June 15, 1983

INTELLECTUAL PROPERTY ISSUES FOR THE CABINET COUNCIL

1. Contractors' rights of invention ownership under regulations that govern Federal R&D funding. The Cabinet Council has consistently supported the concept of contractor ownership of inventions and endorsed legislation to achieve it. When the Schmitt Bill became stalled in the last session of Congress, Commerce requested and obtained a Presidential Memorandum directing agencies to allow nearly all R&D contractors to own inventions under policies that are the same or substantially the same as those applied to small businesses and nonprofit organizations. Implementation of this Memorandum is being thwarted by the patent staffs of DOD, NASA, and Energy, who have controlled the drafting of GSA interim Federal Procurement Regulations (FPR) and the patent section of the new Government-wide Federal Acquisition REgulation (FAR). These regulations have been drafted to allow contractor ownership, but under policies and terms that are substantially different from those extended to small businesses and non-profit organizations. The differences are more burdensome to the firms, and can lead to uncertainty of ownership that discourages major development investments. The regulations are not compatible with the Administration's philosophies or policies for Government relationships with the private sector.

The patent attorneys occupy an almost unique position in the Government. As acknowledged experts in their field, there is little review of their activities, which are largely concerned with protecting the interests of the Government in its role as a buyer of goods. Commerce believes that while the new regulations are out of step with the need to increase private sector use of Federally funded technologies, there is neither an organization nor a process for reviewing the regulations and forcing corrective action. Present plans call for review of the regulations and

public comments by agency procurement staffs. But the terms of contractor ownership are not procurement issues, and the procurement staffs do not necessarily understand the business, economic, and international competitiveness implications of various alternative invention ownership policies.

Alternative actions the Cabinet Council might take include:

a. The members direct their agencies' procurement and patent staffs on the Administration's policies they are to support. (A proposed policy statement for Council endorsement would be provided.)

b. Call upon OSTP to approve the charter for the new Interagency Committee on Intellectual Property, and direct their agency members to support the Administration's policies.

c. Call on the drafters of the FPR and FAR to explain and justify the differences between their proposals for these regulations and the poli ies extended to small businesses and nonprofit organizations.

d. Call on OMB to use its authorities and influence in ~~both~~ procurement, regulation management, budget, and program areas to cause the creation of invention ownership policies that are the same or substantially the same for all classes of R&D performers.

e. Recommend issuance of an executive order to replace the Presidential Memorandum with more specificity and carry the force of law in directing uniformity until a new statute is enacted.

f. Direct redrafting of the FAR and FPR so that the policies and procedures for all classes of R&D performers are as similar as possible.

2. Expanding use of technology produced by Federal laboratories. The Packard Report, the Business-Higher Education Report, and the Energy Research Advisory Board Report all recommend sweeping improvements in the way the Federal laboratories collaborate and cooperate with industry. There are five major changes that must be made to achieve what these reports call for:

° The contract operators of Government laboratories (GOCOs) should be treated like all other contractors and be allowed to own the inventions they produce.

° There need to be clear authorities and incentives for the Government operated labs to collaborate with industry and actively promote commercial use of the new technologies they produce.

° There should be focal points for each laboratory that can negotiate "deals" with industry on industry funded work, prospective ownership of the results, and transfer agreements including patent licenses on all technologies produced by the lab.

° A MANAGEMENT system is needed for identifying-evaluating-protecting-promoting-licensing inventions. The system must require coordination between the technology transfer offices established under the Stevenson-Wydler Act and the agency patent staffs through the full MANAGEMENT cycle.

° There must be significant incentives for employees that reward for invention and sustained efforts to achieve commercialization.

In addition, a lead agency should be identified to work with the agencies and laboratories to help them through advice, information exchange, outside contacts, and training, as well as provide management guidelines/regulations for improved private sector interaction. This would be an appropriate role for Commerce and would be compatible with its lead agency role for patent policy.

Among the actions the Council might take are:

a. Endorse a policy statement on the role of the Federal laboratories in supporting the economy, and transmit it to their own agencies' labs.

b. Endorse a statement of principles to be followed by all agencies in improving the way technology management and business relations are handled by the laboratories.

c. Recommend an executive order on the roles and policies for increasing Federal laboratory cooperation with the private sector.

d. Recommend and support legislation.

e. Recommend a lead agency role for Commerce

3. R&D contractors' rights to technical data. There are no statutes or Executive Branch policy statements on ownership of technical data (trade secrets) that result from Federal R&D funding. The de facto policy has been Government ownership -- particularly by the agencies that procure products based on Government sponsored research.

Government ownership of technical data inhibits private sector use of new technologies for several reasons:

° Unless classified, domestic and foreign competitors can obtain technical data through the Freedom of Information Act.

° There are few effective Government programs or techniques for transferring technical data for commercial use while also protecting the data. There is little akin to patent licensing.

° Although the best organizations to use technical data, the creating organizations are often reluctant to make significant investments in new products if there is a possibility that the Government may release it.

There is strong reason to believe that contractor ownership of technical data would achieve the same benefits to the economy as contractor ownership of inventions. The two are closely related. The developing firms, by acting in their own best interests, would protect the data from premature publication, control disclosure to competitors (particularly foreigh), and use the data as the basis for new products if possible.

Under a policy of contractor ownership, the Government's needs for technical data for such purposes as product evaluation, procurement, and maintenance can be provided for in the R&D contract. The contractor would

be allowed to designate data as proprietary to prevent Government disclosure for other purposes.

Although the principles appear clear, there has not been a study or review of the Government's technical data ownership policies. Such a review could be made either by the Executive Branch or by the Congress through hearings. Some review is needed before new policies are developed.

Alternative actions the Council might take include:

a. Request the new Interagency Committee on Intellectual Property to undertake a review of how alternative technical data policies would serve both Government and private sector needs.

b. Endorse or request a Government-wide review by Commerce, with inter-agency coordination and participation.

c. Recommend that an outside panel be established to make recommendations.

d. Recommend introduction of legislation to at least begin development of the issues and build a constituency.

4. Legislation. There are three possible subjects for legislation: contractor ownership of inventions including contract operators of Government-owned laboratories, enhancement of business cooperation and technology management in the laboratories, and technical data. The first was included in the Administration supported Schmitt Bill that did not pass in the last session of Congress. It is being reintroduced and the chances of passage in the Senate appear good, while those in the House are less clear. A limited alternative would be amendment NASA and Energy statutes that favor Government ownership as two separate actions.

Improving the coordination of the laboratories with business and enhancing lab technology management would be a logical enhancement to the Stevenson-Wydler Act, or it could be included with invention ownership.

Technical data is a completely new subject for legislation, and could

approached from three different ways:

a. Inclusion in a single proposal with contractor ownership and improved laboratory management. This would be clean and combine all related parts in a syngle system package. But since the issues of technical data have not been widely considered, disagreements about this component could delay the other two parts.

b. Separate legislation based on the principle of contractor ownership, introduced in hopes of passage, but to at least begin to establish a record and constituency.

c. Amend the Freedom of Information Act. This would be consistent with present agency practices of Government ownership. If accompanied by proper implementing regulations to protect the commercial use interests of contractors, it would remove some risks of providint data to the Government. It could also solve problems of legally sanctioned disclosure that hamper other Government operations in regulatory areas.