81-761

DEPARTMENT OF THE NAVY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20350

June 8, 1981

NOTE FOR MR. SOWLE

Don -

The draft OMB Circular implementing P.L. 96-517 on rights in inventions made by small businesses and nonprofit organizations has caused a great deal of concern in the Navy patent organization. After a lengthy inter-agency process of drafting a clause and implementing regulations, the draft circular appears to have introduced a number of fairly significant changes, as reflected in the attached analysis by Navy Patent Counsel. I should think that under these circumstances his suggestions for further pre-publication coordination merit very serious consideration.

With best regards,

Harvey J. Wilcox
Acting General Counsel

Att. ~~Sir Lat - who is Kuntzwiler?~~
2. Fred - Is all this true?
Don

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4 Jun 1981

MEMORANDUM FOR FILE

Subj: OMB Circular--Patents (Small Business Firms and Non-Profit Organizations) dated 27 May 1981

1. In December 1980 the President signed Public Law 96-517 (35 U.S.C. 200, et seq.) governing the distribution of rights in inventions made by small business firms and nonprofit organizations under funding agreements with Federal agencies. The Act will take effect on 1 July 1981.

2. Beginning in January 1981 experienced high level representatives of 23 agencies, including OMB, OFPP, GSA, NASA, Navy, SBA, DOE, Army, NSF, HHS, Air Force and others, worked at both drafting and review levels to generate a patent rights clause and implementing regulations to be effective by 1 July. During the next four months there were about 20-25 meetings of the groups, at which time language was carefully drafted embodying the groups' consensus that worldwide protection of rights in inventions was necessary to achieve the policy and objectives of the Act. During negotiations in preparing the final draft it was recognized by the group members that loss of worldwide rights in important inventions frequently occurs inadvertently through statutory bars. Thus, a primary objective in drafting both the clause and regulations to implement the Act was to provide a system that would help inventors of small business firms and nonprofit organizations consciously make a decision on patent protection for inventions made with Federal funds before statutory bars arise. In addition, important residual rights of the Government in such inventions throughout the world are protected. Both of these important objectives were achieved by placing protective provisions for avoiding loss of rights to inventions prominently in the action portion of the patent rights clause, which was finally completed, along with implementing regulations, in late April and forwarded to OFPP.

3. After submission to OFPP, the various agencies, including DOD, began drafting local regulations in preparation for the expected OMB approval and publication of the interagency effort. However, on 27 May a draft OMB Circular and clause appeared which is a complete rewrite of the interagency clause and regulations. After a review of the OMB effort many changes can easily be noted. Some

of the changes are merely of form, some are minor, but more disturbingly, others are considered substantive and of major concern.

4. When the Circular is eventually published for review, many detailed comments will be made. For the present, however, only issues that are considered the most important will be addressed. These are as follows:

a. Each agency is apparently required to use only the OMB clause, and even use it exactly as drafted, since the deviation authorization contained in the interagency clause was deleted. The OMB Circular allows agencies to use a different clause only in those instances, and upon submission of justification thereof to the Comptroller General, as set forth in the Act. No authority is set forth to allow for other departures from the policy, procedures and clause of the Circular that are not required by the Act. Thus, DOD's normal procurement procedures in the patent area are affected.

b. A new section was added to the OMB Circular pertaining to an unnamed lead agency that is to establish standard contractor invention utilization reports, which are much more detailed than that of the interagency draft. Also, seven other functions, one of which is to oversee the implementation of the regulations and others which go beyond the Act and its requirements are given to the lead agency. The addition of this unnamed "lead agency", could have far-reaching effects on the procurement and patent operations of the Navy, DOD and other agencies.

c. In the Act, provision is made to allow the Government, under certain circumstances to require the contractor to license responsible applicants under the patents resulting from the federally sponsored research. This is called a "march-in" right and was covered very simply, but completely, in the interagency clause. The OMB Circular and clause, however, have expanded the march-in provision to the extent that it is considered so onerous on Government agencies as to be almost impossible to even think of initiating.

d. Treatment of foreign patent rights and coverage of foreign entities in the OMB Circular are quite different from that of the interagency draft. In addition, the requirement to process an

exceptional circumstance case, i.e., from title being left in the contractor to that wherein the Government accepts title, to the Comptroller General to implement the stated policy of OFPP/OMB for foreign nonprofit organizations, is completely new.

e. The OMB clause has broadened the protection given to contractor data under FOIA beyond that which could be reasonably interpreted from the language of the Act. For instance, mere marking of contractor data is not considered to be sufficient to make information privileged and confidential and thus non-releasable.

f. Finally, the protective provisions that the drafting groups determined were so important concerning possible loss of patent protection were removed from the prominent place in the action portion of the clause, were significantly modified, and were placed in the small print section of the clause where it will at best be innocuous and certainly ineffective. Thus, if this were a situation involving a drug, it could be said that the most important warning pertaining thereto has been taken from its place of prominence up front and placed as an inconspicuous finely-printed warning on the back side.

5. In view of the above, OMB or OFPP should immediately withdraw the OMB Circular from publication and the interagency draft clause which was democratically arrived at via consensus of the 23 different agency representatives should be substituted in its place. It is entirely improper to discard the interagency-negotiated clause and implementing regulations of many months' effort and replace it by one that was prepared very quickly by unknown drafters. At least OMB should allow the interagency group, or its leaders, to meet with the OMB drafters to discuss those more important differences enumerated above. Or, as a minimum, each agency should be given an opportunity to provide its comments before the OMB Circular is published.

6. Action is planned to be taken as soon as possible to advise top management of OMB and OFPP of the effects on the Navy, DOD and other agencies of the OMB Circular in an effort to head off the possibility of permanent damage being done to Government patent policy, primarily with small business firms and nonprofit organizations.

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