EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

September 29, 1981

TO: Sal Ambrosio
Joe Clark
Fred Dietrich
Norm Latker
Dennis Prager

FROM: Bill Maxwell WAM

Attached is a copy of SBA's views on Uniform Patent Policy legislation.

To date, you have received copies of the comments of:

NSF (9/21/81 and 9/23/81)
EPA
OMB/IR
NASA
Treasury
DOI

Attachment

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

Mr. James M. Frey
Assistant Director for
Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your Legislative Referral Memorandum requesting the Small Business Administration's comments on a draft bill intended to establish a uniform patent policy.

The primary intent of this bill is to extend first right of refusal to invention rights made under Federal contracts, grants and cooperative agreements to business concerns not covered by Public Law 96-517 which was enacted last year. As you know, P.L. 96-517 provided this right to small businesses and nonprofit organizations. While we take a neutral position on extending the first right of refusal to other business concerns until the administrative procedures and conditions that attach to the right to be promulgated under P.L. 96-517 are definitive, we take issue with the manner in which the right is established under the draft bill.

Section 401(v) of the bill repeals all the provisions of P.L. 96-517 that touch on the allocation of invention rights to small business and nonprofit organizations, and substitutes a new set of procedures and conditions that apply equally to all contracts, grants and cooperative agreements. In some cases, the substitute procedures and conditions correspond to procedures and conditions in P.L. 96-517 which were repealed. In many other situations, however, there are either great differences or no similar procedures or conditions substituted for those repealed.

There are provisions in P.L. 96-517, which were based on small business testimony during congressional hearings, and which protect the background invention rights of small businesses. These protective measures were necessary to safeguard small businesses from agencies who used their economic leverage to negotiate retention of such rights as a condition to receiving

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Mr. James M. Frey

a research award. Prior to P.L. 96-517, if a small business owned a background patent (previously existing and with a working product) the government could and did require part ownership of the background patent before giving the grant. Oftentimes the requirement was part of the underlying contract's boilerplate. P.L. 96-517 basically provided for a very clear notice by agencies in the contracts that they were going to require part ownership which would have to be cleared by the agency head.

This bill, by its silence, could eliminate the provision in P.L. 96-517 which precludes universities and other nonprofits from assigning future patent rights to profitmaking organizations. That provision insured that big companies could not utilize their ability to give grants to universities and nonprofits as a condition to gaining assignment of invention rights generated in part with government funds. Absent restrictions on future assignment, the bigger, richer companies could buy out the discoveries of this country's laboratories. One of the aims of P.L. 96-517 was to insure that universities owned their patents and would retain a royalty from the licensing of the invention. If not licensable, a small business could be cut out of bringing these inventions to the public leading to a concentration of inventions with big business. Further, since the new tax law, P.L. 97-34, provides for a 25 percent corporate write-off for university research and development, a nearly guaranteed situation exists in which there will be attempts to buy out.

The Administration should also note that the administrative procedures and conditions to be repealed by the draft bill were developed over a long period of time in cooperation with the small business and nonprofit communities. We have no evidence at this time that the substitute provisions are acceptable to these communities, and even if they were, that they would ultimately pass the Congress in their present form.

We strongly question whether the draft bill's technique of wiping the slate clear and starting fresh will enlist the support of the small business and nonprofit communities in light of the enthusiastic support these communities have given to P.L. 96-517. Rather than pursuing this course, we consider its more appropriate to

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limit the draft bill to recipients not covered by P.L. 96-517, and permit P.L. 96-517 to stand as is, subject to changes necessary to achieve consistency where desirable or correct problems that have been identified since its enactment.

Sincerely,

Michael Cardenas
Administrator

Treasury Advance

SUBJECT:

Congressional Draft Bill/Uniform Patent Legislation

TO:

Due to the time restriction, this office has been unable to consult with the various offices which would be impacted by this proposal.

However, based upon our cursory examination, it appears that the Secret Service may be adversely affected by title III since it would not permit the Secret Service to maintain the title to an invention even where it might be necessary to protect matters which could compromise protective operations.

There is no mechanism to spur Government agencies, once they acquire title, to develop for practical purposes by-products of inventions. On the other hand, numerous provisions in the draft bill (section 304) would ensure that the contractor utilizes an invention to the fullest extent. These same provisions should also apply to Government agencies. For example, as section 304 which provides for a hearing whenever an agency determines that a contractor is not developing an invention, the bill should also provide for a hearing whenever a contractor, or private individual, believes a Government agency is not developing an invention it has title to.

The definition of "small business firm" and "nonprofit organization" in section 103(11) and (12) should be deleted. A review of the entire bill indicates these entities are not mentioned further.

With certain exceptions, section 301 of the bill requires agencies to acquire title to any invention made under the contract of a Federal agency. The term "acquire title" is used often in the bill and should be clarified by either providing a definition within the bill or referencing to the proper statute which defines it. Further, when an agency acquires title to an invention pursuant to section 301 of the bill, it must file a determination statement with the Secretary of Commerce. It is unclear whether the Secretary must approve the proposed acquisition. Consequently, we suggest that the powers of the Secretary of Commerce, with regard to section 301, be clarified.