

Statement of Analysis and Determination of Exceptional
Circumstances for DOE Funding Agreements Relating to
the U.S. Department of Energy Steel Initiative

For the reasons, facts, and justifications set forth below, the Department of Energy (DOE) has determined pursuant to 35 U.S.C. 202(a)(ii) that the circumstances surrounding the Department of Energy's Steel Initiative Program are exceptional. Accordingly, a disposition of patent rights different from that applicable under Public Law 96-517 and Public Law 98-620 for funding agreements with small businesses or nonprofit organizations under this Steel Initiative Program is necessary. Allocation of patent rights to the Government under this Program will better promote the policies and objectives of Chapter 18, Title 35 of the U.S. Code.

The Department of Energy acting through its Office of Industrial Programs under the Assistant Secretary for Conservation and Renewable Energy has established and is carrying out a Steel Initiative Program in order to improve the international competitive position of the U.S. domestic steel industry. As a part of this initiative, it is intended that the position of the U.S. domestic steel industry will be enhanced through commercialization of innovative technology developed in cooperation with the National Laboratories. The U.S. Congress has supported the Steel Initiative by explicitly directing additional funds to the Department of Energy Steel Initiative Program through appropriations bills, the most recent being the continuing appropriations for Fiscal Year 1987, Public Law 99-591 (House Joint Resolution 738). This legislation specifically authorized an additional 2 million dollars to be made available for continuing a research and development initiative with the National Laboratories for new technologies up to proof-of-concept testing to increase significantly the energy efficiency of processes that produce steel. Congress had previously appropriated 7.1 million dollars for this Steel Initiative in Public Law 99-199, (House Joint Resolution 465), Further Continuing Appropriations for Fiscal Year 1986, adopting the appropriations as provided in the Department of the Interior and Related Agencies Appropriation Act, 1986. The legislation appropriating this 9.1 million dollars explicitly requires a cost-sharing contribution by the "participants" equal to 30% of the amount of the Federal Government obligations and further provides that the total Federal Government expenditures shall be repaid up to 1-1/2 times from the proceeds of the commercial sale, lease, manufacture, or use of technologies developed, at a rate of 1/4 of all net proceeds. The Congressionally stated objective of the legislation is to assist U.S. domestic steel industry in developing new, more efficient technologies which will permit the U.S. domestic industry to compete on a more even basis with the nondomestic steel industry.

The "participants" who will accept the obligations of cost-sharing and repayment of the Federal Government's expenditures, as directed by Congress, will comprise various parties from the U.S. domestic steel industry. Participation may be on a full participation basis in the entire Steel Initiative, participation on a project by project basis, participation in selected project areas, or other limited participation where the obligations assumed, the rights received, and the degree of involvement are less than for full participation and are balanced on the basis of the equities present in the particular situation.

It is anticipated that a large portion of the research and development efforts under the Steel Initiative Program will be conducted at the National Laboratories. However, the U.S. domestic steel industry "participants" will be involved extensively in the Steel Initiative and it is fully anticipated that contracts and subcontracts also will be awarded to nonparticipating companies in the U.S. domestic steel industry and to other domestic companies or universities which have special knowledge or expertise such that their involvement and contributions would be highly beneficial to the Program.

Without this exceptional circumstances determination, small businesses and nonprofit contractors and subcontractors would automatically be entitled, pursuant to Public Law 98-620, to retain title to their inventions with the result that the domestic steel industry participants would not be assured of license rights to use the technology. Rather, the participants would be required to negotiate license rights with any such contractor or subcontractor who would retain title in a key or useful invention. Of course, there would be no guarantee that any participant would be successful in such negotiations. It would be inequitable to saddle the participants, who are obligated to cost share and to repay the Government's contribution, with the specter of future license negotiations and royalty payments or an inability to practice the technology which the participants ultimately would have paid to develop. Further, there would be the possibility that numerous license agreements with various parties would be required to practice any technology developed. Such fragmentation of rights in the absence of a declaration of exceptional circumstances may well frustrate the ability to commercialize and utilize the technology developed, completely frustrating the clear intent of Congress in enacting the legislation.

Further, in the absence of this exceptional circumstances determination, the ownership of the rights in the technology may be fragmented among a number of contractors and there would be no guarantee that the licensing of the technology by these contractors would be done in a manner so as to benefit the U.S. domestic steel industry. Congress has clearly stated that its objective in supporting the Steel Initiative is to assist and benefit the U.S. domestic steel

industry. By inclusion of the "Preference for U.S. Industry" sections in both Public Law 96-517 and Public Law 98-620, Congress has also expressed its concern with the interests of the U.S. domestic industry. A declaration of exceptional circumstances under which all rights would initially flow to the U.S. Government would permit the Department of Energy to control ownership of the entire technology package so as to facilitate and assure transfer of the entire technology to the private sector in a manner which will be beneficial to the U.S. domestic steel industry.

It is fully anticipated in making this exceptional circumstances determination that the Department of Energy will take title initially in order to effectively transfer title, by a waiver granted in conformance with DOE's waiver procedures, 41 CFR 9-9.109-6, to a private concern or concerns in order to consolidate the technology package for commercialization and utilization within the U.S. domestic industry for the benefit of the participants in the Steel Initiative. The private concern can be viewed generically as a holding company which would take title under a waiver from DOE in order to control and license Steel Initiative technology to the U.S. domestic steel industry. Each participant and the U.S. Government acting through DOE would enter an agreement with the holding company providing for the transfer of title to the holding company and the retention of rights to utilize and share in the benefits of the technology by the participants based upon the equities of the participant. Licensing to nonparticipating members of the U.S. domestic industry would be on a basis beneficial and equitable to the participants.

For the Steel Initiative, Congress has directed that the steel industry participants contribute an amount equal to 30% of the Federal Government obligations and that the Federal Treasury shall recoup an amount up to 1-1/2 times the Federal expenditures at a rate of 1/4 of all net proceeds obtained from the commercial sale, lease, manufacture, or use of the technologies developed. A means must be provided to encourage domestic industry to participate in the Steel Initiative and to expedite the commercialization and utilization of the technologies developed. This exceptional circumstances determination will permit title to the entire technology package to vest initially with the Department of Energy which will then through the waiver process transfer title to a holding company or companies which will guarantee to the participants a right to utilize the entire technology developed. This up-front knowledge that there will be a right to use all the technology developed on an uniform and equitable basis for all participants without the potential future necessity for negotiations with multiple parties for license rights in various aspects of the technology will encourage participation in the Steel Initiative. This up-front knowledge will permit participants to feel free to utilize the best technology developed without fear of additional future obligations and license

negotiations, thereby expediting the utilization and commercialization of the best technology. Such knowledge and guarantees will provide the incentive and justify the commitment of private funds for participation in the Initiative.

For these reasons, the Department of Energy has determined that exceptional circumstances exist as provided in Section 202(a) (ii) of Chapter 18 of Title 35 of the U.S. Code and that funding agreements with small businesses or nonprofit organizations under the Department of Energy Steel Initiative shall contain patent provisions providing for Government retention of rights to inventions. However, this exceptional circumstances determination does not preclude a Contractor from seeking patent waivers in accordance with established policies and procedures.

Under 35 U.S.C. 203(2), a Contractor has a right of appeal of any agency's exceptional circumstances determination. Accordingly, each contractor to which this determination applies will be provided with notice of this determination and its right of appeal.