Current Trends in Government Patent Policy

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Of course, these are my own views and are not necessarily consistent with those of my Department or the Administration.

In 1971 the controversy regarding the appropriate policy for disposing of inventions resulting from Government funded research surfaced again as a public issue after being relatively dormant since the 1965 attempts by Senator Long to amend the NASA and Public Health Service appropriation bills to assure ownership of such inventions in the Government. There is little evidence, after four years of various confrontations between the protagonists, of any abatement. However, as I will explain later, there are now serious discussions occurring in the Executive toward bringing the matter to some conclusion. In order for you to participate in the public debate that may be precipated by any possible recommendation from the Executive, I thought it might be useful to briefly comment on the most significant events affecting Government Patent Policy since 1971.

The first apparent catalyst of the controversy appears to have been the reissued President's Statement of Patent Policy of 1971. The '71 Statement differed from the previous '63 Statement in the main by providing to the Executive Agencies, not otherwise precluded by statute, greater flexibility in (1) permitting Government contractors to retain exclusive rights in inventions after they have been identified and (2) granting exclusive rights in inventions owned by Government to selected licensees. These changes were made to correct identified problems in Agencies such as HEW in bringing the results of their research to the marketplace.

Let me stress that the '71 Statement made no changes in the criteria governing disposition of invention rights at the time of contracting.

To implement the licensing amendment, the Statement required the GSA to issue Government-wide licensing regulations. Soon after the issuance of these regulations, Public Citizens, Inc., a Ralph-Nader organization, joined by eleven Congressmen, sued the GSA to enjoin their implementation on the primary basis that any grant of an exclusive license under the regulations without statutory authority was an unconstitutional disposition of property.

Also, shortly after the issuance of the '71 Statement, the Commission on Government Procurement, formed at the direction of Congress, began its review of Government Patent Policy. This study culminated in a December 1972 report containing 16 recommendations on Intellectual Property Matters. The first and second of these recommendations were:

1) Implement the revised Presidential State of Government Patent Policy promptly and uniformly, and
2) Enact legislation to make clear the authority of all agencies to issue exclusive licenses under patents held by them.

The first recommendation did not in fact follow the recommendation of the Commission's Task Force on disposition of invention rights. That Task Force, made up of representatives from the private and public sectors, clearly indicated in its report a dissatisfaction with the

'63 and '71 Statements. Their unhappiness centered on indications that the Executive Agencies were not uniformly utilizing the discretion provided to them by the Statements in recognizing the equities of contractors in resulting inventions in appropriate cases. The Task Force felt the lack of uniform treatment most likely adversely affected contractor participation in Government Research Programs or, more important, ultimate delivery to the public of inventive results of completed research. The Task Force recommended ending the discretion left to the Agencies by requiring use of a single invention rights clause in all research and development contracts providing for first option to all resulting inventions in the contractor subject to strengthened march-in provisions.

I believe that the primary reason for the recommendation was the realization that a substantial majority of inventive ideas require "advocates" in order to reach the marketplace and that experience indicates that the inventing organization, if interested, is more a likely "advocate" than a distant, unmotivated Government staff. Other factors were the recognition that the contractor had an equitable position in future invention rights on the mere basis that its selection as a contractor was indicative of its prior background position. Further, in the case of the University contractor the ownership of its ideas was deemed imperative to the University's continued involvement in obtaining industry collaboration in delivery to the market. A good example of the need for committed

"advocates" is Xerox, one of the generation's most successful inventions. It is said that the inventor of Xerox, Chester Carlson, contacted over 100 concerns before he was able to obtain a financial commitment to development. There is no evidence that a Government organization would be willing to duplicate that kind of effort nor is it apparent that many organizations or persons would absent a property interest.

The Commission though ultimately rejecting the advice of its Task Force did go on to say:

> "If evaluation of experience under the revised Presidential policy indicates a need for futher policy revisions, we urge consideration of an alternative approach generally allowing contractors to obtain commercial rights but subjecting these rights to a strengthened "march-in" procedure.

In partial response to the Commission's first recommendation to implement the President's Statement uniformily and, partially on its own initiative, the GSA acting for the Executive Agencies issued patent Procurement Regulations. These regulations include standard contract language to be used by all the Agencies when implementing an Agency decision to either (1) take title to resulting inventions, (2) leave title with the contractor in such inventions, or (3) defer determination until the invention is identified.

I would emphasize again that these regulations in no way provide any new direction not found in the '63 or '71 Statement on when an Agency is to use a title, license or deferred patent clause. In other words these regulations make no attempt to guarantee uniform treatment of contractors dealing with different Agencies under similar fact situations.

Prior to the issuance of the GSA regulations the Justice Department along with the other Agencies of the Executive furnished comments and recommended changes to the drafting committee. In their comments the Justice Department for the first time raised the question of whether the disposition of future or contingent invention rights to contractors without statutory authority was an unconstitutional disposition of property. This concept was summarily dismissed by all the research and development agencies on the basis that even if the possibility of making an invention could be deemed property the ultimate invention was the property of the inventor absent a chain of assignment to the Government.

Soon after the issuance of the regulations, Public Citizens joined by seven congressmen, again brought suit against GSA to enjoin their implementation on the basis that they provided for contract clauses, which permit contractors to retain the exclusive right to future inventions. The plaintiff, citing Justice as its primary authority, contended that such clauses amount to a disposition of property without statutory authority.

In retrospect, although the two sets of regulations under attack in the Public Citizens cases were admirable attempts to bring about greater uniformity of language on patent matters within the Executive, it was unanticipated (though probably healthy) that they would provide a target enabling a protagonist to attack all Agency policies through only two actions. As you probably know, the Justice Department later publicly disavowed that its comments had any support in law. Further, both cases have now been dismissed on the basis of plaintiff's lack of standing to sue (no doubt due to the absence of a case or controversy affecting the plaintiffs). The plaintiff is seeking review of the decision, and are now more concerned over their loss of standing in similar situations than the issues they sued on.

Notwithstanding, the Executive's apparent victory in these two cases, the failure of the court to refute the plaintiff's contentions has had serious ramifications. Notwithstanding, the Justice Department's disavowal it is apparent that alleged patent infringers have adopted the Justice's initial position as evidenced by its use as a defense in two recent patent infringement cases brought on a patent obtained by the plaintiff through a positive Government decision. The defense that the invention in question was generated in whole or even in part with Government funds may well come to be utilized as often as anti-trust or fraud on the Patent Office defenses until Congressional or Supreme Court clarification is forthcoming.

While the reissued statement of 1971 catalyzed the Court challenges discussed above the energy crisis of 1973 has catalyzed the Congressional challenge to the '71 Statement.

At the beginning of 1974 the proposed patent clauses attached to the Federal Non-Nuclear Energy Research and Development Act of 1974

by the Interior and Insular Affairs Committee made no provisions for patent ownership by prospective contractors. Even after a number of attempts by the Executive, Industry, and Universities to explain the need for a policy which would create an atmosphere encouraging contractor participation in this important program and ultimate utilization of results, the Committee agreed only to insignificant amendments. It was only after industry and university groups precipitated a fight on the floor of the House which led to the deletion of the initial patent clauses did the Executive gain the bargaining power which enabled negotiation of the finally enacted energy patent clauses. As you know, these clauses, although indicating that the Government will normally retain title to all patentable inventions, do provide in the Administrator the right to waive title to any invention, either at the time of contracting or upon identification provided he make certain considerations, as well as including specified march-in rights and conditions deemed necessary in the public interest.

At the time these clauses were negotiated the Executive was relatively pleased in being able to redeem the patent policy of a major research and development program from the brink of an inflexible title policy. After all - the ERDA clauses parallel and in some respects are superior to the equivalent provisions of the '71 Statement especially since they are in legislative form. Notwithstanding, these provisions pose a substantial new threat since they have now been adopted by the Congress as its choice of Government Patent Policy. Since enact-

ment of the Non-Nuclear Energy Research and Development Act, Congress has routinely attached the ERDA patent provisions to each new research program before it. This piecemeal approach has created an apprehension in some that the Executive may lose the initiative in formulating patent policy, especially in light of its apparent inability to respond to this Congressional approach.

Of course, continued inaction on the part of the Executive could eventually result in an ERDA type policy applied to all the agencies. It is agreed this would merely place in legislative form the same kind of policy that the Commission's Task Force found wanting, since it requires an Agency to utilize its discretion in granting a waiver of rights. Current statistics clearly indicate that most Agencies are not utilizing this discretion. This is not too surprising since all the visible political opinion and administrative pressures are in the direction of avoiding waivers especially at the time of contracting even though such waivers may be clearly justified as being equitable and in the public interest. Examination of Agency attitudes also clearly evidences the belief that waivers serve the contractor's interest only and the burden of justifying such waivers, should, therefore, be carried entirely by the contractor. Of course, if a waiver can be in fact considered to be in the public interest the Agencies should be assuming a quasi-judicial attitude in evaluating waiver requests and itself weighing the prospect of Agency "advocacy" of the invention against the prospect of contractor "advocacy". Certainly if a waiver can be considered to be in the public interest failure to grant a waiver may well be against the public interest. Yet most of the

major civilian research and development agencies have no identified waiver procedures and no or neglible waiver statistics.

Early this month the Executive Subcommittee of the Committee on Government Patent Policy met to discuss the dilemma generated by the events discussed above. (The Executive Subcommittee is made up primarily of the Patent Counsels of all the major research and development agencies of the Executive Branch). The Subcommittee indeed did agree that the Congress's apparent abandonment of the President's Statements and the cloud created by the court cases challenging the constitutionality of agency disposition of patent rights are serious matters and have, accordingly, recommended to the Committee on Government Patent Policy the need to seek repeal of all existing legislation covering Agency disposition of patent rights in favor of Government-wide legislation covering this subject. In addition to recommending legislation, the Executive Subcommittee has presented in general terms the parameters of two approaches within which a uniform Government Patent Policy might be formulated.

The first of these approaches involves revision of the patent provisions attached to the Federal Non-Nuclear Energy Research and Development Act of 1974, discussed above, to accommodate all the Executive Agencies. It should be noted that these provisions provide for Agency licensing of those inventions to which it has retained title. If the provisions were amended to more clearly provide for HEW's Institutional Patent Agreement policy, which provides a FIRST option to future inventions to Universities with an identified technology transfer function, the provisions would parallel HEW's present patent practices.

The second approach adopts the alternate patent policy proposed by the Commission on Government Procurement also discussed above. (I would note that the alternate approach parallels the HEW Institutional Patent Agreement policy but is broadened to include not only the non-profit sector, but also commercial concerns.) It is envisioned that legislation encompassing the alternate approach would also contain a provision authorizing Agency licensing of those inventions that an inventing contractor did not wish to exploit.

Of the two approaches debated by the Subcommittee, a substantial majority favored the alternate approach which was deemed to be more likely to maximize utilization of inventive results.

Now to indicate that we are well on the way to a uniform Government-wide patent policy would have to be considered the most optimistic statement of the year. To presume that these few comments could convey all the important ramifications of the events of these last years is equally optimistic. However, I would like very much to convey to you my strong feeling that the issue of Government Patent Policy has much broader impact than a narrow controversy of who should own a specific invention.

I understand that Government funded research is approaching 60% of the total research conducted in this country and is still growing as a percentage of the total. It seems clear to me that continuation of a patent policy which permits the Agencies to utilize their discretion to determine whether or not the normal incentives of the patent system should be applicable to Government Research cannot help, but to eventually undermine the integrity of

our Patent System if substantially all decisions result in Government ownership without further effort toward commercialization, If the Government itself cannot find reason to support the applicability of the patent system to nearly 60% of the country's research, can it really be expected that the patent system will be honored in the private sector?

It is axiomatic that the existence of the free enterprise system and the delivery of goods to the marketplace has been dependent on the private ownership and advocacy of inventive ideas. If our supply of privately owned ideas is reduced due to a larger percentage of the national research budget going into public research and resulting inventions being dedicated to the public without assurance of an advocate, I wonder whether our system will be able to continue to compete in the international market with countries who are taking advantage of the world's patent systems?