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SENT TO: Terry O'Neal, Boston Globe

DATE SENT: 24 February 1998

SUBJECT: _____

No. of pages (including this cover sheet): 9

SENT BY: Erin Geraghty

Remarks:

Sir:

Mr. Latker found more pages than he originally indicated which should cover nearly all of your questions. Accordingly, attached please find pages 10-14, 25 and 26. (These are the best copies I could make – I hope you can read them.)

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SECTION 5

This section adds a new section to the Stevenson-Wydler Act authorizing agencies to permit their Government-operated laboratories to enter into cooperative research and development arrangements with private industry, other units of Government, universities, or other persons. It authorizes a broad range of cooperative research and development arrangements where there is a mutual interest between the laboratory mission and other levels of government or private sector organizations.

Section 5 defines cooperative agreements as those in which the Federal Government provides resources, but not funds, along with a collaborating party, toward the conduct of specific research or development which is consistent with the missions of the agency. Nevertheless, this section is not intended to prohibit Federal financial contributions as might be authorized and appropriated by other acts of Congress.

To effectuate cooperative research agreements, the section gives Federal laboratories the authority to accept funds, services, and property from the collaborating parties; to agree to grant in advance licenses to patents on inventions made by Federal employees; to waive the Government's right of ownership in inventions made by an employee of a collaborating party; and to permit employees or former employees to help commercialize their inventions, to the extent this is consistent with agency requirements.

Section 5, as well as the other sections of H.R. 3773, make no changes in the conflict of interest laws affecting Federal employees or former Federal employees. The Committee does not believe that this section releases former employees from conflict of interest restraints in current law, and does not intend this result. Agencies have the flexibility under this section to establish standards for cooperative research arrangements which prevent former employees from benefitting unjustly from their former employment. Conversely, laboratories may need the assistance of former employees to develop the commercial potential of inventions, and this provision is intended to allow their participation according to agency standards.

In addition, section 5 does not alter the patent laws to give existing or former Federal employees ownership of inventions discovered in the course of Federal employment. A former employee may file for a patent on an invention made as a Federal employee under current law. Under Executive Order No. 10,096, 15 Fed. Reg. 389 (1950), however, Federal employees must report and assign the rights to all inventions made in the course of their employment to the Federal Government.

The authorities conveyed by section 5 are permissive. Section 5 authorizes but does not require agencies to extend these decentralized authorities to their Government-operated laboratories. Moreover, whenever an agency does extend these authorities to a laboratory director, the director retains discretion to decide into which cooperative agreements, if any, to enter. The director may reject any offer and may use decision criteria, and set such terms and conditions, as the director sees fit, subject only to the requirements set forth in section 5, other applicable law, and agency directives.

A director may, for example, give priority to proposed cooperative agreements which, in the judgment of the director, are most likely to benefit employment in the United States or the technical development of U.S. companies.

Section 5 also allows agencies to permit their laboratories to negotiate and assign or issue patent licenses on inventions the Government owns. Industrial firms may be attracted to a laboratory by interest in an existing invention, and the laboratories need the authority to negotiate directly with firms that may wish to enter into cooperative arrangements to develop the invention further.

Often, collaboration between a laboratory and some other organization can be expected to lead to future inventions. All parties should be clear on who will have what rights to future inventions when the work begins. This amendment allows Federal laboratories to assign rights in future inventions to the cooperating, outside parties. It is anticipated that agencies will normally retain for the Government a paid license to use or have future inventions used in the Government's behalf.

Section 5 defines a laboratory as a "facility or group of facilities owned, leased, or otherwise used by a Federal agency, a substantial purpose of which is the performance of research and development by employees of the Federal Government." This is a broad definition which is intended to include the widest possible range of research institutions operated by the Federal Government.

This definition would include, for example, the Earth Resources Observation System Data Center, which the U.S. Geological Survey operates in Sioux Falls, SD. Universities, other Federal agencies, and private companies are interested in establishing a cooperative research institute there for remote sensing applications. The Center would clearly have the authority to participate under this legislation.

Most of the cooperative arrangements and patent assignments are expected to be forms of cooperative agreements as established by section 6305 of title 31, United States Code. Although these cooperative research and development arrangements must be consistent with the missions of the laboratories, the primary purpose of the agreements is to take technologies that originate in the laboratories and to stimulate or support their development and commercialization.

It is expected that these authorities will open an entirely new form of benefit to State and local governments by allowing the Federal laboratories to become active partners and contributors of technologies to promote regional economic development. Where desired, the contributions may be made through foundations or organizations established to advance State and local economic activity, such as the Rio Grande Technology Foundation in New Mexico.

SECTION 6

This section adds a new section 13 to the Stevenson-Wydler Act which establishes a dual employee award system. First, it requires Federal agencies that do a substantial amount of research and development to set up a cash award system to reward scientists and technicians for inventions, innovations, or other outstanding contri-

butions. It directs agencies to use existing authority or multiple authorities for these awards. For example, under section 4502(a) of title 5, United States Code, an agency may award an employee up to $10,000. Section 4502(b) of title 5, United States Code, allows awards up to $25,000 with the concurrence of the Office of Personnel Management. Section 4504 of title 5, United States Code, allows Presidential awards of unlimited amounts. The National Aeronautics and Space Administration has additional authority to award employees up to $100,000 under the National Aeronautics and Space Act of 1958 (42 U.S.C. 2458).

Second, it requires a direct payment of at least fifteen percent of royalties received for the right to use Government-owned inventions to the Federal employee-inventor(s). The Bayh-Dole Act has required universities to share royalties for Federal funded research since 1980. The universities have found royalty sharing with their inventors to be a powerful incentive which increases the number of inventions reported and encourages inventors to contribute to their commercialization. The committee believes this provision will accomplish the same end in Federal laboratories.

The Committee regards 15 percent as a minimum amount and believes the Federal laboratories will learn from the university experience and increase this percentage. The Committee recognizes, however, that agency cultures differ, and agencies such as the National Aeronautics and Space Administration, which has an active employee award system, may want to keep royalty sharing at this minimum.

The new section 13(b) allows Federal agencies to retain royalty income rather than return it to the Treasury. Agencies must transfer the balance of royalties, after paying inventors, to their Government-operated laboratories, with a substantial percentage going to the laboratory which produced the invention. The laboratory may keep all royalties it receives, up to five percent of its annual budget, and 25 percent of royalties in excess of the 5-percent limit. The laboratory may use the income for mission-related research and development, for education programs for laboratory employees, for employee awards, for scientific exchange, and to pay patenting and other costs.

This section is intended to provide predictable incentives to Federal researchers and their laboratory managers to develop the commercial potential of their work. This incentive approach is an innovation in the Federal Government which should be monitored. Accordingly, the new section 13 includes three provisions to insure that royalty income over and above a laboratory's normal budget does not adversely affect the laboratory's primary mission.

First, the new section 13(b)(2) limits the amount of royalties a laboratory may retain in relation to its annual budget, as discussed above. Second, new section 13(d) requires agencies to report on royalty receipts and dispositions to Congress in their annual budget submissions. Third, new section 13(b) requires that, beginning in fiscal year 1988, royalties shall be subject to appropriations.

Beginning in fiscal year 1988, the Committee anticipates that agencies will submit reasonable upper estimates of the royalty amounts they anticipate receiving. The Committee intends that these estimates will be appropriated in addition to regular agency

budgets. The Committee intends that royalty or other income from inventions received after the enactment of this act and before fiscal year 1988 shall be retained by the agency and distributed as provided in this act.

The new section 13(b)(2)(E) provides that agencies may use their royalty income to pay patenting costs and other expenses incidental to managing inventions, including the fees or costs of services of other agencies or other services. In some cases, for example, agencies make arrangements with the National Technical Information Service whereby the Service provides patent and licensing services. This new section allows agencies, if they and the Service agree, to pay for the services out of royalties.

The Committee does not intend, however, that the new section 13 be interpreted as eliminating the Service's existing authority to accept payment for services through an alternative mechanism of user charges. Because the Service's patent licensing program is expected to be increasingly self-sustaining, the Service would run into severe cash-flow problems if it were forced to rely only on delayed payments from a royalty stream. Moreover, the Committee intends that any such user charges shall continue to be exempt from the appropriations process. Therefore, the term "royalties or related income" in new section 13(b)(2) means funds paid by a licensee or assignee for rights to an invention but does not include user charges (as defined in OMB circular No. A-25) paid by such licensee or assigned for retention by the Service as reimbursement for costs of developing licenses or assignments, including payments for foreign patent filing, maintenance, or other costs.

Some representatives of businesses that employ scientists fear that establishing royalty sharing for Federal employees will set a precedent for legislation mandating royalty sharing for private inventors. The Committee believes that the government is different from private industry in that it cannot promote or reward inventors as easily, and that more inventions will be reported and developed if Federal employees have a guaranteed share in potential royalties. The Committee does not intend for this provision affecting Government employees to set a precedent for private employees.

Section 6 includes cash award provisions in addition to royalty sharing so that agencies do not neglect productive employees (and laboratories) who either do not work in commercially productive areas or who contribute to, but do not have their names on, patents. The Committee intends that a substantial percentage of royalties go to the laboratories that produce the inventions. The Committee intends that "a substantial percentage" mean more than half and perhaps all of the royalties. Nevertheless, section 6 allows an agency to distribute royalties to non-commercially productive laboratories as well as those that produce inventions that are transferred to the private sector. The report of the Packard panel emphasized the need for laboratory managers to have discretionary funds to invest in innovative activities in the laboratory. This need exists for these laboratories as well as for those doing commercially applicable work.

SECTION 7

This section authorizes Federal agencies to transfer rights of ownership in an invention to the inventor if the agency does not intend to file for a patent license on the invention or otherwise to move the invention into the private sector. This section is intended to codify the policies expressed in Executive Order No. 10,096, 15 Fed. Reg. 389 (1950).

Under section 7, agencies would file Statutory Invention Disclosures for inventions they determine to have no commercial potential. In some cases, however, the inventor may not agree with this determination. This provision allows the invention to be given to the inventor for patenting and commercial exploitation. It is expected that when this is done, the government will retain its normal right to use the invention without paying royalties. Laboratory employees may also voluntarily transfer to the laboratory the ownership of an invention made outside of assigned duties for patenting and promotion.

SECTION 8

This section contains technical amendments to the Stevenson-Wydler Act. They are generally designed to bring the act into conformity with existing practice. These amendments include repealing the National Industrial Technology Board and changing the name of the Centers for Industrial Technology to Cooperative Research Centers, the name the National Science Foundation uses. There is no authorization for these Centers, however.

Section 8 also amends the Stevenson-Wydler Act to change references to the Office of Industrial Technology to the Assistant Secretary for Productivity, Technology, and Innovation. The Assistant Secretary's office has been performing these functions. The Committee is aware that the administration has proposed reducing the budget of the Assistant Secretary's office. The changes in this bill are not intended to serve as a reauthorization of this office, which is authorized under separate, annual legislation. If Congress follows the administration's proposal, the Committee notes that the Assistant Secretary's office will be fully staffed in 1987, and will continue to exist as a small, executive office after 1987. Therefore, it is not inconsistent with the administration's proposal to bring the act into conformity with existing practice.

The Committee initially considered reauthorizing the Stevenson-Wydler Act, which had a 5-year authorization which expired in 1985. The administration strongly opposed reauthorization. In two hearings in April and May 1985, however, the Department of Commerce expressed its continuing support for the technology transfer provisions in the act (section 11), and its belief that, because they are funded through a set-aside, they did not need to be reauthorized. Department of Commerce officials also stated their intention to fund other provisions of the Act, such as the National Technology Medal and duties being performed by the Office of Productivity, Technology, and Innovation, out of general Department of Commerce funding. The Committee concluded reauthorization would be needed for only those portions of the act, specifically sections 6, 7, and 10, which had never been implemented.

SEC. 11. COOPERATIVE RESEARCH AND DEVELOPMENT AGREEMENTS.

(a) GENERAL AUTHORITY.—(1) Each Federal agency may permit the director of any of its Government-operated Federal laboratories—

(A) to enter into cooperative research and development arrangements (subject to such regulations or review procedures as the agency considers appropriate) with other Federal agencies, units of State or local government, industrial organizations (including corporations, partnerships and limited partnerships), public and private foundations, non-profit organizations (including universities), or other persons (including licensees of inventions owned by the Federal agency); and

(B) to negotiate licensing agreements under section 207 of title 35, United States Code, or other authorities for Government-owned inventions made at the laboratory and other inventions of Federal employees that may be voluntarily assigned to the Government.

(2) Under arrangements entered into pursuant to paragraph (1), a laboratory may—

(A) accept funds, services, and property from collaborating parties and provide services and property to collaborating parties;

(B) grant or agree to grant in advance to a collaborating party patent licenses, assignments, or options thereto, in any invention made by a Federal employee under the arrangement, retaining such rights as the Federal agency considers appropriate;

(C) waive, in whole or in part, any right of ownership which the Government may have under any other statute to any inventions made by a collaborating party or employee of a collaborating party under the arrangement; and

(D) to the extent consistent with any applicable agency requirements, permit employees or former employees of the laboratory to participate in efforts to commercialize inventions they made while in the service of the United States.

(3) Each agency shall maintain a record of all agreements entered into under this section.

(b) DEFINITION.—As used in this section, the term—

(1) "cooperative research and development agreement" means any agreement between one or more Federal laboratories and one or more non-Federal parties under which the Government provides personnel, services, facilities, equipment, or other resources (but not funds to non-Federal parties) and the non-Federal parties provide funds, personnel, services, facilities, equipments, or other resources toward the conduct of specified research or development efforts which are consistent with the missions of the agency, except that such term does not include a procurement contract or cooperative agreement as those terms are used in sections 6303, 6304, and 6305 of title 31, United States Code; and

(2) "laboratory" means a facility or group of facilities owned, leased, or otherwise used by a Federal agency, a substantial purpose of which is the performance of research and development by employees of the Federal Government.".

(c) RELATIONSHIP TO LAWS.—Nothing in this section is intended to limit or diminish existing authorities of any agency.

SEC. 12. REWARDS FOR SCIENTIFIC, ENGINEERING, AND TECHNICAL PERSONNEL OF FEDERAL AGENCIES.

(a) CASH AWARDS PROGRAM.—The head of each Federal agency that is making expenditures at a rate of more than $50,000,000 per fiscal year for research and development in its Government-operated laboratories shall use the appropriate statutory authority to develop and implement a cash awards program to reward its scientific, engineering, and technical personnel for—

(1) inventions, innovations, or other outstanding scientific or technological contributions of value to the United States due to commercial applications or due to contributions to missions of the Federal agency or the Federal government; and

(2) exemplary activities that promote the domestic transfer of science and technology development within the Federal Government and result in utilization of such science and technology by American industry or business, universities, State or local governments, or other non-Federal parties.

(b) PAYMENT OF ROYALTIES.—Any royalties or other income received by an agency from the licensing or assignment or inventions under this section or under section 207 of title 35, United States Code, or other authority shall be retained by the agency whose laboratory produced the invention, except that beginning with fiscal year 1988, such royalties or other income shall be subject to appropriations, and shall be disposed of as follows:

(1) At least 15 percent of the royalties or other income received each year by the agency on account of any invention shall be paid to the inventor or coinventors if they were employees of the agency at the time the invention was made. Payments made under this paragraph are in addition to the regular pay of the employee and to any awards made to that employee, and such payments shall not affect the entitlement or limit the amount of the regular pay, annuity, or other awards to which the employee is otherwise entitled or for which the employee is otherwise eligible.

(2) The balance of any royalties or related income earned during any fiscal year after paying the inventors' portions under paragraph (1) shall be transferred to the agency's Government-operated laboratories with a substantial percentage being returned to the laboratories whose inventions produced the royalties or income. Such royalties or income may be retained by the laboratory up to the limits specified in this paragraph, and used—

(A) for mission-related research and development of the laboratory;

(B) to support development and education programs for employees of the laboratory;

(C) to reward employees of the laboratory for contributing to the development of new technologies and assisting in the transfer of technology to the private sector, and for inventions of value to the Government that will not produce royalties;