

# A Look at Government Patents

*Are they tools of monopoly,  
incentives for competition — or  
wallpaper?*

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By way of background, here are a few statistics about Stanford University's research program and its Office of Technology Licensing. Stanford has an annual research



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volume of about \$57 million supporting about 700-800 research projects of our faculty and graduate students. This research is funded by several hundred research sponsors. In terms of dollar volume, 95 percent of this research is funded by agencies of the United States Government. In the modern educational lexicon, Stanford is termed a "research university", and, as such, an important national asset.

The Office of Technology Licensing was established at Stanford in 1970 with two goals: to bring Stanford's technological advancements forward to public use and benefit, and to bring in income to reduce the ever increasing cost of education. In our first year, gross royalties totaled \$55,000 and in the University fiscal year which ended last August 31, gross royalties totaled some \$204,000. For our current university fiscal year, we anticipate approximately \$300,000 in gross royalty income. Over 90% of the royalty income to date has been from advances, rather than earned royalties. Of the first cumulative quarter-million dollars received, \$178,000 represented advances from licenses later terminated, illustrating the risk inherent in taking on undeveloped university inventions. From my point of view, as Manager of Technology Licensing, it is a three steps forward, two steps backward situation.

The office staff consists of myself, another full-time professional, and a licensing assistant/secretary, augmented by a part-time Graduate School of Business student. Our patents are filed by private patent law firms. In terms of volume of projects, better termed "opportunities", we went from a level of some 20 disclosures a year before the program was initiated, to a volume averaging about 65 a year since 1971. Of the 269 disclosures received in the last four years, we've filed 69 patent applications, approximately 25 percent. Over that same period of time, we have signed about 25 option and license agreements, not including a large number of small

licenses for some software programs. This would seem to indicate that we are successful in licensing those cases for which we have filed patent applications 35 percent of the time. However, these figures are skewed by factors such as that we do license, on occasion, without patents, that licenses were signed during the period for inventions disclosed before the period, that we will license some of these opportunities in following years, and so on.

As an additional caveat to the statistics just provided, the Office of Technology Licensing at Stanford is still too new to be able to extrapolate meaningfully our past experiences. It has only been in the last year that the program has really come "up to speed", reflecting the long lead times in licensing undeveloped technology. As noted before, we do not as yet have any major income producing-invention in the marketplace.

Success in licensing undeveloped technology requires direct personal involvement in each opportunity with a heavy entrepreneurial focus. The act of publicly listing an invention as "available for license" doesn't work. Timing is also critical as our experience has shown licensing success for an undeveloped invention is inversely proportional to the amount of time the invention has been known.

Other factors are also critical. Roger Ditzel, responsible for licensing at Iowa State, has observed that without an enthusiastic inventor you might as well close that particular invention file.<sup>1</sup> Upon reflection, we have to concur.

In a thoughtful article in *Science* last February, which suggested that U.S. industry consider expanded use of foreign technology, Sherman Gee, the author, observed the "not-invented-here" attitude in the U.S. derives, in many organizations, from a prevailing professional value system "which is heavily weighted toward originality and inventiveness rather than the application of technology developed by others".<sup>2</sup> Breaking that barrier with somebody else's research advance from a government research project, usually necessitates developing, to use a popular business school term, a "product champion" for the research advance in a company. Only very rarely can this be done without an exclusive license being available, absent "considerable federal investment . . . to remove practically all of the technical and economic risks".<sup>3</sup>

Senator Hugh Scott, in introducing his patent bill to the Senate a few years ago, captured everyone's attention by commenting that patent discussions usually put the audiences to sleep. To disagree with Senator Scott, we find dealing with patents is not only exciting, but fun.

In the past few years the Justice Department, in particular its Antitrust Division, and Ralph Nader's Public Citizen organization have become important negative factors to all of us who deal in intellectual property. My

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focus here is the impact these two organizations have upon government patent policy.

The benefits to the public of the patent system are little understood by our legislators and the average person. By making the case for an effective government patent policy in the public interest, such an understanding, particularly among our legislators, will come about "to promote the progress of science and the useful arts . . ." <sup>4</sup> Thus, it is of self-interest for the patent bar to become involved in effecting a sensible government patent policy.

#### GOVERNMENT PATENT POLICY

A brief background about government patent policy will be helpful at this point. The government's present patent policy derives from an executive memorandum by President Kennedy entitled "Presidential Memorandum and Statement of Government Patent Policy", issued October 10, 1963, as revised by President Nixon August 23, 1971. Except where an agency's statutory authority dictates otherwise, government agencies are expected to follow the Presidential statement. The statement leaves much room for interpretation and the various agencies each evolved unique patent rules and regulations.

The focus for implementation and interpretation of the Presidential statement is the Committee on Government Patent Policy of the Federal Council for Science and Technology. This committee is composed of representatives from AID, Agriculture, AEC, Department of Defense, Justice, NASA, HEW, and so on. The committee has an Executive Subcommittee, which is the key operational group, as well as various subcommittees including a University Patent Policy Ad Hoc Subcommittee. Their annual report is a useful reference. <sup>5</sup>

The Committee has been concerned with the utilization of government research results and the impact of agency patent policies and procedures on achieving such use for the public benefit. The Committee commissioned Harbridge House to perform a study of government patent policy which was submitted in 1968 <sup>6</sup> and contributed to the liberalized 1971 revision to the Presidential Statement. This report also observed, among other things, that "inventions that arise from basic research require substantial private development before reaching the stage where they are commercially useful." They further observed that "some measure of exclusive rights appears necessary to motivate licensees to invest in the work necessary to commercialize these inventions". This report also touched on the need for incentives to encourage industry to utilize the unused 22,000 patents held by the government.

Much later, after many discussions and give and take among representatives of the various agencies, policies and procedures were developed for the licensing of rights in those now about 24,000 government-owned inventions. Exclusive licensing would be permitted, as recommended by the Harbridge House report, but only after publication in the Federal Register and other bureaucratic requirements that, in my opinion, would be self-defeating, but nevertheless it was a definite step forward. On February 5, 1973, The Federal Register published proposed General Services Administration (GSA) regulations entitled, "Licensing of Government Owned Inventions", which regulations were to become effective May 7, 1973.

#### PUBLIC CITIZEN I

On May 17, 1973, Public Citizen, plus a number of Congressmen, entered a civil action against Arthur Sampson, acting administrator of the GSA, moving for summary judgment to stop the implementation of the licensing regulations. <sup>7</sup>

This civil action became known as Public Citizen I. Public Citizen's case was basically that the plaintiffs and supporters of Public Citizen are taxpayers and "as such have contributed to the cost of developing government owned patents and inventions and that as consumers, plaintiffs, and supporters of Public Citizen may be adversely affected by the granting of exclusive licenses." It was also maintained that by publishing the regulations without going through certain procedures in GSA violated the Administrative Procedure Act and that the public did not have adequate time to "submit comments thereon".

Due primarily to what I understand was a lack of coordination among the agencies, the Justice Department, which represented the GSA, did not present a particularly persuasive case. After a brief hearing, Judge Barrington Parker, on January 7, 1974, granted the plaintiff's motion for a summary judgment. Thus, it was ordered that "the defendant is enjoined and directed to take immediate steps to void the regulations and notify all Federal Agencies that the Regulations are void and of no effect, and that all Federal Agencies are prohibited from issuing any licenses pursuant to the regulation" <sup>8</sup>.

Reappearing on the scene about this time was a mischievous 1972 Justice Department memorandum challenging the constitutionality of proposed patent regulations granting contractors principal rights in inventions. An issue was whether inventions not yet conceived are a property or not. <sup>9</sup>

Also about the same time, the representatives of the various agencies and the Committee on Government Patent Policy were endeavoring to develop uniform rules and regulations for its various contractors relating to allocation of rights in inventions under government research. As noted earlier, the various government agencies have differing, and sometimes conflicting, regulations. This became confusing, particularly when a contractor or grantee might be doing work supported by one or more agencies. To bring some order out of this chaos, prospective uniform rules and regulations were published September 4, 1973 in the Federal Register. They were to become effective on March 4, 1974. While the intent of the various agency patent administrators was correct, it unfortunately provided a focus for Public Citizen to attack.

#### PUBLIC CITIZEN II

Thus, on February 15, 1974, Public Citizen plus a number of Congressmen entered a complaint for declaratory and injunctive relief with the defendant again being Arthur F. Sampson, the Administrator of the GSA. <sup>10</sup> This became known as Public Citizen II. The complaint was "an action seeking an order declaring unlawful and preliminarily and permanently enjoining the implementation of certain regulations promulgated by the defendant relating to the allocations of rights to patents and inven-

tions developed under Federally financed research and development contracts". It was argued by Public Citizen that, among other things, the regulations harm the Congressmen by usurping their rights to participate in decisions whether to dispose of government financed patents and inventions as guaranteed by the Constitution. It was further argued that all consumers would suffer economic harm since those persons who acquire exclusive rights will enjoy a monopoly position and consequently prices of those products affected by the patents and inventions would increase".

### Close to Home

This time they were hitting quite a bit closer to home and many universities got very much involved, sending letters to their Congressmen, Public Citizen, and so on. Very importantly, government agency patent representatives also became involved. I should observe that at no time, at least to my knowledge, did Public Citizen present specific cases justifying their position. In fact, they seemed determined to not have their objectivity clouded by facts. The Public Citizen II suit was eventually resolved, not by deciding the case on the issues, but by holding in a lower court that Public Citizen lacked standing.

Public Citizen has appealed.

### ERDA

The Energy Research and Development Administration (ERDA), the new 10-year \$20-billion government organization, was created in 1974 by the 93rd Congress to restore our nation's energy independence. This new superagency, taking over most existing energy research of the NSF and other agencies, has suddenly become the government's largest funding source for research.

In terms of establishing a patent policy for nonnuclear research (nuclear will continue with AEC policy) for the new agency, there were two central issues: one concerned disposition of patent rights and the second concerned mandatory licensing.

Mr. Thomas Kauper, speaking for the Department of Justice<sup>11</sup>, argued for title in the government for ERDA patents and mandatory licensing. His stated reasons for the "title" approach were:

- (1) The public pays, the public should benefit, not one contractor to the exclusion of his competitors.<sup>12</sup>
- (2) Patent rights are a windfall to a contractor enabling a "monopoly surcharge in the marketplace".
- (3) Contractors will take government money anyway, notwithstanding a title policy.

The mandatory licensing provision advocated by Justice would require a patent holder (*whether or not* he accepts government research funds) to license his patent to a recipient of ERDA research dollars who wished to utilize that patent, subject to certain determinations:

- (1) that such utilization was "reasonably necessary";
- (2) that the technology was not otherwise available;
- (3) that there is no reasonably equivalent or alternative technology available; and
- (4) that unavailability of such patent rights may tend to lessen competition.

"Reasonable" royalties could be required by the patent holder, with an appeal process included for "unreasonable" royalty demands.

The Administration position, presented chiefly by Dr. Betsy Ancker-Johnson, Assistant Secretary of Commerce for Science and Technology, took the tactical approach of arguing for following the Presidential statement which allowed "sufficient flexibility so that patent clauses could be fitted to the individual contracting situation".<sup>13</sup> A compromise, a six-month study by ERDA of an appropriate ERDA patent policy, was adopted by the House in a narrow 185-142 voice vote. Universities were a factor in this temporary victory.

The scene then shifted to House-Senate conferees where it was clear that Congress itself wanted to set ERDA's patent policy, rather than the ERDA Administrator. The Mandatory licensing provision was inserted at this point.

Patent provisions similar to the Presidential statement, but with additional specific guidelines for the ERDA Administrator, were recommended to the Office of Management and Budget after extensive negotiations among representatives of Commerce, HEW, Justice, AEC, and the Federal Energy Administration. This compromise was eventually approved by the House conferees.

Mandatory licensing was defeated, but barely, by a 4-4 tie vote.

ERDA legislation now provides for an annual review by the House Science and Astronautics Committee of the functioning of the ERDA patent policy.

### INCENTIVES AND INNOVATION

It goes without saying that, in a competitive free-market society, incentives are critical, particularly in fostering technological innovation. We also recognize innovation is necessary for our Nation's businesses — and that includes its employees — to compete in world trade. Absent government subsidies or nationalization, the risk of loss must be very carefully considered by a company investing its resources to take an unproved research advance forward to a product. The odds against success are well documented. The role of the patent system in preventing a competitor from directly copying a new product is, in many cases, the critical affirmative factor in deciding to make an R&D investment.

It is also well known that a good patent simply stimulates competition to invent a better way, as one cannot patent a physical principle.

Now let us turn to some specific cases which have evolved from the Justice-Public Citizen understanding of the patent system, innovation and competition.

### THE SALK CASE

In 1972, a brain hormone, somatostatin, was discovered at the Salk Institute for Biological Studies in La Jolla. Early tests showed that this drug had *potential* for beneficial treatment of diabetics. Salk then entered into option agreements with four drug firms to take on licenses, exclusive for three years from first sale of the drug, under the patents obtained by Salk. Salk submitted this proposed patent licensing program to the Department of Justice Business Review Procedure.

Responding in February 1975 for the Department of Justice, Thomas E. Kauper, assistant Attorney General, Antitrust Division, announced "antitrust objections" to the proposed licensing arrangement.<sup>14</sup> He observed that

the investment necessary to obtain the clinical test data, coupled with the three-year head start granted existing licensees, was likely to discourage competitors from taking licenses under the Salk patents. He noted that the Department of Justice would reconsider their antitrust objections if the license agreements were changed to permit new licensees to use the test data of existing licensees on reasonable terms.

At this point, it is unlikely that any of the four companies will take a license with the Justice Department threat hanging over their heads. Having experienced two similar situations before with respect to potential new drugs, when it comes down to getting a signature on the dotted line, I believe Salk will find that because of the huge expenditure at risk, they will end up with only one exclusive licensee. To equivocate on that last statement somewhat, if the diligence provisions are minimal, then all four will sign, if only to hold a place in line.

#### *Comment on the Salk Case*

As far as I know, there is nothing more to Justice's objection than described above. If this is true, it appears to me that Justice is denying the constitutional right of a patentee, not to mention delaying availability of a possibly important drug for treatment of diabetics. I say delaying, because it is incomprehensible to me the Justice objection will be continued.

The likelihood is that a substance such as somatostatin may not survive the rigorous government approval procedure for a new drug because of lack of efficacy, or other reasons. Will the Department of Justice, to be consistent, then require drug companies that did not risk development funds to reimburse those which did?

#### SHILEY V. WEINBERGER

A civil action was filed in the United States District Court for the District of Columbia in 1974 for Shiley Laboratories Inc. as the plaintiff and the Hon. Casper Weinberger, Secretary of the United States Department of Health, Education, and Welfare (HEW), and Dr. Charles Edwards, Assistant Secretary for Health and Scientific Affairs of HEW, and the United States Department of Health, Education, and Welfare, and the Regents of the University of Minnesota, as defendants.<sup>15</sup> This is best described from reading from paragraph one of the complaint:

"1. This is an action seeking an order declaring unlawful and setting aside certain regulations of Defendants pursuant to which Defendants granted exclusive licenses and entered into contracts authorizing the granting of exclusive licenses to patents which are owned by the U. S. Government; seeking an order directing Defendants to grant a non-exclusive, royalty-free license to Plaintiff to produce a particular Government-owned patent valve (U.S. Patent 3,476,143); directing Defendants to take all steps necessary to invalidate exclusive licensing arrangements respecting the patent; and seeking further relief as set forth herein."

#### *Comment on Shiley v. Weinberger*

If this civil action is decided for the plaintiff, efforts to

develop government patents will be futile absent the ability to issue exclusive licenses.

#### THE MHD CASE

Magneto-hydrodynamics, or MHD, is a technique for producing electricity from a gas plasma. Its efficiency, however, has been too low for commercial application. The objective in MHD research has been to increase the efficiency by a few percentage points to make it feasible. Some four years ago, two professors and a research associate at Stanford conceived an improved MHD electrode design which had potential for increasing the efficiency of the MHD process. We did some market research and discovered there were only a few companies that had any position in MHD research. These were low level efforts in central research laboratories of large corporations.

Because there was a nonexistent commercial MHD market and our electrode design unproved, there was little justification for us to file a patent application unless we could sufficiently interest one of these companies into undertaking an investigation of the electrode. We eventually proposed to one of the companies that we would issue them a short-term exclusive license, with an advance payment simply adequate for us to cover patent costs, on the basis that they would investigate the utility of the new electrode design. The member of the company research staff that we had been talking with presented this proposal to his management.

At about the same time, the Russians announced the construction of an MHD power plant on the outskirts of Moscow. The Department of the Interior, apparently embarrassed, moved rapidly and issued requests for proposal for certain directed research effort in MHD. As MHD research had been supported at a relatively low level by these companies, and commercial promise had not yet been shown, and the Interior money was all that was in sight pending an uncertain technological breakthrough by their researchers, the companies determined to respond to the Department of the Interior request for proposal. The next communication that I had from this company was that the Interior contract would include a background rights provision and that there was no chance of getting that provision removed.

The impact of that clause was to put that company's proprietary MHD technology into the "public basket". There was no justification for that company to acquire patent rights from us, much less to develop any further independent proprietary position. The same reasoning applied to the other companies. There was no longer any basis for them either acquiring an independent proprietary position or indeed, doing any more independent research, for such a long shot effort as this, assuming that Interior would continue to fund subsequent development with background patent right provisions. Without the incentive of the patent system this of course means that the government will be obligated to continue to fund further stages of MHD research.

From our point of view, there was no basis for us to secure a patent nor incentive to pursue development and the file was closed. We advised our research sponsor, the U.S. Air Force, of the effect of the Department of In-

terior's policy and our intent to abandon the case.<sup>16</sup> The Air Force also did not see "the merits of initiating a patent application" and declared their file "inactive".<sup>17</sup>

#### *Comment on the MHD Case*

The Department of Interior showed here they were on the same wave length as Justice and Public Citizen. The only type of situation where a title provision and/or background rights provision can be justified, in my opinion, is when the government "commissions" a contractor to make a specific product, which product is directly marketable to the public with minimal change, and then the patents covered should only relate to that product. Normal incentives will still be needed for a by-product invention.

#### STANFORD INSTRUMENT CASE

A few years ago, as a result of scientific investigations at Stanford, some of our researchers came up with certain patentable ideas which showed the promise of commercial utility. These ideas could be applied to improve performance of a scientific instrument. At that time, the market for that class of instrument was dominated by a single company but several other companies were desirous of entering into competition.

I contacted a number of companies and ended up with two strong potential licensees. Neither one of these two companies was willing to proceed to use our technology on other than an exclusive basis. A short term exclusive license was thus signed with one of the two companies.

After our exclusive licensee entered the market place last year with his instrument, we received a letter from the attorney for the company which still continued to dominate the market for that class of instrument. I would like to quote from his letter: "I might point out that there have been some recently aired dissatisfactions with the program of exclusive licensing under government financed research and development programs. Your grant of an exclusive license, even for a limited term, falls in the same area of dissatisfaction. We should like to explore a sub-license arrangement at this time before pursuing the other avenues which may be available in order to compete in the marketplace."<sup>18</sup>

#### *Comment on the Stanford instrument case*

Needless to say, we wouldn't have received this lovely letter if our licensee's risk capital investment in developing a new competing instrument was unsuccessful. As Tom Arnold of Houston, Texas, a member of the patent bar, observed; it is "impossible to drill producing oil wells without drilling also some dry holes."<sup>19</sup>

#### "GAMING" THE SYSTEM

The foregoing has probably been adequate to give a clever attorney a number of ideas on gaming the Justice/Public Citizen system to advantage for his clients or employers without my suggestions. Nevertheless, here are a few suggestions on gaming the system to stimulate your thinking.

I want to stress that this section is simply intended to illustrate the flaws in a government patent policy which

would result from routine use of title, mandatory licensing and background patent provisions, and is not to be taken seriously. Please *do not* follow these suggestions.

#### 1. *For the oligopoly clients*

In an oligopoly, a few competing sellers control a market with a large number of buyers. Your advice to your clients here will be to vigorously support the patent policies advocated by the Antitrust Division of the Department of Justice and Public Citizen. Have the clients come out four-square against a government patent policy which would allow companies to have exclusive rights to government patents to protect the public from a double payment in the form of a "monopoly surcharge"<sup>11</sup> to a product for which the public has already paid the research bill.

The new patents developed under government research will then continue to expand your client's patent pool, now numbering about 24,000. These are, of course, the patents the Public Citizen I case earlier secured for your clients. Your clients can simply reverse engineer and copy the product of any company foolish enough to risk his money developing a government patent. And because of the cost of entry to your oligopoly is so high, there will be little in the way of other threats to the "club" of having to admit a new member.

#### 2. *For the client with a market-dominating patent*

Advise this client to carefully follow the government-sponsored research of any university, nonprofit research institute, or company in a field which might produce a research advance that could enable a new competitor to enter the market of your client or an existing competitor to improve his market share. When a new development comes along which might bring competition, demand a nonexclusive license from the patent holder. That will stop an exclusive license to a possible competitor.

Because diligence requirements can only be minimal or nonexistent in nonexclusive licenses, advise him he doesn't need to bother to spend his profits to develop the unproved invention. Let somebody else risk their money and if they fail, your client has saved money for expenditures such as advertising or donations to Public Citizen;<sup>20</sup> and if they succeed, his nonexclusive license allows him to copy his competitor's product.

Now should your client happen to not get a nonexclusive license, advise him to not bother making a fuss until and unless the potential competitor develops a successful product; after all, in most cases they will fail. Then read up on speeches and other communications of members of the Antitrust Division of the Justice Department and Public Citizen and sue the would-be monopolist. It will be prudent and helpful to enlist the aid of Justice, Public Citizen and naive Congressmen to stand with *your* "pro-competition" client against the would-be "monopolist".

#### 3. *For the client who wants to succeed in the energy marketplace without really trying, or "the mandatory licensing game"*

Your first advice to this client will be to play a waiting

game. Suggest he issue occasional press releases so that it will be generally perceived, particularly in Washington, D.C., that your client is doing bona fide energy research. Of course, your client can actually do energy-related research, but he also can buy Swiss Francs.

Then when another company comes up with an energy breakthrough which is far enough along to be clear it can be developed to a product without risk, have your client accept an ERDA contract. Because the competence of your client may be suspect, he may have to "buy in" substantially to get the contract so be sure the contract is relatively small.

After the contract is in force, have your client demand a license, citing the arguments for mandatory licensing of you-know-who.<sup>11</sup> Then negotiate the most favorable license terms for your client you can. Whatever those terms are, have your client call them "unreasonable" and appeal. The royalty payments eventually made by your client will be a fraction of the money saved from not doing research.

A word of caution. This gaming technique only applies to U.S. companies. Foreign companies don't follow the rules. If the foreign companies outsell your client there are other ways to game *that* competition, but they are beyond the scope of this paper.

#### *Are Government Patents Intellectual Property?*

William Knox, director of the National Technical Information Service, with responsibility for licensing those 24,000 government patents we keep referring to, asked last Fall to speak to the Board of Trustees of the Licensing Executives Society (LES).<sup>21</sup> Mr. Knox explained that his largest customer had been Japan, but that the Soviet Union had just placed an order for a copy of everything he had, including those 24,000 patents. His primary intent, however, was to alert the LES Board to the impact of Public Citizen I upon his ability to seek development of those patents, vividly making his point by explaining the patents "were being denied existence as intellectual property". One would have to agree.

The Federal government takes out patents "largely as a defensive measure, to avoid paying royalties on patents resulting from R&D that it has paid for although the patents might have been applied for by others".<sup>3</sup> Assuming present government licensing policies continue, rather than filing for patents, it would seem less expensive to simply publish the inventive material, thus destroying any chance for a patent. This would follow using the logic from Public Citizen I and Justice.

#### *Documenting the Justice/Public Citizen Position*

Many government grants and contracts have been issued over the years without title, background patent, and mandatory licensing provisions in effect. Thus, to properly justify the need for such provisions, there should be a sizeable number of cases to be cited by Justice and Public Citizen where a government patent resulted in a product, which product was a true monopoly in the sense the consumer did not have available to buy any competing product(s) which would serve the same use.

These cited cases can then be arrayed against the

approximately 24,000 unused government patents we talked about earlier.

There seems to be a perception by the layman that an invention conceived under government support is first of all a "windfall", can be readily developed without technological or financial risk, has a patentable claim which reads "a light bulb", "a laser", "a hydrogen energy source" or the like, and which will enable the patent holder to extort whatever royalties he chooses because his patent is a monopoly. This illusion can be quickly dispelled if one simply studies any random selection of a number of such patents. The illusion will be shattered completely if a serious attempt would be made by a Justice or Public Citizen attorney to license this random selection.

The Commissioner of the Patent and Trademark Office, G. Marshall Dann, recently observed in an interview<sup>22</sup> the threat to realization of our national energy program goals posed by effective removal of incentives to develop government technology resulting from the title, compulsory licensing and background patent rights provisions. He illustrated the significance of a sensible government patent policy by observing the government funds more than half of the research and development programs in the United States.

#### *Prognosis for the Future*

Now, where do we go from here? What will be the future thrust of the Antitrust Division of Justice and Public Citizen with respect to their attitude toward the role of the patent system as incentive to technological innovation from results of government research? Also, what is the trend of legislation in Congress?

Let me hazard some guesses. As far as the Antitrust Division of Justice, I am confident that they are reasonable people, will research the issues involved, will realize that undeveloped technology does not fall in the "monopoly" category, and that incentives of the patent system are needed to bring these ideas forward to the marketplace. Thus, they will eventually end up supporting the government patent policy described next.

I'm not so optimistic when it comes to the future actions of Public Citizen. It will be too awkward for them to back down from a position previously held. Also, a change would appear "pro-business" and the place of incentives in a competitive free-market economy would be difficult to explain to Mr. and Mrs. Average Citizen. It "sounds" good to be against monopolies, "windfall profits" to government contractors, and so on.

Now turning to the Congress, I think the situation there could go either way. It depends on *how well* those of us who understand the patent system's role as an incentive for technological innovation can make that simple point to our Congressmen.

#### *A Government Patent Policy in the Public Interest*

This subject has been thoroughly studied by a group of individuals chosen for their knowledge of the subject from government, industry, universities and the patent bar. Two members of the Antitrust Division of the Department  
(Please turn to Page 183)

a great difficulty for Europeans trying to license an American firm. This may be one of the main reasons why you should consider doing business with Quebec. Not only are we looking for new technology, but Quebecers are, at the crossroad of three cultures in America, and having also received a large contingent of emigrants, are well prepared to accept European technology. Quebecers do not suffer from the "not-made-here-complex". Quebec may be a natural platform for your technology in America. Quebec is your America.

## A Look at Government Patents

(Continued from Page 159)

of Justice participated, but did not vote for or against the report of this study group.

Their conclusions, which are recommendations to Congress for possible legislation, are documented in the "Report by Task Force #1 of Study Group #6, Commission on Government Procurement", submitted in November, 1971.<sup>23</sup> It describes a government patent policy in the public interest and I urge the patent bar to take a position on its recommendations.

Some of its highlights:

- (a) a single government-wide Patent Rights R&D contract clause
- (b) exclusive commercial rights to contractor for three years after issuance of the patent, after which the contractor may be required to grant non-exclusive licenses
- (c) royalty free license for government
- (d) a Government Patent Review Board
- (e) provision requiring "utilization" by contractor to continue exclusive commercial rights
- (f) provision for "march-in" or required licensing in event of non-utilization by contractor.

The "bonus" of such a policy as recommended above is tremendously reduced bureaucratic requirements which will be a significant savings to both our government and its contractors.

### Conclusion

A sensible government patent policy which will provide the necessary incentives to industry to bring the undeveloped research advances of government-funded research forward to the marketplace for public use and benefit is urgently needed. Such a result can only strengthen the patent system of our country, in which system each of you is involved.

- <sup>1</sup> University Licensing Conference, Case Western Reserve University, Cleveland, Ohio October 15, 16, 1974.
- <sup>2</sup> S. Gee "Foreign Technology and the United States Economy" *Science* 187, 622 (21 February 1975).
- <sup>3</sup> A. Ezra "Technology Utilization: Incentives and Solar Energy" *Science* 187, 707 (28 February 1975).
- <sup>4</sup> Article I, Section 8. *Constitution of the United States*.
- <sup>5</sup> *Annual Reports on Government Patent Policy*, Federal Council for Science and Technology, (Through 1973). Available from U.S. Government Printing Office.
- <sup>6</sup> Government Patent Policy Study for the FCST Committee on Government Patent Policy by Harbridge House, Inc., Contract 7-35807, May 17, 1968.
- <sup>7</sup> Public Citizen, Inc. et al v. Arthur F. Sampson, Acting Administrator, General Services Administration, Civil Action No. 781-73, U.S. District Court for the District of Columbia. (Public Citizen 1)

- <sup>8</sup> Order and Judgement in U.S. District Court for the District of Columbia January 17, 1974 re: Civil Action 781-73.
- <sup>9</sup> Department of Justice Memorandum by Assistant Attorney General Cramton, October 10, 1972 re Constitutionality of Prospective Allocation of Rights in Inventions. (This issue is treated fully in the government's brief in PC II. See BNAPTC Journal, 3/6/75, pp. 01-09.
- <sup>10</sup> Public Citizen, Inc. et al v. Arthur F. Sampson, Administrator, General Services Administration, Civil Action No. 74-303, U.S. District Court for the District of Columbia. (Public Citizen II)
- <sup>11</sup> Testimony of Thomas E. Kauper, Assistant Attorney General, Antitrust Division, U.S. Department of Justice before Subcommittee on the Environment, Committee on Interior and Insular Affairs, House of Representatives, 1 February 1974.
- <sup>12</sup> It is interesting to review the arguments of Justice against the now discontinued patent pool policies of the auto industry in the well-known "smog" case (U.S. vs. Automobile Manufacturers Association, Civil No. 69-75-JWC (CD Cal 1969) and the aircraft industry in their 40-year pooling arrangement (U.S. vs. Manufacturers Aircraft Association, 5 Trade Reg. Rep. para 45,072 (S.D.N.Y. 1972) complaint). It appears required non-exclusive licensing of undeveloped technology results in a "government patent pool" with the same negative effect upon innovation.
- <sup>13</sup> *National Journal Report*, pp. 1774-75, 23 November 1974
- <sup>14</sup> Letter T. E. Kauper, for Department of Justice, to S. Weisbard, attorney for Salk Institute, February 10, 1975.
- <sup>15</sup> Shiley v. Weinberger, et al C.A. No. 74-479 (25 March 1974) U.S. District Court for the District of Columbia
- <sup>16</sup> Letter from Stanford to Department of the Air Force, July 13, 1971. (Stanford File Eng. 406)
- <sup>17</sup> Letter from Department of Air Force to Stanford, October 6, 1971. (Stanford File Eng. 406)
- <sup>18</sup> Private communication, 1974, attorney for company X to N. Reimers, Stanford University (specific citation omitted with intent).
- <sup>19</sup> Private communication, 27 November 1974. T. Arnold, Arnold, White & Durkee, Houston, Texas to Congressman O. E. Teague. Re Compulsory Licensing Provisions in ERDA legislation.
- <sup>20</sup> Public Communication February 1975. Ralph Nader, Public Citizen, donation solicitation. "In addition to numerous pending cases, obtained court orders through Public Citizen lawyers — preventing the General Services Administration from permitting valuable patents developed at Government expense from being given away free, on an exclusive basis, to private companies."
- <sup>21</sup> Meeting of Board of Trustees at Annual Conference, Licensing Executives Society (USA), October 6, 1974.
- <sup>22</sup> Los Angeles Times, March 4, 1975, part III, page 10
- <sup>23</sup> Report by Task Force #1 of Study Group #6, Commission on Government Procurement. "Allocation of Rights to Inventions Made in the Performance of Government Research and Development Contracts and Grants" November 1971.

## Protecting Microbiological Inventions

(Continued from Page 163)

proceedings. For foreign applicants it is advisable to file the German application as soon as possible after having filed the application in the foreign country in order to lose the least possible amount of time of the eighteen-month period. By proceeding in this way, the chances increase that the first publication of the application will be the publication for opposition purposes, which imparts provisional, full patent protection.

For pending applications, it is advisable to make a declaration of release at the depository on the condition that the interested third party undertakes the obligations as mentioned above. Since a completely new legal situation results from the decision of the Federal Supreme Court, it should be possible to make the declarations of release which are lacking in pending applications at least during a transition period. Probably the examiner will request that the applicants make a declaration of release