WISCONSIN ALUMNI RESEARCH FOUNDATION

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Hon. Gaylord Nelson
Chairman, Select Committee
on Small Business
United States Senate
Washington, D.C. 20510

My dear Senator Nelson:

Your letter of March 22, 1979, asking for additional commentary on S. 414 was most welcome.

Specifically, you have noted that S. 414 no longer contains the background patents language that was present in S. 3496 but then question the remaining implication for the problem of agencies demanding background rights from small business contractors.

On only one occasion has WARF had any negotiation with a Federal Agency (DOE) regarding background rights. Hence, in our experience, and in the experience of universities in general, background rights have rarely been a problem. This, undoubtedly, is because most university-generated inventions tend to be of the "stand-alone" or "one-shot" variety.

We can, however, sympathize with the concerns of small, high technology firms about the attitudes of many Federal Agencies toward background rights. S. 414, quite obviously, does not specifically address this problem. However, we firmly believe that agencies would be less inclined to seek background rights from small business firms if S. 414 becomes law since such posture would then conflict with the spirit of that law.

It is our understanding that representatives of small business may address the background rights question during the planned Judiciary Committee hearings on S. 414 and may seek to amend that Bill to provide specific language on that issue. A copy of the amendment which may be proposed and which was supplied by Eric Schellin of the National Small Business Association is attached to this letter for your information.

You have also asked for our analysis of the changes over S. 3496 that have made S. 414 a much improved piece of legislation. There were, of course, many minor drafting and technical changes which, overall, we consider improved the Bill. The major changes, however, were the following:

1. Revision and clarification of Sections 202(a) and (c) relating to election of rights, reporting of inventions, and filing of patent applications with removal of unrealistic time constraints. (The changes in these sections may be considered to be more in the technical change category.)

2. New requirements in Section 202(b) for written justifications and GAO oversight - an effort to insure that the public will not be deprived of the benefits of inventions because of arbitrary or solely politically motivated determinations.

3. Revisions of Section 205 dealing with U.S. preference to make its provisions more realistic and workable.

   In relation to Section 205, an enforcement provision has been added as Section 203(d).

4. Section 207 on background rights has been dropped as you have already observed.

5. Revision of some of the language in the Sections dealing with Government licensing.

   Since the changes in these Sections are not of particular concern to the university community we have not analyzed them in sufficient detail to know their complete impact. We believe, however, that in these Sections the greater stress which is placed upon a Government licensee presenting a plan for developing and/or marketing the invention(s) licensed is salutary. It would, among other things, prevent

larger firms from requesting nonexclusive licenses as a "foot in-the-door," without any real intent to develop, or to merely prevent smaller competitors from obtaining the limited exclusive rights so necessary to calling forth the risk money for development.

We appreciate your continued interest in the needs of the university community and in S. 414. We again sincerely urge your co-sponsorship and support of this important piece of legislation.

Very truly yours,

WISCONSIN ALUMNI RESEARCH FOUNDATION

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Add the following to section 202:

(e) No funding agreement with a small business firm shall contain a provision allowing the Federal Government to require the licensing to third parties of inventions owned by the small business firm that are not subject inventions unless such provision has been approved by the head of the agency and a written justification has been signed by the head of the agency. In no event shall the Government require the licensing of others under any such provision unless the head of the agency determines that the use of the invention by others is necesssry for the practice of a subject invention made under the funding agreement or for the use of a work object of the funding agreement and that such action is necessary to achieve the practical application of the subject invention or work object; and any such provision shall clearly state whether licensing may be required in connection with the practice of a subject invention and/or specifically identified work objects. Any such determination shall be on the record after an opportunity for a hearing. Any action commenced for the judicial review of such determination shall be brought within sixty days after notification of such decision.