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FROM
JAMES D. JOHNSTON
VICE PRESIDENT
INDUSTRY-GOVERNMENT RELATIONS

TO Betsy Aucher-Johnson

This looks like a serious problem for the USABC and possibly other consortia.

From your Commerce background, do you have any thoughts on how to approach it?

JDJ
2/26/92

PS. I've just received but have not read the Jamerson letter. It may add useful info.

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Bad News: Battery Charges

Battery Charges

By Lucy Reilly
SENIOR STAFF WRITER

January's Rose Garden celebration launching the U.S. Advanced Battery Consortium is becoming a hollow victory for the Bush administration with the growing realization that the event violated White House policy to help smaller companies—and at the very least bypasses federal law.

The $260 million consortium unites the Department of Energy, General Motors, Ford, Chrysler and the Electric Power Research Institute in developing advanced battery technologies for electric vehicles under the government's Cooperative Research and Development Agreement (CRADA) program.

However, any company other than EPRI or the Big Three automakers that participates in the USABC must first, to receive any DoE funding, relinquish intellectual property rights to any developments arising out

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of DoE-funded research, said technology transfer experts.

DoE will then provide funding for conducting research on electric vehicles—and waive the exclusive rights to the consortium for automobile applications. Thus if "junior" members participating in the consortium "make a commercial breakthrough on new batteries, USABC gets it for nothing," said one technology transfer insider. The Big Three would reap all the benefits, both financial and technical.

That, the experts added, violates the intent of a CRADA, created by Congress in 1989, and the provisions of the decade-old Bayh-Dole Act, which stipulates that small businesses and nonprofit organizations should receive preferential treatment from all federal agencies concerning rights surrounding inventions developed through federally funded research.

Further, by swallowing up the property rights of smaller companies and organizations, DoE effectively eliminates all incentive for an inventor to commercialize an effort with the USABC—a contradiction of a highly publicized memorandum issued a year ago by Energy Secretary Adm. James Watkins.

"It's a terrible precedent. It's cherry-picking the winners."

"It's just a terrible precedent," said Lita Nelsen, associate director of the Massachusetts Institute of Technology Technology Licensing Office and president of the Association of University Technology Managers. "It's cherry-picking the winners. As soon as it looks good, somebody will come after it."

Technology transfer experts attribute the current situation to legal wrangling by attorneys from both DoE and the Big Three, who appear to have swept aside previous participation negotiations in an effort to push the deal through quickly.

"It was a lawyer's special" ostensibly designed to centralize ownership in the consortium to bring prompt commercialization of the technologies, said one insider. Yet the majority of innovative designs are expected to hail from smaller businesses, now being warned against participation in the USABC by many federal and private tech-transfer specialists who believe the only beneficiaries will be EPRI and the Big Three.

Following direction from J. Michael Davis, DoE assistant secretary for conservation and renewable energy, the USABC recently requested approval from the Commerce Department to deviate from existing U.S. laws based on "exceptional circumstances," said Commerce Under Secretary of Technology Dr. Robert White on Jan. 15. White did not approve the request.

"DoE has concluded that small businesses and nonprofit organizations should be precluded from owning all the rights in their inventions relating to advanced battery research funded by the department," White wrote in his answer to DoE.

"The determination relies upon centralized decision-making, ignores the needs of small businesses and nonprofit organizations and removes any incentives for them or their employees to work with USABC," he added.

The Small Business Administration also wrote a letter to DOE, which noted the unfair treatment by DoE and the managers of the USABC, composed of senior personnel from Chrysler, Ford and GM.

When announced last fall, the consortium was well received and regarded as one of the first major initiatives tying together industry and government. Funding for the program is to be shared equally, with DoE giving $130 million over five years and industry committed to match it.



UNITED STATES ADVANCED BATTERY CONSORTIUM

Mr. Robert M. White
Under Secretary for Technology
US Department of Commerce
Washington, D.C. 20230

December 4, 1991

Dear Mr. Under Secretary,

We understand you have concerns abut the intellectual property provisions contained in the Cooperative Agreement between USABC and the US Government, with particular reference to the application of the Bayh-Dole exceptions. Perhaps the following information will assist you to understand why the USABC considers that a Patent Waiver and Statement of Exceptional Circumstances are essential prerequisites to our being able to use the DOE National Laboratories in the advanced battery research effort now commencing.

The USABC is dedicated to the early commercialization of advanced battery technology and establishment of a North American manufacturing capability for electric vehicle traction batteries. The California requirement for zero emission vehicles in the near future forces the USABC to focus on an aggressive timetable and an approach which excludes the purely theoretical in favor of a product development engineering approach, leading to production of marketable batteries in a finite period of time. The employment of significant research funds of the USABC's automotive partners is done with the expectation they will obtain a competitive advantage over foreign automotive producers who are conducting their own aggressive research efforts, and are not contributors to the USABC or participants in the US national strategy.

Various participants in the project have various business interests which cause them to join together in pursuit of the national goal. The automotive partners desire assured North American sources of traction batteries at competitive prices. They do not want to pay royalties on batteries developed with their research funds. There is an expectation that other Original Equipment Manufacturers (OEM) who may wish to purchase and use the developed batteries will have to pay a royalty to do so. The participating electric utilities desire to achieve, as a result of their investment, a preferred position in technology of future importance to their industry, such as load leveling. Free riding public utilities, like free riding automotive companies, should not benefit at the same time or on the same terms as those companies contribute directly to the consortium. Battery companies wish to expand their business into the potentially profitable EV market, and those who contribute cost share, as well as

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their background knowledge and their expertise also expect to obtain some protection for their competitive position as a result of their investment.

The National Laboratories have developed technology, including some technology covered by patents, which is of interest to the USABC, facilities useful for research and testing, and qualified people whose talents could benefit the project. However, the National Laboratories are encumbered with rules and procedures which, if they cannot be moderated, make them unattractive business partners. Preferential access by the USABC to the technology developed with its funds and under its management might not be assured if the laboratory and/or its employees were awarded ownership of that technology under Bayh-Dole. The labs have legal, contractual and philosophical preferences for publication which are inconsistent with the USABC's goals as outlined above. The FOIA and other disclosure policies are also a problem.

These are not merely theoretical concerns. A potential commercial subcontractor of great importance to the USABC refused to allow its batteries to be tested at the DOE National Laboratories because it did not believe its background technology could or would be effectively protected there. Another potential subcontractor has voiced concern over leakage by non-discretionary licensing of technology developed at National Laboratories to foreign competitors in the non-automotive battery business. One laboratory, operated by a university, offered the USABC "Supplemental CRADA Terms" requiring publication of research without significant limitations and stated this requirement was not negotiable. An employee of a national laboratory, who owns a patent, is offering to license his technology to the USABC or other subcontractors. We understand ownership of this patent may have been obtained through Bayh-Dole's under previous government funded work at the Laboratory. The USABC is not critical of this situation, but on the other hand is not willing to see labs and their employees obtain positions in the technology developed at USABC to use that technology, or which would not assure the technology would be protected for the benefit of North American industry.

All of these financial, competitive proprietary issues make for a difficult series of negotiations among the various parties involved to put together a major project of this sort. If the laboratories can be relieved from some of their more burdensome restrictions it seems clear they will be able to participate more effectively in these negotiations. If not, it is possible their role could be limited to testing some of the batteries, i.e., those batteries not containing sensitive proprietary background technology. In order to accommodate its concern and the policies which underlie Bayh-Dole, the Cooperative Agreement awards to the USABC exclusive rights to foreground inventions for vehicle uses, subject to



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the rights of the Bayh-Dole beneficiaries to receive any royalties produced, and to the exclusive rights for all other uses as described in detail below.

Among the other reasons for our conclusion that individual inventor ownership should not be totally unrestricted were the following:

- A key part of the financial strategy is to incentivize cost sharing subcontractors. The "trade goods" available to the USABC in a negotiation with developers would be very limited, especially in the case of small businesses or universities, if those potential subcontractors already could claim ownership of any developments produced, due to the application of Bayh-Dole. In order to accommodate this concern and the policies which underly Bayh-Dole, the Cooperative Agreement awards to the USABC ownership of foreground inventions, subject to the rights of the Bayh-Dole beneficiaries to receive any royalties produced.

- Another key strategy is to enable the structuring of an overall royalty scheme to meet the competitive and other goals of the various participants described above. Both business and legal reasons support this strategy.

- A related matter is the need for fairness and balance in the arrangements made with the various participants. Commercial companies would be unwilling to subcontract with the USABC on reasonable commercial terms, if they were aware the national laboratories were able to contract on concessionary terms required by law or government policy.

- The government requires recoupment of its investment. Royalties on sales based on the foreground technology to non participants provide a source of income to fund that recoupment.

- Fundamental fairness for all participants must be assured, in order to avoid disincentive to "the brightest and best" whom we wish to attract to this project. In this complicated transaction, the USABC Management Committee is the only place where all parties will be heard and any unfairness remedied. Although the DOE representatives to the Management Committee do not vote, the Cooperative Agreement provides that any disagreement about a major programmatic issue which results in a failure of consensus may be taken to the Assistant Secretary of Energy for Conservation and Renewable Energy. Moreover, USABC subcontracts and program plans must be reviewed and approved by the Government. DOE participation in the management of the USABC and DOE approval of USABC subcontracts and program plans assures adequate review of the arrangements achieved through arms length negotiation.



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During the negotiation of the Cooperative Agreement, the USABC proposed to simply take title to all foreground inventions, in order to control their disposition (but not the income therefrom). DOE Patent Counsel considered that the protection of USABC's concerns as outlined above could be accommodated without stripping from Bayh-Dole beneficiaries so much of the rights they would otherwise obtain. The Cooperative Agreement was therefore carefully drawn to reserve for the Bayh-Dole beneficiaries the right to benefit from non-automotive, applications and limit the exceptional arrangements to those really necessary to carry out the plan of commercialization of the technology being pursued by the USABC. Moreover, the Cooperative Agreement provide for retention of exclusive rights by the Bayh-Dole beneficiaries (in spite of USABC exclusive rights) which assures their right to license fees and royalties flowing not only from non-automotive uses, but even from automotive uses licensed to OEM other than USABC partners.

We believe some concerns about the arrangements under which we are operating would be alleviated if people understood more of the details of the various arrangements. The USABC/DOE Cooperative Agreement does not preclude the negotiation of CRADA or other appropriate agreements with the National Laboratories. It is likely that when subcontracts are concluded with the battery researchers and the national laboratories, some of the concerns which are now speculative will disappear. We have already seen that result during discussions at some of the laboratories.

We welcome your interest in the success of the USABC and this very important national project. We hope to enjoy your continued support, and to that end will consider any request for additional information you need to satisfy a particular concern or respond to a particular constituent.

Yours truly,

Frank E. Jamerson
Secretary, USABC

klk

cc: Ken Baker
Bob Davis
John Brogan
Jack Guy
Norm Thorpe
John Wallace