FYI

F. Dietrich

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

July 22, 1982

SPECIAL

Memorandum To: Fred Khedouri

From: Bob Carlstrom (LRD)

Subject: S. 1657 - Patent Policy Legislation and GOCO's

This is to alert you to Jay Keyworth's sending of the attached letter to Senator McClure on an issue involving granting a first option to ownership to Government-Owned Contractor-Operated (GOCO) entities that have developed inventions with Federal funds. The letter supports treating GOCO's essentially on the same basis as any other Federal contractor, a view not concurred in by the Energy Department. Senator McClure has had a hold on the bill based on Energy Department fears that inventions occurring in the nuclear field and having substantial national security importance could not be retrieved by the Government on national security grounds.

Before sending the letter, Keyworth was to have discussed this issue with you and he was going to request that you call an appropriate Energy Department official conveying a unified EOP position that GOCO's should be treated consistent with other contractors but that the Government would clearly retain "march-in" rights on inventions having important national security implications. Joe Clark on Keyworth's staff advises that Patent Commissioner Gerry Mossinghoff has prepared a floor amendment to protect Energy's concerns over national security. Time, however, passed by without him calling you and Keyworth feared that the Senate would take up the bill today. Consequently, Keyworth sent the letter without advance consultations with you or Energy and, thus, without OMB clearance.

I've asked Dennis Prager to make sure that Keyworth calls you today and I will inform the Department that the letter has been sent. You can expect Energy to complain about the letter.

Attachment

I have no problem with this + so advised Keyworth. We had spoken about it several weeks earlier.

cc: H. Loweth
J. Frey
F. Dietrich

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cc: H. Loweth
J. Frey
F. Dietrich

cc: Bob Carlstrom

THE WHITE HOUSE

WASHINGTON

July 21, 1982

Dear Senator McClure:

This letter presents the Administration's position on the provisions of S.1657, the "Uniform Science and Technology Research and Development Utilization Act," concerning rights to inventions resulting from research performed by Government-Owned Contractor-Operated (GOCO) entities.

The Administration strongly supports the approach to this issue embodied in S.1657. That Bill, as reported by the Senate Committee on Commerce, Science, and Transportation, provides GOCOs the first option to ownership of inventions made with federal support, unless "exceptional circumstances" dictate otherwise. This approach is consistent with the central thrust of this important legislation -- private sector ownership of rights to patents resulting from federally-funded research, unless such ownership is contrary to the national interest.

Although this approach reverses the long-standing patent ownership practice of DOE and its predecessor agencies, as well as that of some other agencies, we have concluded, after careful study, that there is need for the change reflected in S.1657.

Successful technology development and commercialization by the private sector are critical to efforts to revitalize our economy and enhance our international stature. To this end, the Reagan Administration is committed to removing barriers to, and providing incentives for, increased private sector technological innovation and productivity. The major thrust of S.1657 is to stimulate innovation and productivity in the United States by encouraging transfer of federal R&D results to the private sector for commercialization. We, therefore, support S.1657 as a means of enhancing this country's efforts to commercialize technologies, increase productivity, and contribute substantially to job creation. Because GOCOs represent a tremendous source of technological innovations with significant commercial potential, they should have every incentive to identify and transfer these innovations to the private sector. Patent ownership has proven to be a powerful incentive to innovation and commercialization of technology.

Those promoting retention of the present policy suggest it is necessary to maintain GOCO commitment to agency goals and prevent the possibility that GOCO ownership of inventions might diminish or distract from the performance of assigned tasks and lead to a conflict of interest. In our review, no such conflicts were identified in the performance of any long-term government R&D contracts where contractors retained ownership of government-funded inventions. Absent compelling arguments to the contrary, we believe it inappropriate to establish any sweeping exceptions to the general policy proposed by S.1657.

In those specific situations where government ownership of inventions by GOCOs is justified, S.1657 authorizes agencies to limit the rights of a contractor simply by determining "that there are exceptional circumstances requiring such action to better promote the policy and objectives" of the act (Section 301(a)(2). This is consistent with the policy established in Section 101(5), to "guarantee the protection of the public interest."

We hope that this discussion clarifies the Administration's strong support for Senate passage of S.1657, including its handling of the GOCO issue. We will be pleased to discuss this issue with you and your Committee further as required.

We are advised by the Office of Management and Budget that there is no objection to the submission of this report for your consideration and that the adoption of the recommendations made herein would be consistent with the program of the President.

Sincerely,



G. A. Keyworth
Science Advisor to the President

The Honorable James A. McClure
United States Senate
Committee on Energy and Natural Resources
3121 Dirksen Office Building
Washington, D.C. 20510

JUN 30 1982

Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Re: KMS Fusion, Inc. Contract No. DE-AC09-82 DP 40152

Dear Mr. Bowsher:

Under P.L. 96-517, The Patent and Trademark Amendments of 1980, this office as well as GAO is to be provided copies of all "exceptional circumstance" determinations by the Federal agencies proposing to deny small businesses the right of ownership of inventions they have made in performance of an agency-funded R&D contract. In accordance with the legislative history of the Act, such determinations are to be used "sparingly." 1/ We believe the Act's requirement to send copies of such determinations to this office is intended to establish a means of monitoring appropriate and sparing use of "exceptional circumstance" determinations as applied to small business.

Background

The funding agreement that is the subject of this action is a five-year contract (No. DE-AC08-82-DP 40152) for assisting DOE's laser fusion research program entered into with KMS Fusion, Inc. (KMS) on December 22, 1981, for approximately $45 million. By the attached DOE brief and letter attached, DOE has determined that the circumstances surrounding the subject contract with KMS are exceptional under Section 202(a)(ii) of P.L. 96-517, and that title to patent rights of all inventions occurring pursuant to actions under subject contract should vest in DOE [Attachment A].

KMS Fusion, Inc. by the attached memorandum argues that KMS should retain title to government funded inventions under the contract [Attachment B].

1/ (See first sentence on page 32 of Senate Report No.96-480).

It is not disputed that KMS has engaged in extensive research and development of inertial confinement fusion [ICF] for ten years. KMS has created numerous inventions on which more than one hundred United States Patent applications were filed in the areas of basic laser driven configuration and illumination systems, fuel pellet production technology and hydrogen production technology. The company claims that it has invested more than $25,000,000 in private funds in ICF research and development, laboratories, equipment and staff.

The subject contract will fund KMS to continue its work in ICF and laser fusion technology, in pursuit of both civilian and military applications.

The determination of exceptional circumstances was made by DOE pursuant to Section 202(a)(ii) of P.L. 96-517, and a copy was forwarded to the Office of Advocacy pursuant to the requirements of Section 202(b)(1) of the same Act.

We contend that Congress's intent that such determinations be used "sparingly" encompasses three basic working principles:

- o Great restraint by Federal agencies which resort to such determinations
- o Exploration of reasonable alternatives to a denial of ownership, and a finding that all are impractible
- o When absolutely necessary, denial of ownership to the minimum extent necessary to accomplish agency ends.

Our review leads us to believe that the exceptional circumstance determination by the Department of Energy (DOE) in the above case is inappropriate. Our conclusions are based on an analysis of the facts surrounding the contract in this case and application of congressional intent in the exercise of the "exceptional circumstances" clause.

Discussion

The Government's Equity in the Research Results of the Contract Is Irrelevant under P.L. 96-517 to the Issue of a Determination of Exceptional Circumstances

DOE contends that the government has in the past and is now fully funding all laser fusion research being done in the country, including 94% of KMS research in this area.

It is Advocacy's position, however, that the Act is not an attempt to balance the equities of private sector funding against that of the government. It is a declared attempt of the Act to create an incentive for utilization of government-funded inventions whether funded in whole or part, in the past or present or whether private sector R&D funding is proceeding or not (See 35 U.S.C. 200 and 202(a)).

The DOE position, if followed to its ultimate conclusion, would support government ownership of all inventions made in performance of a number of research programs which are in large measure supported by the government, i.e., the search for cures for specific diseases such as cancer. Further, since the Administration's stated policy is to fund only research not being pursued in the private sector, DOE's position would throw into question virtually all cases whether contractors should retain rights.

We consider contractor ownership as an incentive to bring research results into commercial use, particularly in areas where government research dollars dominate due to the heavy front end risk in establishing a new technology. DOE's refusal to provide KMS with market protection will clearly discourage entry into this technology since it has an unknown commercial potential which will be kind of costly to establish. Without some assurance of a viable development, a heavy KMS investment might not be justified.

The Fact that KMS's Inventions Are in Part Derived from the Work of Others Does Not Defeat Ownership Rights Provided Under P.L. 96-517

DOE contends KMS's work is based on classified information (to which it has exclusive access) generated in most part by employees of the government-owned company-operated (GOCO) laboratory (Lawrence Livermore, managed by the University of California) KMS is hired to assist.

Advocacy contends that to the extent inventions made by KMS might be filed and then classified secret by the Patent Office due to the area of technology they affect, KMS would be denied their commercial value by the Patent Office until they are declassified. This would be the case notwithstanding DOE's determination to take title. Accordingly, secrecy determinations by the Patent Office moot the need of ownership in DOE during the period of secrecy. However, if DOE nonetheless takes title on the basis of secrecy, it is reasonable to assume that the contractor should be reassigned ownership after the period of secrecy lapses unless title in the government is justified in some other way. The determination does not speak

to ownership after secrecy lapses. Thus, at most, DOE should request title to an extent not to exceed the period of secrecy imposed by the Patent Office. Such a request would be consistent with "sparing" use of the "exceptional circumstances" clause.

We view the issue of secrecy to be irrelevant to an "exceptional circumstance" determination unless the agency intends to claim title after the period of secrecy lapses. In such a case the agency must support its determination on grounds other than secrecy.

Further, we do not view the fact that a KMS invention may be based on information (whether classified or not) derived from a GOCO employee to be relevant. It is axiomatic that all federally funded inventions are based on information and work derived from others. To the extent KMS claims inventions which are first made by the GOCO, the Patent Office is set up to resolve disputes over who was the first to invent. The Act nowhere suggests that the agency may sort out ownership rights it derives from its GOCO from that of a contractor by merely taking the contractor's rights. The fact that DOE notes that it has engaged in this practice with KMS in the past (even to the point of demanding ownership to inventions not made with government support but related to the research supported by it) is not a precedent for an "exceptional circumstance" situation. Indeed, that is the very type of Federal preemption P.L. 96-517 sought to change.

The Act and OMB Circular A-124 are clearly intended at ending "contamination" of industry rights due to involvement of government supported researchers. (See D. Colloborative Research and "de minimus" Recommendations on page 7557, Federal Register, Vol. 47, No. 34, February 19, 1982, Attachment C). For example, Section 35 U.S.C. 202(e) though not dispositive of this case states that given a co-invention problem (and by analogy a first-to-invent problem) between a government employee and a contractor, the agency may assign the employee rights to the contractor. While GOCO employees are not government employees, DOE has the discretion under P.L. 96-517 to leave rights with GOCO contractors. It is widely recognized that DOE does not exercise that right with any degree of regularity. This position has motivated the deletion of the GOCO exception in the Schmitt bill, S. 1657, the Uniform Science and Technology Research and Development Utilization Act, pending before the Congress.

It is obvious that if the GOCO in this case retained ownership rights, DOE's purported confusion over identification of the real inventor would end, because the GOCO and the contractor could resolve inventorship problems without government involvement. (35 U.S.C 200 indicates that one of the objectives of the bill is "to promote collaboration between commercial concerns and .... universities)."

It is clear that it is the claim of government ownership to the GOCO's inventions that generates the alleged confusion over inventorship and propels DOE to now argue the need to use the exceptional circumstance to resolve its position. We object to DOE's creation of the problem and then resolving it in their interest by use of the "exceptional circumstance" provision.

KMS Would Not Assume the Status of a GOCO Under the Subject Contract

DOE contends by analogy that KMS is in effect a GOCO and, therefore, DOE should be able to use the GOCO exception of P.L. 96-517 to take title.

However, KMS is not a GOCO and no analogy will make them one. They are clearly a contractor with a right to the standard provision of A-124 absent a showing that an exception applies.

The Sole Source Contract Method Does Not of Itself Defeat KMS's Rights Under P.L. 96-517

DOE erroneously suggests that since the contract was awarded to KMS on a sole source basis they are already in a privileged position with regard to the technology and that this privilege would be unreasonably compounded by the grant of ownership to resulting inventions.

While a sole source contract clearly provides a contractor many privileges and advantages, the Act does not permit an exception to the general rule on that basis; nor has DOE provided any rationale why it should. It is unreasonable to believe that Congress intended the use of the "exceptional circumstance" provision in such a situation in light of the large percentage of R&D contracts that are sole sourced.

Rights Under P.L. 96-517 Are Not Dependent on the Extent of Federal Funding

DOE contends that laser fusion technology is being funded to the point of commercialization and falls within the example spelled out on page 32 of Senate Report 96-480 that permits use of the exceptional circumstance provision. DOE reasons that the agency plans to fully fund and promote to the market place the development of an identified product or process.

The Office of Advocacy rejects that contention. Although DOE suggests that they will fund laser fusion technology to the point of commercialization it is clear that the facts do not support that allegation. The mere recitation of intention to "commercialize" in the future does not satisfy the need to identify a product or process to which the agency has committed funds for development. To handle the case otherwise would clearly undermine the intent of the Act by permitting exceptions based on the mere expression of a future intent rather than a commitment to commercialize.

Conclusion

DOE's determination totally contravenes the "sparing use" of such exceptions as intended by authors of P.L. 96-517. Under the working principles cited above, the determination fails. DOE's actions in resorting to the GOCO exception to create the problem and then using a determination to resolve it is not restrained use of the exception provision. No evidence of exploration of reasonable alternatives was ever mentioned in DOE's brief; and DOE's request for complete divestiture of ownership from KMS for all inventions for all time under the contract is not denial of ownership to the minimum extent necessary.

DOE's determination to retain title to inventions in this case lacks a plausible supporting argument. Since none of the purported reasons for the determination were considered supportive in themselves, there is no apparent reason to presume that they are supportive of the determination taken together. All of the factors when viewed as a whole do not somehow take on a persuasive force greater than the sum of their parts; and no part of DOE's argument has merit.

As noted, the legislative history of P.L. 96-517 indicates that, "it is expected that the 'exceptional circumstance' provision will be used sparingly." The determination in this case attempts to re-establish some of the criteria used in a 1971 President's Memorandum identifying situations where the government was required to obtain title as appropriate criteria for use now in "exceptional circumstance" situations. Since it is apparent P.L. 96-517 intended to eliminate such criteria as a reason to take title, they are inappropriate for use in justifying an "exceptional circumstance" determination. Sole source contracts, contracts in areas of research where government funds predominate, subcontracts from GOCO's and

classified contracts whether taken together or apart as an "exceptional circumstance" justification could sweep in a large percentage of the contracts covered by P.L. 96-517. Permitting an "exceptional circumstance" exception on the mere basis of one or more of these classes is simply not in accord with the expectation that the exceptional circumstance provision be "used sparingly." Further, because these categories are specifically definable and were not listed as possible exceptions within the Act or its history they cannot arguably be presumed to be "exceptional."

The legislative history of P.L. 96-517 further indicates that when the exceptional circumstances provision is used "it would be within the spirit of the Act for the agency to . . . . define specific fields of use to which it will obtain rights in any inventions at the time of contracting . . . . so that the agency does not destroy the incentives for further development of any inventions in fields of use not of interest to the agency." The determination is also considered defective in failing to specify such fields of use, especially since the agency has noted no interest in inventions useful outside the field of laser fusion.

Finally, we note that DOE could have avoided the determination as drafted by not using the GOCO exception. With this alternative available to meet many of the suggested problems, we do not believe that DOE can consider this situation "exceptional."

Recommendation

Most important in this case is the discretionary use of the GOCO exception to take title from the GOCO and then using the government ownership to claim that KMS ownership would result in confusion over who was "first to invent." This problem is simply resolved by not using the GOCO exception and reinforces the revised handling of GOCO's impending legislation S. 1657. We strongly support that aspect of S. 1657 in light of what we believe to be an abuse in this case.

Further, we believe that KMS should be advised of the shortcomings of this determination. We strongly urge the

General Accounting Office to reject DOE's determination of exceptional circumstances, and request that inventions under the above contract vest in KMS.

Sincerely,

Frank S. Swain
Chief Counsel for Advocacy

Enclosures

1 JULY 82

Agency Concerns on S.1657 Treatment of Reporting and Electing Subject Inventions and Filing Patent Applications Thereon

The view of some agencies (notably DoD, DoE and NASA) is that inventions conceived or first actually reduced to practice with government funding should be reported, elected and patent applications filed thereon, within a "reasonable time" after they are "made". "Made" is defined by these agencies as conception or first actual reduction to practice of an invention in performance of a Federally funded research and development contract. A "reasonable time" is defined (as a minimum) to be prior to any act which would preclude obtaining foreign patent profection. (While the March 8, 1982 Administration mark-up of S.1657 does not provide for this, it is the apparent intent of these agencies to make provision for this by regulation at a later time).

In comparison, Sec. 305 of S.1657 rejects the agency approach in favor of time periods for reporting, election and filing patent applications triggered from report of an invention conceived or first actually reduced to practice with government funding to contractor personnel responsible for patent administration rather than from "made". Further, the time of election and filing is to be completed by the contractor (at a minimum), prior to any statutory bar date for obtaining U.S. patent protection rather than foreign patent protection as suggested by the agencies.

The two points of S.1657 questioned by the agencies were developed taking into consideration not only agency comments but those of contractors who would need to function under S.1657.

It was clear from this review that the position of the agencies is unrealistic and would not serve the objectives of S.1657 or the interests of the public.

Discussion of the two points of S.1657 in controversy follows.

1. "Conception" is not an appropriate point in time to trigger reporting of inventions generated at government expense.

Federal regulation have traditionally and ostensibly required reporting within six months from the time the invention is "made". "Made," as noted, is conception or first actual reduction to practice of an invention generated at government expense. Thus "making" can be triggered by either "conception" or "first actual reduction to practice." In most instances, "conception" will occur prior to "reduction

to practice" under a contract. In some instances, "conception" may occur outside of the contract leaving "reduction to practice" to trigger contractor obligations. Notwithstanding, it is apparent that under the agency position, the definition of "conception" is the main focus in determining when the contractor's obligations are triggered.

"Conception" while not defined by the agencies in their arguments has been generally defined as the documentation necessary to establish a diligent patent applicant as the "first-to-invent" in a contest with another applicant for the same invention in the Patent Office. (See 35 U.S.C. 102(g)) A mere mental conception is obviously not contemplated by the agencies since it could not serve as a trigger for reporting due to the difficulty in identifying the point in time that it occurred.

While a documented "conception" of the type discussed would establish a time certain, albeit difficult to establish in practice, requiring the contractor to report within six months (or for that matter at any point from that time) creates an obvious dilemna for the contractor that does not meet the objectives of S.1657.

Clearly a documented "concept" coupled with reasonable diligence is important to the contractor for the purpose of establishing itself as the first-to-invent. However, to require a report to the government within a specific time after such documentation defeats the contractor's ability to properly evaluate and modify the concept in order to develop a potentially useful product or process. The most important aspect of this issue is the agencies failure to recognize the iterative and improving nature of the invention process. While of doubtful enforceability, the agency position would require the report of numerous inventive concepts to the agencies which are later determined to be of doubtful value or patentability. Carried to its ultimate conclusion contractors would be in breach of the agency amendment of S.1657, unless the contractor reported every inventive concept recorded in its laboratory note books. It is more likely under the agency suggestion that the contractor to limit needless paperwork would avoid documenting inventive concepts, or if documented, withhold reporting notwithstanding specified reporting times until its feasibility evaluations were complete and the perfected invention identified. Under present FPR and DAR regulations it would undoubtedly be found that hundreds of contractors have breached the duty of reporting

✓ Important

government supported inventions within six months of their "conception". Carried into S.1657 this treatment of the agency position would place a cloud over contractor title to many inventions which could create a disincentive to private investment in their future development. Thus, the agency position if implemented could defeat the main objective of the bill.

Sec. 305 clearly avoids this dilemma by requiring the report of inventions conceived or first actually reduced to practice in performance of government support after it is reported to contractor personnel responsible for patent matters. This anticipates the report of only inventive concepts that have perfected potential while eliminating those that have been shown to have doubtful utility and patentable significance. It is clear that such reporting will occur only after the contractor is satisfied it has reached the point of report for patent purposes rather than being forced to report (or delay reporting) on the basis of an arbitrary time period. Thus, the potential of a cloud on the contractor's title due to delayed reporting is obviated.

Arguments that the contractor will delay reporting indefinitely fly in the face of the contractors need to pursue the invention diligently if he is to be designated the first-to-invent. (See 35 U.S.C. 102(g))

The S.1657 treatment is consistent with the practice developed under P.L. 96-517 and OMB Circular A-124 and is suggested in the legislative history of that Act. The Judiciary Committee indicated on page 27 of Senate Report 96-480, that:

> "The committee is concerned that standard Federal Procurement Regulations and Defense Acquisition Regulations provisions may force premature decisions, and may literally require the reporting of inventions within times that are not consistent with normal operational practices and capabilities. For example, current requrements to report invention, within six months after they are "made" could lead to forfeiture of rights in numerous inventions if literally applied. Many inventions are not actually recognized as useful inventions for long periods after their technical "conception".

2. Requiring that government funded inventions be reported, elected and patent applications filed thereon within a reasonable time but prior to any act which would preclude obtaining foreign protection serves no identified government need and endangers the contractor's right to U.S. patents.

Under S.1657 the contractor is given what is considered a reasonable time to elect and file, with the proviso that elections and filings can be required prior to the date that any statutory bar may take place under the U.S. patent laws. Thus, S.1657 fully meets the requirements of the agencies to sometimes obtain patent protection in the United States for defensive purposes on inventions that the contractor elects not to file on.

However, the agencies apparently are not satisfied that S.1657 gives it adequate means to assure that it will receive a worldwide, royalty-free license, and the opportunity to file foreign applications for defensive purposes when the contractor fails to do so. They suggest a concern that the contractor might publish the invention, which in some countries might create an immediate bar to patenting (unlike United States law in which there is a one year period after publication within which to file patent applications.)

The agency concerns have little validity in the context of S.1657 which is primarily aimed at large, commercial contractors. These contractors normally discourage and control rather than encourage publication by their scientists and engineers so as to protect their companies secrets. It is accordingly, very unlikely that many agency contractors would have any incentive to publish research findings so as to destroy both their own and agency opportunity to file foreign patents. Instead, they would normally, even if they allowed a publication, first screen it and file an initial patent application. This, then, would fully protect both the company and the agencies.

It is important to note that even if S.1657 was amended to operate as requested by the agencies, it would still be the contractor who would exercise the first right of refusal and the agency would only have the right to file on rejected inventions. Since most DoE and NASA contracts now contain patent clauses giving the agency the first right of refusal to inventions made in performance of their contracts it appears safe to assume that the foreign patent

applications now in their patent portfolio were not rejected first by the contractor. (NASA and DoE are the only executive agencies that have been involved in filing more than insignificant numbers of foreign patent applications.) Redrafting S.1657 to encourage foreign filing on rejected inventions in an era of budgetary restraint should require greater justification than furnished.

DoD has never had a perceptible foreign filing program, so that S.1657 would have no perceived effect on them under any circumstances. The DoD position as it relates to effect of publication on foreign filings seems implausible. Presumably, the problem only arises in situations in which a publication would constitute a bar to patenting in the foreign country. However, it ought to be obvious that if the publication did establish a bar, then DoD's defensive concern would be fully satisfied because no one could then obtain a patent in that country. This being the case, there is really only one hypothetical set for facts under which the DoD concern would have any real validity. That is foreign filing in countries with immediate publication bars could only be justified on the basis that someone else may have filed an application on the same invention prior to the publication date, so filing by DoD could establish its place in interference and its possible entitlement to the patent in that foreign country.

As noted, the Defense Department has filed very few foreign patent applications in the past. None that we know of were brought into interference. Even if there were any, how many of these involved inventions that were ultimately purchased and practiced by DoD in that foreign country? It would no doubt be cheaper for DoD to ignore foreign filings altogether and to litigate or pay a royalty in the few cases, if any, that they or their suppliers are sued under foreign patent laws.

In conclusion, the only perceptible benefit to be gained by the agencies in requiring the right to reporting, election and filing of patent applications by the contractor prior to any act barring the ability to obtain foreign patent protection is the right in some few instances to file foreign patent applications on inventions rejected by the contractor. Conversely, such a right would negatively effect the contractor by permitting the agency to take U.S. patent rights on the basis of an unauthorized publication or disclosure by a contractor employee. This would be unlikely given the fact that

S.1657 covers large profit-making contractors. Further the agency position would conceivably force the contractor to file or forego filing of patent applications with insufficient information due to an impending publication. This would defeat the intent of S.1657 to give meaningful ownership of government funded inventions to contractors.

Mar 8 Admin mark up
Mar. 15 is latest
May 15 revision

II

97TH CONGRESS
1ST SESSION

S. 1657

Entitled the "Uniform Science and Technology Research and Development Utilization Act".

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 23 (legislative day, SEPTEMBER 9), 1981

Mr. SCHMITT (for himself, Mr. CANNON, Mr. GORTON, Mrs. KASSEBAUM, Mr. LUGAR, and Mr. SYMMS) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

Entitled the "Uniform Science and Technology Research and Development Utilization Act".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—POLICY

FINDINGS

SEC. 101. The Congress, recognizing the profound impact of science, engineering, and technology policy on the economic, social, political, and technological well-being, and the health and safety of the Nation as a whole, hereby finds and declares that:

ally funded research and development. This policy should promote the progress of science and the useful arts, encourage the efficient commercial utilization of technological developments and discoveries, guarantee the protection of the public interest, and recognize the equities of the contracting parties.

PURPOSE

SEC. 102. It is the purpose of this Act to—

(1) establish and maintain a uniform Federal policy for the management and use of the results of federally sponsored science and technology research and development; and

(2) insure the effective uniform implementation of the provisions of this Act, and to monitor on a continuing basis the impact of Federal science and technology policies on innovation and technology development.

DEFINITIONS

SEC. 103. As used in this Act the term—

(1) "contract" means any contract, grant, cooperative agreement, commitment, understanding, or other arrangement entered into between any Federal agency and any person where a purpose of the contract is the conduct of experimental, developmental, or research work. Such term includes any assignment, substitution of parties or subcontract of any type entered into or

(8) "made under the contract" or "made under a contract" when used in relation to any invention means the conception or first actual reduction to practice of such invention in the course of any work under the contract or under a contract, respectively;

(9) "nonprofit organization" means universities and other institutions of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code of 1954 (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a State nonprofit organization statute;

(10) "person" means any individual, partnership, corporation, association, institution, or other entity;

(11) "practical application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system, and, in each case, under such conditions as to establish that the invention is being worked and that its benefits are available to the public either on reasonable terms or through reasonable licensing arrangements;

(12) "Secretary" means the Secretary of Commerce; and

(2) in consultation with the Office of Federal Procurement Policy, to formulate and recommend to the President such proposed rules, regulations, and procedures as are necessary and desirable to assure the consistent application of the provisions of this Act;

(3) to accumulate, analyze, and disseminate data necessary to evaluate the administration and effectiveness of the policies set forth in this Act;

(4) to determine with administrative finality, in an expeditious manner without unnecessary delay, any dispute between a Federal agency and an aggrieved party arising under title III of this Act; and

(5) to perform such other duties as may be prescribed by the President or by statute.

(c) For the purpose of assuring the effective management of Government-owned inventions, the Secretary is authorized to—

(1) assist and coordinate agency efforts to promote the licensing and utilization of Government-owned inventions;

(2) coordinate and advise the Federal agencies in seeking protection and maintaining inventions in foreign countries, including the payment of fees and costs connected therewith;

TITLE III—ALLOCATIONS OF RIGHTS—GOVERNMENT CONTRACTORS

RIGHTS OF THE GOVERNMENT

SEC. 301. (a) Each Federal agency shall acquire on behalf of the United States, at the time of entering into a contract, title to any invention made under the contract of a Federal agency if the agency determines that—

(1) the services of the contractor are for the operation of Federal research and development centers, including Government-owned research or production facilities;

(2) following a finding by a Government authority which is authorized by statute or Executive order to conduct foreign intelligence or counterintelligence activities, the restriction or elimination of the right of the contractor to retain title to any subject invention is necessary to protect the security of such activities;

(3) in exceptional circumstances, restriction or elimination of the right of the contractor to retain title to any subject invention will better promote the policy and objectives of this Act; and

(4) the principal purpose of the contract is to develop or improve products, processes, or methods which will be required for use by Government regulations: *Provided, however,* That the Federal agency may

acquire the license for the States and domestic municipal governments.

RIGHTS OF THE CONTRACTOR

SEC. 302. (a) Whenever a contractor enters into a contract with a Federal agency other than in those circumstances identified in section 301(a), the contractor or inventor shall have the option of retaining title to any invention made under the contract. Such rights shall be subject to the limitations set forth in section 304 and the provisions of section 305. Such option shall be exercised by notifying the Government at the time of disclosure of the invention or within such time thereafter as may be provided in the contract. The Government shall obtain title to any invention for which this option is not exercised.

(b) When the Government obtains title to an invention under section 301, the contractor shall retain a nonexclusive, royalty-free license which shall be revocable only to the extent necessary for the Government to grant an exclusive license.

WAIVER

SEC. 303. A Federal agency may at any time waive all or any part of the rights of the United States under this title to any invention or class of inventions made or which may be made by any person or class of persons under the contract of the agency if the agency determines that the condition justi-

upon terms reasonable under the circumstances, if the agency determines such action is necessary—

(1) because the contractor has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the invention;

(2) to alleviate serious health or safety needs which are not reasonably satisfied by the contractor, or its licensees;

(3) to meet requirements for public use specified by Federal regulation which are not reasonably satisfied by the contractor or its licensees; or

(4) because the actions of the contractor beyond the exercise of the exclusive rights in the invention have tended substantially to lessen competition or to result in undue market concentration in any section of the United States in any line of commerce to which the technology relates, or to create and maintain other situations inconsistent with the antitrust laws.

(b) The rights of the Federal agency under subsection (a) shall be subject to the prior approval of the Secretary, who shall make a determination after a formal hearing with affected parties present and conducted in accordance with rules, regulations, and procedures adopted by the Secretary.

any patent issuing thereon, a statement specifying that the invention was made with Government support and that the Government has certain rights in the invention; and

(5) allow deviation to the minimum rights acquired under section 301 on a class basis in—

(A) contracts involving cosponsored, cost sharing or joint venture research when the contractor is required to make a substantial contribution of funds, facilities, or equipment to the work performed under the contract;

(B) special contracting situations such as Federal price or purchase supports and Federal loan or loan guarantees; and

(C) no deviation under this subsection shall waive in whole or in part, the minimum rights to be secured for the Federal Government set forth in section 304(a)(4).

(b) When it is determined that the right to require licensing or the right of the Federal agency to license should be exercised pursuant to section 304, the Federal agency may specify terms and conditions, including royalties to be charged, if any, and the duration and field of use of the license, if appropriate. Agency determinations as to the rights

TITLE IV—MISCELLANEOUS

REPEAL OF EXISTING STATUTORY RESEARCH AND DEVELOPMENT AUTHORIZATIONS

SEC. 401. The following Acts are hereby amended as follows:

(1) Section 205(a) of the Act of August 14, 1946 (7 U.S.C. 1624(a); 60 Stat. 1090), is amended by striking out the last sentence thereof.

(2) Section 501(c) of the Federal Coal Mine Health and Safety Act of 1969 (30 U.S.C. 951(c); 83 Stat. 742) is amended by striking out the last sentence thereof.

(3) Section 106(c) of the National Traffic and Motor Vehicle Safety Act of 1966 (15 U.S.C. 1395(c); 80 Stat. 721) is repealed.

(4) Section 12 of the National Science Foundation Act of 1950 (42 U.S.C. 1871(a); 82 Stat. 360) is repealed.

(5) Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182; 68 Stat. 943) is repealed.

(6) The National Aeronautics and Space Act of 1958 (42 U.S.C. 2451 et seq.; 72 Stat. 426) is amended—

(A) by repealing section 305 thereof (42 U.S.C. 2457): *Provided, however,* That subsections (c), (d), and (e) of such section shall continue to be effective with respect to any application for patents in which the written statement referred to in subsection (c) of such

"(d) For the purpose of chapter 17 of title 35 of the United States Code, the Administration shall be considered a defense agency of the United States."; and

(F) by striking out the following in section 203(c)(3) thereof (42 U.S.C. 2473(c)(3)) "(including patents and rights thereunder).".

(7) Section 6 of the Act of July 7, 1960 (30 U.S.C. 666; 74 Stat. 337), is repealed.

(8) Section 4 of the Helium Act Amendments of 1960 (50 U.S.C. 167b; 74 Stat. 920) is amended by striking out both proviso clauses at the end thereof.

(9) Section 32 of the Arms Control and Disarmament Act (22 U.S.C. 2572; 75 Stat. 634) is repealed.

(10) Subsection (e) of section 302 of the Appalachian Regional Development Act of 1965 (40 U.S.C. App. 302(e); 79 Stat. 5) is repealed.

(11) Section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5908; 88 Stat. 1887) is amended by striking all after "hours" the second time it appears therein, and inserting in lieu thereof a period.

(12) Section 5(i) of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831d(i); 48 Stat. 61) is amended by striking both proviso clauses at the end thereof.

BOB PACKWOOD, OREG., CHAIRMAN
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United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION
WASHINGTON, D.C. 20510

February 24, 1983

Dr. Bruce Merrifield
Assistant Secretary for Productivity,
Technology and Innovation
Room 4824
Department of Commerce
Washington, D.C. 20230

Dear Dr. Merrifield:

As Chairman of the Subcommittee on Science, Technology and Space, I have directed my staff to produce specific legislative initiatives dealing with technological innovation. I would appreciate the assistance of your office in providing my staff with the technical assistance they require.

Thank you for your cooperation.

Sincerely,

SLADE GORTON
United States Senator

SG:bmj

cc: Egle
Barry Bennett
3/1

RECEIVED
MAR 1 1983
D. BRUCE MERRIFIELD

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Productivity,
Technology and Innovation
Washington, D.C. 20230
(202) 377-1984

MAR 3 1983

Honorable Slade Gorton
Chairman, Subcommittee on Science,
Technology and Space
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman,

Thank you for your recent note; and please count on us to help you in any way we can. Needless to say, this area is the top priority of our office, and one of the top priorities of the Department of Commerce.

Also, I have attached some material you may find of interest.

Sincerely,

D. Bruce Merrifield

Enclosures

Darcia
Pl. file this with
S.1657
Norm