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# LEGAL ANALYSIS OF A MEMORANDUM OF UNDERSTANDING BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY CONCERNING PATENT RIGHTS RESULTING FROM STRATEGIC DEFENSE INITIATIVE RESEARCH

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ABSTRACT

Discusses terms of memorandum of understanding between United States and West Germany in which West German corporations may retain patent rights resulting from research for United States Department of Defense; analyzes United States patent law in this area and discusses whether MOU would violate federal law.

# LEGAL ANALYSIS OF A MEMORANDUM OF UNDERSTANDING BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY CONCERNING PATENT RIGHTS RESULTING FROM STRATEGIC DEFENSE INITIATIVE RESEARCH

On March 27, 1986, the United States and the Federal Republic of Germany signed a memorandum of understanding concerning the transfer of technology resulting from the Strategic Defense Initiative (SDI) Program.[1] The memorandum attempts to affirm certain cooperative agreements between the two countries concerning protection of information and property rights relating to any technology developed by German research companies financed by the United States government for the SDI Program. Part 8 of this memorandum is entitled "Intellectual Property Rights and Utilization of Information" and will be analyzed in this report in terms of present United States patent law. It should be noted, however, that it is not clear what legal effect, if any, this memorandum has at the present time, since, in the secret letter from Richard Perle, United States Deputy Secretary of Defense, to Lorenz Schomerus, of the West German Federal Ministry of Economics, the following statement is made:

> As regards the question of international law, the Government of the United States sees the Joint Agreement in Principle rather as a political declaration of intent than as a legally valid document.

Subpart 1 of Part 8 requires background information[2] to be protected; it cannot be used for purposes not specified in the contract without the consent

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[1] A copy of this memorandum and two recent letters are provided as an Appendix to this report.

[2] "Background information" is defined as "Technical data and computer software required or useful for a specific research project, however prior to the commencement of the research project or outside the documents relating thereto." Sec. 4.4

of the owner. Participation in an SDI research project will not affect the author's rights of ownership and use of the information. Subpart 2 states that information protected by proprietary rights is subject to the rights of the owner and rights of use which the government and each contractor can claim. The person who receives the information must obtain the consent of the person who transmits the information before he uses or discloses the information. Subpart 3 concerns proprietary rights in foreground information.[3] These rights are required to be offered to the contractor who produced the foreground information unless the United States government, in conformity with its laws, has provided otherwise for rights to intellectual property resulting from research financed exclusively by it. German participants are permitted to participate in contractual arrangements financed exclusively by the United States. These arrangements normally require that the United States government shall receive unlimited rights to the foreground information produced within the framework of SDI contracts. In other words, the United States receives royalty-free rights to use, copy, or disclose this information for any purpose. However, this will not prohibit the contractor from using foreground information which he has produced, subject to the contract and applicable security regulations. The United States government is required to attempt to allow the use for non-military purposes of the results of non-classified research projects from the SDI project. These attempts shall be in accordance with the security interests and the laws and policy of the United States and shall be subject to third-party proprietary rights. The United States and West German governments are required to make every effort to support negotiations concerning licenses, royalties, and the

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[3] "Foreground information" is defined as "Technical data and computer software produced in the course of work being carried out on the basis of a contract, or a specific research project, including any invention or discovery, whether patentable or not, and which was developed during the course of work being done on the basis of said contract or research project or which became applicable in practice for the first time in connection therewith." Sec. 4.5.

exchange of technical information with the holders of these rights. The transfer of the research results obtained by subsidiaries of German companies domiciled within the United States shall be facilitated subject to the laws and policy of the United States.

The tenor of the intellectual property provision is perhaps best indicated in the statement that:

> Proprietary rights in technical data and computer software produced in the course of SDI research contracts shall be offered to the contractor who produced the technical data and computer software concerned. This shall apply unless the Government of the United States, in conformity with its municipal laws and implementing provisions, has in respect of the right to the intellectual property provided otherwise for contracts financed exclusively by it.[4]

Other provisions in the memorandum reiterate this intention that the foreign contractor should be offered proprietary rights in the inventions resulting from SDI research.[5]

Federal patent law concerning patent rights in inventions made with federal assistance is found for the most part in chapter 18 of title 35.[6] Congress's policy in enacting these statutes was to

> use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of small business firms in federally supported research and development efforts; to

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[4] Sec. 8.3.1.

[5] See, e.g., sections 3.2 ("Information protected by proprietary rights is subject to the rights of the owner and such rights of use as can be claimed in favor of each Government and each contractor."), 8.3.2 ("... This does not preclude the right of the contractor to use technical data and computer software he has produced...."), and 8.3.3 ("The transfer of the results of research obtained within the framework of SDI contracts by subsidiaries of German parent companies domiciled in the United States will be facilitated, subject to compliance with the laws and other legal provisions and the policy of the United States.")

[6] Codified at 35 U.S.C. §§ 200 et seq.

> promote collaboration between commercial concerns and nonprofit organizations, including universities; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise; to promote the commercialization and public availability of inventions made in the United States by United States industry and labor, to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area.[7]

35 U.S.C. section 202 is the major operative provision of this chapter and concerns the disposition of patent rights when federal funds have been used to assist the development of new inventions. For the most part the provision concerns the disposition of rights if a nonprofit organization or small business firm is the contractor. In such a case the contractor is permitted to elect to retain title to any subject invention. The funding agreement is permitted to provide otherwise "when the contractor is not located in the United States or does not have a place of business located in the United States or is subject to the control of a foreign government...."[8] It would appear that subpart (d) of this statutory provision applies to any business, whether for-profit or nonprofit, large or small. The subpart states:

> If a contractor does not elect to retain title to a subject invention in cases subject to this section, the Federal agency may consider and after consultation with the contractor grant requests for retention of rights by the inventor subject to the provisions of this Act and regulations promulgated hereunder.[9]

It would further appear that there is an implication that every contractor will in most cases be offered the right to retain title to the invention, subject to

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[7] 35 U.S.C. § 200.

[8] 35 U.S.C. § 202(a)(i).

[9] 35 U.S.C. § 202(d).

the federal government's march-in rights[10] and minimum rights,[11] and that, in the case of foreign contractors, the funding agreement may provide otherwise.

In determining whether these implications may be drawn, it may be helpful to look at the legislative history of Public Law 96-517. Both parts of the House Report indicate that the original bill under consideration drew a more obvious distinction than the bill as passed between the patent rights of for-profit and nonprofit/small business contractors with the federal government:

> Subsection (a) provides for the acquisition of title to contract inventions by contractors which are either a small business or a non-profit organization. They would acquire title in each country listed under section (b)(2) of section 382 in which they filed a patent application within a reasonable time; their title would be subject to the Government's minimum rights under section 386 and to march-in rights under section 387.
>
> . . .
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> Subsection (a) provides that a contractor that is not a small business or nonprofit organization will have four and one-half years from the filing of an invention report under section 382(b) to select one or more fields of use which it intends to commercialize or otherwise achieve public use under an exclusive license; an example of such is making the invention available to others for licensing on reasonable terms and conditions. During the four and one-half year period the contractor will have temporary title to the invention, subject to the Government's right under the Act.[12]
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> Subsection (a) provides for the acquisition of title to contract inventions by contractors

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[10] 35 U.S.C. § 203. The federal agency can claim title to the invention if: (a) the contractor has not taken steps to achieve practical application of the invention, (b) the contractor has not satisfied health or safety needs, (c) the contractor has not satisfied public use requirements; or (4) the required agreement has not been obtained or has been breached.

[11] 35 U.S.C. § 202(c)(4). The federal agency has a nonexclusive, nontransferrable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States any subject invention throughout the world.

[12] House Report No. 96-1307, Part I, 96th Cong., 2d Sess. (1980), at 12.

> which are either a small business or a nonprofit organization. They would acquire title in each country listed under section (b)(2) of section 382 in which they filed a patent application within a reasonable time; their title would be subject to the Government's minimum rights under section 386 and to march-in rights under section 387.
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> Subsection (a) provides that a contractor that is not a small business or nonprofit organization will have four and one-half years from the filing of an invention report under section 382(b) to select one or more fields of use which it intends to commercialize or otherwise achieve public use under an exclusive license. During the four and one-half year period the contractor will have temporary title to the invention, subject to the Government's right under the Act.[13]

This more obvious distinction was deleted from the bill as passed; yet, there is no indication that the Act concerns only nonprofit and small business contractors. Therefore, it is arguable that, when the statute does not specifically refer to nonprofit and small businesses, it applies to all government contractors, including foreign contractors.

Thus, present law would appear to allow both for-profit and nonprofit contractors to take title to inventions resulting from research funded by the federal government. When a foreign contractor is involved, however, the funding agreement may provide otherwise; the agreement is not required to provide otherwise. Therefore, there appears to be no clear inconsistency in this memorandum of understanding with present United States patent law, which arguably permits an agreement either to permit or prohibit the retention of a patent title by a foreign contractor. In the instant situation, retention of title by the foreign contractor is specifically permitted in the memorandum; it is therefore arguable that a West German contractor would possess all commercial rights for any patented invention resulting from research funded by United States

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[13] House Report No. 96-1307, Part 2, 96th Cong., 2d Sess. (1980), at 7.

government money, subject to the minimum rights and march-in rights possessed by the United States.

It should be noted, however, that clauses in the memorandum purporting to assign proprietary rights in foreground information, though arguably not violative of federal patent law, may differ from standard clauses in United States government contracts with foreign contractors. The standard contract clauses as set forth in section 52.227-13(b)(1) and (2) of the Federal Acquisition Regulations (FAR) state:

> (b) Allocations of principal rights. (1) Assignment to the Government. The Contractor agrees to assign to the Government the entire right, title, and interest throughout the world in and to each subject invention, except to the extent that rights are retained by the Contractor under subparagraph (b)(2) and paragraph (d) below.
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> (2) Greater rights determinations. (i) The Contractor, or an employee-inventor after consultation with the Contractor, may retain greater rights than the nonexclusive license provided in paragraph (d) below, in accordance with the procedures of paragraph 27.304-1(a) of the Federal Acquisition Regulation (FAR). A request for a determination of whether the Contractor or the employee-inventor is entitled to retain such greater rights must be submitted to the Head of the Contracting Agency or designee at the time of the first disclosure of the invention pursuant to subparagraph (e)(2) below, or not later than 8 months thereafter, unless a longer period is authorized in writing by the Contracting Officer for good cause shown in writing by the Contractor. Each determination of greater rights under this contract normally shall be subject to paragraph (c) below, and to the reservations and conditions deemed to be appropriate by the Head of the Contracting Agency or designee.

FAR also requires agencies to provide necessary rules and regulations required for the proper application of federal laws and policies concerning, among other issues, guidance on negotiating contract prices and terms concerning patents and data, including royalties, in contracts between the federal government and

a foreign government or foreign concern.[14] We have been informed by the Office of the General Counsel, Department of Defense, that it follows the FAR's concerning patent rights resulting from research contracts and that the Department has issued nothing contrary to these regulations.

In conclusion, it may be stated that the memorandum of understanding between the United States and West Germany is not inconsistent with federal patent law. Present law appears to permit contractors, if domestic, to take title to inventions resulting from research funded by the federal government. If the contractor is a foreign concern, the funding agreement may provide otherwise; it is, however, not required to do so. Thus, since the terms of the funding agreement concerning patent rights are discretionary, the terms of the memorandum giving proprietary rights to West German contractors do not violate United States law. The terms, however, may differ from the standard terms as set forth in the Federal Acquisition Regulations.

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[14] FAR § 27.601(c).

# APPENDIX

## FEDERAL REPUBLIC OF GERMANY-UNITED STATES: AGREEMENTS ON THE TRANSFER OF TECHNOLOGY AND THE STRATEGIC DEFENSE INITIATIVE*
[March 27, 1986]

### Introductory Note

On March 27, 1986 the Government of the Federal Republic of Germany and the Government of the United States signed two Agreements in Washington, D.C., the Joint Agreement in Principle (concerning the Transfer of Technology) and the Agreement on German Participation in Research on the Strategic Defense Initiative. These Agreements, as well as accompanying letter, e.g. between Richard Perle, Deputy US Defense Minister and Lorenz Schomerus, of the Federal Ministry of Economics, were drawn up in English and German.

The Governments seemingly decided not to make public said Agreements. There was considerable pressure on the German Government to make the text available to the public.

On April 18, 1986 the Cologne daily newspaper, "Express" published a German version of the two Agreements and, on April 20, 1986 the exchange of letters between Perle and Schomerus followed. The "Express" claimed to be in possession of the authentic versions. Officials who asked not to be named confirmed that the published versions were authentic.

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*[The unofficial English translation and the Introductory Note were prepared for International Legal Materials by Gerhard Wegen, I.L.M. Corresponding Editor for the Federal Republic of Germany, partner of the law firm of Gleiss, Lutz, Hootz, Hirsch & Partners, Stuttgart, admitted to practice in New York and Stuttgart. The unofficial German text appears in the Cologne Express, April 18 and 20, 1986. The help in translation given by Miss E. Richomme is kindly acknowledged.

[The Agreement on the Transfer of Technology appears at I.L.M. page 959, and the exchange of letters concerning this agreement appears at page 974. The Agreement concerning the Strategic Defense Initiative appears at I.L.M. page 962.

[Other countries which have either concluded, or are in the process of concluding, memoranda of understanding similar to the agreements concluded by the Federal Republic of Germany and the United States are: Israel, Italy, Japan and the United Kingdom.]

The "Express" version served as the basis for the translation into English, though the German text was also published by a Bonn-based newsletter. The translation indicates a few misprints or unclear passages in the "Express" version. Also, the translation follows meticulously the graphic structure of the "Express" version without, however, emphasizing certain paragraphs by using bold print, as the "Express" did, with the exception, again, of headings.

This Introductory Note refrains from commenting upon the contents of the SDI Agreements. It should be noted, however, that Richard Perle, in the last paragraph of the letter reproduced, comments upon the legally binding character of the Joint Agreement in Principle under public international law. The "Express" makes it clear in its edition of April 18, 1986 that there are more accompanying letters with regard to the SDI Agreements not reproduced in full.

Finally, the reader should bear in mind that the following texts are translations of the German versions, the English texts not having been made public. Hence, the English original will differ in nuances from the translations reproduced; e.g. the "Agreement" may be a "Memorandum of Understanding" and alike. The aim of the translation is merely to make available the contents of the already published SDI Agreements to the interested English-speaking international community.

Agreement on the Transfer of Technology

Joint Agreement in Principle between the Federal Republic of Germany and the Government of the United States of America, done Washington, D.C. on 27 March 1986

1. Preamble

In the course of their consultations the Government of the Federal Republic of Germany and the Government of the United States of America re-affirmed the long-standing cooperation between the Governments of the two countries, their industries, research establishments and other entites in the areas of industry, science, technology and security. In the realization that the continuation of this cooperation will promote the growth of their national economics and strengthen their technological capacities and security, the Governments hereby re-affirm certain principles for the cooperation, such as most-favoured nation treatment for free competition, non-discrimination and joint security interests. These principles are laid down, inter alia, in the following existing bilateral agreements:

- the Treaty of Amity, Commerce and Navigation of 29 October 1954;
- the Treaty on the Protection of Secrets of 23 December 1960 with supplements, and the rules of procedure with special regard to the protection of secrets in industry of 16 April 1970 with supplements;
- the Treaty of 23 August 1973 on Mutual Assistance between the Customs Authorities of the Federal Republic of Germany and the United States of America;

as well as in multilateral agreements and treaties to which both Governments are parties.

2. New Challenge for this Cooperation

Modern industrial and technological development necessitates a dynamic process of cooperation, especially in the fields of research, development, production, distribution and export, and the exchange of scientific knowledge and information. The Governments will in particular endeavour - whilst safeguarding their security interests - to promote the free exchange of goods, scientific information and technologies between their two countries. They will endeavour to increase the effectiveness of their laws, provisions and procedures relating to exports, and thereby to keep the administrative burden connected therewith to a minimum.

When exercising their discretionary powers, the Governments should, in the spirit of the bilateral cooperation, take the interests of both sides into account. They will endeavour to settle any disputes in a way which is satisfactory to both sides. The Governments are of the opinion that this cooperation must be encouraged and that it should be secured by means of continued development and the implementation of effective regulations for the protection of strategically sensitive technologies.

The Governments wish to make it known that they anticipate that the strengthening of the mutually profitable cooperation in the fields of industry and research will bring with it an increased cooperation in the application and enforcement of agreed restrictions regarding the export to prohibited destinations of sensitive technologies which affect their common security. To this end they will take effective steps with the aim of further strengthening the protective measures for sensitive technology, and ensure strict application and enforcement of existing laws and other legal provisions in this context. The Governments will take the principles mentioned into account when creating mechanisms for the promotion of this cooperation. The Governments hereby declare that they are prepared to help each other and their

industries and research establishments to fully comprehend the pertinent laws and other legal provisions, as well as the purposes to which said laws and legal provisions were introduced. Both Governments recognize that to inform the other government in advance about important decisions or acts which affect its material interests is a useful means towards achieving joint objectives in the spirit of the co-operation. The Governments will hold consultations promptly and at an appropriate level, particularly in emergencies, in order to settle differences of opinion in a way which is satisfactory for both parties. Hereby, they will endeavour to implement the steps necessary for a successful conclusion of their consultations.

In order to facilitate communications concerning the questions of cooperation mentioned in this Agreement, each Government will designate special appointees, whose responsibility it will be to determine the areas which, in keeping with the mentioned principles and objectives, may need further clarification from time to time. For this purpose, the special appointees shall meet regularly and be prepared to meet at short notice if one of the two Governments so requires.

The consultations and other mechanisms of information laid down in this Agreement shall not affect other bilateral or international consulation mechanisms at the disposal of the two Governments.

4. Review

After a period of one year the Governments shall review their experience with all matters treated in this Agreement.

5. Validity for the Land of Berlin

This Joint Agreement in Principle also applies to the Land of Berlin, subject to the rights and responsibilities of

France, the United Kingdom and Northern Ireland, and the United States of America, unless the Government of the Federal Republic of Germany makes a contrary (in German: "gegenseitig" = mutual) declaration to the Government of the United States of America within three months after the signing of this Agreement.

Signed in Washington, D.C. on 27 March 1986. For the Government of the Federal Republic of Germany, Martin Bangemann, for the Government of the United States of America, Caspar Weinberger.

II. SDI Agreement

Agreement between the Federal Minister of Economics, acting on behalf of the Government of the Federal Republic of Germany, and the Minister of Defense, acting on behalf of the Government of the United States of America, Concerning the Participation of German Industries, Research Establishments and Other Entities in Research on the Strategic Defense Initiative, Done Washington on 27 March 1986

1. The Federal Minister of Economics, acting on behalf of the Government of the Federal Republic of Germany. In view of the standpoint of the Government of the Federal Republic of Germany on the research programme for the Strategic Defense Initiative, as expressed in its statements of 27 March, 18 April and 18 December 1985, and the Minister of Defense, acting on behalf of the Government of the United States of America, recalling that, in this capacity, he formally invited allied nations to participate in the defense research programme known as the Stratic Defense Initiative. Expecting that such a participation will lead to a material improvement of the quality, the timely implementation and the costeffectiveness of this research. Declaring

the joint interest of both parties in the creation of a broad basis for as comprehensive a participation as possible of German industries, research establishment and other entities which wish to take part in the SDI research programme.

Wishing to deal with questions of procedure and fact recurring in this context, they hereby agree on the following guidelines:

2. Implementation

Separate project contracts and, if the necessity arises, other implementing agreements will be concluded for the individual SDI research projects pursuant to this Agreement. These contracts and other implementing agreements shall be facilitated by this Agreement and they shall be in harmony with it. In the case of inconsistencies between this present Agreement and any implementing agreement, the Governments will enter into consultations to remove these inconsistencies.

3. Existing Agreement

3.1 This Agreement shall be implemented in conformity with the laws in force, with other legal provisions of national policy as well as the international obligations of the Government of the Federal Republic of Germany and the Government of the United States of America and, as regards the United States, in compliance with the American-Soviet ABM Treaty of 1972.

3.1.1 In case of inconsistencies between the application of this present Agreement and laws in force, other legal provisions of national policy and international obligations, the governments will enter into consultations to remove any such inconsistencies.

3.2 Both governments agree to have recourse to, if possible, existing agreements when drafting the special provisions to be inserted in contracts on research projects and other implementing agreements pursuant to this Agreement. In this context, in particular the following two sides (bilateral) of the agreements apply - where applicable - accordingly (in German the text is not clear).

3.2.1 The Agreements on the Protection of Secrets of 23 December 1960 with supplements and rules of procedure, with special regard to the protection of secrets in industry of 16 April 1970 with supplements.

3.2.2 The Agreements of 17 October 1978 on Principles of Mutual Cooperation in the Area of Research and Development, Production, Procurement and the Logistic Support of Military Equipment.

3.2.3 Annex 5 of 6 December 1983 to the Agreement on Principles of Mutual Cooperation in the Area of Research and Development, Production and Procurement, and the Logistic Support of Military Equipment (principles of contract administration).

3.2.4 Annex 6 of 6 December 1985 to the Agreement on Principles of Mutual Cooperation in the Area of Research and Development, Production and Procurement, and the Logistic Support of Military Equipment (Agreement on Mutual Administrative Assistance in the Area of Examination of Prices/ Costs in Orders for Defense Purposes).

3.2.5 The Agreement of 4 January 1956 on the Facilitation of the Exchange of Patents and Technical Experience in the Area of Defense.

4. Definitions

4.1 "Classified information": information which must be protected in the interests of national security. Such in-

formation is designated by the United States as "top secret", "secret" and "confidential", by the Federal Republic of Germany as "streng geheim", "geheim", "VS-vertraulich" and "VS nur für den Dienstgebrauch".

4.2 "Technical data":

Information of all kinds, including inventions or discoveries, whether patented or not, which can be used for the design, manufacture, use or reproduction of objects or materials, or which can be processed for these purposes.

4.3 "Computer software":

Computer programmes and data stores for computers.

4.4 "Background information":

Technical data and computer software required or useful for a specific research project, however prior to the commencement of the research project or outside the documents relating thereto.

4.5 "Foreground information":

Technical data and computer software produced in the course of work being carried out on the basis of a contract or a specific research project, including any invention or discovery, whether patentable or not, and which was developed during the course of work being done on the basis of said contract or research project or which became applicable in practice for the first time in connection therewith.

4.6 "Information protected by proprietary rights":

All background and foreground information which is protected under private law as intellectual property, as well as all information which is normally treated confidentially by the contractor, unless it is common knowledge or is generally accessible from other sources or was already made available by the party providing the information or a third party without any agreement on the confidential treatment.

4.7 "German participation":

All German companies, industries, research establishments or other entities which are carrying out agreed SDI research projects, be it on the basis of contracts, subcontracts, joint ventures, partnerships or in any other way. For the purposes of this Agreement the term "possible German participation" shall also mean entities which make a bid for contracts for SDI research projects or which are negotiating the same.

5. Mechanisms for Cooperation and Acquisition in SDI Research

5.1 There are various different methods of participation in the SDI research programme, inter alia:

5.1.1 The Government of the United States can conclude contracts directly with German industries, research establishments and other entities. The Government of the United States shall conclude such contracts in conformity with American laws and other legal provisions, and with its obligations arising from this Agreement.

5.1.2 Principal contractors can conclude subcontracts with industries, research establishments and other entities in both countries. All subcontracts shall be concluded in conformity with the laws in force and other legal provisions, as well as with the provisions of the relevant main contract.

5.1.3 German and American industries, research establishments and other entities may agree upon joint ventures, partnerships and other forms of cooperation.

5.2 This present Agreement is intended to facilitate the participation of German industries, research establishments and other entities on the basis of fair and genuine competi-

tion. It does not preclude the conclusion of other mutual contractual arrangements in conformity with the laws and other legal provisions, and the policies of the two governments, if the German participants so wish.

5.3 Subject to compliance with American laws and other legal provisions of national policy and international obligations, the Government of the United States will endeavour to make it possible for German and American industries, research establishments and other entities to bid under equal conditions for contracts awarded within the framework of this Agreement. In order to facilitate said competitive participation, the Government of the United States hereby agrees, in collaboration with the competent German authorities - insofar as this seems appropriate and necessary -, to provide German industries, research establishments and other entities in due course with all information which they need to be able to compete for participation.

5.3.1 Principles and procedures for the placing of contracts shall be in keeping with the 1978 Agreement on Principles of Mutual Cooperation in the Area of Research and Development, Production, Procurement and the Logistic Support of Military Equipment. Price and cost controls will be carried out in conformity with the Agreement of December 1985 on Mutual Administrative Assistance in the Area of Price and Cost Control for Orders for Defense Purposes.

5.3.2 The US Federal Acquisitions Regulation (FAR) and the Department of Defense Supplement (DFAR) contain guidelines for the awarding of contracts by the American Ministry of Defense, including the information which must be produced as evidence of the price for a certain article or service.

5.4 In accordance with the principle of procurement on the basis of fair and genuine competition, with the terms laid down in this Agreement, with the applicable American technical requirements and with the availability of correspond-

ing appropriations, the Government of the United States agrees to do all in its power to facilitate the participation, so that the extent of the participation of German industries, research establishments and other entities will correspond to the available German industrial research capacity.

5.5 As regards possible follow-up contracts, the Government of the United States will apply its laws and other legal provisions in the same way to both American and German contractors.

6. Exchange of Information and Intellectual Property Rights

6.1 In accordance with the laws in force and other legal provisions of national policy and international obligations, and subject to third-party intellectual property rights, the Governments shall use their power of discretion to promote the cooperation. The technical data and computer software needed for the implementation of project contracts or other implementing agreement pursuant to this Agreement will be supplied to the participants concerned in accordance with said contracts and other applicable implementing agreements and in harmony with the relevant procedures laid down in this present Agreement. For each project contract or other implementing agreement the following rules apply:

6.1.1 Exchange of information: To the extent provided by this Agreement and in accordance with American and German laws and other legal provisions and national policy, both Governments shall do their best to ensure that the exchange of information is efficiently organized.

6.1.2 Visits:

Visits shall be organized in accordance with the Protection of Secrets Agreement of 23 December 1960 with supplements.

Prior to the conclusion of a specific contract or of any other implementing agreement pursuant to this present Agreement, applications made by either Government for permission to visit in connection with said contract or said implementing agreement will be processed as quickly as possible in accordance with the relevant procedures. Once a contract or any other implementing agreement has been concluded, both Governments can grant the governmental staff or contractors' employees of the other side a bloc authorization for further visits to its authorities and contractors. Once the bloc authorization has been granted, the details of further visits can be arranged directly with the competent authorities or the contractor concerned.

6.1.3 Conferences: Representatives of the Governments and the contractors of both States shall be given equal opportunities to participate in conferences in which they are authorized to participate and which concern cooperative SDI programmes and contracts. In order to facilitate the participation in such conferences the Governments shall ensure that these representatives fulfil the requirements necessary for taking part in such conferences.

7. Protection of Information

7.1 Both Governments recognize the danger which the risk of an unauthorized transfer of sensitive SDI technology to prohibited destinations represents for their joint security. In consequence, they agree, in harmony with their national security interests, their laws and national policy, to take all necessary and appropriate steps to prevent such unauthorized transfer of sensitive SDI technology to prohibited destinations.

7.2 Technical data and computer software designated as classified information exchanged or produced in the course of an SDI project contract or another implementing agreement

pursuant to this Agreement shall be protected in accordance with the Protection of Secrets Agreement of 23 December 1960 with supplements and rules of procedure, with special regard to the protection of secrets in industry of 16 April 1970 with supplements. Each Government has the authority to designate the background information which it transmits to the other Government or its contractros according to this Agreement. The Defense Ministry of the United States shall issue designating instructions separately for each contract and each implementing agreement. If any questions arise in connection with designating which are not clearly settled in the contract or other implementing agreement, then these questions can be discussed between the parties to the contract or implementing agreement. The final authority for designating foreground information lies, however, with the Defense Ministry of the United States.

7.2.1 With regard to the designating of the results of research as classified information, both Governments hereby agree that certain information must be protected against unauthorized disclosure. However, both Governments are of the opinion that excessive use should not be made of the possibility of designating information as classified information, and that information should only be classified as such when there is reason to believe that the disclosure of the information would jeopardize the national security of one of the two States.

7.3 Both Governments will take all legal steps at their disposal in order to prevent confidential information transmitted in connection with this Agreement being disclosed on the basis of a statutory provision, unless the other Government and, if applicable, the contractor providing the information consents to a disclosure of the information.

7.4 As a contribution to this desired protection, the information transmitted by one Government to the other will be designated as classified information in accordance with the

Protection of Secrets Agreement of 23 December 1960 with supplements and rules of procedure, with special regard to the protection of secrets in industry of 16 April 1970 with supplements, according to the appropriate national classified matter designating system. If the information concerned is not classified, attention will be drawn to the fact that the information supplied in connection with this Agreement is confidential.

7.5 Confidential background information which is non-classified shall be protected in a way which guarantees its protection against unauthorized disclosure. Said information may include technical data and computer software which is not designated as classified information and which is subject to American export control laws. It will be labelled and protected in such a way that re-export or dissemination which contravenes the terms of the contract or of another implementing agreement is made impossible without the consent of the Government transmitting the information or of the contractor.

7.6 Both Governments shall endeavour, subject to their municipal laws and implementing provisions, to avoid a policy for the protection of information which would have a retroactive effect on information transmitted within the framework of this Agreement.

8. Intellectual Property Rights and Utilization of Information

8.1 Background Information:

Background information, once transmitted, shall be protected and may not be used or passed on for purposes which are not laid down in the contract or in another implementing agreement without the consent of the owner. The participation in an SDI research project shall not affect the author's rights of ownership and use of this information.

8.2 Information protected by proprietary rights is subject to the rights of the owner and such rights of use as can be claimed in favour of each Government and each contractor. The recipient of such information shall obtain the consent of the party transmitting the information before using or disclosing said information and before divulging it to third parties.

8.3 Foreground Information

8.3.1 Proprietary rights in technical data and computer software produced in the course of SDI research contracts shall be offered to the contractor who produced the technical data and computer software concerned. This shall apply unless the Government of the United States, in conformity with its municipal laws and implementing provisions, has in respect of the right to the intellectual property provided otherwise for contracts financed exclusively by it.

8.3.2 German Participation:

German participants can, in connection with SDI research projects, decide to participate in contractual arrangements which are financed exclusively by the United States. In conformity with American laws and implementing provisions, and under provisions and terms which are not more unfavourable than those applicable to American contractors, such contractual arrangements normally require that the Government of the United States receives unlimited rights to the technical data and computer software produced within the framework of SDI contracts, i.e. royalty-free rights to use, copy or disclose this information in whole or in part in any way and for any purpose. This does not preclude the right of the contractor to use technical data and computer software he has produced, subject to the special conditions of the contract in question and the security regulations in force.

8.3.3 The Government of the United States shall endeavour, in accordance with the security interests, the laws and the

policy of the United States and subject to third-party proprietary rights, to allow the use, for non-military purposes, of the results of non-classified research projects in the field of SDI technologies.

8.3.4 The Government of the United States and the Government of the Federal Republic of Germany shall make every effort to support negotiations on the necessary licenses, royalties and the exchange of technical information with their respective enterprises and other holders of such rights.

8.3.5 The transfer of the results of research obtained within the framework of SDI contracts by subsidiaries of German parent companies domiciled in the United States will be facilitated, subject to compliance with the laws and other legal provisions and the policy of the United States.

9. Additional Information

In recognition of their joint security interests and in order to facilitate the effective implementation of these Agreements the Defense Ministry of the United States and the Federal Ministry of Defense of the Federal Republic of Germany shall arrange a mutual exchange of information on areas of SDI research to be agreed upon between the two sides. In addition, they agree to exchange know-how in areas of SDI research which shall be laid down by mutual agreement and which the two sides deem useful for the improvement of conventional methods of defense, in particular air defense. This exchange of information will take place in accordance with the American and German laws in force, the other legal provisions and national policies and with international obligations and third-party property rights.

10. Entry into Force and Termination

10.1 This Agreement, which is drawn up in English and German, each version of which is equally controlling, shall come into force upon the date of the last signature.

10.2 Each Government may terminate this Agreement by informing the other Government with three months' notice. The provisions relating to the termination of a specific research project are contained in the separate agreements for the relevant project.

10.3 In the event of the termination of this Agreement, the provisions relating to the protection and the security of information shall remain in force.

Done in Washington D.C. on 27 March 1986. For the Government of the Federal Republic of Germany, Martin Bangemann and for the Government of the United States of America, Caspar Weinberger.

## III. The Secret Letters

1. Letter from Richard Perle, Deputy US Defense Minister, to Lorenz Schomerus of the Federal Ministry of Economics

Dear Lorenz,

I am writing to you concerning our discussions on the subject of the Joint Agreement in Principle. In order that the American side may be comprehensively informed about the measures you intend to take to increase the effectiveness of your national export controls for sensitive technolgy, it would be extremely useful if you would outline certain points in more detail than was possible in the Joint Agreement in Principle.

Could you in particular describe the structural changes in German law which you want to introduce in order to improve export controls? Would the export of technology covered by the COCOM embargo be a breach of German law

pursuant to the amendments you intend to propose, were it to be done without official government permission? Does the government intend, according to the new laws, to punish infringements with the severity necessary to act as a sufficiently strong deterrent against inadmissible non-authorized exports?

Could you describe the measures you plan to take to improve control over the COCOM embargo? Do you intend to increase the number of staff employed to implement the embargo and to conduct permit controls?

It is our opinion that the cooperation between our two governments, as described in Article 3 of the Joint Agreement in Principle, would be facilitated by an additional agreement stipulating that bilateral talks should be held for the purpose of coordinating our positions when deliberating on the COCOM list before questions of importance are brought before the COCOM (Coordination Committee for Multilateral Export Controls). We sincerely hope that you will give your agreement to this.

It is also our opinion that the undertaking referred to in Article 3 of the Joint Agreement in Principle should contain an agreement stating that, prior to the conclusion of the urgent discussions, neither side will take irrevocable steps which would make the discussions ineffective. This means that, in cases of emergency, both sides would be prepared to refrain for an appropriate length of time from granting permits for the shipping of goods which fall under the embargo, which would make it impossible for them to be re-obtained.

As regards the question of international law, the Government of the United States sees the Joint Agreement in Principle rather as a political declaration of intent than as a legally valid document.

2. Letter from Lorenz Schomerus of the Federal Ministry of Economics, to Richard Perle, Deputy US Defense Minister

Dear Richard,

Thank you for your letter concerning some of the questions which remain to be discussed following the conclusion of the Joint Agreement in Principle. Let me explain a few points in connection with the questions you mention. We are in the process of introducing improvements in the control of products blocked by an embargo, which are brought into the territory of the Federal Republic of Germany, including appropriate measures for the transport of goods from, to and inside Berlin.

As regards the details, we intend to introduce approval procedures for sales of blocked goods and technologies for certain groups of foreign nationals. This will also include the members of diplomatic or consular missions.

We shall also request improvements in the regulations concerning transit operations with blocked goods.

Furthermore, talks have been initiated with the competent authorities with a view to increasing the penalties for violations of the export control laws. In this connection we are also currently examining the possibilities for changing the question of the burden of proof so as to make it harder to avoid prosecution.

These changes must be approved by parliament in order to be effective. The Bundestag has authorized us to increase the number of staff employed to deal with questions of COCOM and export controls at the BAW (German abbreviation: Bundesamt für die gewerbliche Wirtschaft = Federal Agency for the Manufacturing Industries).