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TESTIMONY

OF

HONORABLE ALLEN E. ERTEL

MARCH 2, 1982

BEFORE THE SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE
ADMINISTRATION OF JUSTICE

ON H.R. 4564, LEGISLATION TO IMPROVE FEDERAL PATENT POLICIES

Mr. Chairman, our economy is in serious trouble. The unemployment rate in this country is a national disgrace -- and some states look with envy on these dismal national statistics. In my own State of Pennsylvania, the unemployment rate is at a shocking 11.2% level, with 610,000 people looking for work.

Correcting this intolerable state of affairs requires action over a broad front. The legislation before you, H.R. 4564, which I introduced last September, can be an important part of our efforts to create new jobs, and increase innovation and productivity in this nation.

Today, the Federal Government holds about 30,000 patents. These inventions arose from the use of taxpayer dollars funding research and development undertakings. It is clear that these patents represent a valuable national resource. It is also clear that only through the full utilization of these patents will the taxpayers receive the maximum benefit from their support for research and development.

However, it is painfully obvious that most of these patents do little more than collect dust on some government shelf. Only about 4% of these 30,000 patents have been licensed for development. Even fewer of these have been commercialized. All of the available data shows that the

principal reason these patents are not utilized -- and therefore not available in the marketplace to the public -- lies in the present federal patent policy.

It is commonly recognized that in the process of bringing a product to the market, research accounts for roughly 10% of the cost, while development makes up 90% of the cost. The Federal effort stops with the research part of the process. After the invention is created and patented, the government takes the title to the invention and nothing else happens.

In most cases, no form of exclusivity is granted to any concern which may be interested in taking the "raw" patent and turning it into a marketable product or process. While the theory may be fine, the results are disastrous for any effort to increase innovation and productivity, and the critical need to create jobs. The simple fact is that without some form of exclusivity, a private firm is often reluctant to invest the resources needed to commercialize the invention. This is particularly true with today's horrifyingly high interest rates. That firm must ask itself: Why make the expensive development investment if I do not have exclusivity? The return on that investment is unclear, especially when my competitor will be able to capitalize on my investment just before I hit the market. Without exclusivity, my competitor will be able to under-price me before I can recover my development costs.

My legislation corrects this situation by providing that under most circumstances, the contractor who develops the patentable invention

under federal research and development contract will have the right to hold title to that patent as long as he is taking reasonable steps to commercialize the patent.

Studies have shown that commercial utilization of federally held patented inventions is achieved at a much higher rate when, under certain circumstances, the contractor is permitted to obtain exclusivity to the invention. For example, a NASA study found that contractors achieved commercial utilization of these patented inventions at a rate of approximately 20 times greater than that achieved by the agency itself. NASA, which generally has broader authority to grant patent rights to the contractor than most federal agencies, has one of the best records in the government for obtaining commercialization of inventions that arise under NASA R & D contract work.

It is also interesting to note that the other federal agency which has some latitude to grant exclusivity -- the Department of Defense -- also has a good record for achieving commercial utilization of patents developed under its R & D contracts.

It must also be remembered that we are not discussing small amounts of federal money. The Federal research and development budget equals tens of billions of dollars. In my own State of Pennsylvania, contractors received well over \$1 billion to perform federal research and development in fiscal year 1980. The expenditure of these funds must be considered as an investment. And like any investment, the taxpayers have a right to expect a return. A return in the form of improved goods

and services at better rates. For this, the patented inventions must be commercialized. We must get these inventions off government shelves and into people's homes and places of work. In the process, many new jobs will be created. To do this, exclusivity must be granted to the contractors to provide the necessary incentive for them to make the essential, and often speculative, investments to develop the inventions.

Let me turn my attention to some of the specific features of the legislation I introduced, H.R. 4564. It provides that when a patentable invention arising in the course of federally-funded research and development contracts, the contractor, under most circumstances, will have the right to hold the title to that patent. This provides the contractor with the exclusivity which is so necessary to bring the invention to the market. There are, however, cases when the contractor would not be allowed to hold the patent title. For example, if the invention has a national security nature, or if there are exceptional circumstances affecting public health, safety, or welfare, the Federal Government will retain the title. In addition, for the contractor to retain these patent rights he must take steps to commercialize the invention. Under the legislation, contractors are not allowed to simply sit on the patent. If they fail to take steps to commercialize the invention, the contractor's rights will be revoked and the Federal Government will have the right to award exclusivity to someone else.

In the past, concerns had been raised that if exclusivity is granted to contractors we would be allowing a private firm to profit on a patent which belongs to the American people. Beyond the fact that the

taxpayers derive little benefit from patents which are not commercialized, H.R. 4564 resolves this dilemma by requiring that contractors provide payments to the Government in return for the original Federal investment. This recoupment provision will compensate the Government and prevent the contractor from achieving windfall profits at the expense of the taxpayers while still encouraging the commercialization of the invention. I believe that this recoupment provision is an important feature of H.R. 4564 and one which must be retained in a meaningful form.

I would also note that this legislation seeks to build upon, not undermine, the work which was accomplished in the previous Congress with the passage of P.L. 96-517, the University and Small Business Patent Act. Important as that legislation is, we must not forget that universities and small businesses regrettably account for less than 10% of all Federal research and development contract work. If the goals of jobs creation and spurring innovation and productivity are to be fully realized, we must extend these patent rights to all contractors, not just 10% of them. My support for P.L. 96-517 is well known to this Committee, as is my desire to ensure that the rights conferred under that Act not be reduced. For that reason, I was pleased to work with Chairman Fuqua of the Science and Technology Committee to develop language to protect those hard-fought rights. I hope this Committee will give special attention to this part of H.R. 4564 as it was reported from the Science Committee.

As you may be aware, this legislation enjoys wide-spread, bipartisan support. Senator Schmitt has introduced a similar bill in the Senate and action on it is expected in the near future. I am pleased

that this Subcommittee has taken up the legislation. I enjoyed working with the Subcommittee last year during its work on H.R. 6933, and look forward to a continuing fruitful relationship. I appreciate the opportunity to testify before you today and urge you to act favorably on this legislation. Thank you.