PATENTS, COPYRIGHTS AND RIGHTS IN DATA

Subcommittee: Clark A. McCartney, Chairman; Thomas E. Stelson; Howard Bremer, University of Wisconsin; Lawrence Gilbert, Boston University; Niels Reimers, Stanford University; Allen Segal, Texas A&M University; Edwin Yates, Johns Hopkins University

Report: Mr. McCartney, Chairman

University and Small Business Patent Procedures Act - S-414 and HR-2414

The Dole-Bayh "Patent Bill" (S-414) was introduced in the Senate on February 9, 1979. A companion bill, H.R.-2414 was introduced in the House by Congressman Peter Rodino. The bills provide universities and small businesses, first option to rights in their inventions resulting from federally supported research, with certain exceptions. It also provides for recoupment of government investment in some instances.

Hearings on the Senate bill were held on May 16, 1979 and June 6, 1979. Testimony was given by the Comptroller General of the United States, who said the bill would establish uniform Government-wide procedures under which small business, university and other nonprofit organizations could obtain title to inventions arising from government supported research and development. It would establish clear authority and a uniform framework for licensing government supported inventions. The Act should solve a number of significant problems not currently satisfied by existing Presidential patent policy.

On June 6, 1979, Howard Bremer testified on behalf of the University of Wisconsin. Mr. Bremer said that the patent system cannot operate in the manner in which it was intended as long as government supported inventions are freely available. Testimony was also given by the National Small Business Association, the American Patent Law Association and Betsy Archer-Johnson, former Assistant Secretary for Commerce. Each supported the legislation.

Admiral H. G. Rickover presented the only opposition to the bill, stressing that government contractors, should not be given title to inventions developed as the result of government supported research. The Admiral recommended that S-414 be amended to give small businesses and universities an automatic five-year exclusive license to inventions they develop under government supported projects. At the end of this period, the invention would fall in the public domain.

Notwithstanding previous support for S-414, reconsideration of Section 204, Return of Government Investment shows there may be needless technical difficulty and differences when negotiating and calculating the dollar amount return of the government investment.

The payback provision of S-414 now provides that if the patent holder receives $250,000 in after tax profits from licensing any subject invention during a ten year period, following disclosure, that the government shall be entitled to collect up to 50 percent of all net income above these figures, except the government shall not be entitled

to an amount greater than that portion of the federal funding under the funding agreement under which the subject invention was made, which was expended on activities related to the making of the invention.

Because of the ambiguity of the terms in this section, COGR has proposed a simpler payback provision as follows:

> Section 204. RETURN OF GOVERNMENT INVESTMENT - (a) if a nonprofit organization or small business firm receives $150,000 net earned royalty income in any year from the licensing of any subject invention, until said invention is or becomes available for licensing on a non-exclusive basis, the United States shall be paid 50 per centum of all net earned royalty income above $150,000 in any year during said period.
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> Section 201. DEFINITIONS (add) (j) the term "net earned royalty income" means gross income received by a contractor in the United States derived from the practice of subject inventions by licensees of the contractor, less expenses directly attributable to patenting, marketing and licensing the invention, inventors royalty distribution and indirect expenses of licensing, which indirect expenses shall not exceed 25 per centum of gross earned royalty income.

Hearings have not yet been scheduled on the House bill, H.R.-2414, the companion to S-414.

Senator Harrison Schmitt introduced S-1215 to provide uniform title policy for patents arising from government funded research and development. This bill assigns title to inventions arising from government contracts in the government, unless a nonprofit organization has a "qualified" technology transfer program as described in Section 103 of the Act. Hearings on Senator Schmitt's bill are scheduled for late July. COGR will offer comments for the record.

Tax Credit to Corporations for Contributions for Basic Research - S-1065

Senator Danforth introduced a bill to amend the Internal Revenue Code to provide income tax credit (25%) to corporations for contributions to basic research. The Patents, Copyrights and Rights in Data Subcommittee found fault with the definition of "scientific basic research." The term, means fundamental research in the physical sciences, the result of which are freely available to the general public.

There is some concern that 'freely available to the public' might destroy patentability of any resulting invention. The term is also so narrow as to preclude research other than in the physical sciences.

Both Mr. McCartney's Subcommittee and Mr. Buryn's Subcommittee will review the legislation further and develop COGR commentary if appropriate and timely.