1971

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

July 20, 1971

James L. Whittaker, Esq.
Senior Patent Counsel
Radio Corporation of America
Cherry Valley Road
Princeton, New Jersey 08540

Dear Mr. Whittaker:

At our last meeting, Mr. Tenney Johnson suggested a uniform patent policy for utilization in lieu of the various policies now employed by the departments and agencies of the Executive. It is my understanding that this policy would permit a contractor a first option to ownership of all inventions generated in performance of Government-funded research, subject to review by a Government board upon request by an organization which had been refused a non-exclusive license by a contractor holding title to such an invention. I am inclined to believe that Mr. Johnson's suggested policy would satisfactorily solve the problems arising from the policies now implemented by the different departments and agencies of the Executive. However, I believe that any detailed statement recommending implementation of Mr. Johnson's proposal should include statements on the following:

1. Scope of the non-exclusive royalty-free license retained by the Government.

2. Extent to which dominating contractor background rights will be subject to compulsory license or Government disposition.

3. The ability to transfer an exclusive marketing right in situations where the inventing contractor wishes to license the invention rather than develop and market itself.

4. Whether universities and non-profit organizations will be treated differently from commercial concerns.

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inclined to believe that Mr. Johnson's suggested policy would satis-

My own ideas on the above are as follows:

1. The scope of the license retained by the Government should specifically exclude state and municipal governments. To expand the scope of the license to state and municipal governments is tantamount to retaining title in the Government in situations where the market for the invention will be substantially Government organizations. Inventions involving saline water, education, and possibly pharmaceuticals may fall within this category. To extend the scope of the license retained by the Government to include state and municipal governments could defeat the purpose of the proposed policy as it relates to the above type of invention.

2. To remain silent regarding contractor background rights will probably result in a situation wherein an organization which had been refused a non-exclusive license under an invention generated with Government funds will ask the Board to not only require licensing of that invention, but of a dominating background invention. With the threat of this contingency ever-present, the effectiveness of the proposed policy may be undermined. Accordingly, it is suggested that the proposal recommend that the Board have no authority to require licensing of dominant background inventions.

3. My only criticism of the proposal as presented by Mr. Johnson is that it does not provide any guarantee of market exclusivity. While this may not be important in a situation where the inventing contractor intends to develop and market the invention itself, I am of the opinion that the lack of guarantee of some exclusivity will be a major deterrent in the transfer of technology from one organization to another. Thus, in those situations where a commercial organization chooses to license rather than market, or where a university or non-profit organization must license due to their lack of manufacturing capabilities, the inability to transfer a period of market exclusivity will negatively affect a prospective licensee's inclination to provide the risk capital necessary for further development of Government-funded inventions.

Some departments and agencies of the Government have initiated policies under which universities and non-profit organizations are permitted to guarantee limited periods of exclusivity under Government-funded inventions to their licensees. To adopt the proposal without modification may be a step backward as it relates to transfer of technology problems. In order to resolve this difficulty, it is recommended that Mr. Johnson's

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proposal be amended to provide contractors with a limited period of market exclusivity which will be transferable to licensees. The board, of course, will not be able to require non-exclusive licensing during this period.

4. It may not be in the public interest to grant a first option to inventions generated in performance of Government-funded research to universities and non-profit organizations without first reviewing those organizations' patent management capabilities. While it can be expected that most commercial concerns will have an established procedure for identifying, reporting, and administering inventions, the same capabilities cannot be presumed to exist at all universities and non-profit organizations. It may better serve the public interest in situations where a university or non-profit organization has no patent administration capabilities to retain title in the Government. It is recommended that the proposal provide for a system of Government review of a university or a non-profit organization's patent management capabilities prior to permitting such organization a first option to retain title to inventions generated in performance of Government-sponsored research.

Norman J. Latker
Chief, Patent Branch

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November 11, 1971

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Mr. Roman C. Braun
Chairman, Study Group No. 6
Commission on Government Procurement
1717 H Street, N. W.
Washington, D. C. 20006

Re: Report by Task Force #1 of Study Group #6
Commission on Government Procurement
Allocation of Rights to Inventions Made
in the Performance of Government Research
and Development Contracts and Grants

Dear Mr. Braun:

Attached is the Final Report of Task Force #1 of Study Group #6 which we respectfully submit will provide some new and practical solutions for the allocation of government contract patent rights.

May I take this opportunity to thank each of the members of Task Force #1 for their conscientious, diligent and objective efforts in arriving at the conclusions set forth therein. It has been a great pleasure to me to serve with all of them and I have learned a great deal from the various viewpoints and expertise of the members of this widely-based group. We are especially grateful to Mr. Norman J. Latker of HEW who labored over numerous drafts of the report. While it has not been possible to resolve some of the details of the problems which we discussed, I believe the report reflects the general concensus on the more important items. It also enumerates a few of the other features which still require specific resolution.

The primary mission of the Commission and the Task Force is to provide recommendations to Congress for possible legislation, which may involve extensive hearings with resultant long-time delay. The majority of the Task Force believes that the question of allocation of patent rights under government contracts is a long-standing one which has not been satisfactorily resolved by the two Presidential Memoranda on Government Patent Policy or by the piecemeal patent legislation previously provided by the Congress. We also have been very aware of the vast differences between such statements or legislation and the specific implementations thereof by the many government agencies which have



May I take this opportunity to thank each of the members of Task

been given wide discretion or only very broad policy criteria. Even different departments in the same agency have had quite different policies and procedures.

We have attempted to provide a much more simplified and equitable procedure and policy for resolving such questions at the more appropriate times when maximum relevant information is available to both the Government and its contractors. We have been cognizant of the attempts by Congress and the Executive to reduce government red tape and have attempted to provide means which we believe will save a great deal of presently-wasted effort in negotiation and administration. Contractor participation in R&D contracting is encouraged.

We respectfully submit that the essential features of the recommended policies and procedures could just as well be implemented by Executive Order under existing powers and legislation. Much earlier and more efficient and uniform administration could be provided with considerable manpower and tax savings. We recommend that a copy of this report be forwarded to the Committee on Government Patent Policy under the Federal Council for Science and Technology for consideration. We also submit that any such solutions cannot be reached solely by consultation between the various executive agencies, but must include resolution of the practical considerations encountered by industry in its attempts to serve the Government and public interests.

We recommend a general policy which would utilize a single government-wide Patent Rights R&D contract clause. It would provide "exclusive commercial rights" in contract inventions for a period of three years after issuance of a patent thereon to the R&D contractor, while providing the Government a non-exclusive, irrevocable, royalty-free, worldwide license for all federal government purposes. Such action would provide ease of administration of patent matters at the time of contracting. It should also provide for more widespread and effective contractor participation in government R&D contracts, especially by the portions of industry having large commercial investment, patent interests, and expertise in the related field, who could best provide the Government's needs. The contractor would be granted the initial period of exclusivity, since he would generally be the entity most likely to utilize, or license, the invention to provide new products for public use. In order to maximize competition in the commercial markets and the broadest possible utilization of the inventions, the Government would have the right, after the initial exclusive period, to acquire, or require, such additional rights for itself or for others as would be necessary and equitable.

We believe that the vast negotiation effort now wasted both in the

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Government and in industry in deciding the disposition of patent rights at the time of contracting could be eliminated. Much more realistic effort could be expended on a greatly reduced scale by consideration of patent rights when the real interests of the Government, the Contractor, and the public are better defined with respect to a relatively few specific inventions of real public interest. Such a solution would be much superior to resolution of patent rights on an uninformed basis of supposedly relevant broad technical fields or agency missions prior to the time of contracting. It also always offers an acceptable degree of patent protection to the Contractor at the time of contracting.

Instead of resolution of patent rights according to the discretion of the individual agencies, we believe that issues arising under the general policies should be settled by an unbiased Board of Review comprising a permanent chairman and secretary, and expert members selected from a panel representing government, the public and industry. In unusual circumstances, preliminary appeal could be made to the Board by an agency believing that a special situation is involved in a particular contract. It is contemplated that no blanket deviations should be authorized by the Board. Prospective licensees under government contract inventions also would have the right of appeal to the Board in the event they were unable to negotiate suitable licenses with the contractor under government contract inventions. Prospective contractors could appeal unreasonable Agency actions or demands.

The Task Force has differing views on whether "exclusive commercial rights" to the contractor should involve "title" in contract inventions or "exclusive license and sublicense rights" to the contractor, all subject to the Government's license for governmental purposes. We recommend the solution of such details by the Congress, or the Executive, depending upon the specific means in which our recommendations might be implemented.

We also submit herewith a Minority Report submitted by James E. Denny, Esq., a member of the Task Force, who believes the present government patent policy should be adequate. Mr. Denny's report comments favorably on some of the features, including the Review Board, of the Majority Report, while questioning the desirability of other features. He concludes by stating that he considers the Majority policy to be an alternative he could support.

We are not forwarding herewith the numerous background items listed in Appendix A since Study Group #6 already has this

government contract inventions. Prospective contractors could

material. However, we are forwarding Appendix B which includes some additional background items of current importance which may assist in evaluating our report.

If Task Force #1 can be of further assistance, please do not hesitate to call upon us.

Very truly yours,

J. L. Whittaker

J. L. Whittaker
Chairman

cc: Members of Task Force #1
G. D. O'Brien, Esq.
O. A. Neumann, Esq.
Leonard Rawicz, Esq.

# REPORT BY TASK FORCE NO. 1 OF STUDY GROUP NO. 6 OF THE COMMISSION ON GOVERNMENT PROCUREMENT ON THE ALLOCATION OF RIGHTS TO INVENTIONS MADE IN THE PERFORMANCE OF GOVERNMENT RESEARCH AND DEVELOPMENT CONTRACTS AND GRANTS

## THE TASK FORCE AND ITS ASSIGNMENT

The Task Force was assigned to consider the problems involving allocation of rights to inventions made in the performance of government research and development contracts and grants. (The terms "rights to inventions" or "invention rights" should be understood to include "patent rights" when patent applications or patents are involved. Further, the terms "contract(s)" or "contractor(s)" should be understood to hereinafter include, respectively, "grant(s)" and "grantee(s)").

The membership of the Task Force consists of individuals chosen for their patent expertise from government, industry, universities and the private bar. In an effort to obtain an objective view, each representative was requested to present his own views and not those of his employer.

## BACKGROUND MATERIALS

During the deliberation of issues presented to the Task Force it took into consideration a number of factors, including the experience of its membership, President Kennedy's and Nixon's Statement of Patent Policy and the experiences thereunder, existing legislation, Executive and Congressional hearings and reports, regulations of the Executive, and hearings and investigations of this Commission and other private groups. A bibliography listing an extensive amount of literature generated by the debate over allocation of invention rights is attached as APPENDIX A.

## INTRODUCTION AND HISTORY

The rapid increase of government-funded research and development since the end of World War II to the level of 15 billion dollars in fiscal year 1971 has focused attention upon the adequacy of government policies governing the disposition of inventions made by contractors in performance of government contracts.

During the early stages of the expansion of government-sponsored research and development those departments and agencies of the Executive most affected issued regulations making disposition of inventions between themselves and their contractors. In the main, such policies provided for either (a) a first option to title in the contractor with a royalty-free license to the government for governmental purposes or (b) title in the department or agency with a nonexclusive license to the contractor for commercial use. The former policy was best exemplified in the Department of Defense patent regulations. The Department of Defense has stated that this policy satisfied their needs since it gave the government as a minimum the world-wide right to utilize all Department-funded inventions for governmental purposes. The latter policy was best exemplified in the patent regulations of departments and agencies whose research and development mission is directed toward generating results that might be useful in the civilian economy.

As the issue surrounding the allocation of invention rights became more pronounced, the Congress acted to provide statutory guidance. This guidance took the form of individual statutes which covered inventions evolving from a portion of or an entire department or agency's research and development program.

The language of the statutes reveals no consistent intent on the part of Congress to provide a uniform government patent policy. To the contrary, the statutes provide in some instances for title in the government and in other instances direct the department or agency to take into consideration the equities of the contractor.

An attempt to moderate the controversy revolving around the different statutory and regulatory patent policies eventually resulted in President Kennedy's October 10, 1963 Memorandum and Statement of Government Patent Policy. This Statement was the first effort by the Executive Branch to resolve the allocation of invention rights issue on a government-wide basis. President Kennedy's Statement is based on the assumption that no single disposition of ownership could accommodate the different missions of the various government agencies. Thus, the Statement indicated as one of its objectives, ". . . . a government-wide policy (subject to statute) on the disposition of inventions made under government contracts reflecting common principles and objectives, to the extent consistent with the missions of the respective agencies." (Underlining and parenthetical clause added.) Accordingly, the Statement left to the various departments and agencies the determination as to whether their prior existing policies were consistent with the intent of the Statement.

On August 23, 1971, President Nixon issued a revised Memorandum and Statement of Government Patent Policy. The revised Statement left unaltered the basic principles on the allocation of invention rights set forth in President Kennedy's 1963 Statement. However, the revised Statement does provide for additional authority in the departments and agencies (not otherwise restrained by statute) to grant exclusive rights to contractors in identified inventions to which the government has either retained a first option to title or has already taken title. This authority has been previously exercised by some of the departments and agencies upon a contractor's petition for title at the time of identification of the invention or through the granting of exclusive licenses to interested developers under government-owned patents.

As of this date, the departments and agencies have the authority under the revised Presidential Statement or under statute to take title or license in the government; delay determination of ownership until identification of the invention; or grant exclusive licenses under government-owned patents. Since issuance of President Kennedy's Statement, most of the departments and agencies have been increasingly utilizing various combinations of these mechanisms of disposition. A contract clause reserving title to the government is generally utilized when the contract relates to certain technical fields or missions and less often under other specified conditions. Only in the absence of such fields or conditions and providing the contractor can establish special expertise, facilities, patent position, etc. does the government utilize a contract clause permitting the contractor a first option to title to inventions which may arise in performance of the contract. Clauses which defer determination until identification of the invention are generally used when neither the criteria for a title or license clause are clearly met.

Notwithstanding the issuance of the 1963 Kennedy Statement of Government Patent Policy, Congress continued to provide guidelines in the form of individual statutes as new research programs were initiated. The Task Force is of the opinion that President Nixon's revised Statement will probably not deter similar statutory enactments.

(For further detail concerning the historical development of government patent policy prior to President Nixon's revised Statement see "Remarks of James E. Denny Before the Intellectual Property Rights Seminar, Smithsonian Institution, April 7, 1971," APPENDIX B )

## ANALYSIS OF CURRENT GOVERNMENT PATENT POLICY

The Task Force, after reviewing the different statutory and regulatory patent policies under which the departments and agencies now operate, was critical of a number of aspects of the policies'

overall impact. The Task Force believes that some of these criticisms would be inherent to any government-wide policy which permits Congress or an individual department or agency to establish and/or implement policies for such department or agency different from other department or agency policies. The following were considered to be the most important areas of concern:

1. The existing patchwork of statutory and regulatory policies under which the departments and agencies now operate does not afford government contractors, who deal with multiple departments and agencies, the degree of predictability of ownership of resulting inventions and the ease of administration one could reasonably expect when dealing with a single entity such as the Federal Government. In addition to the difficulties encountered in mastering the multiplicity of different department and agency policies, the administrative burden now imposed on the contractor to establish his equities in inventions that have resulted or will result from his government-sponsored research is out of proportion to the total number of economically significant inventions generated. It is further noted that the burden on the contractor to establish these equities also creates an administrative burden on the government to review the contractor's position. The Task Force believes that a government patent policy should provide for predictability and ease of administration on the part of both the contractor and the government wherever possible.

2. The Harbridge House Study on Government Patent Policy indicated that in certain situations the retention of exclusive commercial rights in the contractor "will, on balance, promote utilization better than acquisition of title by Government". It is axiomatic that those departments and agencies that retain title to all inventions generated by their programs for dedication or non-exclusive licensing, by policy decision or through statutory direction, are precluded from identifying those inventions best retained by the contractor. The Task Force believes that a government patent policy should encourage commercial utilization of government-funded inventions. It was also noted, however, that any policy should contain provisions which would preclude anticompetitive consequences which may result from an excessive period of exclusivity in a contractor.

3. Under present policies, the Task Force believes there are instances in which the contractor, knowing he will be unable to retain exclusive commercial rights to inventions generated under a proposed contract, will refuse to participate in a government program because of jeopardy to his privately financed commercial position.

Hence, new advance in the art generated in performance of a government-funded contract which will not be owned by the inventing contractor could severely undermine that contractor's background position. The Task Force believes that it is in the national interest that government patent policy encourage maximum participation of all industry in government programs.

4. The Task Force has found no persuasive reason why the technical field or mission of a department or agency program should be an overriding factor, as exists under present policies, in dictating the disposition of inventions, whether that disposition be by title or license in the government. The disposition of ownership based only on technical field or mission necessarily eliminates consideration of significant equities of either the public or the contractor. Further, inventions resulting from research in a particular field or mission do not necessarily have any relation to such technical field or mission, or may have much broader application, as has been the case in many instances.

5. The different existing statutory and regulatory policies result in different disposition of inventions within a single field of technology. In practice, President Kennedy's Statement has not brought about a uniform disposition of such inventions, due to differing department or agency interpretation of its language. The Task Force believes that this situation will continue under President Nixon's Statement, since the revised Statement is not specifically aimed at overcoming this problem.

6. Many of the factors identified in the Presidential Statements as influencing utilization, participation and competition have little relevance prior to invention identification, and are of questionable benefit in making determination at the time of making a contract. Furthermore, a number of these factors do not become relevant until some attempt has been made to undertake the exploitation of the invention commercially.

## TASK FORCE CHOICE OF DIRECTION

Rather than concur in separate department or agency policies or a uniform government patent policy providing for different disposition of inventions, depending on technical field, mission, or case circumstances, as exemplified by the President's revised Statement on Government Patent Policy, the Task Force determined to explore the possibility of formulating a uniform government patent policy which would make a single disposition of invention rights in all instances. As discussed above, the Task Force believes that any uniform government patent policy providing for a single disposition of invention rights should maximize to the extent possible:

"Utilization" of the inventions resulting from government-funded research;

Contractor "participation" in government programs;

"Ease of Administration" on the part of both the government and the contractor; and

"Competition in the marketplace".

With these goals in mind, and with the expectation that the policy would resolve a number of separately posed and related issues, the Task Force considered and agreed on the following in making its proposal:

1. The Task Force agrees, as did the President's Commission on the patent system in its November 17, 1966, report, that a patent system stimulates the investment of additional capital for the further development and marketing of products using an invention by giving the patent owner the right, for a limited period, to exclude others from --- or license others for --- making, using, or selling the invented product or process.

2. A uniform government patent policy resulting in government ownership of inventions made in performance of its contracts for dedication to the public, or the granting of only non-exclusive licenses, whether such ownership is based on a technical field or mission or otherwise, would necessarily eliminate the stimulus envisioned by the patent system.

3. Under such a policy, there is a prospect in some cases that the market potential of an invention and other means of property protection will not adequately serve to encourage the investment of risk capital for development when not financed by the government. The research investment in such inventions will to a large extent be lost to the public.

4. It was therefore agreed that any uniform policy recommended must provide for exclusive commercial rights in the inventing organization or another developer in those inventions which would not otherwise be utilized. (It should be understood that the term "exclusive commercial rights" includes either title to the invention or an exclusive license thereunder.) The Task Force agrees that exclusivity could be provided in the following two ways:

   a. Granting commercial exclusivity at the time of contracting to all inventions to be generated in performance of such contracts; or

   b. Granting commercial exclusivity selectively after identification of the inventions on the basis of evidence that development may not proceed without such exclusivity. (For the purposes of this discussion, this mechanism shall be referred to as a deferred determination policy, and should be understood to include a government exclusive license policy now possible under President Nixon's revised Statement where not otherwise negated by statute or agency policy.)



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such inventions will to a large extent be lost to the

5. The Task Force recognizes that under a deferred determination policy the possibility of maximizing "competition" exists, since exclusive commercial rights will only be granted when it is shown that exclusivity is the determining factor in bringing the invention to the marketplace. However, even assuming that the government could correctly identify all inventions requiring exclusivity, albeit a remote possibility, it is the opinion of the Task Force that a deferred policy has and will negatively affect contractor "participation" in government programs, "utilization" of the results of such programs, and "ease of administration" on the part of both the government and the contractor as amplified by the following:

a. The uncertainty of ownership involved in a deferred determination policy would discourage at least some contractors from participating in government programs. Most certainly a contractor whose privately financed background position would be jeopardized by newly generated inventions which he might not necessarily own must think seriously before taking a contract which intends to capitalize on his background position. Refusal to participate in this situation will probably necessitate the government contract with a less qualified contractor or not contract at all.

b. The long processing periods inherent in a deferred determination policy would in some cases delay prompt utilization of government inventions, since a participating contractor would wish to establish his rights prior to investing his risk capital. Utilization would also be adversely affected by the administrative burden of petitioning the government for exclusive commercial rights and the probable requirement that the contractor file patent applications to protect the property rights during the petition period. Faced with these tasks, the participating contractor will have little interest in inventions that appear economically marginal on first review.

c. Finally, the Task Force agreed that the increased administrative costs to both the contractor and the government for the drafting, submission, and review of petitions on a case-by-case basis would be out of proportion to the result to be achieved through implementation of a deferred determination policy.

6. In light of the deficiencies inherent in a deferred determination policy, the Task Force agreed that a policy of granting exclusive commercial rights to the contractor at the time of contracting to all inventions generated in performance of government contracts was the single means of maximizing "utilization" without generating adverse conditions for "participation." In addition to these advantages, a policy which makes disposition at the time of contracting offers the opportunity for maximum "ease of administration". The Task Force did note, however, that "ease of administration" under such a policy would be proportional to the degree of follow-up or "march-in" rights reserved to the government, but under no circumstances would such a policy create the level of administrative difficulties now encountered by departments and agencies in the deferred determination portions of their policies.

7. Notwithstanding the advantages to be gained through a uniform policy of granting exclusive commercial rights at the time of contracting to all inventions generated, the Task Force was of the opinion that such a policy could adversely affect "competition" in the marketplace if such exclusivity were to remain in the contractor for the full period of the patent grant in all cases. In order to avoid this consequence, the Task Force agreed that rights must be reserved to the government under such a policy which would enable it to assure against individual abuse of the privileges retained by the contractor. These "march-in" rights would insure that a contractor's exclusivity would extend only over a period justified by the contractor's equities and the public's need for competition in the marketplace.

8. The Task Force agreed that the benefits to be derived through a policy of disposition at the time of contracting outweigh the need for ideal conditions to generate "competition", which may not be maximized since some exclusive commercial rights would remain with the contractor to a greater extent than under a deferred determination policy. Thus, the Task Force believes that a policy of disposition at the time of contracting will positively effect utilization of government-funded inventions and participation of contractors thereby increasing the nation's potential to employ labor and raising the level of its exports. Further, maximization of participation will increase the government's ability to focus public funds on the kinds of research and development which have high, long-run social value, but is risky and not sharply reflected in profit opportunities for a sponsoring private business firm. Since it cannot be predicted with any



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accuracy how competitors will meet the introduction of a new product made under exclusively held patent rights, it cannot be determined whether implementation of such a policy will result in any decrease in competition. Of much greater significance are the rights reserved to the government under such a policy to assure against individual abuse of the privileges retained by the contractor, and the knowledge that the contractor remains subject to the provisions of the antitrust laws.

SYNOPSIS OF TASK FORCE PROPOSAL

Based on the above analysis the Task Force drafted a proposal, set forth below, which provides for a uniform patent policy making a single disposition of invention rights in most instances. Implementation of this proposal envisions repeal of all inconsistent statutory provisions.

The proposal provides contractors a guarantee at the time of contracting of a first option to the exclusive commercial rights to all inventions generated in performance of government-funded research. Upon exercising the option, such rights in the contractor are subject to a royalty-free, nonexclusive license to the government for Federal Governmental purposes throughout the world. Failure to exercise the option results in such rights enuring to the government.

The guarantee of an option will be extended to universities and other nonprofit organizations only after government review of the adequacy of their organizational patent management capability. While it can be expected that most commercial concerns will have an established procedure for identifying, reporting, and administering inventions, the same capabilities cannot be presumed to exist at all universities and nonprofit organizations. Therefore, it was concluded that the public interest is better served by retention of such rights in the government in situations where the university or nonprofit organization has no patent administration capability.

Where the option has been exercised, and a U. S. patent application filed, the proposal contemplates that contractors retain the exclusive commercial rights during the period from patent filing to three years after issuance of a patent. If a contractor has not brought the invention to the marketplace within the time from patent filing to three years after patent issuance, such rights may be revoked and vested in the government. If the contractor should succeed in commercialization of the invention during this guaranteed period, the exclusive commercial rights vest in the contractor for the full period of the patent grant, subject to the possibility that the government may require nonexclusive licensing of the U. S.



government

patents after the guaranteed period has passed. The requirement for such licensing will be determined by a Government Patent Review Board on petition of any interested party after a contractor holding title to any invention made in performance of a government contract has refused to grant entirely or on acceptable terms a nonexclusive license under such invention. The board, in making its determination and setting the terms of the license, if any, will take into consideration the equities of the individual case.

The proposal envisions that the period of guaranteed exclusivity, coupled with the possibility of continued exclusivity for the life of the patent, will create an incentive for participation in government programs and the earliest possible utilization of inventions generated by such programs. The guaranteed period further recognizes the contractors' background equities which are presumed to be present in all cases. In addition, the proposal places commercial development of the invention in the hands of the party most likely to accomplish that task and provides the incentive for the investment of risk capital required to bring it to the marketplace which has been estimated on the order of 10 to 1 when compared to the cost of making the invention. The reversion of rights to the government in the event the contractor fails to commercialize the invention provides greater assurance of utilization of government-funded inventions.

The creation of the Government Patent Review Board assures the public that the guaranteed period of exclusivity will not be extended unjustifiably. The existence of the Board will encourage both the contractor and a prospective licensee of a government-funded invention to negotiate acceptable terms and thereby avoid going to the Board to settle differences. In general, it is presumed that if the contractor had made significant private investment in the development and utilization of the invention and the invention was available to the public in reasonable quantities and prices it could expect to prevail in a dispute brought to the Board. On the other hand, the larger the government investment in bringing the invention to the point of utilization, the less likely the contractor could justify continued commercial exclusivity.

The Board, by the nature of the policy, would need to consider only economically significant inventions in which there was a serious interest and controversy. Further, the invention will have been identified rather than hypothetical and the economic and investment data available to the Board would be realistic and current.

The government agencies would provide the Board with relevant information regarding their role in the development of the invention in question. They would also provide the Board with the appropriate public interest and mission considerations which they believe should affect the Board's decision. However, the Board will make its decisions on the record and will be guided by statutory or administrative criteria and be subject to judicial review.

In drafting the proposal, the Task Force took particular note of the small number of inventions which are known to have been developed for the commercial marketplace substantially at government expense. The number of such inventions becomes even smaller if the additional cost of promotional activities in bringing the invention to the marketplace is undertaken by the government. It was agreed that under the circumstances the equities in favor of leaving exclusivity for any period in the contractor to this small number of inventions are less than the usual situation in which the contractor contributes his risk capital to bring the invention to the marketplace. A close analysis of such inventions indicates that their continued development at government expense would generally require additional funds from follow-on contracts. However, where follow-on contracts are deemed appropriate the period of time over which such an invention is conceived and brought to the marketplace would generally exhaust the guaranteed period of exclusivity, thus precluding a windfall to the contractor.

Notwithstanding the view that a contractor will ordinarily exhaust his guaranteed period of exclusivity if development for the commercial marketplace is undertaken substantially at government expense, the proposal provides to the Board the right to substitute a patent clause at the time of contracting which leaves to the government the first option to exclusive commercial rights in inventions which are the primary object of the contract. The Board would exercise this right upon a department or agency request made prior to contract which is accompanied by a showing that such department or agency intended to develop substantially at its expense an identified product or process for use by the general public.

It should be noted that the proposal contemplates that exclusive title to all foreign patents will vest in the contractor for the full term of the patent grant if the contractor complies with the conditions of the proposal.

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PROPOSED POLICY FOR THE ALLOCATION OF RIGHTS TO INVENTIONS

MADE UNDER GOVERNMENT R & D CONTRACTS

1. POLICY

A. With the exception set forth in 5(A)(3) below, contractors shall be guaranteed at the time of contracting a first option to the exclusive commercial rights in all inventions made in performance of government-funded contracts. (The term "exclusive commercial rights" should be understood to include either title to the invention or an exclusive license thereto with the exception that as the term relates to foreign patents or patent applications it means title).



to contract which is accompanied by a showing

B. Any statutory provisions which are inconsistent with such guarantee or the principles of this policy shall be repealed.

C. The guarantee of exclusive commercial rights will be extended to universities and other nonprofit organizations only after government review of the adequacy of those organizations' patent management capabilities.

D. The government may later revoke such rights in a contractor after failure of the contractor to meet conditions as hereinafter provided.

E. Exclusive commercial rights in a contractor will be subject to a world-wide, royalty-free, nonexclusive license in the government for Federal Government purposes.

F. After a specified period of time, contractors who have retained exclusive commercial rights may, on petition of any interested party, be required by a Government Patent Review Board to grant licenses under U.S. patents with terms that are reasonable under the circumstances.

2. DISCLOSURE, ELECTION AND REPORTS

Each invention made in performance of a government-funded contract will be disclosed to the government with an indication of contractor's election to acquire exclusive commercial rights.

A. Election to Acquire Exclusive Commercial Rights

Election by the Contractor would include agreement to file a patent application covering the invention in the United States Patent Office within a specified period of time. Patent Office procedures will be established to assure proper affixation of the letter "G" or other appropriate designation on all such patent applications and patents issued thereon. Election and filing would guarantee exclusive commercial rights in the contractor for a period starting from filing until three years after issuance of a patent. Under special circumstances disclosed by the contractor, the agency head may extend the period as deemed appropriate.

B. Election Not to Acquire Exclusive Commercial Rights

Election not to acquire the exclusive commercial rights will result in such rights vesting in the government for disposition as it sees fit, as set forth in Paragraph 4.D hereafter.

C. Reports

The contractor shall promptly advise the agency upon issuance of any U. S. patent covering an invention to which he acquired exclusive commercial rights. During the three year period after issuance of a patent the contractor will submit, upon the agency's request reports setting forth progress made toward commercial utilization. If after three years from patent issuance utilization has not been achieved, the agency may take steps to revoke the exclusive commercial rights unless satisfactory evidence is presented that the time for utilization shall be extended.

3. CONTINUING RIGHTS

Whenever utilization has been achieved by the contractor within the time agreed upon by the agency, the exclusive commercial rights will continue in the contractor for the life of any patent(s) claiming the invention, subject to the provisions set forth in paragraphs 4 and 5 below.

4. CONTRACTOR LICENSING

A. Three years after issuance of a patent claiming an invention in which a contractor has elected to acquire exclusive commercial rights, the contractor may be required to grant non-exclusive licenses under such patent by the Government Patent Review Board under conditions set forth in paragraph 5 below.

B. Contractor shall have the right to sublicense others on an exclusive or non-exclusive basis under any terms he deems appropriate, subject only to existing laws and the requirements of the Government Patent Review Board.

C. If the contractor permits utilization to cease, the agency may require the contractor to grant an exclusive or non-exclusive license to responsible applicants on terms that are reasonable under the circumstances.

D. Upon a contractor's election not to retain the exclusive commercial rights, or after an election to retain such rights and subsequent revocation by the agency for failure to meet the conditions of this proposal, the contractor shall be granted a revocable, non-exclusive, royalty-free license under the invention. Such license shall be revoked upon notice to the contractor of the intent of an agency to grant an exclusive license, subject to the right of the contractor to make application to the Government Patent Review Board for a license under terms and conditions that are reasonable under the circumstances.

5. GOVERNMENT PATENT REVIEW BOARD

A. General

(1) The Board will consist of a full-time Chairman and Executive Secretary and a panel of 20 members, any four of which may be chosen by the Chairman to sit on specified cases. The Board will meet upon the call of the Chairman to consider and rule upon the issues arising under the operation of this policy. The Chairman and two members will constitute a quorum.

(2) Its decisions shall be subject to judicial review by United States District Court for the District of Columbia.

(3) The Board shall have the power to review requests by agencies to substitute a patent clause which leaves to the agency the first option to exclusive commercial rights in inventions which are the primary object of the contract. The Board shall exercise this right only upon agency requests made prior to contract which are accompanied by a showing that such agency intends to develop substantially at government expense an identified product or process for use by the general public.

(4) The Board shall have the power to review on petition of any interested party the refusal of a contractor holding exclusive commercial rights to any invention made in performance of a government contract to grant entirely or on acceptable terms a license under such invention.

(5) Such petition may be filed at any time after the contractor has elected to acquire such rights and has filed a patent application on such invention.

(6) At any time after the period set for utilization by an agency has expired, the Board may require the granting of non-exclusive licenses under U. S. patents or patent applications with terms it deems appropriate on the basis of:

(a) The failure of the contractor to show cause why such license should not be granted; or,

(b) The factors contained in paragraph 5.B below.

B. Board Review of Refusal to Grant Licenses

The Board shall take into consideration, in addition to the arguments of the parties, at least the following factors in making its determination to require licensing of an invention made in performance of a government contract.

(1) Achieving the earliest practicable utilization of government-assisted inventions in commercial practice;

(2) Encouraging, through the normal incentives of the patent system, private investment in the commercial realization of government-assisted inventions;

(3) Fostering effective competition in the commercial development and exploitation of government-assisted inventions;

(4) Assuring against non-utilization of government-assisted inventions and excessive charges for use of such inventions stemming from private ownership of patents on such inventions;

(5) Balancing the relative equities of the public, the inventor and the patent owner or developer in the specific government-assisted invention, measured by the investment necessary to bring the invention to the point of commercial application. This would include the following:

(a) The relative contribution of the government and the contractor in bringing the invention to the marketplace;

(b) The mission of the program funding the contract from which the invention arose;

(c) The type of invention and the magnitude of the problem it solves;

(d) The scope of the patent claims;

(e) The contractor's background position;

(f) The government's funding of background technology;

(g) The scope of the market and the success of the contractor in meeting it;

(h) The profit margin in relation to other similar inventions; and

(i) The feasibility and likely benefits of competition in the market served.

C. Foreign Rights

The Board's jurisdiction in requiring the granting of a non-exclusive license shall extend only to licenses under U.S. patents. Nothing herein shall be construed to extend that jurisdiction to foreign patents.

D. Background Rights

The Board's jurisdiction in requiring the grant of a non-exclusive license shall extend to only those inventions made in performance of government-funded contracts. Nothing herein shall be construed to extend that jurisdiction to data or other inventions made at private expense.

E. Agency Cooperation

The departments and agencies of the Executive shall provide to the Board whatever aid and information it deems necessary to accomplish its assigned duties.

F. Board Review of Agency Determinations

The Board, on petition of contractor, shall have the power to review an agency decision in implementing this proposal under which such contractor is aggrieved.

G. Intervention

All interested parties, including any agency of the U. S. Government, shall have the right to intervene in any proceeding before the Board.

* * * * * * * * * * * * * * * *

RAMIFICATIONS OF IMPLEMENTATION OF PROPOSAL

Implementation of the proposal will serve to mitigate or resolve a number of related issues generated by present allocation-of-rights policies. Some of the more important areas that would be affected by the proposal are as follows:

A. The Employed Inventor

Permitting contractors a guarantee at the time of contracting to a first option to the exclusive commercial rights in all inventions generated in performance of their government-funded research places the contractor in a better position to accomodate the equities of his employed inventors through award programs if the contractor deems such programs advantageous to his needs.

B. Scope of the License Retained by the Government

Present policies provide that the non-exclusive license retained by the Federal Government include state and domestic municipal governments unless the agency head determines that this would not be in the public interest. The scope of the license retained by the government under the proposal specifically excludes state and domestic municipal governments. It was the opinion of the Task Force that to expand the scope of the license to state and domestic municipal governments would be tantamount to retaining exclusive commercial rights in the government in situations where the market for the invention would be substantially federal, state and municipal programs. Inventions directed to solution of saline water and educational problems would fall within this category. To extend the scope of the license retained by the government to include state and domestic municipal governments would therefore defeat the purpose of the proposal as it relates to such inventions. To permit the agency head to determine the scope of the license retained by the government at the time of contracting was not deemed practical, since the

type of invention that will evolve from a research and development contract cannot be accurately predetermined. Further, the Review Board assures that competition will ultimately exist for such inventions if economically significant and demanded by the equities of the public.

C. University and Non-Profit Organizations

As noted previously, the proposal extends the guarantee of an option to exclusive commercial rights to universities and non-profit organizations after government review of the adequacy of their patent management capability. With such option, universities and non-profit organizations are in a better position to license industrial concerns as an incentive to use their risk capital in bringing the results of university and non-profit organization research to the marketplace. Without the ability to transfer exclusive commercial rights to industry, universities and non-profit organizations have found it difficult to overcome the "not-invented-here" syndrome. (See Harbridge House Report and the August 12, 1960, GAO Report, "Problem Areas Affecting Usefulness of Results of Government-Sponsored Research in Medicinal Chemistry".) The Task Force considers this an important matter since approximately 25% of the government's research and development budget is expended through contracts with universities and non-profit organizations.

D. Definition of "Conceived" and "First Actually Reduced to Practice

Present policies stipulate that any invention "conceived" or "first actually reduced to practice" in performance of a government-funded research and development contract be disposed of in accordance with the contract provisions under which it arose. Any invention so conceived or first actually reduced to practice affords to the government at least a royalty-free nonexclusive license. The precise definitions of "conceived" or "first actually reduced to practice", therefore, are important as they are determinative of the rights in the government or the contractor. The proposal contemplates that it will similarly speak only to those inventions conceived or first actually reduced to practice in performance of government-funded research and development contracts. In order to resolve any present problems with the terms "conceived" or "first actually reduced to practice", it is suggested that any patent rights clause utilized in implementing the proposal include the following definitions:

(1) "Conceived" means a disclosure in a form which would enable someone skilled in the art to which the invention pertains to make and use the invention without the use of further inventive effort.

(2) "First actually reduced to practice" means a successful test of the invention in a simulated environment, or in an environment similar, to the one in which it will be used for a purpose for which it was intended.

E. Rights Obtained by the Government Through Its Research and Development Contracts in Inventions Conceived and First Actually Reduced to Practice at Private Expense

A great deal of uncertainty has been generated by AMP, Inc. v. U. S. 156-USPQ 647, as this case appears to extend the rights the government obtains through its research and development contracts to inventions conceived and first actually reduced to practice at private expense. In order to eliminate this uncertainty, the Task Force recommends that the following language be added to any patent clause utilized to implement its proposal:

(1) Nothing contained in this patent rights clause or construed therefrom shall be deemed to grant to the government any rights in any invention which is neither conceived nor first actually reduced to practice in the course of or under this contract. However, this shall not deprive the government of any rights to which the government may be entitled under other clauses in this contract, under other contracts, or by statute; and

(2) That in those situations in which the government wishes to acquire rights in an invention which is neither conceived nor first actually reduced to practice under a government contract, this be done through a separate expressed provision of the contract.

It is the opinion of the Task Force that any background patent rights clause negotiated as provided by (2) above speak only to inventions in existence and identified at the time of contracting and that any rights acquired by the government to such inventions reflect the contributions to be made by the government toward its enhancement, testing, or development. It should be noted that the proposal limits the Patent Review Board's jurisdiction in requiring the grant of licenses to only those inventions conceived or first actually reduced to practice in performance of government contracts.



or by statute; and

F. Inventions Conceived and Patented at Private Expense But Reduced to Practice in Performance of a Government-Funded Contract

It has been suggested to the Task Force that inventions having been conceived at private expense and which are identified by patents or patent applications but first actually reduced to practice in performance of a government-funded contract remain the property of the contractor, subject to a royalty-free, non-exclusive license to the government. The Task Force rejects this suggestion, as it does not properly take into consideration the contribution of the government in first reducing the invention to practice in all cases. It is recommended by the Task Force that this type of invention be brought to the attention of the agency funding the proposed contract under which such invention may be reduced to practice at the time of contracting so that the equities of both parties may be considered in making a disposition. The Task Force feels that this problem has been further mitigated by the proposal in that the contractor will at very least retain his option to exclusive commercial rights unless otherwise negotiated at the time of contracting.

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Patent Operations, RCA Corporation

Norman J. Latker, Esq.
Chief, Patent Branch, BAL
Office of the General Counsel
Dept. of Health, Education & Welfare

John C. Green, Esq.
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PTC Research Institute

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Patent Operations
International Business Machines

☆ Mr. James E. Denny has filed a Minority Report attached hereto.

☆☆ Messrs. Ryan and Davidow participated in the deliberations of the Task Force, and many of their suggestions are reflected in the majority report, but they did not vote for or against the total report.

Gerald D. O'Brien, Esq.
Consultant to Study Group No. 6

O. A. Neumann, Esq.
Executive Secretary
FCST Committee on Government Patent Policy

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1A. Presidential Memorandum and Statement of Government Patent Policy of August 23, 1971.

1B. Presidential Memorandum and Statement of Government Patent Policy of October 10, 1963.

2. Armed Services Procurement Regulations, Chapter IX - Part 1

3. Postal Service Procurement Regulations, POD Form 2149A (April 1969) pages 3, 4, 5, 6

4. Department of Commerce Procurement Regulations, PD-GP-1 (11-70) pages 18 through 38

5. NASA Act of 1958 (PL 85-568), Section 305

6. NASA Procurement Regulations - Chapter IX

7. AEC Act of 1954 (PL 83-703) - Chapter 13

8. AEC Procurement Regulations - Section 9-9.5000 et seq.

9. NASA Waiver Regulations 14 CRF 1245.100 et seq.

10. FAA Procurement Regulations, Forms FAA P-3 (10/15/69) pages 10,11,12 and FAA P-5 (11/1/69) pages 8 and 9

11. Proposed DOT Procurement Regulations

12. CODSIA Letter dated May 14, 1971 to DOT re the Proposed DOT Procurement Regulations

13. Bureau of National Affairs Patent, Trademark & Copyright Journal dated 5-27-71, pages A-1, A-2 and A-3

14. CODSIA Letter dated May 10, 1971 to ASPR Committee re Patent Costs

15. Remarks of James E. Denny Before the Intellectual Property Rights Seminar, Smithsonian Institution, April 7, 1971

November 11, 1971

PATENT BRANCH GGS
DHEW
NOV 17 1971

Mr. Roman C. Braun
Chairman, Study Group No. 6
Commission on Government Procurement
1717 H Street, N. W.
Washington, D. C. 20006

Re: Report by Task Force #1 of Study Group #6
Commission on Government Procurement
Allocation of Rights to Inventions Made
in the Performance of Government Research
and Development Contracts and Grants

Dear Mr. Braun:

Attached is the Final Report of Task Force #1 of Study Group #6 which we respectfully submit will provide some new and practical solutions for the allocation of government contract patent rights.

May I take this opportunity to thank each of the members of Task Force #1 for their conscientious, diligent and objective efforts in arriving at the conclusions set forth therein. It has been a great pleasure to me to serve with all of them and I have learned a great deal from the various viewpoints and expertise of the members of this widely-based group. We are especially grateful to Mr. Norman J. Latker of HEW who labored over numerous drafts of the report. While it has not been possible to resolve some of the details of the problems which we discussed, I believe the report reflects the general concensus on the more important items. It also enumerates a few of the other features which still require specific resolution.

The primary mission of the Commission and the Task Force is to provide recommendations to Congress for possible legislation, which may involve extensive hearings with resultant long-time delay. The majority of the Task Force believes that the question of allocation of patent rights under government contracts is a long-standing one which has not been satisfactorily resolved by the two Presidential Memoranda on Government Patent Policy or by the piecemeal patent legislation previously provided by the Congress. We also have been very aware of the vast differences between such statements or legislation and the specific implementations thereof by the many government agencies which have



May I take this opportunity to thank each of the members of Task

been given wide discretion or only very broad policy criteria. Even different departments in the same agency have had quite different policies and procedures.

We have attempted to provide a much more simplified and equitable procedure and policy for resolving such questions at the more appropriate times when maximum relevant information is available to both the Government and its contractors. We have been cognizant of the attempts by Congress and the Executive to reduce government red tape and have attempted to provide means which we believe will save a great deal of presently-wasted effort in negotiation and administration. Contractor participation in R&D contracting is encouraged.

We respectfully submit that the essential features of the recommended policies and procedures could just as well be implemented by Executive Order under existing powers and legislation. Much earlier and more efficient and uniform administration could be provided with considerable manpower and tax savings. We recommend that a copy of this report be forwarded to the Committee on Government Patent Policy under the Federal Council for Science and Technology for consideration. We also submit that any such solutions cannot be reached solely by consultation between the various executive agencies, but must include resolution of the practical considerations encountered by industry in its attempts to serve the Government and public interests.

We recommend a general policy which would utilize a single government-wide Patent Rights R&D contract clause. It would provide "exclusive commercial rights" in contract inventions for a period of three years after issuance of a patent thereon to the R&D contractor, while providing the Government a non-exclusive, irrevocable, royalty-free, worldwide license for all federal government purposes. Such action would provide ease of administration of patent matters at the time of contracting. It should also provide for more widespread and effective contractor participation in government R&D contracts, especially by the portions of industry having large commercial investment, patent interests, and expertise in the related field, who could best provide the Government's needs. The contractor would be granted the initial period of exclusivity, since he would generally be the entity most likely to utilize, or license, the invention to provide new products for public use. In order to maximize competition in the commercial markets and the broadest possible utilization of the inventions, the Government would have the right, after the initial exclusive period, to acquire, or require, such additional rights for itself or for others as would be necessary and equitable.

We believe that the vast negotiation effort now wasted both in the

Government and in industry in deciding the disposition of patent rights at the time of contracting could be eliminated. Much more realistic effort could be expended on a greatly reduced scale by consideration of patent rights when the real interests of the Government, the Contractor, and the public are better defined with respect to a relatively few specific inventions of real public interest. Such a solution would be much superior to resolution of patent rights on an uninformed basis of supposedly relevant broad technical fields or agency missions prior to the time of contracting. It also always offers an acceptable degree of patent protection to the Contractor at the time of contracting.

Instead of resolution of patent rights according to the discretion of the individual agencies, we believe that issues arising under the general policies should be settled by an unbiased Board of Review comprising a permanent chairman and secretary, and expert members selected from a panel representing government, the public and industry. In unusual circumstances, preliminary appeal could be made to the Board by an agency believing that a special situation is involved in a particular contract. It is contemplated that no blanket deviations should be authorized by the Board. Prospective licensees under government contract inventions also would have the right of appeal to the Board in the event they were unable to negotiate suitable licenses with the contractor under government contract inventions. Prospective contractors could appeal unreasonable Agency actions or demands.

The Task Force has differing views on whether "exclusive commercial rights" to the contractor should involve "title" in contract inventions or "exclusive license and sublicense rights" to the contractor, all subject to the Government's license for governmental purposes. We recommend the solution of such details by the Congress, or the Executive, depending upon the specific means in which our recommendations might be implemented.

We also submit herewith a Minority Report submitted by James E. Denny, Esq., a member of the Task Force, who believes the present government patent policy should be adequate. Mr. Denny's report comments favorably on some of the features, including the Review Board, of the Majority Report, while questioning the desirability of other features. He concludes by stating that he considers the Majority policy to be an alternative he could support.

We are not forwarding herewith the numerous background items listed in Appendix A since Study Group #6 already has this

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government contract inventions. Prospective contractors could

material. However, we are forwarding Appendix B which includes some additional background items of current importance which may assist in evaluating our report.

If Task Force #1 can be of further assistance, please do not hesitate to call upon us.

Very truly yours,

J. L. Whittaker

J. L. Whittaker
Chairman

cc: Members of Task Force #1
G. D. O'Brien, Esq.
O. A. Neumann, Esq.
Leonard Rawicz, Esq.

# REPORT BY TASK FORCE NO. 1 OF STUDY GROUP NO. 6 OF THE COMMISSION ON GOVERNMENT PROCUREMENT ON THE ALLOCATION OF RIGHTS TO INVENTIONS MADE IN THE PERFORMANCE OF GOVERNMENT RESEARCH AND DEVELOPMENT CONTRACTS AND GRANTS

## THE TASK FORCE AND ITS ASSIGNMENT

The Task Force was assigned to consider the problems involving allocation of rights to inventions made in the performance of government research and development contracts and grants. (The terms "rights to inventions" or "invention rights" should be understood to include "patent rights" when patent applications or patents are involved. Further, the terms "contract(s)" or "contractor(s)" should be understood to hereinafter include, respectively, "grant(s)" and "grantee(s)").

The membership of the Task Force consists of individuals chosen for their patent expertise from government, industry, universities and the private bar. In an effort to obtain an objective view, each representative was requested to present his own views and not those of his employer.

## BACKGROUND MATERIALS

During the deliberation of issues presented to the Task Force it took into consideration a number of factors, including the experience of its membership, President Kennedy's and Nixon's Statement of Patent Policy and the experiences thereunder, existing legislation, Executive and Congressional hearings and reports, regulations of the Executive, and hearings and investigations of this Commission and other private groups. A bibliography listing an extensive amount of literature generated by the debate over allocation of invention rights is attached as APPENDIX A.

## INTRODUCTION AND HISTORY

The rapid increase of government-funded research and development since the end of World War II to the level of 15 billion dollars in fiscal year 1971 has focused attention upon the adequacy of government policies governing the disposition of inventions made by contractors in performance of government contracts.

During the early stages of the expansion of government-sponsored research and development those departments and agencies of the Executive most affected issued regulations making disposition of inventions between themselves and their contractors. In the main, such policies provided for either (a) a first option to title in the contractor with a royalty-free license to the government for governmental purposes or (b) title in the department or agency with a nonexclusive license to the contractor for commercial use. The former policy was best exemplified in the Department of Defense patent regulations. The Department of Defense has stated that this policy satisfied their needs since it gave the government as a minimum the world-wide right to utilize all Department-funded inventions for governmental purposes. The latter policy was best exemplified in the patent regulations of departments and agencies whose research and development mission is directed toward generating results that might be useful in the civilian economy.

As the issue surrounding the allocation of invention rights became more pronounced, the Congress acted to provide statutory guidance. This guidance took the form of individual statutes which covered inventions evolving from a portion of or an entire department or agency's research and development program.

The language of the statutes reveals no consistent intent on the part of Congress to provide a uniform government patent policy. To the contrary, the statutes provide in some instances for title in the government and in other instances direct the department or agency to take into consideration the equities of the contractor.

An attempt to moderate the controversy revolving around the different statutory and regulatory patent policies eventually resulted in President Kennedy's October 10, 1963 Memorandum and Statement of Government Patent Policy. This Statement was the first effort by the Executive Branch to resolve the allocation of invention rights issue on a government-wide basis. President Kennedy's Statement is based on the assumption that no single disposition of ownership could accommodate the different missions of the various government agencies. Thus, the Statement indicated as one of its objectives, ". . . . a government-wide policy (subject to statute) on the disposition of inventions made under government contracts reflecting common principles and objectives, to the extent consistent with the missions of the respective agencies." (Underlining and parenthetical clause added.) Accordingly, the Statement left to the various departments and agencies the determination as to whether their prior existing policies were consistent with the intent of the Statement.



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On August 23, 1971, President Nixon issued a revised Memorandum and Statement of Government Patent Policy. The revised Statement left unaltered the basic principles on the allocation of invention rights set forth in President Kennedy's 1963 Statement. However, the revised Statement does provide for additional authority in the departments and agencies (not otherwise restrained by statute) to grant exclusive rights to contractors in identified inventions to which the government has either retained a first option to title or has already taken title. This authority has been previously exercised by some of the departments and agencies upon a contractor's petition for title at the time of identification of the invention or through the granting of exclusive licenses to interested developers under government-owned patents.

As of this date, the departments and agencies have the authority under the revised Presidential Statement or under statute to take title or license in the government; delay determination of ownership until identification of the invention; or grant exclusive licenses under government-owned patents. Since issuance of President Kennedy's Statement, most of the departments and agencies have been increasingly utilizing various combinations of these mechanisms of disposition. A contract clause reserving title to the government is generally utilized when the contract relates to certain technical fields or missions and less often under other specified conditions. Only in the absence of such fields or conditions and providing the contractor can establish special expertise, facilities, patent position, etc. does the government utilize a contract clause permitting the contractor a first option to title to inventions which may arise in performance of the contract. Clauses which defer determination until identification of the invention are generally used when neither the criteria for a title or license clause are clearly met.

Notwithstanding the issuance of the 1963 Kennedy Statement of Government Patent Policy, Congress continued to provide guidelines in the form of individual statutes as new research programs were initiated. The Task Force is of the opinion that President Nixon's revised Statement will probably not deter similar statutory enactments.

(For further detail concerning the historical development of government patent policy prior to President Nixon's revised Statement see "Remarks of James E. Denny Before the Intellectual Property Rights Seminar, Smithsonian Institution, April 7, 1971," APPENDIX B )

## ANALYSIS OF CURRENT GOVERNMENT PATENT POLICY

The Task Force, after reviewing the different statutory and regulatory patent policies under which the departments and agencies now operate, was critical of a number of aspects of the policies'

overall impact. The Task Force believes that some of these criticisms would be inherent to any government-wide policy which permits Congress or an individual department or agency to establish and/or implement policies for such department or agency different from other department or agency policies. The following were considered to be the most important areas of concern:

1. The existing patchwork of statutory and regulatory policies under which the departments and agencies now operate does not afford government contractors, who deal with multiple departments and agencies, the degree of predictability of ownership of resulting inventions and the ease of administration one could reasonably expect when dealing with a single entity such as the Federal Government. In addition to the difficulties encountered in mastering the multiplicity of different department and agency policies, the administrative burden now imposed on the contractor to establish his equities in inventions that have resulted or will result from his government-sponsored research is out of proportion to the total number of economically significant inventions generated. It is further noted that the burden on the contractor to establish these equities also creates an administrative burden on the government to review the contractor's position. The Task Force believes that a government patent policy should provide for predictability and ease of administration on the part of both the contractor and the government wherever possible.

2. The Harbridge House Study on Government Patent Policy indicated that in certain situations the retention of exclusive commercial rights in the contractor "will, on balance, promote utilization better than acquisition of title by Government". It is axiomatic that those departments and agencies that retain title to all inventions generated by their programs for dedication or non-exclusive licensing, by policy decision or through statutory direction, are precluded from identifying those inventions best retained by the contractor. The Task Force believes that a government patent policy should encourage commercial utilization of government-funded inventions. It was also noted, however, that any policy should contain provisions which would preclude anticompetitive consequences which may result from an excessive period of exclusivity in a contractor.

3. Under present policies, the Task Force believes there are instances in which the contractor, knowing he will be unable to retain exclusive commercial rights to inventions generated under a proposed contract, will refuse to participate in a government program because of jeopardy to his privately financed commercial position.

Hence, a new advance in the art generated in performance of a government-funded contract which will not be owned by the inventing contractor could severely undermine that contractor's background position. The Task Force believes that it is in the national interest that government patent policy encourage maximum participation of all industry in government programs.

4. The Task Force has found no persuasive reason why the technical field or mission of a department or agency program should be an overriding factor, as exists under present policies, in dictating the disposition of inventions, whether that disposition be by title or license in the government. The disposition of ownership based only on technical field or mission necessarily eliminates consideration of significant equities of either the public or the contractor. Further, inventions resulting from research in a particular field or mission do not necessarily have any relation to such technical field or mission, or may have much broader application, as has been the case in many instances.

5. The different existing statutory and regulatory policies result in different disposition of inventions within a single field of technology. In practice, President Kennedy's Statement has not brought about a uniform disposition of such inventions, due to differing department or agency interpretation of its language. The Task Force believes that this situation will continue under President Nixon's Statement, since the revised Statement is not specifically aimed at overcoming this problem.

6. Many of the factors identified in the Presidential Statements as influencing utilization, participation and competition have little relevance prior to invention identification, and are of questionable benefit in making determination at the time of making a contract. Furthermore, a number of these factors do not become relevant until some attempt has been made to undertake the exploitation of the invention commercially.

## TASK FORCE CHOICE OF DIRECTION

Rather than concur in separate department or agency policies or a uniform government patent policy providing for different disposition of inventions, depending on technical field, mission, or case circumstances, as exemplified by the President's revised Statement on Government Patent Policy, the Task Force determined to explore the possibility of formulating a uniform government patent policy which would make a single disposition of invention rights in all instances. As discussed above, the Task Force believes that any uniform government patent policy providing for a single disposition of invention rights should maximize to the extent possible:

"Utilization" of the inventions resulting from government-funded research;

Contractor "participation" in government programs;

"Ease of Administration" on the part of both the government and the contractor; and

"Competition in the marketplace".

With these goals in mind, and with the expectation that the policy would resolve a number of separately posed and related issues, the Task Force considered and agreed on the following in making its proposal:

1. The Task Force agrees, as did the President's Commission on the patent system in its November 17, 1966, report, that a patent system stimulates the investment of additional capital for the further development and marketing of products using an invention by giving the patent owner the right, for a limited period, to exclude others from --- or license others for --- making, using, or selling the invented product or process.

2. A uniform government patent policy resulting in government ownership of inventions made in performance of its contracts for dedication to the public, or the granting of only non-exclusive licenses, whether such ownership is based on a technical field or mission or otherwise, would necessarily eliminate the stimulus envisioned by the patent system.

3. Under such a policy, there is a prospect in some cases that the market potential of an invention and other means of property protection will not adequately serve to encourage the investment of risk capital for development when not financed by the government. The research investment in such inventions will to a large extent be lost to the public.

4. It was therefore agreed that any uniform policy recommended must provide for exclusive commercial rights in the inventing organization or another developer in those inventions which would not otherwise be utilized. (It should be understood that the term "exclusive commercial rights" includes either title to the invention or an exclusive license thereunder.) The Task Force agrees that exclusivity could be provided in the following two ways:

a. Granting commercial exclusivity at the time of contracting to all inventions to be generated in performance of such contracts; or

b. Granting commercial exclusivity selectively after identification of the inventions on the basis of evidence that development may not proceed without such exclusivity. (For the purposes of this discussion, this mechanism shall be referred to as a deferred determination policy, and should be understood to include a government exclusive license policy now possible under President Nixon's revised Statement where not otherwise negated by statute or agency policy.)

5. The Task Force recognizes that under a deferred determination policy the possibility of maximizing "competition" exists, since exclusive commercial rights will only be granted when it is shown that exclusivity is the determining factor in bringing the invention to the marketplace. However, even assuming that the government could correctly identify all inventions requiring exclusivity, albeit a remote possibility, it is the opinion of the Task Force that a deferred policy has and will negatively affect contractor "participation" in government programs, "utilization" of the results of such programs, and "ease of administration" on the part of both the government and the contractor as amplified by the following:

a. The uncertainty of ownership involved in a deferred determination policy would discourage at least some contractors from participating in government programs. Most certainly a contractor whose privately financed background position would be jeopardized by newly generated inventions which he might not necessarily own must think seriously before taking a contract which intends to capitalize on his background position. Refusal to participate in this situation will probably necessitate the government contract with a less qualified contractor or not contract at all.

b. The long processing periods inherent in a deferred determination policy would in some cases delay prompt utilization of government inventions, since a participating contractor would wish to establish his rights prior to investing his risk capital. Utilization would also be adversely affected by the administrative burden of petitioning the government for exclusive commercial rights and the probable requirement that the contractor file patent applications to protect the property rights during the petition period. Faced with these tasks, the participating contractor will have little interest in inventions that appear economically marginal on first review.

c. Finally, the Task Force agreed that the increased administrative costs to both the contractor and the government for the drafting, submission, and review of petitions on a case-by-case basis would be out of proportion to the result to be achieved through implementation of a deferred determination policy.

6. In light of the deficiencies inherent in a deferred determination policy, the Task Force agreed that a policy of granting exclusive commercial rights to the contractor at the time of contracting to all inventions generated in performance of government contracts was the single means of maximizing "utilization" without generating adverse conditions for "participation." In addition to these advantages, a policy which makes disposition at the time of contracting offers the opportunity for maximum "ease of administration". The Task Force did note, however, that "ease of administration", under such a policy would be proportional to the degree of follow-up or "march-in" rights reserved to the government, but under no circumstances would such a policy create the level of administrative difficulties now encountered by departments and agencies in the deferred determination portions of their policies.

7. Notwithstanding the advantages to be gained through a uniform policy of granting exclusive commercial rights at the time of contracting to all inventions generated, the Task Force was of the opinion that such a policy could adversely affect "competition" in the marketplace if such exclusivity were to remain in the contractor for the full period of the patent grant in all cases. In order to avoid this consequence, the Task Force agreed that rights must be reserved to the government under such a policy which would enable it to assure against individual abuse of the privileges retained by the contractor. These "march-in" rights would insure that a contractor's exclusivity would extend only over a period justified by the contractor's equities and the public's need for competition in the marketplace.

8. The Task Force agreed that the benefits to be derived through a policy of disposition at the time of contracting outweigh the need for ideal conditions to generate "competition", which may not be maximized since some exclusive commercial rights would remain with the contractor to a greater extent than under a deferred determination policy. Thus, the Task Force believes that a policy of disposition at the time of contracting will positively effect utilization of government-funded inventions and participation of contractors thereby increasing the nation's potential to employ labor and raising the level of its exports. Further, maximization of participation will increase the government's ability to focus public funds on the kinds of research and development which have high, long-run social value, but is risky and not sharply reflected in profit opportunities for a sponsoring private business firm. Since it cannot be predicted with any