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

April 28, 1983

Memorandum for: D. Bruce Merrifield

From: Norm Latker NL

Subject: Patent Policy Legislation

As you will recall, we were requested by Senator Gorton by the attached letter to aid his staff with some legislative initiatives. The request was based on the desire to introduce a revised S. 1657 in this session of Congress. (S. 1657 was the government patent policy bill that died in the last session).

I have been advised that the revised bill we handed to the committee staff (and to a few others in confidence) is being circulated widely. While I think the bill substantially reflects the Administration's position on S. 1657, those who opposed the bill in last session might raise problems about the informal manner in which the new bill was generated.

I don't think we should be embarrassed as we are clearly adhering to Administration policy as will be evident in a full review process.

Attachment

cc: Milbergs

DRAFT/NLatker
(d-4/nl)

A major controversy has arisen over the disclosure, election, and filing requirements to be included in the standard patent rights clause for small businesses and non-profit organizations that OFPP is required to issue by July 1, 1981. The specific issue is whether language contained in a draft clause prepared by a GSA interagency subcommittee should be used, or whether modifications to that language prepared by OMB staff should be adopted.

This paper analysis the issue. It is the conclusion of the author that the GSA draft would not accomplish the goals upon which the agencies justified the inclusion of their language. Indeed, the practical effect of the reporting and filing requirements of the GSA draft would be the nullification of the objectives of 35 U.S.C. 200 and the destruction of the rights of universities, the agencies, and in the interest of the taxpaying public in the commercialization of government supported university inventions.

The GSA draft essentially differs from the OMB draft in that it required the reporting of subject inventions and the filing of patent applications on such inventions at least three months before a manuscript describing the invention is submitted for publication. Failure to report or file within the time would allow the agency to require transfer of title in the invention to the agency.

This requirement is not contained in any currently used clauses. The rationale given for it was as follows. First, it was alleged that mere submission for publication can result in the creation of an immediate bar to publication in some foreign countries. (This is a dubious proposition). It was therefore argued that reporting and filing was before submission for publication (and so the argument would go before actual publication was necessary to protect what are called "the residual rights of the government under the Act. Presumably, agency patent lawyers could then examine every disclosure to determine if the agency wished to file in case the university did not. (Thus, creating a new workload and justification for large patent staffs).

The Benefits "Residual Rights"

The agencies have not placed in writing any explanation of the nature of the residual rights they are seeking to protect. However, in this section, we explore this concept.

The agencies are not claiming that publication will create a bar to patenting in the United States. U.S. patent law has a one-year grace period before a publication can bar filing for patents. The revised OMB clause contains mechanisms which would adequately allow agencies to protect their interest in having license rights or title in the United States.

Accordingly, the "residual rights" under discussion are rights in inventions in foreign countries. (However, to protect these foreign rights the agencies have provided the government with the right to require forfeiture of U.S. rights).

Presumably, there are only two reasons why agencies would require rights in inventions in foreign countries. One would be in order to practice the invention in such countries on a royalty-free basis. However, this would not serve as a basis for being concerned with publication destroying the opportunity to obtain foreign patents. That is, if a publication did create a bar then obviously the U.S. Government would be free to practice the invention without paying royalities because no one could obtain a patent.

The second reason would presumably be because the agency wished to license the invention in foreign countries and collect royalties. In the past, agencies have filed very few foreign patents, and have collected virtually no royalties on either U.S. or foreign patents. This is out of a portfolio of thousands of patents. The administrative costs for the agencies to conduct successful foreign licensing programs would be extremely high. It is highly questionable whether this or any other Administration could justify the cost of such a program. More importantly, as will be discussed below the price that will be payed for putting agencies in the position of theoretically being able to carry on foreign licensing of unviersity based inventions will be the drying up of invention reporting by university investigators. As a result in numerous cases opportunities for

obtain private development in university based inventions will be lost. In other words the principal purpose of the Act of foster commercialization of inventions in the United States will be lost because of the zeal of some government patent lawyers to protect "residual rights."

National Security

It appears that some agency patent attorneys have attempted to confuse the issue by claiming security concerns are also a motive behind their clause. This is unsupportable. The Act allows agencies to certain funding agreements from the standard clause where compromise of foreign intelligence activities might occur. More importantly, nothing in the clause will prevent agencies having such authority from classifying small business or nonprofit contracts that involve national security. Furthermore, nothing in the OMB draft would preven agencies that have a need to do so from requiring agency security review and clearance of work coming out of contracts in sensitive areas. Indeed, it would be absurd to rely on a patent clause to protect security needs.

It should therefore be clear that the justification for the GSA language can only come from a claim that agencies need to "protect" their redidual right to license inventions in foreign countries

The Cost

The question remains as to whether the language drafted by GSA will actually accomplish the purpose of preserving "residual rights." If one is willing to concede they are worth attempting to protect. The only conclusion that can be reached is that the language will not preserve such rights, but instead will have the opposite affect.

In order for either the university or a government sponsor to become aware of the existence of a potentially patentable invention made by an investigator during the course of his work, the investigator must, himself, recognize the potential of the invention and advise the university of this. However, most university investigators are more concerned with publishing results (publish or perish) than they are with securing patent rights. Their professional reputation and livlihood dependent on their publication record and their being able to establish that they were the first to make a new discovery. Patents are not of major interest to most investigators. Early publication is this is not to say that they do not sometimes recognize the commercial potential of inventions and work with university patent offices to obtain patents and licenses and a share in royalities. However, if confronted with the choice by university patent administrators of delaying publication or obtaining patent rights few would opt for publication delay. Moreover, one would probably find that a substantially percentage of invention

disclosures made by university investigators to the university do not occur until after manuscripts have been submitted for publication.

Accordingly, the effect of the GSA language would be two-fold. Initially, it would place numerous universities in breach of their obligations under the clause since in a substantial number of cases submission for publication and even publication will have already occured before the university became aware of the invention. Thus, contrary to the purpose of 35 U.S.C. 200-206 the rights of unversities to retain rights to their inventions would be placed back in the hands of the same agency patent lawyers from which Congress tried to remove them.

Later, the results would be even more insidious. Assuming university patent administrators tried to conscientiously carry out the clause they would begin telling investigators who submitted disclosures prior to submitting manuscripts for publication that they must delay any planned submissions for a minimum of three months. Similiarly, they should not submit publications until after they had cleared them with the university patent office. They would also have to tell them that if they found any inventions in the publications that they would have to delay submission.

It does not take great imagination to know what would happen next. Investigators, after they stopped screaming, would ask why. The administrator would then try to explain it was because otherwise the sponsoring agency might make the unviersity forfeit its patent rights. The investigator would then respond, "So

what." He would then proceed to publish and let the university take its chances as to whether the agency would actually invoke its authority. Moreover, it would probably be the last time he would bother advising the university administration and patent office of any inventions. Why get caught up in a big hassel over whether he can publish just to protect some speculative rights of the university and the government.

In short order numerous inventions that would otherwise have been reported will go unreported. The opportunity of both the unviersity and the government to obtain both U.S. and foreign patents will be lost. And with this will be lost the incentives of the patents will be lost. And with this will be lost the incentives of the patent system to induce private industry to commercialization these inventions.

That then is clearly and imply the issue before this Administration.

In passing 35 U.S.C. 200-206, the Congress made it clear that it believe that the universities had demonstrated that they were much more successful then the government in achieving commercialization of inventions. Indeed, they have achieve this record despite the problem that their inventors publish in manner that is not wholly ideal from a patent administrators viewpoint. They have learned to cope with this successfully and have assembled a track record that no government agency has come close to matching. Yet these same agencies whish to thwart the will of the Congress and the public needs for increased productivity on the basis or arguments that cannot withstand

analysis.

The motives of the agency patent lawyers, if given the benefit of the doubt, stem from a failure to fully understand the real world consequences of the language that they have drafted. Taking a more cynical viewpoint one might conclude that the real motivation is to prevent the simplification and rationalization of government patent policy, which in the agencies complaining the loudest what place in jeopardy the positions of a number of patent lawyers.

DRAFT
7/12/82

DEAR SENATOR MCCLURE:

I UNDERSTAND THAT YOU HAVE SOME CONCERNS ABOUT S.1657, THE "UNIFORM SCIENCE & TECHNOLOGY RESEARCH & DEVELOPMENT UTILIZATION ACT." THE PURPOSE OF THIS LETTER IS TO RELIEVE ONE OF YOUR SPECIFIC CONCERNS BY EXPLAINING OUR DECISION TO SUPPORT THE BILL'S TREATMENT OF GOVERNMENT-OWNED CONTRACTOR OPERATED (GOCO) ENTITIES.

S.1657 PROVIDE GOCO'S THE FIRST OPTION TO OWNERSHIP ~~IN~~ of INVENTIONS MADE WITH FEDERAL SUPPORT. YOUR INITIAL SENSITIVITY TO THIS PROPOSED IMPROVEMENT IN GOVERNMENT PATENT POLICY IS NOT SURPRISING IN LIGHT OF THE HISTORY OF DOE AND ITS PREDECESSOR/~~AGENCY'S HISTORY OF~~ agencies' OBTAINING TITLE TO MOST GOCO INVENTIONS. HOWEVER, AFTER CAREFULLY EXAMINING THIS POLICY, I AM CONVINCED THERE IS A NEED FOR THE CHANGE REFLECTED IN S.1657.

IN MOST PART, THOSE WISHING TO RETAIN THE STATUS QUO SUGGEST THAT THE PRESENT POLICY IS NECESSARY TO MAINTAIN GOCO LOYALTY TO AGENCY GOALS. IT IS SAID THAT GOCO OWNERSHIP OF INVENTIONS WOULD DIMINISH OR DISTRACT FROM PERFORMANCE OF THEIR ASSIGNED TASKS AND COULD LEAD TO A CONFLICT OF INTEREST. WE ARE UNAWARE OF ANY SUCH CONFLICTS ARISING IN PERFORMANCE OF OTHER LONG-TERM CONTRACTS/~~UNDER WHICH THE~~ where CONTRACTORS HAVE RETAINED OWNERSHIP OF THEIR GOVERNMENT-FUNDED INVENTIONS. ABSENT SUCH INFORMATION WE BELIEVE IT INAPPROPRIATE TO ESTABLISH ANY SWEEPING EXCEPTIONS TO THE GENERAL RULE PROPOSED BY S.1657.

MORE IMPORTANT, IN OUR VIEW THAN FOCUSING ON THE POSSIBILITY OF PROBLEMS ARISING FROM GOCO OWNERSHIP OF INVENTIONS, IS OUR FINDING THAT DENIAL OF SUCH OWNERSHIP TO GOCO'S HAS RESULTED IN A RESTRICTION OF THEIR CAPACITY TO COOPERATE WITH OTHER PARTS OF THE PRIVATE SECTOR FOR THE PURPOSE OF BRINGING THE RESULTS OF THEIR RESEARCH TO THE MARKETPLACE. UNTIL UNIVERSITIES WERE PROVIDED SUCH A FIRST OPTION TO OWNERSHIP ACADEMIC COLLABORATION WITH INDUSTRY WAS ALSO SEVERELY LIMITED. THE BILLIONS OF DOLLARS DEVOTED TO GOCO R&D PROGRAMS, HAVE NOT PRODUCED THE FLOW OF COMMERCIAL PRODUCTS AND PROCESSES EXPECTED UNDER THE POLICIES PROPOSED BY S.1657. WE, THEREFORE, ARE VERY SUPPORTIVE OF S.1657 AS A MEANS OF ENHANCING THIS COUNTRY'S EFFORTS TO COMMERCIALIZE INVENTION AND INCREASE PRODUCTIVITY AND JOB CREATION.

IN THE FEW SITUATIONS THAT GOVERNMENT OWNERSHIP APPEARS JUSTIFIED WE ARE CONVINCED THAT THE "EXCEPTIONAL CIRCUMSTANCES" PROVISION OF THE BILL PLUS its LEGISLATIVE HISTORY ~~EXPLAINING THE PROVISIONS USE~~ PROVIDES AN ADEQUATE MECHANISM FOR PROTECTING THE GOVERNMENT'S INTEREST IN CERTAIN INVENTIONS.