GENERAL ELECTRIC

GENERAL ELECTRIC COMPANY

FAIRFIELD, CONNECTICUT 06431

H. F. MANBECK, JR.
GENERAL PATENT COUNSEL

TEL. (203) 373-2446

NJL

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PATENT BRANCH, OGC
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Ms. Brenda Levinson
Legislative Assistant
Dirksen Senate Office Bldg.
U. S. Senate
Washington, D. C. 20510

Dear Ms. Levinson:

Subject: Proposed "Small Business Nonprofit Organization Patent Procedures Act" - S. 3496

Jim Davis and I want to thank you and Messrs. Ackerson and Allen for meeting with us on Tuesday, November 2. We appreciated having the opportunity to comment orally on the proposed legislation to be jointly sponsored by Senator Dole and Senator Bayh relating to inventions made under government research and development contracts.

As we explained, we do not believe that there is any logical basis for a distinction to be drawn between small business and large business insofar as government patent policy is concerned. The underlying goal of the legislation, as we understand it, is to stimulate the commercialization of inventions made during government sponsored research. If it is believed that affording patent title to contractors will aid commercialization, then it is contradictory to the overall purpose not to give generally the same treatment to all contractors. Large companies must take the patent picture into account when introducing new products just as much as small companies, and patents often make the difference between new product introduction or not.

If there is a problem in affording the same treatment to all contractors, although we see none, it can certainly be handled by applying the concept of march-in rights which are already applied to nonprofit organizations in Section 203 of S. 3496. Also, the bill makes it clear that there is no immunity from the antitrust laws.

However, even though we have the strong belief that uniform treatment is the best course if there is to be a contractor title law, nonetheless, we offered to provide you with written comments regarding some key issues we see in the proposed legislation if the bias toward small business and nonprofit contractors retaining title should survive. The following are the points we would invite you to consider in such circumstance.

Possible Adverse Effect On Patent Procedures Applicable To Major Government Contractors

As we told you, apart from the unequal treatment, there is one concern we have about the proposed legislation which we believe to be so significant that it is different in kind from the other subjects raised with you. This concern is that the proposed legislation will upset the existing balance under which determinations are now made as to when major contractors should receive title to inventions made on government funded work and when the government should receive title to such patents. We strongly believe that striking that balance further in the direction of the government taking title more frequently would not be in the national interest in that it could impede commercialization. We tried to illustrate the success of the present practice by examples including domestic jet engine products in the main stream of commerce, and foreign military license programs (in conformance with government defense policy).

We fear that legislation of the kind proposed, not including major contractors, might be used to argue that such contractors could no longer retain title to patents resulting from government-funded work. You will recall that this was the contention made by the plaintiffs in Public Citizen et al v. Arthur F. Sampson, DCDC Civ. Action #74-1849, and serves to show the reason for our concern.

The most recent complete statement of government patent policy delineating where the balance should be struck in this delicate equation is the statement of President Nixon which updated and revised a prior statement of policy issued by President Kennedy. You indicated familiarity with these statements and requested that we provide you with our understanding of a suitable amendment to the proposed legislation which would preserve the existing policy insofar as major contractors are concerned. Following up on that request, it is our suggestion that the phrase "required by this chapter" be deleted from the ending of Section 209-Uniform Clauses and that the following sentence be added:

--Except as expressly provided otherwise in this chapter or in other Acts of Congress, such regulations shall follow and be guided by the Statement of Government Patent Policy issued by the President on August 23, 1971 (36 Fed. Reg. 16887, August 26, 1971; revising prior Statement of Policy at 28 Fed. Reg. 10943, October 12, 1963).

It was certainly reassuring for us to receive your ready acceptance of the principle that the proposed legislation should not cause major government contractors to receive less favorable treatment than they now do in respect to patent rights flowing from government-funded research and development work. The Presidential statements quoted are the object of lengthy studies and obvious accommodation of many viewpoints. The central determinant, namely the mission of the government agency carrying out any particular program, has been time proven to be in the best interest of the nation without notable exception to our knowledge.

In fact, we suggest to you that a strong statement by Congress endorsing this policy would solve the problem addressed by the present bill more completely than any other approach, and would obviate the seeming need for legislating a contractor title policy.

Repayment Of The Government's Investment

Section 204 provides that after the commercial success involving utilization of any invention based on government-funded work reaches a designated threshold, the patent owner should begin to return to the government the money which the government originally invested. Based on our own experience in licensing patents and technology, which has been extensive over the years, we would not expect that Section 204 will result in return to the government of a significant fraction of its investment. We appreciate that Section 204 may have appeal for those who would otherwise charge that the government is improperly subsidizing businesses and universities from the general tax revenues. To the extent that Section 204 would be a palliative, we believe that it represents little more than an illusory expectation because of the relatively insignificant return.

Also, even recognizing that administrative burdens tend to be overworked objections to legislation of this kind, it would nonetheless be a substantial burden to trace any given subject invention through a complex license program or to allocate appropriately any particular contributed value to such an invention. While patents are occasionally

licensed alone, the more significant license programs tend to involve many patents, related technology and technical assistance in the form of person-to-person contracts. In that setting there is no value which is broken out as being attributable to rights under inventions in general, and certainly no allocation is made in respect to any given invention. Similarly, there is no reasonable way to determine the profits attributable to the use of any particular invention in any given product which incorporates varied technologies.

It seems to us that the cost of attempting to administer a broad scope repayment program would almost surely exceed any returns that might be expected. Thus, we urge that the government continue to look to increased general tax revenues and the better business health of the country as its quid pro quo for priming the pump used by the contractors.

Preference For U.S. Citizens

Section 205(b) inhibits the granting of foreign patent rights to foreign owned or controlled interests. Recognizing that such interests are the principal parties involved in foreign commerce, this requirement seems unrealistic in most circumstances. Such preferential legislation only invites retaliation and there is no known need for the U.S. to lead in this direction.

Section 205(a) is also questionable. If we make it difficult or impossible for foreign owned companies to obtain licenses here, imagine what foreign governments can do to American owned subsidiaries overseas, given this justification.

Background Rights

We understand that Section 207 is intended to preserve existing contract practices. If so, we suggest adding the words "or to require" after "preclude" in the second line of the section.

Preference For Licensing Small Businesses Under Government-Owned Patents

Section 211 states that first preference should go to small business firms in respect to the licensing of government-owned inventions. The scale of any given license program inherently favors a business of commensurate scale and thus this form of discrimination in favor of

small business may serve only to delay worthwhile large programs. It is not in the national interest to preclude the more efficient producers of goods from operating under government-owned patent rights.

Federal Patent Procurement and Licensing Programs

The concepts behind these Sections 210 and 212 are well meaning. However, extensive foreign patenting programs and wide ranging patent administration activities can only increase the number of federal employees. A new or expanded role is created, requiring more people, with the likelihood of a return commensurate with the expenditure being very low.

Also, effective patent licensing programs often require enforcement proceedings, i. e., long and expensive law suits. This seems an unfortunate role for the government. When a comprehensive technical package including patents is licensed as a whole (the most effective form of technology transfer), technical assistance is normally required from skilled design and production engineers. Is the government going to gear up to do this? We suggest that these roles are best left to private industry with the government and its citizens benefiting from the increased commercial activities and tax revenues.

Subcontractor Rights

This may simply be a drafting problem in Section 201, but it looks to us as if a large prime contractor would be given different terms in respect to inventions from those it would be required to place on small business subcontractors. This would be difficult indeed to administer and could hamstring commercialization by the prime contractor.

We hope these comments are helpful, and we would welcome the opportunity to expand any of them or to give you our views on any other aspects of the proposed legislation which you might choose.

Very truly yours,

H. F. Manbeck, Jr.

HFM/lpr
cc: N. Ackerson
J. P. Allen