XC for Nils Riemers FROM N. Reimers

AMERICAN COUNCIL ON EDUCATION
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WASHINGTON, D. C. 20036

1/24 TRIP file

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DIVISION OF GOVERNMENTAL RELATIONS
(202) 833-4736

January 18, 1979

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MEMORANDUM

RECEIVED
JAN 22 1979
PUBLIC AFFAIRS

TO: Howard Bremer
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Nan Nixon
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FROM: Sheldon Elliot Steinbach Shelley

SUBJECT: Domestic Policy Review - Draft Report on Patent Policy

Attached are excerpts from the above-noted draft report including the summary and the complete text of Proposal V which is the most germane to our interest.

Please note the Public Symposia Schedule with the session relating to patents being held on January 24.

cc: Bob Barlow

JAN 12 1979

NOC

DRAFT REPORT

ON

PATENT POLICY

A Draft Report of the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation established as part of the Domestic Policy Review

December 20, 1978

Notice: This report represents the views of the Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation, an advisory committee convened by and reporting to the Secretary of Commerce. The views of the Subcommittee do not necessarily represent those of the Department of Commerce or any other agency of the Federal Government.

FOREWORD

A domestic policy review of industrial innovation is being conducted as a result of President Carter's concern for the status of industrial innovation in the United States. This review is being directed by the Industrial Innovation Coordinating Committee, chaired by Secretary of Commerce Juanita M. Kreps.

An Advisory Committee on Industrial Innovation has been established that will bring to bear the views of business and industry, organized labor, the public interest, and the academic community expert on the subject. The subcommittees created under this Advisory Committee are examining a wide array of federal programs and policies that impact upon industrial innovation.

This Draft Report on Patent Policy was prepared by the Advisory Subcommittee on Patent and Information Policy under Co-Chairman-Information Policy Herbert R. Brinberg, President, Aspen Systems Corporation, and Co-Chairman-Patent Policy, Robert B. Benson, Director, Patent Law Department, Allis-Chalmers Corporation. The subcommittee, composed of representatives of the business and industrial community, has focused on economic and trade issues and their impact on industrial innovation.

The public portion of the domestic policy review will culminate in a series of seven public symposia to be held in January 1979. This report, together with those of the other advisory subcommittees, will form the basis for presentations and discussions at the symposia. The moderator for these symposia will be Dr. Jordan J. Baruch, Assistant Secretary of Commerce for Science and Technology.

Following is the membership of the Subcommittee on Patent and Information Policy, as well as the symposia schedule.

DOMESTIC POLICY REVIEW OF INDUSTRIAL INNOVATION

Public Symposia Schedule

Subcommittee on -	Date (1979)
Procurement	January 15
Direct Support of Research and Development	January 16
Environment, Health, and Safety Regulations	January 17
Regulation of Industry Structure and Competition	January 19
Economic and Trade Policy	January 22
Patents	January 24
Information	January 25

Location: All symposia will be held in the U. S. Department of Commerce Auditorium on the first floor of the Main Commerce Department building (entrance on 14th Street between Constitution and Pennsylvania Avenues, N. W.)

ADVISORY SUBCOMMITTEE ON PATENTS AND INFORMATION

Herbert R. Brinberg, Co-Chairman, Information
President
Aspen Systems Corporation

LES

*Robert B. Benson, Co-Chairman, Patents
Director, Patent Law Department
Allis-Chalmers Corporation

Rudolph J. Anderson, Jr.
Associate General Counsel
Merck & Company, Inc.

*Tom Arnold
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Henry L. Bachman
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Control Data Corporation

*Homer Blair
Vice President, Patents &
Licensing
Itek Corporation

Gloria Cohen
Consultant
Information Services

*Joseph A. DeGrandi
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*Joe Engelberger
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*Charles Heiken, Esq.

H.E. O'Kelley
President & Chief Executive
Officer
Datapoint Corporation

Dan Lacy
Vice President
McGraw-Hill

*Pauline Newman
Director, Patent & Licensing
EMC Corporation

Donald J. Quigg
Patent Counsel
Phillips Petroleum Company

William Ragan
Vice President, Research &
Development
Becton & Dickinson Company

*Eric P. Schellin, Esq.

Clarence Spangle
President
Honeywell Information Services

*David E. Sunstein

Leo J. Thomas, Jr.
Director of Research
Eastman Kodak

Lawrence Welke
President
International Computer Program

* Member of the Working Group on Patent Policy.

Summary

In general, the patent system has served the country well. Major overhaul of the patent system is not recommended. Nevertheless, some modification to the system could have a beneficial effect on innovation. The most serious problems with the patent system are the uncertainty about the reliability of patents and the long time and high costs associated with resolving such uncertainty through litigation. When proper consideration is given to these problems as they relate to those independent inventors and small businesses whose success--and indeed very existence--depends upon the innovation process, it becomes clear some changes must occur. These problems deter investment of the money required to commercialize an invention (a necessary and expensive step in the innovative process). It is here that modifications to the patent system can have their most beneficial impact. Steps should be taken to increase the assurance that a patent is a valuable piece of property, something that offers protection to subsequent investment.

The committee has identified four major goals to which attention must be addressed to enhance the innovation process through improvement of the present patent system:

1. Enhancement of the reliability of the patent grant to the inventor and those investing in the commercialization of his invention;

2. Reduction in the cost--both in time and money--of judicial enforcement of the rights derived from the patent;

3. Extension of the availability of commercial exclusivity derived from patents to technological advances presently denied patentability; and

4. Development of systems transferring the commercial rights to government supported inventions to those in the private sector capable of their innovation.

We have three major recommendations to improve the reliability of the patent grant.

1) Upgrade the Patent Office by:

   a. Providing an adequate examining staff to assure a rigorous high quality examination. This would increase confidence in the patents that are issued.

   b. Providing modern search tools that increase the probability of finding the relevant prior art. This would be a cost-effective investment by reducing search time per examiner, as well as reducing the frequency of subsequent proceedings to argue the prior art.

2) Provide a reexamination process -- available to all interested parties -- in order to ensure that the patentability of the invention described in the patent has been considered by the Patent Office in the light of all relevant prior printed publications.

3) Provide a central court to hear patent appeals. This would provide greater consistency in judicial decisions, thus reducing uncertainty.

To reduce the present cost of judicial enforcement of the patent grant, a request should be directed to the Supreme Court, and the Judicial Conference, to require each federal court to exercise a high degree of control over the conduct of patent litigation, with particular concern for the time and expense of discovery.

To foster commercialization of inventions made in governmental laboratories, under government research contracts and in university laboratories supported with federal funds, the subcommittee recommends that the commercial rights in such inventions be structured in a manner capable of being transferred to industry -- small or large -- to insure capital investment in their development. Such transfers should be subject to a license right reserved to the government to insure no further payment for governmental use of the invention.

The subcommittee also recommends clarifying the statutory standard of patentability and permitting licensees to agree not to attack the validity of licensed patents. An adequate extension of the patent term should be provided when commercialization of patented inventions is delayed due to federal regulations.

The subcommittee recommends establishment of foreign policy which encourages other countries to provide United States innovators the right to obtain enforceable patent rights, thus extending the incentive to commercialize United States innovations in international markets.

Further, study should begin of the appropriate extension of patent rights to presently unpatentable technological advances, with consideration to be given to patentability of new life forms for industrial applications, use-specific chemical formulations based upon unpatentable biologically active ingredients and computer software.

PROPOSAL V

Transfer Commercial Rights to Government-Supported Research to Private Sector

The United States patent system is designed to stimulate the progress of the useful arts by encouraging the public disclosure of new technology and making available to the public new products and processes utilizing this technology. It is not necessary to go through the expensive, time-consuming procedure of obtaining a patent to fulfill the function of disclosing information to the public. This can be accomplished by a simple publication. On the other hand, the patent grant has played an important part in commercializing inventions, making new products available to the public. The Federal Government does not normally participate in this function.

The theory of the patent grant is to give the inventor or his assignee the exclusive rights to his invention for a period of time so that he can invest the time and money necessary, commercialize the invention and develop a market for the product or process incorporating the invention. Since the government is not in the business of developing inventions for commercial use, it has no need to own patents. On the other hand, the government is a substantial user of products and services and in that context needs, or at least can benefit from, a license to use patents.

Experience has shown that the government, as a purchaser or consumer of goods and services, is not in a position to take advantage of its ownership of patents to promote enterprise. Private companies, on the other hand, who are in a position to utilize the patent grant are ordinarily unwilling to take a nonexclusive license under a government-owned patent and commit the necessary funds to develop the invention, since it has no protection from competition. This is a major reason that over 90 percent of all government patents are not used. Another important reason is that the government obtains patents on technology which, in the opinion of the private sector, does not provide an attractive business opportunity.

Several years ago, the Federal Council for Science and Technology supported the most thorough study ever conducted on the issue of government patents, commonly referred to as the Harbridge House Report. The following findings were included in the report:

> "Government ownership of patents with an offer of free public use does not alone result in commercialization of research results.
>
> "A low, overall commercial utilization rate of government-generated inventions has been achieved; that rate doubled, however, when contractors with commercial background positions were allowed to keep exclusive commercial rights to the inventions.
>
> "'Windfall profits' do not result from contractors retaining title to such inventions.
>
> "Little or no anti-competitive effect resulted from contractor ownership of inventions because contractors normally licensed such technology, and where they did not, alternative technologies were available."

The idea that what the government pays for belongs to the people is not only appealing, it is true. The question is: What instrumentalities can be brought to bear to maximize the possiblities that the people will indeed have available the fruits of their government's expenditures? Nonexclusive licenses to undeveloped inventions, offered by the government or anyone, have few takers, whereas patent ownership or exclusive licenses of sufficient duration are much more likely to attract the money and talent needed to make and market real products to meet consumer needs.

If the results of federally sponsored R&D do not reach the consumer in the form of tangible benefits, the government has not completed its job and has not been a good steward of the taxpayers' money. The right to exclude others conferred by a patent, or an exclusive license under a patent, may be the only incentive great enough to induce the investment needed for development and marketing of products. Such commercial utilization of the results of government-sponsored research would insure that the public would receive its benefits in the way of products and services, more jobs, more income, etc. The cost of government funding will be recovered from the taxes paid by the workers and their companies.

Therefore, all the members of this subcommittee recommend transferring the patent rights on the results of government-sponsored research to the private sector for commercialization. In the case of university or private contractor work sponsored by the government, the members of this subcommittee recommend that title to the patents should go to the university or private contractor, but some members feel the government should have "march-in-rights" (i.e., when the invention is not being used and it appears that there is a public need to use the invention, the government would have the right to transfer patent rights to those in the private sector willing to use the invention). With respect to inventions made by government employees at government expense, the subcommittee members are divided about equally between those who feel that the government employee should have title to the invention, and those who feel that such inventions should be transferred to an independent, non-governmental organization, perhaps modeled after the Connecticut Product Development Corporation*, or auctioned to the private sector or transferred to the private sector in some other manner. In all cases, the government would retain a nonexclusive license to use and have made for its use inventions founded in whole or in part by governmental expense.

At the present time, the government has a portfolio of 25,000 to 30,000 unexpired patents. These include patents arising as a result of research and development work in government laboratories by government employees, and also from work done by non-government employees wherein the government retained title because it funded the work. In fiscal 1976, 2,646 patents issued to the government, of which 1,824 were for inventions by government employees.

Considerable sums of money are involved in government patent ownership, the patent budgets of the various government agencies including funding for patent attorneys, supporting staff and equipment being in the millions of dollars.

Our information indicates that the United States government has been filing in excess of 3,000 United States patent applications per year, which amounts to approximately 3 percent of the total workload in the United States Patent

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* 111 Lafayette Street, Hartford, Connecticut 06106. See Appendix F.

and Trademark Office. A decision not to file patent applications on behalf of the government would result in the PTO having available 3 percent of its total capability that could be directed to reducing the backlog in the PTO and handling special problems that have been created by the new reissue program and the anticipated reexamination procedures. In addition, this decision would save the time of government patent attorneys who normally prepare and prosecute the patent applications and the cost of having patent applications prepared by attorneys in private practice. Time and money thus saved could be utilized to provide needed services in other areas of the government.

According to this subcommittee's proposals, the decision to file a patent application would be made by the university or contractor; in the case of inventions made by government employees at government expense, the decision to file would be made by the employee, if he were to retain title, or by the independent non-governmental organization (suggested above), which would obtain title to the patent.

The subcommittee recognizes the argument that the government applies for patents to preserve its right to institute an interference with patent applications from the private sector. However, such interferences are a very rare occurrence under present practices. Furthermore, establishment of prior invention by the government would generally constitute a defense in an infringement suit on the basis of prior invention. Prior invention may not be an adequate defense in instances where the government has not reduced the invention to practice, or has, for good reasons, kept the invention secret; special legislation may be required to provide adequate protection to permit royalty-free government use in such instances.

Monsanto

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August 7, 1979

Norman J. Latker, Esquire
Office of the General Counsel
Business and Administrative Law Division
Health, Education and Welfare
North Building
330 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Norm:

I just found out in my 3 August issue of Science magazine (copy attached) that you are "back in the saddle." I am delighted to have you back, keep up the good work!

Sincerely,

Chuck Eby

Charles J. Eby
Manager
R&D Marketing

Attachment