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I NEED YOUR COMMENTS BY NOON TODAY (IF POSSIBLE)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 6, 1988

MEMORANDUM FOR: DEPARTMENT OF COMMERCE
DEPARTMENT OF DEFENSE
DEPARTMENT OF ENERGY
DEPARTMENT OF JUSTICE
DEPARTMENT OF TREASURY

FROM: Joseph S. Nezi
Deputy Associate Director
for Energy and Science

SUBJECT: Interagency Coordinating Meeting on Title IV of S.1480: Technology Management Policy for the Department of Energy's (DOE) National Laboratories

On Friday, July 8, at 2 p.m., there will be a meeting to discuss Title IV of Senator Domenici's bill 1480 (also called Amendment No. 1627-Department of Energy National Laboratory Cooperative Research Initiatives Act). It will be held in Conference Room 10103 at the New Executive Office Building.

Title IV contains Technology Management policies that will guide the DOE laboratories in their future joint ventures. It includes Intellectual Property contract Provisions, Technical Data and computer Software Ownership Conditions, Patent Ownership Conditions, and Provisions on Authorities to Enter into Cooperative R&D Agreements.

Because of the breadth of these issues, it is important that all the agencies with concerns in these areas meet to help develop an Administration Position on these provisions. It is very important that each of the subsections be discussed and the views of each of the various agencies be understood. Then OMB staff will then be able to incocporate agency views into a position statement on this Title. The resulting statement could then be used either for a "floor position" on the bill or as a means for suggestions changes, for discussions with the Senator or his staff.

In Attachment A there are terse descriptions of the contents of each section of Title IV and, where appropriate, terse statements reflecting agency concerns OMB staff feel are yet to be resolved. Some of these concerns are major, others are minor; nevertheless, they need to be cleared up so that everyone knows where we stand on the issues.

I have also attached a short piece from a Department of Energy (DOE) regulation that describes the function and role of DOE's National Laboratory Contractors (Attachment B). These labs are Government Owned/Contractor Operated (GO/CO) entities. One contractor, such as the University of California, may operate more than one lab (in this case 3 labs) or it may operate only one, such as the University of Chicago at the Argonne National Laboratory near Chicago. In either case, lab directors are the employees of the contractor, not the manager of the contracting firm.

I hope this exposition of the issues will enable us to sort through the various sections of Title IV as quickly as possible so we can spend the bulk of the hour in discussing each agency's rationale for their positions on the issues.

Please call Judith Bostock at 395-3675 with the names and birthdates of all attendees for this Friday afternoon meeting so we can pre-clear you into the building. Thank you for your cooperation.

Attachments

Attachment A

Discussion: Title XV of S.1480

Sec.401-404: Findings, Purpose, Policy, and Definitions of Title IV-Technology Management at the Department of Energy National Laboratories

Statement:

The National Laboratories have demonstrated successes in technology transfer into the private sector but this has not been considered a main mission of these laboratories. The National Laboratories should be controlled in such a manner as to promote the use of technology and devices developed in the course of their research to improve the competitive advantage of U.S. industries. More effective management means streamlining the contracting process while adequately protecting the intellectual property present in the laboratory.

Thus (401(2)), "management authority for intellectual property must be granted to the Directors of the DOE National Laboratories to ensure that they can negotiate with industry to set up cooperative R&D agreements."

Issues:

1. Status of the Director of a DOE National Laboratory: National Laboratories are operated by contractors. The only role of the contractor is to execute agency directives. The "Labs" are not legal entities and do not employ Federal personnel. The only legal entity involved is the contractor responsible for managing the laboratory. Effectively S.1480 by-passes the contractor, and gives management authority to one of the contractor's employees. But the laboratory director is neither responsible for execution of the contract to manage the laboratory nor is this individual able to execute a contract on behalf of the Government without a delegation from the agency. (Energy, Justice argue this is a major concern.)

Commerce and Treasury, on the other hand, would argue that although, perhaps, not the "best" way to achieve Federal technology transfer, an approach such as the Domenici bill would ensure that there is an entity besides the Department with the responsibility to see to commercialization of the results of Federally-funded R&D. Whether this entity is the director of the laboratory or the contractor, per se, is not a key issue.

2. Approach to Technology Transfer: Ignoring legal issues, is this the best way to achieve the desired result of technology transfer from the DOE laboratories? (General: All agencies have this concern.)

The Department of Energy argues that the agency should require that all income earning intellectual property resulting from collaborative research agreements between DOE laboratories and private sector parties should be given directly to the private sector entity participating in the agreement. The National Laboratories should be viewed as technical resources for the private sector; they should be controlled by policies that would prevent them from being in competition with private sector entities.

Non-issue eliminates incentive to report on involved

3. Larger Issues: Historically DOE has had the mandate to disseminate and publish all of its research for the use of the public. OMB notes that now a series of technology transfer bills has clearly moved to a policy of withholding information so that it can be exploited for private profit. Nevertheless, no one is suggesting that particular private companies should be given exclusive use of Government research facilities and then exclusive use of the lucrative products that the company chooses to develop with Government funds. Thus, there is a conflict between the individual steps taken to advance technology transfer and the overall purpose of Government laboratories. This basic conflict between public and private interests remains to be resolved. Perhaps that is the issue that should be discussed instead of focusing on the details of legislation that simply side-steps this basic conflict.

B.S.!! WPSNG

Sec.405-406: Cooperative R&D Agreements and Contract Considerations

Statement:

The Secretary of Energy shall permit the director of any of its National Laboratories to enter into cooperative agreements on behalf of the Department of Energy and to negotiate intellectual property licensing agreements for its own laboratory.

Under such agreements the director may accept, retain, and use funds, personnel, services, and property from collaborating parties and provide personnel, services and property to these collaborating parties.

Agreements of value less than or equal to $1 million are not subject to the approval of the Secretary of Energy. For agreements exceeding $1 million the Secretary of Energy shall approve, disapprove, or require modifications within a 30-day period beginning on the date the laboratory notifies the Secretary. Agreements shall not exceed 10 percent of a laboratory's annual budget and each agreement shall not exceed $10 million.

Issues:

1. Constitutionality: It is officials of the Executive Branch who are responsible to both Congress and the President for executing agency programs. Is it constitutional for a non-Government employee to execute the functions of an Executive Branch officer or his Federal designee? (Justice notes, too, that this constitutional argument and other more complex arguments would also relate to Title II of the bill.)

2. Appropriation Transfers: Congress appropriates funds for specific purposes. It is the responsibility of the Executive Branch to ensure that these funds are expended for those purposes. At the very least, legislation would have to delegate authority to a private sector entity or a private individual in a legally responsible manner and appropriate funds to be spent by that entity or that individual. (Energy, OMB, and Justice find this a very troublesome aspect of the legislation.)

Sec. 407: Patent Ownership and the Conditions of Ownership

Statement:

A National Laboratory for the purposes of this section shall be treated in the same manner as small business and non-profit organizations.

The laboratory shall have automatic election of title rights to inventions unless the Department has notified the laboratory within 90 days that the invention has been designated sensitive or classified or that the technical information is covered by an exceptional circumstances determination.

The Secretary of Energy may not use export control statutes or regulations as a basis for refusing to grant the rights of automatic election of an invention. Exceptional circumstances provisions of the patent code are not applicable solely on the basis of these export control statutes.

Issues:

1. Export Control Statutes: These statutes alone are not a valid reason to withhold potentially valuable commercial property from contractors. (General: All agencies agree on this point.)

   However, Energy and Defense both argue that contractors must legally ensure compliance with all export control laws and regulations, particularly in areas affecting nuclear proliferation and nuclear weaponry. Otherwise, the agency has sufficient cause to deny automatic election of all patent and licensing rights. Rights to inventions would then be awarded to the contractor on a case-by-case basis.

2. Technology Transfer and Commercialization: National Laboratories are neither small businesses nor nonprofit organizations with entry into the commercial arena. If the object is commercialization of products and processes arising from Government-funded R&D, the private sector party collaborating with the laboratory should automatically be given all intellectual property subject to its efforts to commercialize these results. (Energy)

3. Federal Technology Transfer Policy: Senate bill 1480 is a step in the right direction. Some legislation is needed to bring the Department of Energy patent policy into conformity with that of other Federal agencies. Current practice of the agency does not go far enough in the area of technology transfer and patent policy to satisfy even Executive Order 12591. (Commerce, Treasury)

Sec. 408: Technical Data or Computer Software and the Conditions of Ownership

Statement:

Technical Data and Software shall not be published and made available to the public by the agency when it has potential commercial value. It remains the property of the laboratory through the director of the laboratory.

The director of the laboratory shall determine if this material should be available to the public under Freedom of Information Act (FOIA) requests during the term of nondisclosure to the public.

Issues:

1. Development of Data and Software by the National Laboratories: The Department of Energy (DOE) has a statutory requirement to disseminate the technical data and software developed under DOE funded research grants to the public and to U.S. industry. This information relates to and supports the authorized agency mission. Much of this information is developed specifically for application and utilization at DOE facilities other than the developing site.

   Technical data and software of this kind must be available for the entire agency's use or the taxpayer will have to pay many times over for the same information and capabilities. The role and function of DOE's GO/CO's is at issue here. (Energy)

2. FOIA exemptions: This legislation would vest the director of a National Laboratory, a private citizen, with the discretion to determine what is and what is not material subject to FOIA regulations. Again, the role and function of DOE's GO/CO's is at issue. (Energy)

3. Larger Issues: This legislation contains a very broad definition of technical data

   - the term "technical data" means recorded information of a scientific or technical nature regardless of form or the media on which it may be recorded.

   This definition would stop the publication or dilute the content of most scientific articles published by employees of DOE laboratories. The use of this definition would seriously alter the currently existing relationship between the Department of Energy and its National Laboratory contractors. Current practice consists of sole-sourcing to these laboratories broadly defined, non-goal oriented research contracts to carry out Congressionally-mandated directives. This

practice relies on the implicit assumption that the single function of these laboratories is to conduct research with a long-term payoff that has no immediate application in any identifiable arena including the commercial sector.

To set the laboratories up as property holders with vested interests in commercial enterprises is to change radically their nature and function. Today they are entities that carry out important research tasks that private research establishments find to be too basic or too long-range to engage their interest. The product of research at DOE has been publishable results. The purpose in generating technical data has been to make the results generally available to the public. The real issue to be discussed relative to this provision and the more general intellectual property provision is the role of DOE GO/CO laboratories in the implementation of national science policy. (OMB, Energy)

Sec. 409-411: Intellectual Property Contract Provisions, Special Rule for Waiver of Government License Rights, March-in Rights

Statement:

The management of all intellectual property rights developed within a laboratory shall be the responsibility of the director. All royalties or income from it will be used as specified in the Federal Technology Transfer Act of 1986.

All costs of obtaining and protecting intellectual property rights owned by the National Laboratory shall be paid for by the Department when not offset by income earned from licensing of laboratory-owned intellectual property rights.

Unless the contractor operates the laboratory for no profit or fee beyond expenses or allows all income earned from laboratory intellectual property to revert to the laboratory, the contractor shall pay to the U.S. Government reasonable compensation based on the value of the technology transferred.

When intellectual property rights are licensed by the laboratory to third parties, standard march-in rights are available to the agency to ensure that the technology is commercialized.

Issues:

1. For cooperative ventures: The collaborating industrial party has a direct interest and investment in the research as well as the capability to commercialize the technology. Thus, the most efficient transfer into the private sector will be realized by automatically giving all rights and income earning property to the commercial firm. (Energy)

2. Conflict of Interest Policies: Contractors of the Department of Energy are private sector entities. All provisions of the contracts between the Department and the contractor must be negotiated. Should the contractor (or equally the laboratory director) be given the blanket authorities suggested in the legislation, it is necessary that conflict of interest provisions governing technology transfer activities be statutorily mandated. Without that mandate such contract provisions, protecting both the contractor and the public, would be almost impossible to negotiate. (Energy, OMB)

3. Costs Borne by the Government: Patent litigation can be enormously expensive. It is totally unwise to adopt a policy in which the Department of Energy agrees to indemnify its contractors against such litigation. The Government would then be involved in support of a contractor's position with

regard to property over which the Government has no management control.

It is also an unwarranted subsidy to have the Federal Government pay all costs for private sector licensing agreements. There is no reason to adopt such a policy simply because the private sector party in this instance is a National Laboratory management contractor or its laboratory director. (Energy, OMB)

Attachment B

DOE Management and Operating Contractors
(from a proposed Class Patent Rule)

not true

Regarding GOCO contractors, the Department of Energy (DOE), unlike most other Government agencies, employs contractors to manage and operate certain of its major research, production and weapons facilities. The following principles, as set forth by the Secretary of Energy, provide the policy framework for these management and operating (GOCO) contracts:

(1) The Government retains responsibility for overall program management and project technical direction while the contractor is responsible for the day-to-day management of the work;

(2) The Government and contractor have an identity of interest in the mission being pursued;

(3) The parties intend a long-term close relationship;

(4) The Government assumes virtually all financial risk;

(5) The contractor is hired to manage;

(6) The contractor broadly supports the performance of Government functions by executing programs of national significance on behalf of the Government; and

(7) The Government ultimately is responsible for security, health and safety and the proper use of public funds.

These contractor-operated Government facilities have for some forty years benefited DOE and its predecessor agencies in carrying out agency research, development, and demonstration (R,D&D) programs. The GOCO facilities have, in great measure, had a remarkable record of scientific and technical success. This success is due, in part, to the unique contractuual relationship that exists between DOE and its GOCOs; viz., the dedication of both technical and administrative skills of a private organization to a significant Federal mission in a close, long-term, cooperative relationship.

Doesn't take into consideration the serendipitous nature of invention