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Administration's Markup of S. 1657

The Administration's reasons for providing these proposed revisions are (1) to improve the bill from a technical standpoint (2) to ensure its uniform and proper implementation, and (3) to enhance its possibility of passage. With respect to the latter, the Administration supports the basic principles of S. 1657. However, since S. 1657 would repeal P.L. 96-517, without retaining key substative provisions of that law, it is likely to be opposed by small business and university groups. This will endanger and make more difficult its passage. ~~Moreover, the Administration cannot support a bill that would further the interests of some contractors at the expense of others (small business and universities) when there is no necessity for making such a trade-off.~~

The amendments we are proposing will improve S. 1657 technically and should, at a minimum, neutralize potential opposition from universities and small business without compromising the rights of other contractors. Moreover, they may actually represent significant improvements over the language in P.L. 96-517 and may encourage active support from the university and small business sectors. At the same time they will also improve the bill for all contractors.

The other concern underlying the proposed changes has to ~~deal~~ do with the proper role of the Department of Commerce, OMB, and the agencies in the implementation of the bill. We consider it critical that authority for the development of implementing regulations be placed in OMB. The bill impacts on grants, contracts, cooperative agreements and wide range of performers of research from non-profits, universities, state and local governments, small businesses, and large businesses. As such, OMB rather than Commerce or any single agency, should have the responsibility for developing uniform regulations and clauses that wil impact on this wide range of performers and

activities. Moreover, P.L. 96-517 placed this responsibility in OMB/OFPP, and experience under that Act has demonstrated the wisdom of that approach.

With these major concerns in mind, the following is a summary of the changes we are proposing:

1. Changes in the definitions section (Section 103) are primarily technical in nature. Some definitions were added to accommodate changes in wording made in other sections of the bill. Some definitions were deleted as unnecessary.

2. In Title II the most significant change was the revision of Section 201(a) to place regulatory authority in OMB as discussed above. Other changes in Section 201 are intended to make clear that the lead agency will function in a coordinating and advisory role, but will not actually control the operations of individual agencies. Section 202 was revised to make sure that rule making authority did not end after seven years.

3. Title III has been changed in a number of respects. A number of the changes are primarily structural, in the sense that the basic concepts and language of S. 1657 are retained but reordered to remove ambiquities or other drafting problems. However, some substantive provisions have been deleted and new matter added.

A comparison of S. 1657 with the Administration mark-up will reveal that the following substantive provisions in S. 1657 are not retained:

1. The GOCO exception at 301(a)(1) has been dropped. Several agencies have questioned the need for this exception, and it is our position that GOCO's should

also retain rights unless an agency can justify different treatment under the "exceptional circumstances" exemption. The elimination of this exemption, may also attract some non-profit/university support.

2. The exemption at 301(a)(4) is also dropped. It is believed that the march-in right section adequately takes care of this situation. ~~Moreover~~ (this was not a basis for exemption under P.L. 96-517, and its inclusion ~~would~~ may be negative in attracting university/small business support.)

3. The license to state and local governments in 301(c)(2) was dropped. (This is also not in P.L. 96-517.) The inclusion of this right also has the unfortunate effect of discouraging commercialization of these very inventions that would most benefit state and local governments.

4. The anti-trust ground for march-in at 304(a)(4) has been dropped. Department of Justice representatives have suggested, and we agree, that it is impractical to expect agencies to be equipped to exercise this right. By way of compensation, language has been added at Section 503(a) ~~of the Administration draft~~ which will help to ensure that the Department of Justice can take appropriate action when inventions made under government contracts are being used in a manner that ~~is~~ appear to be inconsistent with ~~prohibited~~ under the antitrust laws.

5. The requirement that contractor declare its intent to commercialize at section 305(a)(3) has been deleted since this really has no teeth, and march-in is the proper remedy for this. Moreover, we have added provisions requiring the filing of patent applications which was omitted from S. 1657.

6. Parts (B) and (C) of section 305(a)(5) dealing with waivers were deleted. We have elsewhere made revisions to the definition of "contract" with the intention of making clear that patent clauses are not required in loan guarantees or price supports. As part of the repealers any statutes that currently require patent provisions in such agreements should be amended. We also recommend that the legislative history make clear that in the absense of specific language to the contrary, loan guarantees, price or purchase supports, and other special contracting decisions are not covered by the Act and should not include any patent provisions. (C) is deleted since, as discussed above, the anti-trust ground for march-in has been dropped.

New concepts and language that have been added are described next. For the most part these are derived either from 96-517 or from experience gained during its implementation.

1. In section 301(a) of the Administration draft, exemptions have been added for foreign contractors. Such exemptions were either explicitly or implicitly built into the definitions in P.L. 96-517. However, the broad coverage of S. 1657 requires explicit language on this point.

2. The forfeiture language in our 301(c)(1) is new. S. 1657 was silent on what happens in nonreporting situations. P.L. 96-517 may have been overly harsh on this point. The language we propose should represent a reasonable middle-ground.

3. Section 301(c)(2) requires agencies to ensure that their contractors have adequate arrangements with their employees to perfect Government rights. Perhaps this would be accomodated under the general language at the beginning of Section 305 of S. 1657, but we believe it should be made explicit.

4. Section 301(c)(4) and (5) establish requirements that contractor's electing rights must file patent applications. S. 1657 is silent on this. Moreover, there was substantial controversy between the agencies and the university sector during the implementation of 96-517 as to whether it was reasonable to expect contractors to file before any foreign bar (i.e. before publication). These subsections are intended to make clear that contractors need not be forced to forfeit their rights because of an inability to make an initial filing in time to avoid the loss of foreign rights. Inclusion of this language should be a key selling point in obtaining university support for S. 1657, since this language is clearer than that of 96-517 on this point (although the Senate Report on S. 414 contained discussions that were quite helpful in this regard).

5. Section 301(c)(6)(iii)-(v) also are designed to implement the government's rights when contractor's fail to prosecute patents. S. 1657 was, again, silent on these points.

6. Section 301(c)(8) is intended to make clear that the rights of government contractors may be subject to ~~treaty obligations~~ international agreements. This language is based on experience in implementing 96-517, an improvement over the counterpart language in that Act. This subsection also reflects long standing policy, and is necessary in any statute that would leave title in the contractor.

7. Section 301(c)(11) is new. It is based on language in 96-517 and is addressed to non-profits and universities only. Though, in form it is a restriction on non-profits, in fact, these restrictions are supported by them and desired. It should be noted the language in 96-517 that limited the period of exclusive licenses granted by non-profits has been dropped. This change will also be a plus in generating university support.

8. Sections 302(a) and (b) are derived from 96-517 and should be retained.

9. The second sentence of section 302(c) is derived from 96-517 with some rewording.

10. Section 304, Appeals, is new. It is based on experience gained during the implementation of 96-517.

Other areas in which changes have been made include the following:

1. Some changes have been made in the procedures for exercising march-ins. We have dropped any statutory requirement for APA type procedures and would leave that to the implementing regulations of OMB. However, we have compensated for this by adopting language in the House bill which calls for de novo review by the Court of Claims. Such review should eliminate the need for a full-blown APA procedure at the agency level, although by regulation we would expect some reasonable due process standards would be required.

2. Government Licensing Authority. We have substituted the more comprehensive provisions of 96-517,with a few minor changes, for the more abbreviated provision (sec. 306) of S. 1657. Strong support was expressed by a number of agencies for

retention of these provisions. Implementation of these provisions has proceeded a long way, and their repeal would create a chaotic situation.

3. Though we have not yet provided a mark-up of the repealer section of S. 1657, it should be noted that it is evident that a number of other provisions should be repealed or amended and that several of the sections listed in Section 501 are in need of correction.

4. As mentioned previously, a new section 502 on antitrust has been added to provide a more effective and practical means of addressing misuse of subject inventions under the antitrust laws.

5. We have expanded the section dealing with the effective date of the Act, so as to leave agencies with authority to treat inventions made under contracts that predate the effective date of the Act in a manner consistent with the Act. Experince in the implementation of 96-517 has demonstrated the advisability of such a provision.

We have also added language to make clear that march-in is not subject to the Contracts Disputes Act. This is an issue under P.L. 96-517 where contracts are involved. In order to provide for a uniform, high-level procedure, in both grants and contracts, it is necessary to eliminate any arguements that the Contract Disputes Act would apply.