Department of Energy
Washington, D.C. 20585

March 5, 1982

Mr. Robert E. Carlstrom
Assistant Director for Legislative Reference
Office of Management and Budget
New Executive Office Building
726 Jackson Place, N.W.
Washington, D.C. 20503

Dear Mr. Carlstrom:

Re: Senate Commerce Committee Staff Revised Draft of
S. 1657/Uniform Patent Policy Bill

We are pleased to respond to your Legislative Referral Memorandum dated February 24, 1982, inviting agencies to a meeting to discuss the latest Senate staff version of S. 1657. A DOE representative will attend the meeting. However, I wish to record the concerns of the Department of Energy regarding S. 1657 now, because we were unfortunately not able to submit our position last year owing to time constraints then imposed.

First, the Department welcomes and supports comprehensive legislation on Government patent policy that will enable Government contractors generally to retain ownership of their inventions, subject only to protection of appropriate governmental interests. In our opinion, such legislation will best serve the public interest, because it is the most effective way, we believe, for bringing inventions made in Government programs into commercial use and thereby making them available in fact for the benefit of the public. It takes fullest advantage of the incentives built into the patent system to stimulate private investment in commercializing and practicing new inventions. Government ownership of inventions, although sometimes necessary for separate reasons of policy, is generally less effective, we think, unless coupled with an active licensing program, including exclusive licensing.

This being said, we nevertheless are severely disappointed and concerned by a number of provisions in the latest Senate staff draft, and we are fearful that the lack of balance in this version will not only be bad policy but will jeopardize opportunities for favorable action by the Congress.

The staff draft varies considerably from the proposal forwarded by OMB to the Congress, and overturns several important accommodations of various agency concerns in that proposal. In addition, the current staff working draft retains several proposals that were contained in the version of S. 1657 forwarded to Congress by OMB with which the Department of Energy remains in disagreement, notwithstanding its commitment stated above to a new policy.

The working draft as a practical matter would render ineffective any residual rights in the Federal Government to inventions that the contractor does not wish to retain. In addition, it would unwisely replace certain beneficial R&D procurement policies with provisions that would make it difficult or impossible to monitor contractor performance.

The draft bill would continue to provide patent policies for small business and nonprofit organizations that are different from those for other business organizations. However, it would also make extensive modifications in Public Law 96-517 which established the policies a year ago for small business and nonprofit organizations. If this law is to be modified so extensively, and we are not sure that it is sound legislative strategy to do so, we think it would be better to treat large and small business in the same manner, and single out only educational institutions for separate treatment. In addition, as stated below, we think many of the modifications proposed for Public Law 96-517 are undesirable.

Our specific concerns are as follows:

(a) Section 301(a) defines certain areas of contracting activity where the Government will initially reserve the right to retain title to inventions made under the contract. One such area in the past has been contracts for Government-owned research or production facilities. This policy was formally established on a Government-wide basis by the first Presidential Memorandum and Statement of Government Patent Policy issued in 1963 which was later affirmed and reissued in 1971. This policy was also enacted by Congress in P.L. 96-517 and is presently in the proposed legislation on Government patent policy introduced in the House as H.R. 4564.

This area is unique to the Department of Energy. We are the only agency of the Federal Government that makes extensive use of GOCO contractors. DOE essentially has no in-house R&D capability as does NASA or DOD. DOE in many respects uses its GOCO contractors, particularly the DOE national laboratories, as other agencies utilize their Government-operated laboratories. As a result, the national laboratories participate in proposing and carrying out the R&D projects of the Department. If, as GOCO contractors, they were automatically allowed to reatin title to the technology that they recommend be funded by taxpayer monies, an extraneous and conflicting element could be introduced into their relationship with the Department. A subtle but potentially far-reaching change could be felt in the DOE laboratory relationship, and the conflict, or appearance of conflict, of interest could corrode this relationship.

Additionally, the multi-year R&D programs funded at these laboratories are not competitively available to industry and the university community, as are normal R&D contracts. In this sense, GOCO contractors are in a uniquely favorable position, and over the years, elaborate steps have been taken to insulate the work they do for DOE from their other activities, commercial or otherwise.

Finally, DOE's national laboratories are of particular concern because they conduct the research and development for DOE's nuclear weapons programs. The technology developed by the weapons program is frequently applicable to the parallel, civilian nuclear programs even though the technology is often classified or otherwise sensitive. We believe it should not be subject to automatic commercialization without appropriate controls. Examples of such technologies are fusion energy programs, the separation of uranium isotopes, and the Naval Reactors Program.

It is imperative, in our opinion, that the a longstanding patent policy as applied to GOCO contractors not be reversed unless the impact of doing so is very carefully reviewed. DOE believes that the appropriate policy in regard to GOCO contractors should be as provided in P.L. 96-517. That legislation does not automatically grant patent rights to GOCO contractors, but the legislative history indicates that such rights may be granted to the GOCO contractor at the discretion of the agency. We believe that an administrative policy of liberally granting waivers to stimulate private investment in GOCO contractor inventions is both feasible and desirable, and would carry out the fundamental policy objectives of the draft legislation without upsetting a traditional relationship that has worked well.

(b) Section 301(a)(1) allows the Government to retain title to inventions where an agency is authorized to conduct foreign intelligence or counter-intelligence activities. Although this provision is found in P.L. 96-517, it is essentially useless to the major research and development contracting agencies. It is recommended that this provision be replaced by the parallel provision of H.R. 4564 set forth in Section 301(a)(2) thereof. This provision allows the Government initially to take title in order to protect the national security nature of the agency's R&D activities. This would enable DOE to protect sensitive nuclear technologies where unsupervised commercialization is not desirable.

(c) As written, the criteria in Section 301(a)(3) referring to contractors "located" in the United States, contractors which are a foreign government, or contractors which are subject to the "control" of a foreign government, are imprecise, and difficult to apply. They may be considered as being discriminatory. A contractor could possibly be deemed to be "located" in the United States or be considered as having a place of business "located" in the United States simply by having an individual in the U.S. who is designated as an agent. Additionally, the agencies would have no way to determine at the time of contracting if a proposed contractor was "controlled," whatever that means, by a foreign government. Paragraph (5) of Section 301(a) of H.R. 4564, which maintains existing policies in this area, is much to be preferred.

Any hardship that this approach may cause to a U.S. contractor that is intending to perform part or all of its R&D activities outside the United States can be adequately addressed through application of the waiver provisions of Section 303. In this manner, the legislation would best support U.S. industry, labor, and the U.S. economy.

(d) Section 302(b) defines the license retained by the contractor whenever the Government obtains title. Historically, this license has been limited to the "domestic" affiliates and subsidiaries of the contractor. It is noted that the word "domestic" has been deleted from the current staff working draft. Unless there is some strong reason for modifying the current policy which has existed for 20 years or more, it is recommended that the license be limited to the contractor's "domestic" affiliates and subsidiaries. This would appear to better support the "national" concerns addressed in Title I of the bill.

(e) Sections 305(a)(1) and (2) should be deleted and paragraphs (1), (2), (3), and (6) of Section 202(c) of P.L. 96-517 should be substituted therefor. In general, paragraphs (1) and (2) of Section 305(a) are much too detailed, cover provisions normally set forth in regulations, and limit flexibility necessary to the procuring agencies which is ordinarily available through the drafting of implementing regulations. Even more important, perhaps, they reflect a serious lack of balance between the rights of the contractor and the appropriate concerns of the Government; a lack of balance that could jeopardize this legislation which is otherwise quite necessary.

Paragraph (1) provides that the contractor need not disclose a subject invention until that invention has been disclosed to personnel of the contractor responsible for the administration of patent matters. This is a substantial and harmful deviation from well established procurement policy, under which inventions must be reported to the Government within six months from the "making" of the invention unless the contracting officer agrees to a longer period of time. The proposed provision places no responsibility whatsoever on the contractor to insure compliance with the patent provisions by requiring the disclosure of an invention in a time certain. If the inventor happens not to disclose the invention to the contractor's personnel responsible for patent matters (which may not even include the inventor's supervisors), the contractor has no responsibility for disclosing inventions to the Government. Such a situation is clearly adverse to a legitimate interest of the Government. The parallel provision which adds this language to P.L. 96-517 is equally objectionable.

Paragraph (2)(A) of Section 305(a) gives the contractor two years to make an election on whether the contractor wishes to keep title to the invention after it is disclosed to the Government. This changes years of uniform Government patent procurement policy under which the contractor chooses whether to elect title to an invention at the time the invention is disclosed to the Government, a period of six months after the invention was made. No reason is seen for modifying this well-established procurement practice.

Alternatively, paragraph (2)(A) provides that election must be be made 60 days prior to the end of the one year statutory bar period under U.S. law. This, by definition, permits the contractor in effect to destroy any of the Federal Government's residual foreign rights to any invention not elected by the contractor, because foreign patent laws, unlike the U.S. law, does not

provide a one year grace period. Such a provision would seem to negate any intent to protect a wholly legitimate interest of the United States in inventions made under public funding. Parallel provisions that are intended to similarly amend P.L. 96-517 are objectionable for similar reasons.

Paragraph (2)(B) of Section 305(a) also effectively destroys the Government's residual rights by allowing the contractor to file the initial patent application up to "... prior to any statutory bar date that may occur." Accordingly, the contractor is given the entire period of time provided under the statute to file the domestic patent application, and if the contractor changes his mind or otherwise fails to protect an invention, the Government has no time remaining in which to protect even a domestic application on behalf of the Federal Government. This provision thus ignores an appropriate interest of the Government. The parallel provision intended to amend P.L. 96-517 is equally objectionable.

In summary, the proposed draft substantially modifies both S. 1657, as introduced, and P.L. 96-517. In addition, the bill deviates substantially and unnecessarily from existing procurement policies that are consistent with the basic policy of the bill. It is recommended that a working group be established, which includes the major R&D sponsoring agencies, to draft an appropriate Administration response to this staff draft.

Sincerely,

R. Tenney Johnson

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General Counsel