STATEMENT OF

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BEFORE THE SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY

March 27, 1984

The economic growth and prosperity of our Nation depend heavily on the extent to which we remain in the forefront of the development and application of new technologies. Industry, not government, will make most of the decisions allowing this to happen. Nonetheless, it is vitally important that government removes any barriers to such decisions and fosters a climate encouraging the development of new technologies. This Administration is committed to reducing such barriers and providing the appropriate incentives.

Government patent policy is one of the areas in need of reform. The Federal Government funds a substantial portion of the total R&D performed in the United States. It is important that the terms and conditions imposed upon the contractors and grantees that perform this research are structured so as to encourage commercialization of new ideas and technologies that result from such work. We must foster an atmosphere in which industry will have the necessary incentives to make the financial investment which move new ideas into the marketplace.

Unfortunately, for many years, government patent policies have, in all too many cases, acted as a barrier to such investment. The reasons for this can be traced to both Congressional actions and those of the Executive Branch. In recent years, however, both the Congress and the Executive Branch have taken action to remedy long-standing inadequacies in patent policy. The passage of the "Bayh-Dole" Act 35 U.S.C Sec 200, which grants small businesses and universities ownership to

inventions made with Federal support, was a major breakthrough. In the opinion of many university administrators with whom we have talked, "Bayh-Dole" is already paying dividends. Additionally, President Reagan, last year, substantially revised the patent policies of the Executive Branch by issuing a new Memorandum and Statement of Government Patent Policy. This policy statement extends the principles of "Bayh-Dole" to performers other than small businesses and universities. Still, a number of statutes remain on the books hindering across-the-board application of the President's Statement.

Consequently, the Administration supports the intent of S. 2171. We believe S. 2171 establishes a sound basic policy, provides flexibility to cover unusual situations, and creates a sound institutional framework for the implementation and monitoring of the statute. It also makes a number of amendments to "Bayh-Dole" which experience during its implementation and operation have indicated should be made. We do have reservations about provisions of S. 2171 relating to transfer of rights under existing contracts and we will, of course, be happy to work with the subcommittee to cure this problem.

S. 2171 generally brings patent policy up-to-date. For many years government patent policy was dominated by the proposition that the government should normally own inventions made with its support. Though there were exceptions, particularly in the

military agencies, this concept tended to shape the thinking of civilian agencies, and even some parts of the military R&D effort.

The origins of this concept can be found in a Report prepared by the Attorney General back in 1947. That report supports the concept of government ownership on the theory that permitting contractors to own inventions would increase concentration in American Industry. Thirty-five years of debate have not yet resolved whether ownership of patent rights leads to concentration of industries. More importantly, we should recognize that the older patent policies were framed in a now bygone era. In 1947 and for several decades thereafter government patent policy was being formulated against an economic background in which the United States was the world's technological leader.

But today, the picture is different. Three fundamental forces of change are having profound effects on the world economy and the importance of technology in international competition. These forces are:

(1) The technology explosion that has generated something like 90 percent of everything we know in the sciences in the last 30 years, and which will double our technical knowledge base again in the next ten or fifteen years.

(2) The increasing propensity of governments to promote their domestic high technology industries, and

(3) The emergence of the lesser developed countries as the makers, sellers, and exporters of manufactured goods, including increasingly sophisticated products.

One effect of these forces is that the United States really has two industrial bases. One is composed of our older more mature industries. The other is composed of our rapidly growing high technology industries. New businesses are making up for the decline in older businesses. While older industries will not disappear, we must obviously establish government policies, including patent policies, that encourage new businesses based on new technologies. The approach of S. 2171 will help both new and older industries.

How does government patent policy and S. 2171 fit into this picture? As noted earlier, the government is a major source of funding for research and development. Out of the billions that are spent by the government, it is obvious that many new ideas and inventions will emerge. But very few will be funded by the government to the stage where they can be readily brought into the commercial market. It will require private initiative, and much investment, to transfer these ideas from the laboratories to the market. Similarly, it will also take private engineering and marketing efforts to transform even more fully developed items, such as a state-of-the-art components for a military or space program, into a commercial item. Patent policy can either encourage or discourage this, depending on how it is structured.

S. 2171 will establish a more favorable policy to encourage commercialization of these inventions. It will normally allow the inventing organization the opportunity to retain ownership of the invention, thus allowing it to take advantage of the incentives of the patent system and the flexibility to dispose of resulting inventions in cooperative R&D arrangements with other organizations. At the same time, it provides the government with march-in rights which allow others to work the invention if the Contractor fails to do so.

We think an additional march-in right should be included that would give the government the ability to protect against retentions of title to patents where the retention has substantially anti-competitive effect. Although it is extremely important to put new technologies in the hands of the private sector to ensure that our economy will receive their full benefit, it is equally important to ensure that the retention of title does not work to harm or even destroy competition.

The wisdom of this approach becomes even more apparent when one examines the alternatives. The first would be the old policy of government ownership followed by licensing of all applicants. It is axiomatic that in most cases private enterprise will not invest in technologies it cannot control. This is not to say it will never happen. In rare cases the potential applications and size of market may be such that it would pay to invest even without an exclusive position. But, frankly, such clear

opportunities are quite rare. It would be poor public policy to jeopardize the development of inventions and technologies because of situations that are rare.

It should also be recognized that a policy of government ownership, followed by licensing of all applicants, may be especially favorable to foreign competitors to the extent that they benefit from protection by their governments from competition at home. A secured home market may give foreign firms sufficient incentive to develop a U. S. funded technology even without exclusive rights. Products may then, in some cases, be exported back to the U. S.

The second traditional patent policy alternative has been to defer patent ownership determinations. This often has superficial appeal. It says wait for the invention to be made, and then have the government decide whether the government or the contractor should take title. The basic fallacy with this approach is that it assumes the government can actually make a valid determination based on objective criteria, as to whether exclusive, patent sector rights will be needed to encourage further development. In fact, perhaps the only way to do this would be to assign a horde of scientists, engineers, economists, and other specialists to research the problem, and you would need different specialists for different situations. And even then, there would be so many unknowns as to make the whole process more a matter of guesswork and politics than science. It is much more preferable,

economical, and timely to start with the presumption of S. 2171 that contractor ownership will maximize incentives. And, if, in fact, a potential competitor emerges that finds itself blocked by the contractor's patent, it can then go to the government and persuade it to use its march-in rights if the contractor is not working or allowing others to work the invention.

I have until now focused primarily on the impact of government patent policy on the technological vitality and growth of the overall economy. In developing a sound patent policy consideration should also be given to the following matters:

First, a sound patent policy should encourage the largest number and most qualified concerns to compete for Government R&D. This will help ensure that the government will get the most effective research for its money and lower government costs. A policy which normally allows contractors to retain ownership of inventions is most likely to foster such competition. In effect, what the government has been doing is paying a premium contract price reflecting its purchase of the technology to be developed under the contract. Because the government has rarely developed this technology into commercial products or resold it, the government has generally not recovered the extra purchase price. Under the approach of S. 2171, the government will let the contractor retain rights to technology and, therefore, should not need to pay the premium to buy the technology. Because a

deferred determination will cause uncertainty, the government may not receive the benefit of a lower contract price.

Second, of course, the government should be able to make use of any inventions for its own internal needs on a royalty-free basis. S. 2171 provides that the government will receive a royalty-free license unless the agency waives its rights under certain circumstances. Thus, there is no meaningful difference between it and a deferred or title-in-the-Government policy on this count. Indeed, the government may use any invention, under the concept of eminent domain whether or not government supported, and under 28 U.S.C. 1498 need only pay "reasonable compensation" if the use is not under license to the government. The license provided to the government in S. 2171 would negate any requirement to pay royalties or "reasonable compensation" to the government for government funded inventions.

Last, it is important that government funded R&D performers have sufficient rights in resulting inventions to enable them to enter into collaborative R&D arrangements with other research performers. If they cannot make appropriate arrangements for disposition of resulting inventions; they could be foreclosed from participation in many desirable cooperative R&D ventures. Cooperative R&D ventures are starting up across the nation. S. 2171 clearly responds to these initiatives by enabling government funded performers to participate.

Thank you, I will be happy to respond to questions.