JUD. - PATENTS jaj MEMORANDUM

TO: Senator
FROM: Joe
DATE: July 24, 1979
COPIES: Kevin, Tom, Eve, Mary, Linda, Jim E., Bob B., Ann H., Indiana Office & Leg
RE: Proposed changes in S. 414, the University and Small Business Patent Procedures Act

As a result of the hearings on S. 414 before the Senate Judiciary Committee, you have received a number of proposed changes to the bill. Many of these are technical and clarify the intent of the existing provisions in the bill, but there are four substantive changes that the supporters of the bill have recommended. They are:

1. Changing Section 204, the Government Pay Back Provision

This provision is politically one of the most important parts of S. 414 and has enabled your bill to break through the obstacles that have killed previous attempts to revise the Government's patent policy. In yesterday's hearing on the Schmitt-Stevenson patent bill which would create a uniform patent policy for all contractors including large businesses, there were frequent references to the desirability of having some type of Government pay back provision.

As you remember, most of the witnesses supported having a payback provision, but there was a great deal of concern about the present language which is felt to be too vague. I circulated four proposed substitute formulas to a number of experts (including Ralph Davis of Purdue) and think that a reasonable pay back has been devised. This revision would require paying back the Government whenever a contractor receives $50,000 in one year from the licensing of a patent arising from Government-supported research and development. The agency would then be entitled to 15% of any additional income received in that year. There would be no requirement for repaying money received from nonexclusive licensing because it is felt that such licensing is in the public interest because all interested parties could receive such a license. Admiral Rickover and others have said that all Government-supported patents should be available for nonexclusive licensing. The formula would be an incentive to license nonexclusively whenever possible. Because universities and nonprofit organizations license out their patents rather than trying to manufacture products, this provision most concerns them. The present requirement that the contractor repays the amount of Government money involved in the research has been dropped because many of our university witnesses said that the variety of their funding and the long-term nature of many of their research projects would make it difficult to determine exactly how much agency money had gone into one invention.

The figure of $50,000 in licensing income in one year is also not so high that it would never be triggered, but is high enough to allow the universities to have a reasonable return before they must begin repaying the Government.

Small Businesses who manufacture products would be required to begin repayment to the Government whenever they make more than $10,000 in gross income within 10 years from the date of patent application. The Government would be entitled to 5% of any additional income not to exceed the amount of agency funding that led to the invention. Small businesses usually are engaged in short-term contracts so they do not face the difficulties that universities do in trying to calculate how much Government money was involved in a patent. The biggest change in the small business formula is the use of gross income as the trigger rather than "in after tax profits" now in the bill which it was feared could be juggled by acoountants and would be very difficult to enforce by the agency. It might be advisable to gear this repayment trigger to a yearly figure rather than "within 10 years" to parallel the university licensing provision, but this will not be difficult if you agree to this change.

2. Background Rights

The small business witnesses felt very strongly that the possibility of losing background rights was a more serious threat to them than the possibility of losing patent rights on resulting inventions. Agencies can now require contractors who report inventions to make available to other companies any private information (including patents) that relates to the use of the invention. These contractors would receive a licensing fee, but because many small businesses are engaged in manufacturing in competition with larger rivals this requirement can effectively undercut a small businesses' ability to compete in the marketplace. The small businesses have submitted language that would require any agency who proposed to take background rights from a small business to justify this action in writing and have it signed by the head of the agency. There would then be the opportunity for an open agency hearing and for judicial review of the decision. This is very important because there are presently no formal procedures for acquiring background rights. These provisions are usually presented to the small businessman by an agency patent counsel who says in effect "take it or leave it" with no provision for appeal of decisions that the small business feels are unfair. This issue is extremely important to the small business community. The addition of this language would not prohibit agencies from ever taking background rights, but would establish a formal procedure that would have to be followed.

3. Restrictions on nonprofit organization patent licensing, Section 202(c)(7)

It has been proposed to modify the present restrictions on university or nonprofit organization licensing so that this section would only apply to licensing of large companies. Presently this section says that no nonprofit organization can issue a license for a period longer than 8 years from the date of the patent, or 5 years from the date of first manufacturing of the invention. This restriction was intended to give the agency the ability to make sure that these licenses are not an antitrust threat. Because small businesses do not constitute such a threat, and because the thrust of your bill

is to encourage more small business participation in developing and marketingg new products, this change would encourage nonprofit organizations to license small businesses whenever possible. If an anticompetive situation did arise concerning a small company the agency could force the nonprofit organization to license others through the exercise of the march-in provision already in the bill.

4. Licensing of Government-owned Patents (section 208(1),(6),(7) and Section 210

One sensible proposal that Admiral Rickover made was to strike the language in the bill that would establish a revolving fund in the agencies to license agency owned patents to private industry. The GAO agreed that this could unintentionally create a large, new bureaucracy, The bill also mentions the Department of Commerce as a possible central agency for conducting this licensing. I think that we should strike out the revolving fund provisions to make sure that the Congress willrremain in control of this program (which really does not need to be very large) and that we allow agencies to license their own patents or to allow them to akk another agency to license them, without mentioning the Commerce Department specifically. There has been some resentment by the other agencies that Commerce was mentioned by name as the organizing agency of this program when others like NASA have established aggressive licensing programs.

If you agree to these changes, I would like to draft a letter from you and Senator Dole to our cosponsors (there are now 28, 16 Democrats and 12 Republicans -- including the following Judiciary Committee Senators: (Dole, Metzenbaum, DeConcini, Leahy, Thurmond, Mathias, Hatch, and Cochran) explaining these changes . I think that we should try and move S. 414 as quickly as possible in the Judiciary Committee in September. There is no opposition to the bill in the Senate so far, but the House has not yet begun to hold hearings on the companion bill introduced by Rep. Rodino. I am afraid that if we do not get the bill out of the Senate this year we will face the possibility of bogging down in the House next year, especially if there is the need for a conference. The university and small business community has been very supportive of the bill. The Small Business Administration has said that S. 414 is the most important small business bill before the Congress. There have been many bills introduced recently dealing with the innovation-productivity lag with the U.S. is now experiencing, but your bill is by far the most successful and has been a good pro-business issue for you.