Dear Dr. Atkinson:

I have been asked by the Board of the Society of University Patent Adminstrators to advise the National Science Foundation of our position on patent legislation and to express our concern with the positions being taken in this area by the Foundation through its General Counsel. We would like to meet with you as soon as possible, since we are concerned that Mr. Herz's position could do us considerable harm in upcoming House hearings.

SUPA, its individdal members, and many others in the university community have been supporting the efforts of Seantors Bayh, Dole, and others to obtain passage of the "University and Small Business Patent Procedures Act"(S. 414 and HR 2414). Indeed, members of the university community initiated this effort and developed a legislative approach that divorced university patent policy from the more controversial issues that have also been raised with respect to allowing large, commercial concerns to retain the title to Government-supported inventions.

Impact of Government Patent Policy

The effects of Government patent policies on universities are really rather straightforward and documented in several recent Congressional hearings. If agencies follow either a policy of taking title to university inventions made with Government support or requiring elongated and complicated petitioning procedures that cast uncertaintly on the ultimate disposition of an invention, they generally destroy the possibility and incentive for universities to locate and license industrial firms to commercialize the invention. On the otherhand, if agencies

allow universities to retain title, in much the way NSF generally has, especially under its Institutional Patent Agreements, we are able to carry-on effective technology transfer programs.

Government patent policies also have a significant impact on the current NSF initiative to encourage industry-university cooperation. The fact that a high percentage of university research is Government-funded, mostly on terms that leave the disposition of inventions to the discretion of the Government, has presented a major obstacle to expanding industrial support of university research. Many companies are reluctant to or will not even consider funding university research if they perceive the possibility that any exclusivity they might gain from the research will be put in jeopardy by possible Government claims of one agency or another under related work of the same research team.

Many of us, in fact, believe that enactment of S. 414 would do more to stimulate industry/university cooperation than any other action that could be taken by the Government at this time.

The Deteriorating Situation

With these impacts in mind, concerned members of the university community embarked on the effort to obtain enactment of remedial legislation in reaction to widespread reversals of Government patent policies in recent years, particularly those affecting universities. We believed in 1977 when this effort began and continue to believe that if S. 414 is not enacted university licensing programs will not be able to continue at their present level, thereby depriving the public of the benefits of much university research, especially in the medical and related areas. Likewise, university-industry relations will show little improvement, if any, despite efforts such as those now being undertaken by NSF.

Let us summarize what has happened in the past five years--

(1) In 1975, the Defense Department reversed a longstanding policy under which a long list of universities having approved patent policies normally received the automatic right to take title to inventions under DOD contracts. We must now generally petititon on a case-by-case basis. The reasons for this change have never been made clear, since only shortly before DOD representatives on the FCST Committee on Government Patent Policy joined the rest of that Committee in adopting the recommendation and report of its Subcommittee on University Patent Policy which was that all agencies adopt policies modeled after ~~those of~~ the NSF/DHEW Institutional Patent Agreement approach. That report, incidentally, was later implemented (at least in theory if not in practice) by amendments to the Federal Procurement Regulations. We would note that NSF,

particularly through the efforts of Mr. Lasken, of its Office of General Counsel, played a lead role in obtaining endorsement of this subcommittee report and the subsequent FPR implementation. ~~However, Mr. Lasken no longer represents NSF on any of the interagency committees. As best we can determine he has been replaced by a series of individuals with little or no experience or expertise in patent policy matters.~~

(2) In 1974 the Federal Nonnuclear Energy R&D Act was passed and section 9 of that Act mandated a rather complicated patent policy basically oriented towards Government retention of title. The university community believed that the Act left sufficient leeway in ERDA (now DOE) to adopt the IPA approach and urged ERDA to do so. However, in 1976, in accordance with the Act, ERDA issued a report on patent policy. This report states, point-blank, that section 9 does not allow use of IPAs. Several subsequent R&D acts have incorporated section 9 by reference. We are convinced that unless the Bayh-Dole initiative is successfull there will be further legislation tacking on section 9 to other R&D programs. Indeed, the logic of the situation, unless S.414 is enacted, may be that eventually all civilian agencies, including NSF, that are not already subject to regressive patent statutes, will find themselves subject to section 9!

(3) By far the largest single source of funds for university research is DHEW (NIH). Beginning in 1968, after criticism of its existing policies by the GAO and others, DHEW revised its patent policies which then generally placed title to inventions in the Government, and pioneered the IPA approach. It also greatly expedited petition processing in cases not covered by IPAs. The results were dramatic and, in fact, in 1973, NSF revised its patent policies and practices along the lines of DHEW's. However, beginning in 1977 a total flip-flop took place at DHEW and things continue to be in a shambles. Starting in the summer of 1977 all waiver petitions went unacted upon and were bottled-up in the Office of General Counsel for over a year. The only reason some were released then was Congressional pressure that we were able to generate through Senators Bayh, Dole, and others. Long delays continue. In addition, a report was circulated by the DHEW Office of General Counsel recommending the abolishment of IPAs because they prevented the Department from having the ability to "suppress" inventions that they might consider not be in the public interest. Then in 1978, HEW attempted to summarily fire the chief of the NIH Patent Branch, Mr. Norman Latker, who has probably done more than any other individual in the Federal government to bring reason to Government patent policies affecting universities. While the Civil Service Commission forced Mr. Latker's reinstatement on procedural grounds, we understand that the Department

continued to put pressure on Mr. Latker to leave, threatened to fire him again, and has yet to restore him to his former position.

(4) The final development that led us to seek legislation was Senator Nelson's attack on the proposed amendments to the Federal Procurement Regulations authorizing the use of IPAs. We are happy that on this score Senator Nelson has completely reversed his position and is now a cosponsor of S. 414 as are 31 other members of the Senate. That episode did, however, demonstrate to us for the first time that many of the individuals who have for so many years been arguing for a title-in-the-Government policy were not simply basing their position on fears (basically misguided we think) about the antitrust implications of leaving patent rights with large contractors. While some of the individuals who led Senator Nelson to his original position have apparently lost some influence with him, they continue to be listened to by others. It is now clear to us that the activists for a title-in-the-Government policy are after universities just as much as "big business."

NSF Position

In light of this background and the normally close ties between the National Science Foundation and the university community, we would have expected Foundation support for our efforts. Much to our dismay this has not been the case. Indeed, we have found the NSF General Counsel to be hostile to our efforts. This hostility, ~~has reached its crest~~ which heretofore, as best we know has been limited to Mr. Herz's unofficial statements to various university representatives, has now been manifest formally in his recent testimony before the Commerce and Judiciary Committees on January 20, 1979. ~~Our~~ We recognize that our statements are ~~xxx~~ harsh, but it is now evident to us that informal approaches to Mr. Herz and others in

NSF have been unsuccessfull. Since we anticipate hearings on S 414 in the House Judiciary Committee in March, we are hopefull that we can persuade the Foundation to temper its position. We believe it could do us considerable damage if Mr. Herz testifies before that Committee along the same lines he did on January 20 and in the same manner that he has in conversations and meetings with university representatives.

To be specific, in October, 1979, Mr. Herz met with the Committee for Patents, Copyrights, and Rights in Data of the Council on Government Relations/National Association of ~~University~~ College and University Business Officers of which I and other SUPA members are also members. At that meeting Mr. Herz expressed his opposition to S. 414. Several of the reasons he gave for his opposition are reflected in ~~xx~~ his January 20 testimony. In other respects his ardent support for the Admininistration bill appears to conflict with other reasons he gave for ~~xxp~~ opposing S. 414.

Shortly after the COGR meeting, President Carter issued his message on ~~kjx~~ innovation. As Mr. Herz is well aware the universities have urged that the Pr esident's message be implemented throught support of S. 414 coupled with a seperate bill dealing only ~~wixkx~~ with large contractors. One need only read the President's message to see that such an implementation would have been entirely consistent with what the President said which was:

For over thirty years the federal agencies supporting research and development in industry and universities have had conflicting policies governing the disposition of pertinent rights resulting from that work. This confusion has seriously inhibited the use of those patents in industry. To remove that confusion and encourage the use of those patents I will support uniform government patent legislation. That legislation will provide exclusive licenses to contractors in specific fields of use that they agree to commercialize and will permit the government to license firms in other fields. If the license fails to commercialize the inventories, the government will retain the right to recapture those rights. I will also support the retention of patent ownership by small businesses and universities, the prime thrust of legislation now in Congress, in recognition of their special place in our society.

Yet it is now clear from Mr. Herz's testimony and various meetings he has had with me and others that he has played a major role in drafting the Administration bill and is a strong advocate for a comprehensive rather than dual approach. ~~nx~~ He has consistently, both before and after the President's message, taken positions in conflict with those of the University community.

~~F~~Mr. Herz's Statements and Testimony

At this October meeting with COGR, Mr. Herz claimed as one basis for his opposition to S. 414 roughly the followi ng, "The bill adds another statute without repealing other statutes, so there is an increase in the number of laws." This~~x~~ same simplistic "reasoning" is reflected in Mr. Herz's January testimony. At one place, in an obvious reference to S. 414, he states, "At least one proposal now pending would layer yet another statutory scheme affecting only certain types of contractors on top of the existing structure." Further on p. 9, he adds that S. 414 would "add to" what he calls the "legal thicket."

This line of argument on Mr. Herz's part is ludicrous. S. 414 lists a number of statutes that currently

affect or specify the patent policies of a number of agencies. It states that the provisions of the bill will take precedence over these acts with respect to grants and contracts with universities and small businesses. The bill, therefore, obviously replaces a host of laws and policies that impact on Government support of universities with a single law. It also mandates the development of uniform regulations by the Office of Federal Procurement Policy in consultation with the Office of Science and Technology Policy.

The bill does not repeal these laws altogether because these statutes also affect patent policies applied to larger companies not covered by S. 414. The bill has been carefully designed to be neutral on the issue of patent policies vis-a-vis larger firms. Experience has shown that every attempt to enact Government-wide patent policies covering larger firms has gotten nowhere. The same fate undoubtedly awaits the Administration bill. S. 414 has attracted the wide sponsorship and support that it has primarily due to the fact that its sponsors understand that it is neutral on the big business issue. The bill draws its strength from the fact that the usual arguments over the anti-competitive effects of leaving rights with large contractors are obviously not applicable to universities and small businesses.

Equally absurd, in our opinion, is a second ground given by Mr. Herz for his opposition to S. 414. He ~~and~~ claims that the bill is poorly drafted and too legalistic. While he did not repeat this charge during his January 20 testimony, Mr. Herz did devote the last portion of his testimony to praise for what he labeled the "coherent structure and plain language" of the Administration bill which he helped draft.

We would challange Mr. Herz to demonstrate how the Administration bill is any more coherent, better organized, or easier to read that S. 414. In any case, ~~but~~ however, we are not in agreement with Mr. Herz's option of S. 414's merits from a drafting

standpoint. However, even if he were correct and the bill could be improved or simplified, we cannot understand why Mr. Herz should base a position on an issue of deep concern to the university community on matters of style. The choice is not between S. 414 and a bill embodying Mr. Herz's legislative drafting standard of perfection, whatever that may be. It is between S. 414 and continued chaos.

A third reason given by Mr. Herz to COGR for his opposition to S. 414 was along the following lines:

> "NSF has a responsive patent policy, a flexible statute, and therefore has no need for S. 414."

We wonder why, then, Mr. Herz now believes NSF has such a strong need for the statute proposed by the Administration. Or to put the matter the other way around why is not the following statement made by Mr. Herz on January 20 equally applicable to S. 414:

> "Second, the Foundation is a research-support agency and most of the research we support is performed by universities and small businesses. The NSF therefore shares with other research-supporting agencies a concern for the impact of Government patent policy on research performers and has a particular concern for its impact on universities and small businesses. The proposed Patent Policy Act would be a major plus for them."

The final reason given by Mr. Herz to COGR for his opposition to S. 414 is one that could, perhaps, explain the basis for his personal, active support of the Administration bill versus S. 414; although it is not clear to us why the National Science Foundation should take this position, Mr. Herz told COGR that S. 414 "does not resolve the overall issues of Government patent policy."

If one can ignore the numerous loopholes in the Administration bill, it can be argued that it treats the overall issues of Government patent policy. Whether it resolves them

in a useful way is open to debate as demonstrated at the January 20 hearing.

As a practical matter, however, the only substantive areas covered by the Administration bill that are not covered in S. 414 are Government employee inventions and the rights of big business. Treatment of universities and small business and the licensing of Government-owned inventions are treated in a similiar manner by both bills. Why then has Mr. Herz taken it upon himself to advocate a comprehensive bill at the expense of the university community?

~~Moreover,~~ it is not clear to us why NSF should be overly concerned about the application of Government patent policies to big business, since almost all NSF support goes to universities and nonprofits. We also understand NSF has a small business program. We are under the impression that the Foundation supports virtually no research at large companies.

Nor does it have in-house research programs so that the employee rights sections of the Administration bill would be of interest to it. Under these circumstances, we do not understand why Mr. Herz or NSF should be so solicitous of the interests of larger contractors at the expense of the Foundation's primary clientele. Indeed, we find this concern particularly ironic since it is well known that large companies, themselves, think very little of the Administration's bill and that agencies such as DOD, DOE, and NASA that do the bulkof the R&D contracting with large companies are known to disagree with the approach taken in the Administration bill.

We simply cannot accept or believe that Mr. Herz is truly representing the position of the National Science Foundation. We ask that the National Science Board review this issue in detail. We ask for the opportunity to present our views to you. ~~to Dr. Atkinson and the National Science Board.~~ We are certain that when you are made aware of all the facts that you will repudiate Mr. Herz's position and support the university community.

We are most anxious to hear from you personally on this issue and to meet with you to discuss this further detail.

Sincerely yours

cc: All Members of the National Science Board

P.S. Just before mailing this letter, I recieved a copy of a letter wrtitten by Mr. Herz to OMB in December concerning earlier drafts of the Administration patent bill. I was astonished to find Mr. Herz going so far as to advocate in part II.A. of his rather verbose letter that the Administration consider revising the innovation message to eliminate giving universities more favorable treatment than commercial contractors. This letter is now being widely circulated around university circles. I think it safe to say that the NSF General Counsel will henceforth have no credability in the university community.