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A Magazine About Licensing, New Product Development, Joint Venture & Acquisition
Published by Dr. Dvorkovitz & Associates
P.O. Box 1748, Ormond Beach, Florida, USA 32074

S.414 — U.S. Senate Has Number For Innovation

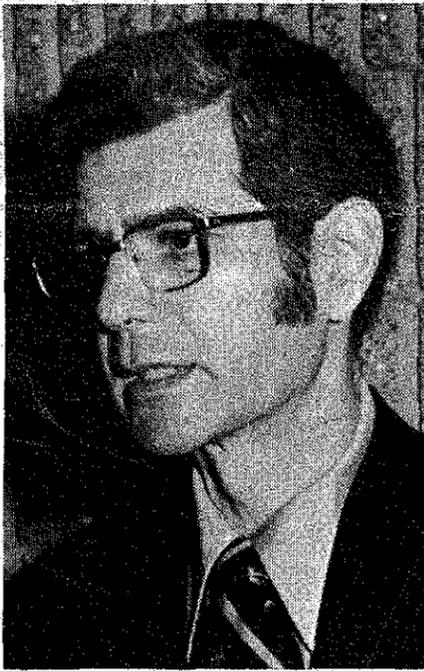
ADDRESS BY NORMAN J. LATKER, ESQ.*
2nd Annual TechEx Luncheon
World Congress Center, Atlanta, Georgia
March 1, 1979

Joseph Schumpeter, one of our great economists, in discussing capitalism once stated that:

"Creative destruction is the essential fact that capitalism . . . it is, by nature, a form or method of economic change, and not only never is — but never can be stationary . . . The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer goods, the new methods of production . . ., the new markets, the new forms of industrial organization that capitalist enterprise creates."

Progress, in a system whose foundation is built on capitalism, absolutely depends on the willingness of government to welcome the future of such new innovation. Such willingness makes the prospect of progress endless. Capitalism demands, by definition, that the individual be free from government entanglement within reasonable limits to spend and invest his money any way he pleases, to own property and enter any business or profession that attracts him.

Given a free society, man's entrepreneurial spirit tells him he has to improve on existing products and processes and procedures if he is to create a competitive edge for himself, or even just meet competition. Stated more simply, the endless progress known in the United States in the past spawned the expression so often heard from immigrants escaping totalitarian governments — "Only in America." It meant hope; it meant promise; it meant the delight brought by surprise! In America, most believed that anything could happen . . . as it often did happen.



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Ironic or remarkable as it may seem to many of you now, Walter Lippman wrote in 1935 that:

"The liberals believe that no rulers are wise enough to plan the destiny of mankind . . . they rely upon the initiative, the inventiveness, the endurance of individuals, (and) hold that a wide distribution of responsibility is the surest foundation of a society, that self-reliant individuals will sustain the nation when the governors fail."

While I am optimistic enough to believe that substantially all moderate Americans would find little in the above to disagree with they are now being confused by the appearance of a philosophy not easily identified as being exclusive of the above if carried to extreme.

This philosophy basically contends that the past was inevitable. History is perceived as arising not from unpredictable flows of inventive genius and perseverance but inevitably, from preordained patterns of distribution of resources. For those who doubt the decisive role of genius, courage, and chance in history, the future always appears impossible. They see no way for a free nation to escape decline, decay, and regulation, as its growing population and finite resources press against a closing frontier.

Persons that accept this philosophy seem to have no understanding that the innovative processes that bring revolutionary changes in society and to vested interests involve unpredictability, long gestation periods, huge sums of capital, genius and extraordinary perseverance on the part of free individuals and organizations.

An uncomfortable number of our countrymen now pursue the interests of our society for unregulated areas where some spontaneous act of free will might cause trouble. This they diligently try to forestall, apparently in the hope of establishing in the realm of human affairs a predictability to rival that found in physical nature, where everything happens of necessity, or not at all —

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THE INNOVATION ADVOCATE

Statement of U.S. Senator Birch Bayh on S.414 "The University and Small Business Patent Procedures Act"

at the opening of Hearings before the
Subcommittee on the Constitution
Washington, D.C. — June 6, 1979

Today the Senate Judiciary Committee is holding its second day of hearings on S.414, the University and Small Business Patent Procedures Act.

At our last hearing the Committee heard from a number of expert witnesses who testified about the delays and frustrations that many promising witnesses inventions face when a small business or university contractor makes a patentable discovery under Federally-supported research and development. The problem in a nutshell is that while the agencies have a horrid record at developing and marketing new discoveries themselves, they are reluctant to part with the patent rights to inventions even when the inventor is willing to undertake the risk and expense of development. The result has been that many good ideas are being drowned in a sea of red tape and uncertainty.

There is now a great deal of concern about the health of American innovation. Newsweek magazine for this week has a cover story entitled "Has America Lost Its Edge?", and there are a number of bills that have been introduced trying to spur American inventiveness. The Federal Government is now by far the largest source of research and development money in the country. Unless good ideas and inventions coming out of this effort reach the marketplace there has been little real gain to the public. The bill that we are considering today would allow universities, small businesses,

and nonprofit organizations to retain patent rights to inventions that they make under Government-supported research and development while guaranteeing the rights of Government to use the invention without the necessity of paying any royalty fees. The bill would also return money to the Government whenever one of these inventions achieves a certain level of success in the marketplace. Thus S.414 creates an incentive for the inventor to take the time and effort needed to market new inventions while protecting the legitimate needs of the Government.

The Comptroller General, Mr. Elmer B. Staats, told the Committee on May 16, 1979 that the GAO study of Government patent policy had revealed that there are now a wide variety of policies followed by different agencies. Agencies such as HEW and the Department of Defense which had implemented liberal patent policies regarding universities have now begun to reverse themselves and have instituted a policy of reviewing patent petitions on a case-by-case basis. HEW frequently takes 8 to 15 months to complete this review with no certainty as to who will end up owning the patent. The Comptroller General stated that passage of S.414 would be a constructive step in ending this uncertainty and making sure that we have the best possible patent policy governing our large research expenditure.

Presidents of three small research companies told the Committee that

the confusion and uncertainty that now exists over ownership of patent rights was one of the principal reasons that the innovative small business is reluctant to get involved with agency research programs. Small businesses have proven to be the most innovative segment of the economy. When these innovators no longer will participate in Government research, the loss is suffered by everyone. The small business witnesses said that a bill like the University and Small Business Patent Procedures Act was essential if the small businessmen was to participate in our research effort to the greatest possible extent.

I think that we should all remember that we are still living to a great extent "on Grandfather's money" in that our standard of living is a direct result of the initiatives made earlier in this century by a handful of men and women who had good ideas that they pursued until they had achieved their full potential. The resulting breakthroughs in medicine, communications, and transportation have benefitted all mankind. Still we cannot assume that this rich inheritance will never run out. We must make sure that the great ideas of our own time are given the opportunity to achieve their potential. I do not think that an impersonal Government agency is able to give a new idea the same amount of intense interest and attention as the inventor. The result is that many good ideas taken by the funding agency perish on the shelves of Government because there is no incentive

for anyone to invest the time and effort necessary to develop a new discovery.

The witnesses that the Committee has scheduled today should be able to shed some more light on the role of Federal research on innovation, and more specifically, on what the best possible policy would be for determining ownership of resulting inventions. We must insure that good ideas are delivered to the marketplace where they can benefit the public while protecting the legitimate needs of the Government.

There are many indications that America is falling behind its international competition in a number of areas. Ironically, many foreign companies have been able to take new ideas from our research, patent and manufacture them abroad, and then export the resulting products to America. Importation of manufactured goods is now the second largest drain on our dollar right behind imported foreign oil. Countries such as Japan and West Germany have been able to pay for their oil imports, even though they have fewer natural resources than the U.S., on the strength of their innovative economics. I think that it is time for the Government to stop tying up innovation in red tape and provide incentives for American ideas to be developed here while providing new jobs and benefits for the public which is supporting our research effort. S.414 is a much needed first step in this direction.

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UNIT®

VOLUME V

10 issues per year NUMBER 5/1979

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P.O. Box 1748 Ormond Beach, Florida, 32074 USA

Tel. 904/677-7033

TWX: 810-832-6299

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Application to mail in U.S. at 2nd Class Postage Rate is pending at Orlando, Florida. U.S. Subscriptions @ \$20.00 ann.; Canada or Mexico, \$25 ann.; All other countries, \$35 ann.; Single copies, \$2 ea. Manuscripts and news stories of interest to licensing executives and professionals, scientists and engineers on all phases of licensing, new product development, joint ventures and acquisitions are welcome for consideration for publication in UNIT. Also, news about people engaged in licensing. Closing date for editorial material is the 15th of the second month preceding month of issue.

Advertising Rates and Requirements on Request

Printed in USA

S.414 - The WITNESSES - June 6, 1979

Room 2228 — Dirksen Senate Office Building, Washington, D.C.

Editor's Note: The best report cannot equal the actual writings and testimony of those closely involved with important issues. We feel that S.414 is such an issue and, though basically a U.S. concern, it has far reaching influence for innovation everywhere in the world.

Beginning with Norman Lather's address on page 1, as presented at a special luncheon meeting at TechEx '79, this issue of UNIT presents a number of timely opinions on the subject issue. U.S. Senator, Birch Bayh has been given the position of "Innovation Advocate" (Pg. 2), and the following pages reflect the testimonies of witnesses that appeared before the Senate Judiciary Committee's Subcommittee on the Constitution, in Washington, D.C., June 6, 1979.

Dr. Betsy Ancker-Johnson:

"Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before the Committee to testify in support of S.414. I appear as former Chairman of the Committee on Government Patent Policy. With me today is Norman Lather, former Chairman of the Subcommittee on the Government Patent Policy Committee.

... "There are two reasons, it seems to me, why the importance of the patent system to our industry and in particular to our international trade has received so little recognition. You may be surprised to learn that our Founding Fathers, while they provided in the Constitution for the patent system, had no notion whatever of the fundamental role which it would play in our modern society. They designated the patent system to perform a single function; in fact, it performs two functions superbly. And the second function, wholly unanticipated by the authors of the Constitution, has assumed an importance well beyond the first. The intended purpose was to promote the progress of service and the useful arts by holding forth to inventors the opportunity of financial reward in exchange for disclosure of new inventions. The profit incentive was expected to add substantially to the number of disclosures arising from pre-existing inducements such as fame, professional recognition, desire to better society, etc. Had they concluded otherwise, our Founding Fathers would, undoubtedly have omitted the patent clause from the Constitution. It is important to note that the Founding Fathers did not consciously frame the patent system to promote the domestic and international commerce of the United States. They assumed that market forces would be sufficient to pull the truly promising inventions into commerce, while ignoring the less promising. This assumption is, undoubtedly, true over the long term. Yet, in the short term, it is demonstrably false. And in commerce, where the race is to the swift, it is the short term that counts.

... "We are indebted to Ted Sorenson for the enrichment of our literature by his artfully drawn comparison. Some people see things the way they are and ask "Why?"; others see things the way they have never been and ask "Why not?". The first of these groups is generally thought to be populated by scientists; the latter by visionaries. It is regrettable that Mr. Sorenson did not identify the one group in our society which asks and answers both questions: our inventors.

"Our task this morning is to join their ranks. I hope that we now know the why, just as, for different reasons, Samson knew the why of this extraordinary strength. Let us now examine S.414 and dwell on the why not.

"Our present fragmented patent policy places ownership of most federally-funded inventions in the hands of the government, rather than in the hands of the inventing organization. Licenses under these federally-owned patents (assuming a patent is sought and obtained) are, for the most part, made freely available to any and all comers, domestic and foreign. The effect of this policy is to nullify the second (or commercialization) function of the patent system, and to cast doubt upon the necessity for the first. (Does the government induce itself to disclose its inventions to the public by holding out to itself the promise of a patent by which it can make no money?)

Senator Bayh is chairman of that subcommittee.

We have had to excerpt the testimonies that follow due to space limitations but, with apologies to the authors, we have endeavored to bring out the most salient points presented by each witness. If there are major omissions, we will welcome and publish any corrections from the authors. Readers of UNIT are also welcome to request copies of the full texts and/or S.414, by writing to UNIT.

Our thanks to Senator Bayh and Mr. Joe Allen of his office, for supplying the material and keeping UNIT informed of action on S.414. — E.B.P.

WITNESS LIST HEARINGS ON S. 414

Dr. Betsy Ancker-Johnson, Vice President of General Motors for the Environmental Activities Staff, and former Assistant Secretary of Commerce, Warren, Michigan

Admiral Hyman G. Rickover, Director, Division of Naval Reactors, Department of Energy, Washington, D.C.

University Panel

Dr. Frederick N. Andrews-Vice President for Research, Purdue University, Lafayette, Indiana

Mr. Howard W. Bremer-Wisconsin Alumni Research Foundation, and President, Society of University of Patent Administrators, Madison, Wisconsin

Mr. Neils Reimers-Manager of Technology Licensing, Stanford University, and President of the Licensing Executives Society, Stanford, California

Mr. Julius Jancin, Jr., Vice President, American Patent Law Association, Washington, D.C.

Mr. Eric P. Schellin, Chairman of the Board of Trustees, National Small Business Association, Arlington, Virginia

Mr. Howard Rose, Institute of Electrical and Electronics Engineers, Washington, D.C.

"S. 414 asks the rhetorical question: Why not allow small businesses and universities to retain patent rights in their government-funded discoveries, with the hope and expectation that the commercialization of these discoveries will thereby be facilitated.

"Insofar as university and small business inventions are concerned, S.414 is intended to, and will, correct the devastating effect of our present government patent policy upon commercialization. In future years, S.414 will be remembered as a turning point in our attitude towards intellectual property, evidencing not merely the awakening to the problem, but our firm determination to remain first in a peaceful but brutally competitive world.

"Japan has announced its intention to capture various elements of the computer market in the 1980's. No one suggests that this is an idle boast. In fact, many in this country believe that we should emulate "Japan, Inc." — that our government should join in the planning and management of specifically targeted commercial pursuits, with the objective of insuring the dominance of our industry in international trade. Such an approach, I fear, would end many of the freedoms we now enjoy, and is unlikely to be successful in any event. The first casualty would be our

pluralistic approach to problem solving; centralization of control means the prioritization of available strategies, and the elimination of funding for those at the bottom of the list.

"S.414 is a much sounder approach than "Japan, Inc.". It assures the continuation of the nation's pluralistic approach by entrusting to our innovators (at least those associated with small businesses and non-profits) the burden of commercialization as the price of ownership. In addition, S.414 will motivate contractors to utilize the world's patent system, thereby maintaining the base of our technological leadership.

"To suggest that the private sector is in a position to ignore the innovations generated by government research and development, and still remain competitive, overlooks the fact that the government funds half of the nation's research and development. Further, government participation in basic research is increasing as the private sector shifts to applied research, much of which is necessary and to meet federal regulations. The increased presence of federal funds supporting the life sciences and energy research in the non-profit sector is especially important to those industries involved in the delivery of new products and processes relating to such technology. Increased funding will naturally result in many of the best preliminary leads being encouraged by government funds. Passage of S.414 is especially important if we are to gain industrial aid in their commercialization.

"Also of importance is the bill's bringing together of industry and the non-profit sector during the entire innovative process. This should result in more independent assessment and mastery of the innovative process by industry, working closely with universities as equal partners.

"S. 414 cannot but serve to emphasize the importance of the technology transfer units already in place in many universities. Those groups track science and technology, establish property protection on university discoveries, and then locate those who would apply their portfolios to solve the problems of our society.

"I have been disturbed by the number of inventions in the government's patent portfolio which have never been licensed. I wonder if it would be feasible to amend S.414 to permit the contractors covered by the bill to retrieve their as yet unlicensed inventions. Some major inventions within the portfolio may well reach fruition under S.414, if it is thus amended.

... "One final suggestion. No other country in the world requires its citizens to license their privately-funded inventions to foreigners, for manufacture abroad and importation to the country responsible for the invention. We have done so frequently. I object to this practice and will continue to make my objections known. Nevertheless, I do not intend to distract your committee from its consideration of S.414 by pressing the issue at this time. Instead, I merely suggest that, in the event an invention covered by S.414 should pass into the ownership of a firm which operates under a compulsory licensing decree, the S.414 invention be deemed to be outside the coverage of that decree."

(Continued on Page 4)