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STATEMENT OF  
MILTON J. SOCOLAR, ACTING COMPTROLLER GENERAL  
BEFORE JOINT HEARINGS OF THE  
SUBCOMMITTEE ON SCIENCE, TECHNOLOGY, AND SPACE  
SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION  
AND THE  
HOUSE COMMITTEE ON SCIENCE AND TECHNOLOGY  
ON  
S. 1657 -- UNIFORM SCIENCE AND TECHNOLOGY  
RESEARCH AND DEVELOPMENT UTILIZATION ACT  
AND  
H.R. 4564 -- UNIFORM FEDERAL RESEARCH AND  
DEVELOPMENT UTILIZATION ACT OF 1981



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Mr. Chairmen and Members:

We are pleased to appear today before this joint hearing to comment on proposed legislation to establish a Government-wide, uniform policy on title to inventions arising from Government-funded research and development activities. The passage of Public Law 96-517 in December 1980 was an important first step in this direction.

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## BACKGROUND OF PATENT POLICY DEBATE

GAO's views regarding U.S. patent policy result from work in support of the Commission on Government Procurement. In 1972, the Commission--which included the Comptroller General as one of its members--recommended the enactment of clear-cut statutory authority for agencies to issue exclusive licenses. It also called for legislation allowing commercial rights in inventions to be granted to developing contractors or inventors subject to a strengthened system of 'march-in' rights under the administration of a central board. 1/

In 1976, GAO testified before the Subcommittee on Domestic and International Scientific Planning and Analysis of the House Committee on Science and Technology. At that time, there were still wide variations in how agencies handled title to inventions arising from Government-funded work, and we recommended that the Government adopt a general policy to grant exclusive licensing of inventions derived from Government-funded research and development to private enterprise for commercial purposes.

GAO specified four conditions for this general policy:

1. That the Government retain control of inventions where national security was involved and to insure public protection against potential hazards (such as radioactive pollution),
2. That the Government be assured of royalty-free use of any and all patents deriving from Government-funded research and development,

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1/Report of the Commission on Government Procurement (Washington, D.C.: U.S. Government Printing Office, December 1972), vol. 4.

3. That the Government have march-in rights to withdraw and assign a license elsewhere if a contractor were not pursuing commercial development, and,

4. That if the Government might decide that granting exclusive rights to an invention to one contractor gives that contractor unfair monopolistic advantage, the Government have the right to require the contractor to license competitors at a reasonable royalty rate.

In May 1979, GAO testified before the Senate Committee on the Judiciary in support of the more uniform patent policy proposed by "The University and Small Business Patent Procedures Act." GAO supported this legislation but pointed out that it fell short in that it dealt only with patent rights for nonprofit organizations and small businesses.

#### THE OBJECTIVES OF MODERN PATENT POLICY

There is common agreement that a successful patent policy would:

- Encourage commercial utilization of Government-sponsored inventions;
- Encourage active participation of private contractors in bidding for and performing Government research and development;
- Promote full disclosure of all contractor inventions to sponsoring Federal agencies;
- Result in reduced administrative costs as a consequence of management of patent rights by both the Government and its contractors; and
- Safeguard against unfair monopolistic advantages to individual firms.

These five policy objectives serve as a backdrop against which to examine the current initiatives for reform.

S. 1657 and H.R. 4564

These bills both have three primary provisions. They would establish organizations to coordinate, direct and review the implementation, administration and oversight of the Acts. They would establish a general Government-wide policy with specific exceptions for allocation to the private sector of title to inventions made or first reduced to practice under Federal funding support. And, they would authorize Federal agencies to grant exclusive or nonexclusive licenses in any invention to which the Government has acquired title. It is clear that these provisions will have a positive influence on at least the first three policy objectives mentioned.

Commercial utilization of Government-sponsored inventions --the first of these objectives--is likely to be fostered with passage of this proposed legislation by contractors having an opportunity to obtain title or exclusive licenses to inventions made under Federal support. Studies have discussed the importance of "patent rights...to protect a user's investment in bringing inventions to market." 1/ The exact size of the potential benefit from vesting patent rights with contractors is difficult to estimate. We know, however, that benefits to the economy are potentially large if this legislation does in fact stimulate increased commercial utilization of the results of Government-financed research.

The second objective, active participation of private contractors in bidding for and performing Government research and develop-

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1/See Harbridge House, Inc., Government Patent Policy Study, Contract No. 7-35087 (Washington, D.C.: Federal Council for Science and Technology, May 1968), final report, vol. I, p. iv.

ment, is likely to be enhanced on the basis of rights to title to any inventions that may accrue during Federal support. Firms that have not bid for Government contracts because of perceived adverse patent policy may now be encouraged to do so. The benefits to firms accruing from the changes in patent policy proposed by this legislation could be quite valuable in particular instances.

Full disclosure of all contractor inventions to sponsoring Federal agencies, the third objective of patent policy, should also be encouraged by these bills, because contractors will have assurance that they will be able to retain exclusive licenses or rights to inventions disclosed.

While this proposed legislation is likely to have positive influence on these first three objectives of patent policy, its impact on the fourth and fifth objectives is less clear. Precise outcomes are difficult to predict. Patent policy considerations are complex and there is a decided lack of data and other information against which to weigh legislative options.

With regard to the fourth objective of reducing administrative costs, I would point out that although administrative problems in the handling of individual patent determinations will doubtless be lessened, certain of the bills' provisions have the potential for imposing substantial amounts of administrative, paperwork, reporting and recordkeeping requirements on both the Federal Government and on contractors. For example, the bills would require contractors to record and report on their intentions, options, patenting, and commercialization

of subject inventions. They would also require agencies to acquire these data from contractors and to make determinations on titles, licenses, rights and waivers. Many of these duties are not now regularly required of either agencies or contractors.

As to the fifth and final objective of patent policy--safeguarding against unfair monopolistic advantages to individual firms--I would say that reasonable safeguards lie in the march-in provisions of the bills, the antitrust law protections available, and the specific exceptions to private ownership of patents spelled out.

The House and Senate versions of the legislation, although similar in purpose and objectives, do employ different strategies for implementation.

In the House version, the Federal Coordinating Council for Science, Engineering and Technology would be designated responsibility for general planning, policy, review, and reporting activities; the Department of Commerce would be charged with the more operational aspects of implementation. In the Senate version of the bill, both functions would be lodged in the Department of Commerce.

It is my view that in separating the general policy and analysis activities from the more operational aspects of implementation, the House version is preferable. The Coordinating Council and predecessor organizations have performed similar overview and reporting duties in the past. And the Department of Commerce is experienced in managing and promoting

utilization of patents. To assign complete responsibility for implementation and oversight to a single operating agency requiring it to monitor its own activities along with those of other agencies would not be desirable.

Finally, there is a provision in each bill authorizing the use of fees collected for purposes of the act. I would suggest, in the interest of straightforward budgeting, that any fees collected should go to the Treasury as miscellaneous receipts.

SUMMARY

In summary, the proposed legislation we are considering here today is an important step toward accomplishing some important objectives of good patent policy. GAO supports your Committee efforts to promote a uniform, Government-wide patent policy. I will be happy to answer any questions you may have at this time.