STATEMENT

OF

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BEFORE

THE

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

UNITED STATES SENATE

CONCERNING

GOVERNMENT PATENT POLICY

AND THE PROPOSED

UNIFORM SCIENCE AND TECHNOLOGY RESEARCH

AND DEVELOPMENT UTILIZATION ACT

ON

JULY 28, 1981

JULY 23, 1981

Mr. Chairman and Members of the Committee:

I am here to represent Intellectual Property Owners, Inc., a non-profit organization whose purposes and objectives are, among others, to promote and encourage the development and protection of intellectual and industrial property, including patents, trademarks, copyrights and technical know-how. In part, this can be done by emphasizing the connection between the economic well-being of the United States and strong intellectual property incentives to innovation.

In its efforts to revitalize its technological drive and regain its technological leadership, our country must use the incentives available in a strong patent system.

Our present policy on inventions made under government sponsorship weakens the patent system and does not provide the incentives necessary to assure the commercial development of Government-sponsored technology.

In my opinion, the proposed Uniform Science and Technology Research and Development Utilization Act provides a necessary solution to this problem.

Experience and Background

My opinion is based on my experience of over 25 years in the practice of law involving technology and, particularly, in patent, trademark and copyright law and licensing and technology transfer. I have two bachelor degrees, one in chemistry and one in physics and a J.D. Degree (law), all from the University of Washington in Seattle, Washington.

I have been an employee of five U.S. corporations and I am presently employed at Itek Corporation in Lexington, Massachusetts, where I am Vice President, Patents and Licensing.

I am a Past President of the Licensing Executives Society (U.S.A./Canada) and am the first recipient of the LES Award of Highest Honor. I am, at present, Vice President of The United States Trademark Association. I have been a member of

five United States Government Delegations, one to the Soviet Union in 1971 on the US/USSR Exchange on Patent Management and Patent Licensing, two to the United Nations (UNCTAD) in Geneva relating to the Role of the Industrial Property System in the Transfer of Technology, one to the United Nations (Economic Commission for Europe) in Geneva relating to a Manual on Licensing Procedure and one to the United Nations (World Intellectual Property Organization) on the Establishment of a Guide on the Organization of Industrial Property Activities of Enterprises of Developing Countries. I have also been a U.S. Government-designated consultant to the United Nations (WIPO) on Trademarks, Consumers and Developing Countries. I am also a member of the U.S. State Department Advisory Committee on International Intellectual Property.

The Viewpoint of the Recipient of Technology (Licensee)

Among other things, my views are based on the fact that Itek Corporation, as is true with most U.S. corporations, has received more licenses under the technology of others than we have granted to others under our technology. This trend will increase in the future because of the reduction of new product research and development at U.S. corporations, which means that they must receive more of their new product technology from outside sources.

Thus, I and my peers spend more time evaluating the patent rights of others than we do evaluating our own patent rights.

Brief Description of Itek Corporation

Itek was formed in 1957 as an out-growth of the Applied Physics Laboratory of Boston University. This group had developed some very sophisticated large optics for Government customers and were encouraged by these customers to form a manufacturing organization for manufacturing these complex lenses and mirrors. Thus, when Itek was originally formed, it was formed as a Government contractor.

Today, Itek is not as large as the Fortune 500 corporations, but we are considerably larger than small business, having annual sales of about $350,000,000 per year. About 25% of these annual sales are in the Government contracting business, with the remainder of our sales being in various commercial markets.

Our Government contracting business is made up of two primary categories. The first is large sophisticated optics and electro-optics. One example of our products, of which you are aware, are the photographs taken on the surface of Mars by the Viking lander. These photographs were taken by Itek cameras and transmitted back to Earth by Itek equipment.

Also, many of the aerial photographs taken from the Apollo Space Capsule as it circled the moon were taken with Itek cameras. As you recall, you saw the astronauts go outside the capsule to recover the film from Itek cameras to bring back to Earth.

The other part of our Government contracting is in electronic counter-measures, including radar homing and warning. We make equipment which is placed on fighter planes and which will tell the pilot when someone is watching him on radar or when a missile is fired at him. This equipment will give him real-time warnings so that he may take adequate evasive action.

Current Government Patent Policy

For a number of years, there has been much discussion relating to Government patent policy. A considerable amount of leglislation has been considered with very little being passed except for Public Law 96-517, passed on December 12, 1980, which relates to small business, universities, and non-profit organizations. With respect to other organizations, however, each Government agency has its own policy. Some are required to have a particular policy by legislation, such as NASA and the Department of Energy.

A useful approach is that set forth in last Congress in the Schmitt-Stevenson Bill S.1215, and the proposed "Uniform Science and Technology Research and Development Utilization Act, where, in most cases, title would reside in the contractor with, of course, the Government having a royalty-free license for its own purposes. In general, I support the policy set forth in these bills.

Are Patents a Monopoly?

Contrary to statements often appearing in print, patents are not a "monopoly" to do anything. Patents give you the right to exclude others from practicing your inventions.

This important distinction can be understood as follows: When Alexander Graham Bell got his original patent on the telephone, he got a legal right to keep others from making, using or selling a telephone. Later someone else invented, and got a patent on, a dial telephone, which gave him a legal right to keep others from making, using or selling a dial telephone. Thus, no one has a "monopoly" on a dial telephone because no one can legally make a dial telephone. Bell would need a license from the dial telephone inventor and the dial telephone inventor would need a license from Bell.

Thus, when you have a license under a patent, you still have to make sure your product will not infringe the patents of someone else.

The Value of Patents and Know-How

While patents can be of significant value in the licensing business, the most valuable thing to licensees is the technical know-how for developing and/or manufacturing an actual product. The patent right may give us certain legal rights, but the best patent in the world will not give us the industrial know-how to start immediate manufacture. Thus, when we are looking for a license from others, we are looking for someone who can give us manufacturing know-how so that we can get into the market as soon as possible with the least amount of expense.

Usually, only the Government contractor has the know-how necessary to develop the contractor's invention to practical commercial use. The commercial rights are the only valuable right involved in Government-owned or sponsored patents, as the Government always has at least a license for governmental purposes, which is all the Government really needs.

Also, of course, the contractor is usually the entity which has the most incentive to develop commercial uses for the invention if he owns title. Of course, if all the contractor has is a non-exclusive license, there is little incentive to spend money to develop the invention commercially, as others may obtain licenses and copy the product.

Government Licenses

If we take a license from the Government, all we really receive is an immunity from suit under the Government-owned patent, which is, after all, not a right to do anything, but is a right to exclude others from doing something. It is very unlikely that the Government will have adequate know-how itself to make it of interest to us. Even if the Government should have this know-how, it may be very difficult to have real access to it and to encourage the Government employees who have this know-how to give us access to this know-how and provide the person-to-person continued contact necessary to make the best use of this know-how in our manufacturing. This is an even greater problem if the know-how is only possessed by a Government contractor who has no incentive to help us.

Otherwise, with merely a license under a Government-owned patent, all we really have is a license to do R&D and develop a product on our own at our own expense and over a significant amount of time.

What we, and others, seek under any license, is know-how so that we can introduce the product commercially as soon as possible with the least amount of our own research and development expense.

As mentioned above, what one really receives in a patent license from a patent owner is an immunity from suit. It's hard for me to believe that the U.S. Government, as a patent owner, is going to actually sue American citizens for infringing patents owned by the Government. Without such suits, or the threat of such suits, to enforce its patents, the Government will not be able to license their naked patents, in the absence of know-how to accompany the patents.

Any licensing person will tell you that nothing is more difficult than attempting to license a naked patent right without know-how to go along with it. It can be done on occasion, but it often involves a lawsuit with hundreds of thousands of dollars spent in a non-productive manner.

If you can provide actual know-how and provide a real new product to the licensee, it is easy. If you cannot do this, it merely gives the licensee a legal right to practice under the patent and he must spend considerable amounts of money to develop the product commercially. Such naked patent licensing is extremely difficult and often not worth the effort.

Government Ownership of Patents

Frankly, I think Government ownership of patents is a waste of time and an unnecessary burden on the taxpaying public. The taxpayer, which is all of us, must pay for substantial staffs of Government patent lawyers who tie up part of the U.S. Patent and Trademark Office (USPTO) in obtaining their patents. If Government-owned patents were eliminated, the patent examining part of the USPTO would benefit by not having to spend some 3% of their effort examining Government-owned U.S. patents. This 3% could be used on the USPTO's seriously underfunded patent operations. Also, if the money spent by the Government in funding its own lawyers in obtaining patents were invested in the Trademark operation of the USPTO, the public would be much better served.

We have all heard that the Government has many thousands of patents, with the figure of 30,000 being one which is frequently mentioned. In my opinion, the vast majority of these inventions, probably over 90%, would not be patented if they had been owned by a commercial organization, as the organization would not have thought it was worthwhile to spend the money to obtain a patent on these inventions. This does not mean that these inventions were not patentable, or that the inventors, whether they be Government employees or employees of Government contractors, did not make a legitimate invention which would meet technical and legal criteria for filing a patent application. What it does mean is that these inventions fail to meet the business and marketing criteria used by commercial industrial organizations in deciding whether to file a patent application in the USPTO.

In Itek's case, we are interested only in getting patents on products which we manufacture and we rarely, if ever, get patents on technology that we would only license. Our job is manufacturing and we can made more money by using our limited assets in this direction as opposed to developing technology for others to manufacture under a license.

Income to the Government

If the contractor owned the patent right and the appropriate technology was developed for commercial use, the Government would make more money in taxes from the profit made by the contractor or, in a few cases, the royalties taken in by the contractor and taxes on the profits made by the licensee, than the Government would ever be able to make itself on any royalty basis. This is particularly true when the expense of organizing a major licensing effort is taken into account.

In this regard, I would strongly recommend that if the Government decides to go into licensing in a big way, the licensing organization budget be carefully checked and if, after a very few years, the organization is not making a net profit, but is providing a drain on the taxpayer, it should be abolished.

Patent Suppression

One of the fears expressed by some is that contractors who retain title to Government sponsored inventions will "suppress" the inventions deliberately and they will not be used. To some, "suppression" refers to the rumors one hears about someone buying up the patents and keeping the invention secret. Statements such as this indicate the lack of knowledge of the patent system of those who make such statements. A patent is a public document which is available for 50¢ a copy and thus, it is impossible to "buy up the patents" and keep an invention secret as the invention has already been published.

If there were a situation where the patent application had not issued and someone bought up the patent application to prevent its issuance and keep the invention secret, this would be very unwise of that party. If there is really an important invention involved, you can be sure that, before long, others will make the invention themselves and may be able to obtain patents on it and prevent the original patent application owner from practicing the invention.

In actual practice, if a company owns patents which are not being used and others are interested in obtaining a license under these patents, the patent owner will be very happy to grant a license. All the five corporations that I have worked for would be very happy to grant such a license. Patent "suppression" does not really exist in the real world.

In any event, Section 304 - March-In-Rights of the proposed "Uniform Science and Technology Research and Development Utilization Act" should remove all fears in this area. Under this section, the Government has the right to require the contractor to grant licenses to others if the contractor has not filed a patent application on the invention within a reasonable time or has not taken or is not expected to take, within a reasonable time, effective steps to practice the invention. Other specified reasons are also set forth where the Government may "march

in". Thus "suppression" is not a real problem.

The "Give Away" of Patent Rights

Some have expressed concern that if the contractor retains title, the Government is giving away millions of dollars in patent rights when the Government has already paid for them. While this has a certain amount of theoretical logic, in practice, it is not true. Nearly all the patents owned by the Government are worthless either because there are no commercial applications of the technology or there is no know-how to go along with the naked patent. The taxpayers have a much better opportunity to recoup the money with respect to these inventions by letting the contractor develop them and pay taxes to the Government. If these patents are so valuable, why have the inventions covered by these patents not been used and developed previously? They have been, and are presently, available from the Government, often merely for the asking. There is no "give away" because there is nothing to give away.

Summary

In general, the proposed legislation will give the U.S. Government the best opportunity to see that whatever technology is susceptible of development for commercial purposes is developed in the shortest period of time with the largest potential return to the Government, and thus, to the public, which has paid for the Government research.

Comments on Specific Clauses

Section 103(8)

The definition of "made under the contract" as is the case with all Government definitions of inventions, realtes to "the conception or first actual reduction to practice" of the invention. In practice, this definition can be very unfair. An inventor may conceive an invention, file a patent application on it, have the patent issue and if some years later he obtains a Government contract to

build the first prototype, the Government would obtain a license or possibly title to the invention.

That this is unfair can be seen by the fact that the inventor, who is the patent owner, without such a Government contract, could sue an infringer and obtain either an injunction or royalties from that infringer. If the suit were pending while the contract was being performed, the Government could claim the royalties, if it received title. In the patent law, there are two ways to reduce an invention to practice. One is the "actual" reduction referred to in such definition. The other is "constructive" reduction to practice, which is the preparation and filing of a patent application in the U.S. Patent and Trademark Office.

This definition would be fair if it either referred to just conception or if the word "actual" were removed so that the definition referred to the "first reduction to practice", which would include actual reduction to practice or constructive reduction to practice by filing a patent application.

Section 201 - Responsibility (of the Secretary of Commerce)

I have some concern with this section, which is much improved from the Stevenson-Schmitt Bill of last year, because it provides for the Secretary of Commerce to, among other things, "evaluate...Government-owned inventions in order to identify those inventions with the greatest commercial potential and to promote the development of such inventions identified." It is nearly impossible, and certainly very expensive, to evaluate all the 30,000 presently owned Government patents. It would be a waste of money to attempt to do so. In practice, Government patents which may be worthwhile can be readily identified by the appropriate industrial concern which may need them.

Section 301(a)(2) - Rights of the Government

This section states that the Government will retain title to any invention made under the contract of a federal agency if the agency determines "when it is

determined by a Government authority which is authorized by statute or Executive order to conduct foreign intelligence or counterintelligence activities, that the restriction or elimination of the right to retain title to any such invention is necessary to protect the security of such activities."

Practically speaking, I do not understand how the mere ownership of title to such invention would have any effect on the security of any activities. Itek, and and number of other organizations, perform work under classified contracts for various governmental agencies, some of which are very highly classified. If an invention occurs under this contract, a patent application can be prepared and filed in a special section of the USPTO which has clearances of the highest order. The patent application will be examined under the strictest secrecy precautions required by the governmental agency involved and, after the patent application has been found to be allowable by the USPTO, it will remain unpublished until such time as the governmental agency involved feels it is appropriate to be declassified.

Itek owns a number of patent applications, which are highly classified, have been found to be allowable by the USPTO and will not issue, nor should they issue, for many years until they are declassified.

Thus, it seems that the only security aspect of a classified invention, the title of which is owned by a contractor, occurs because (1) a patent application is prepared by a patent attorney, who must have the necessary security clearance, (2) the patent application is filed in the USPTO, which also must have the necessary security clearance. The agencies involved, including the Central Intelligence Agency, are the final authority which must approve the declassification of the patent application and thus, they retain control of the security of the invention.

I have no further comments, but I am available to answer questions at any time.