DRAFT LETTER
ACE/STEINBACH
12/23/81

January , 1982

The Honorable
U.S. House of Representatives
Washington, D.C. 20515

Dear :

On behalf of the American Council on Education (ACE), the Association of American Universities (AAU), and the Council on Governmental Relations (COGR), representing all the colleges and universities that develop patentable processes under Government funding, we would like to present our views on H.R. 4564 and other related bills dealing with the allocation of rights to inventions made under Government contracts and grants.

Congress late last year enacted Public Law 96-517, which established for the first time a uniform Government-wide policy concerning the disposition of rights to inventions made by universities and small businesses under Government grants and contracts. We are greatly concerned with recent actions by the Committee on Science and Technology, which has reported favorably a bill, H.R. 4564, that would repeal P.L. 96-517. We would like the opportunity to meet with you to discuss whether you would be willing to sponsor or support the enclosed amendments to H.R. 4564, which would exempt universities and small businesses from that Act and would retain, intact, the provisions of P.L. 96-517.

in almost any case. In effect, this language would once again return the whole issue of Government patent policy back to the individual agencies, with latitude to go their separate ways. For example, section 301(a)(2) would seem to give the Defense Department the right to take title at will. Section 301(a)(3) would seem to give most civilian agencies similar rights, and the provision pertaining to research would wipe out one of the most significant areas of university licensing activities.

P.L. 96-517 placed responsibility for the development of uniform regulations and a standard patent rights clause in the Office of Federal Procurement Policy. OFPP is about to issue a final Circular which we believe adequately implements the law and will allow the statutory mandate to be fully achieved. However, it should not go unnoticed that initially OFPP turned to the agencies to prepare a first draft. Through the efforts of NASA, DOE, and DOD, the initial draft that these agencies produced and vigorously supported thereafter would have undermined the basic objectives of the Act. They proposed reporting, election, and forfeiture requirements that would have undermined the viability of university licensing programs. The vigorous objections of dozens of universities and higher education associations helped reverse this. Under H.R. 4564, the function of preparing regulations would be assigned to NASA, DOD, and GSA. Since GSA has no expertise in this area, for all practical purposes the proposed statute would place the regulation-writing authority in the hands of the very agencies that demonstrated that their primary interest was in preserving the prerogatives of their large patent staffs, rather than in promoting the objectives of the law.

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PROPOSED AMENDMENTS TO H.R. 4564

The University Community requests the following amendments to H.R. 4564 as amended by the House Science and Technology Committee on November 23, 1981:

1. Amend section 503(15) to read as follows: "(15) Sections 207-209 of Title 35, United States Code, are repealed, and the table of sections of Chapter 38, Part IV of Title 35, United States Code, is amended by striking out the items pertaining to sections 207-209.

2. Amend section 501(7) by adding the following between the word "entity" and the period:

", except that it shall not include a small business firm or a nonprofit organization"

3. Amend section 201(b) by adding the following between the word "channels" and the period:

", provided, however, that no recommendation concerning sections 200-206 or 210-211 of Title 35, United States Code, or their implementation or interpretation may be adopted by the Director or transmitted to Federal agencies without the concurrence of the Office of Federal Procurement Policy"

DRAFT COMMENTARY
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SECTION-BY-SECTION COMMENTARY ON H.R. 4564

Section 301(A)

The section contains broad exceptions to the general rule of allowing contractors to retain the first options to title and would allow almost any agency to decide to take title in every case. We recommend carefully written and limited exceptions. In addition, oversight should be placed, for example, either in the Department of Commerce or the Office of Federal Procurement Policy, in order to preclude agency abuse of the exceptions.

Section 301

The word "shall" in section 301 should be changed to "may" to make it clear that the general rule is that the contractor has the right to elect title, and that the invoking of exceptions is optional and not mandatory.

Section 301(A)(1)

We question the need for this exception. It is our position that Government contractors should retain rights unless an agency can justify different treatment under the "exceptional circumstances" exemption.

Section 301(B)(2)(B)

The license to state and local government in this secion should be deleted, because it discourages commercialization of those very inventions that would most benefit state and local governments. Present Government regulations provide avencies with the authority to sub-license under treaties and international agreements. We do not object to its inclusion in H.R. 4564.

Section 302(A)

Lines 4-11 on page 9 in this section should be deleted as redundant and partially inconsistent with the provisions in section 305(A), especially given the revisions we recommend below.

Section 302(B)(?)

The license normally retained by contractors under Government regulations has been extended to "existing licensees to whom the contractor is legally obligated to sub-license or assure freedom from infringement liability." We recommend that the license not be extended to other than the contractor, so as to discourage patent-pooling which may act as a disincentive to invention development.

Section 304(B)

This section permits third parties to initiate a march-in determination and hearing if the agency considers this justified. This right in third parties seriously jeopardizes the ownership rights of a contractor by providing the opportunity for individuals or groups to bring continuing lawsuits to compell a march-in.

Section 305(A)

H.R. 4564 affects grants, contracts, cooperative agreements, and a wide range of performers of research from nonprofit organizations, universities, state and local governments, and small businesses. As such, OMB rather than GSA, DOD, NASA, or any single agency should have the responsibility for developing uniform regulations and clauses that will affect this wide range of performers and activities.

Section 305(A)(1)

We recommend that this section be amended to provide disclosure within a reasonable time from the furnishing of a report to "contractor personnel responsible for patent matters." This provides a specific time from which disclosure to the Government can be measured. This was a point of controversy in drafting the implementing regulations for P.L. 96-517 and is an appropriate point of departure for all contractors.

Section 305(A)(5)

Part (B) of this section dealing with waivers should be deleted. We believe patent clauses are not required in loan guarantees or price supports, since these are not research contracts. As part of the repealers, we recommend that any statutes that currently require patent provisions in such agreements should be amended to delete such requirements. We also recommend that the legislative history make clear that, in the absence 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.

Section 305

This section should also incorporate the following language, which is derived from P.L. 96-517:

> "that in the case of a nonprofit organization located in the United States (i) the organization will not assign rights to a subject invention in the United States without the approval of the Federal agency, except where such assignment is made to any organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in or does not hold a substantial interest in other organizations engaged in the manufacture or sale of products or the use of processes that might utilize

Point (iii) above is important in order to preclude state governments from requiring that royalty income be returned to the state treasury. Again, this would be a disincentive to reporting an invention.

Section 308

We do not believe that the background provision is sufficient to protect the interests of universities and recommend adding the background provision of P.L. 96-517 to this section.