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August 24, 1984

Mr. Frederick N. Khedouri
Associate Director, Natural Resources,
Energy and Science
U. S. Office of Management and Budget
Room 260 Old Executive Office Building
Washington, D.C. 20503

Dear Mr. Khedouri:

I write to call your attention to the existence of continuing opposition within the Department of Energy to the implementation of the President's new policies regarding contractor ownership of inventions developed under federal research and development contracts.

The Department of Energy (DOE) has taken no actions to comply with President Reagan's February 18, 1983 Patent Policy Memorandum. To the extent permitted by law, the Memorandum directed the heads of agencies to give all contractors the same, or substantially the same, right to own inventions resulting from Government research and development (R&D) funding that the Dole-Bayh Act (38 U.S.C. 35) gave to small business and nonprofit organizations.

The Fact Sheet released with the Memorandum stated that the National Aeronautics and Space Administration (NASA) and the Department of Energy operate under statutes that are inconsistent with the President's policy, but are expected to make maximum use of flexibility available under their statutes to comply with the provisions and spirit of the policy. The attached background paper shows that DOE has wide authorities to waive ownership of inventions at the time of contracting under the Nonnuclear Energy Research and Development Act of 1974, and the Atomic Energy Act, but has made virtually no attempt to use them. The agency has even prevented the nonprofit operators of its Government-owned laboratories from owning their inventions by making blanket use of an exception provision in the Dole-Bayh Act (which I authored).

The Administration and I have been seeking to establish the concept of contractor ownership of all Federally funded inventions in law. Legislation proposing contractor ownership and repealing DOE's authority, which has been used by the agency to generally retain ownership, has been endorsed in a

Cabinet Council Resolution, three letters from the President's Science Advisor to congressional committee chairmen, and OMB approved testimony before House and Senate committees during the current and previous session. In spite of this clear position, DOE staff have recently been trying to influence Congress to exclude DOE from operation of H.R. 5003 and S. 2171 (which I introduced), the current bills providing for changes in the law needed to implement an agency-wide uniform contractor ownership policy.

Finally, DOE has not implemented the patent part of the Federal Acquisition Regulation (FAR) and continues to use the same patent clauses in its procurement contracts that it has used for years, which constitute a substantial burden on private sector contractors.

Overall, DOE has consistently resisted making its patent policies conform with those of the Administration. I believe that OMB should use its statutory authority to require a review of DOE's 48 CFR 927.3--Patent Rights Under Government Contracts, issued as a final rule in the Federal Register on March 28, 1984--for the purpose of revising it to be consistent with Administration directives.

I look forward to hearing from you on this matter in the near future.

Sincerely,

BOB DOLE
United States Senate

Encl: Fact Sheet

Copies to:

Vice President George Bush
Hon. Danny J. Boggs, Deputy Secretary Department of Energy
Mr. James Tozzi, 1333 New Hampshire Ave., N.W., Suite 900, Washington, D.C. 20036
Mr. Douglas H. Ginsburg, Administrator for Information and Regulatory Affairs, OMB, Washington, D.C. 20503

BACKGROUND ON GOVERNMENT PATENT POLICY AND DOE PATENT STATUTES

The President's February 18, 1983 Memorandum on Government Patent Policy

The operative paragraph of the President's Memo indicates:

> "To the extent permitted by law, agency policy with respect to the disposition of any invention made in the performance of a federally-funded research and development contract, grant or cooperative agreement award shall be the same or substantially the same as applied to small business firms and nonprofit organizations under Chapter 38 of Title 35 of the United States Code."

The Memorandum was accompanied by a Fact Sheet that indicates:

> "Those agencies, such as National Aeronautics and Space Administration and the Department of Energy, which continue to operate under statutes which are inconsistent in respects with the Memorandum, are expected to make maximium use of the flexibility available to them to comply with the provisions and spirit of the Memorandum."

DOE Patent Statutes

Paragraph 5980(a) of the Federal Nonnuclear Energy Research and Development Act of 1974, indicates, in part that,

> "Whenever any invention is made or conceived in the course of or under any contract of the Secretary...title to such invention shall vest in the United States, and if patents on such inventions are issued they shall be issued to the United States, unless in particular circumstances the Secretary waives all or any part of the rights of the United States to such invention in conformity with the provisions of this section." (Underlining added.)

In addition, Paragraph 5980(c) of the Federal Nonnuclear Energy R&D Act indicates, in part that:

> "Under such regulations in conformity with the provisions of this section as the Secretary shall prescribe, the Secretary may waive all or any part of the rights of the United States under this section with respect to any invention or class of inventions made or which may be made by any person or class of persons in the course of or under any contract of the Secretary if he determines that the interests of the United States and the general public will be best served by such waiver...In making such determinations, the Secretary shall have the following objectives:" (Underlining added.)

(1) Making the benefits of the energy research, development, and demonstration program widely available to the public in the shortest practical time.

(2) Promoting the commercial utilization of such inventions.

(3) Encouraging participation by private persons in the Secretary's energy research, development, and demonstration program.

(4) Fostering competition and preventing undue market concentration or the creation or maintenance of other situations inconsistent with the antitrust laws.

Further, Section 2182 of the Atomic Energy Act indicates, in part that:

> "Any invention or discovery, useful in the production or utilization of special nuclear material or atomic energy, made or conceived in the course of or under any contract, subcontract, or arrangement entered into with or for the benefit of the Commission, regardless of whether the contract, subcontract, or arrangement involved the expenditure of funds by the Commission, shall be vested in, and be the property of, the Commission, <u>except that the Commission may waive its claim to any such invention or discovery under such circumstances as the Commission may deem appropriate, consistent with the policy of this section.</u>" (Underlining added.)

From these quotes, it is clear that DOE has broad authorities under both of its primary statutes to make class waivers which would allow contractors to own their inventions. The rationale that accompanied the 1983 President's Memorandum is almost identical with the objectives established by the Nonnuclear Energy Act for making waivers.

On March 28, 1984, DOE published its 48 CFR Ch 9, Acquisition Regulations as a Final Rule thata continues its former policies of Government ownership without change. Subpart 927.3--Patent Rights Under Government Contracts says:

> (a) The provisions of 41 CFR 9-9.1 shall continue in effect...

<u>Nonprofit Contractor Operators of Government-Owned Laboratories</u>

DOE's treatment of the nonprofit organizations that operate its Government-owned (GOCO)laboratories resolves any doubt about the agency's failure to respond to the President's policy. Section 202(a) of Public Law 96-517 says:

"Each nonprofit organization or small business firm may... elect to retain title to any subject invention: Provided, however, that a funding agreement may provide otherwise (i) when the funding agreement is for the operation of a Government-owned research or production facility..."

P.L. 96-517 went on to change DOE's statutes as they relate to small business and nonprofit organizations. Section 210 (a) says:

"This chapter shall take precedence over any other Act which would require disposition of rights in subject inventions of small business firms or nonprofit organizations contractors in a manner that is inconsistent with this chapter, including but not not necessarily limited to the following:

"...(6) section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182, 68 Stat. 943);

"...(12) section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5901, 88 Stat. 1878)."

With parts of its basic statutes repealed, the Department can only insist on taking title to inventions made by the nonprofit operators of its Government-owned laboratories by using the (GOCO) exception in section 202(a)(i). DOE has consistently used this exception since passage of P.L. 96-517 and insisted on the right of Government ownership. This is exactly opposite to the President's memorandum directing agencies to allow contractor ownership wherever permitted by law.

The Federal Acquisition Regulation (FAR)

DOE is not in compliance with the Federal Acquisition Regulation which implemented the February 18 President's Memo. The March 28 Final Rule was published just two days before the Patent Part (Part 27) of the FAR was issued as a final rule. The FAR contains a Government ownership patent clause for use in exceptional situations that is significantly different from the clause that DOE continues to use in virtually all its contracts without any authority other than reliance on the above quoted sections of their statutes.

One significant difference is that the FAR clause does not allow the Government to automatically obtain rights to inventions that a contractor has made with his own funds prior to the contract. The DOE clause may include a provision that allows the agency to require the contractor to give the Government rights in its privately funded inventions. This is in violation of the FAR clause and in direct conflict with the President's Memorandum.

Conclusion

Althought DOE has wide latitude to make class waivers under two major statutes, a Presidential statement of policy objectives that coincide with the objectives for issuing waivers under one of the statutes, a Government-wide statute that directs nonprofit contractor ownership of inventions unless an exception is made, and internal procedures that indicate flexibility, the agency continues to support and impose a policy of Government ownership. It has even continued the reference to the superseded 1971 President's Memorandum on Patent Policy in its most recent Final Rule on patent regulations notwithstanding that is inconsistent with the February 18 Memorandum.