PATENT INFRINGEMENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
P[illegible], TRADEMARKS, AND COPYRIGHTS

OF THE

[illegible]ITTEE ON THE JUDICIARY
[illegible]NITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

PURSUANT TO S. RES. 48

ON

S. 1047

JUNE 1, 2, 3, JULY 6, 7, AUGUST 17 AND 19, 1965

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APPENDIX

PATENT INFRINGEMENT

TUESDAY, JUNE 1, 1965

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS,
AND COPYRIGHTS OF THE
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan presiding.

Present: Senators McClellan, Hart, and Burdick.

Also present: Thomas C. Brennan, chief counsel, Edd N. Williams, Jr., assistant counsel, and Stephen G. Haaser, chief clerk, Subcommittee on Patents, Trademarks, and Copyrights.

Senator MCCLELLAN. The committee will come to order.

This hearing by the Subcommittee on Patents, Trademarks, and Copyrights has been called for the consideration of four bills concerned with various aspects of Government patent policy. Three of these bills; S. 789 (Senator Saltonstall), S. 1809 (introduced by myself), and S. 1899 (Senator Long of Louisiana), are primarily concerned with the disposition of property rights in inventions resulting from Government-financed research and development. The fourth bill before the subcommittee is S. 1047 (Senator Williams of New Jersey), which deals with the procurement by the Government of products which have been produced in violation of U.S. patents. Senators Saltonstall, Long, and Williams have indicated that they will appear at tomorrow's hearings of the subcommittee.

(By order of the chairman the testimony and statements relating to S. 1047 are printed separately as follows:)

Mr. BRENNAN. Mr. Chairman, I would like to offer at this time for insertion in the record the notice of this hearing which appeared May 17 in the Congressional Record.

Senator MCCLELLAN. Very well, it may be inserted at this point in the record.

(The document referred to follows:)

[From the Congressional Record, May 17, 1965]

NOTICE OF PUBLIC HEARING ON GOVERNMENT PATENT POLICY

Mr. MCCLELLAN. Mr. President, as chairman of the standing Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, I wish to announce that the subcommittee has scheduled a public hearing on S. 789, S. 1809, and S. 1899, bills to establish a uniform Government patent policy, and S. 1047, a bill to amend section 1498 of title 28, United States Code, relating to the use by or for the United States of any invention covered by a patent of the United States. The hearings will be held on Tuesday, June 1, and Wednesday, June 2, commencing at 10 a.m. in room 3302, New Senate Office Building.

Anyone who wishes to testify or file a statement for the record should communicate immediately with the office of the subcommittee, room 349–A, Senate Office Building, Washington, D.C., telephone 225–2268.

The subcommittee consists of the Senator from Michigan (Mr. Hart), the Senator from North Dakota (Mr. Burdick), the Senator from Pennsylvania (Mr. Scott), the Senator from Hawaii (Mr. Fong), and myself.

Mr. BRENNAN. To be followed by copies of the four bills pending before the subcommittee.

Senator MCCLELLAN. Without objection the three bills dealing with Government patent policy, which the Chair has referred to will be printed in the record at this point. The fourth bill, S. 1047, will be printed in the hearings entitled "Patent Infringement."

(The bill, S. 1047, referred to follows:)

[S. 1047, 89th Cong., 1st sess.]

A BILL To amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1498 of title 28, United States Code, is amended by adding immediately after and underneath the last paragraph of such section the following new paragraph:

"Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture."

Mr. BRENNAN. Followed by the reports of the agencies on S. 1047.

Senator MCCLELLAN. All responses to request from the Judiciary Committee to the agencies and departments for comment on this bill shall be printed in the record at this point.

(The documents referred to follow:)

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., June 1, 1965.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is in further reply to your request for the views of this Department with respect to S. 1047, a bill to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States.

The bill would limit the effect of 28 U.S.C. 1498 to authorizing the manufacture or use of an apparently valid patented invention by or for the United States without license from the affected patent owner only when the Secretary of Defense, or his delegate, has determined that the national security of the United States requires such use or manufacture.

The Department opposes enactment of S. 1047.

The purpose of S. 1047 is to prevent any unlicensed Federal use of a validly patented invention from occurring unless the Secretary of Defense finds such use necessary to the national security. We do not believe that such a limitation should be placed on the Federal Government. If such a purpose were implemented, Federal agencies might have to pay unreasonably high royalties in order to obtain a license to use a needed patented invention. Such royalties must come, of course, from the taxpayer.

While the patent statutes do not guarantee private industry the right to use an invention and pay only a reasonable royalty therefor, Federal agencies act in the public interest and require more freedom of action, if they are to provide maximum benefit to the public. For example, the owner of a weather modification process patent should not be able to tell the United States when, and at

what cost, it may save lives, property, and crops by use of his process. No Federal agency should be prevented by the patent statutes from carrying out any program beneficial to the public at reasonable compensation to the patent owner. The patent statutes of most developed nations provide for governmental use of inventions with appropriate reasonable compensation to the patent owner; 28 U.S.C. 1498 so provides for the United States. If the relationship between the patent owner and the United States deserves attention, it should be dealt with either through changes in procurement policy or in the means presently available for obtaining such compensation, rather than through repealing the authority for unlicensed Federal use of inventions.

It appears that, in the absence of a finding by the Secretary of Defense that use of the invention in question is necessary to the national security, S. 1047 would restore the law existing prior to June 25, 1910 (the date of enactment of the predecessor of 14 U.S.C. 1498). If the law prior to 1910 is restored, Federal patent infringement will not be halted. Furthermore, patent owners will find themselves receiving little or no compensation for Federal acts of infringement, rather than the reasonable compensation presently available under 28 U.S.C. 1498.

Prior to 1910, Federal use of a patented invention without license from its owner was not considered to be a governmental act, but an unauthorized act of the Federal employee supervising the infringing activity. Accordingly, the United States was not liable for past infringement, but the individual employee was. *Belknap* v. *Schild* (161 U.S. 10, 16, 17, 25, 26 (1896)). The predecessor of 28 U.S.C. 1498 was enacted to make the United States liable for its infringement of patents. House Resolution Report No. 1288, 61st Congress, 2d session, 1 (1910).

The courts interpreted the act of June 25, 1910 to authorize Federal use of patented inventions without license from the patent owner. Thus the infringement became a Federal act for which the United States was liable. *Crozier* v. *Krupp* (224 U.S. 290, 304, 305 (1912)). The act also gave the Court of Claims jurisdiction to determine what constitutes reasonable compensation for acts of infringement for which the United States is liable. By removing authorization for use of patented inventions without license, S. 1047, under the rationale of *Crozier* v. *Krupp*, would also remove U.S. liability for Federal acts of infringement. In the absence of such liability, the Court of Claims could not render an award against the United States. Reviser's note to 28 U.S.C. 1491, paragraph 5. Thus, as before 1910, only Federal employees would be liable for acts of infringement by the Federal Government in the absence of a determination by the Secretary of Defense, or his delegate, that the national security requires such infringing acts. The Federal Tort Claims Act does not appear to provide a new remedy against the United States for damages because of it) discretionary acts exception (28 U.S.C. 2680(a)).

Prior to 1910, an injunction against further unlicensed use of a patented invention ran against the responsible Federal employee personally, not the United States. Furthermore, the United States could not be enjoined from continuing to use property to which it had title, even if the property was originally made in violation of a patent. *Belknap* v. *Schild*, supra, pages 24, 25. Thus it appears to us that enactment of S. 1047 might not prevent purchase and use by Federal agencies of items purchased abroad, if the Federal employee in charge of the purchasing is located abroad, outside the civil jurisdiction of the U.S. courts, and title to the goods passes to the United States while they are still abroad. However, as explained previously, recovery against the United States in the Court of Claims for such continued use would be denied by enactment of S. 1047. Consequently, the owners of some patents might have no relief at all against U.S. use of their inventions if S. 1047 is enacted.

In considering the relationship between the United States and the patent owner, we believe that the present law, which allows public use of patented inventions subject to just compensation, is consistent with both individual rights under the Constitution and public needs. Since patent rights are created by the Federal Government, their use by the public seems even more appropriate and reasonable than does public use of private real property through eminent domain proceedings. We think the present law represents a much more desirable approach to the question of public use of patented inventions than does the approach of S. 1047 and we therefore oppose the measure.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of our report from the standpoint of the administration's program,

Sincerely,

ROBERT E. GILES.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., June 4, 1965.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate.

DEAR MR. CHAIRMAN: Reference is made to your letter of May 6, 1965, requesting a report on S. 1047, 89th Congress, 1st session, a bill to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States.

Section 1498, title 28, United States Code, provides that whenever with the authorization or consent of the Government an invention covered by a patent of the United States is used or manufactured by or for the United States without license of the owner or lawful right to the use or manufacture of the invention, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. The bill would amend this section by adding a new paragraph as follows:

"Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture."

Thus the apparent purpose of the bill is, in effect, to suspend the operation of the provisions of 28 U.S.C. 1498 with respect to the entire procurement requirements of the various agencies of the Government other than in those exceptional cases where a determination is made by the Department of Defense that the use or manufacture of the particular invention which may be involved in a given case is required by the national security of the United States. This would mean that, in general, manufacturers and suppliers of the Government would become subject to suits for injunction and recovery of royalties by patent owners and licensees which would result in serious disruption of normal procurement of the Government's requirements. And this would be the case although many of the patents asserted might be of doubtful application and validity. Guidelines or criteria for making the proposed determinations are not provided by the bill and the power of determination—which is unlimited in scope—would be vested solely in one agency head.

It has been judicially determined that section 1498 is in effect an eminent domain statute; that its provisions relieve the contractor entirely from liability of every kind for the infringement of patents in manufacturing anything for the Government and limits the owner of the patent to a suit in the Court of Claims for reasonable compensation, which remedy is exclusive and comprehensive in character. *Cf. Richmond Co.* v. *United States* (*1928*) (275 U.S. 331, 343) *Bereslavsky* v. *Esso Standard Oil Co.* (C.A.Md. 1949) (175 F. 2d 148) and *Irving Air Chute Co.* v. *United States* (Ct. Cl. 1950) (93 F. Supp. 633). See, also, 37 Comp. Gen. 199. In other words, by virtue of the statutory provisions enacted July 1, 1918, and now carried in 28 U.S.C. 1498, the right to bring an action in the district courts of the United States for an injunction and the recovery of damages for patent infringements as provided generally under the provisions of 28 U.S.C. 1338 and 35 U.S.C. 281–293, was taken away insofar as Government contractors are concerned. It is this right to sue Government contractors and subcontractors for injunctive relief and the recovery of damages for alleged patent infringements which the bill proposes to restore substantially as it existed prior to the act of July 1, 1918.

The Supreme Court of the United States has pointed out that a suit to enforce patents and related contracts involves the public interest, as well as interests of the adverse parties, and has repeatedly emphasized it is the public interest which is dominent in the patent system. *Cf. Mercoid Corp.* v. *Mid-Continent Co.* (Jan. 3, 1944) (320 U.S. 661, 665, 666) and *Precision Co.* v. *Automotive Co.* (Apr. 23, 1945) (324 U.S. 806, 815, 816). Whether the change proposed by the bill would be in the public interest is, of course, a matter for determination by the Congress.

It was stated by Mr. Chief Justice Taft in his opinion delivered January 3, 1928, in the *Richmond* case, supra, that the legislation of July 1, 1918, was enacted in response to a letter dated April 20, 1918, from the Acting Secretary of the

Navy to the chairman of the Committee on Naval Affairs of the Senate, to the effect that the Department was confronted with a difficult situation as a result of the court's decision in *Cramp & Sons* v. *International Curtis Marine Turbine Co.*, 246 U.S. 28, holding that the act of 1910, which provided for the recovery of reasonable compensation by suit in the Court of Claims for use by the United States of a patented invention without license or lawful right to use it, did not effect a license to the United States or a contractor making the patented invention, and that the contractor could be sued for an injunction and for infringement in spite of that act; that manufacturers had become exposed to expensive litigation involving the possibilities of prohibitive injunction, payment of royalties, rendering of accounts, and payment of punitive damages, and were reluctant to take contracts which might bring such severe consequences; that the situation promised serious disadvantages to the public interest, and that vital activities of the Department might be unduly restricted. In holding that the remedy provided by the act of July 1, 1918, constituted an assumption of liability by the Government, the court's opinion stated that it was the purpose and intent of Congress to stimulate contractors to furnish what was needed for the war without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents; that to accomplish this governmental purpose Congress exercised the power to take away the right of the owner of the patent to recover from the contractor for infringements. Also, in *Broome* v. *Hardie-Tynes Mfg. Co.*, decided by the 5th C.A.A., November 15, 1937, 92 F. 2d 886, where a suit had been brought for injunction, accounting and for damages for infringement of patents for sluice gates being manufactured for a Government project, the court pointed out at page 888, that the statute was designed to furnish the patentees an adequate and effective remedy while saving the Government from having its public works tied up and thwarted while private parties were carrying on a long-drawn-out litigation, and that the effort to stop the progress of the work involved through an injunction against the contractor presented "the exact case the statute was designed to meet." See, also, the many other cases collected in the annotations in 28 U.S.C.A. 1498.

Administrative remedies are also available for the infringement of patents and copyrights by the Government. Thus, under 10 U.S.C. 2386 applicable to the military departments; 42 U.S.C. 2458 applicable to National Aeronautics and Space Administration; 42 U.S.C. 2183 applicable to Atomic Energy Commission, and 22 U.S.C. 1758 applicable to procurement under the mutual security program, a claim for damages for patent infringement may be settled administratively.

The effect which the change in 28 U.S.C. 1498 proposed by the bill possibly might have on the established governmental policy for obtaining its requirements on the basis of formal advertising and free and open competition, in our opinion, may present another important factor for consideration. As was the case prior to the act of July 1, 1918, potential suppliers might become reluctant to bid on items requiring the use or manufacture of patented inventions, devices, and processes unless they were patent holders or licensees and as a consequence the sources of supply might be substantially curtailed and possibly limited to patent holders and their licensees. Further, manufacturers and suppliers of Government requirements in all probability would demand indemnification by the Government for any possible patent infringement liability which might arise out of their contractual undertakings with the Government. As a result the cost to the Government for its requirements, which more frequently than not involve the use or manufacture of many patented items, would be substantially increased and normal competition would become restricted and materially reduced.

For example, in our decision of August 25, 1958, B–136916, copy enclosed, the Department of the Air Force requested consideration of a proposal to reject the low bid received under an advertised invitation for bids on requirements urgently needed and then negotiate a contract with a licensee of a patent holder submitting a higher bid for the purpose of enforcing and protecting the rights of the patent owners and their licensees. We advised the Air Force that such action would, in our opinion, constitute an improper restriction of competition under the circumstances and would limit the application of the provisions of 28 U.S.C. 1498. In this case the patentees had resorted to litigation, including a suit in the District Court for the District of Columbia, against the Secretary of Defense requesting a declaratory judgment that 28 U.S.C. 1498 could not be used by a Government agency as long as the agency could procure the patented articles involved from qualified licensees at reasonable cost, a permanent injunction restraining the Department of Defense from invoking 28 U.S.C. 1498 in such circumstances, and an injunction against award of the procurement in question to other than a licensee. This suit was dismissed.

The Department of the Air Force in a letter dated September 16, 1958, requested clarification of our decision of August 25, 1958. In this request it was stated that "Notwithstanding the right afforded the Government to invoke 28 U.S.C. 1498 to preclude an action against a Government contractor for infringement of a patent, the indiscriminate use of such authority is inimical to and destructive of the public policy considerations underlying the patent law." It was also stated in this letter that the "exercise of the authority conferred on the Government by 28 U.S.C. 1498 is discretionary as the interest of the Government may dictate" and that our decision was not construed "to suggest that 28 U.S.C. 1498 should be invoked wherever possible solely to promote greater competition if as a result it will tend to impair the integrity of the patent system." We advised the Secretary of the Air Force in our decision dated October 6, 1958 (B–136916, 38 Comp. Gen. 276 copy enclosed), that it was our view "that section 1498 appears clearly to constitute a modification of the patent law by limiting the rights of patentees insofar as procurement of supplies by the Government may be concerned, and by vesting in the Government a right to the use of any patents granted by it upon payment of reasonable compensation for such use." We also expressed the view that negotiation under 10 U.S.C. 2304(10) was not authorized merely on the basis that the procurement involved patented articles but rather that the determining factor should be whether or not it seems likely that persons or firms other than a patent holder, capable of performing in accordance with the Government's specifications, would be interested in submitting bids. We expressed the further view that what is a fair and reasonable price under such circumstances probably could not be definitely ascertained except under formal advertising conditions, and that negotiation in those circumstances would apparently be in contravention of the general requirement of 10 U.S.C. 2304(a) that "Purchases of and contracts for property or services covered by this chapter shall be made by formal advertising." See, also, our decision of May 10, 1960 (39 Comp. Gen. 760; copy enclosed), involving procurement by the Military Medical Supply Agency of tetracycline hydrochloride tablets from an Italian source offering a price 72 percent less than the lowest domestic offeror.

We adhere to the views expressed in these decisions which we believe are consistent with the congressional purpose and intent of 28 U.S.C. 1498, relating to the use or manufacture of patented inventions by or for the United States, and the cardinal principle that contracts for Government requirements based on formal advertising must be awarded to the lowest responsible bidder.

We appreciate this opportunity for submitting our views on this proposed legislation.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, August 25, 1958.

The Honorable the SECRETARY OF THE AIR FORCE.

DEAR MR. SECRETARY: Reference is made to your letter of July 25, 1958, and its enclosures, requesting our decision as to the proper action to be taken under invitation for bids No. 01–601–58–482, issued by the Mobile Air Materiel Area on June 9, 1958, for 12,450 tube assemblies to connect oxygen masks with oxygen regulators. Your question arises from the fact that it is known that the low bidder is not a licensee under certain patents relating to the manufacturing methods and construction of the tube assemblies, and that three of the other six bidders are licensees of the patent owners.

It is stated in your letter that since 1949 the Air Force has procured the assemblies required only from licensees of the patentee and has recognized royalty payments of 2½ percent. Recently, however, despite protests from the patentee and one of its licensees, R. E. Darling Co., two contracts for assemblies of this type were issued to Herbert Cooper Co., Genesee, Pa., upon its assurance that existing valid patents would not be infringed. Both of these contracts contained the standard authorization and consent clause and the patent indemnity clause. The patents involved are owned by Fred T. and Robert Eldon Roberts. In view of the strong and insistent protests by Fred T. Roberts and the R. E. Darling Co. that an award of these two contracts had necessarily resulted in infringements of the Roberts patents by Herbert Cooper Co., the matter has been investigated by your Patents Division, and the investigation was completed on July 21, 1958.

Based on the information now available to the Patents Division and the defense offered by the Herbert Cooper Co., the Patents Division has concluded that a valid patent has been infringed by Herbert Cooper Co. and there is no indication that the Herbert Cooper Co. would, or could, perform future contracts for such assemblies without infringement of the Roberts patents.

It is stated further in your letter that the Air Force appears able to secure its requirements from the licensee of the Roberts patents at a reasonable price; that there would seem to be no reason intentionally to procure these requirements in such a manner that infringement of the Roberts patents will result; and that on the basis of your present investigation you believe that an award to the Herbert Cooper Co. will result in infringements of the Roberts patents. You therefore request our advice as to "whether the Air Force may reject the bid of the Herbert Cooper Co. and make award to either the Great Lakes Rubber Corp. or the R. E. Darling Co. if those companies are otherwise qualified for award, or whether award must be made to the Herbert Cooper Co. as to low bidder despite our conclusion that such award would result in an unnecessary infringement of the Roberts patents." You state, in this connection, that the Great Lakes Rubber Corp., a licensee, will probably be determined to be a nonresponsive bidder because of the condemnation of defective assemblies heretofore furnished by this company under a recent contract. It is also indicated in your letter that the bid price of the R. E. Darling Co. is less than 3 percent over the low bid price of the Herbert Cooper Co., or approximately the amount of the royalty charged by the patentee to its licensees. We understand, however, that the patent owners have refused to grant the request of the Herbert Cooper Co. that it be licensed under the patents.

You also request advice, in the event it is determined that an award to other than the low bidder would be objectionable under the circumstances, as to whether you may properly reject all bids and negotiate a contract for your requirements with licensees only, in accordance with 10 U.S.C. 2304(a)(1) and paragraph 3.210.2(ii) of the Armed Services Procurement Regulations (ASPR), in view of the Air Force's determination with respect to the patentee position of Mr. Roberts which has been made since the issuance of the invitation.

Reference is made in your letter to current litigation relating to the patentee's claim of infringement. You state that on July 8, 1958, the patentees filed Civil Action No. 63–54 against the Herbert Cooper Co. in the U.S. District Court for the Middle District of Pennsylvania, alleging infringement and requesting injunctive relief. Pursuant to your request the Department of Justice intervened and secured a dissolution of a temporary restraining order which had been granted by the court. Also, due to the urgency of your assembly requirements, the Air Force specifically authorized the Herbert Cooper Co. to proceed with its methods of manufacture, whether or not these methods infringed the patents, in order to invoke the provisions of 28 U.S.C. 1498 and prevent further injunctions. Thereafter, on July 18, 1958, the patentees filed Civil Action No. 1878–58 in the U.S. District Court for the District of Columbia against Secretary of Defense McElroy, requesting a declaratory judgment to the effect that 28 U.S.C. 1498 could not be used by a Government agency as long as the agency could procure the patented articles involved from qualified licensees at reasonable cost. The complaint also seeks a permanent injunction restraining the Department of Defense from invoking 28 U.S.C. 1498 in such circumstances, and further seeks an injunction against award of the pending Air Force procurement to other than a licensee. We have been advised by the Department of Justice that the court dismissed this suit on August 1, 1958.

The invitation for bids on the procurement in question, which you state were opened on July 9, 1958, incorporates the standard clauses entitled, "Notice and Assistance Regarding Patent Infringement;" "Authorization and Consent;" and "Patent Indemnity (Not Predetermined)," as set out in pargraphs 13, 38, and 42 of the "General Provisions," standard form 32, October 1957 edition. The authorization and consent cause apparently was included in the invitation for the purpose of invoking the statutory provisions of 28 U.S.C. 1498, as was done with respect to previous procurements of assemblies from this bidder. Under 28 U.S.C. 1498 it is provided, in pertinent part, that whenever with the authorization or consent of the Government an invention covered by a patent of the United States is used or manufactured by or for the United States without license of the owner or lawful right to the use of manufacture of the invention, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. These statutory provisions relieve the contractor entirely from liability of every kind for the infringement of patents in manufacturing

anything for the Government and limit the owner of the patent to a suit in the Court of Claims for his reasonable compensation, which remedy has been held to be exclusive and comprehensive in character. *Richmond* v. *United States* (*1928*) (275 U.S. 331, 343). The purpose of these provisions was to make it possible for the Government to proceed with its procurement without fear of restriction or delay caused by patent infringement claims or controversies. See the letter of the Acting Secretary of the Navy dated April 20, 1918, quoted in the court's opinion at page 342, which formed the basis for the 1918 amendment to the statute clarifying its effect as above stated. See also *Bereslavsky* v. *Esso Standard Oil Co.* (*1949*), (175 F. 2d 148).

In our opinion, to reject the low bid and make an award to one of the licensees for the purpose of enforcing and protecting the rights of the patent owners and their licensees would constitute an improper restriction of competition under the circumstances, and would not serve the interest of the United States which 28 U.S.C. 1498 was intended to secure, but would limit the application of the provisions of that statute. Under the provisions of the invitation, the United States receives the benefit of the low bid price offered, and is held harmless by the patent indemnity clause in the event of a suit by the patent owners in the Court of Claims. The reference in your letter to the fact that the difference between the low bid price and the bid of R. E. Darling Co., one of the licensees, is approximately the amount of the royalty charged appears to be of no significance, since the low bidder apparently is ready and willing to pay the royalty and, in the event of suit, must indemnify the Government for such compensation as may be awarded by the court and the costs of suit.

With respect to the suggested alternative, to reject all bids and negotiate with the licensees under the exception from the requirements of formal advertising provided by 10 U.S.C. 2304(a)(1) if "it is impracticable to obtain competition," as implemented by paragraph 3–210.2(ii) of the ASPR providing that purchases and contracts may be negotiated pursuant to 10 U.S.C. 2304(a)(10) "when competition is precluded because of the existence of patent rights, copyrights, secret processes, control of basic raw material, or similar circumstances," we are unable to see a proper basis for such action. The procurement here involved has been formally advertised and the bids received conclusively establish the existence of competition. It appears to us that the basic question presented by the facts and circumstances submitted in your letter is whether, under the applicable statutory and regulatory provisions, an administrative determination that an award to the low bidder, the Herbert Cooper Co., will result in infringements of the Roberts patents warrants a rejection of that bid as unreasonable, or on the ground that the company is not a responsible bidder. For the reasons hereinafter indicated, this question, in our opinion, must be answered in the negative.

Paragraph 2–403 of ASPR, entitled "Rejection of Bids," provides, in pertinent part, that "All bids may be rejected by the contracting officer (i) when rejection is in the interest of the Government, or (ii) when he finds in writing that the bids are not reasonable, or were not independently arrived at in open competition, or are collusive, or were submitted in bad faith; *provided* that, if negotiation is to be used after any such rejection of all bids, the requirements of ASPR 3–215 must be satisfied."

Paragraph 3–215.1, entitled "Negotiation After Advertising," prescribes the authority pursuant to 10 U.S.C. 2304(a)(15) for the negotiation of purchases and contracts "if—'for property or services for which he [the Secretary] determines that the bid prices received after formal advertising are unreasonable as to all or part of the requirements, or were not independently reached in open competition, and for which (A) he has notified each responsible bidder of intention to negotiate and given him reasonable opportunity to negotiate; (B) the negotiated price is lower than the lowest rejected bid of any reasonable bidder, as determined by the head of the agency; and (C) the negotiated price is the lowest negotiated price offered by any responsible supplier.' "

Under paragraph 3–215.2, entitled "Limitation," it is provided in part that the authority of paragraph 3–215 "shall not be used unless the Secretary has determined, in accordance with the requirements of part 3 of this section III, that the bid prices, after formal advertising for such supplies or services, are unreasonable or were not independently reached in open competition." This paragraph also provides, in part, that no contract shall be negotiated under this authority unless——

"(ii) The negotiated price is lower than the lowest rejected bid price of a responsible bidder, as determined by the Secretary; and

"(iii) The negotiated price is the lowest negotiated price offered by any responsible supplier."

It seems clear from your letter that the low bid of the Herbert Cooper Co. is considered to be reasonable, and that this company has furnished acceptable assemblies under prior contracts. The advertised invitation contains an express clause whereby the Government gives its authorization and consent, without prejudice to its rights of indemnification under the patent indemnity clause, also included, to use any patented invention necessary for the manufacture of the assemblies required, with certain exceptions not here material. Thus, bids were invited and received on an open competitive basis with express provisions relating to the use of any patents that might be involved, thereby placing all bidders on a common basis in this regard. A bidder under this invitation is not expected nor required to show that he is a licensee of any particular patented invention as a condition precedent to receiving consideration of its bid, and this appears to be in complete conformity with 28 U.S.C. 1498. It follows, therefore, that a failure to meet such requirement affords no legal basis for determining that the low bidder, in this case the Herbert Cooper Co., is not a responsible bidder. Cf. *United States* v. *Brookbridge Farm, Inc.* (111 F. 2d 461).

In your letter you refer to our decisions (in 13 Comp. Gen. 173 and 14 Comp. Gen. 298), sanctioning the award of contracts to low unlicensed bidders "where there was doubt that valid patents would be infringed and the interests of the Government were protected by a patent infringement indemnity clause and ample security." You state that these "decisions seem clearly to imply, however, that where the claim of patent infringement has been administratively determined to be valid, an award should not be made to an unlicensed bidder even though that bidder may be low." A reading of the decision (in 13 Comp. Gen. 173 shows, at p. 175), that the low bidder apparently admitted "that it owns none of the patent rights and has no license for the use of any of the patents which may be involved or claimed to be involved in the construction of these crystal control units nor has it attempted to show that it can manufacture the radio equipment without the involving of some or all of the patents involved." A similar situation is involved here. It was held in that decision, at page 176, that the "low bid may not properly be disregarded merely because it is asserted by a patent owner that its patent will be infringed and that such low bidder is without legal right to manufacture thereunder." Upon further consideration of this case it was held that the contract under such circumstances should be in such terms that the contractor and surety would be liable to the United States for any damages which might be recovered by the owner of such patents in a suit against the Government.

In a supplemental letter dated August 13, 1958, from your Department, it is reported that a motion to vacate order of dismissal has been filed by the attorneys for the plaintiff in Civil Action No. 1878–58. In view thereof, we suggest that the administrative action with respect to the instant procurement should be held in abeyance until you have coordinated the matter with the Department of Justice for a determination as to whether such action might prejudice the Government s position in the pending litigation.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., June 1, 1965.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of the Department of Defense on S. 1047, 89th Congress, a bill to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States.

S. 1047 would amend section 1498 of title 28, United States Code, by adding immediately after and underneath the last paragraph of such section the following new paragraph:

"Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall

determine in the case of each such invention that the national security of the United States requires such use or manufacture."

Section 1498 presently provides, in brief, that liability for patent infringement during the course of a Government contract will fall only on the Government and not on the contractor. The liability is solely for reasonable compensation for unlicensed use of a patent, and neither the Government nor the contractor can be enjoined from infringement. S. 1047 would change this and permit an injunction against the Government or its contractor from unlicensed use of a patent unless the Secretary of Defense or his delegate determines that the national security requires such use.

The statute which S. 1047 would thus amend has been law for more than 43 years. In 1910 a statute was enacted to waive the Government's sovereign immunity to permit a patent owner to sue the Government as well as others for compensation for infringement. In 1918, at the request of Franklin D. Roosevelt, then Assistant Secretary of the Navy, the statute was amended to limit such remedy to a claim solely against the Government, in order to prevent delay of Government procurement by court proceedings against contractors based on allegations of patent infringement, real or fancied. It will be seen that in practical effect the statute secures to the Government the right to use patented inventions without fear of injunction or other harassment against the Government or its contractors. Such a right appears essential if Government procurement is not to be held up by insubstantial but time-consuming allegations or by exorbitant royalty demands and refusals to license second sources or to practice inventions based on patents the Government has itself granted.

The Department of Defense therefore strongly opposes S. 1047 because it would permit injunctions against the Government or its contractors. Although S. 1047 would authorize the Secretary of Defense to determine that such infringement was necessary in the interest of the national security, such a procedure would introduce serious delay and uncertainty into the procurement process as discussed later. Moreover, there are agencies other than the Department of Defense which engage in procurement having national security implications, such as the Atomic Energy Commission and the National Aeronautics and Space Administration, but the proposed bill makes no provision for their relief, unless it is intended that the Secretary of Defense shall also act on their behalf.

However, removal of the power to secure an injunction against Government procurement does not deprive the patent owner of reasonable compensation, for the unlicensed use of his patent. Under 10 U.S.C. 2386, the military departments are authorized to settle infringement claims administratively before the suit in the Court of Claims is brought. In the case of procurement of standard commercial items, the Government usually requires that bidders agree to indemnify it for the patent infringement which may occur in the course of performing the contract.

Moreover, under S. 1047, where security considerations would not justify Government purchase of a patented article from an unlicensed, but otherwise responsible, responsive low bidder, the patent holder would largely be enabled to determine the price to be charged to the Government. It is understood that it has always been and presently is considered improper policy, unbusinesslike procedure, and unfair to the taxpayers for the Government to be required to pay unreasonable prices for items which can be obtained from other sources.

The manufacture, use, or purchase of a patented item by or for the Government is not a violation of any "rights" of the patent owner, but is simply an exercise by the Government of the right reserved to it by section 1498. As the Supreme Court has frequently observed, 28 U.S.C. 1498 is neither a remedial nor a jurisdictional statute, but rather "an eminent domain" statute in the field of patent law, reserving a license to the Government subject to fair compensation to the patent owner. The proposed legislation, contrary to the best interests of the Government and the taxpayers, would serve only to restrict the exercise of this right in the Government solely in the interest of the patent owner who, under section 1498 as presently worded and under such statutes as 10 U.S.C. 2386, is assured of just and reasonable compensation whenever the Government uses his patented invention in the public interest. Such a restriction on the Government and against the public in favor of the patent owner only, will clearly not advance the interests of the Government and the public which 28 U.S.C. 1948, 10 U.S.C. 2836, and the procurement statute 10 U.S.C. 2304, were all intended to serve.

In addition to the administrative burden which the proposed legislation would impose upon the Secretary of Defense, or his delegate, in determining in each case involving a patented article whether the national security requires the

manufacture and use of such patented item, such legislation would impose an impossible, time-consuming burden upon Government procurement personnel to (*a*) make a thorough search of prior art patents in the U.S. Patent Office to determine the existence of any and all extant patents relating to the procurement involved; (*b*) carefully study and interpret such patents to determine whether under applicable principles of patent law any one of the usually numerous claims of any such patents would be infringed by the proposed procurement; (*c*) perform legal research to determine whether each of the applicable patents has previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction; and (*d*) where any one or more applicable valid and subsisting patents are found, to enter into time-consuming and frequently difficult negotiations with the patent owners for royalty-bearing licenses, all before any procurement contract could be awarded. As has been frequently observed, the determination of the amount of reasonable compensation for use of a patented item is difficult even for the courts, and is rendered even more so where the patent owner does not have an established license program or there is no established royalty rate for the particular industry or area of technology involved.

If amended as proposed, section 1498 would give to a patentee not only the right to reasonable compensation as it presently does, but would also give him a vested right to a Government contract for the item on his terms and prices unless the Secretary of Defense, or his delegate, determines that the national security of the United States requires the use of the patented item. Furthermore, the proposed amendment requires that the necessary administrative procedures and determinations outlined above be accomplished prior to award presumably on the theory, contrary to actual experience, that such procedures, determinations, and license negotiations can be readily and quickly effected. In most procurements, and particularly those involving "performance type" specifications, neither the Government nor the patentee can determine with any certainty whether there is an infringement of the patent until the procurement item has been manufactured and delivered to the Government.

The Department of Defense, for the reasons stated above which assert a substantial impairment of the procurement process, strongly opposes the enactment of S. 1047.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely,

L. NIEDERLEHNER,
Acting General Counsel.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 23, 1965.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter of May 6, 1965, requested the views of the General Services Administration on S. 1047, 89th Congress, a bill to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States.

The bill would amend section 1498 of title 28, United States Code, to prohibit the use or manufacture by or for the United States of any invention described in and covered by a valid patent, without license of the owner thereof, unless the Secretary of Defense shall determine in each such case that the national security of the United States requires such use or manufacture.

Presently, 28 U.S.C. 1498 provides that when a patented invention is used or manufactured by or for and with the consent of the United States, but without license of the owner of the patent, any action for patent infringement is exclusively against the United States in the Court of Claims, for money damages.

The primary purpose of this section is to provide an action for money damages against the United States when a Government contractor has infringed a valid patent in the performance of his Government contract, and thus in effect to prohibit issuance of preliminary injunctive relief against the infringing Government contractor. Until enactment of this provision, the performance of a Government contract could be halted by injunction issued against the allegedly infringing contractor and delayed for the very long period of time which is customarily necessary to adjudicate private patent litigation.

The proposed bill could have the effect of defeating this purpose of 28 U.S.C. 1498. By prohibiting the use or manufacture of a patented invention without prior license for such use or manufacture from the owner of the patent, the bill would permit suits for injunctive relief to be brought against a Government contractor, and such suits might well raise both the issue of the validity of the patent and the issue of the alleged infringement. Such suits have usually proved very time-consuming, and the trial of any such suit might delay the performance of a Government contract for an extended period.

The proposed exception to the use of the injunctive process which is included in the bill might also tend to delay performance of Government contracts, since it would require Government agencies, other than the Department of Defense, which make procurements that involve national security to obtain a certification from the Secretary of Defense to the court in each case. In our opinion, such an arrangement is undesirable since it restricts the ability of an agency head to discharge his procurement responsibility with respect to his agency's programs. In addition, the investigation and evaluation of factors involved in making the necessary determination could make the exception ineffective.

For the above reasons, this agency opposes the proposed legislation as not being in its interest or in the Government's interest generally.

The financial effect of the enactment of this measure cannot be estimated.

The Bureau of the Budget has advised that, from the standpoint of the administration's program, there is no objection to the submission of this report to your committee.

Sincerely yours,

LAWSON B. KNOTT, Jr., *Administrator.*

U.S. DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., June 14, 1965.

Hon. JAMES O. EASTLAND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, D.C.

DEAR SENATOR: This is in response to your request for the views of the Department of Justice concerning S. 1047, to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States.

Under its present provisions, section 1498 of title 28, United States Code, provides that whenever a patent is used by or for the United States without the owner's consent, he has a remedy by action in the Court of Claims for the recovery of reasonable compensation for such use. The Government's need for such right of use arises from the varied requirements of the Government establishment which include the procurement of weapons and other articles used in carrying out its activities.

The bill would amend section 1498 so as to prohibit use by the United States of a patent without license of the owner, unless the Secretary of Defense, or his delegate shall determine that the national security of the United States requires the use of such patent.

Inasmuch as the bill would primarily affect the Department of Defense and the other procurement agencies, the Department of Justice defers to the views of those agencies concerning its enactment. However, the proposal would appear to create serious problems in the procurement of weapons and other devices. At the present time a Government contractor is free to use any patented inventions deemed necessary to carry out his contract. This would no longer be possible under the bill. Before a contractor could utilize a privately owned patent the Secretary of Defense, or his delegate, would have to make a determination that the national security of the United States requires such use or manufacture. An evaluation of whether a particular patented invention is required to be used in the interest of national security would be a time-consuming procedure, since in carrying it out it would be necessary to determine what alternatives to the use of such patent are available. Only in this way could it be determined whether the patent is required to be used for the national security. The delays that may be involved in the performance of a contract would appear to be undesirable.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely,

RAMSEY CLARK,
Deputy Attorney General.

(The following was taken from a letter dated May 28, 1965, to Senator James O. Eastland from James E. Webb, Administrator, NASA:)

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

* * * * * * *

The Williams bill, S. 1047

Both the Williams bill and section 9 of the Saltonstall bill are directed to claims against the Government arising by virtue of its infringement of privately owned patents. The Williams bill would add a new paragraph to section 1498, title 28, of the United States Code, providing that—

"Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture."

The net effect of the Williams bill would be to require NASA and all of the other Government agencies and departments to purchase necessary devices or products from a patent owner or his licensee no matter how unreasonable their terms, or presumably do without these products, unless the Secretary of Defense determines that the requirements of national security dictate to the contrary The Williams bill, then, would effectively remove from Government agencies the immunity they now enjoy under 28 U.S.C. 1498. This section presently provides that the remedy of a patent owner whose patent has been infringed by the Government or by a Government contractor with the Government's authorization and consent, is a suit against the Government in the Court of Claims. The liability of the Government is solely for reasonable compnesation, and neither the Government nor the contractor can be enjoined from the infringement.

Section 1498 which the Williams bill would practically nullify in its application has been the law for more than 47 years. In 1910 a statute was enacted to waive the Government's sovereign immunity to permit a patent owner to sue the Government for reasonable compensation for patent infringement. In 1918, at the request of the Under Secretary of the Navy, this 1910 statute was amended to extend the remedy to cover infringements by contractors on Government business and, at the same time, to limit this remedy solely to a claim against the Government, in order to prevent delay of Government programs by court proceedings against contractors based upon allegations of patent infringement, real or fancied. In practical effect, 28 U.S.C. 1498 secures to the Government the power to cause infringement of patents without fear of injunction or delays. Such a power in NASA's view is essential if Government programs—and this includes those not directly related to national security, as well as military and defense programs—are not to be held up by insubstantial but time-consuming allegations or by exorbitant royalty demands and refusals to license second sources. For this major reason, therefore, NASA opposes enactment of the Williams bill.

More technically, it is not clear under the provisions of the Williams bill whether a patent owner would have a cause of action, for example in the nature of a mandamus action, against NASA, or whether the only action would be against an unlicensed supplier to NASA, if NASA were to purchase products alleged to infringe the patent owner's patent. It is clear under the proposed bill, however, that the question of whether a particular procurement of NASA would qualify for the exemption would be determined by the Secretary of Defense, and not by the Administrator of NASA.

Under section 203(b)(3) of the National Aeronautics and Space Act of 1958, 42 U.S.C. 2473(b)(3), NASA has authority to enter into royalty-bearing license agreements under privately owned patents where there is a reasonable likelihood of future infringement. This authority does not extend, however, to settlements only for past infringements. Thus, NASA—unlike the Department of Defense which under 10 U.S.C. 2386(4) does have specific authority to settle for past

infringement—must deny claims that relate solely to past infringement, even though such claims are well founded. It is understood that this is the case also for many other departments and agencies. Because the authority to settle for past infringement would appear essential to recognize fully the rights of private patent owners whose patents have been infringed by the Government, NASA favors the rationale underlying section 9 of the Saltonstall bill which provides authority across the board to Government agencies to settle for past infringement. However, NASA questions the advisability of using the rather elaborate administrative procedures of section 7 as a mechanism to determine the merits of a claim. NASA also seriously questions the advisability of judicial review by the various courts of appeal as an alternative to Court of Claims infringement actions.

To implement the rationale behind section 9 of the Saltonstall bill, and to carry out to some extent the objective of the Williams bill, NASA would favor amendment of 28 U.S.C. 1498. In 1960, section 1498 was amended by Public Law 86–726 to add a new section (b) directed to copyright infringement by the Government. This new section (b) was patterned generally after the then-existing section on patent infringement, with one important change. It was provided—

"That before such action against the United States has been instituted the appropriate corporation owned or controlled by the United States or the head of the appropriate department or agency of the Government, as the case may be, is authorized to enter into an agreement with the copyright owner in full settlement and compromise for damages accruing to him by reason of such infringement and to settle the claim administratively out of available appropriations."

NASA strongly urges that a similar provision be included in section 1498(a), giving similar authority to all agency heads to settle meritorious claims for patent infringment. Such authority, coupled with a policy of honoring well-founded claims, would go a long way toward achieving the objectives of the Williams bill and section 9 of the Saltonstall bill.

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Senator McCLELLAN. Anything further, Mr. Counsel?

Mr. BRENNAN. No, sir.

Senator McCLELLAN. The first witness on S. 1047 will be Dr. Austin Smith.

STATEMENT OF DR. AUSTIN SMITH, PRESIDENT OF THE PHARMACEUTICAL MANUFACTURERS ASSOCIATION; ACCOMPANIED BY THOMAS J. BEDDOW, THOMAS P. CARNEY, AND GEORGE E. FROST

Dr. SMITH. The witnesses who accompany me today are more expert in some areas being explored than I am.

Two of them are prepared to be of assistance as we discuss S. 1809, S. 789, and 1899, and the third will assist me in trying to be helpful in relation to S. 1047.

We have a very short statement for the record.

Senator McCLELLAN. Do you desire to have it made a part of the record and then summarize it?

Dr. SMITH. Yes, sir.

Senator McCLELLAN. The statement will be made a part of the record at this point.

(The statement referred to follows:)

STATEMENT OF AUSTIN SMITH, M.D., PRESIDENT, PHARMACEUTICAL MANUFACTURERS ASSOCIATION

Mr. Chairman and members of the subcommittee, we have asked for the opportunity to present a separate statement on S. 1047 since it deals with a subject which is different from the one encompassed by the three bills we have been considering up to now. For the purpose of this presentation, I have asked Mr. Thomas J. Beddow, of the Washington law firm of Gardner, Morrison & Rogers, to join me at the witness table.

The necessity for the enactment of S. 1047 in our opinion springs from the conflict which now exists between the Constitution's policy (art. 1, sec. 8, clause 8) "to promote the progress of science and useful arts" by giving inventors "exclusive rights" for a limited time to their inventions, on the one hand, and the increasingly widespread policy of Government agencies deliberately to infringe patents on the other.

Until very recent years, agencies of the Federal Government have generally followed the policy of buying patented products only from the patent holders or their licensees. For the past 5 years, however, certain of these agencies have engaged in the intentional violation of American patents.

Several agencies of the Federal Government, but principally the Defense Department, have purchased certain drug products covered by U.S. product patents, from unlicensed sources for use in the United States in deliberate violation of these patents. Frequently, these sources have been engaged in manufacturing activities in Italy or they have prepared dosage forms in the United States from bulk drugs imported from Italy.

As authority for such purchases, these agencies have given a new twist to an old statute (28 U.S.C. sec. 1498). This statute provides that whenever an invention covered by a U.S. patent is used or manufactured by or for the United States, without lawful right to use or manufacture the same, the patent owner's remedy shall be by action for damages against the United States in the Court of Claims.

The infringing agencies claim that this statute, in effect, authorized the Federal Government to infringe U.S. patents. However, not only are the words of the statute devoid of any such specific authorization, but in addition the legislative history of the statute certainly does not indicate a congressional purpose to permit the Federal Government to engage in a willful disregard of U.S. patent rights.

History of the present law

In 1910 the Congress sought to protect the rights of patent owners in cases in which the United States had inadvertently infringed their rights (act of June 25, 1910, ch. 423, 36 Stat. 851). It provided that a patent owner injured by such tortious taking of this property could bring an action against the United States in the Court of Claims to "recover reasonable compensation for such use."

The House report (H. Rept. No. 1288, 61st Cong., 2d sess., p. 2) accompanying H.R. 24649, 61st Congress, which became the act of 1910 explained the purpose of the legislation in part, as follows:

"The United States cannot be sued except where it has consented thereto by statute, and unless this or some similar bill shall be passed the owners of patents will continue to be the only persons who are outside the protection of the fifth amendment to the Constitution, which provides: 'Nor shall private property be taken for public use without just compensation.' "

By the act of July 1, 1918, c. 114, 40 Stat. 705, Congress amended the 1910 law to provide:

"That whenever an invention described in and covered by a patent of the United United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use of manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture."

In *Richmond Screw Anchor Co.* v. *United States*, 275 U.S. 331, 343 (1928) the Supreme Court of the United States explained the limited purpose of this statute as follows:

"The intention and purpose of Congress in the act of 1918 was to stimulate contractors to furnish what was needed for the war, without fear of becoming liable themselves for infringements to inventors or the owners or assignees of patents."

There have been other amendments to the act of 1910 not relevant here, and that act, as amended, now appears as section 1498 of title 28, United States Code. Thus, the statute which Congress enacted to give a remedy to patentholders for the Government's inadvertent infringement of their patents, and which Congress amended to "stimulate contractors to furnish what was needed for war" has in the past 5 years, come to be treated as a statute encouraging the Federal Government to engage in the willful infringement of any patent it chooses, for any reason it chooses.

Attempted justification for Government patent violations

The attempted justification for the violation of U.S. drug patents by Government agencies has been made principally on the ground that the prices quoted by suppliers of infringing dosage forms are often lower than those quoted by the U.S. patent owners and their licensees. Italian and domestic patent infringers, however, have paid no research costs for discovering or developing the drugs covered by the patents they are infringing. They are attempting to exploit ready-made markets which they have spent nothing to develop and are spending practically nothing to maintain. In addition, Italian producers of such drugs pay wages that are about 25 percent of the rates prevailing in the United States and are free from the burdens of laws enacted to protect American labor, and from U.S. social security, income, and other forms of taxes.

The Federal Government's purchases of unlicensed Italian-made drug products or unlicensed dosage forms made from Italian bulk drugs have been facilitated by the fact that Italy (alone among the major countries of the free world) provides no patent protection for either drug products or processes. The elimination of any patent protection for pharmaceuticals occurred in 1939 during the Mussolini regime. As a result, Italian concerns have developed quite a business out of copying the developments, products, and inventions of the American drug industry.

Some of the drugs which have been purchased by our Government were manufactured by companies in Italy which have recently been found by a New York court to have received confidential process information and cultures stolen from the American Cyanamid Co. This has understandably aggravated the concern of the U.S. drug industry over governmental purchase of infringing drugs from Italy.

It is a matter of public record that several individuals are under Federal indictment in New York for transporting to Italy stolen drug cultures and for conspiracy. Three of them have pleaded guilty. While those in this country who were involved in this violation of law can be punished, many of the Italian companies which received delivery of the confidential process information and stolen cultures are still producing and marketing those drugs, although our Federal governmental agencies have indicated that they are no longer purchasing from them.

This then is the plight of the American patentholder: The U.S. Government issues a patent and says to him by so doing "This is the guarantee of the U.S. Government that (at least in this country) your invention is protected from pirating—protected, that is, from pirating by anybody except the U.S. Government." A foreign manufacturer, in a land which will give no protection to the U.S. patentholder, pirates the protected invention. The foreign manufacturer was put to no expense to develop the invention. He did not have to invest in the complicated apparatus of modern research; he did not have to think any original thoughts; he did not have to sweat over the invention, or test it, or develop it, or market it. He did not have to nurse it to commercial maturity. In most instances, he need not pay American social security or State and Federal income taxes. He is free from the burden of various laws enacted to protect American labor. His costs are low, his investment small. Yet, under the policies which are being pursued, the biggest single customer in the United States, namely, the U.S. Government, is his.

Meanwhile, the American patentholder is told that all he can do is sue the United States for a limited amount of damages. Whether even limited damages will be paid depends altogether upon whether the patentholder can afford to bring an action in the Court of Claims and wait through the 2 to 4 years an adjudication of his rights is likely to require in that court, and wait through a possible appeal as well. Meanwhile, the Government and its infringing supplier are free to invade the patentholder's rights again and again because the patentholder cannot get an injunction against the Government to stop the infringement, as he could were a private party guilty of similar tortuous conduct.

Necessity for legislation

It is necessary to amend title 28, United States Code, section 1948, to make it clear that this statute does not constitute a general authorization to Government agencies intentionally to infringe patents.

In addition it should be clearly recognized that purchases of unlicensed drug products by the Federal Government are not in the public interest. The fact that American drug research will be discouraged by such purchases will eventually be detrimental to American health. Purchases of unlicensed Italian-made drug products prepared from Italian-made bulk drugs, can cause loss of jobs by American workers as a result of displacement by low-paid Italian workers; hurt the

unfavorable American balance of international payments; and reduce tax revenues for Federal, State, and municipal government.

There is an important issue at stake in the matter of governmental purchases of drug products in violation of U.S. patents, The laws of the United States have provided a strong patent system for the precise purpose of insuring industry and independent innovation sufficient economic return to justify the long and expensive research work which has led to the discovery of so many drugs in this country.

S. 1047 recognizes that situations will arise where the "national security" requires the use of inventions by the United States irrespective of patent rights. The bill, therefore, provides that nothing in section 1498 of title 28, United States Code, shall authorize infringement of a U.S. patent unless the Secretary of Defense, or his delegate, shall determine that the security of the United States requires such infringement.

(*a*) *American drug research discouraged*

The American prescription drug industry is characterized by unusually high research expenditures. From the time a promising compounds is first examined in a research laboratory until the time it may finally be marketed, an average of 5 or 6 years of work are likely to be involved. The cost of research and development of a single new drug has been estimated to average about $5 million.

Money is, of course, also spent on promising new drugs which are ultimately discarded and never reach the market for one reason or another. For the drug industry as a whole, the odds are more than 6,000 to 1 that a newly discovered drug will never reach the market. In spite of these odds, the American drug industry has discovered, developed, and marketed nearly two-thirds of the 604 new drugs made available worldwide since 1941.

Comparisons of death from several diseases between the year 1935, when the United States had a population of 127 million persons, and 1962, when there were 187 million persons, are significant. In 1935, 70,000 people in the United States died of tuberculosis; in 1962, fewer than 10,000. More than 100,000 Americans died of pneumonia and influenza in 1935; in 1962, about 61,000. Syphilis took the lives of almost 20,000 in 1935; in 1962, fewer than 3,000. More than 4 million Americans living today would be dead if the 1937 death rate had continued.

The American economy is strengthened by its patent structure. More drugs have been discovered in the United States under the protection of a strong patent system than in any other country. Italy, with no product or process patent protection in the drug field, has produced no important drug discoveries during at least the past 15 years.

Expensive as it is, drug research is not a dispensable luxury. It is the very lifeblood of an industry devoted to saving lives and promoting health. Further vital discoveries require that intensive industrial medical research continues. To diminish incentive for continuance of this research through weakening of the patent system would be a distinct disservice to humanity.

(*b*) *Loss of jobs by American labor*

The purchase of unlicensed foreign-made drugs by the Federal Government cannot help but adversely affect American workers. Added to the reduction in sales volume is the so-called economic multiplier effect—i.e. the additional jobs these wage earners would have created for other workers by spending their wages in the United States. It should be recalled, for example, that there is a very substantial difference between wage rates in this country and in Italy. Thus, one effect of extensive purchasing of infringing Italian-made drugs for use in the United States is to displace highly paid American workers with low-paid Italian workers. It is also worth emphasizing that the laws of Italy do not provide the degree of protection for labor that is provided in the United States under such statutes as the Fair Labor Standards Act, Social Security Act, workmen's compensation statutes, etc.

(*c*) *American balance of payments adversely affected*

This country's overall balance-of-payments situation remains a serious problem which deservedly continues to receive close attention in Washington. The purchase of foreign-made drugs and other products and their imporation to the United States for use in violation of U.S. patents should be scrutinized most carefully for the direct and adverse impact these practices have upon our unfavorable international balance-of-payments situation. It is our understanding that between December 1959 and August 1964 the Defense Medical Supply Center (and its predecessor agencies) spent about $10.1 million in the purchase from abroad of unlicensed drug products covered by U.S. patents.

While these purchases have affected the balance of payments adversely, it is important to note on the other hand that the activities of the American drug industry have favorably affected this balance. As one indication of this, for 1963 the export of drugs from the United States increased by 15 percent over 1962, whereas the domestic sale of drugs in 1963 exceeded the previous year by only 5 percent. Furthermore, in 1963 the total export of all drugs (both prescription and over-the-counter drugs) from the United States was about $270 million.

(*d*) *American tax revenues reduced*

One cannot precisely estimate the aggregate overall loss of tax revenues to Federal, State, and local governments as a result of the Federal Government's purchase of foreign-made drugs and other products from unlicensed sources for use here in violation of U.S. patents. Nor can the extent of loss, should the practice become more widespread, be accurately predicted. It is clear, however, that the loss in taxes has been substantial and that if this practice continues, such losses will increase.

Purchases by the Federal Government of products made in the United States put money to work within this country and produce tax revenues for Federal, State, and local governments. When products made abroad are purchased from a foreign company, no such tax revenue is generated. Continued pursuit of a policy which would diminish these tax revenues would be indeed shortsighted.

In conclusion, the Pharmaceutical Manufacturers Association urges that you strengthen the American patent system and promote the cause of better health by enacting into law S. 1047, 89th Congress.

We appreciate very much the opportunity to appear before you today and will be happy to answer any questions you may have.

Dr. SMITH. We will cover S. 1047 very briefly. In this presentation, Mr. Thomas J. Beddow, of a Washington law firm, is here on my far right to help answer questions and provide information for the members of the committee.

As we understand it, the necessity for this proposed act springs from the conflict which now exists between the Constitution's policies to promote the progress of science and useful arts by giving inventors exclusive rights on the one hand, and the increasingly widespread policies of Government agencies to deliberately infringe patents on the other.

Senator MCCLELLAN. We will let your prepared statement be printed in full in the record at the beginning of your remarks.

Dr. SMITH. Yes, sir.

On the first few pages of our statement we refer to practices that have emerged in more recent years on the part of the Federal Government agencies of buying patented products which are in violation of the patent holders or their licensees. There are specific examples of what is occurring.

On page 2, for example, we mention that certain drugs, certain drug products covered by U.S. product patents are being purchased by the Federal Government, principally the Defense Department, from unlicensed sources for use in the United States. This is in deliberate violation of these patents.

On the same page, we mention the fact that the agencies have referred to an old statute 28, U.S.C. section 1498. We believe that these agencies who have authorized the purchases have given a new twist to this old statute because we do not think that the original wording was intended to cover the situation as it now exists.

On page 3 there is some further explanation.

On page 4 there is a statement to which I would like to refer briefly. The justification for the violation of U.S. drug patents by Government agencies has been made principally on the ground that the prices quoted by suppliers of infringing dosage forms are often lower than

those quoted by the U.S. patent owners and their licensees. There is a long statement that we could have submitted, Senator, concerning the factors that should go into cost, but we have attempted to just refer to a few as examples.

In the second part of that paragraph on page 4, we point out that these infringers, and we specifically mention the Italian patent infringers, have not paid any research cost for discovering or developing the drugs. We believe that they are attempting to exploit ready-made markets, or in other words, markets created by others. In addition, in view of the fact that the Italian producers pay wages considerably lower than those that prevail in the United States, and that they are free from the burdens of laws enacted to protect American labor, there is an unfairness in this action by the Federal Government in purchasing these drugs abroad.

On page 4 at the bottom and on page 5, we make further reference to this practice and particularly mention the Italian situation again. And also we mention that some of the drugs which have been purchased by our Government were manufactured by companies in Italy which have recently been found by a New York court to have received confidential process information and cultures which were stolen from an American firm. The firm is identified by name in our prepared statement.

Furthermore, we mention that it is a matter of public record that several individuals are under Federal indictment in New York for transporting to Italy stolen drug cultures and for conspiracy, and three already have pleaded guilty. We question then this action and refer to the plight of the American patentholder, where on the one hand the U.S. Government issues a patent or causes by its actions to issue a patent and says to him in effect, "Here is a guarantee from pirating," but, on the other hand, the Government deliberately buys products which violates this patent protection.

In other words, buy from those who pirate the protected invention.

Senator McCLELLAN. In other words, this bill you refer to would prohibit the Government from patronizing those who have surreptitiously so to speak entered the market by usurping a patent that this Government has issued for protection of the American businessman and enterprise and that are being encroached upon by this foreign producer.

Dr. SMITH. Yes, sir.

Senator McCLELLAN. The Government has been patronizing these foreign producers because they possibly can get the drug cheaper, whereas these foreign producers made no investment in the research or the development of it or the developing of the market here for the product?

Dr. SMITH. Yes, sir.

Senator McCLELLAN. Is that correct?

Dr. SMITH. Yes, sir.

Senator McCLELLAN. Now you think this bill then is good and should be enacted to prohibit the Government from purchasing from those people?

Dr. SMITH. Yes, sir.

Senator McCLELLAN. And thus keeping them in the American market?

Dr. SMITH. This we do, Senator.

Senator McCLELLAN. So you support this bill S. 1047?

Dr. SMITH. We do, and on page 7 set forth some of the reasons that support your observation. In this connection, where we refer to the cause of loss of jobs, I thought that the members of the committee might be interested in one short paragraph of a memorandum that was prepared for me just a few days ago, not in response to any request concerning legislation, but came to me because of another request that bore on an entirely different related subject. I would like to read this paragraph.

The Federal Veterans' Administration and other agencies have been purchasing drugs at the rate of about $85 million a year. Of this amount about 2 to 3 percent represent drugs involving infringed patents. So there is about $2 million purchased for such drugs per year, and the total since this practice began several years ago is about $10 million.

Now, the paragraph to which I would like to direct your attention, because I found it extremely intriguing, and certainly emphasizes the problems that arise today when this practice is encouraged. This is the paragraph:

> For each $1 million in sales loss to U.S. firms, 41 employees do not work or are caused not to work in the drug industry—

in effect, are unemployed——

Senator McCLELLAN. How many million dollars did you say?

Dr. SMITH. For each $1 million in sales loss.

Senator McCLELLAN. How much did you say we are spending?

Dr. SMITH. About $2 million a year for drugs.

Senator McCLELLAN. So we multiply by 2 the figure you are giving us?

Dr. SMITH. Yes. [Continuing:]

> Forty-one employees do not work. There is an additional effect on the supplier industries to the extent of about 6 production laborers being unemployed and approximately an additional 60 other workers. It follows then that a sales loss of $1 million has a net impact on American employment of causing 53 persons to be unemployed.

In extending this to purchases of the $10 million or so of the drugs since 1959 by the military and other Federal agencies when this practice started an economist estimates on a projected basis about 530 man-years of American employees were not hired or did not work because of this production loss of drug production to other countries. This amounts to about $2.6 million in lost wages to American workers.

So, Mr. Chairman, the Pharmaceutical Manufacturers Association supports this proposed bill and urges that you consider strengthening the American patent system by enacting this law.

Senator McCLELLAN. $2 million is a very small drop in the bucket compared to the $100 million a year we are spending, is it not, and compared to the total number of unemployed, the 53 people who are not working is very small. But there is a principle here. I do not think our Government should operate so as to permit the encroachment upon patent rights by permitting foreigners to encroach upon them and thus profit by that encroachment. I should say to infringe upon a patent right.

Dr. SMITH. It is the principle to which we are speaking, sir, but I thought that this observation might be interesting.

Senator McCLELLAN. Yes, we are glad to have that. I think it is quite proper that the record reflect that. I was just trying to weigh how important the issue is.

Senator Burdick?

Senator BURDICK. Anyone of the panel can answer this question. What is the disparity in the price between the Italian product and the American product?

Dr. SMITH. I cannot tell you about the individual prices that are involved because obviously a trade association does not get into that area.

Senator BURDICK. Certainly the U.S. Government would not engage in this unless there was quite a disparity in price, would it?

Dr. SMITH. Just this morning, and this may or may not provide an answer, there came to my desk an exchange of correspondence. This was unsolicited. This was between the Veterans' Administration, a representative of the Veterans' Administration and a physician, who I understand is a consultant who had questioned this practice. The representative of the Veterans' Administration pointed out that at present the Veterans' Administration is buying only one kind of a compound, or one drug. It has bought others in the past. He does refer to the differences in bids, difference in price of bids, but at the same time he points out that there are only three or four factors taken into consideration, when these bids are calculated. He says, for example:

> In calculating a foreign price, we include an additional charge such as import duties, transportation cost of plant inspection, and product tested.

My contention is that the way these prices are computed, the comparison made between the prices is not a fair calculation when you take into consideration all of the other factors that I have mentioned, such as taxes, the difference in employment and various other things.

Mr. BEDDOW. Senator, may I observe that on the most recent infringing purchase made by the Defense Department, which was in the case of a drug called mequazine, the quotation from the lawful manufacturer was $2.30. The award was made to an infringing foreign source at $1.30. The quantity involved was approximately, as I remember it, somewhere in the neighborhood of 100,000 units. Now certainly after you adjust the price of the foreign product, $1.30, for the kind of factors that Dr. Smith has referred to, whether there is any disparity in price between the $2.30 quoted by the lawful manufacturer and the $1.30 on the basis of which the contract was awarded to an infringing source is at least doubtful.

Senator McCLELLAN. Is what?

Mr. BEDDOW. It is at least doubtful whether there is any real disparity in the fundamental price, when you take into account lost American taxes, the damage which this kind of thing does to inventive incentive, things of that sort. Whether there is any real disparity, is at least questionable.

Senator BURDICK. I do not know, I am just asking. I am wondering why the U.S. Government does business like this. There must be some reason.

Mr. BEDDOW. I have given you a precise example which is the most recent procurement I know of, where the price quoted by the

lawful source was $2.30 and the award was made to an infringing source at $1.30.

Senator BURDICK. That is one product. Maybe we can get some more before the hearing is over.

Dr. SMITH. To answer your question, I will give you what I think is an answer because I do not have the facts, Senator. On the basis of conversations I have had with various people in the Government and on the basis of information supplied in one way or another by members of the industry to the issue at large rather than to any specific price quoted for the products, I think that the reason the Government engages in this practice is because the purchasing departments fail to take into consideration all the factors that must be judged when you try to compare the price of one product with another. As I mentioned in this letter that came from a representative of the Veterans' Administration, only four factors were considered, but there are really a number of other factors that should be considered, and they are not taken into consideration.

Senator BURDICK. You said in your statement that this is in violation of the patentholders' rights, and I look at page 2 of your statement, and I find that the patent owner has a remedy for damages in the U.S. Court of Claims, if he has infringement of his patent.

Dr. SMITH. And on page 6, sir, there is a further explanation of how long this takes and what it may mean or may not mean. At the bottom of the page, for example, I mention that the American patentholder is told that all he can do is sue the United States for a limited amount of damages. Whether even limited damages will be paid depends altogether on whether the patentholder can afford to bring an action in the Court of Claims and wait through the 2 to 4 years of adjudication of his rights that is likely to be required in that court and wait through a possible appeal as well.

Meanwhile, the Government or its infringing supplier are free to violate the rights again and again because the patentholder cannot get an injunction against the Government to stop the infringement as he could were a private party guilty of similar tortious conduct.

Senator BURDICK. In basic law you do not get judgment where you have an adequate remedy at law but here you have an adequate remedy at law. You can go to court and get your damages.

Mr. BEDDOW. First of all, you get involved in a long-drawn-out lawsuit. Meanwhile the repetitious violations of your patent rights go on. Then you are faced with the proposition of what is a fair measure of your damages, and normally speaking in a Court of Claims action, the fair measure of damages is finally deemed to be some percentage of the price paid by the Government to the infringing source, which is anything but adequate in the usual case.

Senator BURDICK. This leads me to a third step. When I was sitting in this hearing room about 3 weeks ago, we had the American Bar Association here, and one of the witnesses of the American Bar Association, to my shock and amazement, said that 60 percent of the patents that are challenged in court were held invalid. Do you agree with that?

Mr. BEDDOW. I am not a patent lawyer. I would defer to a patent lawyer.

Senator BURDICK. This may have something to do with it.

Mr. FROST. I think in this instance it does not, but first let me answer your question if I may. You can find statistics of that order. There are reasons for those statistics in the nature of patent litigation, problems of finding prior art. I would like to just point out that, in the case we are discussing, we are not concerned with the patent validity side of the matter at all. If there is a problem of patent validity, why that can be ironed out in an infringement suit. But I do not think in the context of this legislation or proposed legislation the validity question entered into it, sir.

Senator BURDICK. If the U.S. Government comes to the conclusion that you have not got a valid patent, they go about doing business and buying the products at a lower price.

Mr. FROST. I would offer this suggestion, if I may, sir. That is not the finding that is made before these purchases are made.

Senator BURDICK. It is not a finding either. I am just making a suggestion as to what might be the reason.

Mr. BEDDOW. Senator, that is not the reason. That reason has never been announced by the Federal Government. The Federal Government has said that it has adopted this practice recognizing the validity of the patents involved, simply because it feels that it is saving money which really means in the case of the procuring agency that it is doing nothing more largely speaking than saving its own appropriations to the extent that it can buy the infringing drugs at a lesser price than the lawful drugs, and it is inevitable that that can be done. It is inevitable.

They have contributed nothing to the discovery of the drug, to the testing, to the development of the drug, to the development of a market for the drug. It is inevitable. And I daresay that it would be inevitable with the whole or a large part of the products produced by American industry, particularly patented products, that you certainly could buy cheaper inevitably from an infringing source than you can buy from a lawful source, because the infringing source has to do nothing more skillful than copy the products developed by somebody else.

Senator BURDICK. Mr. Chairman, I hope before we conclude these hearings we have somebody from the Government here, because I cannot figure out why the Government would fly in the face of valid patents and not honor them if there was not some other answer.

Mr. BEDDOW. Up to now it has been based solely on this price consideration.

Senator BURDICK. That is all.

Senator MCCLELLAN. What agency of the Government has been engaging in this?

Mr. BEDDOW. The chief one is the Defense Supply Agency.

Senator MCCLELLAN. Who?

Mr. BEDDOW. The chief purchaser of drugs in the Federal Government is the Defense Supply Agency.

Senator MCCLELLAN. The Defense Supply Agency?

Mr. BEDDOW. Yes, sir.

Senator MCCLELLAN. We are to have Mr. John M. Malloy, Deputy Assistant Secretary for Procurement of the Department of Defense.

Senator BURDICK. Is that in his area?

Mr. BEDDOW. Yes, sir.

Senator McCLELLAN. There is a question raised in my mind about the ethics of Government engaging in such a practice. I do not know what motivated them to do it, but if our Government is going to engage in such practices and then say, "Go to court and sue me," I do not know if that lends encouragement to anybody to infringe on patents and get by with it if they can. I think it is another question here. There is not a whole lot involved moneywise, with respect to the number of people that are not employed by reason of it, but again it comes back to whether we observe a principle, the Government as such does, or whether in order to make a little saving the Government violates a principle. If the Government had found, through the judicial process, that a patent was invalid, there is no duty to observe or respect it. I would think they are presumed to be valid if our Government issues it, until they are found otherwise. I do not think there is a great big issue here as to the amount. I think we ought to hear testimony on it and we ought to hear from representatives of the Defense Department, the procurement agency of the Department. Let him testify and tell us why they are doing it.

Senator BURDICK. I share your concern. I would like to know why, too.

Senator McCLELLAN. Very well, anything further, gentlemen? Thank you very much.

Dr. SMITH. Thank you, Mr. Chairman and gentlemen.

Senator McCLELLAN. Call the next witness Mr. Brennan.

Mr. BRENNAN. Mr. Charles I. Derr, vice president, Machinery & Allied Products Institute. We have about 16 minutes.

STATEMENT OF CHARLES I. DERR, SENIOR VICE PRESIDENT, MACHINERY & ALLIED PRODUCTS INSTITUTE; ACCOMPANIED BY WILLIAM HEALEY, STAFF COUNSEL

Mr. DERR. I have a prepared statement and with your leave, sir, I will ask to have it printed in the record and very briefly highlight my comments.

Senator McCLELLAN. Very well, it will be received and printed in the record.

(The portion of the statement relating to S. 1047 follows:)

STATEMENT OF CHARLES I. DERR, SENIOR VICE PRESIDENT, MACHINERY & ALLIED PRODUCTS INSTITUTE

Mr. Chairman and members of the subcommittee, we appreciate the opportunity to appear before the Patents, Trademarks, and Copyrights Subcommittee to state the views of the Machinery & Allied Products Institute and its affiliate organization, the Council for Technological Advancement, on the following bills now pending before the subcommittee relating to patent policy under Government contracts:

1. S. 789, introduced by Senator Saltonstall;
2. S. 1809, introduced by Senator McClellan;
3. S. 1899, introduced by Senator Long of Louisiana; and
4. S. 1047, introduced by Senator Williams of New Jersey.

At the outset, it would seem useful to identify the interest of the Machinery & Allied Products Institute in this legislation. The institute is a national organization of capital goods and allied product manufacturers. These companies are primarily manufacturers of commercial products and a majority of them have little or no Government business. However, the membership does include manufacturers of certain items which are indispensable to our national defense effort. Capital goods manufacturers might properly be called engineering companies;

as such, they are characteristically small- or medium-sized companies whose livelihood depends upon the excellence of their research and development work and the protection afforded the results of such work through our traditional patents system. For the most part, these companies finance their own research and development work and, as a consequence, when they undertake research and development activity for the Government, they typically bring to such tasks an immense background of privately developed know-how.

Because of the importance of patent rights to capital goods manufacturers, the institute has been for many years deeply interested in the basic issues relating to the proper disposition of rights in contractor inventions resulting from the performance of research and development work for the Government. This issue is directly involved in S. 789, S. 1809, and S. 1899. Fundamental problems involving patent rights but relating to use under Government contracts of previously developed inventions financed completely at private expense, provides a basis for S. 1047.

* * * * * * *

As for S. 1047, we are wholly sympathetic with its objectives and with the special problems which give rise to its introduction, but we doubt seriously that Senator Williams' proposal is the best way to deal with the problem; we much prefer the general approach taken in section 9 of S. 789, Senator Saltonstall's bill.

Our suggestions regarding specific provisions of these bills follow at this point. These comments begin with S. 1809, Senator McClellan's bill; under the pertinent sections there is discussion of what we feel to be the improvements made by S. 1809 over his earlier version of that bill, S. 1290. Although we support S. 789 (Senator Saltonstall's bill) generally, we recognize that probably more work has been done with the text of S. 1809, particularly as that bill is based on the earlier bill, S. 1290, which was the subject of considerable public study. Moreover, to the extent that S. 1809 follows certain concepts of President Kennedy's statement of October 10, 1963, on Government patent policy, its adoption would benefit from experience already gained under the Presidential statement. For this reason, we think that S. 1809 is a more nearly "finished" proposal, and our comments on S. 789 are limited to suggestions that certain of its basic provisions be incorporated as amendments to S. 1809. We conclude with some general observations respecting S. 1047 (Senator Williams' bill) and S. 1899 (Senator Long's bill).

* * * * * * *

PATENT INFRINGEMENT—SENATOR WILLIAMS' BILL (S. 1047)

The Williams bill (S. 1047) would amend the existing section 1498 of title 28 of the United States Code. As presently worded, this section states that when a patent is used in the performance of a contract for the Government without a license from the owner or other lawful right, the owner's remedy is to be limited to an action against the Government in the Court of Claims for money damages. This means that no action could be taken to enjoin the infringement against the infringing contractor or the Government. The Williams bill, as we understand it, would in effect repeal section 1498 except in cases where "the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture." This proposal is directed, according to Senator Williams' remarks at the time of introduction of his bill, to the abuse which has occurred when the Department of Defense has ignored the patent rights of U.S. companies to purchase items covered by such patents, particularly drugs, abroad.

Although we do not favor the Williams bill, we have sympathy with the plight of U.S. patentees who have been injured by these foreign procurements. We think that this problem might be more appropriately handled by administrative action within the Defense Department than by new legislation. We think that the Williams bill unfortunately would go far beyond the problem to which it is addressed, to create a host of new and perhaps insoluble problems. For example, it seems likely that a contracting officer might have great difficulty in determining the scope of patent coverage on a particular product during the limited time that he is given to complete procurement of that product. Based on the experience of our member companies, we feel that the present situation under 28 U.S.C. 1498 is unsatisfactory but primarily because patentees cannot secure either prompt or adequate compensatory damages when their patents are infringed in the performance of Government contracts. We think that the approach of section 9 of the Saltonstall bill would be helpful in dealing with this problem. Under sec-

tion 9, the owner of any patent which has been infringed in the performance of a Government contract "may have his claim for infringement determined by the head of the appropriate executive department or agency * * *." This provision might well be a desirable addition to the existing 10 U.S.C. 2386 which provides that the military departments may use procurement funds to settle patent infringement claims resulting from the performance of Government contracts before suit is brought. We suggest that section 9 of the Saltonstall bill be added as a new provision to S. 1809. Of perhaps greater importance, it would be desirable, we believe, to include—perhaps in the legislative history—what would amount to a directive to the Government agencies to settle administratively this type of claim, both promptly and on reasonable terms. We understand that many contractors feel that they have not received what they believe to be fair and equitable treatment from the military departments in connection with infringement claims. Too often, apparently, the reaction from these departments to the patent owner has been to procrastinate indefinitely and to be niggardly on final settlements on the theory that the department would never be subject to public criticism for spending too little of the Government's money.

* * * * * * *

This concludes our statement on these pending bills. Once again, we are most appreciative of this opportunity to present our views.

Senator McCLELLAN. Identify the gentleman accompanying you please.

Mr. DERR. Mr. William J. Healey, Jr., staff counsel of the institute. Perhaps I should start off by saying that the institute is a national organization of capital goods manufacturers. Only a minority of such companies' business is Government business, although some of the work they do is indispensable to our national defense program.

Characteristically such companies are small- and medium-sized firms who depend for survival and growth upon the excellence of their engineering and necessarily depend upon protection of the results of that work by the patent system.

Very briefly, it seems to us that there are two broad issues involved in this hearing. First, what patent policy is likely to secure the best research for the United States, this after all being the principal objective of the contracts that we are talking about.

Second, what patent policy is likely to best serve the public interest insofar as disposition of rights to inventions resulting from Government-sponsored research and development is concerned.

We are sympathetic to the problems to which S. 1047 is addressed, just recently discussed by witnesses at this table, but we believe that, frankly, it might raise more problems that it solves, and we believe also that the problem to which it is primarily addressed is better dealt with by an administrative proposal in Senator Saltonstall's bill, S. 789.

Senator McCLELLAN. I am sorry to interrupt you. We have to conclude, because there is a rollcall vote. Would you care to supplement your statement now by what you were going to say?

Mr. DERR. Can I submit for inclusion in the record the remainder of the remarks that I would have made, Mr. Chairman?

Senator McCLELLAN. You may do that. I am very sorry, but it is one of those things we have to contend with here quite often. Thank you very much.

The committee will resume at 10 o'clock in the morning.

(Subsequently Mr. Derr submitted the remainder of the remarks he would have made. The remarks did not make reference to S. 1047, but were directed to the other bills under consideration at that time.)

(Whereupon, at 4:45 p.m., a recess was taken until tomorrow, Wednesday, June 2, 1965, at 10 a.m.)

PATENT INFRINGEMENT

WEDNESDAY, JUNE 2, 1965

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND
COPYRIGHTS OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan presiding.

Present: Senators McClellan, Hart, and Burdick.

Also present: Thomas C. Brennan, chief counsel; Edd N. Williams, Jr., assistant counsel; and Stephen G. Haaser, chief clerk, Subcommittee on Patents, Trademarks, and Copyrights.

Senator MCCLELLAN. The committee will come to order.

Congressman, we are very glad to welcome you, sir.

Mr. ROUDEBUSH. Thank you, Senator.

Senator MCCLELLAN. We don't have another member of the committee present, but I am sure they are working somewhere. So we will proceed and let them read the record if they don't hear the testimony.

Mr. ROUDEBUSH. Thank you, Senator.

Senator MCCLELLAN. Very well. Do you have a prepared statement?

Mr. ROUDEBUSH. Yes, sir; I have a prepared statement. I have some corrections, however, to make in it, Senator.

Senator MCCLELLAN. Very well. You may proceed in your own way.

STATEMENT OF HON. RICHARD L. ROUDEBUSH, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Mr. ROUDEBUSH. Mr. Chairman, it is a pleasure and privilege to appear today before this subcommittee, and I wish to express my sincere thanks to your distinguished chairman and members of this subcommittee.

The American patent system is as old as this Nation of ours, and I am here today to add my support to Senate bill 1047, introduced last February 8 by the Honorable Harrison A. Williams, Jr., distinguished U.S. Senator from New Jersey.

Senator Williams' bill is designed to protect the American patent system, American industry, and the American worker.

I am sort of the father of this legislation, so to speak, and have introduced bills identical to Senator Williams' bill, in not only this Congress, but in the 87th and 88th Congresses.

My current bill in the House, H.R. 150, was introduced last January 4, on the 1st day of the 89th Congress.

Since January 29, 1962, I have made 11 speeches on the floor of the House of Representatives, citing the advantages of the American patent system and the necessity for protecting and preserving this system.

After working during three Congresses to enlist support for this most needed legislation, we were greatly encouraged and very proud and pleased when Senator Williams offered the bill in the Senate.

Quite deservedly, this legislation enjoys wide bipartisan support because of its unique need in the field of patent law.

There is a total of 16 bills in the House similar to Senator Williams' bill. Besides my own bill, similar legislation has been offered by Congressman Bray, of Indiana, Congressman Hall, of Missouri, Congressman Rodino, of New Jersey, Congressman Adair, of Indiana, Congressman O'Konski, of Wisconsin, Congressman Carey, of New York, Congressman Harvey, of Indiana, Congressman Carter, of Kentucky, Congressman Donohue, of Massachusetts, Congressman Dow, of New York, Congressman St. Onge, of Connecticut, Congressman McDade, of Pennsylvania, Congressman Pool, of Texas, Congressman Nelsen, of Minnesota, and Congressman Tenzer, of New York.

This bill is picking up more support all the time, and both American industry and organized labor have indicated interest in its passage.

The bill would prohibit the Federal Government of the United States from purchasing foreign-made articles which have been manufactured from processes protected by American patents, where the patent and invention knowledge has not been obtained legally, or licensed.

The proposed legislation, however, contains an emergency provision that would permit the Secretary of Defense to purchase these foreign items if he deemed it necessary to the national security of the United States.

Need for this legislation has arisen from the purchasing methods of the Defense Department and Veterans' Administration which have been making overseas purchases, chiefly of drug and pharmaceutical items, from concerns which obtained the formula for such products from American inventions by illegal methods.

These foreign manufacturers, using American patents, have been able to undersell their American competitors because the foreign concerns have had no scientific research expense.

As you know, great expense of American industry is involved in the research and development of new products which have enabled our Nation to reach its present pinnacle of success and achievement.

But when foreign competitors can obtain these American processes without benefit of lawful transaction and then reproduce American products at extremely low costs, both American industry and American jobs are endangered.

The latest figures made available to me reveal that for the current fiscal year total Government purchases of drug items are about $80 million.

Of this amount, an estimated $2 to $3 million involve offshore purchases of items manufactured with American patents not legally obtained. Actually, Senator, this figure is hard to arrive at because of the difficulty, of course, in obtaining the proper statistics.

This is a tremendous blow, not only to the American drug industry and pharmaceutical manufacturers, but, in terms of jobs, an estimated $10 million has been lost in employment over the past 5 years.

Senator McCLELLAN. 10 million jobs?

Mr. ROUDEBUSH. No; $10 million in employment has been lost over the past 5 years.

Senator McCLELLAN. Employment wages or salaries?

Mr. ROUDEBUSH. That is correct.

Senator McCLELLAN. Over what period?

Mr. ROUDEBUSH. The last 5 years.

Senator McCLELLAN. $10 million in the last 5 years, about $2 million a year.

Mr. ROUDEBUSH. That is correct; 400 jobs have been lost in the drug industry, and another 100 jobs lost in related fields during this 5-year period.

Loss of business to foreign markets involving illegal patent usage is costing an estimated 100 to 150 new jobs in the drug industry each year. This would be principally in the field of research.

American industry and American labor are not afraid of fair competition. But when American capital is forced to compete with foreign manufacturers who have gained their advantage illegally, Congress should act.

At present, the Federal Government, through its Defense Department and Veterans' Administration agencies, encourages circumvention of American patent and research rights by purchasing items from these oversea sources.

Senator McCLELLAN. I raised the question yesterday, Congressman, if the Government can get it cheaper, isn't it the duty of the Government to buy on the market whatever it can get the cheapest and save the taxpayers' money? What would your comment be about that?

Mr. ROUDEBUSH. My comment is I question whether it's really cheaper or not because there is a tremendous loss in the form of income tax and in the form of individuals employed by pharmaceutical companies. When there is a requirement that the Government then enter into the field of research to counteract the loss of research dollars by the pharmaceutical companies, I don't feel the Government is getting a good deal.

Senator McCLELLAN. Let us for the moment assume the Government does permanently effectuate some economy so far as the output from Government funds by purchasing a product that it can get cheaper by reason of cheaper labor and other factors from a foreign country. I want to give it further thought, but I have a feeling that, just as you pointed out, for the Government to do that where those products are really being produced by someone who has infringed patents issued by this country, I question the integrity of the Government somewhat in doing that. We grant these patents and the same Government undertakes by the patent system to provide a protection to those who receive the patents. It is to protect and to encourage incentive, and if the Federal Government itself engages in a practice calculated to impair that system and impair that protection, I just wonder about the consistency of it. It seems to me there is a pretty important question involved there. The principle involved here is bigger to me, much bigger, than the loss of maybe $10 million every

5 years in wages that would be paid. There is a bigger issue here than just that. This is my first impression about it. I may modify it some after further consideration. But immediately it seems to me we are dealing with something which involves principle as well as economics.

Mr. ROUDEBUSH. Senator, I certainly thank you for your observation, and I concur 100 percent in your statements. I think, too, it might be of interest here to add the fact that two-thirds of all the new drugs and new formulas that have been developed over the past 10 years have been developed in the United States of America, and the fact too, as some have pointed out, in the expense of Government in research only 2 percent of the money expended in research in the United States is expended by the U.S. Government. Ninety-eight percent is expended by privately owned companies.

I certainly feel that the American economic growth today depends more upon technological advances than upon any other single factor. And new technologies in turn depend on advance in science.

Advance in science depends, of course, on American research and development.

The Federal Government should be doing everything possible to encourage this research and development in American industry, instead of discouraging and retarding it by rewarding overseas patent parasites.

Research and development by American industry will create more new products and new jobs. This progress must not be impeded by shortsighted Federal agencies.

Instead, the Federal Government must lead the bandwagon to encourage and promote this continuing research.

Tens of millions of American workers can trace their jobs directly to inventions; almost no jobs can be found that are completely free from the effects of patents issued in the past century.

Now 175 years old, the American patent system has issued 3,250,000 patents, outlining the greatest technological revolution the world has known and detailing everything from mousetraps to the $126 million Mercury space capsule.

Today the patent office receives more than 1,000 applications weekly.

Ours is a system of free and competitive enterprise, and in such a system, if it is to be preserved, business and industry must take the initiative in research. Government can and should help, when and where it can, and as frequently as it can, but without usurping prerogatives that belong in the private sector or undermining the basic incentives of our free enterprise system. One of the best means we have to help the private sector is in strengthening our patent system, for the patent system is at the very core of our technical effort and is a powerful stimulus to industrial growth.

Senator Williams' bill will help strengthen the American patent system, and I respectfully urge your support. It is no accident that the strongest patent system in the world is located in the strongest nation in the world.

Thank you very much.

Senator MCCLELLAN. Thank you, Congressman. Do you have any comment to make on any of the other bills that the committee is considering?

Mr. ROUDEBUSH. Actually, Senator, I came here this morning to testify just on Senate bill 1047.

Senator MCCLELLAN. Very well. I appreciate very much your statement, and during the course of your remarks I interrupted you to express at least tentative views on my part.

I might ask you though, you mentioned a number of bills that have been introduced in the House over a period of years. Has the House ever held any hearings on any of these bills?

Mr. ROUDEBUSH. No, Senator. Despite repeated efforts on my part personally as well as other Members of the House, no hearings have been scheduled in the House Judiciary Committee. Right now there are 16 bills pending in the House that are similar to Senate bill 1047.

Senator MCCLELLAN. Very well. Any questions, Mr. Hart?

Senator HART. No questions.

Senator MCCLELLAN. Thank you very much, sir.

Mr. BRENNAN. The next witness is Dr. Henry B. Hass representing the American Institute of Chemists.

Senator MCCLELLAN. Come around please, Dr. Hass.

STATEMENT OF DR. HENRY B. HASS, AMERICAN INSTITUTE OF CHEMISTS; ACCOMPANIED BY MR. STEPHEN COBB, EXECUTIVE SECRETARY

Dr. HASS. My name is Henry B. Hass. I have been in research and development continuously for 45 years. I was head of the department of chemistry at Purdue and a college professor for 21 years. Then I was in charge of research for General Aniline & Film Corp. After that I was president of the Sugar Research Foundation. Since then I have been with M. W. Kellogg which is a large engineering and construction organization which, among other achievements, built the gaseous diffusion plant at Oak Ridge, Tenn., which provided the material for the first bomb that was able to end World War II. I am at present director of chemical research for Kellogg and a past president of the American Institute of Chemists on whose behalf I am appearing here today.

I am accompanied by Mr. Stephen Cobb, the executive secretary of the American Institute of Chemists.

The American Institute of Chemists is the only society in this country concerned exclusively with the enhancement of the professional status of the chemist and chemical engineer. A number of our members have reached managerial ranks, but the majority are actively working on research programs, many of the type that eventually lead to patentable inventions. For this reason we are vitally concerned with the pieces of legislation under consideration at this time.

The AIC has no objection to S. 1047, which has just been discussed by the previous witness, a bill to prohibit the purchase by the United States of any product manufactured under an infringement of a valid U.S. patent, unless the Secretary of Defense specifically finds it necessary for the security of the country.

I would like to say that speaking personally and not as a representative of the institute, I would support this bill much more strongly than this statement indicates.

Senator McCLELLAN. Which bill?

Dr. HASS. The bill S. 1047 which has just been discussed. The reason for doing so is that I happen to be very familiar with this situation in Italy through my contacts over a period of years with the largest Italian pharmaceutical firm, Ledoga-LePetit. This firm was interested in some of my own inventions. (I might say I have a couple hundred patents and a similar number of scientific articles.) Representatives of this firm have told me on many occasions how much they deplore the situation in which an Italian pharmaceutical firm finds itself resulting from the edict, promulgated by Mussolini many years ago, which prohibits patents in Italy on drug products. They would like to do what they call honest-to-God research. They cannot under the patent laws as they exist in Italy on subject matter pertaining to new pharmaceutical products.

Senator McCLELLAN. Why can't they?

Dr. HASS. They can't do it, Senator McClellan, because there is no protection.

Senator McCLELLAN. They get no protection? In other words, if they make a big investment and make a discovery——

Dr. HASS. There are 500 companies which do no research which would jump in and produce it more economically. That is exactly the situation in which the Italian concerns find themselves and the situation which this bill, S. 1047, is designed to remedy.

Senator McCLELLAN. In other words they are doing over there to us what they could do to their own if one of their own made the investment?

Dr. HASS. Exactly.

Senator McCLELLAN. And took the initiative to make a discovery, they could infringe upon it with impunity. They are doing that to us.

Dr. HASS. As a result of that situation there has not been an important new drug to come out of Italy since this edict.

Senator McCLELLAN. And what this bill seeks to remedy is our Government's encouraging the practice by patronizing those who are infringing on American patents.

Dr. HASS. Unquestionably. I am sorry that Senator Burdick isn't here this morning. He raised a question yesterday which has not been answered and I would like to answer it.

The question is, Why do these presumably ethical people employed by our Department of Defense and Veterans' Administration countenance the infringement of valid patents? The answer, as I understand it, is that the law as now set up compels this infringement. Government agencies are required to purchase these drugs from the lowest bidder. So the purchasing agents either have to break the law in one sense, or in the other sense they have to denigrate the patent system. That is the dilemma in which they find themselves, and I think it calls for remedial legislation.

Senator McCLELLAN. This is not then directed at any one individual, any administrator for any action they have taken in the past. The bill is directed at a condition that needs remedying.

Dr. HASS. Exactly.

Senator McCLELLAN. And it will take legislation to do it.

Dr. HASS. That is right. They can't help themselves under present legislation.

Senator McCLELLAN. Very well. Any questions?

Senator BURDICK. Thank you Mr. Chairman. I came in late and I don't have the benefit of your earlier testimony. But I assure you I will read your testimony in the record.

Senator HART. Mr. Chairman, I was here for a portion of this testimony and was reminded that several years ago Senator Kefauver had a concern about certain aspects of this subject. You said that Italy had produced no significant drug.

Dr. HASS. Since Mussolini promulgated this edict. I so testified before the Kefauver committee, sir.

Senator HART. In Italy the prohibition is against a product patent, isn't it?

Dr. HASS. Right. You can get a process patent, and then a firm such as the firm I was mentioning has to devise another process to get around the one that is patented.

Senator HART. Didn't we dance around in those committee hearings over this aspect of that claim the same prohibition against the product patent is true in Germany and yet Germany has produced some significant drug products?

Dr. HASS. I am not an expert on patent law; I am a chemist. My understanding is that the German patent system is very strong. The Germans have not, until recently at least, had process patents. But to say that their system is similar to the Italian I think is stretching the truth a long way.

Senator HART. I didn't mean to stretch the truth. I was trying to get the facts.

Dr. HASS. I am sure you can get those facts better from a patent attorney than from me. My only point was that I am familiar with the German patent system, in part because our company has patents in Germany, and they have a very strong system and Italy has a very weak system.

Senator McCLELLAN. Thank you very much, Dr. Hass.

Senator Williams, come around, please, sir.

Senator, the committee is glad to welcome you, and to have the benefit of your instruction and counsel respecting S. 1047.

Senator WILLIAMS. I am a lawyer, and the last area of the law that I ever explored as a practicing attorney was patent law but I did want to address myself to this bill, S. 1047, for to really understand this, you don't have to be a specialist in patent law in my judgment. If I could, Mr. Chairman, I think I can abbreviate this statement.

Senator McCLELLAN. Very well; let the statement be received and printed in full in the record, and you highlight it, Senator, as you will.

STATEMENT OF HON. HARRISON A. WILLIAMS, JR., A U.S. SENATOR FROM THE STATE OF NEW JERSEY

Senator WILLIAMS. I beleive the bill has already been discussed here before you this morning, and in essence the proposition is simple. Certain procurement policies presently are being followed by Federal Government agencies, particularly the Department of Defense. Under these policies American patents are being willfully, knowingly, and deliberately infringed by public agencies. These purchases not only violate congressional intent, but affect adversely the economy of our country both domestically and internationally.

We all know what has developed. American research has developed certain drugs. This is time consuming and expensive research. These drugs have been copied, drugs which have been patented here have been copied abroad. The cost of these drugs is reduced by many factors including the fact that the producer abroad has not had to pay the high cost of research; the procurement agencies are buying on the sole basis of the lowest competitive bid notwithstanding the fact that the drug here is protected by a patent.

The result, in my judgment, is that our Government is actively pursuing a policy of violation and infringement of American patents.

The authority relied on is 18 U.S.C. 1498, and this procurement is stretching that section well beyond the shape and intent of Congress. That Code section was put in in 1910 in order to protect patentholders and give them a right of action against the Government when the Government unwittingly violated a patent.

Well, it is a long road from there to where we are today.

It certainly hurts the economy of our country in every way. Where millions of dollars are spent on drugs, this affects employment in this country adversely. Where drug patents can be violated in this way, it certainly is a depressing factor on drug research by American firms, and I am advised that most of the new drugs are developed here in this country. We are told that we are all to try to do our best to work our way out of an imbalance in the balance-of-payments equation. This is certainly contrary to that policy.

But just basically if our patent law is to mean anything here, it seems to me that of all people, of all institutions, the U.S. Government should honor our patent laws and not go to bidders abroad who have copied or pirated patented items and produced them at lower cost because they have not had to research them and also, of course, have lower wage rates.

That is the purpose of my bill.

The bill would just tell the Government it shall not do this unless the most overriding national security interests dictate.

Senator McCLELLAN. Senator, there has been some testimony this morning, as you mention here, and there is some testimony as to the monetary values involved, $10 million lost in wages in 5 years and probably 400 or 500 people not working that would be working if the Government bought all of this from American producers and so forth.

But I think, I expressed myself as believing there is something greater than that involved. I think it is a matter of Government ethics, a matter of principle, plus even a matter of governmental integrity. The patents that are being infringed were issued by this Government, and certainly if it can with impunity and without any sense of improper conduct purchase from one who is infringing upon the patents that this Government has issued, if it can do it, and if that is its practice, I don't see how it can with good grace undertake to enforce patent rights.

It seems to me that principle is involved here.

Now, it has been stated by the previous witness that the problem is, under existing law these agencies are required to purchase from the lowest bidder on these products. If so, the agency is carrying out the law, but it is a problem of inconsistency on the part of the Government, and if it is an inconsistency then it is our duty to correct it by legislation, and your bill proposes to do that.

Senator WILLIAMS. Exactly, sir.

Senator MCCLELLAN. I have not studied the bill, but testimony on it up to now brings these thoughts to mind at least, and I assure you so far as the Chair is concerned it will receive very careful and sympathetic consideration from the standpoint of what I think its objectives are.

Senator WILLIAMS. Well, you have stated the principle involved here far more eloquently than I did and I certainly agree with you, Senator McClellan.

Senator MCCLELLAN. All right.

Senator Hart?

Senator Burdick, any questions?

Senator BURDICK. We are always glad to hear from the learned Senator of New Jersey.

Senator WILLIAMS. I am glad you smile when you say that. [Laughter.]

Senator BURDICK. I appreciate your testimony, I really do. Yesterday when this first came to the attention of the committee, I was amazed at the agencies of the Government that do this and I was trying to find out why they were doing it and I still haven't found out why. I am sure we are going to weigh your testimony very favorably and very thoroughly and I would like to hear why the Government is doing this.

Senator WILLIAMS. They will put it on a strictly dollars-and-cents basis, I believe, Senator Burdick.

Senater BURDICK. Pardon?

Senator WILLIAMS. They will put it strictly on a dollars-and-cents basis. I believe they are acting more on administrative ruling or opinion from the Comptroller General than on the mandate of any other law. They are being just dollar conscious but the principles that Senator McClellan addressed himself to, I think, are far stronger and overriding than this low-dollar-bid business.

What do we have patents for, so that our Government can violate them? I don't think so.

Senator BURDICK. Of course you said that as a practicing lawyer that patent law was the last thing you touched. It was the last thing I touched, too. When I came to this committee I thought a patent was something that was incontestable but I find out it is not too solid but it is on rather shaky grounds and I thought that might be a part of this thing but apparently it is not.

But I want to thank you for your testimony.

Senator WILLIAMS. Thank you very much.

I cannot remain but I did want to say that I have been helped immensely by Thomas Boyle who is on the witness list. He is vice president of the International Chemical Workers Union of the AFL–CIO. He is on the list and I don't know whether he is next to testify or not, but I know he speaks for a great body of opinion, not only for men who are members of the union but for the management of the various chemical companies.

Senator MCCLELLAN. All right, thank you, Senator Williams.

Senator WILLIAMS. Thank you very much. I certainly appreciate having this matter considered with the other matters before you.

(The prepared statement of Senator Williams follows:)

STATEMENT OF SENATOR HARRISON A. WILLIAMS, JR., OF NEW JERSEY

I have introduced a bill, S. 1047, to stop certain procurement policies which are presently being followed by Federal Government agencies, particularly the Department of Defense. Under these policies American patents are being willfully, knowingly, and deliberately infringed by procurement agencies. These purchases not only violate congressional intent, but affect adversely the economy of our country both domestically and internationally.

I think it is evident that Congress never intended that Federal agencies should have the authority to engage in the wanton and deliberate violation of American patents. The procuring agencies claim that they have the right to deliberately ignore American patent rights by reason of the provisions of title 18, United States code, Section 1498. But there is nothing either in the express provisions of this section or in the legislative history of the section that indicates that Congress intended by this section of the law to give the Federal Government the broad, pervasive authority to ignore patent rights which it now claims. Section 1498 of title 18 of the United States Code had its origin in a statute enacted in 1910, the sole purpose of which was to give patentholders whose patents had been apparently unwittingly infringed by the Federal Government, a right of action. No right of action against the Federal Government was possible before the passage of this statute.

In 1918, the statute was put in its present form in order to assist in war production by removing the possibility that war contractors would be sued for patent infringements involved in the provision of vitally needed war materials.

What the procurement agencies have now done is to take this statute, which was originally passed solely to protect patentholders, and use it as an instrument to sustain a policy of deliberately infringing patents of any type, and at any time, and for any reason that suits their purposes. I say again that use of section 1498 in this way goes far beyond the congressional intention in enacting the statute. My bill will make this clear to the procurement agencies of the Federal Government.

The Federal agencies have been especially active in pursuing a policy of wanton disregard of U.S. patent rights in the field of drug procurement. If this policy has not already been extended to the products of other American industrial concerns, there is still an obvious danger that what is true of the drug industry today will be true for other industries tomorrow. Our Government has, in the past 5 years, bought millions of dollars of drugs manufactured in Italy—where no patent protection is provided. The Italian manufacturers of these drugs have done nothing more inventive than to copy the patented products of American concerns and, in some instances, engage in the outright theft of the trade secrets, drug cultures, and production formulas of American companies.

The claim is made that the Federal agencies have saved money by pursuing this policy. But I challenge this claim. It ignores the longtime economic interests of our country, both domestically and internationally.

Domestically, this policy has resulted in the displacement of well-paid and highly skilled American labor by poorly paid Italian workers, not to mention additional losses to the domestic economy through lost Federal, State, and local taxes. These infringing purchases by the Federal Government not only result in the immediate layoff of our American wage earners, but as these jobs are lost other workers in affected areas and related industries lose their jobs.

Moreover, when the biggest customer in our country—the U.S. Government—can willfully ignore patent rights, great danger is created that there will be a depressing effect on American drug research efforts. These efforts, I would remind this committee, have meant much over the past 20 years in terms of reducing the economic impact of illness, lengthening life, and reducing the time lost, through illness, on productive effort.

One of the most adverse economic effects of the policy of buying infringing drugs is the effect of the policy on our critical balance-of-payments situation. We are constantly reminded by our Government that this is certainly among the most crucial problems facing the Nation. Our Government has asked not just individual citizens but business firms as well, to cooperate in a massive effort to solve the problem. Yet, while our Government asks our citizens and the private sector of our economy to make sacrifices to bring a reduction in the dollar imbalance, we find our Government itself, willfully violating American property rights with American dollars that would help solve a critical current problem if they were spent at home.

Let me say that I am not launching any "Know Nothing, Buy American campaign." The firms from which these agencies are buying their goods have

neither developed the product, nor contributed the brains and imagination needed to create the product, nor maintained aggressive marketing and advertising organizations which are vital for promoting the sales of new products. In short, our American firms have earned their patents: these foreign firms are merely skimming the cream off the top.

I have offered S. 1047 to remedy the highly unequitable situation about which I have just spoken. S. 1047 will not change the scope which I believe Congress always intended that section 1498 of title 18 of the United States Code should have. If my bill is enacted, an infringed patentholder will still be restricted to suing for damages in the Court of Claims, and the right of the Government to take and use any patent when the national security interests require will be preserved.

However, my bill, if enacted, will make it plain to the procuring agencies of the Federal Government that Congress will not countenance the use of section 1498 to sustain any policy of wanton disregard of U.S. patent rights.

I am hopeful that this committee will give its full support to S. 1047 and report it favorably.

Senator McCLELLAN. Mr. Boyle. We are glad to welcome you and are very happy to have you before us today.

Mr. BOYLE. Mr. Chairman and committee members, along with me I have Mr. Frank Martino, the legislative representative.

Senator McCLELLAN. Martino?

Mr. BOYLE. Martino. He is the legislative representative of the Chemical Workers Union, stationed here in Washington.

I have submitted my testimony in advance to Mr. Brennan and I believe I can condense it somewhat by not getting into the——

Senator McCLELLAN. I don't want to limit your time. If you can condense it a bit, Senator Saltonstall wishes to appear at 11:30—that is in 20 minutes.

Mr. BOYLE. Appendix A and appendix B which are——

Senator McCLELLAN. You want your statement included in the record?

Mr. BOYLE. Yes.

Senator McCLELLAN. Very well, it will be received and printed in full.

Now you may proceed.

STATEMENT OF THOMAS E. BOYLE, INTERNATIONAL VICE PRESIDENT, INTERNATIONAL CHEMICAL WORKERS UNION, AFL–CIO; ACCOMPANIED BY FRANK MARTINO, LEGISLATION REPRESENTATIVE, CHEMICAL WORKERS UNION

Mr. BOYLE. My name is Thomas E. Boyle. I am the international vice president of the Chemical Workers Union, AFL–CIO. I reside in Montclair, N.J.

My testimony today is in support of Senate bill 1047, sponsored by U.S. Senator Harrison A. Williams of New Jersey. This bill is aimed at insuring adequate patent protection for America's industry and it is a bill in which every workingman in this Nation has a tremendous stake.

This is certainly the united opinion of the 100,000 membership of our own International Chemical Workers Union, AFL–CIO, employed in 40 of the 50 States in this Nation.

While this bill on which I am testifying is a matter of special concern to the chemical and pharmaceutical industries, I believe that it is also of vital interest to every American, because it follows that any

weakening of the patent system in one industry will lead to a weakening of patent protection for all industries.

I wish especially to compliment Senator Harrison A. Williams and Congressman Peter W. Rodino, Jr., who has introduced a companion bill, H.R. 5675, in the House, as well as other House sponsors of identical measures designed to protect and strengthen the American patent system.

I have singled out Senators Williams and Congressman Rodino not only because they are from my home State but because in their representation of the State of New Jersey, they recognize our State as a leader in the fields of pharmaceutical and chemical manufacturing and especially New Jersey's leadership in research, which looks to full patent protection for, not only its survival, but the very incentives which have kept America in the forefront of industrial and medical development.

The basic purpose of the bill introduced by Senator Williams is to effectively stop the importation into this country of products which have been manufactured abroad through formulas stolen from American firms, holding patents developed through years of costly research. Such products, produced abroad via infringed patents at undercut prices, are being purchased here in America at an astounding cost in terms of American jobs.

According to the Government's own figures of drugs purchased from abroad from firms operating with the help of stolen cultures and know-how, in the one industry alone—the pharmaceutical industry—the American labor marked has been deprived of 1,100 jobs.

It is the fear—and a well-grounded fear at that—of the International Chemical Workers Union, that unless the official sanction of the importation of pirated drugs is ended through the Williams' bill, the jobs of nearly 4.8 million workers in the chemical, pharmaceutical, and other allied industries which contribute to the final product will be adversely affected.

It seems too high and too outrageous a price to pay for the illusion of a few dollars saved through purchases that encourage and place a premium on unethical practices.

I would like at this point to quote directly from a speech by Senator Williams at the time he introduced his patent protection measure.

> The basic principle of protection of patent rights is now being threatened by recent purchasing policies of the Department of Defense. Acting under a 1958 ruling promulgated by the Comptroller General that defense must buy all its supplies at the lowest possible price regardless of any possible patent infringement, Federal purchasing agencies have been buying many U.S. patented products from foreign sources which have manufactured these products with stolen patents and trade secrets.
>
> It is clear that such purchasing policies will seriously injure those American firms and individuals which have already secured their legitimate patent rights from the U.S. Patent Office as well as greatly undermine confidence and respect in the existing system of patent protection. In short, one segment of the U.S. Government—the defense procurement agencies—are acting in clear violation of congressional policy.
>
> I think that such actions must be stopped, and that Congress must take immediate action to halt these purchases of foreign goods.

As Senator Williams so eloquently pointed out in his appeal for support of the protective measures, what we are faced with here is a choice of whether the illusion of a price saving can ever justify the purchase of goods produced via stolen patents. There is no question in

my mind, as I am sure there is no question in the minds of those who accept these foreign-made drugs, that they are manufactured through patents stolen from American industry.

In the one instance of the drug tetracycline, it has already been testified in court by the individual who stole the cultures and know-how, that the millions of dollars and years that went into the research of the wonder drug were sold undercover to a European firm for a paltry $100,000. This drug is now being manufactured in Europe where wages are cheap, inspection laws loose, and packaging even cheaper.

Senator McCLELLAN. Would you identify the drug?

Mr. BOYLE. Tetracycline. It is difficult enough for American firms to compete with cheap European labor under ordinary conditions of international competition and ethics, but when these firms have the further advantage of being able to operate without any research investment, except for the relatively few dollars handed over as a part of an international thievery ring, competition is, of course, impossible. There is no doubt that under these conditions Government officials can purchase at a much lower price than would be possible for an American firm which lives up to all the principles of fair play.

After all you can buy a "hot" stolen typewriter for only a fraction of what it will cost retail in any legitimate typewriter store because it is a case of easy come, easy go. But just as any decent citizen would never permit himself to succumb to the lure of a questionably owned typewriter at a cheaper price, is it too much to expect that the same standards be followed on the levels of international commerce?

Yet, armed with an interpretive ruling by the Comptroller General, we find that our Government admits to the purchase of some $27 million of pirated drugs through 1963 and the practice has been continuing since.

Justification for the continuance of this practice is based upon the fact that the Defense Department supposedly saves the taxpayers money. This is certainly open to contention because while the Defense Department may say that it has saved some money in its own departmental budget, I don't think this department can claim that the taxpayers have saved any money.

After all, the Defense Department's reported savings fail to take into account the job losses for Americans. Based upon the average in the drug industry of one employee, for $25,000 in sales, there has certainly been the direct loss of at least 1,100 jobs.

Without doubt many others have lost job opportunities indirectly, not counting the penalty to the general American economy—the loss of wages, the loss of income tax and the loss of buying power generated among the butcher, the baker, and the candlestick makers through out country. These reported savings also do not take into account the foreign drain on the dollar. None of the reported savings take into account the adverse effect and terrible danger to the whole American inventive system.

Without protection for the American inventive effort, what is the drive and inspiration to continue? If the patent protection can be eroded under the illusion of saving dollars by one department of Government, what is to prevent the same principle from being applied to every segment of Government buying?

There is one further thought I would like to inject and it is the question of whether those who have stooped to stealing American cultures and know-how and who use cheap labor to undercut American prices might stop there. Why not go further and cut the quality of the drug and therefore make more profit.

I know that American inspectors use every possible means to insure the quality of any drug purchased but so do British inspectors and let me relate to you what has happened in that nation.

I just returned last week from London where I represented my international union at the Anglo-American Conference on Automation and Technological Changes in Industry and while I was there the British press was aroused over a discovery by the Ministry of Health that tetracycline, manufactured in Italy where our Defense Department buys its tetracycline, was dangerously under-strength.

The discovery has opened up the eyes of Britain on the price you have to pay for cheap imported tetracycline—the price in that case was danger to health and it should be a warning to us here in America.

I have attached some sample clippings from the British press as exhibit B of my testimony.

We wish to call to your attention now exhibit A, which accompanies this testimony because I feel that it points out in dramatic form the adverse effect on American employment caused by the 1958 interpretation by the Comptroller General of section 1498 of title 28 of the United States Code. This is the interpretation on which the Department and Veterans' Administration rely in purchasing from sources abroad large quantities of unlicensed drugs.

As it states in exhibit A:

These drugs are or were covered by valid U.S. patents.

This practice by agencies of the Federal Government poses a serious threat to employment.

As it states in the exhibit a case in point is the antibiotic, tetracycline. Tetracycline is a broad-spectrum antibiotic, meaning it is used to treat a wide range of infectious diseases. Its discovery was the result of intensive research in U.S. laboratories. The major product and process patents are American owned.

As you may know, much of the confidential production and processing know-how, and a sample of the antibiotic culture were stolen from the laboratories of one of our research drug firms. They were smuggled to Europe and sold to foreign companies.

Tetracycline is now being manufactured there, and quantities of the unlicensed product are coming back to this country through purchases by the Defense Supply Agency, and the Veterans' Administration.

Unless this cycle is broken, the direct result will be further encouragement of unethical trade practices, and a continued threat to jobs in many U.S. industries.

To produce tetracycline and ready it for shipment requires use of 51 intermediates or raw materials supplied from 11 industries.

These industries manufacture and supply the raw materials for three separate operations of the tetracycline producers.

Here you see those operations:

Bulk drug manufacturing;

Powder mixing and encapsulation;

Packaging.

In bulk drug manufacturing, 28 raw materials are needed to produce tetracycline;

Thirteen raw materials for the powder mixing and encapsulation operations;

And to package tetracycline and ready it for shipment 10 additional raw materials are used.

There is then listed the various raw materials that go into the manufacture of tetracycline:

BULK DRUG MANUFACTURING	POWDER MIXING AND ENCAPSULATION
Ammonium sulfate	
Ammonium chloride	Alpha lactose
Calcium carbonate	Magnesium stearate
Casein	Mineral oil
Cornsteep liquor	Gelatin
Cottonseed flour	Glycerin
Cornstarch	Beta naphthol
Corn flour	Yellow
Cobalt chloride	Titanium dioxide
Lard oil	Isopropyl alcohol
Manganese sulfate	Benzoin
Celite	Ethavan
Dicalite	Chloroform
MIBK	Piccolyte
Sodium bicarbonate	PACKAGING
Sulfuric acid	Container
Cyquest	Closure
Hydrated lime	Container label
Aqueous ammonia	Circular
Wetting agents	Carton labels
Organic acid	Printed folding box
Hydrochloric acid	Multiple carton
Sodium chloride	Corrugated shipping carton
Butyl alcohol	Inks
Cellosolve	Glue
Palladium	
Triethylamine	

Next we see the 11 basic industries involved in its manufacture:

1. Chemical and allied products	529, 000
2. Crude petroleum and natural gas	203, 000
3. Petroleum refining and related industries	116, 000
4. Mining (coal)	127, 000
5. Mining (metal)	68, 000
6. Mining (quarrying and nonmetallic)	100, 000
7. Food and kindred products	1, 144, 000
8. Paper and allied products	493, 000
8. Stone, clay, and glass products	496, 000
10. Fabricated metal products	1, 197, 000
11. Printing, publishing, and allied products	603, 000

What we are talking about in the production of this one product, tetracycline, is this:

1. The 11-industry supplier complex employs 4,799,000 production workers;

2. With an average hourly wage of $2.78; and

3. Their annual payroll is $27.2 billion.

This does not consider the production jobs in other supporting industries such as transportation, building and equipment, utility services and communication. Nor does it detail the added impact of similar U.S. Government purchases of such other unlicensed but patented drugs as nitrofurantoin, chlortetracycline, sulfadiazine, and meprobamate.

We show on the next panel an industry complex which is healthy and vigorous, and provides many jobs, due in a great part to the strength of our patent system. Under this system, the initiative of some creates flourishing industrial firms which opens up employment for the many. This in turn means more corporate and personal taxes.

But this picture is clouded by the erosion of the patent system and the encouragement of research piracy.

The picture you see on the next page shows what we are concerned about. If the forces set in motion by the interpretation of section 1498 continue to spread, we are going to cut employment further, and this serious threat to employment will eventually affect other production workers in this industry complex.

With these charts we have tried to trace part of a chain reaction affecting jobs in a number of important supplier industries. The cause is an interpretation of a present law which has resulted in the erosion of patents and encouraged outright research piracy.

An indication was given of the resultant reduction of purchasing power for products of the consumer industries: food, shelter, clothing, leisure, appliances, and others. Also the effect on the flow of tax moneys to government at all levels.

In discussing job loss in the U.S. pharmaceutical industry itself, we can be more precise. Published testimony by the U.S. Defense Supply Agency concerning purchases made during the period 1959–63, pursuant to the 1958 interpretation of section 1498, reveals a loss to the U.S. pharmaceutical industry of $27,500,000 in sales.

Since it requires approximately $25,000 in sales to support one job, this translates into a loss of roughly 1,100 jobs in this one industry where only a few products have thus far been affected.

The patent system was described by Abraham Lincoln as adding "the fuel of interest to the fire of genius." This "fuel of interest" includes our jobs. The instance we have dealt with here concerns just a few products in one industry. We are concerned that the erosion of patents resulting from the presently permitted interpretation of section 1498, if continued, will cause similar chain reactions in other industries.

Senator, bill 1047 will close this loophole and help protect from erosion and piracy the research-based jobs upon which our Nation's future will increasingly depend.

In conclusion let me remind you that this year marks the 175th anniversary of the first patent law in the United States.

Labor and management in the pharmaceutical industry and labor and management in all the industries across the Nation look forward the preservation and strengthening of the patent laws.

Certainly the erosion of any section of the patent law, which is being hastened by the official sanction of the purchase of pirated drugs, is not to the advantage of the American laboring man our American industry. It has cost American jobs— the practice should be stopped.

May I at this time ask the chairman and members of the committee to permit me to keep this record open so that I may forward to you at a later date recommendations of the New Jersey State AFL–CIO and other State organizations who plan to make Senator Williams' bill a matter of official legislative policy of the American labor movement.

I wish to thank the chairman and the committee members in accepting this testimony and again I wish to express my thanks to Senator Williams for his particular interest in correcting a situation which threatens the economic security of the American worker.

Senator McCLELLAN. Thank you very much.

Didn't you request that the record be held up so that you can supply something?

Mr. BOYLE. Yes, sir.

Senator McCLELLAN. I was engaged here for a moment.

Mr. BOYLE. Yes, sir, we will be able to supply that within the next week and a half or so.

Senator McCLELLAN. Very well.

Let the record so reflect and when received it can be placed in the record.

Thank you very much.

(Exhibits A and B referred to follow:)

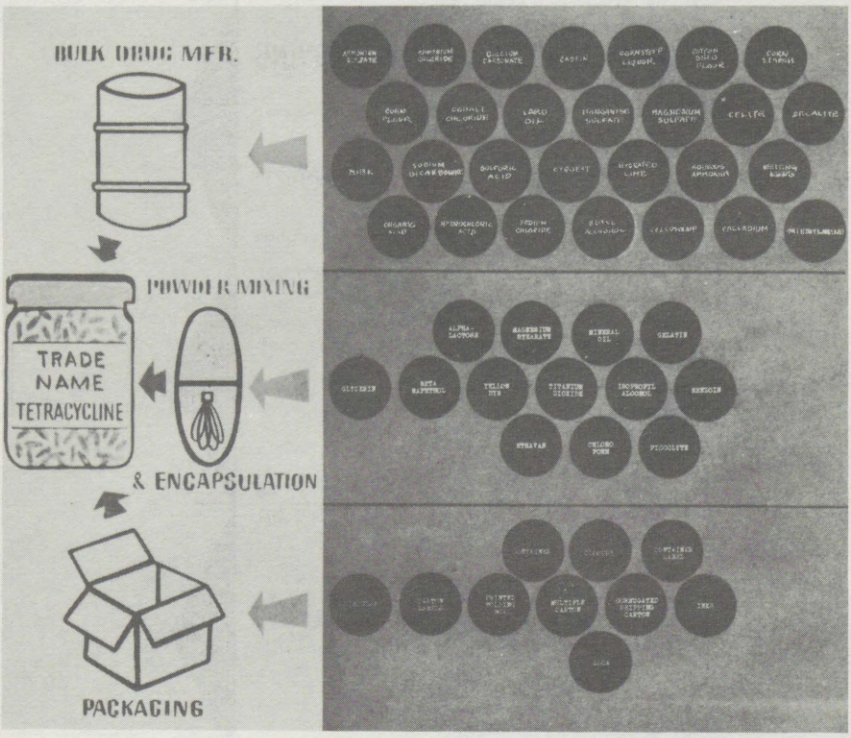
BOYLE TESTIMONY—EXHIBIT A

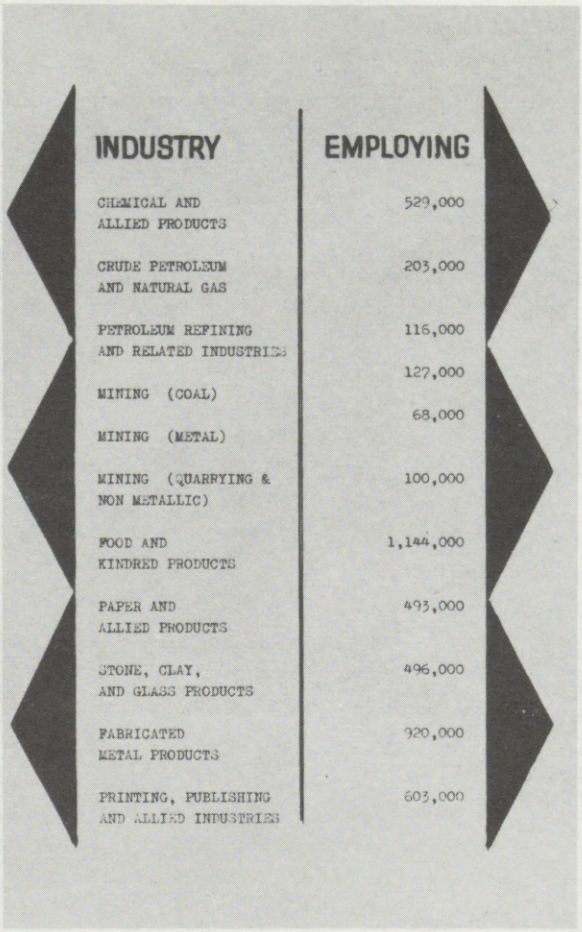
PURCHASE OF UNLICENSED PATENTED DRUGS....

....AN EXAMPLE...TETRACYCLINE

U.S. PATENT NO. 2,699,054 / U.S. MANUFACTURE AND SUPPLY

..CONTRIBUTE TO EMPLOYMENT OF 4,799,000 WORKERS

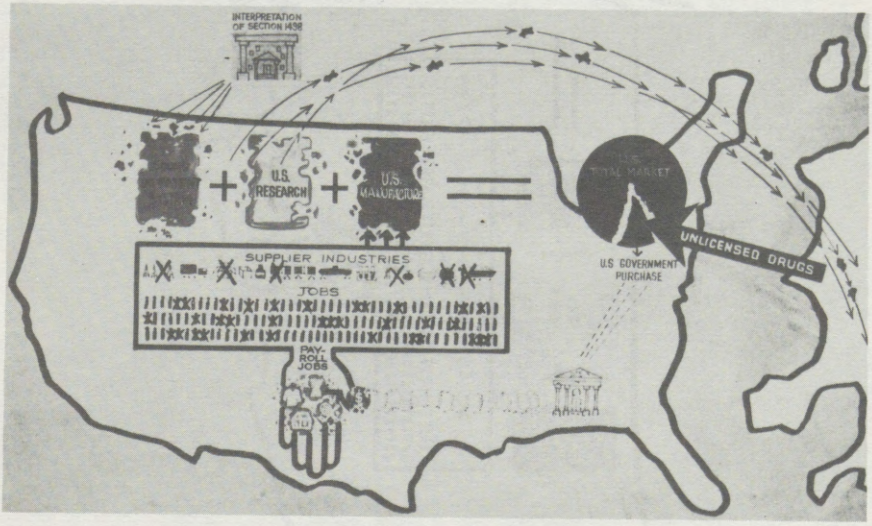

BULK DRUG MFR.
POWDER MIXING
TRADE
NAME
TETRACYCLINE
& ENCAPSULATION
PACKAGING



INDUSTRY	EMPLOYING
CHEMICAL AND ALLIED PRODUCTS	529,000
CRUDE PETROLEUM AND NATURAL GAS	203,000
PETROLEUM REFINING AND RELATED INDUSTRIES	116,000
MINING (COAL)	127,000
MINING (METAL)	68,000
MINING (QUARRYING & NON METALLIC)	100,000
FOOD AND KINDRED PRODUCTS	1,144,000
PAPER AND ALLIED PRODUCTS	493,000
STONE, CLAY, AND GLASS PRODUCTS	496,000
FABRICATED METAL PRODUCTS	920,000
PRINTING, PUBLISHING AND ALLIED INDUSTRIES	603,000

• 4,799,000 production workers
• average hourly wage of $2.78
• annual payroll is 27.2 billion dollars*
SOUND US PATENT SYSTEM
U.S. TOTAL MARKET
U.S. GOVERNMENT PURCHASE
SUPPLIER INDUSTRIES
JOBS
PAY-ROLL JOBS

EROSION OF U.S. PATENT SYSTEM AND ENCOURAGEMENT OF UNETHICAL TRADE PRACTICES



IN SUMMARY

patent erosion and encouragement of research piracy

1100 jobs already lost in one primary industry due to effect upon a few products

chain reaction spreads to supplier and consumer industries

present interpretation of Section 1498, Title 28 of U.S. Code similarly threatens other research-oriented industries.

S 1047 will help protect nation's research-based jobs

BOYLE TESTIMONY—EXHIBIT B

[Daily Mail, Oct. 4, 1965]

IMPORTED DRUG COULD KILL

By David Jack

A report by a city analyst's department last night disclosed deficiencies in certain cheap continental drugs which could cause suffering or even death.

A team of analysts found that antibiotic drops for babies and very young children were "terribly deficient."

In one case the sample was 73 percent below standard and another was 65 percent deficient.

Research chemist Mr. Frank Stock, 45, who led the investigation, said last night: "The drug was utter rubbish and because of the deficiency a child could have died."

He stressed three dangers which could have arisen in administering the drug.

1. The crucial first 48 hours of treatment of a sick child would have been lost.

2. The doctor might have been misled into believing another type of drug should be administered because of no apparent change in the child's condition.

ADMITTED

3. No drug was better than a small amount, because of the risk that a child could produce a resistance to it.

The drug was tetracycline in the form of drops. It had been imported from Italy.

Mr. Stock said: "The manufacturer and distributor admitted the deficiency. The batch was withdrawn by the Ministry of Health."

After studying the report yesterday, Birmingham Health Committee decided to press for legislation controlling the quality of cheap drugs.

[Sunday Times, Nov. 4, 1965]

DRUG DEFECT REVEALS HOLE IN HEALTH LAW

(By Dr. Alfred Byrne, medical correspondent)

A dangerous defect in Britain's health laws has been brought to light by the latest development in the controversy over cut-price continental drugs.

Mr. Frank Stock, analytical chemist to Birmingham's drug-testing scheme, reported yesterday that lifesaving tetracycline drops imported from Italy and sold on prescription by retail pharmacists were found to be from 57 to 73 percent below the strength on the label.

Last night, Mr. Ronald Clarke, general manager of Intercontinental Pharmaceuticals, of Soho, London, agreed that faulty tetracycline drops had been imported and distributed by his firm. "The sample was deficient and we stopped sales immediately."

Intercontinental also supplies imported antibiotics and other drugs to the Ministry of Health for use in hospitals. The tetracycline is manufactured by an Italian drughouse.

Where tablets are required, the conversion is handled in Britain by a company which does similar work for some of the large pharmaceutical houses.

In the case of the drops, these were imported already made up in sealed bottles. With them came a certificate of analysis from the manufacturer saying they were 101.5 percent of the stated strength. Mr. Clarke cannot recall why his company did not have the drops analyzed again in this country.

"When Mr. Stock told us I telephoned 15 or 16 pharmacists in Northern Ireland, London, and the Midlands and recovered any stocks of the drug not already sold. I said they could have their money back or a replacement."

"We are preparing an application to the Controller of Patents for a compulsory license to manufacture tetracycline under section 41 of the Patents Act."

Tetracycline is a valuable, often lifesaving, drug used to treat a wide variety of acute bacterial infections. It is given in the form of drops or a sirup to infants, very young children, and others who find difficulty in swallowing capsules or tablets. The unwitting administration of too small a dose could delay effective treatment and, if continued for long, could breed bacteria resistant to tetracycline and possibly other antibiotics.

The Health Minister exercises a check on the 70 percent of drugs imported under section 46 of the Patents Act for use in hospitals by having batches analyzed and the factories that make them inspected. But, apart from a few items such as sera, vaccines, and other biological products (which are covered by one specific law), there is no official quality control on the manufacture of the other 90 percent of national health medicaments sold at the chemists. Curiously, there are standards of quality laid down for antibiotics given by injection—a practice on the wane—but not for antibiotics like tetracycline dispensed in solid form or drops.

[From the Economist, Apr. 17, 1965]

SOMETHING IN WHAT THEY SAY

Birmingham's city analyst, Mr. Frank Stock, first became interested in the potency of imported drugs when a chemist in the city asked him several years ago to test samples of imported penicillin preparations being offered to him at suspiciously bargain prices. Some of the tablets were below strength, probably because the manufacturer did not have sufficient know-how to formulate them properly. From then on, Mr. Stock kept an eye on the quality of imported drugs and he has now reported analysing samples of one of the tetracycline eyedrops that were 65 to 75 percent below the potency shown on the label; antibiotic creams that were little more than half strength; and lotions with an unshakeuppable sludge which blocked the nozzles.

The common feature which the analyst's office has noticed about all imported drugs is the that products are perfectly satisfactory when the formulation is simple—there was nothing wrong with the tetracycline tablets tested—but that they fall down badly when the making up of the preparation requires a fair amount of the know-how that the big manufacturers possess and the Polish or Italian manufacturers who often supply the imported drugs do not. It requires considerable know-how to prevent tetracycline eyedrops from separating into a gummy mess. The point is work making because the drug industry has consistently maintained that if its branded drugs look expensive, it is because the established companies have the skill that comes with experience to make them both stable and palatable. This independent report goes to support the industry's case for special know-how that deserves special financial rewards, although it does not proved these need to be quite as high as some companies have been charging.

RESOLUTION IN SUPPORT OF FULL PATENT PROTECTION TO SAVE JOBS IN AMERICAN INDUSTRY

(Submitted by Thomas E. Boyle, international vice president, International Chemical Workers Union, AFL–CIO)

Whereas 1965 marks the 175th anniversary of the first patent law in the United States; and

Whereas, through a technicality in the statutes covering patent law protection, certain Government agencies have assumed the right to bypass patent laws in the purchase of products from foreign countries which do not respect American patent laws; and

Whereas such loopholes in the law have resulted in the purchase of many millions of dollars of such foreign products, which are manufactured under cheap labor conditions and manufactured under formulas stolen, copied, and otherwise infringing on American patents; and

Whereas in the pharmaceutical, chemical, and electronic industries such stolen patents and other infringements of American patents have resulted in the loss of thousands of American jobs and have adversely affected the livelihood of nearly 5 million workers in organized labor; and

Whereas such practices threaten the very incentives for research and manufacture which have kept America in the forefront of industrial and medical developments; and

Whereas U.S. Senator Harrison A. Williams, of New Jersey, and Congressman Peter W. Rodino, Jr., of New Jersey, have introduced identical bills in Congress aimed at insuring full and adequate protection in safeguarding employment opportunities for American workers under out patent laws: Be it hereby

Resolved, That the New Jersey State AFL–CIO in convention voice support for Senator Williams' bill, S. 1047, and Congressman Rodino's bill, H.R. 5675,

being identical measures designed to protect and strengthen the American patent system by insuring that no Government agency be permitted to purchase products manufactured abroad through stolen or infringed American patents; and be it further

Resolved, That the New Jersey State AFL–CIO urge all other State AFL–CIO bodies to adopt identical resolutions in the interest of the American labor movement and in preservation of American jobs; and be it further

Resolved, That copies of this resolution be sent by the secretary-treasurer of the New Jersey State AFL–CIO to the national AFL–CIO with a recommendation that the S. 1047 and H.R. 5675 be made part of the legislative policy of the AFL–CIO for adoption by the Congress of the United States, and with the request that this resolution be submitted to the 1965 National Convention of the AFL–CIO for its support and adoption.

(The following was subsequently received and by order of the chairman inserted at this point.)

INTERNATIONAL CHEMICAL WORKERS UNION,
LEGISLATIVE AND POLITICAL ACTIVITIES DEPARTMENT,
Washington, D.C., July 6, 1965.

Hon. JOHN MCCLELLAN,
Chairman, Senate Subcommittee on Patents, Trademarks and Copyrights,
Washington, D.C.

DEAR SENATOR MCCLELLAN: At the conclusion of my direct testimony before your committee on June 2, 1965, I requested permission to submit at a later date such resolutions as may be forwarded by various labor organizations in support of my testimony on behalf of Senate bill 1047.

I understand that such a resolution has been forwarded to your committee directly by Charles Marciante, secretary-treasurer of the New Jersey AFL–CIO, representing 500,000 workers. I join in his request that this resolution be made part of the record of your committee and I am certain that this resolution as suggested will be adopted as part of the basic national AFL–CIO policy.

I attended today's hearings before your committee and it is my conviction that representatives of both the General Accounting Office and tne Defense Department deliberately avoided the subject matter contained in my own direct testimony because the practices of the two departments in subscribing to products produced through infringed patents are indefensible. The representatives totally ignored the moral issues involved and the question of ethics in competition.

While the Government representatives talked theoretically on the necessity for protecting our patent system and of the incentives necessary to aid American business, they actually demanded an exemption for themselves and their departments in the practical application of such theories.

The two representatives completely bypassed the fact that free and competitive bidding is impossible when one plays by the rule and the other cheats on the rule. The Defense Department witness talked vaguely about the loss to the Government of one of its powers to assure fair prices to Government. He suggested that the Government continue its policy of dealing with patent infringers to insure the same without taking into account of just how the Government could set a standard for fair pricing by making a comparison between a firm who has invested in research and a firm which simply helped itself to the benefit of such research.

Both Government representatives stated that there was a remedy within the Court of Claims for any damages done. But where in the Court of Claims is there any recourse for the thousands of workers who have been deprived of their right to work because of a policy of cheating condoned by these agencies? No belated compensation to a firm will provide compensation for the jobs lost by the American workers.

Again, I repeat my conviction that this issue must be considered not only on economic but on moral grounds. I feel under both considerations Senator Williams' bill 1047 deserves the complete support of your committee and Congress.

Sincerely,

THOMAS E. BOYLE, *Vice President.*

Senator McCLELLAN. If you were in the room here you already heard me express my views.

Mr. BOYLE. I certainly have, sir.

Senator McCLELLAN. Tentative, at least, with respect to this legislation.

We are very glad to have your testimony. Incidentally, I have just been handed a document, Senator Hill sent down and asked that it be made a part of the record, which is a joint resolution by the State of Alabama, House of Representatives, and as I interpret it, it supports your objective and the Williams bill, although it does not mention it specifically. They feel that legislation should be enacted to correct this condition, and I am going to direct that this be printed in the record at the conclusion of the testimony on this particular bill.

(The document referred to will be found in the appendix.)

Senator McCLELLAN. Thank you.

Any questions, Senator?

Senator HART. Thank you.

Mr. BOYLE. I would appreciate it if you would convey my personal thanks to Senator Hill.

Senator McCLELLAN. The Chair will make this observation: We are going to recess until 2:15, which will give us 2 hours because there is a matter we anticipate that will come up on the floor that will require the presence of members of the committee.

Now, it could very well be, that matter could extend over beyond that time and occupy us much longer than expected. I do not know. So it is possible, and maybe probable, that at 2:15 the committee will not return. We are going to have to take a chance on it. We will do the best we can. The committee hopes to return at that time and I would like to be able to conclude with the witnesses who are scheduled to appear here today even though it may be necessary to stay late to do it. I hope to conclude with them so they wouldn't have to remain another day, particularly those who are from out of town.

The committee will stand in recess until 2:15.

(Whereupon, at 12:45 p.m., the committee recessed to reconvene at 2:15 p.m., the same day.)

(The committee subsequently adjourned to 11:10 a.m., Thursday, June 3, 1965.)

INFRINGEMENT OF PATENTS

THURSDAY, JUNE 3, 1965

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND
COPYRIGHTS OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 11:10 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan (chairman of the subcommittee) presiding.

Present: Senators McClellan and Burdick.

Also present: Thomas C. Brennan, chief counsel; Edd N. Williams, Jr., assistant counsel; Stephen G. Haaser, chief clerk, Subcommittee on Patents, Trademarks, and Copyrights; and Horace L. Flurry, on behalf of Senator Hart.

Senator MCCLELLAN. The subcommittee will come to order.

Counsel, call our first witness.

Mr. BRENNAN. Mr. Henry J. Cappello, on behalf of Mr. J. P. Perry.

Mr. CAPPELLO. Mr. Chairman, my name is Henry J. Cappello. I am appearing in lieu of Mr. Perry who presents his apologies for not being present. It was impossible for him to rearrange his schedule to be here today.

Senator MCCLELLAN. He has been here, has he not, waiting to testify?

Mr. CAPPELLO. Yes.

Senator MCCLELLAN. I apologize to him but there was no other way that we could handle this. We attempted to do the best that we could under these circumstances. We could have heard him yesterday afternoon had we been able to keep up with our schedule, but this could not be done.

Mr. CAPPELLO. We appreciate the opportunity to appear.

Senator MCCLELLAN. You may proceed.

STATEMENT PRESENTED BY HENRY J. CAPPELLO, ON BEHALF OF J. P. PERRY, CHAIRMAN, SMALL BUSINESS PATENT POLICY COMMITTEE OF THE NATIONAL SMALL BUSINESS ASSOCIATION

Mr. CAPPELLO. Mr. Chairman and members of the committee, I am an attorney in general practice, Mr. Chairman, and I am also a consultant to the National Small Business Association in the field of patent policy and Government procurement, and I also happen to be secretary-treasurer of the Space Recovery Research Center, Inc., Boca Raton, Fla., which is engaged in manufacturing aerological devices and has a strong patent-oriented position.

Senator MCCLELLAN. Would you like to have Mr. Perry's statement presented for the record or do you wish to go through it?

Mr. CAPPELLO. I would like to highlight the statement for you.

Senator MCCLELLAN. I will direct that Mr. Perry's statement dealing with S. 1047 be printed in the record, following your testimony.

Mr. CAPPELLO. Yes, sir. I will just pick out the salient points; that is, excerpts from the statement by Mr. Perry.

Section 9 of S. 789, if enacted, would prove most beneficial to the individual or small business patentholder whose patent has been infringed under Government procurement. The remedy conferred by 28 U.S.C. 1498 is by suit against the Government in the Court of Claims. Such action is beyond the resources of most small patent holders and is generally otherwise unrewarding since the "compensation" so awarded is never greater than that which would have been obtained under a negotiated license and no recognition is given of the patentholder's extensive legal fees. We estimate, at a minimum, that $20,000 would be required to prosecute such a case and this can never be recovered by the small business patent owner—the primary target of a lot of this type of infringement. It is uneconomical, unprofitable for him to go to the Court of Claims at all.

While the executive departments may theoretically administratively settle claims, settlements of this nature seldom mature since the consent of the unlicensed supplier is necessary if he has indemnified the Government. There is clearly a crying need for effective and inexpensive means to satisfy the just claims of small patentholders so affected; and we would most strongly recommend that legislation providing such procedures be enacted.

A somewhat related proposal is contained in S. 1047. The Comptroller General in August 1958 ruled that the bid of the unlicensed low bidder must be accepted even if a valid privately held patent will clearly be infringed, since, in the Comptroller General's opinion, the patentholder has, under 28 U.S.C. 1498, a remedy by way of suit against the Government. This decision further prohibited negotiated procurement with the patentholder or his licensees under these circumstances. Recent decisions by the Comptroller General, however, have prohibited awards to low bidders where it could be demonstrated that the Government had used without authorization the proprietary, but unpatented designs of other concerns. This brings us to the somewhat unique conclusion that the inventor is in a more favorable position vis-a-vis Government procurement if he maintains his design as a "trade secret" than if he patents it. We believe that the present state of affairs completely overlooks the fact that more often than not the inventor seeks a patent on his discovery not so much in the hope of royalties but rather in the hope of enjoying some small preferential position in the manufacture of his brainchild. Passage of S. 1809 would provide much needed protection to individual and small business patentholders without at the same time depriving the Government of means of circumventing the unrealistic demands of unreasonable or uncooperative patentholders.

We feel that the most nearly acceptable language is contained in S. 1809, (McClellan bill) and we suggest the following amendatory language to accomplish revisions to implement our prior recommendations or to effect perfecting language.

In order to provide for an administrative procedure to permit fast and inexpensive adjudication of claims of patent infringement by the United States or contractors infringing patents in connection with

Government contracts, and to limit authorized infringment of privately owned patents by the United States only to those situations where such infringement is justified in the interest of national security. We are recommending changes in section 1498(a) as set forth at length in our statement.

It will be noted that this amendment abolishes the present remedy of a suit in the Court of Claims, a costly and time-consuming procedure which is generally regarded as being most unsatisfactory. There is substituted an administrative procedure (which could very well be vested in Boards of Contract Appeals or similar agencies) with the right of appeal to the Court of Appeals of the District of Columbia or the Court of Appeals for the Judicial Circuit in which the appellant resides.

Senator McCLELLAN. Thank you very much. Are there any questions, Senator?

Senator BURDICK. Mr. Chairman, I want to thank you for a very fine statement. I am being more impressed every day about the frailty of our patent system.

There is just one question about S. 1047. We have had some testimony on that bill yesterday and the day before. The examples given to us were as to the agency of Government that dealth with the infringer, which was in a foreign country; namely, Italy.

As I understand, S. 1047 would apply to any infringer, whether in this country or out of this country?

Mr. CAPPELLO. That is our interpretation, sir.

Senator BURDICK. And that if the holder of the patent had a right, at least, he ought not to have the Government infringe, is that the sense of it?

Mr. CAPPELLO. This is our primary concern from the standpoint of the small businessman. From our own personal experience, mine as well as the other two gentlemen who would have been here had they been able to, we have been subjected to this. Mr. Perry has three suits in the Court of Claims right now, that is, his corporation. We believe that the position of the small business patentholder in connection with infringement is untenable. We need relief of the type that is suggested within our revisionary language most urgently.

Senator BURDICK. It seems to me that we also need to assure the language that you have on page 13 where it talks about using the phrase to hold an uncontroverted patent. That seems to be the problem. You do not get it unless you go to court.

Mr. CAPPELLO. It is a very substantial problem, particularly for small people. In getting a patent established, as far as its validity goes, and insofar as we can guarantee that you have a reasonable chance of knowing that your patent will be respected by other people. particularly other members of the small business community. We are adversaries in the same community. The failure to have prima facie validity accorded to the patent, and the disposition on the part of the Government agency to regard the patents that are issued by the Patent Office as being really prima facie invalid are our severest problems in the field of procurement.

Senator BURDICK. They claim that it is prima facie invalid?

Mr. CAPPELLO. The disposition is to regard it as being prima facie invalid, in trying to get around the patent rights of the small business man in dealing with the Government. I might say that from our

own experience many small businessmen simply will not do business with the Government if they have a patent position because they are afraid that the Government will take their commercial as well as their Government rights away from them. A number of small businessmen that I have talked to recently, say that they are following the "trade secret" route rather than patenting their articles, simply because they feel that they can protect their rights better by keeping their proprietary item secret.

If there are substantial difficulties in reverse engineering of their products, they will not patent them.

Senator McCLELLAN. All right, sir. Thank you very much.

(The prepared statement of Mr. J. P. Perry dealing with S. 1047 follows:)

STATEMENT OF J. P. PERRY, CHAIRMAN OF SMALL BUSINESS PATENT POLICY COMMITTEE OF NATIONAL SMALL BUSINESS ASSOCIATION

(The following are taken from Mr. Perry's prepared statement and deal specifically with S. 1047 and sec. 9 of S. 789:)

Government infringement of private patents under 28 U.S.C. 1498

The Government's rights to utilize privately owned and developed patents have become considerably distorted with the passage of time. As originally enacted in 1910, the statute from which 28 U.S.C. 1498 is derived merely permitted a patent owner to sue the Government as well as others for infringement. In 1918 the statute was amended to extend the remedy of compensation to cover infringement by contractors on Government business and to limit such remedy to claim solely against the Government, in order to prevent delay in wartime Government procurement through court proceedings, based on allegations of patent infringement. The practical effect of this statute was to secure to the Government the power to cause infringement of patents without fear of injunction or other harassment against its contractors. Between wars resort to this statute languished, primarily because, in a few cases where procurement of patented items occurred, it was general practice of the Government to secure a license from the patent owner or to buy directly from him or his licensees.

With the requirement for expanded advertised procurement following World War II, the problem of patent infringement was still not of significant importance, simply because, under procurement directives, one of the recognized exceptions or which negotiated procurement was authorized was patented items. In good faith, the bulk of Government procurement of patented items continued to be under license or by negotiation limited to licensed sources.

The current dilemma stems from recent Comptroller General decisions beginning in 1957, which hold in substance:

(1) That negotiation for patent articles is not proper solely on the basis of their being patented.

(2) That the Government must resort to advertised procurement for patented articles and accept bids from infringing sources.

(3) That the sole remedy for infringement under these circumstances is a suit against the Government in the U.S. Court of Claims.

The practical effect of these decisions is that procurement officers are in the position where they now must induce infringement of patented articles. Related effects of these decisions show up in:

(1) The reluctance of procurement officers to negotiate for licenses for patented articles.

(2) Subterfuge on the part of Government representatives in attempting to obtain proprietary articles, plans and specifications with the utlimate goal of inducing submission of bids by unlicensed sources based on the samples submitted, specifications, or a general requirement for a named proprietary item "or equal," and

(3) Studied attempts to develop patentable improvements of proprietary items under Government R. & D. programs so as to be able to defeat the original developer's proprietary rights and incidentally acquire by implication all background rights.

The impact of the Comptroller General's decision at least in connection with proprietary and nonpatented articles has been softened by recent changes in the ASPR which require and encourage the purchase of rights to proprietary data needed by the Government. This results in the anomalous situation where the owner of a new invention for which a patent has been applied but not issued, who is continuing to guard his property as a proprietary item by following the common law "trade secret" route, is in a better position to dispose of or license his proprietary product than if he holds a valid uncontroverted patent. This situation cries out for legislative relief. We should emphasize that small business is the primary sufferer under this strange set of circumstances. Larger businesses have the specialized legal talent and the expertness which comes from day-to-day dealings with the Government—they know how to protect themselves, their ideas, and their products. The inventor or small creative businessman has an almost impossible task in trying to keep the Government from stealing him blind under these unfair regulations and decisions, as implemented by a corps of unsympathetic Government representatives.

We would respectfully bring to the attention of this committee what we believe to be an anomaly in the conduct of Government business in relation to patent rights. We refer to the current intensive activity in various agencies to protect the Government's interest in patentable inventions developed with research and development funds—reporting requirements, policing activities, and economic sanctions in the form of withholdings, fines, and blacklisting. This vast structure is being organized without substantial evidence of wrongdoing in this area. Moreover this is being done in spite of real controversy as to equitable, legal and moral entitlement, and whether the Constitution permits the Government to own and commercially exploit patents. There is even serious doubt as to whether the public interest is not better served, in any event, by private rather than public ownership of commercial rights to patentable research and development inventions. In contrast to this program, when it comes to setting up administrative procedures to provide fair compensation for Government infringement of private patents the most we receive from the same sources is lipservice or sympathetic understanding. One might reach the conclusion that some Government officials regard the American institution of private property as a transitory phenomenon which it is their duty to hasten to its demise.

Current legislation

The Senate presently has before it a variety of bills which, if enacted, would alter the operation of the present American patent system. Among such bills are the following:

(*a*) *S. 789 (Saltonstall bill) prescribing a national patent policy.*—This bill provides for a procedure to determine the respective rights of private contractors and the Government in inventions resulting from Government-sponsored research and development; a procedure for the administrative settlement of claims resulting from the infringement of privately held patents in connection with Government procurement; and a procedure for the granting of awards to inventors and innovators for meritorious discoveries.

(*b*) *S. 1047 (Williams bill) proposing an amendment to 28 U.S.C. 1498.*—This bill would amend 28 U.S.C. 1498 by prohibiting willful infringement of valid privately held patents in connection with Government procurement unless such action was certified by the Secretary of Defense as being necessary to the national security.

Section 9 of S. 789, if enacted, would prove most beneficial to the individual or business patentholder whose patent has been infringed under Government procurement. The remedy conferred by 28 U.S.C. 1498 is by suit against the Government in the Court of Claims. Such action is beyond the resources of most small patentholders and is generally otherwise unrewarding since the "compensation" so awarded is never greater than that which would have been obtained under a negotiated license and no recognition is given of the patentholder's extensive legal fees. While the executive departments may theoretically administratively settle claims, settlements of this nature seldom mature since the consent of the unlicensed supplier is necessary if he has indemnified the Government. There is clearly a crying need for effective and inexpensive means to satisfy the just claims of small patentholders so affected; and we would most strongly recommend that legislation providing such procedures be enacted.

A somewhat related proposal is contained in S. 1047. The Comptroller General, in August 1958, ruled that the bid of the unlicensed low bidder must be accepted even if a valid privately held patent will clearly be infringed, since, in the Comp-

troller General's opinion, the patentholder has under 28 U.S.C. 1498 a remedy by way of suit against the Government. This decision further prohibited negotiated procurement with the patentholder or his licensees under these circumstances. Recent decisions by the Comptroller General, however, have prohibited awards to low bidders where it could be demonstrated that the Government had used without authorization the proprietary, but unpatented, designs of other concerns. This brings us to the somewhat unique conclusion that the inventor is in a more favorable position vis-a-vis Government procurement if he maintains his design as a "trade secret" than if he patents it. We believe that the present state of affairs completely overlooks the fact that more often than not the inventor seeks a patent on his discovery not so much in the hope of royalties but rather in the hope of enjoying some small preferential position in the manufacture of his brainchild. Passage of S. 1809 would provide much needed protection to individual and small business patentholders without at the same time depriving the Government with means of circumventing the unrealistic demands of unreasonable or uncooperative patentholders.

Recommendations

The foregoing described legislation contains, in at least three of the bills, legislative language which is intended to alleviate most of the problems which we have discussed earlier in the statement.

We feel that the most nearly acceptable language is contained in S. 1809 (McClellan bill), and we suggest the following amendatory language to accomplish revisions to implement our prior recommendations or to effect perfecting language:

(1) S. 1809. In section 8(a), last sentence (p. 14, lines 23–25), (p. 15, lines 1 and 2), and section 8(b) (p. 15, lines 3–11), the assumption is made that the United States as a patentholder may exercise all rights of a private owner of patents. As we have pointed out, this is subject to severe constitutional questions. We believe that most Government patents should be placed in the public domain with free use without licensing, and that in only a few instances, to protect quality or control quantity should the Government have power to grant unrestricted, royalty-free licenses. We recommend deletion of this language and incorporation of appropriate language to reflect the foregoing.

(2) In order to provide for an administrative procedure to permit fast and inexpensive adjudication of claims of patent infringement by the United States or contractors infringing patents in connection with Government contracts and to limit authorized infringement of privately owned patents by the United States to only those situations where such infringement is taken in the interest of national security, it is recommended that section 1498A of title 28 be amended by providing the following as a new section 10 of S. 1809:

"SEC. 10. Subsection (a) of section 1498 of title 28, United States Code, is amended to read as follows:

" '(a)(1) Whenever an invention described and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's claim for compensation for such use and manufacture shall be determined by administrative proceedings under such rules and regulations as the Federal agency head concerned may prescribe.

" '(2) Any person aggrieved by any determination under such an administrative proceeding shall be entitled to a judicial review of the basis for such determination by filing a written petition for review in the United States Court of Appeals for the District of Columbia, or in the United States Court of Appeals for the judicial circuit in which such party resides and serving a true copy of the petition upon the Federal agency head, within sixty days after notice of such determination. The Federal agency head thereupon shall certify and file in the court a true and correct transcript of the entire record of the proceedings upon which the determination was based, including all evidence taken and the findings and conclusions upon which the determination was made.

" '(3) The court shall have jurisdiction to hear and determine any such petition, and shall have power to affirm, modify, or set aside the determination. In any such review, the findings of fact made by the proceedings, if supported by substantial evidence, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material, the court may order such additional evidence to be taken for such consideration as to the court may appear proper. The judgment and decree of the court shall be final, except that it shall

be subject to review by the Supreme Court upon certiorari, as provided in Section 1254 of this title.

" '(4) Any determination issued under this section shall become final—

" '(a) upon the expiration of the time allowed for filing a petition for judicial review, if no petition has been duly filed within such time; or

" '(b) upon the expiration of the time allowed for filing a petition for certiorari if the determination has been affirmed or the petition for judicial review has been dismissed by a United States Court of Appeals, and no petition for certiorari has been duly filed; or

" '(c) upon denial of a petition for certiorari, if the determination has been affirmed or the petition for review has been dismissed by a United States Court of Appeals; or

" '(d) upon the expiration of ten days from the date of issuance of the mandate of the Supreme Court, if such Court directs that the determination be affirmed or that the petition for review be dismissed.

" '(5) For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

" '(6) Compensation shall not be awarded under this section if the claim is based on the use or manufacture by or for the United States of any article owned, leased, use by, or in the possession of the United States prior to July 1, 1918.

" '(7) A Government employee shall have the right to bring a claim against the Government under this section except where he was in a position to order, influence, or induce use of the invention by the Government. This section shall not confer a right of action on any patentee or any assignee of such patentee with respect to any invention discovered or invented by a person while in the employment or service of the United States, where the invention was related to the official functions of the employee, in cases in which such functions include research and development, or in the making of which Government time, materials or facilities were used.

" '(8) Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture.' "

It will be noted that this amendment abolishes the present remedy of a suit in the Court of Claims, a costly and time-consuming procedure which is generally regarded as being most unsatisfactory. There is substituted an administrative procedure (which could very well be vested in Boards of Contract Appeals or similar agencies) with the right of appeal to the Court of Appeals of the District of Columbia or the Court of Appeals for the Judicial Circuit in which the appellant resides.

In conclusion, the National Small Business Association believes there should be a strengthening of the rights of owners of privately developed patents against Government infringement and improving the remedies providing compensation for any such authorized infringement.

Senator McCLELLAN. The next witness is Mr. E. G. Peterson.

STATEMENT OF ERNEST G. PETERSON, ON BEHALF OF THE MANUFACTURING CHEMISTS' ASSOCIATION, INC.

Mr. PETERSON. Mr. Chairman and members of the subcommittee, my name is Ernest G. Peterson and I am appearing today on behalf of the Manufacturing Chemists' Association, Inc. (MCA), a nonprofit trade association having 194 U.S. member corporations, large and small, which account for more than 90 percent of the productive capacity of the chemical industry in this country. I am chairman of the MCA Patent Committee, which is composed of 18 member com-

pany patent attorneys or executives. As for myself, I am manager of the Patent Division of Hercules Powder Co.

We would like to briefly comment on Senator Williams' bill, S. 1047, aimed at preventing "pirating" of U.S. patented inventions by procurement abroad for governmental purposes. Without discussing the justification which Government agencies claim for this practice, we would say that the net result of it has been a serious erosion of the rights of U.S. patent owners. The laws of the United States have provided a strong patent system for the precise purpose of encouraging long and expensive research work relating to the developments which substantially benefit the public. The violation by various agencies of the Federal Government of patents issued by one of its own branches is a growing threat to research-oriented American industry. Its effect may well be to discourage research in certain industries. It hardly seems fair to have one agency of the Federal Government; namely the U.S. Patent Office, issue a patent to an inventor or a discoverer of a new product and have another agency of the Government violate that patent. We agree in principle with the position taken by Senator Williams.

Senator McCLELLAN. That is all we will be able to hear this morning.

The subcommittee will now stand in recess until 2:30 o'clock this afternoon.

(Whereupon, at 12:35 p.m. the subcommittee adjourned to reconvene at 2:30 p.m. of the same day.)

(The subcommittee reconvened at 2:40 p.m. and heard testimony from Senator Russell B. Long of Louisiana on S. 789, S. 1809 and S. 1899. No witnesses appeared to testify on S. 1047. The subcommittee adjourned at 4:05 p.m., subject to the call of the Chair.)

PATENT INFRINGEMENT

TUESDAY, JULY 6, 1965

U. S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND
COPYRIGHTS OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan (chairman of the subcommittee) presiding.

Present: Senators McClellan, Scott, and Burdick.

Also present: Thomas C. Brennan, chief counsel, Edd N. Williams, Jr., assistant counsel, and Stephen G. Haaser, chief clerk; Horace L. Flurry, representing Senator Hart and Clyde DuPont, representing Senator Fong.

Senator MCCLELLAN. The subcommittee will come to order.

The subcommittee this morning is resuming the public hearing on four bills concerned with various aspects of Government patent policies. These bills are S. 789, introduced by Senator Saltonstall; S. 1047, introduced by Senator Williams of New Jersey; S. 1809, introduced by myself; and S. 1899, introduced by Senator Long of Louisiana.

(The subcommittee proceeded to the first witness Congressman Emilio Q. Daddario, who testified on S. 789, S. 1809 and S. 1899.)

Senator MCCLELLAN. Call our next witness.

Mr. BRENNAN. Mr. J. Edward Welch, Deputy General Counsel, of the General Accounting Office.

Senator MCCLELLAN. Please be seated, sir. We are very glad to have your testimony this morning. Will you identify yourself for the record and, also, your associates, please?

Mr. WELCH. I am J. Edward Welch, Deputy General Counsel, General Accounting Office. On my right is Mr. Milton J. Socolar, who is an attorney adviser in the Office of the General Counsel. On my left is Mr. H. H. Rubin, who is Associate Director of the Defense Accounting and Auditing Division in charge of certain phases of our audit work in the Department of Defense.

Senator MCCLELLAN. Very well. You have a prepared statement?

Mr. WELCH. Yes sir; I do.

Senator MCCLELLAN. You may proceed.

STATEMENT OF J. EDWARD WELCH, DEPUTY GENERAL COUNSEL, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY MILTON J. SOCOLAR, ATTORNEY ADVISER, OFFICE OF GENERAL COUNSEL; AND H. H. RUBIN, ASSOCIATE DIRECTOR OF DEFENSE ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

Mr. WELCH. Mr. Chairman and members of the subcommittee, we are glad to comply with your request to appear before you and present our views in connection with your consideration of S. 789, S. 1809, S. 1899, and S. 1047. The first three bills are directed toward the desirability of establishing a congressionally declared national policy with respect to the public interest in inventions and scientific and technical information developed through Government-financed research and development. We believe that there is a pressing need for an overall legislative policy in the field of patents, however, we take no position concerning the relative merits of the three proposals.

While we understand that your primary interest in having us appear is to obtain our views regarding S. 1047, we would, however, take this opportunity to call to your attention one aspect of the problem covered by the other three bills which appears not yet to have been touched.

S. 789, S. 1809, and S. 1899 each deals with the acquisition, disposition, and use of inventions and data resulting from contracts directly concerned with research and development financed at taxpayer expense. None of them reaches the situation where negotiated contracts result in substantial public support of the independent research programs of contractors through the assumption of such research costs in overhead rates.

Under current administrative policies, the Government does not, so far as we know, obtain any rights with respect to inventions and data financed at taxpayer expense in this manner. We are not in position to make any recommendation concerning the proper policy to be followed. But the question of indirectly Government-financed research and development is closely connected with the subject covered by the three bills, and we believe there is sufficient at stake in the way of Government funds involved and inventions made to warrant bringing the matter to your attention.

Turning now to S. 1047. To more clearly understand the purpose underlying S. 1047 it might be well to trace briefly the evolution of the law which the bill seeks to amend. Prior to 1910 it was recognized that when the U.S. Government made use of a patented invention without a valid license, it was acting as an infringer liable in tort to the patent owner. However, because the Government exercised its right of immunity from suit as a sovereign, the patent owner was left without a remedy except through special bill in the Congress. To remedy this situation, the Congress passed the act of June 25, 1910, 36 Stat. 851, which provided generally that where the United States made use of a patented invention without lawful right, the owner might recover reasonable compensation for such use by suit in the Court of Claims. Shortly thereafter, the Supreme Court established that the act of 1910 made full and adequate provisions for the Government to obtain a license under patents through eminent domain and that a suit to enjoin the exercise of that right would not lie where the

Government itself was utilizing a patented invention. *Crozier* v. *Krupp*, 224 U.S. 290 (1911).

However, in *Cramp and Sons* v. *Curtis Turbine Co.*, 246 U.S. 28 (1918), the Supreme Court ruled that the provisions of the act of 1910 did not extend to a contractor who violated a valid patent in the course of his Government contract work and held that an injunction against such contractor would lie. This ruling led to the act of July 1, 1918, 40 Stat. 705, which amended the earlier act to prevent injunctive interference with Government work conducted by private contractors. The reason for including Government contractors as well as the Government itself within the ambit of the act was that urgent procurements by the Government were liable to delay by injunctive suits against its contractors and that manufacturers had become exposed to expensive litigation and were reluctant to take contracts which might bring such severe consequences as prohibitive injunctions, payment of royalties, and punitive damages.

The purpose of the 1918 statute had been stated to be to furnish the patentee an adequate and effective remedy while saving the Government from having its procurements tied up and thwarted while private parties carried on a long-drawn-out litigation. In *Richmond Screw Anchor Co.* v. *United States*, 275 U.S. 331 (1928), the Supreme Court stated that the act as amended effected an assumption of liability by the Government thereby precluding litigation against the actual infringer, relieving him entirely from every kind of liability for infringement in his production for the Government.

The statutory provisions referred to together with other amendatory legislation not particularly pertinent to our discussion are now contained in section 1498, title 28, United States Code.

It was against this background that the Comptroller General of the United States issued his decision of October 6, 1958 (B–136916), to the Secretary of the Air Force which led many critics to the conclusion that 28 U.S.C. 1498 has been subverted to a Government policy which promotes infringement of patents and is inimical to and destructive of the public policy considerations underlying our patent laws.

The decision (reported at 38 Comp. Gen. 276), held essentially that where procurement by advertised competitive bids is required, the governing statutes make no exception for eliminating or restricting competition on behalf of patent owners and their licensees; that where full and open competition results in some bidders who might be required to infringe patent rights in order to comply with Government contract requirements, section 1498 explicitly provides the patent owner with a remedy against the Government for reasonable compensation for the property right taken from him.

These conclusions were premised upon the view that section 1498 in effect as an eminent domain statute constitutes a modification of the patent laws by limiting the rights of patentees so far as concerns procurement of supplies by the Government and by vesting in the Government a right to use any patent granted by it upon payment of reasonable compensation.

In reaching these conclusions, we were not unmindful of the inherent conflict with the public policy considerations underlying the patent laws and the rights granted thereunder to patent owners. As the Supreme Court has pointed out, in the patent system it is the public

interest which is dominant over the interests of private adverse parties in any suit to enforce patents, and related contracts. Thus, it may be said that general reliance upon section 1498 to avoid subjecting Government contractors to injunctive suits for patent infringement conflicts with the declared public interest in otherwise allowing such suits.

However, it is also in the public interest to provide for the procurement of public needs through full and free competition and to establish multiple sources of supply unhampered by the effects of time-consuming suits against Government contractors who may or may not be infringing valid patent rights. Furthermore while we do not have precise figures, it must be borne in mind that a large percentage of those cases in which an infringement is alleged ultimately result in determinations that the patents relied upon are invalid. The complexity of judging the validity of patents and the extent of possible patent infringement, if any, as these matters might affect particular procurements would place an impracticable if not almost impossible burden upon Government procurement officials at considerable expense were they required to assess such matters with any reasonable degree of certitude. Also for consideration are those policy determinations relating to the desirability of providing for the placement of certain Government contracts with small business concerns and in labor surplus areas, which restriction of contracts to patent owners and their licensees would hamper.

The basic question for consideration is, then, as to how these competing policy considerations should be resolved to promote best the overall public interest. It is our position that under current legislation the overall public interest has been resolved in favor of assuring the maximum benefits deriving from full, free, and open competition in the procurement of Government supplies, and that such loss to the public interest as emanates from initial disregard of the patent rights related to such procurements is preserved to a substantial if not complete extent by rights to reasonable compensation preserved in section 1498.

S. 1047 would reverse this balance by placing patent owners and their licensees in a preferred position for obtaining Government contracts and by restoring the right to sue Government contractors for injunctive relief and the recovery of damages for alleged patent infringement substantially as it existed prior to the act of July 1, 1918. Although the bill was apparently prompted by a situation involving the procurement of foreign drug products from an unlicensed supplier notwithstanding the existence of U.S. producer-owned patents, the bill goes beyond merely eliminating such foreign competition. Whether the change proposed by the bill would best promote the public interest is, of course, a matter for determination by the Congress. However, we would point out our experience indicates that where the number of bidders for a Government contract is restricted, and in the event S. 1047 is enacted there might well be a restriction of bidders to one supplier, it is reasonable to expect that prices charged the Government will be raised to an unwarranted extent.

We have attempted to keep our statement short and directly to the central point at issue. We shall be glad to answer any questions you may have.

Senator McCLELLAN. I would be glad for you just to tell me what amendments you would like to have to S. 1047—what do you think is necessary to have it conform to your judgment as to what should be done?

Mr. WELCH. Mr. Chairman, I believe that it is correct to say that our office feels that the present state of the law is the way it should be to best meet the needs of the Government, to enable the Government to procure its necessary supplies and services promptly.

Senator McCLELLAN. You do not think the law should be changed?

Mr. WELCH. That is correct.

Senator McCLELLAN. So that you oppose S. 1047?

Mr. WELCH. In effect, yes, sir.

Senator McCLELLAN. That is what it amounts to?

Mr. WELCH. Yes, sir.

Senator McCLELLAN. You think that it should not be enacted? Are there any suggestions as to modification of the existing law?

Mr. WELCH. No, sir, not at the present time, anyway. Our thinking is based on the fact that so far as the public is concerned that we should have free and full competition, and while the procure laws contain many exceptions to advertised competitive requirements, no one of those exceptions expressly provides for negotiation with a patent owner solely because the owner alleges that he does have a valid patent. Also, we believe that practical consideration precludes placing a situation back to where it was before 1918. Under the old system before the 1918 statute, the contracting officers would have to determine whether or not—when a patent owner comes in or alleges he has a valid patent—whether that patent is valid and the courts have difficulty with this question. To determine the answer would, perhaps, require an investigation—a time-consuming investigation—and interfere with the awarding of the contract. Also, after determining that the patent was valid, the next determination would have to be whether or not in this particular procurement the performance of this contract actually infringed this patent. This is another, I believe, in many cases a difficult determination to make.

And, also, the situation is really not as inequitable to the patent owners as it would seem on its face. The procurement regulations require, with certain exceptions, that Government contracts contain an indemnification clause. This clause is a clause under which a contractor who gets the contract agrees to indemnify the Government if a suit is successfully maintained against the Government under section 1498, and the Government has to pay reasonable compensation, because it infringed the patent. Then the contractor must indemnify the Government for whatever costs the Government has as a result of that suit. Now this, no doubt, serves as a deterrent against contractors' willingness to take on a contract that would result in infringing a patent.

Also, going to the equities of the matter it is a fact that there are administrative remedies now available to patent owners whose patents are infringed by Government contractors. These remedies are provided by several statutes. There is a statute that provides such a remedy to be granted by the military departments; another statute makes available the same type of remedy for NASA contracts. There is a similar statute which applies to AEC contracts. And, also, one that applies in procurements for foreign aid purposes.

One final consideration that we think would afford a problem in requiring the Government to limit its bids and contracts to patent owners is the fact that there are other laws with which this, perhaps, would conflict—namely, the Small Business Act which, of course, has for its purpose the placing or the setting aside of Government procurements for small businesses. If the contract had to be awarded only to the patent owners they might be big businesses and this would tend to conflict with and defeat the purposes of the Small Business Act.

The same is true with respect to the set-aside programs for surplus labor areas.

These are some of the main considerations that enter into our thinking on this problem.

Senator McCLELLAN. Very well. Senator Burdick, do you have any questions?

Senator BURDICK. I have a question as to the first part of your testimony. You say that the remedy is in the Court of Claims. Is that not an expensive remedy?

Mr. WELCH. Well, it does amount to a considerable amount of money to bring a suit in the Court of Claims, I believe, yes, sir.

Senator BURDICK. Do you not think that is a reasonable remedy?

Mr. WELCH. Well, I think this would depend on the particular case, whether the remedy could be said to be reasonable.

Senator BURDICK. The right of the patent holder is against all of the world except the Government in these particular areas?

Mr. WELCH. Well, he does have rights against the Government under section 1498, and he does have these administrative remedies available to him that I just mentioned.

Senator BURDICK. In open and competitive bidding it would not mean very much, if he had the right of the patent?

Mr. WELCH. No, sir. And this is one of the reasons why we believe that the policy consideration requiring open and competitive bidding should be considered dominant over the policy considerations supporting the patent laws. We think that section 1498, really, is an amendment to the patent law.

Senator BURDICK. Are you saying that a lot of these patents would not stand up in a law suit?

Mr. WELCH. I notice in some testimony previously presented to this subcommittee, as stated by one of the witnesses, that over 60 percent of the patents suits that are tried in the courts are held to be invalid.

Senator BURDICK. That was from a member of the American Bar Association.

Mr. WELCH. I believe so, yes, sir.

Senator BURDICK. In other words, if a patent is a valid patent and it is infringed in this manner you would go into the Court of Claims, and if the man is successful in his prosecution of his claim, then the infringer will indemnify the Federal Government?

Mr. WELCH. If it contains an indemnification clause which is required in most contracts.

Senator BURDICK. That is all I have, Mr. Chairman.

Senator McCLELLAN. Thank you very much.

Mr. WELCH. Thank you.

Senator McCLELLAN. Call the next witness.

Mr. BRENNAN. Mr. John M. Malloy, Deputy Assistant Secretary of Defense for Procurement.

Senator MCCLELLAN. Mr. Malloy, you have a prepared statement?

Mr. MALLOY. Yes, I do.

Senator MCCLELLAN. Identify yourself and your associates, please, sir.

Mr. MALLOY. I am John M. Malloy, Deputy Assistant Secretary of Defense for Procurement, and on my left is Mr. Howard C. H. Williamson, Procurement Specialist, Office of the Assistant Secretary of Defense, Installations and Logistics, and on my right is Mr. R. Tenney Johnson, Deputy General Counsel of the Department of the Army. Mr. Chairman, I have asked other members of the military department who are specialists in patent matters to be here today, should we get into those details so that they will be available for answering questions.

Senator MCCLELLAN. You may proceed.

STATEMENT OF JOHN M. MALLOY, DEPUTY ASSISTANT SECRETARY OF DEFENSE (PROCUREMENT), ACCOMPANIED BY HOWARD C. H. WILLIAMSON, PROCUREMENT; SPECIALIST, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS); R. TENNEY JOHNSON, DEPUTY GENERAL COUNSEL, DEPARTMENT OF THE ARMY; ALSO, LT. COL. JOSEPH HILL, CHIEF, PATENT DIVISION, OFFICE OF THE JUDGE ADVOCATE GENERAL OF THE ARMY, ALBERT HELVESTINE, CHIEF PATENT COUNSEL OF THE NAVY, OFFICE OF NAVAL RESEARCH, AND HARRY HERBERT, CHIEF, PATENTS DIVISION, OFFICE OF THE JUDGE ADVOCATE GENERAL OF THE AIR FORCE, DEPARTMENT OF DEFENSE

Mr. MALLOY. It is a pleasure to present to you today the views of the Department of Defense concerning Government policies for acquiring patent rights under research and development contracts and for utilizing privately owned patents without license from their owner.

I will discuss first the acquisition policies, which are generally discussed under the heading "Government Patent Policy."

(Mr. Malloy proceeded with the Department's presentation regarding S. 789, S. 1809, and S. 1899, which is printed in the hearings "Government Patent Policy.")

Mr. MALLOY. I turn now to the other major question of policy before your subcommittee—the question of the Government's utilizing an invention without license from the owner to whom the Government has granted a patent. For some 47 years, the Government has had the authority—akin in some respects to the power of eminent domain—to use patented inventions without license so long as fair compensation is paid to the patent owner at his request.

In 1910 the statute which is now 28 U.S.C., section 1498, was enacted to waive the Government's sovereign immunity to permit a patent owner to sue the Government as well as others for compensation for infringements. In 1918, at the request of Franklin D. Roosevelt, then Assistant Secretary of the Navy, the statute was amended to

limit such remedy to a claim solely against the Government, in order to prevent delay of Government procurement by court proceedings against contractors based on allegations of patent infringement, real or fancied.

The Comptroller General in his decision in the *Hebert-Cooper* case of October 6, 1958 (38 Comp. Gen. 276), has construed the statute as constituting a—

> modification of the patent law by limiting the rights of patentees insofar as procurement of supplies by the Government may be concerned, and by vesting in the Government a right to the use of any patents granted by it upon payment of reasonable compensation for such use.

In practical effect the statute secures to the Government the right to use patented inventions without fear of injunction or other harassment against the Government or its contractors. In our opinion, such a right is essential if Government procurement is not to be held up by unsubstantial but time-consuming allegations or by exorbitant royalty demands and refusals to license second sources or to practice inventions based on patents the Government has itself granted.

However, removal of the power to secure an injunction against governmental procurement does not deprive the patent owner of reasonable compensation for the unlicensed use of his patent. An action against the Government lies in the Court of Claims, and meritorious claims may be settled there. Under 10 U.S.C. 2386, the military departments are authorized to settle infringement claims administratively before the suit in the Court of Claims is brought.

The Department of Defense does not encourage unlicensed use of inventions as a matter of course, but we are unable to prevent this by our suppliers, since under the procurement laws as construed by the Comptroller General we must accept bids without regard to patents and we may not deal solely with patent owners and licensees merely on the ground that patents are involved in a procurement.

To benefit patent owners, S. 1047 would amend this longstanding rule of law and would permit a patent owner to secure an injunction against the Government and its contractors for unlicensed use of a patent unless the Secretary of Defense determines that the national security requires such use.

In our view, this is the wrong remedy and the wrong way to proceed. As I have said, the right to utilize patents subject to paying fair compensation for such use is akin to the power of eminent domain, and is essential to avoid harassment of Government contractors and needless delay of Government procurement.

Although S. 1047 would authorize the Secretary of Defense to determine that unlicensed utilization was necessary in the interest of the national security, such a procedure would introduce serious delay and uncertainty into the procurement process. Moreover, there are agencies other than the Department of Defense which engage in procurement having national security implications, such as the Atomic Energy Commission and the National Aeronautics and Space Administration, but the proposed bill makes no provision for their relief, unless it is intended that the Secretary of Defense shall also act on their behalf.

Moreover, S. 1047 would forgo one of the valuable powers which the Government has to assure fair prices to Government, and would free the price of patented articles required by the Government from the

force of competition. While instances of deliberate infringement because of exorbitant pricing are rare, the Government should keep, in our opinion, the authority to obtain competitive prices in those circumstances where it is necessary, regardless of the possible involvement of patented items.

Accordingly, the Department of Defense strongly opposes S. 1047. The only amendment to 28 U.S.C. 1498 we would recommend is to permit a suit by a patent owner directly against an infringing contractor in a case in which the Government is satisified that infringement has taken place, and the contractor has indemnified the Government against patent infringement but refuses to settle. Other than this type of amendment, a practicable way to accord greater recognition to patent owners is to restore discretion to contracting officials to deal solely with patent owners and their licensees in appropriate circumstances. This would require amendments to the procurement statutes.

Mr. Chairman, this concludes my statement. I am ready to answer any questions you may have.

Senator McClellan. Thank you very much, Mr. Malloy. Your letter from the Department to the chairman of the Senate Judiciary Committee, of course, will be made a part of the record and we will have the benefit of that in the record as well as your statement today.

The committee will recess until 2 o'clock this afternoon. In the meantime let me say that we have scheduled hearings for tomorrow as well as today. We will not be able to proceed beyond noon tomorrow. Whether we can get through by then is somewhat doubtful. If not, we will have to set another date to complete the hearings. We may not get through, but we will work this afternoon. The committee does have permission to meet. We will resume at 2 o'clock. Our proceedings will be interrupted by a rollcall vote in the Senate.

The subcommittee will stand in recess until 2 o'clock.

(Whereupon, at 12:15 p.m., the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, July 6, 1965.)

(The committee reconvened at 2 p.m., and received testimony relating to S. 789, S. 1809, and S. 1899; no testimony was received regarding S. 1047.)

Senator McClellan. The committee will recess until 9:30 in the morning.

We hope to conclude with what we have scheduled before noon. If we can get through 30 or 40 minutes before noon, that much the better.

(Whereupon, at 3:20 p.m. the subcommittee was recessed, to reconvene at 9:30 a.m., Wednesday, July 7, 1965.)

PATENT INFRINGEMENT

WEDNESDAY, JULY 7, 1965

U.S. SENATE,
SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, OF THE COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:30 a.m., in room 3302, New Senate Office Building, Senator John L. McClellan (chairman of the subcommittee) presiding.

Present: Senators McClellan and Burdick.

Also present: Thomas C. Brennan, chief counsel; Edd N. Williams, Jr., assistant counsel; and Stephen G. Haaser, chief clerk; Horace L. Flurry, representing Senator Hart; and Clyde DuPont, representing Senator Fong.

Senator MCCLELLAN. The subcommittee will come to order.

Mr. BRENNAN. Mr. Howard Forman, president of the Philadelphia Patent Law Association is the first witness to testify on S. 1047.

Senator MCCLELLAN. Very well, Mr. Forman.

I note you have a prepared statement. It is of some length. Would you be willing to file it and let it be printed in the record and highlight it for us?

Mr. FORMAN. Yes, sir. I will not refer to the statement as such today.

Senator MCCLELLAN. Beg pardon?

Mr. FORMAN. I would appreciate having my formal written statement filed in the record.

Senator MCCLELLAN. It may be received and published in the record in full.

(The prepared statement of Mr. Forman follows:)

STATEMENTS BY HOWARD I. FORMAN

My name is Howard I. Forman, I am from Philadelphia, Pa., and my principal occupation is that of a patent attorney.

I appear today in a dual capacity: (1) as president of the Philadelphia Patent Law Association; and (2) as a private citizen who, as a taxpayer and a longtime student and critic of our Government's patent policies, is vitally concerned with the effects which the above-identified bills may have upon the public welfare if enacted into law.

With respect to my first capacity, I presume no statement of my qualifications is needed. As to my second role, I would like to briefly state my qualifications in an effort to establish justification for my claim to speak solely with the public interest in mind. I feel this is important because of a tendency of some persons in public life to belittle the views on Government patent policy matters of spokesmen who come from segments of industry or the patent profession, particularly if they happen to make their livelihood by serving industrial organizations not normally classified as small businesses.

I have been engaged in the practice of patent law for over 20 years, the past 9 in the employ of a corporate chemical manufacturer whose only Government

contract in that period has been the operation of a small research laboratory for the Army. Prior to my present position my entire working experience, covering a span of 23 years, has been as a Government employee, as a clerk, as a chemist, and as a patent attorney. In 7 of the past 9 years I have been a lecturer in political science and public administration at Temple University, in which two fields I have had conferred upon me the earned degrees of master of arts and doctor of philosophy by the University of Pennsylvania, over 10 years ago.

Mr. doctoral dissertation, incidentally, has been published as a book entitled "Patents—Their Ownership and Administration by the United States Government." It was based on my experiences while serving as consultant to the first Chairman of the Government Patents Board in 1950. Since then I have had published at least seven major articles, in law reviews, textbooks, or encyclopedias, on the subject of Government patent policy. A list of those publications is appended hereto. I am also the author of one other book and editor of two books dealing generally with patent law and practice, and author of approximately two dozen more law review articles on patents and related matters.

My views on Government patent policy, incident to which I have long exhorted the Congress to adopt a number of the proposals which have been incorporated in the above-identified bills, are a matter of public record. They appear not only in the publications on the attached list, but also in the records of the hearings on Government patent policy held before this same subcommittee (re S. 1084 and S. 1176) on May 31, 1961, and the hearings before Subcommittee No. 3 of the Committee on the Judiciary of the House of Representatives, on March 3, 1958, re House Joint Resolution 454 regarding the rights in inventions made by Government employees.

I submit that, in view of my background of Government, university, and industry experience, with the past 15 years having been extensively devoted to studying, writing, and lecturing on Government patent policy, my personal comments and suggestions which follow deserve to be considered on their merits and only on their merits. I do not feel beholden to any industrial organization or professional association, be it my employer or any group in which I hold membership, to express views or recommendations which necessarily coincide with theirs. In stating my personal views I speak only for myself, and disclaim speaking for any other person or organization with whom or with which I may happen to be or have been affiliated.

Reverting to my first capacity, I now wish to make a statement as president of the Philadelphia Patent Law Association, an organization of patent attorneys and agents whose active members reside or are employed in the eastern half of Pennsylvania, all of Delaware, and roughly the southern half of New Jersey. On behalf of that association's board of governors, it is my privilege to report on the following action which was taken at a meeting held in Philadelphia on May 27, 1965. This action, incidentally, followed a careful study and report of the four above-mentioned bills by the association's special subcommittee on Government patent policy.

PHILADELPHIA PATENT LAW ASSOCIATION

BOARD OF GOVERNORS

Statement concerning S. 789 (Saltonstall), S. 1047 (Williams, New Jersey), S. 1809 (McClellan), S. 1899 (Long)

We believe that the progress of the useful arts is most effectively advanced when private enterprise is made secure in the exclusive right to what it has created. We believe that the machinery of Government is ill adapted to the economic and effective exploitation of inventions in the civil field, and should not, on principle, compete with private enterprise, nor favor one enterprise as against another.

We believe, in short, that patent protection is an essential element of industrial progress, and that governmental ownership of patent rights leads to stagnation, because Government, as such, is not in a position to enforce the protection which a patent is intended to afford.

With these principles in mind, we earnestly commend the terms of Senate bill 1047, which would bring to an end the unauthorized taking of patent rights by Government, except when national security requires.

With these principles in mind, we also earnestly commend the provisions of Senate bills 789 and 1809, but not in the precise form presently proposed. Rather we very greatly hope that these two measures might be consolidated and then streamlined, in accordance with the accompanying recommendations of our committee on Government patent policy. If such a consolidation could be effected,

the resulting system would be flexible enough to permit accommodation to widely varying circumstances.

On the other hand it is our view that S. 1899 is unduly rigid in its terms, and that it would provide a less effective means for stimulating real advancement, since it would increase the number of instances in which the patent would be owned by Government, and would therefore afford no real protection to a licensee.

We authorize and request our president, Howard I. Forman, to present to the Senate Judiciary Committee, Subcommittee on Patents and Trademarks, the views expressed above and the specific recommendations of our committee on Government patent policy.

The foregoing statement was adopted by the board of governors, at a meeting held on Thursday, May 27, 1965.

WILSON OBORDORFER, *Secretary.*

PHILADELPHIA PATENT LAW ASSOCIATION

COMMITTEE ON GOVERNMENT PATENT POLICY

Re S. 789, S. 1047, S. 1809, and S. 1899

Your committee on Government patent policy offers the following recommendations:

S. 1047 (Williams of New Jersey): This bill requires the Government to acquire a license before using a patented invention unless the Secretary of Defense certifies that the national security requires its use. We urge the Board to favor the prompt enactment of this much-needed legislation; in the hope that it will stop the wholesale emasculation of privately owned patent rights which has become a national scandal.

S. 789 (Saltonstall), S. 1809 (McClellan), and S. 1899 (long) are all directed to the handling of patent rights in inventions made under research and development contracts. We shall compare their more important provisions in what follows.

We think that section 3 of S. 789, which provides that the Government shall always receive the free and nonexclusive right to use any invention made with the use of Government funds but shall take no greater right except under specified circumstances, is less likely to lead to unnecessary restrictions on creative industries than section 4 of S. 1809, which provides for the taking of broader rights (including title) unless certain specified circumstances justify exceptions.

We think that section 7 of S. 789, which calls for renegotiation only when subsequent and unforeseen events requires it, is sounder in principle than those provisions of section 4 of S. 1809 which require renegotiation every time an invention is made. The taking of greater rights under S. 1809 should be conditioned upon a finding that the public interest will be better served by such taking, in addition to the finding presently required, that the Government has the right to take.

We see no prospect of commercial exploitation of a patented invention owned by Government unless the Government grants an exclusive license, as provided by section 8 of S. 1809, but such a license is of little value unless it is implemented by the right to sue infringers. It seems anomalous to us that the Government should bring suit against one of its citizens for using a patent right which belongs to all citizens, or that it should gain the same result by indirection, by giving the licensee the right to bring such suit. For these reasons we urge that any legislation framed on this subject should be so drawn as to reduce to a minimum the situations in which Government takes title. For this reason, we favor the approach employed in S. 789, which leaves title with the enterprise that created the invention, but requires the patentee to license another if he fails to exploit the invention in nongovernmental fields within a reasonable time.

We respectfully suggest that section 11 of S. 789 be made the subject matter of a separate bill. That section deals with awards for inventive contributions, rather than with the subject of patent rights.

It is our hope that the desirable features of these bills can be consolidated into a practical, effective, and uniform system for the allocation of patent rights in inventions made under Government contract.

We are apprehensive that the very broad direction given in section 4 of S. 1899 might lead to a "Government take all" policy, which would discourage rather than promote invention. The waiver provisions of section 10 of S. 1899 are so stringent as to fully justify that apprehension. Nor do we see any need, at tremendous cost, to duplicate the information-gathering functions of the Patent Office and the

Library of Congress, as contemplated by section 7 of S. 1899. We commend, however, the concept of a single authority to make policy determinations for all agencies, and the concept of giving the Board of Interference Examiners the duty to decide whether an invention was or was not "made" during the terms of the contract and did or did not fall within its scope.

We add three very earnest recommendations as to terminology.

(1) The expression "the conception or first actual reduction to practice" (sec. 2(g) of S. 1809) is one which often works a wholly needlesss hardship. Patent rights of incalculable value have been decided, in thousands of interferences, on a reduction to practice which was purely constructive, namely, the filing date of the application. We strongly urge that the word "actual" be deleted from this phrase.

(2) The expression "At all tiers thereunder" in section 3 of S. 789 is potentially extremely mischievous and should be deleted. This could require the man who digs the foundations for a research facility to secure an invention agreement from the laborers on his staff.

(3) Unless there is to be a fundamental change in our patent system, it is only the inventor who may apply for a patent. The wording of section 12 in S. 789, of section 7 in S. 1809 or of section 6 of S. 1899 should be revised to avoid any inference that the applicant for a patent can be anyone other than the inventor.

We urge the Board to approve and adopt this report, in principle, so that our views may be presented with your sponsorship at the hearing to be held June 1 and 2 on all four of these bills.

Respectfully submitted.

ANDREW R. KLEIN, *Chairman.*

The above report on the action of the Philadelphia Patent Law Association concludes my statement on behalf of that organization. The balance of this statement will constitute views which I express purely as an individual.

I wish to congratulate each of the four Senators who have respectively sponsored the above-mentioned bills. Each of them has proposed a bill which prescribes a uniform, National Government patent policy. Such uniformity is highly desirable and long overdue. A uniform policy will go a long way toward creating order out of a situation which has been in a chaotic state for some 85 years.

While I do not believe that any of the four bills in itself contains provisions all of which will best serve the public interest, I do believe that some of them contain provisions which should be enacted into law at the earliest possible time. Actually, I am convinced that the public interest would best be served if a bill similar to H.R. 4482, which Congressman Toll introduced in the 88th Congress, were adopted. Such a bill would do more to promote the progress of the arts and sciences than any of the bills here under consideration, and would annually save the taxpayers many millions of dollars in administrative expenses which will be incurred if S. 789, S. 1809, or S. 1899 is adopted. Moreover, the Toll bill would also dispose of the problem concerning rights to inventions made by Government employees, which will not be dealt with upon enactment of the bills now being considered by the Senate Patents Subcommittee. Until that problem is disposed of by statute, a truly uniform, national policy regarding rights to all inventions arising out of Government-subsidized research will not be achieved.

I recognize, however, that the political climate today is such that a bill like that of Congressman Toll's has little chance of being enacted. Accordingly, to be as constructive as possible, I would like to make the following general and specific recommendations with regard to the bills here under consideration.

First, as to S. 1047, I wish to urge its adpotion in order to eliminate an inequity of longstanding that has unnecessarily caused great hardships to owners of patents on inventions made without any governmental assistance. Recognizing that there are times and circumstances when the Government must have the right to make use of even privately held patented inventions for purposes of national defense, it is unconscionable to permit the promiscuous use of the Government's right of eminent domain in cases where other measures may be taken which would not jeopardize the Nation's defenses. This bill will rectify that situation without any dilution of the Government's right to use whatever inventions are deemed essential to the defense effort. I have only one minor suggestion regarding the wording of the bill, and that is to change "a patent" to "an unexpired patent" on page 1, line 8. I believe the reason for this change should be self-evident.

Of the three remaining bills, I believe that S. 1809 comes closest to representing the kind of Government patent policy we should have. It contains many desirble provisions which parallel provisions set forth in the "Memorandum and

Statement on Government Patent Policy" which former President John F. Kennedy promulgated on October 10, 1963. It adequately covers the situations which S. 1899 purports to take care of in the public interest, but does so with some of the flexibility that experience with administration of the Kennedy directive has shown to be preferred by Government administrators and contractors alike. A number of provisions in S. 789 deserve to be given serious consideration, and I will point out those which I feel would improve S. 1809. At the same time I will indicate those provisions in both S. 789 and S. 1809 which I believe should be revised or eliminated.

Referring now to S. 1809, the first item that should be amended is the definition of "made" in section 2(g). I am well aware of the origin of the concept and the reasons for not exempting inventions that have been constructively reduced to practice, but I have never been persuaded as to the merits thereof. If an invention has been conceived and legally completed before the contract was awarded, why penalize the contractor who chooses to give the Government the benefit of the invention in the solution of a research problem? To require otherwise might tempt contractors to avoid use of precontractual inventions not yet actually reduced to practice, in the performance of their contracts, particularly if the inventions appear to have important commercial significance. In the long run the public will be the loser by failing to get the benefit of the best possible solutions to research problems which may be known and available to the contractor.

The second item meriting amendment is the language in section 3(b)(5) on page 5, lines 5, 7, and 8. In line 5, before "after" insert "but only"; in line 7, replace "that" by "to determine whether"; and replace "not" by "unjustifiably failed to"; and in line 8, change "erted" to "ert". I note that section 3(b)(5)(a) provides for the issuance of licenses by the agency head to third parties if the contractor fails to bring the invention to the point of practical application. Such compulsory working requirements are in the public interest and I highly approve of them. However, it is noted that the terms and conditions of such licenses may vary from agency to agency and even from case to case within an agency. This may not be desirable. In fact, this possibility and other factors in the provisions of S. 1809 make me urge that there be included in that bill a provision like that of section 14 in S. 789 under which the Secretary of Commerce shall promulgate Government-wide regulations which can be supplemented for internal administration by each other Government agency. Such a provision will help to make the proposed uniform Government patent policy truly uniform.

The third item is S. 1809 which should be changed involves section 4.. Actually, there are several points here which merit reconsideration. The concept of deferring the determinations called for in section 4(b) at lines 7 and 8 of page 8, and in section 4(c) at lines 19 and 20 of page 8, is fundamentally bad in principle and will cause tremendous administrative difficulties. In fact, practically all the administrative and judicial procedures provided for in section 5 are believed to be unnecessary. They are fraught with serious problems and will cause great expense which could be avoided if the deferral of the determinations as now called for were to be eliminated. Such deferrals will constitute bad law in that they violate some elementary contract principles; namely, that the contracting parties should agree and get into their written contract as many of the conditions of the agreement as can be foreseen at the time the contract is negotiated. The settlement of the patent rights question at the time of negotiation should present no real difficulty, and will save all parties from embarrassing and troublesome arguments afterward.

If it is deemed desirable to have a provision whereby the Government could claim title to a particular invention which arose out of performance of a contract, as a result of new, unusual, and compelling factors not visualized when the contract was executed, instead of the deferred determinations of section 4 it would be better to include the provisions of section 7(a) in S. 789.

If section 4 is retained, subsection (a)(2), should be revised as it is too broad and ambiguous. At most it should be limited to the production of items which may be required by Government law or regulation. Subsection (a)(3) also should be revised, if not eliminated, as I do not see how it will be possible to determine whether the acquisition of exclusive rights at the time of contracting might confer a dominant position on a contractor, when no invention has as yet been made which might establish such an advantage in the contractor.

If section 5 is retained, the fourth item meriting consideration involves two changes. In section 5(a)(2)(C), at line 7 on page 10, change "question" to "questions", and after "whether" insert "(1)"; and at line 9 on page 10, change the period to a comma and thereafter insert "and (2) such action will best serve the

public interest". In section 5(b), at line 16 on page 10, before "the" insert "and that such action will best serve the public interest,". I believe these changes will require no explanation.

The fifth item involves section 6(b). At line 11 on page 12, after "if" insert "shown to the satisfaction of the court to be".

The sixth item involves section 7. At line 22 on page 13, reference is made to the filing of patent applications by the "contractor." Since contractors normally cannot file applications, perhaps this word should be changed to "inventor".

The final section in S. 1809 on which I would like to comment as my seventh item is section 8 which deals with the administration of patent rights acquired by the United States. Before doing so, let me point out that I believe it to be basically unsound and unnecessary for the United States to acquire title to inventions of its contractors or its employees, and that a far better policy would be that provided for in the aforesaid Toll bill, H.R. 4282 (88th Cong.). That bill would leave title in the Government's contractors or employees, subject only to compulsory working provisions. However, being reconciled to the apparent inevitableness of a statute which will call for the Government's acquisition of title to many patents, I am, in that event, strongly in favor of sound provisions for vigorous administration of those rights with the primary objective of maximizing utilization of all inventions to which they pertain. By the same token, I am strongly opposed to the concept of dedication of such rights as provided for in section 3(a), lines 9 to 17 on page 5, of S. 789. Dedication may tend to destroy the opportunities affordable by exclusive licensing of Government-owned patent rights for promoting the utilization of inventions.

The provision in section 8 for the granting of exclusive, as well as nonexclusive, licenses is good. It is consistent with the basic precepts of the American patent system; namely, that the granting of the right to exclude others from the practice of a patented invention, for a limited period of time, may be the essential inducement for the investment of resources generally required to convert inventions into useful and acceptable products and processes. The authority vested in the agency head to request, and the Attorney General to take, the necessary action to protect and preserve the rights acquired by the Government is good. It should settle for all time the question whether the Government should and whether it has the right to sue for infringement of patents which it owns. The constitutionality of such a provision undoubtedly will be questioned, even challenged, but in my judgment it will be upheld as a proper Government function.

Although section 8(b) broadly applies to the following situation, I recommend that consideration be given to adding an additional proviso along the lines of section 5(c) in S. 789. Then it would be mandatory upon the agency head to grant an exclusive license to the contractor responsible for making the invention if, within 3 years after title to it was acquired by the Government, no third party actually made use of the invention. I also favor adding to section 8(b) the provision of section 6 in S. 789 dealing with the voidability of the rights left with the contractor. This would put extra teeth into the provision now covered by section 3(b)(5)(a), and may have to be reconciled therewith. But the principle is good and should be adopted; it has many of the advantages of the compulsory working requirements of the aforementioned Toll bill, H.R. 4282 (88th Cong.).

Another provision of S. 789 which I favor adding to S. 1809, either to section 8(b) or at some other suitable place in the latter bill, is the essence of the former bill's section 3 (e) and (f). Those sections permit the agency head to waive, in certain situations, any rights the Government otherwise might have to acquire title. They make for flexibility which may lead to greater utilization of the inventions in question.

S. 789 has a section 9 which should also be considered for addition to S. 1809. That section adds to the rights and remedies conferred by 28 U.S.C. 1498 the right of a patent owner to have his claim for infringement by or for the Government determined by the head of the appropriate department or agency. Such a provision not only would alleviate the jam in the Court of Claims caused by suits over such claims, but along with the passage of S. 1047 should resolve many of the issues that have in recent years led to decisions by the Comptroller General of the United States which have caused anguish not only among Government contractors but Government administrative authorities as well.

In concluding, I will first revert to the suggestion made above that the essence of section 14 of S. 789 should be incorporated in S. 1809. This is the provision which would, in effect, establish a central administrative agency to carry out the provisions of the bill. Alternatively, a separate agency for that purpose, along the lines of that proposed in S. 1899, should be established. The important

objective, regardless of how it is achieved, is to provide for uniform rules, uniform procedures, and uniform interpretations so that persons dealing with different departments or agencies, or branches thereof, will not find unpredictably different results from case to case. Hopefully, a body of published uniform principles, practices, procedures, and decisions will in time become available so that an orderly process of administration will be the happy result. This will also help in the event judicial review of such administrative actions should become necessary.

As a final observation, I note that section 9 of S. 1809 requires semiannual reports to the Congress, a requirement which also appears in S. 789 and S. 1899. This is good. However, I would strongly recommend that there be added to the information which those reports are to contain factual data on the actual cost of every phase involved in the administration of the laws governing the new national patent policy. This will be important if the Congress is to be able to assess the true value of those laws in the future, weighing the cost of their administration against the possible losses to the taxpayer in terms of the Government's patent rights, which allegedly are being given away today in the absence of such laws.

It is my understanding that the present average cost to the taxpayer, per patent application filed by the Government, has been conservatively estimated to be approximately $2,000. This is a direct cost which does not include overhead, but is presumed to cover such functions as liaison between the patent adviser and the inventor, followup of the contract to obtain invention reports, searches in the Patent Office, drafting of drawings, preparation, and prosecution of the application. In 1964, the total number of inventions made by Government contractors and employees was 11,000 according to reports understood to have been received by the Patent Advisory Panel of the Federal Council for Science and Technology. At $2,000 per case—and note that S. 1899, for example, calls for the filing of applications on all patentable inventions arising out of Government-subsidized research—this would cost the taxpayers at least $22 million per year. Promotion of the inventions to maximize their utilization involves more speculative costs. However, there may be a clue in the experience which NASA has had recently. It is understood that NASA devoted approximately $3½ million for such purposes in 1964, and NASA then had some 1,500 inventions available for public use. At that rate, promotion of the Government-wide total of inventions might run about another $22 million or a total annual cost for the overall operation of the Government's patent policy program of about $44 million.

These costs will be bound to rise tremendously if the new policy brings about the acquisition by the Government of title to many more thousands of inventions each year, as is to be expected. As a taxpayer, I think that in view of these estimates it would be highly desirable for the Congress to obtain accurate reports on the actual costs each year, so that a realistic reappraisal of the value of any law resulting from the bills here under consideration can then be made.

APPENDIX

Following is a list of publications by Howard I. Forman, B.S. (chemistry), LL.B., M.A., Ph. D., dealing with the subject of Government patent policy:

1. Government Ownership of Patents and the Administration Thereof, 27 Temp. L.Q. 31 (1954).

2. Patents—Their Ownership and Administration by the United States Government (Central Book Co., New York, 1957).

3. Federal Employee Invention Rights—What Kind of Legislation?, 40 J. Pat. Off. Soc'y 468 (July 1958).

4. Wanted: A Definitive Government Patent Policy, 3 PTC J. Res. & Ed. 399 (Winter 1959), reprinted in Forman, ed., Patents, Research and Management, 509 (Central Book Co., New York, 1961).

5. Forgive My Enemies for They Know Not What They Do, 44 J. Pat. Off. Soc'y 274 (1962).

6. Impact of Government Patent Policies on the Economy and the American Patent System, Patent Procurement and Exploitation, 181 (Bureau of National Affairs, Washington, D.C., 1963).

7. Government Ownership and Administration of Patents, Calvert, ed., The Encyclopaedia of Patent Practice and Management, 360 (Reinhold Publishing Corp., New York, 1964).

8. President's Statement of Government Patent Policy: A Springboard for Legislative Action, 25 Fed. B.J. 4 (Winter 1965).

STATEMENT OF HOWARD I. FORMAN, PRESIDENT, THE PHILADELPHIA PATENT LAW ASSOCIATION

Mr. FORMAN. My formal written statement more completely identifies my background of experience. But briefly, today, I would like to say I am a patent attorney and political scientist living and practicing in Philadelphia. I appear here today in a dual capacity—first, as president of the Philadelphia Patent Law Association and, second, as a private individual.

The formal written statement which, Mr. Chairman, you have agreed to have incorporated in the record, contains a statement by the board of governors of our association regarding S. 789, S. 1047, S. 1809, and S. 1899, together with the report and recommendations concerning those bills by our association's committee on Government patent policy.

To conserve time I will read only a portion of the statement of the board of governors.

They earnestly commend the terms of Senate bill 1047 which would bring to an end the unauthorized taking of patent rights by the Government except when national security requires.

They also earnestly commend the provision of Senate bills 789 and 1809, but not in the precise form presently proposed.

Rather we very gratefully hope that these two measures might be consolidated and then streamlined in accordance with the accompanying recommendations of our committee on Government patent policy. If such a consolidation could be effected, the resulting system would be flexible enough to permit accommodation to widely varying circumstances.

On the other hand, it is our view that S. 1899 is unduly rigid in its terms, and that it would provide a less effective means for stimulating real advancement, since it would increase the number of instances in which the patent would be owned by the Government and would therefore afford no real protection to a licensee.

That is the end of that formal statement.

The rest will consist purely of my personal views.

In my formal statement I indicated at some length and in some detail my reasons for favoring adoption of S. 1047 and for believing that of the three remaining bills, S. 1809 comes closest to representing the kind of Government policy we should have.

(Mr. Forman proceeded to discuss the three bills dealing with Government patent policy without further discussion of S. 1047.)

Senator MCCLELLAN. Thank you very much, sir.

The subcommittee has held 5 days of hearings on the bills that are pending. A number of statements have been submitted for inclusion in the record. Although I want to expedite the subcommittee's action, I also wish to receive the counsel of all those who have a contribution to make.

Therefore, additional hearings may be held. I do not want these hearings to close denying anybody, whatsoever, from having the opportunity to fully present their viewpoints.

The hearings will be recessed subject to call. That does not mean that this is going to be prolonged indefinitely. I am trying to expedite

them to a conclusion, but without setting anybody off who really thinks he has a contribution he thinks can be made.

The committee will stand in recess.

(Whereupon, at 11:35 a.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.)

(The subcommittee subsequently held public hearings on August 17 and 18, 1965, at which time no witnesses appeared to testify regarding S. 1047.)

APPENDIX

(By direction of the chairman the following appears at this point:)

STATE OF ALABAMA

HOUSE OF REPRESENTATIVES

HOUSE JOINT RESOLUTION NO. 84

By Messrs. Bowers, Collins (Jefferson), Gilmore, Sessions, Brown (Jefferson), Baker (Madison), Camp, Vacca, Turner (Limestone), Meeks, Boston, Cantrell, Little, Downing, Scurlock, Hannah, Hester, Bevill, Posey, Edwards (Escambia), Ingram, Teel, Crawford, Steagall, Cooper, Heflin, Pierce, Edington, Collins (Mobile), Nettles, McCorquodale, Goldthwaite, Jones (Covington), Brown (Tuscaloosa), Moore, Tuck, Branyon, Hawkins, Callahan, and Locke

Petitioning Congress to enact legislation to protect U.S. patent rights in commodity purchases.

Whereas antibiotics and other drugs produced by certain foreign companies and manufactured from stolen drug cultures and process secrets of U.S. firms are finding their way into the United States and other parts of the world; and

Whereas the Federal Government's policy of purchasing drugs from unlicensed foreign sources circumvents patent laws, results in loss of tax revenues and customs receipts, and has adverse effects on the Nation's monetary trade balance; and

Whereas such practices affect the future of U.S. industrial research, of jobs on the production lines and the rights of physicians and their patients to be certain of the source of medicines used to fight disease: Now, therefore, be it

Resolved by the House of Representatives of the Legislature of Alabama, the Senate concurring, That we respectfully memorialize and petition the Congress of the United States to enact appropriate legislation making it illegal for the United States to purchase a commodity covered by a valid U.S. patent from any source other than the patent owner or the holder of a manufacturing license granted by the patent owner except when the Secretary of Defense determines that national security requires it; be it further

Resolved, That a copy of this resolution be sent by the Clerk of the House to each member of the Alabama delegation in Congress, the Secretary of the U.S. Senate, and the Clerk of the House of Representatives of the United States.

Adopted by the House of Representatives, April 14, 1965; concurred in and adopted by the Senate, April 30, 1965; approved by the Governor, May 5, 1965.

PREPARED STATEMENT OF MR. CHARLES L. SHELTON ON BEHALF OF THE AEROSPACE INDUSTRIES ASSOCIATION, JULY 6, 1965

S. 1047

This subcommittee is also considering S. 1047, introduced by Senator Williams, to amend section 1498 of title 28, United States Code.

The AIA presently opposes any basic change in the principles of section 1498, and therefore cannot support S. 1047. However, we do favor legislation giving patent claimants easier access to the courts in pursuing claims against the United States. For example, a patent claimant could be permitted to bring such in his "home" district, or circuit, or the Court of Claims system could be enlarged to permit trial before a commissioner in the claimant's "home" district.

The Aerospace Industries Association appreciates the opportunity to present its views and, as in the past, stands ready to offer any assistance deemed necessary or desirable by this subcommittee.

NICHOLS PRODUCTS CO., INC.,
Moorestown, N.J., July 9, 1965.

Senator JOHN L. MCCLELLAN,
Chairman, Patents, Copyrights, and Trademarks Subcommittee,
Senate Judiciary Committee, Washington, D.C.

DEAR SENATOR MCCLELLAN: The action of your subcommittee in holding hearings during the past month in connection with various legislative proposals having to do with the American patent system has come to the attention of the American Society of Inventors. We feel that we have a substantial stake in the continuation of a strong and effective patent system, and would like to take this opportunity to express our views.

Much of the testimony presented before your subcommittee has been reviewed by us; and we feel that the statement presented by the National Small Business Association most nearly expresses the position of this organization. In essence we favor the procedures prescribed by S. 1809 (McClellan bill) in determining the respective rights of the contractor and the Government in patentts resulting from Government-sponsored research and development programs.

The position of the individual inventor would be substantially preserved and strengthened by the addition of various features of S. 789 (Saltonstall bill) as amendments to S. 1809. Specifically, we feel that section 9 of S. 789, which would allow the inventor whose patent has been infringed in connection with Government procurement, to obtain early and inexpensive remedy by administrative means, is urgently needed. Individual inventors cannot afford the expense and delay of seeking remedy by way of suit against the Government in the Court of Claims.

Section 11 of S. 789 would establish procedures and funds for the granting of awards to those whose inventions or discoveries were judged to be of outstanding merit. Various studies by the Department of Commerce and others, have shown that the individual inventor is still a prolific source of important inventions and discoveries which contribute to the overall welfare. We believe that the recognition and rewards associated with an awards program would serve to stimulate creativity to the benefit of our national security and our society, and earnestly recommend that this provision of S. 789 be included in any overall patent legislation.

S. 1047 (Williams bill), like section 9 of S. 789, would substantially strengthen the position of the inventor patentholder in that he and/or his licensees would not find his patents infringed as a matter of normal routine by suppliers to the Government. The provisions of S. 1047, which allows for unlicensed manufacture upon certification by the Secretary of Defense, we feel, would alleviate the likelihood of unreasonable allegations and demands by patentholders. We believe that the Government of the United States has an ethical and moral responsibility to deal fairly and honestly with all its citizens; and that it should take the leadership in respecting the rights implicit in the patent grant. For these reasons we vigorously urge that the substance of S. 1047 be incorporated in any forthcoming patent legislation.

The American Society of Inventors appreciates the committee's courtesy in allowing it to submit these comments and respectfully requests that this statement be placed in the record of the hearings.

Very truly yours,

E. B. NICHOLS,
Legislative Committee, American Society of Inventors.

PREPARED STATEMENT OF HELGE HOLST, REPRESENTING THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA, JUNE 1, 1965

S. 1047, introduced by Senator Williams, to amend section 1498, title 28, United States Code, is also pending before the subcommittee. The principal purpose of this legislation is to prevent Government purchase of products which have been produced in violation of U.S. patents.

The national chamber is not able at this time to take a specific position with respect to the method of overcoming the infringement problem to which S. 1047 is addressed. There is little doubt that in recent years Federal procurement has not adequately respected the rights of patent owners. In fact, there seems to be a concerted effort to remove the incentives of the patent system from Federal procurement. We believe this is a shortsighted policy which will be detrimental to the procurement objectives of the Government.

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
August 18, 1965.

Hon. JOHN L. MCCLELLAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR: Enclosed herewith is a copy of a letter which I received from Mr. W. H. Price II, general manager of the Chas. Pfizer & Co., Inc., of Gibsonburg, Ohio, written with respect to S. 1047.

I submit it to you for inclusion in the record of the hearings which you are conducting on this measure.

With kind regards, I am

Sincerely yours,

FRANK J. LAUSCHE.

CHAS. PFIZER & CO., INC.,
GIBSONBURG LIME PRODUCTS CO.,
Gibsonburg, Ohio, August 10, 1965.

Hon. FRANK J. LAUSCHE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR LAUSCHE: As you undoubtedly know, the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Judiciary Committee has been holding hearings on S. 1047 introduced by Senator Williams of New Jersey. The purpose of this bill is to put a halt to the deliberate infringement of U.S. patents by some agencies of the Federal Government, except in a situation where the Secretary of Defense has determined that the national security requires such infringements.

In the case of drugs, over the past 5 years, several agencies of the Federal Government have purchased patented drugs from unlicensed sources, particularly Italican sources.

Italy is the only major country in the free world which affords no patent protection for drug products or processes. It has become a haven for those who make a business of copying the inventions of the American drug industry.

We feel strongly that the purchase of unlicensed drug products by the Federal Government is not in the public interest. Last year our company spent about $18 million for research and development. Such purchases tend to discourage American research to the detriment of American health.

Furthermore, purchases of products prepared from foreign made bulk drugs can cause loss of jobs by American workers as a result of displacement by low-paid foreign workers; hurt the unfavorable American balance of international payments; and reduce tax revenues for Federal, State, and municipal governments.

We are taking the liberty of enclosing a memorandum which sets forth in some detail the background of this problem and its potential impact on the American patent system. We are also enclosing a copy of the remarks made by Senator Williams upon introduction of this bill, with the language of the bill set forth at the end of his statement.

We respectfully urge that you support this bill, and that you let Senator McClellan and Senator Williams know of your support. It would, of course, be most helpful if you would agree to cosponsor S. 1047.

Sincerely yours,

W. H. PRICE II, *General Manager.*

[Congressional Record, Feb. 8, 1965]

A BILL TO REQUIRE ADEQUATE PATENT PROTECTION FOR AMERICAN INDUSTRY

Mr. WILLIAMS of New Jersey. Mr. President, article I of the U.S. Constitution gives Congress the power to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

To accomplish this purpose, Congress has established a comprehensive system for protecting the creative products of our scientists, inventors, and writers. Over the years, this system of complex legislation has been efficiently administered by the U.S. Patent Office, and countless individuals have thus received long-term benefits from their own imaginative work.

However, the basic principle of protection of patent rights is now being threatened by recent purchasing policies of the Department of Defense. Acting under a

1958 ruling promulgated by the Comptroller General that defense must buy all its supplies at the lowest possible price regardless of any possible patent infringement, Federal purchasing agencies have been buying many U.S. patented products from foreign sources which have manufactured these products with stolen patents and trade secrets.

It is clear that such purchasing policies will seriously injure those American firms and individuals which have already secured their legitimate patent rights from the U.S. Patent Office as well as greatly undermine confidence and respect in the existing system of patent protection. In short, one segment of the U.S. Government—the defense procurement agencies—are acting in clear violation of congressional policy.

I think that such actions must be stopped, and that Congress must take immediate action to halt these purchases of foreign goods.

It has been argued that these purchases are justified on the ground that the prices quoted by suppliers of the unlicensed foreign goods are substantially lower than those of American patent owners and their licensees. Such an argument ignores the basic elements of the American industrial picture.

Of course, foreign firms—for example, Italian drug firms—can manufacture goods more cheaply than their American counterparts for they pay wages that are one-fourth of the rates prevailing in the United States.

These foreign businesses are exploiting a readymade situation. They are not the companies which have to bear the heavy costs of equipping a modern research laboratory, of paying the salaries of topflight, highly trained scientists, of developing a market and building up demand for new and revolutionary products.

The facile cry of lower foreign prices ignores both the long-range and short-range consequences of such purchases. Initially, these purchases cannot avoid adversely affecting American workers, the reduction in sales volume of American products and the further patent violations which will be encouraged will result in immediate dollar losses to local firms and layoffs of American workers. To this must be added what the economists call the "multiplier effect"—as jobs are lost by our wage earners, personal income decreases, consumer purchases fall at an alarming rate, and other workers in affected sectors of the economy lose their positions as demand for consumer goods declines.

Naturally, the loss of American revenues will result in the further loss of tax revenues to Federal, State, and local governments. While losses of this type cannot be precisely estimated, it is clear that they will represent substantial cuts in the vitally needed revenues of all our governmental units.

From a long-range viewpoint, a further consequence of such procurement policies—and this will be especially noticeable in the drug and electronic industries—will be the discouragement of invaluable research and investigation. Needless to say, experimentation in vital products for defense industries and medical advancement is no dispensable luxury. These are necessities of life for us—for our continued existence as the best defended and protected Nation in the world and for our achievement of the Great Society's goals.

One of the most significant effects of this buying of foreign goods may well be its adverse effect on our overall balance of payments. With all the concern being expressed over the continuing outflow of gold from this country, surely we should be doubly dubious about wasting precious dollar purchases on foreign products which are merely capitalizing on American expertise and know-how.

Finally, let us be entirely candid and practical about the situation we are dealing with. We are not launching any know-nothing buy America campaign. The firms from which these agencies are buying their goods have neither developed the product, nor contributed the brains and imagination to creating the product, nor maintained aggressive marketing and advertising organizations which are vital for promoting the sales of new products. In short, our American firms have earned their patents: these foreign firms are merely skimming the cream off the top.

Unfortunately, the existing statutory scheme provides a most inadequate remedy for the U.S. patentholder who is being so unfairly dealt with. Section 1498 of title 28 of the United States Code merely allows an aggrieved party who believes that his patent has been infringed to sue the Federal Government in the Court of Claims for damages. In the case of an agency like the Defense Department, the firm could follow administrative procedures and negotiate for damages and reasonable royalty fees.

Clearly, both of these avenues are long, expensive, and very, very uncertain of success. Significantly, an aggrieved party cannot even obtain any degree of preliminary injunction relief against a patent-infringing Government agency,

no matter how strong a case it could make out in the courts. In effect, the Federal Government is enjoying what amounts to a preferred position with respect to its own violation of the very patents it has issued.

This situation is demonstrably unfair. It is denying to a substantial segment of the business community the guarantees, and equal protection of our patent laws. These firms have acted in good-faith reliance on our patent laws and in the expectation that they will be adhered to and respected by everyone, and most obviously by everyone associated with the Federal Government itself.

To remedy this inequitable situation, the bill I am now introducing will clearly spell out prohibitions against the Secretary of Defense authorizing the use or manufacture of any product validity patented under U.S. Laws, unless the Secretary of Defense makes a specific determination that such use or manufacture is required by the needs of national defense.

In this way, American firms will receive adequate protection from the unprincipled activities of unlicensed foreign businesses, and will be assured of continuing respect and strengthening of the U.S. patent system.

Mr. President, I ask unanimous consent that the entire text of this bill now be printed in the Record.

The PRESIDING OFFICER. The bill will be received and appropriately referred; and, without objection, the bill will be printed in the Record.

The bill (S. 1047) to amend section 1498 of title 28, United States Code, to authorize the use or manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States, introduced by Mr. Williams of New Jersey, was received, read twice by its title, referred to the Committee on the Judiciary, and ordered to be printed in the Record, as follows:

"S.1047

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That section 1498 of title 28, United States Code, is amended by adding immediately after and underneath the last paragraph of such section the following new paragraph:

" 'Nothing in this section shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or decree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture.' "

PATENT INFRINGEMENTS BY THE FEDERAL GOVERNMENT—THE EROSION OF AMER.CAN PATENT RIGHTS

NEED FOR LEGISLATIVE ACTION

Purchasing agencies of the Federal Government until very recent years bought patented products only from the patent holders or their licensees. Now, certain procurement agencies of the Federal Government have begun to engage in the intentional violation of American patents, a practice which has now been applied to the products of many areas of American industry.

In the last half dozen years, several purchasing agencies of the Federal Government have bought tetracycline and other drug products covered by U.S. product patents. from unlicensed sources for use in the United States in direct and deliberate violation of these patents. Frequently, these sources have been located in Italy or have prepared dosage forms from bulk drugs imported from Italy.

These Federal agencies have attempted to justify their actions by giving a new twist to an old statute (28 U.S.C. 1498). The owner of a U.S. patent, as the law is now interpreted, cannot put a stop to the Federal Government's deliberate violation of his patent rights—he cannot obtain an injunction from the court against the Federal Government, even at the end of successful litigation, and his right to claim damages in the Court of Claims is a very inadequate remedy. There is no similar legal loophole for local governments which violate patent rights.

When the statute was originally enacted, its sole purpose was to give an injured patent holder a right of action where none had heretofore existed. As the statute

was amended in 1918, it contemplated at most the Government's having access to inventions during wartime emergency situations. It was never intended to give blanket authorization for Government agencies to violate U.S. patents. The net result has been a serious erosion of the rights of U.S. patent owners.

The attempted justification for the violation of U.S. drug patents by Government agencies has been made principally on the ground that the prices quoted by suppliers of infringing dosage forms are often lower than those quoted by the U.S. patent owners and their licensees. Foreign and domestic patent infringers, however, have had to bear no research costs for discovering or developing the drugs covered by the patents they are infringing; and they are attempting to exploit readymade markets which they have spent nothing to maintain. In addition, foreign producers of such products as tetracycline pay wages that are about one-fourth of the rates prevailing in the United States and, generally speaking, it may be assumed that they have lower production costs.

The Federal Government's purchases of unlicensed foreign-made drug products or unlicensed dosage forms made from foreign bulk drugs have been facilitated by the fact that Italy (alone among the major countries of the free world) provides no patent protection for either drug products or processes. As a result, foreign concerns have developed quite a business out of copying the developments, products, and inventions of the American drug industry.

The American system is strengthened by its patent structure, provided for by the U.S. Constitution to advance science by protecting inventors. More drugs have been discovered in the United States under the protection of a strong patent system than in any other country. Italy, with no product or process patent protection in the drug field, has produced no important drug discoveries.

With respect to tetracycline products, it is important to note that the prices quoted by the manufacturer to Federal and local government agencies are less than 50 percent of the prices quoted when the product was first introduced and that prices to the trade generally have declined by about 43 percent.

Purchases of unlicensed drug products by the Federal Government are not in the public interest and may well be characterized as "penny wise and pound foolish." American drug research will be discouraged by such purchases, and this will eventually be detrimental to American health. Purchases of unlicensed foreign-made tetracycline or other drug products, or unlicensed dosage forms prepared from foreign-made bulk drugs, can cause loss of jobs by American workers as a result of displacement by low paid foreign workers; encourage "dumping" of foreign-made products in the United States at prices lower than those charged in the regular foreign market; hurt the unfavorable American balance of international payments; and reduce tax revenues for Federal, State, and municipal governments.

There is an important issue at stake in the matter of governmental purchases of drug products for use in violation of U.S. patents. The laws of the United States have provided a strong patent system for the precise purpose of encouraging long and expensive research work of the very type which led to the discovery of tetracycline. We cannot stand aside while erosion occurs to patent rights which help to provide the funds necessary for the continuance of important medical research, the kind of research that has made the United States the world leader in the discovery and development of lifesaving products.

Purchases of patented products by the Federal Government from unlicensed sources have extended to the products of many industries. The violation by various agencies of the Federal Government of patents issued by one of its own branches is a growing threat to research-oriented American industry. Its effect may well be to discourage research in many other industries, as well as in the drug industry.

The deliberate and indiscriminate infringement by the Federal Government of its own patents may not be illegal—but it is morally wrong. It hardly seems fair to have one agency of the Federal Government—namely, the U.S. Patent Office—issue a patent to an inventor or a discoverer of a new product, and have another agency of that same Government—the Military Medical Supply Agency in the Defense Department—violate that patent. This, however, is exactly what is happening. Unfortunately, Federal legislation appears to be the only way to stop indiscriminate infringement and to keep deliberate infringement by the Federal Government within reasonable bounds.

SUMMARY

A. Continued violation of U.S. patents by the Federal Government can have the following effects:

1. Discourage American drug research.
2. Create loss of jobs for American workers.
3. Encourage "dumping" of foreign-made products in U.S. market.
4. Reduce American tax revenues.
5. Adversely affect U.S. balance of payments.
6. Encourage local governments to violate U.S. patents.

B. Legislative action appears to be the only means by which the existing situation can be corrected. H.R. 150, introduced by Congressman Roudebush, of Indiana, and S. 1047, introduced by Senator Harrison Williams of New Jersey, will close the existing loophole in 28 U.S.C. 1498.

C. The proposed legislation provides authority for the Secretary of Defense to purchase products in violation of U.S. patents when the "national security of the United States" requires it.

D. Following is the text of the proposed legislation:

"A BILL To amend section 4198 of title 28, United States Code, to authorize the use of manufacture, in certain cases, by or for the United States of any invention described in and covered by a patent of the United States

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 1498 of title 28, United States Code, is amended by adding at the end thereof the following new paragraph:

" 'Nothing in this subsection shall be construed to authorize the use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, which has not previously been held invalid by an unappealed or unappealable judgment or degree of a court of competent jurisdiction, without license of the owner thereof, unless the Secretary of Defense, or his delegate, shall determine in the case of each such invention that the national security of the United States requires such use or manufacture.' "

NATIONAL SMALL BUSINESS ASSOCIATION,
Washington, D.C., July 20, 1965.

Hon. JOHN L. MCCLELLAN,
Chairman, Subcommittee on Patents, Trademarks, and Copyrights, Committee on the Judiciary, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your invitation to submit additional material bearing on the issues involved in connection with the patent policy matters reflected in S. 789, S. 1047, S. 1809, and S. 1899, bills being considered by your committee, we are submitting the following additional comments and the enclosed studies, with the request that they be incorporated into the record of your proceedings.

Refutation of Senator Russell Long's arguments

(*a*) Senator Long has made a great point that much of the Government's agencies and programs are already covered by existing legislation and "require title on behalf of the public." The fact that practically all of this legislation was accomplished through the use of the "rider" technique, whereby the legislation was passed without any significant discussion of the issues, without resort to committee hearings, and in most cases by voice vote without the presence of any substantial number of Senators, smacks of subterfuge in attempting to establish public policy without the knowledge, to say nothing of the concurrence, of a major portion of the Senate. On practically every occasion where the Senate has been permitted to cast a meaningful vote on the issue, the Long amendment has been defeated. What the legislation reported by this committee should seek to accomplish is to arrive at a fair, studied, and impartial determination of entitlement to commercial rights to Government funded R. & D. inventions as well as the Government's entitlement to the fruits of privately developed inventions.

(*b*) Senator Long has attacked some aspects of international patent pooling which causes unfavorable international market conditions for American manufacturers. This is a variation of the attack on patents because of the antitrust implications of the limited monopoly conferred by patents. There is a simple answer to these "horrible examples"—enforcement of the antitrust and other

laws which are intended to prevent these abuses. Cutting down private rights to patents, as we have previously stated to this committee, will at the most only inconvenience the larger firms, but for much creative small business will be a matter of life and death.

(*c*) In his defense of his position, Senator Long continuously muddies the water by equating consumer-oriented research such as that conducted by the Department of Agriculture and by HEW with Defense and other non-consumer-oriented research. The statement that "there is no risk in finding a market for the new product" is certainly true for new inventions completely developed for the consumer market—but the exact opposite is true for most inventions with potential commercial application derived from defense, space, or atomic energy research. The costs of developing a commercially suitable product from the bare R. & D. invention are almost invariably great. Senator Long is dead wrong when he says that the primary interest of contractors in obtaining commercial patent rights is to permit them to obtain "monopoly" profits. Classical "monopoly" pricing simply does not exist in the current marketplace, for a number of reasons well known to economists and most Congressmen. Of course, every businessman seeks to maximize his profits, but the primary reason for businessmen desiring to acquire patent rights is to insure that there is a reasonable prospect of recovering development costs and keep exclusive rights to manufacture the patented item to meet competition from substitute products. Without exclusive rights, the copier, who has not borne development and marketing costs, is in a position to undersell the developer—a grossly inequitable situation.

(*d*) One of the themes Senator Long keeps harping on is new industries which have grown rich on Government R. & D. starting from scratch in this field. I assume he means companies like Aerojet-General and TRW Co. (Thompson-Ramo-Wooldridge). These are the examples of industries cited to which "billions of dollars of the taxpayers rights have been given away." We do not believe that any significant inventions having commercial value have accrued to any of these corporations. They have grown rich on their research earnings. We call on Senator Long (as he is so fond of doing to those who do not concur with his point of view) to point to one instance of patent rights acquired by these corporations which have produced tremendous monopoly profits for these corporations. If cases exist where such valuable rights have been acquired we would also like to know how much private capital has had to be invested to market these inventions. (Parenthetically, no one in industry is seriously suggesting that these R. & D. based corporations really have any entitlement to R. & D. patents.) But even in the less extreme cases—the large corporations with many years of experience in a field of technology—we would be interested to hear of some of the horrible examples where the taxpayer's rights have been given away; where large corporations have acquired patents which were the basis for huge monopoly profits. We believe that since most advanced technology is interrelated, large companies with large patent portfolios as a matter of practical necessity must pool or cross-license patents, so that the only competitors likely to suffer are the small companies. Effective price competition between large firms who cross-license or pool patents is obvious in the everday experience of every one of us—the electrical appliance industries, automobiles, electronics, just to name a few. The conspicuous success stories in modern industry are those involving privately produced inventions mostly by small business which have prospered and grown—the Polaroid, Xerox, and data-control type of industries. We want to see more of these develop whether the patents are derived from private or Government funded research, and we want these patents made available to the small creative individual or business rather than in the hands of Government bureaucrats, even if it means that larger businesses will thereby also obtain the same rights. This course is in the public interest.

(*e*) Assuming without admitting that every argument made by Senator Long is logically correct, we believe that it is nevertheless in the public interest in most cases to give commercial rights to patentable R. & D. inventions to the contractor or inventor for the following economic reasons:

1. We know of no field in which a true classical monopoly can be obtained in the current consumer market; true monopoly pricing cannot be practiced in the present market for the following reasons:

> (*a*) There are always available substitutes which even if not as good as a desirable patented article, will restrict the seller in pricing—as the price of the patented article vis-a-vis substitutes gets out of line, the utility of the substitute increases in the mind of the consumer. A good example is the Polaroid camera and Polaroid film. Most photographers will agree that instantaneous processing of film has some highly desirable advantages; nevertheless, the

utility of the product to the consumer is not so great that Polaroid products are disproportionately priced as compared with Kodak or other cameras and photographic supplies. This is the common situation in the marketplace. Monopolistic competition in consumer product lines is the rule rather than the exception. Patents are only one of a number of monopolistic elements which enter into distinguishing products and maintaining monopolistic competition—other factors are trademarks, name brands, advertising claims, artistic (as opposed to functional) variation, packaging, geographic limitation of distribution and variations in quality. In many products where patents exist, patent claims or rights are the least distinguishing elements of competition, particularly if the market is dominated by a few large businesses.

(*b*) The realities of large-scale production and consumer demand require that any product where the consumer exercises a choice between competing desirable expenditures must be rationally priced in regard to its utility. For example, we would probably all agree that a device capable of recording television programs for later reproduction, similar to the audio tape recorder, is very desirable and would command a large market. Assuming that a relatively inexpensive device were developed and were patented, what pricing policy would be adopted by the manufacturer. Obviously the price would have to bear some reasonable relation to the market. It would be a monopoly price but not in the classical sense. In the light of our knowledge of market demand and current pricing of television sets and audio tape recorders, we would conjecture that a video recorder would have to be priced under $500 to sell in quantity production, and to generate substantial profits. This is certainly not the classical monopoly price.

2. The proposed Federal Inventions Administration would certainly cost the taxpayer a great deal of money—probably much more than returns from commercially utilized inventions could ever hope to return in license fees and royalties. Costs of policing patent rights on the part of the Government involving court actions would be tremendous. Returns from nonexclusive licenses, even assuming a willingness to pay a fair royalty (not more than 1 percent of manufacturer's gross selling price) would be very low. If exclusive licenses are to be granted, disposal by public bid would be the only way to avoid favoritism and corruption in the Administration. Most of the patents would probably still end up in the hands of the original developer with only nominal returns over costs of administration.

3. The tax aspects of patent exploitation by corporate developers are such that all profits would be subject to corporate taxes of 52 percent, plus taxation of dividends at individual rates. Much of the profit from private development in any event accrues to the Government in the form of taxes. Additionally the property rights in patents in many jurisdictions are also subject to property taxes.

4. In those few cases where an illegal monopoly is created the antitrust laws provide adequate remedies. Monopoly practices, including unfair pricing may be reviewed by the FTC and the courts, and in extreme cases the courts can order licensing of patents or placing them in the public domain.

5. The labor implications of the course proposed by Senator Long are startling—to the extent that any policy restricts development of commercial applications, new employment opportunities are lost; but to the extent that U.S. patents are placed in the public domain foreign countries are free to copy (and even patent in their own countries) and using the fruits of U.S. skill and technology to produce and import the items into the United States to compete with our own sources of supply, and take away the jobs of American workingmen as well as the businesses which create them. U.S. patents give exclusive rights to the American manufacturer in the U.S. market and allows U.S. citizens to file for the foreign patents. Furthermore, under the McClellan bill, S. 1809, if a patented R. & D. invention is not practiced, the Government can force licensing or other disposal of the patent.

6. Commercial rights to patentable inventions developed by small business or individual inventors should accrue to them where they are to be used as capital for new business or to enhance existing small business.

7. Value of what is "given away" should be carefully appraised in the light of following considerations:

(*a*) In the commercial market the royalty value of a patent assigned or licensed to a manufacturer is usually in the neighborhood of 5 percent, seldom as much as 10 percent of gross sales, because it is generally recognized that marketing know-how and product development are the most important factors in selling a new product.

(*b*) The patent holder must guarantee the validity of the patent.

(c) The patent owner must agree not to compete or use his know-how for competing applications.

8. A prime purpose of certain proponents of the "title" theory may be to further weaken small- and medium-size creative industry, recognizing that the strong middle class is the bulwark of our free enterprise system. The desirable alternative in the minds of these proponents is large industries controlled or owned by government.

Comments on statement of John M. Malloy (Deputy Assistant Secretary, Defense, Procurement)

We are shocked by the continued callous disregard of the Department of Defense of the real dilemna and hardships faced by the small business patent holder under existing law and procurement regulations, as shown by the comments of Mr. John M. Malloy on S. 1047. When we balance the simple inexpensive and effective procedure which would be set up under S. 1047 for permitting Government infringement of private patents where needed for national security, against the impossible situation now faced by small businessmen in trying to protect their patents and obtain fair compensation for their use, we are dismayed that any Government official who is aware of the realities of the two situations could reach the conclusions of Mr. Malloy.

Certainly none of us is trying to deny to the Government the right to produce items urgently needed for national defense whether patented or not. S. 1047 would not in any way permit this result by injunction or otherwise. If the patented item cannot be fairly obtained from the patentee or a licensed source all that is required is a simple finding by the Secretary of Defense that national security requires infringement—this power could even be delegated to contracting officers if deemed desirable. What we seek to accomplish by supporting S. 1047 is to change current attitudes and philosophy which now practically require contracting officers to induce infringement of any and all patented items. We wish to see a reestablishment of a requirement where national security permits of purchasing patented items from licensed sources or, if they are unfairly priced, of purchasing acceptable substitutes. We also seek to reestablish a climate where procurement officials will fairly seek to obtain licenses for use of patented items and, where appropriate, pay fair royalties for such use. At present the legislation which permits acquisition of such rights might just as well be repealed for all the likelihood of any procurement officer now seeking to purchase patent rights. We must reiterate that for creative patent oriented small business reestablishment of a fair basis for dealing with the Government is mandatory if any substantial segment of such industry is to survive to serve the Government's needs.

Certainly, Mr. Malloy must have had tongue in cheek when he said, "removal of the power to secure an injunction against Government procurement does not deprive the patent owner of reasonable compensation for the unlicensed use of his patent. An action against the Government lies in the Court of Claims, and meritorious claims may be settled there. Under 10 U.S.C. 2386, the military departments are authorized to settle infringement claims administratively before the suit in the Court of Claims is brought."

We have pointed out and have numerous examples showing that for small business (the primary sufferer) a suit in the Court of Claims is no remedy at all because of its cost and the delay involved. Furthermore, administrative settlement of claims cannot be made, under GAO rulings, in the common case where there is an indemnity provision in the infringer's contract and the infringer refuses to settle. All the cards are stacked against the small patent holder.

We further take issue with Mr. Malloy's statement: "The Department of Defense does not encourage unlicensed use of inventions as a matter of course * * *." This may be true as a matter of "top drawer" policy, but the realities of the DOD procurement situation are that procurement officers not only consciously use every means overt or surreptitious to acquire proprietary designs, but to an extent aid, abet, and induce involuntary infringement on the part of suppliers.

We think that Mr. Malloy has confused the issue in regard to the real effect of S. 1047 by his studied harping on the injunctive remedy which lies in the background of this bill—the real purport of what has been said is that, from the standpoint of the DOD bureaucracy, it is much simpler to continue the passive state of affairs giving carte blanche to DOD officials and letting us small businessmen (who seem to be such a thorn in the side of DOD) continue to try to grapple with this impossible legal and administrative situation, rather than have his own people have to make the simple determination, in appropriate cases, that national security requires infringement of a patent. If our defense administrators are

incapable of reaching the simple judgment that a hatrack or a radar component do or do not involve national security, we better get a new team. The statement that making such determinations would delay Government procurement, in our view, is sheer nonsense and serves the same ends.

The end of achieving competitive pricing for patented items having no national security impact is also sheer nonsense in our estimation. No producer of non-essential items, patented or not, can impose "classical" monopoly prices on his product. Available reasonably priced substitutes tend to keep prices of all patented products at a reasonable level. Furthermore, the Government's broad know-how and coercive powers in the field of negotiated procurement are sound and sure means of keeping prices in line. We most earnestly ask the committee to examine closely the reasoning of DOD and to reject it by reporting some version of S. 1047; power to make determinations should be vested in the "head of the department or agency concerned" rather than in the Secretary of Defense to overcome the objectionable feature of having procurement actions of other departments or agencies reviewable by the Secretary of Defense.

Comments on statement of J. Edward Welch, Deputy General Counsel, GAO

The views expressed by Mr. Welch follow what is, in our view, a time-honored tendency on the part of the Comptroller General, in his excessive zeal to protect the public interest and interpret the will of Congress, to be penny wise and pound foolish. The real costs to the Government in terms of shoddy goods, costs of administration, legal expenses, and loss of indemnity rights which are part and parcel of patent infringing procurements are never included in GAO calculations. (But it is interesting to note that GAO was able to derive the startling proposition that by payment of ordinary business overhead in its procurements, the Government somehow is financing contractor's private research programs. Is the Comptroller General so naive that he fails to appreciate that all private research is ultimately charged off against goods sold, or does he believe that private research funds are provided by some genie or philanthropist?)

Mr. Welch blithely skips over the most important question of public policy which the Congress is being asked to validate or refute in the legislation which will be reported out by this committee—namely, shall we continue to support the private, free enterprise system through our patent laws, particularly as they encourage the establishment, proliferation, and success of the creative small business, or shall we retreat further into state socialism where everything either belongs to the Government or is effectively controlled by Governemnt bureaucracy.

The very issuance of the Comptroller General's opinion of October 6, 1958, B–136916, interpreting the Defense Procurement Act in such a manner as to prohibit the then prevalent procedure of procuring patented articles by negotiation, served to repeal, for practical purposes, the authorization contained in 10 U.S.C. 2386 for the Government to purchase rights in patents. Again, as in the case of the Department of Defense witness, when Mr. Welch states that the patent holders rights are "preserved to a substantial if not complete extent by rights to reasonable compensation preserved in section 1498 of title 28, United States Code, "he simply is not aware of the inadequacy and unfairness of the small businessman having to resort to this proceeding. We believe that a fair appraisal of total real costs to the Government would show that negotiated procurement of patented items from licensed sources would in the long run be cheaper and more equitable to all parties concerned. S. 1047 provides a mechanism to accomplish this purpose and still permit purposeful infringement by the Governemnt where there is a national defense purpose for the procurement and supply from licensed sources is inadequate for any reason.

Study prepared for NSBA by Dr. Barkev S. Sanders

We have asked Dr. Barkev S. Sanders of the Patents, Trademarks, and Copyright Institute of George Washington University, Washington, D.C., to prepare for us a study of certain aspects of patent policy as they relate to small business. We asked Dr. Sanders to do this for us because we were aware of the tremendous background which he has acquired in this area in connection with previous statistical and analytic studies of the patent system.

The conclusions reached by Dr. Sanders in the enclosed study which were of particular interest to us, since they support and document some of our previous statements and recommendations to the Congress, are as follows:

(1) The value of patents to individual inventors and small business is very great.

(2) A very large proportion (50 to 60 percent) of patents developed through private effort and investment is actually used for commercial purposes.

(3) The allegation that there is widespread suppression of patents by corporations has not been verified by documented studies. On the contrary, it appears that unused patents are unused primarily because of economic considerations.

(4) Patents are more intensely exploited by small business than by large.

(5) Individual inventors and the small business sector continue to make a significant contribution to the advance of knowledge, invention, and patenting of inventions.

(6) The quality of patents applied for and issued, as attested by utilization, is increasing.

(7) Comparatively few patentable inventions result from Government R. & D. contracts.

(8) Inventions have little intrinsic commercial value in the hands of the Federal Government.

(9) The proportion of patents developed with Federal R. & D. funds put to commercial use is much smaller than for those developed with private funds.

(10) Companies engaged in federally financed R. & D. are usually not those with the highest skills in the area of development sought.

(11) The Government should waive all its commercial rights to patentable inventions because this would result in more commercial exploitation of economically worthwhile inventions.

We believe that the data provided by Dr. Sander's study will be valuable to the committee because it brings together much of the available statistical data regarding patent exploitation by business.

Examples of Government infringement actions against small business

We are submitting as an attachment to this letter a compilation of complaints which have been assembled by our association, to present dramatically exact fact situations covering Government actions complained of by small business. I am asking the committee to delete the names of the complainants and other corporations referred to in the complaints, for a number of reasons—fear of reprisal, pendency of litigation, etc. We feel that these reported incidents which represent only a handful of the numerous complaints which we continue to receive should stir the committee to take appropriate action to incorporate some relief similar to S. 1047 in whatever legislation it reports to the Congress.

In conclusion, we wish to express our appreciation for the opportunity to present these additional comments to the committee.

Very truly yours,

HENRY J. CAPPELLO,
Consultant on Patent Policy.

U.S. SENATE,
COMMITTEE ON COMMERCE,
August 31, 1965.

Hon. JOHN L. MCCLELLAN,
Chairman, Subcommittee on Patents, Trademarks, and Copyrights, Washington, D.C.

DEAR SENATOR: I would appreciate your including in the record of the hearings on S. 1047, the enclosed letter from the Lederle Laboratories in Portland, Oreg.

Sincerely,

MAURINE B. NEUBERGER,
U.S. Senator.

LEDERLE LABORATORIES,
A DIVISION OF AMERICAN CYANAMID CO.,
Portland, Oreg., August 4, 1965.

Hon. MAURINE B. NEUBERGER,
U.S. Senate,
Washington, D.C.

DEAR SENATOR NEUBERGER: It has come to my attention that the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Judiciary Committee has been holding hearings on S. 1047, introduced by Senator Williams of New Jersey. The purpose of the bill is simple. It expresses the intent of the Congress that agencies of the Federal Government do not have a general authorization in procurement deliberately to infringe U.S. patents, except where the Secretary of Defense has determined that the national security requires such infringement.

For more than 5 years several agencies of the Federal Government have purchased patented drugs from unlicensed sources, especially in Italy. Italy is the

only major country in the free world which affords no patent protection for drug products or processes and has, therefore, become a haven for those who wish to profit by copying and using the inventions of the American drug industry. In at least one instance the copying was facilitated by the theft of important antibiotic cultures and research know-how from our company.

Our company is spending about $16 million annually for the research and development of drugs to alleviate the sufferings of mankind and since 1940 over one-quarter of a billion dollars has been so spent. We strongly believe that the purchase of patented drugs, or any other product, from unlicensed sources by the Federal Government is harmful to the public interest because it tends to discourage and damage American research and development for the future. It is the public that will suffer.

The American economy has thrived because of a strong patent law, and any erosion or weakening of it will inevitably work to its detriment. Not only will research be discouraged, but American labor is and will be faced with an increasing loss of jobs, the American balance of payments is adversely affected, and tax revenues are substantially reduced.

We are taking the liberty of enclosing a copy of the remarks made by Senator Williams upon the introduction of his bill; the language of the bill appears at the end of his statement.

We respectfully solicit your support of this bill. We ask that you let Senator Williams know of your support and that you urge Senator Eastland to endeavor to have his committee report favorably on the bill. It would, of course, also be helpful if you would agree to cosponsor S. 1047.

Sincerely yours,

K. H. TATE,
Distribution Center Manager.

PATENT, TRADE-MARK AND COPYRIGHT SECTION,
STATE BAR OF TEXAS,
Houston, Tex., July 9, 1965.

Senator JOHN L. MCCLELLAN,
U.S. Senate,
Washington, D.C.

Sir: In my capacity as chairman of the Patent, Trade-mark and Copyright Section of the State Bar of Texas, I am herewith transmitting to you for consideration by you and your Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary six copies of two resolutions passed by the Patent, Trade-mark and Copyright Section of the State Bar of Texas at its last annual meeting on July 2, 1965. This resolution sets forth the views of the section relative to bill S. 1047 introduced into the 89th Congress. The resolution states the section's position relative to legislation which would make more certain the rights of an owner of a U.S. patent to prohibit entry in this country of goods covered by the U.S. patent.

Very truly yours,

MELVIN F. FINCKE, *Chairman.*

RESOLUTION

Whereas bill S. 1047 to amend section 1498 of title 28, United States Code, to limit Government authorization of unlicensed use or manufacture by or for the United States of any invention described in and covered by a patent of the United States, to those cases in which the national security requires such use or manufacture, has been introduced in the Senate of the United States and referred to the Committee on the Judiciary; and

Whereas the stated purpose in introducing the bill, S. 1047, is the protection of U.S. patent rights now being threatened by recent purchasing policies of governmental agencies acting under rulings promulgated by the Comptroller General with serious consequences such as, the purchase of many U.S. patented products from foreign sources which have manufactured these products with stolen inventions and trade secrets, the discouragement from the long-range viewpoint of research and development, and others (see Congressional Record, Senate, Feb. 8, 1965): Now, therefore, be it

Resolved, That the Patent, Trademark, and Copyright Section of the State Bar of Texas opposes the proposed bill, S. 1047, for the reasons:

1. The amendment to section 1498 of title 28, United States Code, would be ineffective to carry out the purposes and intent of the sponsor as ap-

pears in the Congressional Record—Senate for February 8, 1965, and would be applicable only to manufacturers in the United States but not manufacturers in foreign countries.

2. The longstanding right of owners of U.S. patents to recover compensation for the unlicensed manufacture or use by or for the Government in the Court of Claims would be clouded by the amendment.

Be it further resolved, That the Patent, Trademark, and Copyright Section of the State Bar of Texas approves of the desire and intent as expressed in the Congressional Record—Senate, February 8, 1965, and would support appropriate legislation which would, in fact, make more certain the rights of an owner of a U.S. patent to prohibit the entry into this country of goods infringing the patent.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
June 15, 1965.

Hon. JOHN L. MCCLELLAN,
Chairman, Subcommittee on Patents, Trademarks, and Copyrights, Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I am enclosing a copy of a letter I have received from Roscoe P. Kandle, State commissioner of health for my home State of New Jersey.

He has written to tell me about his support for my patent piracy bill, S. 1047. He points out that his concern lies with the quality of drugs so imported. I would appreciate it if you would include this letter in the hearing record and make it a part of the committee's deliberations.

With thanks for your always kind consideration,

Yours sincerely,

HARRISON A. WILLIAMS, Jr.

STATE OF NEW JERSEY,
DEPARTMENT OF HEALTH,
Trenton, June 10, 1965.

Hon. HARRISON A. WILLIAMS,
U.S. Senate, Washington, D.C.

DEAR SENATOR WILLIAMS: I read with interest the Congressional Record, volume VIII, No. 25, which deals with Senate bill 1047, and I commend you for your action.

We in New Jersey have long been concerned with the purchasing of drugs from foreign countries because we know that many foreign pharmaceutical houses do not maintain the same degree of quality control over their manufacturing operations as do most domestic houses. Furthermore, the government of many foreign countries does not exercise the extensive controls over the pharmaceutical industry as we do in this country.

We in the New Jersey State Department of Health have an active drug program. We are continually inspecting pharmaceutical houses in an effort to improve the quality of drugs manufactured in our State. We maintain a close working relationship with New Jersey's Division of Purchase and Property, and our people take an active part in the "drug purchasing consultation committee." The department of health has made several cogent recommendations to the division of purchase and property for tightening up the specifications and conditions in New Jersey's government bidding document, and we sincerely feel that we have been relatively successful in upgrading the quality of drugs purchased for State use.

Some of our activities in this area have been publicized and copies of some of this material are enclosed for your information.

The comprehensiveness of the drug control problem with relation to possible patent infringement is by no means a small task, and if we can be of any assistance to you in this area please do not hesitate to contact me.

Sincerely,

ROSCOE P. KANDLE, M.D.,
State Commissioner of Health.

U.S. SENATE,
COMMITTEE ON LABOR AND PUBLIC WELFARE,
August 31, 1965.

Hon. JOHN L. MCCLELLAN,
U.S. Senate, Washington, D.C.

DEAR SENATOR MCCLELLAN: Now that the hearings of your committee on my bill, S. 1047, have been completed, I would like to address myself to the views expressed by the few witnesses who opposed this bill. I am gratified that most of the witnesses who commented on this bill were favorable to it.

First, let me deal with the testimony by representatives of the General Accounting Office and the Department of Defense, and with the letters submitted to Senator Eastland by the General Counsels of the Department of Commerce and of the Department of Defense.

My bill, S. 1047, is aimed at stopping the intentional, wanton infringement of U.S. patents by the Federal Government, for reasons having nothing to do with the national security. Practices of this kind have been increasingly employed by the Government especially in connection with the procurement of U.S. patented drugs.

In effect, the Commerce and the Defense Departments and the General Accounting Office contend that the Federal Government should have free, untrammeled, across-the-board rights to continue the practices at which my bill is directed. This position, it seems to me, raises a fundamental issue concerning the integrity of the patent system of the United States, and, as the Government witnesses recognized involves a basic conflict of public policy. (See pp. 438, 439, and 461 of the hearing record).

The right of the Government to take and use any patent where national security requires, must, of course, remain inviolate. The legislative history of 28 U.S.C. 1498 indicates that that (but no more) was what Congress intended when it enacted the section in its present form, and my bill provides an express exception in favor of the national security. However, once you get outside the area of the national security, I can perceive of no good reason why the Federal Government should not be in the same situation with respect to the procurement of patented items as anyone else. For the Government to contend to the contrary is tantamount to the Government's taking the view that the patent system may be all right for the country generally but doesn't, under any circumstances, require the Federal Government to live up to it. Certainly, if the U.S. patent system is a good system, as I believe it is, then its virtual disregard by the Government should not be permitted.

Moreover, if the U.S. Government is free to engage in the intentional violation of patents for any reason it deems appropriate, then inevitably there are insidious side effects which further weaken the patent structure. The attitude gains currency that if the Federal Government can completely ignore patent rights. why can't everyone else? Right now, there is considerable evidence that the Federal Government's procurement of infringing drugs has initiated a rather widespread disregard of U.S. drug patents particularly by State and local government agencies. It is obviously very difficult to maintain patent integrity when what is improper for someone else is proper for the U.S. Government.

The agencies opposing my bill, especially the Defense Department, have sought to justify the proposition that rights should be preserved in the Government to engage in the free, untrammeled, and wanton infringement of patents, on the principal ground that otherwise the Government would have the burden of ascertaining whether any patents are involved in contemplated purchases and the extent of the coverage of such patents. But again, I can perceive of no good reason for the Government to be relieved of a burden that is applicable in this respect to private citizens, except, of course, where national security exigencies dicatate otherwise. Indeed, the Government's vast knowledge and expertise in patent matters would make it possible for the Government to carry a burden of this kind with much more ease than any private citizen. Moreover, the necessities of national security would undoubtedly require the Government, in a great number of cases, to move forward without regard to the asserted burden, so that the burden would not have nearly so broad an application as the Defense Department sought to imply.

It is most interesting that the witness for the Department of Defense, while opposing my bill, nevertheless conceded that the existing situation requires some legislative amelioration.

At page 462 of the hearing record, the Defense Department witness recommended that section 1498 of title 28 of the code be amended to permit a suit by the patent owner directly against an infringing contractor where the Government believes an infringement has occurred and the contractor has indemnified the Government, but refuses to settle. Such an amendment would be a step in the right direction, but rather than the limited correction which such an amendment would afford, this entire problem needs to be dealt with on the broader basis provided for by my bill, I am also informed that the Government typically does not require patent indemnification from the contractor in connection with the procurement of infringing drugs, so that such an amendment would have no effect whatever in an important segment of Government purchases.

At page 462 of the hearing record, the Defense Department witness further stated that a practical way to accord greater recognition to patent owners is to restore discretion to contracting officials to deal solely with patent owners and their licensees in appropriate circumstances. I submit that under existing law, contracting officials already have such discretion. In respect to purchases coming within the Buy American Act (11 U.S.C. 10a et seq.), Executive Order 10582 lodges very broad discretionary authority in the procuring agencies. Moreover, the procurement statutes generally instruct contracting officers to make advertised procurements on the basis that "will be most advantageous to the Government, price and other factors considered," and negotiated procurements on the basis that in the opinion of the agency head will promote the best interests of the Government" (10 U.S.C. 2305 and 2306; 41 U.S.C. 253 and 254). In any circumstances, what is needed is not a continuation or restoration of discretionary authority in Government contracting officials to pick and choose what U.S. patent rights will be observed or ignored, but rather a clear legislative statement, as contained in my bill, that willful infringement of U.S. patents by the Government will not be tolerated except where the national security requires.

Some rather startling observations have been made by the Departments of Commerce and the Defense concerning what the effect of my bill would be on the U.S. patentholder. The Commerce Department asserted that enactment of my bill would, in the event of governmental infringement of a U.S. patent, take away any right of action by the patent-holder against the U.S. Goverament. The Defense Department took a diametrically opposite view and contended that enactment of my bill would enable the infringed patentholder to go so far as to enjoin the U.S. Government.

I think it is evident that both the Commerce Department and the Defense Department are wrong about the effect of my bill. My bill would not remove from 28 U.S.C. 1498 any of the provisions that are presently there. If my bill is enacted, a patentholder, whose patent is thereafter infringed by the U.S. Government, will still be able to sue the Government for damages in the Court of Claims and he won't be able to enjoin the Federal Government. If there is the slightest doubt about the validity of either of these points (and I want to emphasize that in my judgment both are entirely valid), such doubt could be eliminated in the report of the committee covering my bill. The report could simply state that the purpose of the bill is to make it plain to the procuring agencies of the Government will not countenance the use of section 1498 to sustain any policy of wanton disregard of U.S. patent rights, and that the bill is not intended to have the effect of diminishing the rights of patentholders as presently vouchsafed by section 1498 or the effect of increasing such rights so as to permit patentholders to enjoin the Government.

Finally, I would like to comment briefly on the resolution in opposition to my bill by the Patents, Trademarks and Copyrights Section of the Texas Bar Association which has been submitted for the record.

This resolution approved the desire and intent of my bill, but opposes it for the reasons which I will now discuss.

First, the resolution states that my bill would be ineffective to carry out my purposes and intent as expressed in the Congressional Record for February 8, 1965. Since the resolution does not set forth the basis for the conclusion that my bill would be thus ineffective, I can do no more than express my own conviction that it would be effective to accomplish those purposes.

Second, the resolution points out that the bill would not be applicable to manufacturers in foreign countires. If this means that the bill would not affect the purchase and use by the United States entirely outside of this country, of articles which if purchased or used wisin the United States would constitute an

infringement of U.S. patents, I agree with this conclusion. It is difficult, however, to see why that is an objection to my bill. In the situation just described, there would be no infringement of a U.S. patent so that situation is entirely outside the intended scope of my bill.

Third, the resolution indicates that my bill would becloud the right of patent owners to recover compensatoin for unlicensed manufacture or use by or for the the Government in the Court of Claims. As I indicated earlier, there is nothing in my bill which would interfere in the slightest with such rights to compensation in the Court of Claims.

In contrast to the resolution of the Texas Bar Association, the Board of Governors of the Philadelphia Patent Law Association has endoresd S. 1047. Referring to the action by the board of that association, its president testified (see p. 580 of the hearing record) as follows:

"They earnestly commend the terms of Senate bill 1047 which would bring to an end the unauthorized taking of patent rights by the Government except when national security requires."

I appreciate very much the opportunity to comment further upon S. 1047, and the testimony that has been given with respect to it, and I would appreciate it if you would make this letter a part of the record on this bill.

Respectfully submitted,

HARRISON A. WILLIAMS, Jr.