
Foreign Participation in U.S. Government Technology Funding and Licensing

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In 2000, the United States Government will spend over \$75 billion on research and development programs. Why are we telling Canadians this? Because these programs are open to foreign companies or their American subsidiaries, as long as they meet certain U.S. manufacturing requirements.

Opportunities includes:

- Funding of development, through procurement of research and development, where the contractor keeps title to the invention;
- Licensing of U.S.-owned technology, such as patents held by various Government agencies, including a treasure trove of National Institute of Health patents and those held by research powerhouses like the Department of Energy;
- Cooperative research and development agreements, under which the United States makes Government personnel and facilities available to work with companies on inventions.

These programs present tremendous opportunities for companies seeking access to research funding and technological discoveries.

Funding for Research

Subsidiaries of foreign companies can obtain U.S. government funds through contract, grant or cooperative agreements with a federal agency to perform experimental, developmental or research work and retain title to any invention produced. Under these arrangements, the U.S. government gets a non-exclusive, nontransferable, paid-up license to use the invention for U.S. government purposes.

The Bayh-Dole Act requires contractors to establish a meaningful physical presence in the United States, including business operations and/or manufacturing facilities. They cannot be subject to the control of a foreign government. In addition, contractors who wish to sell products derived from the

federally-funded invention in the United States must agree that those products will be manufactured substantially in the United States. However, the Bayh-Dole Act rules allow "substantial" to be determined on a case-by-case basis, and some foreign manufacture should be permitted. The U.S. can also exempt a Canadian company from the manufacturing requirement if the company can show that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture in the United States, or that domestic manufacture is not "commercially feasible."

Companies do not need to manufacture in the United States those products intended for sale abroad, you can manufacture in Canada for sales in Canada and the rest of the world.

Companies that receive title to inventions developed with federal funds can grant licenses to use or sell the subject invention to other companies, if the licensee agrees that its invention-related products will be manufactured "substantially" in the United States.

Licensing Federally-Owned Technology and Patents

Similarly, federal agencies may grant licenses to use a federally-owned patent in the United States to foreign corporations, if they agree that the products derived from the invention will be manufactured "substantially" in the United States. Again, companies may manufacture abroad those products intended for foreign markets.

Working With U.S. Government Scientists and Resources

Federal laboratories enter into cooperative research and development agreements ("CRADAs") with non-governmental industry and research institutions to conduct research and development projects. Under this program, the federal laboratory contributes personnel, property and services to the CRADA, such as superstar scientists from NIH or Sandia National Laboratories, while the private partner contributes additional personnel, property and services, as well as any necessary funding.

The CRADA program was created to help U.S. industry meet international technological competition. Not surprisingly, therefore, the program requires federal laboratory directors, in selecting industry participants, to give preference to companies located in the United States which will conduct "substantial" portions of their principal research and development and manufacturing activities in the United States.

But the "U.S. business" requirement is generally applied irrespective of the nationality of the owner(s) of the company or the parent corporation's place of incorporation. So even if your company is foreign controlled or owned, if you have manufacturing facilities located in the United States, you may be eligible to participate in these programs. Your company need not incorporate in the United States.

Here, too, the statute does not define "substantial" manufacture, so eligibility will be determined on a case-by-case basis with no established cut-off points. However, the CRADA rules do not distinguish between manufacture for domestic distribution and sales abroad, as do the funding and licensing rules; under a CRADA, production of items for foreign markets must occur in the United

States.

While Congress and the agencies have sometimes expressed concern about foreign-owned firms reaping a disproportionate share of the technological advantages offered by these programs, they have become a vehicle for providing research support and transferring cutting-edge U.S. technology to foreign companies familiar with these rules and willing to operate within their constraints.

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