April 12, 1993

To: Joe A.

From: Carole W.

Re: April 8, 1993 Letter from Edward Wong, Hewlett-Packard

When a statute is unclear and there has not been interpretation by the courts, one must look to other sources to determine what Congress intended when it enacted the statute. Such is the case concerning the Tax Reform Act of 1986. Various Bond Counsels have wrestled with the interpretation of this Act in regard to its effect on universities and sponsored research.

Edward Wong in his April 8, 1993 letter has based his interpretation regarding the effect of the Tax Act, on a single House Conference Committee Report. He references this Report as his authority and states that it allows universities to give industry royalty-free licenses to university inventions. Before accepting Mr. Wong's interpretation and analysis on its face, one must also analyze two other Legislative Reports that also attempt to interpret Congressional intent.

It should be noted that various Bond Counsels have used more than one legislative report to attempt to determine Congressional intent in regard to the imprecise language of the Tax Act. Such reports, namely, the Senate Finance Committee Report and the Joint Committee on Taxation Report as well as the House Conference Committee Report which Mr. Wong addresses have all been used for interpretation of this very complex issue.

I would argue that Paragraph 7 at II-685 (House Conference Committee Report) which Mr. Wong alludes to in his letter as his authority to give industry royalty-free non-exclusive licenses to University patents cannot be interpreted as the only or main legislative authority in regard to this matter since two other reports exist that carry weight.

The Senate Finance Committee Report is considered legislative history. It specifically cautions against universities fixing royalty rates in advance. Certainly "not charging for use of a patent" as Para. 7 (II-685) states is in effect fixing a royalty rate in advance since the rate would become zero when the invention is licensed royalty-free.

Furthermore, it is difficult to comprehend that Congress intended in the Tax Reform Act for universities not to obtain fair value for their inventions and let such value hinge upon whether an invention is licensed exclusively or non-exclusively. This is especially true when considering that commercially licensing an invention royalty-free will very likely kill a new technology.

It is therefore more likely that II-685, Para. 7, is referring to a non-exclusive non-commercial use of an invention when the Para. 7 states that "...the university may permit sponsoring private businesses to use resulting patents without charge...." (One should note that this phrase says "use" not "make, use and sell.")

The "Joint Committee on Taxation Report" referred frequently to as the "Blue Book" also does not support the interpretation that university inventions can be non-exclusively licensed to an industry sponsor royalty-free. The Blue Book states that a university facility may be used for corporate-sponsored research as long as any license or other use of resulting technology by the sponsoring party is permitted only on the same terms as the university would permit such use by any non-sponsoring unrelated party, "...that is, the sponsor must pay a competitive price for its use."

The Blue Book goes on to state, "Further, that price must be determined at the time the technology is available for use rather than at an earlier time (e.g., when the research agreement is entered into)."

Granting non-exclusive royalty-free licenses to sponsors for commercial use is not fulfilling the requirements set forth in the Blue Book. Since a university would not be able to offer such commercial non-exclusive royalty-free licenses to non-sponsoring companies, the university would be remiss to offer such a license to sponsoring entities.

It is clear that as the Bond Counsels have done, one must view all three legislative reports in attempting to determine the intent of Congress when this Act was enacted. Using only one report and one phrase without taking the other reports into account is not a fair interpretation of the legislative intent and can lead to erroneous outcomes.

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