For Mr. Tenney Johnson

PAUL LOUIS GOMORY
5609 OGDEN ROAD, WASHINGTON, D.C. 20016

November 20, 1975

Dr. Robert C. Seamans, Jr.
Energy Research and Development Administration
7th & D, S.W.
Washington, D.C. 20545

Dear Dr. Seamans,

In view of the crucial importance of the matter of ERDA patent policy and the forces at play which could destroy your best efforts at ERDA, I thought you would like to read the enclosed letter and glance over the attachments.

My letter seeks to inject clarity of vision in this matter, now in a state of flux.

Thank you for your very kind attention.

If I can be of any help, I am ready to do my personal duty as a citizen.

Sincerely yours,

Paul L. Gomory

attach.

dp

Dear Mr Johnson.
AT THE LAST MOMENT I FELT
A COPY SHOULD GO TO Dr. SEAMANS.
P.L.G

REPLY TO:
XXXXXXXXXXXXXX
U.S. DEPARTMENT OF COMMERCE
PATENT OFFICE
WASHINGTON 25, D.C.
XXXXXXX

CELEBRATION
OF THE
AMERICAN PATENT INCENTIVE SYSTEM

125th Anniversary of the Patent Act of 1836
December 6, 1974

AIChE MEETING AND ENERGY RESEARCH AND DEVELOPMENT BILLS H.R. 13565 AND S. 1283

Enclosed please find a copy of my letter to Congressman Olin Teague, Chairman, House Science and Astronautics Committee, addressed to him following his phone call request made to me. A similar letter was addressed to Congressman Mike McCormack responsive to his letter to me requesting my views on the then approaching conference on the bills, which has now been concluded.

I do not have any final form version, as yet, of the patent licensing policy provision adopted by the conferees. Nor do I have a copy of the 12-month study provision respecting whether there shall be mandatory licensing of patents of even non-contracting parties.

It is always possible, depending upon who may dominate the study or who may dominate the report of any study that if a call for mandatory licensing legislation is made by ERDA it will, in addition to patents, include trade secrets, proprietary information, knowhow, blueprints, etc., even as was originally the case in §309 of the Clean Air Amendment Act of 1970.

The adopted licensing policy which would govern grant of partial and exclusive licenses to contracting parties respecting inventions made under the contract is, in my opinion, burdensome as related in my enclosed letter.

The present bills are expected to be processed on the floors of the Houses of Congress very shortly and after processing will then go to the President for his approval.

This stationery is a collector's item.

With respect to shortages of oil and gas discussed at the meeting this week, enclosed please find copies of statements made by various persons as early as 1954 and a statement made by the President of the United States in 1949. These statements may be helpful to you in helping to bring about a "national sense of purpose" and consequently a "national, stable and longlasting energy policy" which will include incentives, especially the patent incentive, in an effective manner, and clarification of the application of the antitrust laws respecting cooperative efforts, so that our great free, competitive enterprise system can roll up its sleeves and go to work. Even as this Country's industry created a national synthetic rubber industry during World War II, it can again function to create the needed improvements in beneficiating extra energy sources and to develop additional energy sources and supplies which are now needed and which will be needed in the future.

Cordially yours,

Paul L. Gomory

Suite 1107, 1825 K Street, N.W.
Washington, DC 20006
Telephone: 202-785-1252

REPLY TO:
U.S. DEPARTMENT OF COMMERCE
PATENT OFFICE
WASHINGTON 25, D.C.

CELEBRATION
OF THE
UNITED STATES ~~AMERICAN~~ PATENT INCENTIVE SYSTEM

125th Anniversary of the Patent Act of 1836

November 22, 1974

I was also requested to comment by Representative Mike McCormack. A similar letter was sent to him.

PLG

Congressman Olin Teague
2311 Rayburn House Office Building
Washington, DC 20515

Re: Evaluation of Competing Patent Policies -- H.R. 13565 & S. 1283

Dear Sir:

Thank you for your request permitting me to comment on the federal patent policy to be decided upon for the recently created Energy Research and Development Administration.

I have studied the two "competing" policies.

The following portions of this letter and its attachment indicate that I cannot subscribe to the document which is entitled "Patent Policy" and which I will refer to as "B" and is dated November 7, 1974. It will also indicate that if I must make a choice I would very clearly favor document entitled, "Patent Policy and Incentive Awards" which I have identified as "A".

Having devoted a lifetime from an early age (12-60) to the field of patents, trade secrets, etc., I speak from a background which need not be here detailed. Suffice to say, I have chaired and been a member of patent legislation committees for a great many years. I have chaired the Patent Legislative Committee of the District of Columbia Bar Association, and am presently on the Council of its Patent Section and Council Liason to the Patent Legislation Committee. I have been a member of the Patent Law Committee of the American Patent Law Association and of the American Bar Association, Patent Section, for a great many years. I have been active in the field of patent legislation for over 25 years.

In an open, free competitive enterprise system, as you know, there must be offered incentives to invest time, funds, and energy to make and to develop inventions. No person or organization should be expected to do this and then to simply surrender to his or its competitor the fruits of its labors. The mandate of the United States Constitution, Art. I, Sec.8, Cl. 8, clearly shows that the founding fathers understood the point made here. The provision reads:

> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;"

Our country can solve better, much better, its problems by shunning compulsory licensing of patents. You understand this so I will say no more of the reasons.

Document "B", which appears to me to have originated in the Senate, threatens not only the security of a non-contracting party's investment in a patented invention, but it would even subject to compulsory licensing that party's trade secrets, proprietary information, and knowhow. Trade secrets which can be applied to non-energy uses would become transferred to a non-contracting party's competitors who are in the energy and in other fields and who could apply to such non-energy uses.

As to a would-be contractor, this would be a great <u>dis</u>incentive to bid for a contract. My opinion is based on a great many discussions with knowledgeable people over the years. Even the possible loss of trade secrets related possibly only to energy would be a great deterrent to many, especially when their stock-in-trade is composed importantly of such a secret. The smaller the would-be contractor who is competent, the more it could lose if its trade secret, percentage-wise, is a goodly portion of its stock-in-trade. This would mean that highly competent, small organizations might well be frozen out of the program.

The flexibility permitted to the administrator in "A" is far more likely to encourage competent would-be contractors to work for the government than the complex, statutorily rigid prosisions of "B".

The concept of a study provision as in "A" is excellent. I recommend that public on-the-record hearings be held as part and parcel of the study. This will be government of, by, and for the people, especially including those who are in the energy field and who are to be encouraged to take a contract.

The bogging down in the determinations required by "B" before a waiver can be granted, including the economic studies which may be insisted on by the Administrator to determine such points as are involved in whether competition will be "...substantially lessened..." or whether a license will result "...in undue..." concentration, would be sufficient to cause me to advise a client requesting me to do so to simply not get into such a thicket.

The threat under "B" that in a period of a few years the property rights would have to be defended against a license to my client's competitors or that my client might be harassed by competitors actions in seeking such a license --coupled with the disclosures required in proceedings conducted publicly relating my client's business activities-- is simply a burden I could not advise him to shoulder.

The lack of clarity of "B" further compounds its weak points. The tests laid down, with statutory rigidity, compelling on the administrator, would be a burden I would not ask him to carry, nor would I advise my client to share it with him.

> In this connection, the Association wholeheartedly endorses the approach taken by the House by providing for the Administrator to submit a report to the President and Congress within six (6) months after enactment of the Act. In addition, we would urge that the Administrator be required to have, on the record, hearings to enable interested parties to be heard or to submit comments. (underscoring supplied)
>
> The Association respectfully opposes the approach adopted by the Senate in section 113 of S. 1283 which establishes a patent policy that is contrary to the objectives of the Act. Senate section 113 creates a disincentive to those who have the greatest capability to perform ERDA contracts. This disincentive grows out of the fact that contractors' (or indeed even bidders') preexisting proprietary rights including background patents, trade secrets and know-how all become available to the contractor's competitors simply because the contractor has become a participant. The competitors may use the background technology in competition with the contractor in both energy and in non-energy fields." (underscoring supplied.)

It is evident from these letters that the essential nature of "B", which is much like section 113 of S. 1283, is inimical to the best interests of our country.

I believe that the conferees would be well advised to follow the suggestion of Mr. Kelton, made in his enclosed letter, when he stated,

Thank you for your kind attention to the contents of this letter.

Respectfully submitted,

Office - 785-1252

Home - 320-4327

THE WHITE HOUSE

WASHINGTON

Dear Mr. Gomory:

This is in response to your letter of January 22, 1974, which expressed your concerns regarding the patent related provisions of Jackson's Energy R&D Bill (S. 1283) and Gravel's Energy Bill (S. 2806). As your letter pointed out, both of these bills provide for mandatory licensing of privately held energy related patents.

The Administration testified on Jackson's bill (introduced into the House as H.R. 11856 and H.R. 11857) before the Subcommittee on the Environment of the House Committee on Interior and Insular Affairs on February 1, 1974. The Administration testimony, as delivered by the Department of Commerce, opposed mandatory licensing, arguing that it would seriously diminish the incentives provided by the patent system to invent, innovate and commercialize technology. Mandatory licensing of privately held patents would almost certainly reduce the chances of an acceptable return to the investor and would therefore make investors less willing to invest in high risk R&D.

In short, our position continues to be consistent with the points made in your letter. Your support of the Administration in this matter is appreciated.

Sincerely,

Kenneth R. Cole, Jr.
Assistant to the President
for Domestic Affairs

Mr. Paul L. Gomory
5609 Ogden Road
Washington, D.C. 20016

SCOPE

Energy and the Environment—SUMMARY PANEL

The opening plenary session of the Washington Annual Meeting, 1974, entitled "Energy and the Environment—The Washington Perspective" presented the views of Senator Muskie, Representative McCormack, and Dr. Stever of the National Science Foundation on energy and the environment with particular emphasis on the challenges posed for the chemical engineering profession (*CEP*, February, pp. 20-32). A Town Meeting heard from a government bureaucrat and from varied speakers from the floor (*CEP*, April, pp. 43-57).

The theme of energy and the environment was threaded through the four days of technical paper presentations and the special events at the Washington meeting. The Energy and Environment Summary Panel responds to the challenges from the opening panel with particular emphasis on the technical presentations and discussions at the meeting. Each symposium chairman or a designated representative provided for the members of the panel a summary of information relevant to energy and the environment from his session. That input was invaluable.

A primary objective of this session was to encourage continuing interaction of individual chemical engineers with representatives of both the government and the public in seeking a better understanding of the problems and opportunities facing us in achieving a proper balance among energy, the environment, and the economy.

Statements of the six panelists on this summary panel follow. Counting myself, the group represents 207 years of chemical engineering experience. Each will give an individual overview from his particular perspective. Their presentations will be followed by varied comments from participants from the floor.



Hugh Guthrie, Moderator
Shell Oil Co.
Houston, Tex.

PAUL LOUIS GOMORY
5609 OGDEN ROAD, WASHINGTON, D.C. 20016

I have just attended the Seminar on Institutional and Legal Constraints to Cooperative Energy R & D cosponsored by the U.S. Department of Commerce and the Industrial Research Institute on December 16, 1974.

While attending the meeting, I concluded that Congress should legislate to provide a stable, long-enough lasting policy on cooperative R & D principally directed to solving of energy problems. Such cooperative R & D should be made paramount to continuing to operate our R & D effort in the energy industry -- with respect to energy shortfall -- under concepts and laws which properly belonged on the books when they were enacted, that is, in the last century.

In the inter-industry emissions control cooperative research program -- it was stated at the meeting -- AMOCO did the work with respect to catalysts for nitrogen oxide emissions while the other participants worked on other matters. Thus, it is clear that each participant took a portion of the huge project to work on. Therefore, it is preeminently clear that each participant, in effect, was not in competition with any of the other participants to the extent that the participant worked alone on a particular segment of the overall project. It follows, then, that competition -- or lack of it -- cannot be the test. If "competition" cannot be the test, the laws designed to foster competition cannot logically govern cooperative R & D as such as was involved in the inter-industry emission control project.

The time has come when, even as Tom Kauper, Assistant Attorney General in charge of the Antitrust Division of Justice Department put it at the meeting, "...someone ought to decide..."

The poem is offered because of my conviction that Congress is the only body that can decide with any reasonable finality. Administrations come and go, and leaders and workers in bureaucracies and government -- who also come and go and even change their policies -- cannot be relied upon to administer in a stable manner unless policy is statutorily established. We need a stable, workable policy industry can accept.

I recall that as early as 1928 France was establishing a domestic refining industry. Prior to that time there was no real domestic oil refining industry in France. Laws were enacted to make the climate favorable for organizations -- largely from abroad -- but also involving the French government, to build refineries from the ground up. I was close to the situation and worked in two of the refineries. I visited others when they were being built.

A feature of the French laws was a guarantee with respect to time of their duration to enable investors to recover their investments with a profit.

City of MILWAUKEE

DEPARTMENT OF
INTERGOVERNMENTAL FISCAL LIAISON
ROOM 701-F CITY HALL
MILWAUKEE, WISCONSIN 53202
278-3747

GEORGE W. WHITTOW
Director of Liaison

RICHARD W. GLAMAN
Assistant Director

December 22, 1975

Mr. James E. Denny
Assistant General Counsel for Patents
U.S. Energy Research and Development
Administration
Washington, D.C. 20545

Dear Mr. Denny:

As you know from previous correspondence between you and Congressman Clement J. Zablocki (your letter of October 23, 1975), the City of Milwaukee has evidenced interest in the mandatory licensing of patent rights relative to energy conservation technology.

Mr. Thomas Cooper of the staff of the National League of Cities has informed me that a Mr. Kenneth L. Cage of your office has invited the city to submit a written statement amplifying its position.

Attached please find copies of two statements which deal with this matter. They were developed by the Legislative Reference Bureau of the City of Milwaukee. It would be appreciated if you would bring them to the attention of those conducting hearings on the patent process and have them inserted into the record of those hearings.

Thank you for your assistance in this matter.

Sincerely,

R. Glaman

Richard W. Glaman
Assistant Director and
Federal Aids Coordinator

RWG:mjs
Attachments
cc: Congressman Zablocki
Thomas Cooper,
National League of Cities

THE BICENTENNIAL BELONGS TO ALL OF US
MILWAUKEE AMERICAN REVOLUTION BICENTENNIAL COMMISSION

AMERICAN REVOLUTION BICENTENNIAL 1776-1976
RECOGNIZED BY AMERICAN REVOLUTION BICENTENNIAL COMMISSION

Leg.Ref.Bur. Research Request #75-422

STATEMENT RELATIVE TO

MANDATORY LICENSING OF PATENT RIGHTS

The Energy crisis is one of America's most urgent problems. The speedy development of energy conserving technology is therefore necessary for the welfare of this country. In order to meet this objective, Congress recently created the Energy Research and Development Administration (ERDA) to coordinate research and development efforts in the area of energy conservation technology. One of ERDA's first duties, as directed by Congress, has been to study mandatory licensing of patent rights as one possible means of making energy conserving technology available to the general public in the shortest time possible.

Patents encourage research and technological developments by guaranteeing to the patent holder that no one may take his property for a period of 17 years. Such an exclusive right could conflict with this nation's energy needs if energy conservation inventions were not made available to the general public at a reasonable cost. If mandatory licensing of patent rights relative to energy conservation were allowed by Congress the government could require a patent holder to license his patent to responsible parties in order to prevent him from having an unfair competitive advantage.

The concept of mandatory licensing, or the prevention of an unfair competitive advantage based on the exclusiveness of patent rights, already exists in the Federal Code. A

FEDERAL PATENT POLICY AS A MEANS OF IMPLEMENTING AN ENERGY RESEARCH AND DEVELOPMENT POLICY

The Legislative Reference Bureau has been requested to research background information on the relationship between patent rights and the urgent need for energy conservation technology. More specifically, what authority does Congress have to prevent an individual from holding back production of an energy conserving device due to patent rights which the individual enjoys? If the government could procure these patent rights, it could then publicize such information and make it possible for any interested person or corporation to manufacture such energy conserving invention.

The subject of patent rights is a very complex one. Title 35 of the United States Code enumerates the functions of the Patent Office, including the processing of applications, and the rights of the patent holder. A patent granted by the United States gives the inventor the right to make, use, or sell his invention to the exclusion of other individuals. This exclusive right is granted for 17 years, after which time the invention becomes public property. While the patent is in effect, a person may bring suit in a United States Court for an infringement of his patent rights. If the United States government infringes, or makes use of, a person's patent rights, 28 USC 1498 specifically provides for compensation in the United States Court of Claims.

injunction; 3) prohibitive injunction; and 4) mandatory licensing.[1]

1) Eminent Domain: This power is usually thought of with respect to real property; for example, condemnation of houses in order to construct an expressway. Intangible property, such as patent rights, may also be taken by eminent domain for the public welfare. Eminent domain with respect to patents usually does not mean that a transfer of ownership takes place, as is the case with real property. The government is putting a patented invention to public use. However, the government is not precluding an individual's right to continue manufacturing the patented item or to sell or license the rights to someone else. Eminent domain gives the government or one of its contractors the right to infringe on patent rights. In infringing on an individual's rights, the government is mandated by the constitution to provide just compensation and not deprive him of his property without due process of law. Section 1498 of title 28 of the United States Code specifically provides for remedy in the Court of Claims when an individual's patent rights are unlawfully violated by the United States government or one of its contractors.

2) Refusing to Grant Injunction: If a person's patent rights are infringed upon by another individual, he can sue in order to gain compensation for damages. The court can also grant an injunction enjoining the individual from infringing any further. (Sections 281 through 293, Title 35 United States Code). There are instances, though, in which the courts may refuse to grant an

> the Progress of Science and useful Arts.' Const. Art. I, sec. 8, ...it is a public offense to withhold such processes from any of the principal foods of the rachitic poor, or, indeed, from those of any such sufferers."

3) Prohibitive Injunction: This action tells a person he may not continue doing something such as violating antitrust laws. The U.S. Code empowers District Courts to issue restraining orders which would prohibit violation of the antitrust laws. Such action by the court does not provide a positive means of increasing competition and making such a device available to the public faster. A corporation under mandate of prohibitory injunction may choose to share his patent rights with others, discontinue use of the patented process completely, or use legal maneuvers which would only temporarily satisfy the court injunction. The following governmental action, mandatory licensing, seeks to remedy the inadequacies inherent in prohibitive injunctions.

4) Mandatory Licensing: Mandatory licensing goes beyond a prohibitive injunction in authorizing a court to act affirmatively. This refers to a situation in which the government would require a patent holder to license his patent to responsible parties in order to prevent him from having an unfair competitive advantage in the course of owning a patent. A mandatory licensing provision was included in section 308 of the Clean Air Act of 1970 (Public Law 91-604). "In brief this section provides for mandatory licensing of patents upon certification by the Attorney General to a United States district

(Public Law 93-438) was passed by Congress October 10, 1974. Basically, the Act abolished the Atomic Energy Commission (AEC) and established an Energy Research and Development Administration (ERDA) and a Nuclear Regulatory Commission.

The following programs were transferred to ERDA:[5]

A) From the Atomic Energy Commission, all functions except licensing, regulation and safety which were transferred to the Nuclear Regulatory Commission.

B) From the Interior Department, the programs of the Office of Coal Research, the fossil fuel research of the Bureau of Mines and underground electric transmission research.

C) From the National Science Foundation (NSF), the geothermal and solar heating and cooling development programs.

D) From the Environmental Protection Agency (EPA), authority for research and development of an alternative automobile power system. EPA retains research authority related to monitoring and controlling air pollution from automobiles.

Pursuant to the Energy Reorganization Act, the Federal Nonnuclear Energy Research and Development Act of 1974 (Public Law 93-577) was passed, establishing the policies and procedures under which ERDA would operate. The latter act, in its "statement of findings", compares the urgent need for energy technology to the Manhattan and Apollo projects. The underlying premise of

> Attorney General, the Secretary of Commerce, and other officials as the President may designate, shall submit to the President and the appropriate Congressional Committees a report concerning the applicability of existing patent policies affecting the programs under this Act, along with his recommendations for amendments or additions to the statutory patent policy, including his recommendations on mandatory licensing, which he deems advisable for carrying out the purposes of this Act." (underlining added)

This study is being undertaken as a result of debate in Congress over earlier forms of the Act which included a controversial mandatory licensing provision. These earlier versions of the Act, H.R. 11856 and H.R. 11857, contained a mandatory licensing clause very similar to the one contained in the Clean Air Act of 1970. The controversial section of H.R. 11857, section 10(c), which was deleted provided that,

> "whenever the Attorney General determines, upon application of the Council--(1) that--(A) in the implementation of the requirements of this Act a right under any United States letters patent, which is being used or intended for public or commercial use and not otherwise reasonably available, is necessary to the development or demonstration of any energy system or technology pursuant to this Act, and (B) there are no reasonable alternative methods to accomplish such purpose, and (2) that the unavailability of such right may result in a substantial lessening of competition or tendency to create a monopoly in any line of commerce in any section of the country, the Attorney General may so certify to a District Court of the United States, which may issue an order requiring the person who owns such patent to license it on such reasonable terms and conditions as the Court, after hearing, may determine."

maximization of output and utilization of energy related technology."[9]

Another concern is the effect of mandatory licensing on small business. If a large corporation obtains a patent for an energy conserving device and markets it at a pace unacceptable to the ERDA administrator, a mandatory license can be sought. Conceivably, if the court ordered the large corporation to license, then an enterprising small business eager to gain a reputation would provide the competition necessary to spur the large corporation into marketing it faster and at a competitive price. However, if the situation were reversed the smaller company would be at a loss because of the higher volume of production possible in a large corporation. Thus a small business can be either helped or hurt by mandatory licensing. (One factor not considered here is compensation. Would the court necessarily award a larger compensation to a small business than if a large corporation has original possession of the patent rights?)

The debate over mandatory licensing has not been resolved. There has been too little experience with it to draw any conclusions. In a recent legal publication the question of mandatory licensing as a means of effecting energy policy was left unresolved.

> "...In summary, section 308 appears to be a troublesome, but useful, tool. Whether or not it provides a sound basis for future public policy, and whether or not it is flexible enough to become the 'missing link' to insure that Clean Air Act objectives will be met, remains to be seen."[10]

THE JOHNS HOPKINS UNIVERSITY
BALTIMORE, MARYLAND 21218

OFFICE OF THE VICE PRESIDENT
FOR BUSINESS MANAGEMENT

November 11, 1975

Mr. Kenneth L. Cage
Room 92, Eighth Floor
Office of the General Counsel
U.S. Energy Research and Development
Administration
20 Massachusetts Avenue
Washington, D. C. 20545

Dear Mr. Cage:

This letter is submitted in response to the notice in the Federal Register of October 15, 1975 inviting comments on the two legislative enactments upon which ERDA patent policy is based as well as on the desirability of mandatory licensing. My comments will be restricted to the question of the desirability of mandatory licensing.

It is felt that legislation requiring mandatory licensing of energy-related patents is not needed to carry out the purposes of the Federal Nonnuclear Energy Research and Development Act of 1974. Rather, it is felt that mandatory licensing is at odds with the Energy Reorganization Act of 1974 which states that the objective of ERDA patent policy is to provide an incentive to stimulate commercial industrial development in energy fields as well as to protect the public's interest. Mandatory licensing would require the patent owner to grant a license to any party desiring one. Moreover, mandatory licensing can be broadly defined as requiring a patent owner to forego the injunctive relief provided by the patent statutes. It is submitted that, if such legislation were to be enacted, the incentive of the limited monopoly granted by a patent would be destroyed.

It is very often the case that, in order for an industrial organization to invest the time and money necessary to commercialize an invention, there must be the incentive provided by the patent monopoly. In some cases, as when commercial development of the invention requires extraordinary expenditures, an exclusive patent monopoly is necessary, if only for a limited time. If mandatory licensing were required, this incentive would be lost and the public's interest would suffer since worthwhile inventions would

MANUFACTURING CHEMISTS ASSOCIATION
1825 CONNECTICUT AVENUE, N. W. WASHINGTON, D. C. 20009 (202) 483-6128

U.S. ENERGY RESEARCH & DEVELOPMENT ADM.

WILLIAM J. DRIVER
PRESIDENT

1975 DEC 8 AM 11 10

December 5, 1975

Honorable Robert C. Seamans, Jr.
Administrator
Energy Research and Development Administration
Washington, D. C.

Dear Mr. Administrator:

In a notice appearing in the FEDERAL REGISTER on October 15, 1975, you announced that ERDA would hold public hearings on ERDA patent policy on November 18 and 19, 1975. While interested parties were invited to submit comments or to participate through written or oral presentations at the hearing, we understand that comments received by early December will be considered.

On behalf of the Manufacturing Chemists Association I would like to present our views. The Manufacturing Chemists Association is a nonprofit trade association having 186 United States company members representing more than 90% of the production capacity of basic industrial chemicals in this country.

In the Notice of Hearing you have stated that the objective of ERDA patent policy, as outlined in the "Declaration of Purpose" of the Energy Reorganization Act of 1974, PL 93-438, is to provide an incentive function to stimulate commercial industrial development in energy fields as well as protect the public's interest.

Consonant with the above, we believe that ERDA's patent policy should be designed to attract the participation in government-sponsored energy research projects of companies which have substantial background and experience in the energy field and, in particular, those with a record of accomplishment

The patent system is intended to encourage technological development of the type at issue here. To date, it has encouraged the investment of time, funds, and energy to make and, importantly, to disclose inventions. If one person has patent rights which on their face would appear to give the patentee a competitive advantage, normal operation of the patent system should not impede the institution of research by other members of the public directed to an improved method.

The anti-trust laws were enacted to preserve open, free competition in the market place. Thus these laws, rather than patent policy, should be relied upon to govern the issues of competition and concentration. This is, in fact, recognized in present government patent policy in effect by Presidential Memorandum of August 23, 1971, which states: "Where exclusive rights are acquired by the contractor, he remains subject to the anti-trust laws."

Accordingly, we recommend that the provisions pertaining to competition and market concentration referred to above be deleted from the Federal Nonnuclear Energy Research and Development Act of 1974.

In the Notice of Hearing you invited comment as to whether legislation requiring mandatory licensing of energy-related patents is needed in order to carry out the purposes of the Nonnuclear Energy Research and Development Act of 1974.

It is the considered opinion of this Association that mandatory licensing of energy-related patents is neither necessary nor desirable. In fact, we believe that mandatory licensing provisions would act as a disincentive to technological progress in the energy field and would be seriously disruptive of the American patent system.

One of the principal purposes of the Federal Nonnuclear Energy Research and Development Act is to encourage the private sector to undertake energy research and development projects. A requirement that a contracting company license background inventions and know-how it has developed at its own expense will act as a deterrent rather than an incentive for a company

LAW OFFICES

MERRIAM, MARSHALL, SHAPIRO & KLOSE

TWO FIRST NATIONAL PLAZA

CHICAGO, ILLINOIS 60603

TELEPHONE
312 · 346-5750
TELEX 25-3856

CHARLES J. MERRIAM
WILLIAM A. MARSHALL
JEROME B. KLOSE
NORMAN M. SHAPIRO
BASIL P. MANN
CLYDE V. ERWIN, JR.
ALVIN D. SHULMAN
EDWARD M. O'TOOLE
ALLEN H. GERSTEIN
OWEN J. MURRAY
DONALD E. EGAN
NATE F. SCARPELLI
ROBERT D. WEIST
CARL E. MOORE, JR.
MICHAEL F. BORUN
DALE A. KUBLY
JAMES J. CONLON
JEFFREY M. MORRIS

November 14, 1975

R. Tenney Johnson, Esquire
General Counsel
Energy Research and Development
Administration
Washington, D. C. 20545

Dear Mr. Johnson:

In response to your letter of October 31, 1975, please accept the following comments on the ERDA proposed patent policy in lieu of my participation at the Germantown hearing on November 18, 1975.

Presumably, the justification for the expenditure of public funds to sponsor research conducted by private firms is that the public will be the beneficiary of research results beyond what could be expected from strictly private endeavors. When public funds are expended for research, then, it must be because private research is expected to lack either sufficient funds, or incentive, or both, to accomplish what is perceived to be the research objective. In very few cases can it be said that the Government, per se, is better able to conduct research because of superior "in house" background technology, although it often does fill the role of a technology clearing house.

When the Government funds research projects in the "public interest" as opposed to research directly related to specific Government needs (such as military weaponry, for example) it seldom, if ever, acts alone in the particular field of research. Indeed, it encourages parallel privately-sponsored research and, because the number of persons or companies having requisite background technology and know-how is usually limited, the same entity often conducts both private and Government-sponsored research in parallel areas. In this situation, it is critical to balance the gain from Government-sponsored research against the loss of incentive for expenditure of private funds.

know-how are entirely too vague and subject to arbitrary rulings by patent counsel to permit a prudent and competent contractor to risk the loss of his own investment by accepting the contract's provisions. This is especially true in research contracts where the subject of the questioned rights is not in existence at the time the contract is entered into. Even the relatively minor provisions such as the Government's "best efforts" to prevent a publication which would destroy foreign patent rights are subject to the same defect of lack of adequate safeguards for the contractor. No adequate provision is made for protecting parallel private research. Further, it is unclear whether the Government could be required to take a position if the question of Government rights in parallel, background, or other technology were raised by a private defendant in a patent infringement suit not involving the Government.

In short, the proposed patent policy goes far beyond assuring the Government that it gets its dollar's worth from its sponsored research. It extends to perceived benefits to the "public interest" which are better left to legislation than to be forced into the context of contract. Such benefits to the public should be borne by all, not extracted from one contracting party.

Merriam, Marshall, Shapiro & Klose

By William A. Marshall

WAM/kd

Monsanto

MONTE C. THRODAHL
Group Vice President-Technology

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63166
Phone: (314) 694-2905

November 25, 1975

Mr. James E. Denny
Assistant General Counsel for Patents
U.S. Energy Research & Development
Administration
Washington, D.C. 20545

Dear Mr. Denny:

The proposed patent policy for the Energy Research & Development Administration (ERDA) and the question of requiring mandatory licensing of energy-related patents are of great concern to Monsanto Company and others in industry. Without adequate sources of energy, industrial production will be gradually restricted. Mandatory licensing of energy-related patents will undoubtedly hasten this loss of production. I hope that my views as a member of the industrial community will be useful in your consideration of this subject.

Mandatory licensing of patents will seriously weaken the incentive to allocate manpower and facility resources to energy-related research. The exclusive feature of a patent encourages commercialization of inventions since, if successful, it permits recovery of research and development costs, and, hopefully, a profit. With mandatory licensing, this profit opportunity is lost because others may enter the field with minimal research and development costs. Industry often reacts to such situations by channeling available research funds into other areas where a proprietary position may be attainable.

There is another danger, akin to that found in patent pools, in that there is no longer the competitive necessity to keep pace with others in research and development since inventions become available merely for the asking. Technological progress

Although ERDA attempts to balance the equities by placing restrictions and conditions on the mandatory licensing provided in the proposed patent regulations, companies with substantial know-how and capability in energy research and development will be discouraged from participating in ERDA projects. The insignificant, if any, real value of providing for mandatory licenses is far outweighed by the loss from participation of companies experienced in energy technology. The net result is that the public suffers from continued energy shortages.

For the reasons set forth above, ERDA is strongly urged that its patent policy not invoke mandatory licensing in the energy field and that ERDA delete such provisions from the proposed regulations to the maximum extent consistent with the existing statute.

Very truly yours,

Monte C. Throdahl

Monte C. Throdahl

MCT/eg

Certified Copy of Resolution

By ALD. FRANK and STUDE—

FILE NUMBER 74-2114

Resolution relative to mandatory licensing of patents.

Whereas, The United States is suffering from a shortage of energy resources; and

Whereas, In order to conserve energy resources and decrease energy consumption, it is of the utmost importance to make energy conserving technology available for widespread commercial distribution as soon as possible; and

Whereas, Patents are an important part of this country's economy in that patent rights provide an inventor with an incentive to engage in research and development; and

Whereas, The national energy crisis warrants Congressional action in the realm of patent policy to enable the federal government to promote competition and insure widespread commercial distribution of energy conserving inventions in the shortest possible time, if it is determined that such policy will be in the best interests of the public welfare; now, therefore, be it

Resolved, By the Common Council of the City of Milwaukee that the Energy Research and Development Administration is hereby requested to give strong consideration to the use of mandatory licensing of patent rights as one option for making energy conservation technology available to the general public, while at the same time preserving the economic incentives emanating from the patent system; and, be it

Further Resolved, That the following representatives and senators be requested to convey this concern of the Common Council of the City of Milwaukee to the Energy Research and Development Administration; the Honorable William Proxmire, United States Senator; the Honorable Gaylord A. Nelson, United States Senator; the Honorable Henry S. Reuss, United States Representative; the Honorable Clement J. Zablocki, United States Representative; and, be it

Further Resolved, That the City Clerk send certified copies of this resolution to the above named officials. *Adopted.*

I hereby certify that the foregoing is a copy of a resolution adopted by the Common Council of the City of Milwaukee on April 15, 1975

City Clerk

FORM CC13

NORTH CAROLINA STATE UNIVERSITY | AT RALEIGH

OFFICE OF THE DEAN
RESEARCH ADMINISTRATION
P. O. BOX 5356
RALEIGH, N. C. 27607
919-737-2117

November 26, 1975

Mr. Kenneth L. Cage
Office of the General Counsel
U.S. Energy Research & Development
Administration
20 Massachusetts Avenue
Washington, D. C. 20545

Dear Mr. Cage:

In response to your request, I am submitting this letter to summarize the comments which I made concerning ERDA patent policy on university waivers when I visited with you last Friday.

I would particularly like to request that ERDA adopt a policy of allowing universities to acquire patent rights through a mechanism similar to the Institutional Patent Agreement used by the National Science Foundation. This agreement could be established with universities who have an active patent policy which leads to transfer of technology through patenting and licensing.

When a university does not meet the criteria for an Institutional Patent Agreement, perhaps a mechanism could be formulated whereby the rights to any invention could be established at the time of awarding the grant. The determination of these rights could be based on such things as the university's capability in the field, any previous patent or license activity, etc.

A further restriction could be made in all university patent agreements that if a university failed to exercise diligent use of the patent commercially within a specified period of time, perhaps 3-5 years, then the rights would revert to the U.S. Government.

Areas of research concerned with atomic energy or national security could be exempted from any patent agreement whereby the university would acquire rights.

Olin CHEMICALS

120 LONG RIDGE RD., STAMFORD, CONN. 06904

November 26, 1975

Mr. Kenneth L. Cage
Room 92
8th Floor, Office of General Counsel
20 Massachusetts Avenue
U. S. Energy Research and Development Administration
Washington, D. C. 20545

Dear Mr. Cage:

We have received a letter from Mr. Tenney Johnson of October 31, 1975 announcing a public hearing to discuss the ERDA proposed patent policy.

The notice of the public hearing states that "the objective of ERDA patent policy is to provide an incentive function to stimulate commercial industry development in the energy field as well as protect the public's interest." In our opinion, the proposed policies and procedures will not meet this objective, but will discourage involvement of knowledgeable industrial companies in ERDA's programs. Our opinion and proposed alternative are discussed below.

Olin Corporation produces chemicals, non-ferrous metals, paper products and sporting goods and is in the building and property development business. R & D has been, and will continue to be, an important part of our business, not for its own sake, but because of its contribution to improvements in our operations and growth in our product lines.

Prior to 1960, we did undertake research for the U.S. Department of Defense in areas of mutual interest, under an arrangement whereby we obtained title to patents covering discoveries made during the contract. We believe Olin, the Department of Defense and the public benefited from this arrangement: Olin obtained the protection it needed to commercialize the new technology; the Department of Defense obtained the products it sought for the national defense, and the public paid less under this arrangement than if development had been entirely in the private sector or development and manufacture had been carried out by the government.

Our evaluation of the proposed ERDA patent and licensing policy is based on our view of the role of R & D in an industrial corporation and of the problems associated with the commercialization of new products.

The Olin R & D department is a collection of specialized and highly trained individuals. The effectiveness of this group is based on the knowledge of the individuals, the equipment they work with, and the background Olin has built up in various areas of investigation. Research is a long term

Having argued for the needs of industry which may become involved in this important effort, we recognize the need to protect the interests of the public. We, as individuals and as a Corporation, want our tax dollars spent wisely and to the maximum benefit of the nation as a whole. We believe that the objectives of ERDA can best be achieved by allowing patent rights to go to the contractor, but we also believe arrangements must be made for those situations where this policy does not serve the best interest of the country.

Our suggested policy would be a reversal of that contained in ERDA's October 6, 1975, proposed policies and procedures:

a) Patent rights should normally go to the contractor, with a paid up, non-exclusive license for the government.

b) If the contractor failed to actively commercialize any such discoveries, all rights would revert to the government.

c) If, prior to awarding the contract, ERDA finds the contractor does not have capabilities to commercialize any discoveries, a contract may be negotiated under which patent rights go to the government.

d) Background patent rights will not be infringed by the U.S. government or its agents unless the research contract specifically yields such rights, or a license is negotiated with the patent holder.

We recommend that in their report to Congress the task force propose that section 9 of the Non-nuclear Energy Research and Development Act of 1974 be revised to reflect the above principles, which will, in our considered opinion, improve the effectiveness of this important effort.

We further recommend that no provision for mandatory licensing of other patents be included in this revision. Our experience suggests it is not required, and could adversely affect independent efforts by industry in the area of energy development.

Very truly yours,

R. N. Williams

R. N. Williams
Vice President

RNW:drc

PATENT LAW ASSOCIATION
OF SAN FRANCISCO

Ken

BOARD OF GOVERNORS
BRUCE W. SCHWAB
JOHN P. SUTTON
CORWIN R. HORTON
THOMAS E. CIOTTI
JOHN K. UILKEMA

November 25, 1975

OFFICERS
BRUCE W. SCHWAB ..... *President*
One Kearny St.
San Francisco 94108
(415) 397-4757
JOHN P. SUTTON ..... *Vice President*
3000 Ferry Bldg.
San Francisco 94111
(415) 433-4150
CORWIN R. HORTON ..... *Secretary*
One Bush Street
San Francisco 94104
(415) 823-5936
THOMAS E. CIOTTI ..... *Treasurer*
950 Page Mill Road
Palo Alto 94304
(415) 494-5283

Mr. James E. Denny
Assistant General Counsel for Patents
U. S. Energy Research and
Development Administration
Washington, D. C. 20545

Re: Letter, Tenney Johnson to Bruce Schwab, President, San Francisco Patent Law Association, 31 Oct. 1975

Dear Mr. Denny:

In response to Tenney Johnson's referenced letter to me as President of the Patent Law Association of San Francisco, the members of the Association have had an opportunity to review and discuss the proposed rules relating to patents as published by ERDA in the Federal Register for Wednesday, October 15, 1975.

While we feel it would be unproductive at this stage to suggest changes in particular wording, we do have strong feelings with respect to some of the general approaches which have been taken and on which the following comments are offered:

1. Form - We feel that the person or persons who prepared the proposed clause are to be complimented on the comprehensiveness and professionalism that are evident in covering the many facets of this difficult area. It is also felt, however, that the clause is far too long and complex for easy administration and will contribute to the already high sense of frustration that private enterprise finds in dealing with the Government. While it is difficult to document formally, you are undoubtedly aware of many instances in which companies, large and small, have refused to accept contracts because of the restrictive form and substance of "title" patent and data provisions such as these.

2. Title Policy - The basic concern of many of our members, especially those representing corporations who have dealt with the successful DoD patent (license) regulations, is

Committee Chairmen
ANTI-TRUST AND LICENSING
Thomas G. De Jonghe
CONSTITUTION AND BY-LAWS
Thomas O. Herbert
COPYRIGHTS
Paul W. Vapnek
EMPLOYMENT
Leonard Phillips
FIELD DAY
Thomas F. Smegal
FOREIGN LAWS
Harry A. Pacini
GOVERNMENT PATENT POLICY
Rodger N. Alleman
INVENTION MARKETING
John K. Uilkema
MEETINGS
John D. Foster
MEMBERSHIP
George W. Wasson
DELEGATE NATIONAL COUNCIL OF PLA
Thomas F. Smegal
NORTHERN DISTRICT RULES
Roger L. Cook
PATENT LAW
David J. Brezner
PATENT OFFICE OPERATIONS
Bertram I. Rowland
PROFESSIONAL ECONOMICS
Martin F. Majestic
PROFESSIONAL ETHICS
Julian Caplan
PUBLIC RELATIONS
Warren P. Kujawa
TRADEMARKS
Richard E. Backus
WEEKEND SEMINAR
David E. Lovejoy

cost, the benefit of a prior patent position which may have been developed at relatively great expense to a background patent owner.

4. Compulsory Licensing - To require the patent owner to grant licenses to others, including his competitors, on royalty and other terms which appear to be "reasonable under the circumstances" (to ERDA) is undesirable if not unconscionable.

5. Right to Review a Contractor's Technology - We believe that the Government is overstepping its needs in requiring a contractor to open all of his books and records, including laboratory notebooks, in "the same field of technology as the work" under a contract to determine whether any subject inventions exist. This invasion of proprietary documentation even to the point of examining laboratory notebooks may deter many of us from advising our clients to accept a contract with ERDA, espcially when procedures under the rules of discovery are available in those few instances where a controversy of any reasonable substance might arise.

6. Revocable Licenses in Contractors - Patent people who have worked closely with industry and inventors realize the "paternalism" with which many creative people view their inventions. While it is distasteful enough to have title taken by the Government in such developments, it is even more difficult to accept the fact that only a revocable license is left with an inventor or his company. This revocability undermines the foundation upon which further resources might be invested to further develop the idea, and should be particularly objectionable from the public's point of view when it is recognized that it tends to poison the well-spring from which the idea originated. It is troublesome that a license would be revocable at the whim of a few persons in the Government who might be of the opinion that such revocation was necessary in their minds "to achieve expeditious practical application of the subject invention." (The limitation that it could not be revoked in the field of use or geographical area in which a contractor "has brought the invention to the point of practical application" is of little comfort because of the indefiniteness of this standard). We submit that the proper rights of the Government will always be protected if (a) title is left with a contractor and (b) a royalty-free license is granted to the Government to practice or have practiced the invention for governmental purposes. This is by far a simpler philosophy to administer and would provide, at one and the same time, protection for the Government's interest and incentive for further development.

almost always be present, are formidable to the point of rendering the waiver provisions essentially nonoperative. As noted above, it is submitted that it would be far simpler for all concerned to dispense with waivers and, in the first place, leave title with the inventing contractor with a license to the Government for its purposes.

We hope that our concerns will be seriously considered as they fall within an area of critical importance to the nation in that they serve as a disincentive to invention and practical application of inventions.

Very truly yours,

Bruce W. Schwab
President

Rodger N. Alleman
Chairman, Government
Patent Policy Committee

BWS/mnc

cc: R. Tenney Johnson,
General Counsel

PHARMACEUTICAL MANUFACTURERS Association

C. JOSEPH STETLER
PRESIDENT

1155 FIFTEENTH STREET, N.W.
WASHINGTON, D.C. 20005
AREA CODE 202-296-2440

December 5, 1975

The Honorable Robert C. Seamans, Jr.
Administrator
Energy Research and Development Administration
Washington, D.C. 20545

Dear Sir:

The October 15, 1975 Federal Register (40 FR 48388) contains a notice of an Energy Research and Development Administration hearing which was held on November 18-19, 1975. The purpose of the hearing was to receive comments and suggestions regarding several statutes relating to ERDA's patent policies. Section 9 (n) of the 1974 Federal Nonnuclear Energy Research and Development Act requires that ERDA submit a report to the President concerning the applicability of existing patent policies affecting ERDA programs, including recommendations on mandatory licensing. We understand that the purpose of the oral hearing, and written comments provided by interested parties, is to assist ERDA in preparing the Presidential report.

The Pharmaceutical Manufacturers Association is a voluntary, non-profit membership association composed of 131 companies engaged in the research, development and production of prescription drug products, medical devices, and diagnostic products. One of the requirements for membership in the Association is that the applicant be significantly engaged in research for the advancement of medical science. PMA member companies rely on the incentives provided by the United States patent system in conducting their research and development activities and seek patent protection for the inventive results of their research efforts. Therefore, we are taking this opportunity to express our strong opposition to compulsory patent licensing.

Our comments are limited to the issue of mandatory or compulsory licensing. PMA does not represent the activities, if any, of its member companies with respect to the development and utilization of efficient sources of energy. Therefore, we will not comment on the proposed regulations (40 FR 48363) regarding the acquisition and distribution of patent rights, data and copyrights resulting from ERDA-funded research and development contracts.

The Federal Register notice states that one of the purposes of the hearings is to consider whether legislation requiring mandatory licensing of energy-related patents is necessary to carry out the purposes of the 1974 Act. It is stated that mandatory licensing may be "broadly defined as requiring a

licensing of energy related patented technology to private parties for private enrichment. Such a recommendation could only result in a statute effectively destroying the patent incentive for the research and development of needed energy related technology in a manner inconsistent with the stated objectives of the 1974 Energy Act.

Statutory compulsory licensing, whether applicable to all industries or only selected technologies, would dilute the incentives provided by the United States patent system. Section 9-9.100 of the proposed ERDA patent regulations recognizes that "an important incentive in commercializing technology is that provided by the patent system". We agree. Statutory compulsory licensing, ostensibly intended to increase commercialization of patented subject matter, in the long term can only lead to a decrease in the amount and quality of technology. Unless an innovating company is given sufficient incentives to invest corporate research dollars in discovery and commercialization of new technology, the company cannot justify research expenditures. The United States patent system provides an effective incentive for the recoupment of research costs by offering a limited term of market exclusivity for the commercially successful results of the company's research program. If exclusivity is effectively eliminated through compulsory licensing provisions, the research commitment will be greatly diminished.

Appropriate incentives are particularly necessary in those technologies with the most pressing need for innovation. Certainly one such area is the nonnuclear energy field. While we view compulsory patent licensing as inappropriate in all technologies, it is particularly ill advised in those areas, such as energy, environmental advance and pharmaceuticals in which intense and costly research projects are essential.

The Patent and Trademark Office fully recognizes the need for the greatest patent incentives in those areas where technological progress is essential. Office practice for expedited prosecution of energy and pollution related applications is one indication of the Office's concern. Certainly it would be anomalous to expedite the approval of such application so that shortly after issuance of the patent mandatory licensing could be imposed. Former Commissioner Gottschalk's address to the American Bar Association in August 1972 (enclosed) states the Office's position in opposition to compulsory licensing and discusses the fallacies in the arguments of those who argue for such licensing.

Statutory compulsory licensing also discourages the undertaking by others of additional research to develop alternative or better technology. If in fact, one company's patented research efforts are available to competitors there is less of an incentive for additional independent research for the discovery of improved and better products. In our view, it is particularly crucial that the incentives in the energy field, both for initial research and development and follow on research for improved products and processes, be fostered.

Further, statutory compulsory licensing is rarely invoked in foreign countries and therefore is not the cure for the alleged disease.[1/] In this regard, it has been suggested that the fact there is a compulsory licensing law in a particular country results in greater voluntary licensing and that such voluntary licensing explains the lack of compulsory license applications. It is our impression that corporate licensing policies generally do not vary on a country-to-country basis and that any variations are not based upon whether or not there is a local compulsory licensing provision. In 1974, the PMA surveyed its member companies as to whether corporate policies in foreign "developed" countries for licensing of patented pharmaceuticals were different from their United States policies. The unanimous response was that corporate licensing policies are generally consistent world-wide.

ABUSE OF THE PATENT RIGHT

The outright taking or dilution of the patent right is entirely proper when that right is abused and in those situations in which the patent holder fails to advance the progress of the useful arts. In the United States the patent right must always be used in conformity with the overall public interest, and we fully support this concept. Abuse of the patent right, however, must be established on a case-by-case basis consistent with due process guarantees. Under our legal-judicial system, this is accomplished through the federal courts.

The patent holder is protected from unauthorized competition only so long as he acts within the limitations of the patent and antitrust laws. If the patent grant is misused or used in such a manner as to violate the law, the patent is not enforceable and the patent holder is subject to civil and criminal penalties. In such instances the courts may order any of a variety of remedies, one of which is compulsory licensing, either royalty free or royalty bearing. However, court remedies are invoked in a case-by-case basis upon a showing of abuse of the patent or a showing of public need. This approach is proper and necessary to protect both the public interest and the legitimate rights of patent holders.

In addition, it is well established that the federal courts will not enjoin infringers of patented technology if to do so would be contrary to the public interest. This clearly demonstrates the correctness of present law and current judicial interpretation. Given this fact, compulsory licensing legislation in any field is unnecessary and redundant, since our present court system is fully capable of remedying any abuses.

1/ See, Whitaker Article in Summer 1974 A.P.L.A. Quarterly Journal and Commissioner Gottschalk's 1972 Address to the American Bar Association.

UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
WASHINGTON, D.C. 20230

PATENT OFFICE

FOR RELEASE SATURDAY NOON (PDT), AUGUST 12, 1972

TEXT OF AN ADDRESS BY THE HONORABLE ROBERT GOTTSCHALK, COMMISSIONER OF PATENTS, U. S. DEPARTMENT OF COMMERCE, FOR DELIVERY BEFORE THE SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW, AMERICAN BAR ASSOCIATION, SHERATON PALACE HOTEL, SAN FRANCISCO, CALIFORNIA, AUGUST 12, 1972.

"Compulsory Licensing and Patent Incentives"

I would like to share with you today some thoughts on the issue of compulsory patent licensing.

I am sure that many of you have been giving this matter serious consideration. As you know, committees of several bar groups, including the American Bar Association, have been considering compulsory licensing recently.

Probably the event that triggered these current discussions was the sudden enactment in 1970 of section 308 of the Clean Air Act, providing for compulsory licensing of patents relating to air pollution control. The Administration vigorously opposed enactment of this provision, and the Department of Commerce subsequently testified in favor of a section in Senator McClellan's bill for general revision of the patent laws which, in effect, would have repealed the compulsory licensing provision.

Nonetheless, the provision is part of our law, and there appears to be no reason to believe it is likely to be changed in the near future.

The Clean Air Act has raised the question of whether we should have compulsory licensing provisions in other environmental legislation, or in other fields of public interest, or perhaps even compulsory licensing across the board.

argument frequently heard is that since most foreign countries have it, we should have it too. Let's briefly review this argument, and the situation abroad.

It is quite true that compulsory licensing is prevalent abroad. For instance, of the 25 member countries of the Organization for Economic Cooperation and Development, including all of the major Western industrialized nations, every country except the United States appears to have some form of compulsory licensing.

Indeed, some would say the United States now has it, too, after the Clean Air Act, Plant Variety Protection Act, the Atomic Energy Act, and the remedy of compulsory licensing in antitrust cases.

The most common compulsory licensing statutes abroad are those requiring "working" of the invention.

To satisfy the working requirements of many of these countries, manufacturing must be carried out within the country. Thus, a compulsory license may be granted even though importation can fully - and even more cheaply - satisfy the domestic market for a patented invention.

There are also various other types of compulsory licensing laws abroad. For instance, there are special provisions governing food and medicines; provisions requiring compulsory licensing of blocking patents, where needed to practice a dependent patent; and provisions requiring a compulsory license to be granted to an individual who used an invention prior to its patenting. Some compulsory licensing laws are quite broadly worded, and based on such reasons as the "public interest" or the "national economy."

What has been the experience with these laws abroad?

In the countries that provide special, liberal compulsory licensing provisions applicable only to drug and food patents, compulsory licenses have been granted rather frequently.

But, in general, compulsory licensing provisions seldom have been invoked. According to one recent study, in Switzerland there has never been a grant of compulsory license; in Japan there have been eight since 1960; in France there have been three since 1953; and in Canada, under the general compulsory licensing provisions (non-pharmaceuticals), there have been eleven since 1935.

> "If there were some way in which one could properly determine a fair royalty and other reasonable terms in the event of compulsory licensing it would overcome much of the objection to such licensing. But inventions are so widely different in character and in the investment required to develop them that it is impossible to set up any general standards as to the proper terms of such a license. The old American art of horse-trading between the patent owner and the man who wants a license is often time-consuming and annoying, but it is probably the best way to arrive at the fair value of a license, and it has the further advantage of being generally open to readjustment from time to time as conditions change."

Most compulsory licensing statutes give little or no guidance as to how to set the royalty rate. Numerous factors have to be considered, depending upon the individual situation. Obviously, a fixed percentage of the cost or of total sales for all cases would be unsatisfactory. Neither could the cost of research and development of the invention always be used as a criterion for establishing royalties. Often inventions have a value unrelated to the cost of the R&D which produce them. Also, firms often have to recover substantially more than their R&D costs on a successful invention, in order to cover the cost of other R&D efforts that fail.

The amount and adequacy of compensation would also, to some extent, depend upon the viewpoint of the government body responsible for establishing it. I notice that one bar association committee recently proposed that the Patent Office should be the agency to administer any compulsory licensing program. I am not prepared to say that the Patent Office would be the best place for such a program. But I would agree that any such program should be administered by an agency having an interest in long-term stimulation of science and technology.

Dilution of Incentive Irrespective of Royalties

But even if adequate royalties could be insured, there would still be dilution of the incentives provided by our present system. If the patent right were no longer exclusive, we would lose the incentive, indeed the competitive necessity, which exists under our present system. As matters stand, when someone has patented a new

Yet strangely enough -- the Clean Air Act is a case in point -- the proponents of compulsory licensing are taking just the opposite approach! They would apply it where our need for incentive is greatest.

The Constitutional purpose of the patent system is to promote the "progress" of the useful arts. We certainly won't get more golden eggs by killing, or throttling, the goose that lays them -- whatever the form of the act, whatever the motivation or rationalization.

Lack of Justification for Compulsory Licensing

Such are the danagers of compulsory licensing. But what about the abuses that are said to be creating a need for it in this country?

I am not aware of any evidence of such abuses.

- "Suppression"

We have all heard, from time to time, various rumors about the suppression of patents believed to have existed -- suppression of both patents and inventions, as a matter of fact. Most of them are pretty tall tales.

For instance, one of these stories, current some years ago, concerned an improved carburetor that was supposed to permit a given amount of gasoline to give far greater automobile mileage than was ever possible before. There were also many rumors about magic pills of some sort which could be dropped into a tankful of water, to convert it into the equivalent of gasoline.

I spent a long time in the oil industry, and believe I am in a position to confirm that none of these things ever materialized Nobody has ever been able to find out where, how, when or by whom any of these so-called inventions were made -- or to nail down so much as a single instance of that sort of thing.

As we are well aware, the expiration of the patent on an invention is a matter of public record. It opens the way for any member of the public to make, use and sell the invention -- freely and without obligation to anyone. Yet I am sure that I never heard of any single instance where a "suppressed" invention suddenly blossomed out when the patent on it expired.

I submit, however, that the United States has led the world in developing new drugs precisely because we do provide the greatest incentives to research -- through patent protection based on exclusive rights. By way of contrast, consider the Italian experience, which is just as persuasive in establishing the other side of the same proposition: no patent protection -- and virtually no new drugs.

Here again, it seems to me, as with the matter of price, we face the same basic question: Would we rather have a compulsory licensing law on the books, to ally the intellectual fears and fancies of some; or new and better products in the market place, to serve the real and practical needs of the many?

- "Consumerism"

In that same basic light, let us look at the argument that "consumerism" is a social force of the day that requires compulsory licensing.

It seems to me that this view is based on a superficial and misleading reading of what, in its essence, "consumerism" is really all about. Its real significance, I believe, lies in a growing genuine concern for the basic and long-term interests of the individual and our society. Growing concern about the pollution of our environment and the conservation of our natural resources is just another manifestation of this same trend of thought.

In its true sense, "consumerism" is aimed at reordering priorities and values on a sound and enduring basis. It opposes short-term and short-sighted exploitation and waste. It recognizes our obligations to plan and work for the future, as well as for today. It stresses the need for education and understanding, if the real needs of this nation and its people are to be met.

To my way of thinking, this is as it should be. And I see no conflict whatever between "consumerism" in this sense, and the continuation, in full force, of the exclusive rights concept on which our patent system was established, and which has served us so well.

However, if the "consumerism" urged as a basis for compulsory licensing means something else -- if it means a short-sighted, short-term program of exploitation for today, with little or no

That view may have merit. It certainly is being considered -- and since it has been advanced, I would agree that it should be examined most carefully.

For my own part, I have no present disposition to depart from the views I have stated. But neither do I intend to have closed ears or mind to the thoughts and views of others -- nor to preclude the possibility of change in my views, if a need for change should be convincingly shown.

In all of this, my overriding concern is that our United States Patent System be as effective as possible. To me, the question of compulsory licensing is one that should and must be considered in that context.

As you know, President Nixon and Secretary Peterson have repeatedly emphasized the importance they attach to our patent system, and to the contributions it can make toward meeting the technological and economic challenge which now confronts this nation.

In the President's recent message to the Congress on science and technology, for example, he had this to say about the patent system:

> "We know . . . that a strong and reliable patent system is important to technological progress and industrial strength. The process of applying technology to achieve our national goals calls for a tremendous investment of money, energy, and talent by our private enterprise system. If we expect industry to support this investment, we must make the most effective possible use of the incentives which are provided by our patent system."

The most important question about compulsory licensing is whether it is consistent with the "strong and reliable patent system" to which the President referred, and which is so necessary to the achievement of our national goals. My present view is that it is not.

PURDUE UNIVERSITY
OFFICE OF THE DEAN OF GRADUATE SCHOOL
GRADUATE HOUSE EAST
WEST LAFAYETTE, INDIANA 47907

November 14, 1975

Mr. Kenneth L. Cage,
Energy Research and Development Admin.,
Office of the General Counsel,
Room 92, 8th Floor,
20 Massachusetts Avenue,
Washington, D.C. 20545.

Dear Mr. Cage:

With respect to the Committee hearing relative to the patent policy of the Energy Research and Development Administration, Purdue University, West Lafayette, Indiana, wishes to go on record favoring the recommendation set forth in the report dated July 1975 by the University Patent Policy Ad Hoc Subcommittee of the Committee on Patent Policy, Federal Council for Science and Technology as follows:

> "It is recommended that the various executive agencies be advised to adopt policies and regulations recognizing that the public interest will normally best be served by allowing educational institutions with a technology transfer program meeting the general criteria set forth below to retain title to inventions made in the course of or under any Government research grant or contract. These policies and regulations should require the use of Institutional Patent Agreements (IPA'S) with universities that are found to have an established technology transfer program that is administered consistently with the stated objectives of the President's Memorandum and Statement of Government Patent Policy.
>
> In general, the Subcommittee believes adoption of the recommendation would:
>
> > Implement to the extent possible the emphasis of the President's Statement on Patent Policy that the allocation of patent rights be made at the time of contract or grant;

As a public institution, the faculty and administration of Purdue University are dedicated to a program of technology transfer. We are convinced by experience that such transfer can best be accomplished through an Institutional Patent Agreement similar to those we now have with National Science Foundation and the Department of Health, Education, and Welfare.

Very truly yours,

F. N. Andrews, Vice President
for Research and Dean of the
Graduate School

FNA:akw

TEXACO DEVELOPMENT CORPORATION
135 EAST 42ND STREET
NEW YORK, N. Y. 10017

PETER L. PAULL
PRESIDENT

U.S.E.R.D.A.
OFFICE OF THE GENERAL COUNSEL

NOV 3
AM 7,8,9,10,11,12,1,2,3,4,5,6 PM

October 23, 1975

Mr. Kenneth L. Cage
Room 92, 8th Floor
Office of the General Counsel
U.S. Energy Research and
Development Administration
20 Massachusetts Avenue
Washington, D. C. 20545

Re: Notice of Hearing
Federal Register, Vol. 40, Page 48388
FR Doc. 75-27667 Filed 10-14-75

Dear Mr. Cage:

The subject notice of hearing relates primarily to the question of mandatory licensing stated in the notice to be "broadly defined as requiring a patent owner to forego the injunctive remedy provided by Title 35 of U.S. Code against the infringing acts of another."

It is our position that the proposed rules set forth in the Federal Register for October 15, 1975, page 48363, provide adequate rights for the Government on developments funded by the Government. Furthermore, the right of eminent domain and the procedures before the Court of Claims already provide ample remedy to the Government where a patent is unreasonably withheld by the private sector. Denying the injunctive remedy seriously hampers the reasonable bargaining position of the patent owner. Further, it seriously reduces the self-policing action of a patent by limiting the risk of a putative infringer to a reasonable royalty even where he might be caught in an intentional clandestine infringement.

Thus, mandatory licensing adds nothing to the existing Government remedies but would seriously limit the rights of the patent owner.

Very truly yours,

Peter L. Paull

PLP:pbt

Case
U.S.E.R.D.A.
OFFICE OF THE GENERAL COUNSEL
JAN 3 1976
AM 7,8,9,10,11,12,1,2,3,4,5,6 PM

December 19, 1975

James E. Denny, Esq.
Assistant General Counsel for Patents
Energy Research and Development Administration
Washington, D. C. 20545

Dear Mr. Denny:

On behalf of TRW Systems and Energy, I attended the hearings held by ERDA on November 18 and 19 on the subject of ERDA patent policy. We have also reviewed the proposed regulations which were published in the Federal Register on October 15.

The purpose of this letter is to summarize our views on the policy issues which emerged during the course of the hearings and to comment on specific provisions of the proposed regulations.

TRW is interested in this subject for several different reasons:

- We are a major supplier of products and services for energy-related markets.
- We have major on-going independent research and development programs some of which relate to energy.
- We have been assisting ERDA and other Federal agencies on a variety of tasks relating to the formulation and implementation of the national energy program.

In the performance of those tasks for ERDA, we have noted a reluctance on the part of many industrial firms to become involved in ERDA-sponsored projects and to disclose their technology to ERDA - in part because of uncertainty concerning ERDA's patent and data policy. We believe that the final approach

SYSTEMS AND ENERGY · TRW INC. · ONE SPACE PARK · REDONDO BEACH, CALIFORNIA 90278

We recommend that ERDA reconsider the following aspects of those portions of the regulations which relate to waiver policy:

1. We believe that the proposed regulations should be redrafted so that they convey the impression that broad waivers will be granted on a substantially automatic basis to those contractors who offer to share with ERDA their existing technology and who offer a sound plan to pursue the further development and commercialization of subject inventions.

   The type of rights a contractor will be permitted to retain in the absence of a waiver will be insufficient in most instances to interest major R&D companies to collaborate with ERDA. Under Section 9-9.107-3(b) a contractor may retain in most instances only a non-exclusive, revocable, paid up license in subject inventions which license can be revoked or modified by ERDA to the extent ERDA deems necessary to grant an exclusive license to a third party in order to foster the further development and commercial application of the invention. Under this provision, a latecomer with large capital resources could obtain exclusive rights to a technology to the exclusion of the company which had assumed the initial risks of innovation and which had been willing to share with ERDA the results of its R&D.

   A company having existing technology needs strong assurance that it will be permitted through the waiver process to acquire exclusive rights to the invention for such a period of time as will permit it to make a reasonable return on its investment. We submit that the proposed regulations do not provide those officials who will be administering ERDA's waiver program, nor do they offer prospective contractors, very clear guidelines as to the basic thrust of ERDA's waiver policy. The proposed regulations enunciate a confusing welter of criteria and considerations which the Administrator or his designee must take into account in deciding whether or not to grant waivers and on what basis.

important that ERDA's procurement personnel be instructed to negotiate precisely worded background patent and data clauses and, whenever possible, to do so with great specificity at the outset of the contractor-ERDA relationship in a particular field of technology. In all of our future contracts with ERDA, we intend to rely very heavily on the provisions of Section 9-107.5(b) and to insist on a careful delineation of the technology which will or will not be covered by a particular background patents or data clause.

Several industry spokesmen at the hearings indicated that the background patents and data clauses being proposed for inclusion in ERDA contracts are often inconsistent with the principles stated in the proposed regulations and we have noted a lack of familiarity by certain of ERDA's field offices with the proposed regulations themselves. Existing evidence indicates that such clauses are being proposed for inclusion in contracts in much too indiscriminate a fashion without consideration of their implications.

Others have commented at length on specific aspects of the proposed background patent and data regulations. One comment we have not noted elsewhere is that the provisions dealing with third party licensing of background rights do not define what is meant by licensing "...on reasonable terms." This could become a major bone of contention inasmuch as ERDA's power to require licensing will be used by third parties to force the owners of background technology to grant licenses on terms that the owner may consider unfair. Some procedure for notice, hearing and impartial determination of the "reasonableness" of such terms should be established.

We also wish to endorse the view expressed by the Electronics Industries Association in its November 14, 1975 comments on the proposed regulations that "Private Use of Information" clauses of the type which TRW has been requested to accept in several ERDA contracts place an unreasonable limitation on a contractor's ability to use information generated under ERDA contracts and should be abandoned or very substantially liberalized.

UNION CARBIDE

UNION CARBIDE CORPORATION

270 PARK AVENUE, NEW YORK, N. Y. 10017 • CABLE ADDRESS: PATUNCARB, NEW YORK

LAW DEPARTMENT
HARRIE M. HUMPHREYS
ASSISTANT PATENT COUNSEL

November 13, 1975

R. Tenney Johnson, Esq.
General Counsel
United States Energy Research and
Development Administration
Washington, D.C. 20545

Re: ERDA Proposed Patent Policy

Dear Mr. Johnson:

Mr. T. I. O'Brien has asked me to respond to your letter of October 31, 1975 on the above subject. Although we do not plan to make a formal presentation at the hearing to be held on November 18 and 19, 1975, we do want to submit the following general comments on ERDA's patent policy. The comments are primarily derived from the proposed new 41 CFR Part 9-9, published in the Federal Register of October 15, 1975 which we understand represents ERDA's current thinking on policy and implementing regulations.

(1) Revocable licenses. We note that granting of exclusive licenses under patents owned by the Government is contemplated. A decision to include provision for exclusive licenses necessitates a number of other related provisions in the regulations which are potentially cumbersome, both in negotiation of contracts and administration of contracts. The mere existence of the possibility of the future grant of an exclusive license makes necessary numerous other regulations and procedures dealing with revocation of non-exclusive licenses, limitations on revocation, reports and other documents. It is, of course, possible that in some situations an exclusive license might be the best vehicle for making an invention available to the public, but this is only a speculative benefit. Of immediate benefit, both for attracting competent contractors and for reducing negotiating time, would be liberal provisions for granting the contractor the more conventional irrevocable, non-exclusive license to practice inventions to which he has contributed through participation in the contract work.

(2) Flexibility vs. complexity. Policy must be broad

Copy
U.S.E.R.D.A.
OFFICE OF THE GENERAL COUNSEL
JAN 8 1976
AM 7,8,9,10,11,12,1,2,3,4,5,6 PM

LAW DEPARTMENT

United States Steel Corporation

600 GRANT STREET
PITTSBURGH, PENNSYLVANIA 15230
CABLE: USSCOLAW PGHPA

December 22, 1975

Mr. James E. Denny
Assistant General Counsel
for Patents
U. S. Energy Research and
Development Administration
Washington, D. C. 20545

United States Steel Corporation
Comments on
Proposed ERDA Patent Policies
10/15/75 Federal Register

Dear Mr. Denny:

Much has been said and written over the years critical of the Government's patent and data policies, particularly with respect to stern title policies, compulsory licensing requirements, overreaching background rights and unguarded disclosure of a contractor's proprietary data. While we agree with those critics that such policies are disincentives to invention and hinder, if not prevent, participation by the best qualified prospective contractors, we do not believe that such arguments concerning the fundamental approach to Government patent policy are warranted here. Our comments below therefore, are directed towards suggestions for better balancing the equities in ERDA's patent regulations as proposed, without departing from ERDA's general approach, statutory requirements or the Presidential Policy Statement of 1971.

With reference to the proposed policies in general, it does appear that much effort has been put into their preparation and considerable thought given the balancing of equities on both sides. We are particularly pleased with Sub-part B and the good simple approach taken towards protecting the contractor's proprietary data. In fact, the basic Technical Data Requirements and Rights in Technical Data clauses are quite fair and avoid the complicated procedure often taken by other federal agencies.

On the other hand, while a broad approach has been made in Sub-part A to balancing the equities with respect to patent rights, we believe the results, particularly the single Patent Rights clause and the waiver procedures are far more complicated than necessary to meet the desired objective. Indeed the patent provisions are so complex as they will certainly cause considerable

We submit, therefore, that a lot of red-tape, wasted effort, delays, uncertainty, non-uniformity and needless costs could be avoided by a multiple patent rights clause approach as used by the AEC, or any such system whereby the contractor would better know in advance what patent rights he would have. We would particularly favor a clause at least on an optional basis, which reserves for ERDA the "infield" energy related inventions and energy related applications of "outfield" inventions, and permits the contractor to exploit all non-energy applications of "outfield" inventions, preferably without further restriction. With this approach, the proposed Patent Rights clause would be more acceptable as the waiver provision would then be limited to infield or energy related inventions. This approach would not only be more equitable to the contractor, but it would certainly reduce his, as well as ERDA's, paper work. In addition, it would not conflict with ERDA's primary mission, as ERDA is not, or at least should not be concerned with developing and commercializing the great myriad of non-energy related arts.

As for foreign patent rights, the above principles should be equally applicable. However, since the Government's primary interest in foreign patent rights is to be able to satisfy its obligations to license foreign governments pursuant to existing or future treaties, it would appear that contractors could be given even greater rights than given to domestic patents. It would certainly simplify ERDA's job if contractors were given the right to file foreign applications in all countries he may elect, and full freedom to exploit foreign utilization thereunder, subject only to ERDA's right to file in any country where contractor does not file, and to grant licenses to foreign governments pursuant to the Government's treaty obligations.

Under the proposed provisions, ERDA has absolute foreign filing rights to subject inventions, absent a waiver thereof. ERDA is free to file or not file patent applications in any country at its discretion. If ERDA elects not to file a given patent application in a given country, the contractor may request rights to do so, and ERDA may then grant the contractor this right at its sole discretion. As an absolute minimum, we would propose that a contractor <u>automatically</u> be given the right to file foreign patent applications on subject inventions in any country where ERDA elects <u>not</u> to file. This can certainly be justified in view of the fact that to preserve the foreign patent rights, foreign filing must be effected within a rather limited period of time. The delays caused by ERDA's first determination of which countries to file in and thereafter reporting this to the contractor, the contractor then preparing a request for foreign filing, and finally ERDA granting that right to the contractor would surely be sufficiently time consuming to actually cause forfeiture of foreign patent rights in many situations.

We appreciate the opportunity to present our views, and we trust that they will be considered before the proposed policies are finalized.

Very truly yours,

John R. Pegan
Senior General Attorney
Patents

klm

Zenith Radio Corporation
6001 DICKENS AVENUE
CHICAGO, ILLINOIS 60639

JOHN J. PEDERSON
GENERAL PATENT COUNSEL
& DIRECTOR OF PATENTS

November 4, 1975

R. Tenney Johnson, Esq.
General Counsel
U.S. Energy Research &
Development Administration
Washington, D.C. 20545

Dear Mr. Johnson:

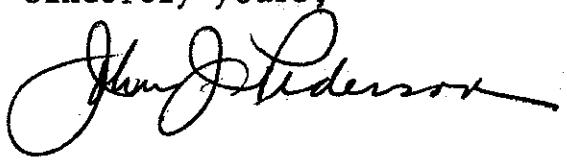
Thank you very much for your invitation of October 31, 1975, to attend and participate in the scheduled public hearings in Germantown on November 18 and 19 on the subject of ERDA proposed patent policy.

Since Zenith Radio Corporation is no longer engaged in government contracted R & D or production operations, it is not likely that our business will be affected by the patent policy adopted by ERDA, and we have no official company position to present with respect to the current proposals.

Privately, as a practicing patent attorney, my conviction is that the public interest is better served by vesting patent rights in foreground inventions in the contractor subject to non-exclusive licenses for government purposes, rather than by vesting patent rights in the government. Also, I do not perceive a substantial present need for mandatory licensing under background patents; I would expect any needed background licenses to be made available voluntarily, and in this area, I would prefer to see rules enacted for coping with actual problems as encountered rather than anticipating widespread needs or abuses which may never eventuate.

Thank you again for your personal invitation.

Sincerely yours,



JJP:jal

The Oil Shale Corporation
10100 Santa Monica Boulevard
Los Angeles, California 90067
Telephone: (213) 553-5556

November 17, 1975

Honorable Robert C. Seamans, Jr.
Administrator
Energy Research and Development
Administration
Washington, D. C. 20545

Dear Dr. Seamans:

In response to the notice published in the Federal Register for October 15, 1975, The Oil Shale Corporation ("TOSCO") is pleased to submit the following comments in connection with ERDA's hearing on patent policy to be held November 18 and 19, 1975. Our comments are made from the viewpoint of a potential participant in the Synthetic Fuels Commercialization Program, which will be administered, at least initially, by ERDA.

1. Patent Policy for Synthetic Fuels Commercialization

In its recent testimony to the House Science and Technology Committee on the proposed loan guarantee program for synthetic fuels commercialization, ERDA stated that the patent provisions of the Federal Nonnuclear Research and Development Act of 1974 would not apply to loan guarantees or price supports for commercial demonstrations of existing synthetic fuel technologies. TOSCO agrees with this interpretation, and we do not believe it would be proper to apply the patent provisions of the Nonnuclear Act to the proposed Synthetic Fuels Commercialization Program. We concur in ERDA's view that patent policy for the synthetic fuels loan guarantee program should be established by administrative regulation, as was done in the case of the geothermal loan guarantee program.

While the patent requirements in the Nonnuclear Act may be appropriate for other ERDA programs, they could raise serious problems in the context of commercial-scale projects to demonstrate the economic and environmental viability of existing privately-held technology. Our TOSCO-II process, for example, has been developed entirely through private efforts and represents an investment of more than $55 million in private funds for research and development activities and an additional $12 million for detailed commercial plant design and engineering. The process has been licensed to several other companies, both U. S. and foreign.

2. Mandatory Licensing

TOSCO takes no position on the question whether ERDA should adopt a policy of mandatory licensing, or on the question of what forms of ERDA assistance might warrant application of such a policy. If a mandatory licensing policy is adopted, however, we believe that the policy should contain certain safeguards and criteria to assure that its application is not unduly prejudicial to holders of valuable existing technology.

As a threshold consideration, it is important that any mandatory licensing policy contain adequate safeguards to prevent disclosure of proprietary technology and data. Prospective licensees should be required to enter into appropriate confidentiality agreements prior to license negotiations, and licensors should be required to negotiate only with organizations which have procedures and a demonstrated capability for honoring confidentiality commitments.

Secondly, owners of technology should only be required to offer legitimate licenses to practice the technology for manufacturing or production purposes. They should not be required to grant licenses to parties who are interested in using the license as a basis for developing their own proprietary technology. While licensees should be permitted to make technological improvements which are incidental to normal manufacturing operations, they should not be allowed to abuse a license by using it to develop a different (but not necessarily superior) technology for their own exploitation without regard to the rights of the original licensor.

Finally, we believe that any mandatory licensing requirement should establish a general responsibility to offer licenses on reasonable and non-discriminatory terms and should leave the actual terms of licensing to private negotiations, subject to certain criteria for the parties to follow in reaching reasonable terms. The prescribed criteria should include the following:

1. The terms of license should be in accord with prior and existing licenses granted to other parties for the same or similar technology. In particular, a licensor should not be required to upset existing licensing relationships, which may include "most favored treatment" clauses;

2. The terms of license should reflect the prevailing market demand for the specific technology in question. Where recent agreements or firm offers with respect

APPENDIX D

APPENDIX D - OPERATING EXPERIENCE AND AREAS FOR FURTHER STUDY

D.1 Conference Report on H.R. 3474, 94th Cong., 1st Sess.: Memorandum of ERDA Deputy General Counsel of October 29, 1975, and Letter of Senators Russell Long and Philip A. Hart of November 14, 1975

D.2 Incentives and Awards - Nuclear and Nonnuclear

Appendix D.1
Excerpts from Conference Report on the Bill Authorizing 1976 Appropriations for ERDA

94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 94-696

AUTHORIZING APPROPRIATIONS FOR THE ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

DECEMBER 8, 1975.—Ordered to be printed

Mr. TEAGUE, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 3474]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 3474) to authorize appropriations to the Energy Research and Development Administration in accordance with section 261 of the Atomic Energy Act of 1954, as amended, section 305 of the Energy Reorganization Act of 1974, and section 16 of the Federal Nonnuclear Energy Research and Development Act of 1974, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

TITLE I—AUTHORIZATION OF APPROPRIATIONS FOR FISCAL YEAR 1976

SEC. 101. There is hereby authorized to be appropriated to the Energy Research and Development Administration in accordance with the provisions of section 261 of the Atomic Energy Act of 1954, as amended (42 U.S.C. 2017), section 305 of the Energy Reorganization Act of 1974 (42 U.S.C. 5875), and section 16 of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5915):

(a) For "Operating expenses", for the following programs, a sum of dollars equal to the total of the following amounts:

(1) FOSSIL ENERGY DEVELOPMENT.—

(A) Coal liquefaction:

Costs, $96,897,000.

Changes in selected resources, $665,000.

★57-006 O

subject to the title and waiver requirements and conditions of Section 9 of this Act." This compromise provision reflects the intention of the Conference Committee that all of the patent policy provisions, except subsection (b), of Section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 shall be applicable to the loan guarantee program contained in section 17.

In lieu of the broad reporting requirements of subsection (b), therefore, the Committee determined to provide ERDA with sufficient flexibility to promulgate such rules and regulations pertaining to the filing of reports and information as it believes necessary or appropriate to effectively carry out its mission and to protect the interests of the United States and the public. Exclusion of subsection (b) should not be read as precluding ERDA from promulgating such rules and regulations.

The conferees were concerned about the possible impact of subsection 9(b) on trade secrets and other proprietary rights because of the reports required by the subsection. The concern existed that subsection 9(b) might adversely affect a project participant's background trade secrets and other proprietary rights if such information was made public. Rather than risk discouraging potential project participants from cooperating in the synthetic fuel program because of possible uncertainty with respect to their background rights, the conferees believe that the limited application of Section 9 together with the positive protection contained in Sections 17(v) and 18, will adequately protect the holders of trade secrets and other proprietary rights.

The Conference Committee recognizes that Federal involvement and exposure in research and development programs through loan guarantees is more remote than the immediacy of its involvement and exposure in the case of direct Federal expenditures through grants or loans. The applicable provisions of Section 9 provide sufficient flexibility and safeguards to balance the equities between federal ownership and waiver of title in particular situations. The remote nature of the federal involvement in loan guarantee situations justifies a corresponding adjustment in the balance of equities applied in judging requests for waivers of title. For this reason, the Committee determined that as to section 17 guarantees ERDA be permitted to exercise greater flexibility than previously specified in the Conference Report on the Federal Nonnuclear Energy Research and Development Act of 1974 with respect to the application of the waiver provisions of Section 9 of that Act.

Although the patent policy to be applied by a federal agency is properly the jurisdiction of those committees having legislative jurisdiction over the particular agency, the conferees appreciate the comments and suggestions of other committees having an interest in the general subject area. The conferees believe they have acted to incorporate the major suggestions offered by other committees in such a way as to effectuate the satisfactory resolution of their concerns.

Section 9 (with the exception of subsection (b)) of the Nonnuclear Act is made specifically applicable to the guarantee program under Section 17 of this Act because of the competing interpretations given to whether Section 9 applies generally to loan guarantees under that Act. Some of the House and Senate conferees believe that it does not apply.

(1) Joint Federal-industry experimental, demonstration, or commercial corporations consistent with the provisions of subsection (b) of this section;

(2) Contractual arrangements with non-Federal participants including corporations, consortia, universities, governmental entities and nonprofit institutions;

(3) Contracts for the construction and operation of federally owned facilities;

(4) Federal purchases or guaranteed price of the products of demonstration plants or activities consistent with the provisions of subsection (c) of the section;

(5) Federal loans to non-Federal entities conducting demonstrations of new technologies; and

(6) Incentives, including financial awards, to individual inventors, such incentives to be designed to encourage the participation of a large number of such inventors.

Section 7(b) of the Act specifically notes that the joint-Federal-industry corporation of (1) above are "subject to the provision of section 9 of this Act."

Subsection 9(a), the Act's patent policy, specifies that "Whenever any invention is made or conceived in the course of or under any contract of the Administration, other than nuclear energy research, development, and demonstration pursuant to the Atomic Energy Act of 1954 (42 U.S.C. 2011 et seq.)" and the Administrator makes certain findings which relate the inventor's activities to the ERDA contract, title to the invention vests in the United States unless the Administrator waives all or any part of the rights of the United States to such invention. Where a waiver is granted, subsection 9(h) requires certain minimum rights to be retained by the Government. These minimum rights include a royalty-free license in the Government, which generally also includes State and municipal governments, and the right to terminate the waiver or to require the licensing of the invention involved in specified circumstances.

The question addressed herein is whether all the Forms of Federal Assistance of section 7 of the Act are subject to its patent policy. Specifically of interest is whether section 9 would apply to inventions made by a party constructing a demonstration facility which receives Government assistance in the form of a loan, price support or a loan guarantee.

The Conference Report (No. 93–1563) accompanying S. 1283, the bill which resulted in the Act, in reference to Forms of Federal Assistance states: Also, the provision in subsection 7(b) was modified by the conference committee to make clear the intention that any joint Federal-industry corporations which may be proposed for Congressional authorization would be subject to the patent policy set forth in section 9 of the compromise version.

This statement refers to a question which arose during the drafting of the patent policy for S. 1283 of whether the Government should own, in the first instance, all inventions made by the joint Federal-industry corporations contemplated by subsections 7(a)(1) and (b). Significantly, the reference to section 9 in section 7 is limited to only one of the Forms of Federal Assistance noted in section 7, the joint

ment entered into with or for the benefit of the Commission. * * *" This change would permit a greater harmonization of ERDA's patent policy for both its nuclear and nonnuclear work, a goal specified in the Conference Report. However, it was recognized that the resulting subsection 9(a) dropped the words "performance of any work" from subsection 305(a) and these words have been relied upon by NASA in interpreting the applicability of its patent provisions. For example, NASA has defined the word "work" in the NAS Act to limit section 305 to specific types of contracts, i.e., contracts which call for the performance of research and development work, *O'Brien and Parker*, Property Rights in Inventions Under the National Aeronautics and Space Act of 1958, Fed. B.J. Vol. 19, No. 3, July 1959. The NASA procurement regulations applies section 305 to NASA contracts "where research, experimental, design, engineering, or development work is contemplated", 41 C.F.R. 18–9.101–2 and not to fixed price supply contracts; construction contracts, or employment contracts. Further, a contractor's independent research and development program, even though agreed to in an advance agreement and supported by an overhead allowance (an arrangement), has not been interpreted by NASA to be encompassed by its statutory patent policy, see 41 C.F.R. 18–9.101–7. AEC has similarly interpreted the Atomic Energy Act patent provisions, 41 C.F.R. 9–9.5019. The removal of the term "performance of any work" of subsection 305(a) of the NAS Act from subsection 9(a) and a concern that the NASA regulatory provisions as to "design" or "engineering" work were overly broad led to the incorporation into the definition of "contract" in subsection 9(m)(2) the words "which includes research, development or demonstration work." Whether this was necessary is questionable in view of a recent court decision, which equates the term "in the course of or under any contract" with the term in the performance of work under a contract. In *Fitch & Braun* v. *AEC*, 181 USPQ 41 (CCPA 1974), the Court of Customs and Patent Appeals interpreted the phrase "in course of or under" an AEC contract, pursuant to section 152 of the Atomic Energy Act as follows:

> The rule of statutory interpretation requires that the phrase "in the course of" and the word "under" mean different things. In our view, an invention made or conceived in performing, or as a result of performing, the work required by a contract is made or conceived "in the course of" that contract. That would be true even though the invention was not specifically sought in the terms of the contract. An invention is made or conceived "under" a contract when it is made or conceived during the life of the contract and the invention is, in whole or in part, specifically provided for by that contract. Neither of these fact situations applies here.

There is nothing in the legislative history which would establish that Congress in selecting the patent provisions of the NAS Act and the Atomic Energy Act as a model for section 9 intended to disregard the interpretation given to these provisions by NASA and AEC. As noted above, these interpretations include the concept that the type of work called for as well as the nature of the "arrangement" control whether these statutory patent provisions apply. Where only fiscal assistance is provided for the purpose of encouraging the conduct of independent research, development or demonstration which is not for the Government's account, i.e., independent research and development noted above,

tion facilities or the like on their own account since work is performed independently and not on the Government's behalf.

LEONARD RAWICZ.
Deputy General Counsel.

Other House and Senate conferees believe that section 9 of the 1974 Act does apply to all loan guarantees. Their position is supported in the following communication:

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON ANTITRUST AND MONOPOLY,
November 14, 1975.

Hon. HENRY M. JACKSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SCOOP: We understand that the Conference Committee considering ERDA's fiscal 1976 authorization (S. 598 and H.R. 3474) has been advised by the Energy Research and Development Administration that the patent provisions of the Federal Nonnuclear Research and Development Act of 1974 (P.L. 93–577), Section 9, do not apply to loans, price supports, or loan guarantees.

We respectfully disagree with ERDA's conclusion, and, as principal sponsors of the patent policy provisions contained in that Act, invite the Committee's attention to Section 9(m) which defines the term contract as meaning "any contract, grant, agreement, understanding, *or other arrangement*, which includes research, development, or demonstration work, and includes any assignment, substitution of parties, or subcontract executed or entered into thereunder." As further evidence of our intention, and that of the Congress, that the patent provisions of Section 9 are all encompassing and apply to all forms of Federal assistance, the Conference Report elaborated that "Subsection (m)(2), which defines contract as including 'other arrangement' is intended to encompass *any and all other arrangements.*" It further stated that "Section 9 (patent policy) is intended to apply to *all non-nuclear contracts* of the Energy Research and Development Administration."

The Conference Committee on the Energy Policy and Conservation Act (S. 622) has already acted to disapprove ERDA's interpretation by amending the patent policy provisions of that Act (which are essentially identical to those in P.L. 93–577) to specifically include "obligation guarantees."

Considering the importance of carrying out the intent of the Congress in enacting the patent provisions of P.L. 93–577, we respectfully suggest that the Conference Committee specifically refer to and reject ERDA's interpretation that Section 9 of P.L. 93–577 does not apply to loans, loan guarantees, or price supports. Alternatively, it may be useful to specifically amend Section 9(m) to include the phrase "loan, obligation guarantee, or price support."

Best personal regards.

Sincerely,

RUSSELL LONG.
PHILIP A. HART.

Appendix D.2
Incentives and Awards