ISSUE PAPER ON FEDERAL GOVERNMENT PATENT POLICY

Federal Government patent policy is concerned with the allocation of rights to inventions which result from Federally-sponsored research and development (R&D), protection of these invention rights through patenting, and the licensing of the patents and related technology.

Since the second World War, the Federal Government has increasingly supported the overall R&D effort of the United States, and, at least initially, the patent policies of the Federal agencies were generally fashioned without any central guidance or overall coordination.

In 1950, President Truman, in an attempt to bring about consistency in the allocation of rights to inventions made by Federal employees, issued Executive Order 10096. In 1963, President Kennedy issued a Memorandum to the Heads of the Federal agencies setting forth a Statement on Government Patent Policy. This was the Federal Government's first attempt to bring about some uniformity in the Federal agency practices of the allocation of invention rights between the Federal agencies and their contractors. An unsuccessful attempt to provide greater uniformity through legislative action occurred in 1965. In 1971, after experience had been gained under the

1963 Statement, President Nixon issued a revised Statement on Government Patent Policy.

Following the issuance of the 1971 Statement, implementing regulations regarding (1) patent rights clauses for inclusion in Federally-sponsored R&D contracts, and (2) licensing regulations under which Federally-owned inventions are to be licensed, were issued. The constitutionality of these Executive-Branch regulations was challenged in the courts with plaintiffs alleging that Congress alone has the power to dispose of Government-owned property, a power which it has not yet exercised in respect to patent properties. This challenge to the regulations was defeated when the Appellate Court of the District of Columbia found for the Executive Branch holding that the plaintiffs (several of whom were Congressmen) lacked standing to sue. A decision on the merits, however, was not reached.

The Committee on Government Patent Policy of the Federal Council for Science and Technology was established to monitor the activities of the Federal agencies under the 1971 Statement, and to offer alternatives to existing policy as appropriate. This Committee has historically been chaired by the Assistant Secretary for Science and Technology of the Department of Commerce.

Early this year the Committee embarked on the preparation of an Omnibus Administration Patent-Policy Bill. Passage of this Bill would overcome the remaining legal questions raised by the aforementioned lawsuits, and is responsive to the Commission on Government Procurement's recommendations, set forth in a bipartisan report to the Congress, that legislation be enacted which would make uniform the Federal Government practices in the area of allocating the rights to contractor inventions and make clear the Federal agencies' authority to license Federally-owned inventions. The Bill would also codify the principles of Executive Order 10096, covering Federal employee inventions, which was recently successfully challenged in a District Court of Illinois.

The most recent draft of the legislative proposal under consideration by the Committee on Government Patent Policy is attached.

In order for the Bill to be introduced during this session of Congress, the Legislative Reference Section of OMB has indicated that it would be necessary for the proposal to be cleared by OMB prior to mid-September 1976.

The purposes of the Bill are:

(a) To establish a uniform Federal policy in matters

of intellectual property;

(b) To uniformly implement the provisions of the Act, and to make a continuing effort to monitor such implementation;

(c) To allocate rights to Federal employee inventions in an equitable manner;

(d) To allocate rights to contractor inventions which result from Federally-sponsored research so as to

(1) encourage the participation of the most qualified and competent contractors,

(2) foster competition,

(3) promote the widespread utilization of the inventions, and

(4) reduce the administrative burdens, both for the Federal Government and the contractors;

(e) To provide for a domestic and foreign licensing program to obtain widespread utilization of Federally-owned inventions, with the objective of strengthening the Nation's economy and expanding its domestic and foreign markets; and

(f) To repeal all other Acts and Executive Orders regarding the allocation of rights to inventions which

result from Federally-sponsored research and the licensing of Federally-owned patents.

No one disputes the need for legislation having the purposes set forth above. Virtually everyone agrees that the need for a uniform, Government-wide patent policy is becoming more urgent with each passing session of Congress. The issue--and a highly-charged issue it is--turns upon the content of this new Government-wide policy. The fundamental question of content is this: Who shall own the inventions which arise from Government-supported R&D? Shall the Government own these inventions, or should ownership vest in the inventing organization or institution? Once this fundamental question is answered, the remaining elements of a Government-wide policy can be rationally deduced.

One of the difficulties which must be recognized in addressing the fundamental question is that it admits of more than two possible answers. One answer, of course, is that the Government should own the entire right, title and interest in and to all inventions which arise from Government-funded R&D. A second answer is that the inventing organization or institution should have this entire bundle of rights. A third possibility envisions the division of these rights between the Government and the

inventing entity. For example, it might be decided to vest ownership of the invention in the inventing organization, while simultaneously giving the Government a paid-up, royalty-free license for all governmental purposes. Inasmuch as the number of ways in which the bundle of ownership right can be divided is virtually infinite, the fundamental question can itself be answered in an infinite number of ways. It has now been answered, by statute, in 22 different ways for 22 different Federal R&D programs. One agency administers five of these programs, a situation which is barely manageable from a contracting officer's point of view, (provided, of course, that the same R&D project is not jointly-funded by 2 of these 5 programs, a problem which has actually arisen, though never resolved to the satisfaction of more than one attorney). The situation is no longer manageable for contractors and universities who must be cognizant of the inconsistencies between perhaps a dozen or more of these 22 programs.

While the tug-of-war between Government-oriented and private-interest-oriented champions has ended at 22 points on 22 separate legislative occasions, these points have not been distributed randomly across the spectrum. They are all grouped on the Government-ownership side. Thus, if one were

to approach the problem solely from a pragmatic, political point of view, one could imagine settling upon a single point in the middle of this group of points, and thereby establishing a compromise answer to the fundamental question. There are four assertions which we can make about a Government-wide policy arrived at in this fashion:

1. It would reduce the administrative burdens, both for the Federal Government and the contractors.

2. It would foster competition (which is to say that we would avoid the creation of a private patent monopoly, by virtue of which one competitor might ultimately gain an edge on another).

3. It would not encourage the participation of the most qualified and competent contractors.

4. It would not promote the widespread utilization of the inventions in question.

Any Government-wide policy which replaces 22 conflicting policies must, a priori, reduce the administrative burdens on both the Government and its contractors. Our ability to make the remaining three assertions listed above derives from our accumulated experience under the 22 policies currently in effect. We know, for example, that monopoly problems are unlikely to arise under any one of these policies because none has ever

arisen under any one of these policies. Similarly, we believe that widespread utilization of inventions will not occur under any one of these policies because it has not yet occurred under any one of these policies.

Given the fact that the Federal Government spends more money on R&D than the whole of the private sector, one might expect this investment to produce a sizeable number of inventions. In fact, the private sector out-produces the government by a factor of 19 to 1.

Given the fact that Government-owned inventions are made freely available to everyone (whereas the private sector demands some form of remuneration), one would expect Government-owned patents to be licensed more frequently than privately-owned patents. In fact, fewer than five percent of Government-owned patents are ever licensed. This compares unfavorably with the thirty percent licensing rate achieved by many of our Nation's largest patent-holding universities, institutions which, like the Government, cannot engage in manufacturing activities but must rely exclusively on licensing programs to achieve utilization.

Having concluded that none of the existing 22 statutory policies is capable of achieving all four of the enumerated

objectives of an optimum Government-wide policy, the Committee on Government Patent Policy has resolved to move decisively in the direction of private ownership. While more widespread utilization of Government-sponsored R&D is thereby assured, this shift in policy could generate anti-competitive effects. In order to forestall such occurrences, the strongest practicable march-in rights have been reserved to the Government. The Department of Justice, which is represented on the Committee, is fully satisfied with this arrangement. While the existence of these march-in rights creates a negative influence on utilization, the Committee has concluded that this effect will be slight in comparison with the highly positive influence exerted by private ownership.