
Department of Interior
Department of State
Department of Health, Education and Welfare
*Department of Housing and Urban Development
Energy Research and Development Administration
General Services Administration
National Aeronautics and Space Administration
**National Science Foundation
Veterans Administration
Council of Economic Advisers

*Memo to Dr. Ancker-Johnson, Assistant Secretary of Commerce for Science and Technology, replying to her memo, both dispatched prior to OMB letter to agencies.

**Stated it did not oppose bill now (9/9/76). However, if bill fails to be enacted by 94th Congress, suggests that it be reviewed more carefully by OSTP to determine desirability of uniform Federal patent policy.

Agencies generally opposing bill

Department of Justice
Department of Transportation
Small Business Administration
Tennessee Valley Authority