THE WHITE HOUSE

WASHINGTON

October 16, 1979

MEMORANDUM FOR: THE SECRETARY OF STATE
THE ATTORNEY GENERAL
THE SECRETARY OF DEFENSE
THE SECRETARY OF THE INTERIOR
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE DIRECTOR, NATIONAL SCIENCE FOUNDATION
THE ADMINISTRATOR, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
THE ADMINISTRATOR, ENVIRONMENTAL PROTECTION AGENCY
THE ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION
THE CHAIRMAN, NUCLEAR REGULATORY COMMISSION

FROM : STU EIZENSTAT

SUBJECT: Federal Patent Policy

On Thursday, October 18, 1979, at 5:00 p.m., Room 330, Old Executive Office Building, there will be a special meeting on the subject of Federal patent policy in connection with the Domestic Policy Review of Industrial Innovation. During White House staff consideration of the DPR, three strategies that would serve as a basis for a legislative proposal have been developed. These strategies vary in their allocation of rights in patentable inventions resulting from Federally-supported research and development work by government grantees and contractors. The strategies, together with a fourth -- the status quo -- are described in the accompanying background memorandum.

Please designate a policy-level official to represent your agency at the Thursday meeting. He or she should be prepared to reflect your policy position for the decision memorandum to the President. The name of your representative should be phoned to Al Stern, 456-6250.

Attachment

ISSUE PAPER ON FEDERAL

PATENT POLICY

Issue: This issue concerns the allocation of patent rights arising from Federal sponsorship of R&D.

Background: There is a strong argument that the general public should have an unrestricted right to use patents arising from Federal sponsorship. These patents were derived from public funds and all the public have an equitable claim to the fruits of their tax dollars. Moreover, exclusive rights establish a monopoly -- albeit one limited in time -- and this is a disfavored outcome in our economy.

Several competing considerations, however, urge that exclusive rights to such patents should be available. First, government ownership with an offer of free public use has resulted in an exceptionally low commercial application of Federal inventions. Without exclusive rights, investors are unwilling to take the risk of developing a Federal invention and creating a market for it. Thus the irony that the free public right to use the patent results, in practical terms, is a denial of the opportunity to use the invention. Second, many contractors, particularly those with strong background patents and experience, are unwilling to undertake work leading to freely available patents because this policy would compromise their proprietary position. Thus, some of the most capable performers will not undertake the government work for which they are best suited.

Because of the difficulty of balancing these competing considerations, this issue has been unsettled for over 30 years. Various agencies operate under different and contradictory statutory guidance. The uncertainty and lack of uniformity in policy has itself had its negative effect upon the commercialization of technologies developed with Federal support. As a result, there is an active interest in the Congress and among the agencies to establish a clear and consistent policy.

As a result of intensive discussion among the Departments and agencies, there is general agreement on the following issues:

- The treatment of inventions made by government employees;
- The active marketing by the agencies (or by the National Technical Information Service) of government-owned inventions at home and abroad.
- The need to protect public rights in specialized areas, such as health, safety, or national defense;

- The Government right to recapture control of a patent to which exclusive rights have been extended (so-called march-in rights) in appropriate cases in order to promote commercialization, to protect the public interest, or to enforce antitrust laws.

- The retention of patent ownership in all cases by educational institutions or small businesses, in acknowledgement of their favored role and the importance of patents to them.

The above would be features of any legislative proposal formulated by the Administration.

Alternative Strategies Concerning Assignments of Title

Several different strategies have been suggested:

Option A. Title in the Contractor. The performer of Government-sponsored R&D would be entitled to obtain to patents arising from his work if he agrees to commercialize the invention.

Option B. Allocation According to Purpose. The allocation of title between the Government and the contractor would be allocated according to the Government purpose in supporting the R&D. Where the principal purpose is to create or improve technology by the general public (as in DoT), title would, in the usual case, be retained by the Government. On the other hand, where the primary purpose is to create or improve technology intended for use by the Government (as in DoD), title would go to the contractor.

Option C. Exclusive Licenses in Field of Use. Title to the patent would be retained by the Government, but contractor would obtain exclusive licenses in fields of use that the contractor chooses to specify and in which he agrees to commercialize the invention. There would be an exception where the agency determines that such a license would be either inconsistent with the agency mission or the public interest. The Government would license in all other fields of use.

Option D. Maintain the Status Quo.

Discussion

Development of a new legislative proposal that would presumably bring greater uniformity to Federal patent policy requires a delicate balancing of many competing considerations. Obviously, each of these factors is not of equal importance.

1. Uniformity. The agencies are currently governed either by an array of different statutes or, in the absence of statute, by Presidential guidance. Indeed, some agencies have different statutory guidance on patents governing different programs. This lack of uniformity does not reflect the tailoring of a consistent philosphy to different situations,

but rather the changing views of Congress over time. In light of this fact, there is substantial confusion for contractors who perform R&D in which different statutes apply. Options A thru C bring uniformity to the current disarray.

2. Impact on Innovation. Exclusive rights to a patent may be necessary to ensure that a firm will make the often risky investment that is required to bring an invention into production and to develop a market for it. Exclusive rights provide protection from other firms that might skim the profit from the market by copying the invention after the risk and cost of introduction is reduced by the first firm's efforts. Options A and C provide the strongest encouragement for innovation among the options because they allow the contractor to obtain rights in areas of commercial interest to him. Selection between the two on this basis would hinge on the judgment whether the Government will be a more effective marketer in fields that are not of interest to the contractor (Option C) than the private firm (Option A).

3. Administrative Burden. Any policy that requires an agency to make decisions imposes some administrative costs. Options A and C imposes roughly similar administrative burdens and Option B probably imposes the greatest burden.

4. Uncertainty. Obviously, a clear and easy-to-apply rule is preferable to an ambiguous rule for the guidance it offers both to industry and Government officials. Both Options A and C, which in most cases would allow the contractor to obtain exclusive rights would be far easier to apply in practice than the somewhat more vague rule of Option B. One can expect considerable haggling and uncertainty to surround an allocation system based on whether the Government's intent is to support work for its own use, or for use by the public.

5. Disruption of Existing Agency Practice. The ease of applying a new strategy will turn, in part, on the extent the new approach differs from existing agency practice. As it happens, Option B results in an allocation of title among the major R&D agencies that is similar to the existing statutory pattern.

6. Contractor Participation in Government Programs. As noted above, firms with strong proprietary positions are unwilling to accept government contracts that would result in freely available patents. Option A provides stronger protection than Option C, although both protect contractor interests. Option B would encourage such firms to perform Federally sponsored work for government use (e.g., defense), but not for the use of the public (e.g., energy).

7. Competition. Exclusive rights by definition foreclose competition in the marketing of the invention covered by the patent and might serve to enhance the recipient's market power. Option A, and in some instances Option B, has a more extensive adverse impact on competition than Option C, since the exclusive rights provided by Option C are limited to particular fields of use. It should be noted, however, that the government in all instances would retain march-in rights to recapture control of the patent in appropriate cases.