PROGRESS TOWARDS A UNIFORM U. S. GOVERNMENT PATENT POLICY FOR UNIVERSITIES AND NON-PROFIT ORGANIZATIONS

Address by Norman J. Latker, Patent Counsel, Department of Health, Education, and Welfare, at Second Annual University/Industry Forum The Pick Congress Hotel, Chicago, Illinois, February 4 - 7, 1974 Sponsored by Dr. Dvorkovitz & Associates

Today I wish to note that I am speaking for myself -- on my own time, at my own expense.

The title of the presentation Dr. Dvorkovitz asked me to speak on, "Progress Towards a Uniform U. S. Government Patent Policy for Universities and Non-Profit Organizations" reminds me of the story of the centipede with arthritis in 92 of its 100 legs --

[Key lines --

Wise Old Owl: Take your eight good legs and turn into an ant.

Centipede: How?

Wise Old Owl: Don't bother me with details -- I'm a policy man.]

Although it is true I am connected to a number of committees with a responsibility for review of Government patent policy, these affiliations are based on my operating responsibility to directly service the creative employees, grantees, and contractors funded by the Department of Health, Education, and Welfare. In that respect, I am a peer of many of you in the audience that serve your creative people in a direct manner.

For some of you who are new in this capacity, there will be occasions when you find yourselves in situations of conflict between the creator and your -- and his -- organization. My more experienced peers will

ordinarily bend toward accommodating the creator, since you recognize that without him there can be no creative "organization". In a sense, one might describe us as "advocates for creators". Unfortunately, from recent events, I'm inclined to believe that those of us who serve as such "advocates" have not represented those we serve well enough.

Notwithstanding our busy schedules, lack of organization, possible misdirected priorities, and organizational barriers, I believe events have moved so rapidly that if action is not taken soon we may never be able to speak effectively again.

Let me start from the following passage from "The Fountainhead", by Ayn Rand:

> "Thousands of years ago, the first man discovered how to make fire. He was probably burned at the stake he had taught his brothers to light. He was considered an evil-doer who had dealt with a demon mankind dreaded. But thereafter men had fire to keep them warm, to cook their food, to light their caves. He had left them a gift they had not conceived and he had lifted darkness off the earth. Centuries later, the first man invented the wheel. He was probably torn on the rack he had taught his brothers to build. He was considered a transgressor who ventured into forbidden territory. But thereafter, men could travel past any horizon. He had left them a gift they had not conceived and he had opened the roads of the world.

> "That man, the unsubmissive and first, stands in the opening chapter of every legend mankind has recorded about its beginning. Prometheus was chained to a rock and torn by vultures -- because he had stolen the fire of the gods. Adam was condemned to suffer -- because he had eaten the fruit of the tree of knowledge. Whatever the legend, somewhere in the shadows of its memory mankind knew that its glory began with one and that that one paid for his courage."

Some of you may believe Miss Rand's statement to be over-dramatic, especially as it relates to modern times and the comfortable homes creators have in today's research organizations -- well, maybe!

Two hundred years ago I believe one could look to the Constitution of the United States as a partial answer to society's former lack of sensitivity for creators. Article 1, Section 8 of the Constitution provides:

> "The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

To me this Congressionally implemented provision is not only noble, but practical, in that it recognized that the whole of society is best served when the creators are singled out and treated on a special basis.

The purpose and the truth of the Constitution loomed but a little larger when I heard Dr. Knowles of Massachusetts General Hospital indicate that he thought the malaise we feel in this country at this time appears to be in part caused by the feeling that no matter what one does, society will protect or treat the individual in a comparatively equal manner through its social system. Of course, Dr. Knowles indicated that he supports such social systems, as we all do, but wondered how we might rekindle the feeling of individual worth (or, perhaps what he meant to say, provide special reward for special effort, as intended by our patent system.)

In the last two hundred years, this country has moved from a rural country to a highly industrialized nation. In the process, resources flowed away from individual creators toward highly sophisticated industrial research organizations. As part of this process, nearly unnoticed, as creators needed to associate with these organizations, they were required to assign their creative rights to the organization without any added compensation over and above their salaries.

I speculate that this intrusion between the creator and the patent system was tolerated by society for the following reasons:

1. If an individual wished to trade his rights to future inventions to an organization for the compensation and other benefits provided, he should be free to do so. (By the way, this type of agreement is outlawed in Germany, as being contrary to the public interest.)

2. Since the beginning of the concentration of resources, the assignment ordinarily went to an industrial organization, where there was an inherent probability that the organization would act on bringing the creative results to the public in order to make a profit, and if a profit were made the creator would probably be treated on a special basis in order to maintain his full creative motivation. Thus, the creator and the public still would reap the benefits of the patent system, since both would see his results used and he could still expect some special treatment; and

3. The administrative and legal difficulties of protecting the employed creator's rights, if he were left such rights, presented an undertaking which the public was unwilling to accept.

If the intrusion had ended at this point, with a strong possibility that an equitable balance had been struck between the public, the creator, and his mentor, I probably would not be before you today. But, unfortunately for the patent system, twenty-five years ago massive infusions of Federal funds began entering into research through the funding of the Federal Government's own employee creators and of its grantees and contractors. At the same time, the simplistic thesis that "What the Government (or public) pays for (or even partially pays for), it owns" entered into the picture. This really was an extension of the already developed and accepted concept discussed above that an employer (here the Federal Government) can take

assignment from an employee (in this case the Government's own employees, grantees, or contractors).

The problem with applying this ownership rule to Government-financed research is the fact that the Government has no profit motivation to deliver creative results it owns to the public, nor to provide the creator with the special treatment needed to maintain his motivation. Of course, a critic of this point of view will correctly note numerous examples of products covered by Government-owned patents that were delivered to the public by industry with no exclusive position. That is not the point -- the point is failure to adhere to the system that will logically maximize delivery of the largest number of products to the public while still maintaining the creator's motivation. Any lesser delivery system will naturally deliver some end products, if enough money is shoveled into it.

Government ownership without a delivery system and special reward nullifies the passage in the Constitution suggesting the guarantee to the creator of the exclusive right to his creation. (There are those who will argue the existence of the Federal incentive awards and licensing programs, but those programs are virtually inoperative as they relate to Federally funded creators. In fact, one court has declared the GSA licensing regulations to be unconstitutional, thus casting a cloud over the Government's effort to return to the patent system.)

To further emphasize, I return to "The Fountainhead":

> "Men have been taught that the highest virtue is not to achieve, but to give. Yet one cannot give that which has not been created. Creation comes before distribution -- or

there will be nothing to distribute. The need of the creator comes before the need of any possible beneficiary. Yet we are taught to admire the second-hander who dispenses gifts he has not produced above the man who made the gifts he has not produced above the man who made the gifts possible. We praise an act of charity. We shrug at an act of achievement." (Emphasis added.)

Restating . . . "The need of the creator comes before the need of any possible beneficiary" -- or maybe better stated -- "Creator, first; organization, second!" This is perfectly consistent with what I discussed with you last year -- the Institutional Patent Agreement. That policy in its simplest form called for a "management capability" able to take care of its creators before the Government would release patent rights to the Institution. That capability was to include (with the ability to bring the creators' results to the public) a provision that he would share in any ultimate reward.

If one wished to study a "What the Government pays for, it owns" policy in its purest state, we could examine the results of Soviet policy. It is my understanding that to a large extent the detente the Soviet Union seeks with this country is based on their own recognition that their creators and incentive and delivery system are not providing the technological change they deem necessary to move their society forward; so they now seek the aid of our private industry.

Is this accurate?

As I move on to the topic to which Dr. Dvorkotitz wished me to direct my attention, I think you will better understand my preamble.

On Friday of last week the Subcommittee on the Environment of the House Committee on Interior and Insular Affairs held hearings on the patent provisions recommended for inclusion in the proposed bill creating the new Department of Energy. I will make no comment on the compulsory-licensing-of-background patents provision, other than saying it appears contrary to the philosophy discussed above.

My specific comments are directed to the proposed allocation-of-invention-rights provisions suggested for inclusion in the Energy Department's research and development grants and contracts. This matter is of singular importance because it is the first time in many years that the Congress has moved to the idea of picemeal legislation in the patent area. For some time, Congress has permitted the Executive Branch to function under the President's Statement on Patent Policy as new research programs arose. Passage of patent legislation for this program may well set the precedent for all future legislation, whether for a specific program, or on a Government-wide basis.

At the hearings, three parties spoke:

1. The Department of Commerce, representing the Administration's views;

2. The Anti-Trust Division of the Department of Justice, representing its own views; and

3. Irene Till, for Ralph Nader's Public Citizens, Inc.

I did not attend these hearings, but was extensively briefed by two different patent counsel who did.

Mrs. Till's comments I will dispose of by merely indicating that they consisted of the same anti-patent, anti-creator, save-the-public-from-the-high-price-of-monopoly material she has peddled for fifteen years to and through various mentors. I remain baffled as to how anyone over a period of fifteen years can fail to recognize that invention ownership must track delivery to the public in many instances.

Till: too strong?

Till: but why not let marketplace do its own work → ∴ eliminate need of Govt TRACKing?

The Anti-Trust Division's comments can be distilled down to a "title in the Government", with some minor exceptions, which exceptions were presented verbally and not in the prepared recommendations.

The Department of Commerce advised that the Executive Branch should be permitted to continue to function under the President's Statement on Patent Policy, and opposed the idea of piecemeal legislation.

None of the three parties made any comments on how the needs of the creator would be best served. Further, there was no testimony from industry or the university sector.

Of course, on careful examination, the recommendations of Commerce and Justice are nearly identical, because, since the Energy Department will be functioning in the area of providing products to the public, the Department falls within the "title" section of the President's Statement, and will be required to utilize title clauses unless it utilizes the exceptions under the "title" section. I speculate that Commerce hopes that the Energy Department will utilize the flexibility of the exceptions provided by the President's Statement in a manner similar to the Department of Health, Education, and Welfare and the National Aeronautics and Space Administration under its legislation, and release invention rights, both at the time of contract or grant or after identification, in appropriate situations.

But what if the agency adopts an attitude similar to the one assumed by other Executive Agencies, and rarely, if ever, releases rights? It appears that Commerce hopes that the agency will hire the right people. But this is a country of laws, not men. The public should not be placed at the disadvantage of having an agency's patent policy determined by the people who occupy the invention area at a specific time. One should not be placed in the position of hoping that the Energy Department will take a flexible view (or a restrictive view, for that matter) on disposition, only to be disappointed by changing personalities.

Further, and more serious, is the fact that I believe the President's Statement may no longer be accepted as defensible. Some months ago,

a memorandum drafted for the Anti-Trust Division of Justice, suggesting that it was based on prevailing law, was circulated under Attorney-General Richardson's signature throughout the Government. It posed the proposition that future invention rights are property rights, just as are contingent rights in real estate, and, similarly, cannot be disposed of under Article IV, Section 3, Clause 2, of the Constitution without legislative authority. In essence, this suggests that DHEW's Institutional Patent Agreement policy and the Department of Defense license policy are unconstitutional. Unfortunately, this memorandum was made public some weeks ago.

we don't agree with this position

Let me assure you -- every operating patent counsel in the Executive Branch believes this memo to be legally inaccurate. It is viewed as an Anti-Trust policy position supported by the most tenuous of analogies. All the research and development agencies have responded through the Department of Commerce to Justice in a single memorandum, citing case law which we believe negates the Justice proposition. My own personal belief is that Justice will not respond to our position in clear, concise terms, but will leave the situation clouded. Even on the remote possibility that Justice should publicly withdraw the proposition, there is nothing to stop parties attempting to avoid the enforcement of rights obtained from the Government from arguing the proposition as originally espoused by Justice, no matter how irrational. Add this negative factor to the attitude of courts on patent validity, and what happens to technology transfer of

Government-sponsored research? It now appears that legislation to clarify the area is imperative.

Well, then, the final question is -- who should speak for the creator when his results are disposed of under Federally sponsored research, and what type of legislation should be proposed?

Irene Till? --

The Anti-Trust Division -- whose title is equated by many with "Anti-patent"? Who are interested in a short-term win in court on whatever argument appears persuasive to the court, without any need to determine how such a win will impact on the patent system on a long-term basis. Whose recent opinion questions the constitutionality of the Government's leaving patent rights with inventing organizations, while saying nothing about the constitutionality of the Government's taking rights and doing nothing with them to promote the arts and sciences? But who, more importantly, do not have a window into the world of research and development, nor an interface with its creators?

In theory it is the Department of Commerce which has the responsibility for protecting the patent system in the private sector, and the Committee on Government Patent Policy, through its Department of Commerce Chairman, in the area of Government-sponsored research.

One must sympathize with Commerce's assignment. The patent system is an incentive system whose results can be measured only through

a logical analysis of what should result, and some scattered data. Conversely, adverse aberrations of the patent system are easy to identify and belabor. Notwithstanding, the tail should not be wagging the dog. The Justice Department, or any one else's horror stories, should not be permitted to erode the patent system any further. This might be accomplished by requiring Commerce review for impact on the patent system before the Anti-Trust Division is permitted to raise patent issues in court. As to legal opinions on Government patent policy, Justice should not render them at all without a specific request from its client, the Committee on Government Patent Policy or its Chairman.

As advocates for the creative, I believe our responsibility to assist the Department of Commerce or anyone else as to what the need of the creator is is clear and immediately essential. I especially speak to my university peers, whose opinions frankly cannot be discounted as easily as those of our colleagues in the private sector.

Much of what I've just said has negative overtones for the great work we are doing in technology transfer. I want you to know that the successful reports coming in from Institutional Patent Agreement holders are in excess of my own expectations.

Last week Research Corporation advised me that the Food and Drug Administration had cleared the first New Drug Application on a drug